wars, *etc.* Therefore, they should diversify and become self-sufficient by protecting their industries.

5. Infant Industry Argument

The infant industry argument is the oldest and the most accepted argument for protection. It was formulated by Alexander Hamilton in 1790 and was popularised by Friedrich List in 1885. If industries in their infancy are not protected from established foreign producers, they could not attain the optimum size so as to operate most efficiently and competitively and to produce at lower costs. Protection is also needed to facilitate the flow of resources into infant industries, even though consumers have to bear the burden of higher prices temporarily.

Further, there may be "imperfection of the information flow" to infant industries in the form of difficulty to borrow funds for investment, knowledge of infrastructure facilities, labour market, *etc.* All these requires government protection to such industries. The economic justification of this argument lies in the fact that social benefits exceed private benefits from investment in such industries. It means that the protection should be given to those infant industries which generate larger externalities than other industries

Moreover, infant industries require time to undergo the process of learning-by-doing to become competitive in the long-run. Therefore, they should be protected. When a new industry is started, it cannot reap the economies of scale and its cost of production is high as compared with its foreign competitors. If it is protected by providing all types of facilities, such as subsidies, heavy import duties on foreign goods, *etc.* it may expand and enjoy internal economies of scale. It may lead to external economies for all firms within the industry in the form of lower costs of production through the availability of trained labour force, advanced production techniques, research facilities, *etc.*

So infant industries need protection for a while so that they may grow without any threat from foreign producers. When they attain adulthood, protection can be withdrawn and then they should be left free to face foreign competition. If infant industry protection is given to several industries simultaneously, several external economies accrue in the form of road, railway, power, technical and research facilities, *etc.* Moreover, protection leads to its expansion and a lowering of costs and prices which, in turn, benefits industries using the products of the protected industry. But protection results in lowering of welfare because a tariff increases production and consumption costs in the economy.

For protection to be profitable, it should be able to pay back the losses incurred due to protection during the infancy period. The infant industry needs protection for a specified period of time till it is able to face foreign competition. It is then that the tariff should be withdrawn and at the same time the increase in community welfare should be more than compensate for the loss in the earlier years so that there are *net benefit to* the community.

Another argument for protection in LDCs is the establishment and development of new industries. Every new industry yields benefits in the form of external economies. These external economies result in a divergence between private profit and social benefit.

6. Factor Redistribution.

In an LDC, there is wide difference between wages of agricultural workers and industrial workers. Due to underemployment in "rural areas, wages tend to be low in agriculture as the marginal product of labour is negligible or zero. But wages are high in industry. As a result, there is a gap in prices and costs between agriculture and industry. A policy of protection to industries will compensate for this gap by providing employment to the surplus labour force in industry. Since agriculture is less productive than industry, real income can be raised by factor redistribution through a policy of protection in LDCs.

7. Balance of Payments.

One of the principal objectives of protection in an LDCs is to prevent disequilibrium in the balance of payments. Such countries are prone to serious balance of payments difficulties to fulfill the planned targets of development. An imbalance is created between imports and exports which continues to widen as development gains momentum. This is due to increase in imports and decline in exports. The imposition of tariffs leads to the restriction of imports and encouragement of exports, thereby making the balance of payments favourable for the country.

8. Planned Economic Development.

LDCs follow the policy of planned economic development. They aim at the utilisation of their scarce resources in the most efficient manner so as to provide more employment and income to the people and to raise their standard of living. This requires the importation of essential raw materials and capital goods in place of unnecessary consumer goods. This is only possible by levying low import duties on the former goods and heavy import duties on the latter goods.

9. Diversification and Self-sufficiency.

The majority of LDCs have won their freedom from the colonial rule after much struggle.

They want to maintain it by becoming strong on the economic and defense fronts. These require a policy of protection in order to diversify their economies so that they become self-sufficient through all-round development and have self-sustaining growth. In short, the policy of protection is strongly supported in the less developed countries because it can accelerate their economic growth.

Tariff imposition assists in the growth of infant industries, in industrial diversification, in attracting foreign capital, in securing more revenues, in promoting factor redistribution, in