

EIR

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COMMEMORATIVE
SPECIAL ISSUE

American economics from Winthrop to LaRouche
Friedrich List debunked British free trade
Hamilton spirit haunts Washington from Tokyo

**200 years since Hamilton's
'Report on Manufactures'**

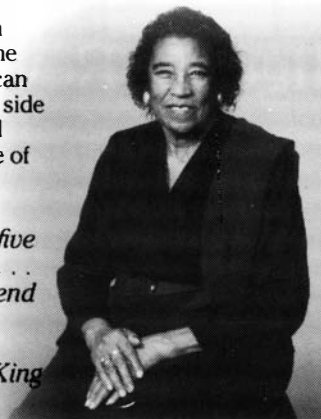


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HE HAS TO SAY



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From the Editor

The painting on the cover is *The Lackawanna Valley* by George Inness. In a “momentous and prophetic meeting of man and machine,” the train puffs out of the roundhouse into a luminous valley dotted with factories, farms, orchards, a town, and newly cleared land. By joining a European-style pastoral landscape with the American emphasis on infrastructure, it mirrors the optimism of the Philadelphia-centered American System school of political economy. Commissioned in 1855 by the first president of the Delaware, Lackawanna and Western Railroad, it eventually came to light in a job lot of surplus office equipment in Mexico City—and is now a prize of the National Gallery of Art in Washington (and an annoyance to environmentalists, who bemoan the treestumps and smokestacks for “spoiling” nature).

The railroad concept for developing a large country, as Lyndon LaRouche says in the interview on page 81, was an American contribution to the Leibnizian school of political economy, which Alexander Hamilton had used to put the United States on a sound footing. The railroad idea was taken back to Europe by Friedrich List.

In 1855, Hamilton’s heirs were engaged in a bitter struggle against Great Britain’s system of slavery and usury, disguised under the name of free trade. The battle lines were the same as those which today split the cynical proponents of the imperial “new world order” from those who embrace LaRouche’s proposal for a Paris-Berlin-Vienna “Productive Triangle,” linked by high-speed rail networks, as the locomotive for world economic recovery.

Many contributed the fruits of their research to this special issue, but not all are cited in the text. We also thank Fred Henderson, Nancy Spannaus, Anthony Wikrent, and Duke Writer, for their help in locating and selecting source materials, and Cynthia Rush, Valerie Rush, and Molly Kronberg, for translations.

The selection is incomplete, of course. There were brilliant American System economists in Hungary, Sweden, and elsewhere. Hamilton penned the first draft of the Constitution enacted by Toussaint L’Ouverture when he freed the slaves of Saint-Domingue (Haiti) in the 1790s. We invite readers to help fill the gaps in the months ahead. But the sequel we most hope to inspire, by reviving the ideas upon which every prosperous modern nation has been built, is a global rejection of “free trade” looting.

Nora Hamerman

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200 years since Hamilton's 'Report on Manufactures'

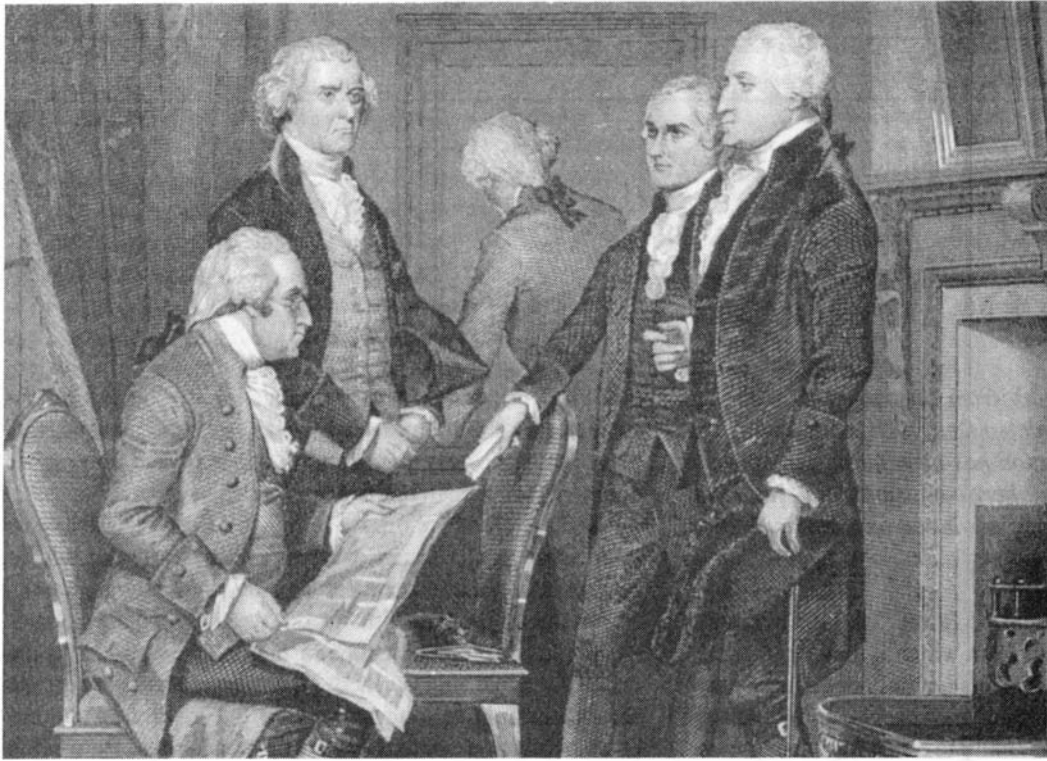
by Nora Hamerman

This special issue commemorates an American Bicentennial of great portent, as the Age of the Versailles Treaty draws to a close.

On Dec. 5, 1791, George Washington's Secretary of the Treasury Alexander Hamilton submitted to the U.S. Congress the third of his famous educational treatises, following the *Report on Public Credit* and *Report on the National Bank* of 1790. Unlike the earlier reports, which Congress ratified, the *Report on the Subject of Manufactures*, excerpted here below, was never given legislative approval. Yet by developing more fully than his predecessor Benjamin Franklin the notion of *total surplus value*, by spelling out the role of mechanization and the division of labor in increasing that value and the quality of the human mind, Alexander Hamilton in this 1791 report created the seed-crystal of what became the world-famous American System of Political Economy.

The very possibility for a global realization of the dream of political freedom embodied in the American Revolution and the federal republic shaped by the Constitution of 1787, depended upon the policy of infrastructural development to foster industrial progress which Hamilton unfolded. While in our era of universal public education, some aspects are obsolete—such as Hamilton's acceptance of child labor in manufacturing, then widely practiced in farming—others remain as valid today as two centuries ago. Above all, let us cite his general principle: "To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expedients, by which the wealth of a nation may be promoted. Even things in themselves not positively advantageous, sometimes become so, by their tendency to provoke exertion. Every new scene, which is opened to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort."

In the course of the last century, the Hamiltonian current was defended by the Philadelphia-based school of Irish immigrant Mathew Carey and his son Henry Carey, and the Whig tendency of the American statesman Henry Clay. This school's writings, emphatically including the work of the German-American re-



President George Washington (seated) with his first cabinet, (standing left to right) Secretaries of State Thomas Jefferson; Treasury, Alexander Hamilton (handing the President a report); War, Henry Knox; and Attorney General Edmond Jennings Randolph, in background. An engraving from a painting by Alonzo Chappel.

publican Friedrich List, spread the ideas around the world which opposed the slavery, opium, and usury-promoting school of kept "economists" of the British East India Company: Adam Smith, David Ricardo, and Thomas Malthus. In the 1820s the British System took over the United States, reversing Hamiltonian policies and triggering a deep depression under Andrew Jackson and Martin van Buren. They set the nation on the course toward the Civil War. Abraham Lincoln's election restored American System policies, but after his assassination in 1865, under Andrew Johnson, the nation again fell prey to British "free trade," culminating in the Specie Resumption Act of 1879. With the assassination of President McKinley in 1901 and the presidency of the British stooge Theodore Roosevelt, the American System was buried even in the memories of our citizens, only to be briefly revived (without a full awareness of its historic roots) in the 1939-43 war mobilization of Franklin Roosevelt and in John F. Kennedy's Apollo Space Program and investment tax credit of the early 1960s.

The ultimate travesty is that today, the United States government sends quacks around the globe to preach to others the evil "free-trade" and anti-natalist dogmas of Adam Smith and Malthus, which the United States fought its Revolution, the War of 1812, and the Civil War to defeat.

Meanwhile, the ideas of Hamilton and Carey, List, and Lincoln nurtured the development of modern nations around the world. As the articles and documents below indicate, Japan's transformation into an industrial giant, and the as-yet-unrealized potentials of Russia and China to emerge as

true nation-states to the benefit of all mankind, were fostered by the adoption of the American System's ideals by such thinkers as the Meiji restorationists, Count Witte, and Sun Yat-sen. Moreover, Ibero-America's resistance to the debt-collection policies of the British Empire and its U.S. puppets has been based on the union of the Hamilton-Carey model with the deeper substratum of Christian civilization, which gave birth to both the American System itself and the earlier evangelization of the Americas, whose Quincentenary we celebrate this year.

What today's heirs of the British East India Company most fear, is that the republics who have thrown off the yoke of Marxist dictatorship in eastern Europe will join with the nations of the South in Asia, Africa, and Ibero-America in a revolt against the "new world order," and establish sovereign nations who will freely help each other to enter into a golden age of unheard-of prosperity. If this occurs, it shall be the dawn of man's conquest of space; China will be freed; Africa pulled back from ecological holocaust; and the deserts of the world bejeweled with gardens and magnificent cities.

The natural leader of this revolution is an American, Lyndon LaRouche, who has championed the cause of Hamiltonian economics to a forgetful world. LaRouche uniquely took up where Hamilton's forebear Leibniz left off, and rigorously developed the basis of political economy in natural science. We hope that this publication will be of help in catalyzing that alliance, so feared by the would-be authors of that Brave New World Order, which, if consolidated, may end human civilization by instituting the worst tyranny in human history.

'Report on the Subject of Manufactures'

The following are excerpts from Alexander Hamilton's ground-breaking treatise, dated Dec. 5, 1791. Spelling has been modernized; punctuation has been left in the original form, except in a few cases where confusion would result for the modern reader. Subheads are based on Hamilton's own headings.

It is now proper to proceed a step further, and to enumerate the principal circumstances, from which it may be inferred, that manufacturing establishments not only occasion a positive augmentation of the produce and revenue of the society, but that they contribute essentially to rendering them greater than they could possibly be, without such establishments. These circumstances are—

1. The division of labor.
2. An extension of the use of machinery.
3. Additional employment to classes of the community not ordinarily engaged in the business.
4. The promoting of emigration from foreign countries.
5. The furnishing greater scope for the diversity of talents and dispositions which discriminate men from each other.
6. The affording a more ample and various field for enterprise.
7. The creating in some instances a new, and securing in all, a more certain and steady demand for the surplus produce of the soil.

Each of these circumstances has a considerable influence upon the total mass of industrious effort in a community. Together, they add to it a degree of energy and effect, which are not easily conceived. Some comments upon each of them, in the order in which they have been stated, may serve to explain their importance.

I. As to the division of labor

It has justly been observed, that there is scarcely any thing of greater moment in the economy of a nation, than the proper division of labor. The separation of occupations causes each to be carried to a much greater perfection, than it could possibly acquire, if they were blended. This arises principally from three circumstances.

First. The greater skill and dexterity naturally resulting from a constant and undivided application to a single object. It is evident, that these properties must increase, in propor-

tion to the separation and simplification of objects and the steadiness of the attention devoted to each; and must be less, in proportion to the complication of objects, and the number among which the attention is distracted.

Second. The economy of time—by avoiding the loss of it, incident to a frequent transition from one operation to another of a different nature. This depends on various circumstances—the transition itself—the orderly disposition of the implements, machines, and materials employed in the operation to be relinquished—the preparatory steps to the commencement of a new one—the interruption of the impulse, which the mind of the workman acquires, from being engaged in a particular operation—the distractions, hesitations, and reluctances, which attend the passage from one kind of business to another.

Third. An extension of the use of machinery. A man occupied on a single object will have it more in his power, and will be more naturally led to exert his imagination in devising methods to facilitate and abridge labor, than if he were perplexed by a variety of independent and dissimilar operations. Besides this, the fabrication of machines, in numerous instances, becoming itself a distinct trade, the artist who follows it, has all the advantages which have been enumerated, for improvement in his particular art; and in both ways the invention and application of machinery are extended.

And from these causes united, the mere separation of the occupation of the cultivator, from that of the artificer, has the effect of augmenting the *productive powers* of labor, and with them, the total mass of the produce or revenue of a country. In this single view of the subject, therefore, the utility of artificers or manufacturers, towards promoting an increase of productive industry, is apparent.

II. As to an extension of the use of machinery

As to an extension of the use of machinery a point which, though partly anticipated, requires to be placed in one or two additional lights.

The employment of machinery forms an item of great importance in the general mass of national industry. 'Tis an artificial force brought in aid of the natural force of man; and, to all the purposes of labor, is an increase of hands; an accession of strength, *unincumbered too by the expense of*

maintaining the laborer. May it not therefore be fairly inferred, that those occupations, which give greatest scope to the use of this auxiliary, contribute most to the general stock of industrial effort, and, in consequence, to the general product of industry?

It shall be taken for granted, and the truth of the position referred to observation, that manufacturing pursuits are susceptible in a greater degree of the application of machinery, than those of agriculture. If so all the difference is lost to a community which, instead of manufacturing for itself, procures the fabrics requisite to its supply from other countries. The substitution of foreign for domestic manufactures is a transfer to foreign nations of the advantages accruing from the employment of machinery, in the modes in which it is capable of being employed, with most utility and to the greatest extent.

The cotton mill invented in England, within the last twenty years, is a signal illustration of the general proposition, which has been just advanced. In consequence of it, all the different processes for spinning cotton are performed by means of machines, which are put in motion by water, and attended chiefly by women and children; (and by a smaller number of (persons, in the whole, than are) requisite in the ordinary mode of spinning. And it is an advantage of great moment that the operations of this mill continue with convenience, during the night, as well as through the day. The prodigious affect of such a machine is easily conceived. To this invention is to be attributed essentially the immense progress, which has been so suddenly made in Great Britain in the various fabrics of cotton.

III. As to the additional employment of classes of the community, not ordinarily engaged in the particular business

This is not among the least valuable of the means, by which manufacturing institutions contribute to augment the general stock of industry and production. In places where those institutions prevail, besides the persons regularly regularly engaged in them, they afford occasional and extra employment to industrious individuals and families, who are willing to devote the leisure resulting from the intermissions of their ordinary pursuits to collateral labors, as a resource of multiplying their acquisitions or (their) enjoyments. The husbandman himself experiences a new source of profit and support from the increased industry of his wife and daughters; invited and stimulated by the demands of the neighboring manufactories.

Besides this advantage of occasional employment to classes having different occupations, there is another of a nature allied to it (and) of a similar tendency. This is—the employment of persons who would otherwise be idle (and in many cases a burden on the community), either from the bias of temper, habit, infirmity of body, or some other cause, indisposing, or disqualifying them for the toils of the country. It

Adam Smith the target

Although Hamilton never named Adam Smith, this excerpt from a eulogy printed in the *Albany Sentinel* after Hamilton's death in 1804 shows that his target was understood: "His *Report on Manufactures* is a chef d'oeuvre of the kind, and the most labored performance that he ever gave to the world. It is not more distinguished for knowledge and investigation, than for having given a deep wound to the tenets of the sect of the French capital economists, and also to another system of politics which had grown fashionable among political philosophers. The system I allude to, is to be met with in Smith's *Enquiry into the Wealth of Nations*. . . . The secretary combats with great ability some of the fundamental principles of this doctrine, and he adopts the mercantile system upon the basis of self-defense, and as most wise, because Europe perseveres in the same system."

is worthy of particular remark, that, in general, women and children are rendered more useful and the latter more early useful by manufacturing establishments, than they would otherwise be. Of the number of persons employed in the cotton manufactories of Great Britain, it is computed that 4/7 nearly are women and children; of whom the greatest proportion are children and many of them of a very tender age.

And thus it appears to be one of the attributes of manufactories, and one of no small consequence, to give occasion to the exertion of a greater quantity of industry, even by the *same number* of persons, where they happen to prevail, than would exist if there were no such establishments.

IV. As to the promoting of emigration from foreign countries

Men reluctantly quit one course of occupation and livelihood for another, unless invited to it by very apparent and proximate advantages. Many, who would go from one country to another, if they had a prospect of continuing with more benefit the callings, to which they have been educated, will often not be tempted to change their situation, by the hope of doing better, in some other way. Manufacturers, who listening to the powerful invitations of a better price for their fabrics, or their labor, of greater cheapness of provisions and raw materials, of an exemption from the chief part of the taxes burdens and restraints, which they endure in the old world, of greater personal independence and consequence, under the operation of a more equal government, and of what

is far more precious than mere religious toleration—a perfect equality of religious privileges; would probably flock from Europe to the United States to pursue their own trades or professions, if they were once made sensible of the advantages they would enjoy, and were inspired with an assurance of encouragement and employment, will, with difficulty, be induced to transplant themselves, with a view to becoming cultivators of the land.

If it be true then, that it is the interest of the United States to open every possible (avenue to) emigration from abroad, it affords a weighty argument for the encouragement of manufactures; which for the reasons just assigned, will have the strongest tendency to multiply the inducements to it.

Here is perceived an important resource, not only for extending the population, and with it the useful and productive labor of the country, but likewise for the prosecution of manufactures, without deducting from the number of hands, which might otherwise be drawn to tillage; and even for the indemnification of agriculture for such as might happen to be diverted from it. Many, whom manufacturing views would induce to emigrate, would afterwards yield to the temptations, which the particular situation of this country holds out to agricultural pursuits. And while agriculture would in other respects derive many signal and unmingled advantages, from the growth of manufactures, it is a problem whether it would gain or lose, as to the article of the number of persons employed in carrying it on.

V. As to the furnishing greater scope for the diversity of talents and dispositions, which discriminate men from each other

This is a much more powerful mean of augmenting the fund of national industry than may at first sight appear. It is a just observation, that minds of the strongest and most active powers for their proper objects fall below mediocrity and labor without effect, if confined to uncongenial pursuits. And it is thence to be inferred, that the results of human exertion may be immensely increased by diversifying its objects. When all the different kinds of industry obtain in a community, each individual can find his proper element, and can call into activity the whole vigor of his nature. And the community is benefitted by the services of its respective members, in the manner, in which each can serve it with most effect.

If there be anything in a remark often to be met with—namely that there is, in the genius of the people of this country, a peculiar aptitude for mechanic improvements, it would operate as a forcible reason for giving opportunities to the exercise of that species of talent, by the propagation of manufactures.

VI. As to the affording a more ample and various field for enterprise

This also is of greater consequence in the general scale of national exertion, than might perhaps on a superficial view

be supposed, and has effects not altogether dissimilar from those of the circumstance last noticed. To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expedients, by which the wealth of a nation may be promoted. Even things in themselves not positively advantageous, sometimes become so, by their tendency to provoke exertion. Every new scene, which is opened to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort.

The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded in proportion to the simplicity or variety of the occupations and productions, which are to be found in a society. It must be less in a nation of mere cultivators, than in a nation of cultivators and merchants; less in a nation of cultivators and merchants, than in a nation of cultivators, artificers and merchants.

VII. As to the creating, in some instances, a new, and securing in all a more certain and steady demand, for the surplus produce of the soil

This is among the most important of the circumstances which have been indicated. It is a principal mean, by which the establishment of manufactures contributes to an augmentation of the produce or revenue of a country, and has an immediate and direct relation to the prosperity of agriculture.

It is evident, that the exertions of the husbandman will be steady or fluctuating, vigorous or feeble, in proportion to the steadiness or fluctuation, adequateness, or inadequateness of the markets on which he must depend, for the vent of the surplus, which may be produced by his labor; and that such surplus in the ordinary course of things will be greater or less in the same proportion.

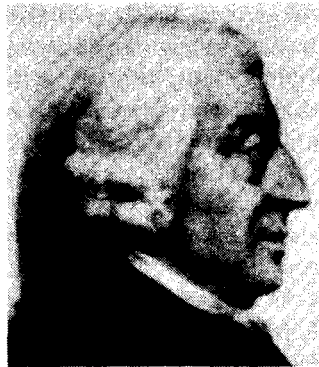
For the purpose of this vent, a domestic market is greatly to be preferred to a foreign one; because it is in the nature of things, far more to be relied upon.

It is a primary object of the policy of nations, to be able to supply themselves with subsistence from their own soils; and manufacturing nations, as far as circumstances permit, endeavor to procure, from the same source, the raw materials necessary for their own fabrics. This disposition, urged by the spirit of monopoly, is sometimes even carried to an injudicious extreme. It seems not always to be recollected, that nations, who have neither mines nor manufactures, can only obtain the manufactured articles, of which they stand in need, by an exchange of the products of their soils; and that, if those who can best furnish them with such articles are unwilling to give a due course to this exchange, they must of necessity make every possible effort to manufacture for themselves, the effect of which is that the manufacturing nations abridge the natural advantages of their situation, through an unwillingness to permit the agricultural countries to enjoy the advantages of theirs, the interests of a mutually beneficial inter-

Adam Smith viewed man as an animal

Adam Smith (1723-1790) was a follower of David Hume, and in his *Treatise of Human Nature* (1739), he reduced the power of creative reason to a mechanistic arrangement of sense impressions and denied the existence of an underlying lawfulness to the created universe. Years before Smith's *Wealth of Nations* became popularized, he penned another book, *Theory of the Moral Sentiments* (1759). Here Smith is more honest about his view of man as an irrational hedonistic animal, who lacks the divine power of creative reason and love:

"The administration of the great system of the universe . . . the care of universal happiness of all rational and sensible beings, is the business of God and not of man. To man is allotted a much humbler department, but one much more suitable to the weakness of his powers, and the narrowness of his comprehension; the care of his own happiness, of that of his family, his friends, his country. . . . But though we are endowed with a very



strong desire of these ends, it has been intrusted to the slow and uncertain determinations of our reason to find the proper means of bringing them about. Nature has directed us to the greater part of these by original and immediate instincts: Hunger, thirst, the passion which unites the two sexes, the love of pleasure, and the dread of pain, prompt us to apply those means for their own sake, and without any consideration of their tendency to those beneficent ends which the great Director of Nature intended to produce by them."

Now, let us briefly look at Smith's "invisible hand" of the marketplace. Since human beings are really governed only by animal instincts associated with pleasure and pain, how do we account for the qualitative and quantitative advancements of the human population? How does Smith account for all the great accomplishments of the human race and all the scientific revolutions generated by man's sovereign power of creative reason? He can't.

In his *Wealth of Nations*, written in 1776 as an explicit attack on the emerging American republic, Smith tells us that man's unique quality is found in his "propensity to truck, barter, and exchange one thing for another."

"It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any species of contracts. . . . Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. . . . Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that yours; I am willing to give this for that."

Perhaps dogs, unlike Smith, are smart enough to know: the invisible paw doesn't exist.

—Lawrence K. Freeman

course to the vain project of *selling everything* and *buying nothing*.

But it is also a consequence of the policy, which has been noted, that the foreign demand for the products of agricultural countries, is, in a great degree, rather casual and occasional, than certain or constant. To what extent injurious interruptions of the demand for some of the staple commodities of the United States, may have been experienced, from that cause, must be referred to the judgment of those who are engaged in carrying on the commerce of the country; but it may be safely assumed, that such interruptions are at times very inconveniently felt, and that cases not unfrequently occur, in which markets are so confined and restricted, as to render the demand very unequal to the supply.

Independently likewise of the artificial impediments, which are created by the policy in question, there are natural causes tending to render the external demand for the surplus of agricultural nations a precarious reliance. The differences

of seasons, in the countries, which are consumers make immense differences in the produce of their own soils, in different years; and consequently in the degrees of their necessity for foreign supply. Plentiful harvests with them, especially if similar ones occur at the same time in the countries, which are the furnishers, occasion of course a glut in the markets of the latter.

Considering how fast and how much the progress of new settlements in the United States must increase the surplus produce of the soil, and weighing seriously the tendency of the system, which prevails among most of the commercial nations of Europe; whatever dependence may be placed on the force of natural circumstances to counteract the effects of an artificial policy; there appear strong reasons to regard the foreign demand for that surplus as too uncertain a reliance, and to desire a substitute for it, in an extensive domestic market.

To secure such a market, there is no other expedient, than to promote manufacturing establishments. Manufacturers

who constitute the most numerous class, after the cultivators of land, are for that reason the principal consumers of the surplus of their labor.

This idea of an extensive domestic market for the surplus produce of the soil is of the first consequence. It is of all things, that which most effectually conduces to a flourishing state of agriculture. If the effect of manufactories should be to detach a portion of the hands, which would otherwise be engaged in tillage, it might possibly cause a smaller quantity of lands to be under cultivation but by their tendency to procure a more certain demand for the surplus produce of the soil, they would, at the same time, cause the lands which were in cultivation to be better improved and more productive. And while, by their influence, the condition of each individual farmer would be meliorated, the total mass of agricultural production would probably be increased. For this must evidently depend as much, if not more, upon the degree of improvement; than upon the number of acres under culture.

It merits particular observation, that the multiplication of manufactories not only furnishes a market for those articles, which have been accustomed to be produced in abundance, in a country; but it likewise creates a demand for such as were either unknown or produced in considerable quantities. The bowels as well as the surface of the earth are ransacked for articles which were before neglected. Animals, plants and minerals acquire an utility and value, which were before unexplored.

The foregoing considerations seem sufficient to establish, as general propositions, that it is the interest of nations to diversify the industrious pursuits of the individuals, who compose them. That the establishment of manufactures is calculated not only to increase the general stock of useful and productive labor; but even to improve the state of agriculture in particular; certainly to advance the interests of those who are engaged in it. There are other views, that will be hereafter taken of the subject, which, it is conceived, will serve to confirm these inferences. . . .

A full view having now been taken of the inducements to the promotion of manufactures in the United States, accompanied with an examination of the principal objections which are commonly urged *in opposition*, it is proper in the next place, to consider the means, by which it may be effected, as introductory to a specification of the objects which in the present state of things appear the most fit to be encouraged, and of the particular measures which it may be advisable to adopt, in respect to each.

In order to a better judgment of the means proper to be resorted to by the United States, it will be of use to advert to those which have been employed with success in other countries. The principal of these are—

I. Protecting duties

Protecting duties—or duties on those foreign articles which are the rivals of the domestic ones, intended to be encouraged.

Duties of this nature evidently amount to a virtual bounty on the domestic fabrics since by enhancing the charges on foreign articles, they enable the national manufacturers to undersell all their foreign competitors. The propriety of this species of encouragement need not be dwelt upon; as it is not only a clear result from the numerous topics which have been suggested, but is sanctioned by the laws of the United States in a variety of instances; it has the additional recommendation of being a resource of revenue. Indeed all the duties imposed on imported articles, though with an exclusive view to revenue, have the effect in contemplation, and except where they fall on raw materials wear a beneficent aspect towards the manufactures of the country.

II. Prohibitions of rival articles or duties equivalent to prohibitions

This is another and an efficacious mean of encouraging national manufactures, but in general it is only fit to be employed when a manufacture, has made such a progress and is in so many hands as to insure a due competition, and an adequate supply on reasonable terms. Of duties equivalent to prohibitions, there are examples in the Laws of the United States, and there are other cases to which the principle may be advantageously extended, but they are not numerous.

Considering a monopoly of the domestic market to its own manufacturers as the reigning policy of manufacturing nations, a similar policy on the part of the United States in every proper instance, is dictated, it might almost be said, by the principles of distributive justice; certainly by the duty of endeavoring to secure to their own citizens a reciprocity of advantages.

III. Prohibitions of the exportation of the materials of manufactures

The desire of securing a cheap and plentiful supply for the national workmen, and, where the article is either peculiar to the country, or of peculiar quality there, the jealousy of enabling foreign workmen to rival those of the nation, with its own materials, are the leading motives to this species of regulation. It ought not to be affirmed, that it is in no instance proper, but it is certainly one which ought to be adopted with great circumspection and only in very plain cases. It is seen at once, that its immediate operation, is to abridge the demand and keep down the price of the produce of some other branch of industry, generally speaking, of agriculture, to the prejudice of those, who carry it on; and though if it be really essential to the prosperity of any very important national manufacture, it may happen that those who are injured in the first instance, may be eventually indemnified, by the superior steadiness of an extensive domestic market, depending on that prosperity: yet in a matter, in which there is so much room for nice and difficult combinations, in which such opposite considerations combat each other, prudence seems to dictate, that the expedient in question, ought to be indulged with a sparing hand.

IV. Pecuniary bounties

This has been found one of the most efficacious means of encouraging manufactures, and it is in some views, the best. Though it has not yet been practiced upon by the government of the United States (unless the allowances on the exportation of dried and pickled fish and salted meat could be considered as a bounty) and though it is less favored by public opinion than some other modes.

Its advantages, are these—

1. It is a species of encouragement more positive and direct than any other, and for that very reason, has a more immediate tendency to stimulate and uphold new enterprises, increasing the chances of profit, and diminishing the risks of loss, in the first attempts.

2. It avoids the inconvenience of a temporary augmentation of price, which is incident to some other modes, or it produces it to a less degree; either by making no addition to the charges on the rival foreign article, as in the case of protecting duties, or by making a smaller addition. The first happens when the fund for the bounty is derived from a different object (which may or may not increase the price of some other article, according to the nature of that object) the second, when the fund is derived from the same or a similar object of foreign manufacture. One percent duty on the foreign article converted into a bounty on the domestic, will have an equal effect with a duty of two percent, exclusive of such bounty; and the price of the foreign commodity is liable to be raised, in the one case, in the proportion of one percent; in the other, in that of two percent. Indeed the bounty when drawn from another source is calculated to promote a reduction of price, because without laying any new charge on the foreign article, it serves to introduce a competition with it, and to increase the total quantity of the article in the market.

3. Bounties have not like high protecting duties, a tendency to produce scarcity. An increase of price is not always the immediate, though, where the progress of a domestic manufacture does not counteract a rise, it is commonly the ultimate effect of an additional duty. In the interval, between the laying of the duty and a proportional increase of price, it may discourage importation, by interfering with the profits to be expected from the sale of the article.

4. Bounties are sometimes not only the best, but the only proper expedient, for uniting the encouragement of a new object of agriculture, with that of a new object of manufacture. It is the interest of the farmer to have the production of the raw material promoted, by counteracting the interference of the foreign material of the same kind. It is the interest of the manufacturer to have the material abundant and cheap. If prior to the domestic production of the material, in sufficient quantity, to supply the manufacturer on good terms; a duty to be laid upon the importation of it from abroad, with a view to promote the raising of it at home, the interests both of the farmer and manufacturer will be disserved. By either destroying the requisite supply, or raising the price of the article, beyond what can be afforded to be given for it, by

the conductor of an infant manufacture, it is abandoned or fails; and there being no domestic manufactories to create a demand for the raw material, which is raised by the farmer, it is in vain, that the competition of the like foreign article may have been destroyed.

It cannot escape notice, that a duty upon the importation of an article can no otherwise aid the domestic production of it, than giving the latter greater advantages in the home market. It can have no influence upon the advantageous sale of the article produced, in foreign markets; no tendency, therefore to promote its exportation.

The true way to conciliate these two interests, is to lay a duty on foreign *manufactures* of the material, the growth of which is desired to be encouraged, and to apply the produce of that duty by way of bounty, either upon the production of the material itself or upon its manufacture at home or upon both. In this disposition of the thing, the manufacturer commences his enterprise under every advantage, which is attainable, as to quantity or price, of the raw material: And the farmer if the bounty be immediate to him, is enabled by it to enter into a successful competition with the foreign material; if the bounty be to the manufacturer on so much of the domestic material as he consumes, the operation is nearly the same; he has a motive of interest to prefer the domestic commodity, if of equal quality, even at a higher price than the foreign, so long as the difference of price is any thing short of the bounty which is allowed upon the article.

Except the stable and ordinary kinds of household manufactures, or those for which there are very commanding local advantages, pecuniary bounties are in most cases indispensable to the introduction of a new branch. A stimulus and a support not less powerful and direct is generally speaking essential to the overcoming of the obstacles which arise from the competitions of superior skill and maturity elsewhere. Bounties are especially essential, in regard to articles, upon which those foreigners, who have been accustomed to supply a country, are in the practice of granting them.

The continuance of bounties on manufactures long established must almost always be of questionable policy: because a presumption would arise in every such case, that there were natural and inherent impediments to success. But in new undertakings, they are as justifiable, as they are oftentimes necessary.

There is a degree of prejudice against bounties from an appearance of giving away the public money, without an immediate consideration, and from a supposition, that they serve to enrich particular classes, at the expense of the community.

But neither of these sources of dislike will bear a serious examination. There is no purpose, to which public money can be more beneficially applied, than to the acquisition of a new and useful branch of industry; no consideration more valuable than a permanent addition to the general stock of productive labor.

As to the second source of objection, it equally lies against other modes of encouragement, which are admitted

to be eligible. As often as a duty upon a foreign article makes an addition to its price, it causes an extra expense to the community, for the benefit of the domestic manufacturer. A bounty does no more: But it is in the interest of the society in each case, to submit to a temporary expense, which is more than compensated, by an increase in industry and wealth, by an augmentation of resources and independence; and by the circumstance of eventual cheapness, which has been noticed in another place.

It would deserve attention, however, in the employment of this species of encouragement in the United States, as a reason for moderating the degree of it in the instances, in which it might be deemed eligible, that the great distance of this country from Europe imposes very heavy charges on all the fabrics which are brought from thence, amounting from 15 to 30 percent on their value, according to their bulk.

A question has been made concerning the constitutional right of the government of the United States to apply this species of encouragement, but there is certainly no good foundation for such a question. The national legislature has express authority "To lay and Collect taxes, duties, imposts and excises, to pay the debts and provide for the *common defense* and *general welfare*" with no other qualifications than that "all duties, imposts and excises, shall be *uniform* throughout the United States, that no capitation or other direct tax shall be laid unless in proportion to numbers ascer-

tained by a census or enumeration taken on the principles prescribed in the Constitution," and that "no tax or duty shall be laid on articles exported from any state." These three qualifications excepted, the power to *raise money* is *plenary*, and *indefinite*; and the objects to which it may be *appropriated* are no less comprehensive, than the payment of the public debts and the providing for the common defense and "*general welfare*." The terms "general welfare" were doubtless intended to signify more than was expressed or imported in those which preceded; otherwise numerous exigencies incident to the affairs of a nation would have been left without a provision. The phrase is as comprehensive as any that could have been used; because it was not fit that the constitutional authority of the Union, to appropriate its revenues should have been restricted within narrower limits than the "general welfare" and because this necessarily embraces a vast variety of particulars, which are susceptible neither of specification nor of definition.

It is therefore of necessity left to the discretion of the national legislature, to pronounce, upon the objects, which concern the general welfare, and for which under that description, an appropriation of money is requisite and proper. And there seems to be no room for a doubt that whatever concerns the general interests of *learning* of *agriculture*, of *manufactures*, and of *commerce* are within the sphere of the national councils *as far as regards an application of money*.

Thomas R. Malthus's new world order

Today, Baghdad in Iraq and Lima in Peru are both the victims of the same new world order policy of the malthusians. This policy is being implemented with slightly different methods and measures in the two cases, but it is designed to produce the same results. In the one case, it has been achieved via bombing sorties. In the other case, it is occurring through the policies of the International Monetary Fund. In both cases, it is a policy being forced through by George Bush. In both cases, the malthusian objective is to depopulate, and to eliminate the sovereignty of, the nations of the Third World in particular. It is this that produces the spread of diseases like cholera.



Parson Malthus (1766-1834), a paid employee of the British East India Company, said it over 200 years ago, in his 1798 book *Essay on the Principle of Population*:

"All children who are born, beyond what would be required to keep up the population to a desired level, must necessarily perish, unless room be made for them by the death of grown persons. . . . We should facilitate, instead of foolishly and vainly endeavoring to impede, the operations of nature in producing this mortality; and if we dread the too frequent visitation of the horrid form of famine, we should sedulously encourage the other forms of destruction, which we compel nature to use.

"Instead of recommending cleanliness to the poor, we should encourage contrary habits. In our towns we should make the streets narrower, crowd more people into the houses, and court the return of the plague. In the country, we should build our villages near stagnant pools, and particularly encourage settlement in all marshy and unwholesome situations. But above all, we should reprobate specific remedies for ravaging diseases and restrain those benevolent, but much mistaken men who have thought they are doing a service to mankind by protecting schemes for the total extirpation of particular disorders."

—Dennis Small

The only qualification of the generality of the phrase in question, which seems to be admissible, is this—That the object to which an appropriation of money is to be made be *general* and not *local*; its operation extending in fact, or by possibility, throughout the Union, and not being confined to a particular spot.

No objection ought to arise to this construction from a supposition that it would imply a power to do whatever else should appear to Congress conducive to the general welfare. A power to appropriate money with this latitude which is granted too in *express terms* would not carry a power to do any other thing, not authorized in the Constitution, either expressly or by fair implication.

V. Premiums

These are of a nature allied to bounties, though distinguishable from them, in some important features.

Bounties are applicable to the whole quantity of an article produced, or manufactured, or exported, and involve a correspondent expense. Premiums serve to reward some particular excellence or superiority, some extraordinary exertion or skill, and are dispensed only in a small number of cases. But their effect is to stimulate general effort. Contrived so as to be both honorary and lucrative, they address themselves to different passions; touching the chords as well of emulation as of interest. They are accordingly a very economical mean of exciting the enterprise of a whole community.

There are various societies in different countries, whose object is the dispensation of premium for the encouragement of *agriculture, arts, manufactures and commerce*; and though they are for the most part voluntary associations, with comparatively slender funds, their utility has been immense. Much has been done by this mean in Great Britain; Scotland in particular owes materially to it a prodigious amelioration of condition. From a similar establishment in the United States, supplied and supported by the government of the Union, vast benefits might reasonably be expected. Some further ideas on this head, shall accordingly be submitted, in the conclusion of this report.

VI. The exemption of the materials of manufactures from duty

The policy of that exemption as a general rule, particularly in reference to new establishments, is obvious. It can hardly ever be advisable to add the obstructions of fiscal burdens to the difficulties which naturally embarrass a new manufacture; and where it is matured and in condition to become an object of revenue, it is generally speaking better that the fabric, than the material should be the subject of taxation. Ideas of proportion between the quantum of the tax and the value of the article, can be more easily adjusted, in the former, than in the latter case. An argument for exemptions of this kind in the United States, is to be derived from the practice, as far as their necessities have permitted, of those nations whom we are to meet as competitors in our own and

in foreign markets.

There are however exceptions to it; of which some examples will be given under the next head.

The laws of the Union afford instances of the observance of the policy here recommended; but it will probably be found advisable to extend it to some other cases. Of a nature, bearing some affinity to that policy is the regulation which exempts from duty the tools and implements, as well as the books, cloths and household furniture of foreign artists, who come to reside in the United States; an advantage already secured to them by the laws of the Union, and which, it is in every view, proper to continue. . . .

VIII. The encouragement of new inventions and discoveries

The encouragement of new inventions and discoveries at home, and of the introduction into the United States of such as may have been made in other countries; particularly those, which relate to machinery.

This is among the most useful and unexceptionable of the aids, which can be given to manufactures. The usual means of that encouragement are pecuniary rewards, and, for a time, exclusive privileges. The first must be employed, according to the occasion, and the utility of the invention, or discovery: For the last, so far as respects “authors and inventors” provision has been made by law. But it is desirable in regard to improvements and secrets of extraordinary value, to be able to extend the same benefit to introducers, as well as authors and inventors; a policy which has been practiced with advantage in other countries. Here, however, as in some other cases, there is cause to regret, that the competency of the authority of the national government to the *good*, which might be done, is not without a question. Many aids might be given to industry; many internal improvements of primary magnitude might be promoted, by an authority operating throughout the Union, which cannot be effected, as well, if at all, by an authority confined within the limits of a single state.

But if the legislature of the Union cannot do all the good, that might be wished, it is at least desirable, that all may be done, which is practicable. Means for promoting the introduction of foreign improvements, though less efficaciously than might be accomplished with more adequate authority, will form a part of the plan intended to be submitted in the close of this report.

It is customary with manufacturing nations to prohibit, under severe penalties, the exportation of implements and machines, which they have either invented or improved. There are already objects for a similar regulation in the United States; and others may be expected to occur from time to time. The adoption of it seems to be dictated by the principle of reciprocity. Greater liberality, in such respects, might better comport with the general spirit of the country; but a selfish and exclusive policy in other quarters will not always permit the free indulgence of a spirit, which would place us upon an unequal footing. As far as prohibitions tend to pre-

vent foreign competitors from deriving the benefit of the improvements made at home, they tend to increase the advantages of those by whom they may have been introduced; and operate as an encouragement to exertion.

IX. Judicious regulations for the inspection of manufactured commodities

This is not among the least important of the means, by which the prosperity of manufactures may be promoted. It is indeed in many cases one of the most essential. Contributing to prevent frauds upon consumers at home and exporters to foreign countries—to improvement quality and preserve the character of the national manufactures, it cannot fail to aid the expeditious and advantageous sale of them, and to serve as a guard against successful competition from other quarters. The reputation of the flour and lumber of some states, and of the potash of others has been established by an attention to this point. And the like good name might be procured for those articles, wheresoever produced, by a judicious and uniform system of inspection; throughout the ports of the United States. A like system might also be extended with advantage to other commodities.

X. The facilitating of pecuniary remittances from place to place

The facilitating of pecuniary remittances from place to place is a point of considerable moment to trade in general, and to manufactures in particular; by rendering more easy the purchase of raw materials and provisions and the payment for manufactured supplies. A general circulation of bank paper, which is to be expected from the institution lately established will be a most valuable mean to this end. But much good would also accrue from some additional provisions respecting inland bills of exchange. If those drawn in one state payable in another were made negotiable, everywhere, and interest and damages allowed in case of protest, it would greatly promote negotiations between the citizens of different states, by rendering them more secure; and, with it the convenience and advantage of the merchants and manufacturers of each.

XI. The facilitating of the transportation of commodities

Improvements favoring this object intimately concern all the domestic interests of a community; but they may without impropriety be mentioned as having an important relation to manufactures. There is perhaps scarcely any thing, which has been better calculated to assist the manufactures of Great Britain, than the ameliorations of the public roads of that kingdom, and the great progress which has been of late made in opening canals. Of the former, the United States stand much in need; and for the latter they present uncommon facilities.

The symptoms of attention to the improvement of inland navigation, which have lately appeared in some quarters,

must fill with pleasure every breast armed with a true zeal for the prosperity of the country. These examples, it is to be hoped, will stimulate the exertions of the government and the citizens of every state. There can certainly be no object, more worthy of the cares of the local administrations; and it were to be wished, that there was no doubt of the power of the national government to lend its direct aid, on a comprehensive plan. This is one of those improvements, which could be prosecuted with more efficacy by the whole, than by any part or parts of the Union. There are cases in which the general interest will be in danger to be sacrificed to the collision of some supposed local interests. Jealousies, in matters of this kind, are as apt to exist, as they are apt to be erroneous.

The following remarks are sufficiently judicious and pertinent to deserve a literal quotation. “Good roads, canals, and navigable rivers, by diminishing the expense of carriage, put the *remote parts of a country* more nearly upon a level with those in the neighborhood of the town. They are *upon that account* the greatest of all improvements. They encourage the cultivation of the remote, which must always be the most extensive circle of the country. They are advantageous to the town by breaking down the monopoly of the country in its neighborhood. they are advantageous *even to that part of the country*. Though they introduce some rival commodities into the old market, they open many new markets to its produce. Monopoly besides is a great enemy to good management, which can never be universally established, but in consequence of that free and universal competition, which forces everybody to have recourse to it for the sake of self-defense. It is not more than fifty years ago that *some of the countries in the neighborhood of London petitioned the Parliament, against the extension of the turnpike roads, into the remoter counties. Those remoter counties, they pretended, from the cheapness of labor, would be able to sell their grass and corn cheaper in the London market, than themselves, and they would thereby reduce their rents and ruin their cultivation*. Their rents however have risen and their cultivation has been improved, since that time.”

Specimens of a spirit, similar to that which governed the counties here spoken of present themselves too frequently to the eye of an impartial observer, and render it a wish of patriotism, that the body in this country, in whose councils a local or partial spirit is least likely to predominate, were at liberty to pursue and promote the general interest, in those instances, in which there might be danger of the interference of such a spirit.

The foregoing are the principal of the means, by which the growth of manufactures in ordinarily promoted. It is, however, not merely necessary, that the measures of government, which have a direct view to manufactures, should be calculated to assist and protect them, but that those which only collaterally affect them, in the general course of the administration, should be guarded from any peculiar tendency to injure them. . . .

'Report on a National Bank'

To the Speaker of the House of Representatives:

The Secretary respectfully reports

. . . That a National Bank is an Institution of primary importance to the prosperous administration of the Finances, and would be of the greatest utility in the operations connected with the support of the Public Credit. . . .

The following are among the principal advantages of a Bank.

First. The augmentation of the active or productive capital of a country. Gold and Silver, when they are employed merely as the instruments of exchange and alienation, have been not improperly denominated dead Stock; but when deposited in Banks, to become the basis of a paper circulation, which takes their character and place, as the signs or representatives of value, they then acquire life, or, in other words, an active and productive quality. . . . It is evident, for instance, that the money which a merchant keeps in his chest, waiting for a favourable opportunity to employ it, produces nothing, 'till that opportunity arrives. But if instead of locking it up in this manner, he either deposits it in a Bank, or invests it in the Stock of a Bank, it yields a profit, during the interval. . . . His money thus deposited or invested, is a fund, upon which himself and others can borrow to a much larger amount. It is a well established fact, that Banks in good credit can circulate a far greater sum, than the actual quantum of their capital in Gold and Silver. . . .

The same circumstances illustrate the truth of the position, that it is one of the properties of Banks to increase the active capital of a country. . . . The money of one individual, while he is waiting for an opportunity to employ it by being either deposited in the Bank for safe keeping, or invested in its Stock, is in a condition to administer to the wants of others, without being put out of his own reach. . . . This yields an extra profit, arising from what is paid for the use of his money by others, when he could not himself make use of it, and keeps the money itself in a state of incessant activity. . . . This additional employment given to money, and the faculty of a bank to lend and circulate a greater sum than the amount of its stock in coin, are all to the purposes of trade and industry, an absolute increase of capital. Purchases and undertakings, in general, can be carried on by any given sum of bank paper or credit, as effectually as by an equal sum of gold and silver. And thus by contributing to enlarge the mass of industrious and commercial enterprise, banks become

nurseries of national wealth. . . .

Secondly. Greater facility to the Government in obtaining pecuniary aids, especially in sudden emergencies. This is another undisputed advantage of public banks, one which, as already remarked, has been realised in signal instances among ourselves. . . .

[T]hat Banks tend to banish the gold and silver of the Country . . . is an objection, which if it has any foundation, lies not against Banks, peculiarly, but against every species of paper credit.

The most common answer given to it is . . . that it is immaterial what serves the purpose of money, whether paper, or gold and silver; that the effect of both upon industry is the same; and that the intrinsic wealth of a nation is to be measured, not by the abundance of the precious metals contained in it, but by the quantity of the productions of its labour and industry. . . . It is certain, that the vivification of industry, by a full circulation, with the aid of a proper and well regulated paper credit, may more than compensate for the loss of a part of the gold and silver of a Nation. . . . A nation that has no mines of its own, must derive the precious metals from others; generally speaking, in exchange for the products of its labour and industry. The quantity, it will possess, will therefore, in the ordinary course of things, be regulated by the favourable or unfavourable balance of its trade; that is, by the proportion between its abilities to supply foreigners, and its wants of them; between the amount of its exportations and that of its importations. Hence the state of agriculture and manufactures, the quantity and *quality* of its labour and industry must influence and determine the increase or decrease of its gold and silver.

If this be true . . . well constituted Banks . . . augment in different ways, the active capital of the country. This, it is, which generates employment; which animates and expands labour and industry. Every addition, which is made to it, by contributing to put in motion a greater quantity of both, tends to create a greater quantity of the products of both: And, by furnishing more materials for exportation, conduces to a favourable balance of trade and consequently to the introduction and increase of gold and silver. . . .

The support of industry is . . . of more consequence towards correcting a wrong balance of trade, than any practicable retrenchments in the expenses of families or individuals: And the stagnation of it [industry] would be likely to have

more effect in prolonging such balance, than any savings in shortening its continuance. That stagnation is a natural consequence of an inadequate medium, which, without the aid of Bank circulation, would in the cases supposed be severely felt. . . .

The establishment of Banks in this country seems to be recommended by reasons of a peculiar nature. Previously to the revolution circulation was carried on by paper in great measure emitted by the several local governments. . . . This auxiliary may be said to be now at an end. And it is generally supposed, that there has been for some time a deficiency of circulating medium. . . .

The circumstances are . . . the vast tracts of waste land, and the little advanced state of manufactures. The progressive settlement of the former, while it promises ample retribution, in the generation of future resources, diminishes or obstructs, in the mean time, the *active* wealth of the country. It not only draws off a part of the circulating money, and places it in a more passive state, but it diverts into its own channels a portion of that species of labour and industry, which would otherwise be employed, in furnishing materials for foreign trade, and which, by contributing to a favourable balance, would assist the introduction of specie [currency]. In the early periods of new settlements, the settlers not only furnish no surplus for exportation, but they consume a part of that which is produced by the labour of others. The same thing is a cause, that manufactures do not advance, or advance slowly. . . .

[Hamilton then lists several reasons why some already extant private banks may not be made the National Bank and why a new Bank must be created.]

. . . The last inducement . . . is the want of precautions to guard against a foreign influence insinuating itself into the Direction of the Bank. It seems scarcely reconcilable with a due caution to permit, that any but citizens should be eligible as Directors of a National Bank, or that non-resident foreigners should be able to influence the appointment of Directors by the votes of their proxies. . . .

It is to be considered, that such a Bank is not a mere matter of private property, but a political machine of the greatest importance to the State. . . .

[T]he following plan of the constitution of a National Bank is respectfully submitted to the consideration of the House:

I. The capital Stock of the Bank shall not exceed ten Millions of Dollars, divided into Twenty five thousand shares, each share being four hundred Dollars; to raise which sum, subscriptions shall be opened. . . . Bodies politic as well as individuals may subscribe.

II. The amount of each share shall be payable, one fourth in gold and silver coin, and three fourths in that part of the public debt, which according to the loan proposed by the Act making provision for the debt of the United States, shall bear an accruing interest at the time of payment of six per centum per annum. . . .

XIII. None but a Stockholder being a citizen of the United States, shall be eligible as a Director. . . .

XX. The bills and notes of the Bank originally made payable . . . in gold and silver coin, shall be receivable in all payments to the United States.

XXI. The Officer at the head of the Treasury Department of the United States shall be furnished from time to time . . . not exceeding once a week, with statements of the amount of the capital Stock of the Bank and of the debts due to the same; of the monies deposited therein; of the notes in circulation; and of the Cash in hand; and shall have a right to inspect such general account in the books of the bank as shall relate to the said statements. . . .

XXIV. And lastly. The President of the United States shall be authorised to cause a subscription to be made to the Stock of the said Company, on behalf of the United States, to an amount not exceeding two Millions of Dollars, to be paid out of the monies which shall be borrowed by virtue of either of the Acts, the one entitled "an Act making provision for the debt of the United States," and the other entitled "An Act making provision for the reduction of the Public Debt". . . .

The combination of a portion of the public Debt in the formation of the Capital, is the principal thing, of which an explanation is requisite. The chief object of this is, to enable the creation of a capital sufficiently large to be the basis of an extensive circulation, and an adequate security for it. . . . But to collect such a sum in this country, in gold and silver into one depository, may, without hesitation, be pronounced impracticable. Hence the necessity of an auxiliary which the public debt at once presents.

This part of the fund [the Continental Debt] will be always ready to come in aid of the specie. It will more and more command a ready sale [i.e. the debt of the U.S., via the Bank, will become marketable]; and can therefore expeditiously be turned into coin. . . . This quality of prompt convertibility into coin, renders it an equivalent for that necessary agent of Bank circulation; and distinguishes it from a fund in land of which the sale would be far less compendious, and a great disadvantage. . . .

The debt composing part of the capital, besides its collateral effect in enabling the Bank to extend its operations, and consequently to enlarge its profits, will produce a direct annual revenue of six per centum from the Government, which will enter into the half yearly dividends received by the Stockholders.

When the present price of the public debt is considered, and the effect which its conversion into Bank Stock, incorporated with a specie fund, would have in all probability to accelerate its rise to the proper point, it will easily be discovered, that the operation presents in its outset a very considerable advantage to those who may become subscribers; and from the influence, which that rise would have on the general mass of the Debt, a proportional benefit to all the public creditors. . . .

Hamilton's final years: the Christian Constitutional Society

by Donald Phau

By 1802, a little over one year before his murder, Alexander Hamilton stood virtually alone, as the country he had helped to found rapidly degenerated. His arch-foe Thomas Jefferson, as President, had turned the economy over to the European oligarchy. Jefferson had chosen Albert Gallatin, Swiss aristocrat and protégé of the man who had destroyed France, Jacques Necker, as his Treasury secretary. The Federalists, the political party which Hamilton and George Washington had founded and which had led the nation through the storms of its first years, had fallen into the hands the British, even supporting Hamilton's future murderer, Aaron Burr, for President.

Establishment historians have succeeded in painting an entirely false view of the last years of Hamilton's life. He is portrayed as a "brooding" man, a "fallen leader," who quit his party and retired in frustration. Indeed, his enemies had run countless operations to drive Hamilton out of public life, but to no avail. These operations included the murder of his eldest son, in a duel set up by Burr, and numerous attempts to frame up the former secretary of the Treasury on the 18th-century equivalent of "securities fraud."

In a letter to Benjamin Rush on Feb. 12, 1802, Hamilton writes of his son's death. The letter reveals a deeply religious side of Hamilton which plays a key part in his last years. "My loss is indeed great. The brightest as well as the eldest of my family has been taken from me. You estimated him rightly. He was a fine youth. But why should I repine? It was the will of heaven, and he is now out of the reach of the seductions and calamities of a world of folly, full of vice, full of danger—of least value in proportion as it is best known. I firmly trust, also, that he has safely reached the haven of eternal repose and felicity."

Standing up, alone, for his beliefs was the hallmark of Hamilton's character. He minced no words in characterizing the so-called leadership of the country. He called Jefferson an "atheist" and a "fanatic"; as for former President John Adams, he quoted Ben Franklin, who said, "Mr. Adams: He is always honest, sometimes great, but often mad." But his real contempt was reserved for Aaron Burr, the man the Federalists ended up supporting for President against Jefferson. Hamilton waged a one-man campaign to convince his party that Burr's election to the presidency would be far worse than the election of Jefferson. Hamilton wrote to

Gouverneur Morris on Dec. 24, 1800:

"Jefferson or Burr? the former without doubt. The latter, in my judgement, has no principle, public or private; could be bound by no agreement; will listen to no monitor but his ambition, and for this purpose will use the worst part of the community as a ladder to climb to permanent power, and an instrument to crush the better part. He is bankrupt beyond redemption, except by the resources which grow out of war and disorder, or by a sale to a foreign power, or by great speculation. War with Great Britain would be an immediate instrument. He is sanguine enough to hope every thing, daring enough to attempt every thing, wicked enough to scruple nothing. From the elevation of such a man may heaven preserve the country."

Due to Hamilton's efforts Burr was barely defeated by Jefferson. Burr would have his revenge, killing Hamilton in a duel four years later. Yet Hamilton saw that if the Federalist Party could stoop so low as to support Burr, in order to gain the presidency, he could no longer associate himself with it. In January 1801 he wrote to James A. Bayard: "If the party shall, by supporting Mr. Burr as President, adopt him for their official chief, I shall be obliged to consider myself an isolated man. It will be impossible for me to reconcile with my notions of honor or policy the continuing to be of a party which, according to my apprehension, will have degraded itself and the country."

Countering the 'Jacobins'

It is at this very point that the "history" books write Hamilton off. Hated by the Jeffersonian democrats and denounced by those Federalists for destroying the party he had helped found and lead, Hamilton's career was supposedly over. In reality, Hamilton had begun to plan out how to organize a core group of cadre consisting of men determined to rescue the nation from the depths into which it had fallen. Hamilton called his new organization "The Christian Constitutional Society."

For Hamilton, the enemy was the "Jacobinism" of the French Enlightenment, a brand of thought which the "atheistic" Jefferson utilized to establish the doctrine of separation of Church and State. The first principle of the new society, even before supporting the Constitution, was "the support of the Christian religion." In a letter to his friend James Bayard



Alexander Hamilton was laying plans for a “Christian Constitutional Society” to put the United States back on sound economic principles when he was killed in a duel by British agent Aaron Burr in July 1804.

in April 1802, Hamilton lays out, in rough draft, an outline for the new society. It would start out as a network of people dedicated to the “diffusion of information,” as well as those who would monitor the local newspapers—a kind of intelligence-gathering organization. To counter the spread of Jacobinism in the cities, the society would establish “academies” to educate the urban population in the “principles of mechanics” and “chemistry.” The society would also actively support candidates for elected office.

Hamilton’s letter to Bayard

The following is nearly the complete text of Hamilton’s letter to Bayard:

Your letter of the 12th instant has relieved me of some apprehension. Yet it is well that it should be perfectly understood by the truly sound part of the Federalists that there do, in fact, exist intrigues in good earnest between several individuals not unimportant, of the federal party, and the person in question, which are bottomed upon motives and views by no means auspicious to the real welfare of the country. I am glad to find that it is in the contemplation to adopt a plan of conduct. It is very necessary; and, to be useful, it must be efficient and comprehensive in the means which it embraces, at the same time that it must mediate none which are not really constitutional and patriotic. I will comply with your invitation by submitting some ideas which, from time to time, have passed through my mind.

Nothing is more fallacious than to expect to produce any valuable or permanent results in political projects by relying merely on the reason of men. Men are rather reasoning than reasonable animals, for the most part governed by the im-

pulse of passion. This is well understood by our adversaries, who have practised upon it with no small benefit to their cause; for at the very moment they are eulogizing the reason of men, and professing to appeal only to that faculty, they are courting the strongest and most active passion of the human heart, vanity! It is no less true that the Federalists seem not to have attended to the fact sufficiently; and that they have erred in relying so much on the rectitude and utility of their measures as to have neglected the cultivation of popular favor, by fair and justifiable expedients. The observation has been repeatedly made to me by individuals with whom I particularly conversed, and expedients suggested for gaining good will, which were never adopted. Unluckily, however, for us, in the competition for the passions of the people, our opponents have great advantages over us; for the plain reason that the vicious are far more active than the good passions; and that, to win the former to our side, we must renounce our principles and our objects and unite in corrupting public opinion till it becomes fit for nothing but mischief. Yet, unless we can contrive to take hold of, and carry along with us some strong feelings of the mind, we shall in vain calculate upon any substantial or durable results.

Whatever plan we may adopt, to be successful, must be founded on the truth of this proposition. And perhaps it is not very easy for us to give it full effects; especially not without some deviations from what, on other occasions, we have maintained to be right. But in determining upon the propriety of the deviations, we must consider whether it be possible for us to succeed, without, in some degree, employing the weapons which have been employed against us, and whether the actual state and future prospect of things be not such as to justify the reciprocal use of them. I need not tell you that I do not mean to countenance the imitation of things intrinsically unworthy, but only of such as may be denominated irregular [“irregular warfare”—DP]; such as, in a sound and stable order of things, ought not to exist. Neither are you to infer that any revolutionary result is contemplated. In my opinion, the present Constitution is the standard to which we are to cling. Under its banners, bona fide, must we combat our political foes, rejecting all changes but through the channel itself provides for amendments. By these general views of the subject have my reflections been guided. I now offer you the outline of the plan which they have suggested.

Let an association be formed to be denominated “The Christian Constitutional Society.” Its objects to be:

- 1st. The support of the Christian religion.
- 2d. The support of the Constitution of the United States.

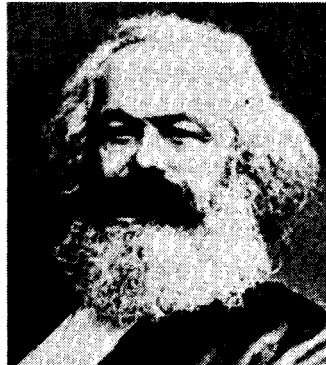
Its organization:

- 1st. A council, consisting of a president and twelve members, of whom four and the president to be a quorum.
- 2d. A sub-directing council in each State, consisting of a vice-president and twelve members, of whom four, with the vice-president to be a quorum.

Marx hated Christian roots of American System

Karl Marx (1818-83) was far from being an opponent of Adam Smith's free trade dogmas, as many people believe today. Marx and his fellow founder of communism, Friedrich Engels, wrote a 30-page tirade in 1844 against Friedrich List, Germany's great Hamiltonian thinker (see page 40). If we strip away all secondary arguments, what unhinged Marx was List's rejection of materialism and locating the "capital of mind" as the true source of wealth, as Hamilton had earlier. Marx and Smith both believed that man was a "soulless materialist," which led Marx to strongly defend Smith and his free trade theory against List. It is not coincidental that Marx supported British and French materialists against the Leibnizian outlook.

In an obvious state of rage, Marx called List an "idealistic-Christian" and a "German philistine," who would constantly talk about protective tariffs and productive forces. List's rejection of the materialistic exchange values, which were considered the source of



wealth by both Marx and Smith, led Marx to attack Christianity as the spiritual source for List's notion of the productive powers. Marx fully recognized that List's understanding of the productive powers consciously fostered by the nation state completely discredited communism, which forced Marx to defend Britain and the free trade school as the highest form of capitalism and civil society against List and the American System:

"That it is just as impossible for him [List] to advance further the political economy exhaustively developed by the English and French as it would be for them [German bourgeoisie] to contribute anything new to the development of philosophy in German. . . . Modern political economy starts out as a social system of competition. Free labor, that is to say, indirect slavery which offers itself for sale, is its principle. Its primary propositions are division of labor and the machine. And this can be given its highest development only in the factories, as modern political economy itself admits. Thus the political economy today starts out from the factories as its creative principle. . . . Hence it does not need to expatiate on 'manufacturing force.' "

In his defense of exchange values, Marx insisted that List's theory of productive forces was not an advance over the already fully "exhausted" capitalism of free competition, but was only an attempt to help the German bourgeoisie against Britain. He repeatedly lied first, that List was making no advance over the British System of free competition and free trade; and second, that the United States was not a crucial proof of superiority of List and the American System over the British System of free trade.

—Lawrence K. Freeman

3d. As many societies of each State as local circumstances permit to be formed by the sub-directing council.

The meeting at Washington to nominate the president and the vice-president, together with four members of each of the councils, who are to complete their own numbers respectively.

Its means:

The diffusion of information. For this purpose not only the newspapers, but pamphlets, must be largely employed, and to do this a fund must be created; five dollars annually, for eight years, to be contributed by each member who can really afford it (taking care not to burthen the less able brethren), may afford a competent fund for a competent term. It is essential to be able to disseminate gratis useful publications. Wherever it can be done, and there is a press, clubs should be formed, to meet once a week, read the newspapers, and prepare essays, papagraphs, etc.

2d. The use of all lawful means in concert to promote the

election of fit men; a lively correspondence must be kept up between the different societies.

3d. The promoting of institutions of charitable and useful nature in the management of Federalists. The populous cities ought particularly to be attended to; perhaps it would be well to institute in such places 1st, societies for the relief of emigrants; 2d, academies, each with one professor, for instructing the different classes of mechanics in the principles of mechanics and the elements of chemistry. The cities have been employed by the Jacobins to give an impulse to the country; and it is believed to be an alarming fact that, while the question of presidential election was pending in the House of Representatives, parties were organizing in several of the cities in the event of there being no election, to cut off the leading Federalists and seize the government.

The foregoing to be the principal engine. . . . This is the general sketch of what has occurred to me. It is at the service of my friends for so much as it may be worth.

Colbert's bequest to the founding fathers

by Anton Chaitkin

Yorktown, the last great battle of the American Revolution, was won by the allied forces of America and France. Lacking an industrial supply base, politically disorganized, the new American republic had nevertheless survived through years of patient and resolute struggle. To develop national power in their shaky new country, American leaders would be instructed by what the first treasury secretary called the "indefatigable endeavors" of the seventeenth-century French statesman Jean-Baptiste Colbert.

At the war's end, the Americans had not yet formed the necessary central government. Col. Alexander Hamilton had been General Washington's chief aide, coordinating military intelligence for the alliance. On April 8, 1782, Hamilton wrote an article for the *New-York Packet*, No. 5 in his series called "The Continentalist," explaining the need for a strong Union government. In this article, Hamilton set forth the economic tradition which the American leaders would use to develop their country, under the necessary energetic government:

"Trade may be said to have taken its rise in England under the auspices of Elizabeth; and its rapid progress there is in a great measure to be ascribed to the fostering care of government in that and succeeding reigns.

"From a different spirit in the government, with superior advantages, France was much later in commercial improvements, nor would her trade have been at this time in so prosperous a condition had it not been for the abilities and indefatigable endeavors of the great *Colbert*. He laid the foundation of the French commerce, and taught the way to his successors to enlarge and improve it. The establishment of the woolen manufacture, in a kingdom, where nature seemed to have denied the means, is one among many proofs, how much may be effected in favor of commerce by the attention and patronage of a wise administration. The number of useful edicts passed by Louis XIV, and since his time, in spite of frequent interruptions from the jealous enmity of Great Britain, has advanced that of France to a degree which has excited the envy and astonishment of its neighbors."

Colbert's coup d'état

It was in 1661 that Jean-Baptiste Colbert began the organization of lawful government in France. Colbert (b. 1619)

had been the coordinator of secret intelligence for Cardinal Mazarin, the French royal family's prime minister. Colbert was a student of the strategies of Cardinal Richelieu, the previous prime minister, who had built a national army of 100,000 men, while battling the feudal nobility who recognized no real French *nation* and no law above their own power. Richelieu's "Grand Design" had envisaged a world of great nations, empowered by rising culture and education.

When the prime minister, Cardinal Mazarin, died in 1661, King Louis XIV was only 23 years old, and Colbert had already served as a confidential counselor for him and his family since Louis's early childhood. Colbert took advantage of the moment to create an entirely new regime.

Immediately, he opened an investigation of the Superintendent of Finance, Nicolas Fouquet, who had long served as an intermediary for the blackmail of the international and regional bankers against the king. They might loan money to the king, according to their unpredictable conditions, but he was treated as an individual and was subjected to fraud; there was no French sovereignty.

Colbert proved the corruption and treason of Fouquet and of many bankers with whom he had worked. Fouquet's faction had actually planned a violent takeover by the aristocrats. Fouquet was imprisoned, and a *debt moratorium* was declared, freeing the young king from three or four years of debt strangulation.

Program for a great nation

Colbert waged all-out political war against the corrupt French nobility. He created a single nationwide code of law, and set up courts where nobles who robbed, oppressed, and murdered the peasants were put on trial. He conducted inquiries into the legitimacy of titles to nobility. Thousands were deemed fraudulent, and the losers joined the ranks of taxpayers. Many had to go to work, rather than simply collecting a myriad of taxes from the people of their region. Now only the government had the authority to collect taxes, and its finances were conducted in an orderly and lawful fashion.

Far from wishing to build up a vast state bureaucracy, Colbert pointed to the masses of idlers and parasites whose gradual absorption into the work force would solve France's economic problems. In a memorandum to the king dated Oct. 22, 1664, Colbert explained that the glory of the king would be established by "taking action in proportion to great objectives. . . . It is necessary to reduce the professions of your subjects as much as possible to those which can be useful to these grand designs."

"These are agriculture, merchandise [production and distribution of goods], and soldiers and sailors.

". . . [Your Majesty should] be working at the same time to diminish, gradually and insensibly, the [number of] monks and nuns. . . . The two professions which consume

a hundred thousand of your subjects uselessly and without contributing to your glory, are financiers and lawyers.

“ . . . The administration of justice . . . imposes a heavy and tyrannical yoke, using the authority of your name, on all the rest of your people.”

His “Memorandum on the Reformation of Justice,” of May 15, 1665, renewed this appeal.

France had no significant manufacturing capability. Dutch merchants, financed by the old Venetian nobility, carried most of the world’s commerce in their ships. The Dutch trade cartel bought masses of commodities, stored them in their warehouses, and then dumped them at will into French and other markets. French home industry was constantly undercut.

Colbert imposed tariffs imposed on imported goods, but lifted the tolls and taxes which the local aristocracy had imposed on road and river shipments within France, which had made Frenchmen foreigners to one another. A great canal was cut, linking the Atlantic Ocean and the Mediterranean Sea, as first proposed by Leonardo da Vinci in 1516. In supervising the construction and improvement of roads and waterways, Colbert asked his builders to make their works so good that they would “last eternally.”

Under chief engineer Sebastien Vauban, fortresses were constructed by the latest standards, defining and protecting France’s frontier. The forts called forth, for their supply, the construction of new highways and canals.

The government started factories, and pushed private entrepreneurs to take them over or to build their own. Royal grants were provided for private enterprise; credit from money-lenders, which otherwise circled endlessly through government paper speculations, was encouraged to go to the new productive enterprises. Teachers and craftsmen, Protestant and Catholic, were brought in from all of Europe to tutor France’s development, and to help manage its new factories.

Colbert was most jealous of his country’s reputation for the export market. Standards were set and enforced. On first offense, a manufacturer caught in fraud or the production of shoddy goods would be held up to ridicule; a specimen of his cloth might be “hung in effigy” in the public square. Repeated offenses were dealt with more severely.

A future for man’s mind

Colbert’s promotion of home industry, and his boasting of exports over imports of manufactures, has been mislabeled “mercantilism” by historical writers, the most notoriously fraudulent of whom was Adam Smith. Unlike Smith’s concocted “mercantilists,” Colbert sought not simply to pile up gold and silver in France, but to develop a national culture of technology and trade, which would lift France out of the mire of localist ignorance.

Colbert’s administration sponsored the construction of a merchant fleet, to carry French goods abroad, and to service

French colonies in Canada and elsewhere. To protect this commerce, the number of royal warships was expanded, from less than 20, to 250. His policy for Canada, though ultimately stymied, was similar to that of the English colonists in America, and in striking contrast to “imperialism.” He sought to populate Canada with settlers, to concentrate at first in the East in new cities and modern farms, and to intermarry with the American Indians. He recruited and sent women to marry the French soldiers already in Canada, hoping to spur rapid population growth. Above all, he opposed the merchant oligarchy in the fur trade, which deliberately kept settlers away or spread them thinly in the wilds, where they intoxicated and looted the Indians.

Science policy

In 1666 Colbert organized the French Academy of Sciences. He brought in the Dutch astronomer Christiaan Huygens as the Academy’s president. The scientists working and studying under Colbert’s sponsorship formed the core of leadership in the development of mathematics, physics and chemistry for the next three centuries.

Colbert’s protégé Denis Papin was assigned to study under Huygens, as was the young German, G.W. Leibniz. Papin and Leibniz collaborated to develop the first working steam boat; unfortunately, Papin and his model boat ended up in the hands of the British establishment, which managed to suppress steam power for another century. Huygens, the founder of the wave theory of light, taught mathematics to Leibniz, and in 1675 Leibniz completed the groundwork for his invention of calculus, the foundation of all modern mathematics.

In 1675 Leibniz demonstrated his new calculating machine to the French Academy; it could multiply, divide, and take square and cube roots. He received three orders for the machine, one for the king, one for the Royal Observatory, and one for Minister of Finance Colbert.

Leibniz’s pioneer work in the science of thermodynamics—the study of the potential of violent force to be tamed and put to use by man—was up and advanced a century later by Lazare and Sadi Carnot in the Ecole Polytechnique, which later taught engineering to the American military.

Colbert died in 1683. His program of economic, scientific and cultural development was quickly aborted. But in two decades he had turned France into a great power, and had demonstrated to the world how a nation creates its own destiny.

In 1661, an English youth named William Penn was thrown out of Oxford University, having been caught participating in an underground republican study group. Penn’s father, an admiral, sent him to France to study. There young William spent two years watching, and perhaps taking part in, Colbert’s life-and-death struggle with the aristocracy. In 1683, the year of Colbert’s death, Penn founded the City of Philadelphia.

Colonial precursors of Hamilton

The following selections are taken from the writings of some of the principal American precursors of the Hamiltonian system of economics, assembled by H. Graham Lowry.

John Winthrop, 'Reasons to Be Considered for Justifying the Plantation in New England' (1629)

Winthrop's policy statement, circulated as an organizing tract for the great 1630 migration to found the Massachusetts Bay Colony, is the earliest formulation of the principles and goals of Christian economy for the project of forging a republic in the New World. The excerpts below highlight the rejection of the oligarchical system, and the commitment to a continental republic, which later flourished under "the American System."

This land [of England] grows weary of her inhabitants, so as man who is the most precious of all creatures is here more vile and base than the earth we tread upon, and of less price among us, than a horse or a sheep, masters are forced by authority to entertain servants, parents are forced to maintain their own children, all towns complain of the burden of their poor though we have taken up many unnecessary, yea unlawful trades to maintain them. And we use the authority of the law to hinder the increase of people as urging the execution of the state against cottages and inmates and thus it is come to pass that children, servants and neighbors (especially if they be poor) are counted the greatest burden which if things were right would be the chiefest earthly blessing.

The whole earth is the Lord's Garden and he hath given it to the sons of men, with a general condition, Gen: 1.28. Increase and multiply, replenish the earth and subdue it, which was again renewed to Noah, the end is double, moral and natural, that man might enjoy the fruits of the earth and God might have his due glory from the creature, why then should we stand here striving for places of habitation (many men spending much labor and cost to recover or keep sometimes an Acre or two of land as would procure them many hundred as good or better in another country), and in the mean time suffer a whole Continent, as fruitful and convenient for the use of man, to lie waste without any improvement.

Cotton Mather, 'Some Considerations on Bills of Credit' (1691)

Following Charles II's revocation of the Massachusetts Bay Charter in 1684, the colony no longer had sovereign powers



John Winthrop

to mint its own currency, issue subsidies for the development of mining and manufacturing, regulate its trade, and enforce its prohibitions against usury. All of these measures had been integral to the impressive rates of economic growth in republican Massachusetts. The overthrow of royal Gov. Edmund Andros in 1689 was followed by renewed assertions of Massachusetts' authority to promote its economic development, including a pamphlet by Increase Mather, Cotton's father, who was negotiating a new charter in London.

The elder Mather's "New England Vindicated from Unjust Aspersions" argued that Massachusetts must have authority to control its own currency and credit, and direct its own capital into the development of mining and manufacturing.

Cotton Mather's 1691 pamphlet was designed to rally support in Massachusetts for the issuance of paper currency in the form of public bills of credit, and attacked "the great indiscretion of our Countrymen" who refused to accept them.

Now what is the Security of your Paper-money less than the Credit of the whole Country? . . . Certainly, Sir, were not people's heads idly bewhizzled with conceits that we have no magistrates, no government, which we can call our own, I say if such foolish conceits were not entertained, there would not be the least scruple in accepting your bills as current pay. . . .

[Otherwise], we are reduced to *Hobbes* his state of Nature.

Benjamin Franklin, 'A Proposal for Promoting Useful Knowledge Among the British Plantations in America' (1743)

With renewed hostilities between Britain and France during the War of Austrian Succession, America's republicans geared up for a rare opportunity to break the joint Anglo-French containment of any efforts to develop the continental interior. In the guise of promoting Britain's interests in her colonies, Franklin's call to arms led to the founding of the American Philosophical Association in 1744, as a nation-building scientific conspiracy in the tradition of Leibniz.

Two of the association's leading founders, James Alexander and Robert Hunter Morris, were protégés of Robert Hunter, former colonial governor of New York (1710-19) and close friend of Jonathan Swift, Leibniz's major political ally in the English-speaking world. The sons of Alexander and Morris played major roles in America's battle for independence; and John Stevens, one of Alexander's grandsons, became the most distinguished inventor of the young American republic.

The first drudgery of settling new colonies, which confines the attention of people to mere necessities, are now pretty well over; and there are many in every province in circumstances that set them at ease, and afford leisure to cultivate the finer arts and improve the common stock of knowledge. To such of these who are men of speculation, many hints must from time to time arise, many observations occur, which if well examined, pursued, and improved, might produce discoveries to the advantage of some or all of the British plantations, or to the benefit of mankind in general.

But as from the extent of the country such persons are widely separated, and seldom can see and converse or be acquainted with each other, so that many useful particulars remain uncommunicated, die with the discoverers, and are lost to mankind; it is, to remedy this inconvenience for the future, proposed,

That one society be formed of *virtuosi* or ingenious men, residing in the several colonies, to be called *The American Philosophical Society*, who are to maintain a constant correspondence.

That Philadelphia, being the city nearest the centre of the continent colonies, communicating with all of them northward and southward by post, and with all the islands by sea, and having the advantage of a good growing library, be the centre of the Society. . . .

That these members meet once a month, or oftener, at their own expense, to communicate to each other their observations and experiments. . . .

That the subjects of the correspondence be . . . new and useful improvements in any branch of mathematics; new discoveries in chemistry, such as improvements in distilla-

tion, brewing, and assaying of ores; new mechanical inventions for saving labor, as mills and carriages, and for raising and conveying of water, draining of meadows, &c., all new arts, trades, and manufactures, that may be proposed or thought of; surveys, maps and charts of particular parts of the seacoast or inland countries; course and junction of rivers and great roads, situation of lakes and mountains, nature of the soil and productions; new methods of improving the breed of useful animals; introducing other sorts from foreign countries; new improvements in planting, gardening, and clearing land; and all philosophical experiments that let light into the nature of things, tend to increase the power of man over matter, and multiply the pleasures and conveniences of life.

Nathaniel Ames, 'A Thought Upon the Past, Present, and Future State of North America' (1757)

The topical essay for Ames's Almanack for the year 1758, published in Massachusetts at the end of 1757, when Britain's forced involvement on the side of the American colonies during the French and Indian War put the issue of westward development irrevocably on the table. Ames offered an inspiring vision of America's future course.

Our numbers will not avail until the Colonies are united. . . . If we do not join Heart and Hand in the common Cause against our exulting Foes, but fall to disputing among ourselves, it may really happen as the Governour of *Pennsylvania* told his Assembly, "We shall have no Priviledge to dispute about, nor Country to dispute in."

. . . Here we find a vast Stock of proper Materials for the Art and Ingenuity of Man to work upon. . . . So Arts and Sciences will change the Face of Nature in the Tour from hence over the Appalachian Mountains to the Western Ocean . . . —the Rocks will disclose their hidden Gems,—and the inestimable Treasures of Gold and Silver be broken up. Huge Mountains of Iron Ore are already discovered; and vast Stores are reserved for future Generations: This Metal more useful than Gold and Silver, will employ millions of hands, not only to form the martial Sword, and peaceful Share, alternately; but an Infinity of Utensils improved in the Exercise of Art, and Handicraft amongst Men. Nature thro' all her Works has stamp'd Authority on this Law, namely, "That all fit Matter shall be improved to its best Purposes."—Shall not then those vast Quarries, that teem with mechanic Stone,—those for Structure be piled into great Cities,—and those for Sculpture into Statues to perpetuate the honor of renowned Heroes; even those who shall *now* save their Country.

O! Ye unborn inhabitants of America! Should this Page escape its destin'd Conflagration at the Year's End, and these Alphabetical Letters remain legible,—when your Eyes behold the Sun after he has rolled the Seasons round for two or three Centuries more, you will know that in Anno Domini 1758, we dream'd of your Times.

Henry Carey ripped Britain's 'free-trade' looting system

Henry C. Carey, largely written out of today's "revisionist" history books, is to be credited, perhaps more than any other single individual, with pursuing the policies which kept alive the American System. From the late 1840s until his death in 1879, Carey organized in support of Alexander Hamilton's dirigist system of political economy. His leadership in that effort, especially as exercised through Abraham Lincoln's Treasury Department, enabled much of the nineteenth-century technological development of the United States to take place.

Henry Carey's background is rooted in republican humanist traditions. His father, Mathew Carey, was an Irish republican revolutionary, strongly influenced by circles who were, in turn, influenced by Jonathan Swift. Mathew Carey was kicked out of Ireland for "defaming the British" when he resurrected Swift's Modest Proposal for the Universal Use of Irish Manufactures. He then made his way to France, where he worked with Benjamin Franklin and General Lafayette. Upon his arrival in the United States, Carey became an ardent supporter of Hamilton.

The following are selections from Henry Carey's The Harmony of Interests: Agricultural, Manufacturing, and Commercial, first published in 1851, and reprinted by Augustus M. Kelley, New York, 1967. The subheads correspond to Carey's own chapter titles.

How protection tends to increase production and consumption

A great error exists in the impression now very commonly entertained in regard to national division of labour, and which owes its origin to the English school of political economists,

whose system is throughout based upon the idea of making England "the workshop of the world," than which nothing could be less natural. By that school it is taught that some nations are fitted for manufactures and others for the labours of agriculture, and that the latter are largely benefited by being compelled to employ themselves in the one pursuit, making all their exchanges at a distance, thus contributing their share to the maintenance of the system of "ships, colonies, and commerce." The whole basis of their system is *conversion and exchange*, and not production, yet neither makes any addition to the amount of things to be exchanged. It is the great boast of their system that the exchangers are so numerous and the producers so few, and the more rapid the increase in the proportion which the former bear to the latter, the more rapid is supposed to be the advance toward perfect prosperity. Converters and exchangers, however, must live, and they must live out of the labour of others: and if three, five, or ten persons are to live on the product of one, it must follow that all will obtain but a small allowance of the necessaries or comforts of life. . . .

Why is it that protection is required?

The object of the colonial system was that of "raising up a nation of customers," a project "fit only," says Adam Smith, "for a nation of shopkeepers." He was, however, inclined to think, that even for them it was unfit, although "extremely fit for a nation whose government was influenced by shopkeepers." As early as the period immediately following the Revolution of 1688, we find the shopkeeping influ-

ence exerted for the “discouragement” of the woolens manufacture of Ireland; and while the people of that unfortunate country were thus prevented from converting their own wool into cloth, they were by other laws prevented from making any exchanges with the fellow-subjects in other colonies, unless through the medium of English ports and English “shopkeepers.”

Such being the case, it was little likely that any efforts at combination of exertion among distant colonists, for rendering labour more productive of the conveniences and comforts of life, should escape the jealous eyes of men whose shop-keeping instincts had prompted them to the adoption of such measures in regard to nearer ones. The first attempt at manufacturing any species of cloth in the American provinces was followed by interference on the part of the British legislature. In 1710, the House of Commons declared, “that the erecting of manufactories in the colonies had a tendency to lessen their dependence upon Great Britain.” Soon afterwards complaints were made to Parliament, that the colonists were setting up manufactories for themselves, and the House of Commons ordered the Board of Trade to report upon the subject, which was done at length. In 1732, the exportation of hats from province to province was prohibited, and the number of apprentices to be taken by hatters was limited. In 1750, the erection of any mill or other engine for splitting or rolling iron was prohibited; but pig-iron was allowed to be imported into England duty-free, that it might then be manufactured and sent back again. At a later period, Lord Chatham declared, that he would not allow the colonists to make even a hobnail for themselves. . . .

We see thus, that the whole legislation of Great Britain, on this subject, has been directed to the one great object of preventing the people of her colonies, and those of independent nations, from obtaining the machinery necessary to enable them to combine their exertions for the purpose of obtaining cloth or iron, and thus *compelling* them to bring to her their raw materials, that she might convert them into the forms that fitted them for consumption, and then return to the producers a portion of them, burdened with great cost for transportation, and heavy charges for the work of conversion. We see, too, that notwithstanding the revocation of a part of the system, it is still discretionary with the Board of Trade, whether or not they will permit the export of machinery of any description. . . .

The whole system [of British free trade] has for its object an increase in the number of persons that are to intervene between the producer and the consumer—living on the product of the land and labour of others, diminishing the power of the first, and increasing the number of the last; and thus it is that Ireland is compelled to waste more labour annually than would be required to produce, thrice over, all the iron, and convert into cloth all the cotton and wool manufactured in England. The poverty of producers exists nearly in the ratio in which they are compelled to make their exchanges in

the market of Great Britain. . . .

The manufacturers of India have been ruined, and that great country is gradually and certainly deteriorating and becoming depopulated, to the surprise of those people of England who are familiar with its vast advantages, and who do not understand the destructive character of their own system.

The impoverishing effects of the system were early obvious, and to the endeavour to account for the increasing difficulty of obtaining food where the whole action of the laws tended to increase the number of consumers of food and to diminish the number of producers, was due the invention of the Malthusian theory of population, now half a century old. That was followed by the Ricardo doctrine of Rent, which accounted for the scarcity of food by asserting, as a fact, that men always commenced the work of cultivation on rich soils, and that as population increased they were obliged to resort to poorer ones, yielding a constantly diminishing return to labour, and producing a constant necessity for separating from each other, if they would obtain a sufficiency of food. Upon this theory is based the whole English politico-economic system. Population is first supposed to be superabundant, when in scarcely any part of the earth could the labour of the same number of persons that now constitute the population of England obtain even one-half the same return. Next, it is supposed that men who fly from England go always to the cultivation of rich soils, and therefore everything is done to expel population. Lastly, it is held that their true policy when abroad is to devote all their labour to the cultivation of those rich soils, sending the produce to England that it may be converted into cloth and iron, and they are cautioned against any interference with perfect freedom of trade as “a war upon labour and capital.”

Colonization is urged on all hands, and all unite in the effort to force emigration in the direction needed to raise up “colonies of customers.” It is impossible to read any work on the subject without being struck by the prevalence of this “shopkeeping” idea. It is seen everywhere. Hungary was to be supported in her efforts for the establishment of her independence, because she was willing to have free trade, and thus make a market for British manufactures. The tendency of the Ricardo-Malthusian system to produce intensity of selfishness was never more strikingly manifested than on that occasion.

We thus have here, first, a system that is unsound and unnatural, and second, a theory invented for the purpose of accounting for the poverty and wretchedness which are its necessary results. The miseries of Ireland are charged to over-population, although millions of acres of the richest soils of the kingdom are waiting drainage to take their place among the most productive in the world, and although the Irish are compelled to waste more labour than would pay, many times over, for all the cloth and iron they consume. The wretchedness of Scotland is charged to over-population

when a large portion of the land is so tied up by entails as to forbid improvement, and almost forbid cultivation. The difficulty of obtaining food in England is ascribed to over-population, when throughout the kingdom a large portion of the land is occupied as pleasure grounds, by men whose fortunes are due to the system which has ruined Ireland and India. Over-population is the ready excuse for all the evils of a vicious system, and so will it continue to be until that system shall see its end. . . .

How protection affects commerce

Men are everywhere flying from British commerce, which everywhere pursues them. Having exhausted the people of the lower lands of India, it follows them as they retreat toward the fastnesses of the Himalaya. Afghanistan is attempted, while Scinde [Sindh] and the Punjab are subjugated. Siamese provinces are added to the empire of free trade, and war and desolation are carried into China, in order that the Chinese may be compelled to pay for the use of ships, instead of making looms. The Irishman flies to Canada; but there the system follows him, and he feels himself insecure until within this Union. The Englishman and the Scotsman try Southern Africa, and thence they fly to the more distant New Holland, Van Dieman's Land, or New Zealand. The farther they fly, the more they must use ships and other perishable machinery, the less steadily can their efforts be applied, the less must be the power of production, and the fewer must be the equivalents to be exchanged, and yet in the growth of ships, caused by such circumstances, we are told to look for evidence of prosperous commerce!

The British system is built upon cheap labour, by which is meant low priced and worthless labor. Its effect is to cause it to become from day to day more low priced and worthless, and thus to destroy production upon which commerce must be based. The object of protection is to produce dear labour, that is, high-priced and valuable labour, and its effect is to cause it to increase in value from day to day, and to increase the equivalents to be exchanged, to the great increase of commerce. . . .

How protection affects the farmer

. . . Let us look now to what would be the effects of the adoption of perfect freedom of trade, as urged upon the world by England. It could not fail to be that of *riveting upon the world the existing monopoly of machinery for the conversion of the products of the farm and the plantation into cloth and iron*, closing the factories and furnaces of Russia, Germany, and the United States, and compelling the people who work in them to seek other modes of employment, and the only recourse would be to endeavour to raise food. There would then be more food to sell; but who would buy it?

The producers of the world have been, and they are now being, sacrificed to the exchangers of the world; and therefore it is that agriculture makes so little progress, and that the cultivators of the earth, producers of all that we consume, are so universally poor, and so generally uninstructed as to their true interests. . . .

The object of protection is that of diminishing the distance and the waste between the producer and the consumer; thereby enabling the producer to grow rich, and to become a large consumer of cloth and iron.

There is a perpetual complaint of over-production, and it is a matter of rejoicing when, by reason of short seasons, or any other occurrence, the crop is diminished 200,000 or 300,000 bales, the balance producing more in the market of the world than could otherwise have been obtained for the whole. No better evidence need be desired that there exists some error in the distribution.

Over-production cannot exist, but under-consumption may and does exist. The more that is produced, the more there is to be consumed; and as every man is a consumer in the exact ratio of his production, the more he can produce the better will it be for himself and his neighbour, unless there exist some disturbing cause, preventing the various persons desiring to consume from producing what is needed for them to effect their exchanges with the planter, to the extent that is necessary to their comfort.

How protection affects the landowner

In Europe . . . population is held to be superabundant. Marriage is regarded as a luxury, not to be indulged in, lest it should result in increase of numbers. "Every one," it is said, "has a right to live," but this being granted, it is added that "no one has a right to bring creatures into life to be supported by other people." Poor laws are denounced, as tending to promote increase of population. . . . Labour is held to be a mere "commodity," and if the labourer cannot sell it, he has no "right" but to starve—himself, his wife, and his children. . . . Such are the doctrines of the free-trade school of England, in which Political Economy is held to be limited to an examination of the laws which regulate the production of wealth, without reference to either morals or intellect. Under such teaching it is a matter of small surprise that pauperism and crime increase at a rate so rapid.

Every colony of England would gladly separate from her, feeling that connection with her is synonymous with deterioration of condition. Every one would gladly unite its fortunes with those of our Union, feeling that connection with us is synonymous with improvement. The reason for all this is, that the English system is based upon cheap labour, and tends to depress the many for the benefit of the few. In our system, it is the many who govern; and experience having

taught them that prosperity and free trade are inconsistent with each other, we have “free trade” tariffs with protective duties of thirty percent, and likely to be increased. The colonies are ruined by free trade, and they desire annexation, that they may have protection.

How protection affects the labourer

In England, the power to obtain food, clothing, or iron, for labour, is small, and it tends to diminish with . . . every diminution in the proportion that applies itself to production, because with each such step there is a necessity for greater exertion to underwork and supplant the Hindoo, whose annual wages even now are but six dollars, out of which he finds himself in food and clothing. With every step downwards, labour is more and more becoming surplus, as is seen from the growing anxiety to expel population, at almost every present sacrifice. . . .

Here lies the error of *communism* and *socialism*. They seek to compel union, and to force men to exchange with each other, the necessary effect of which is to sink the whole body to the level of those who are at the bottom.

So too, is it with nations. The industrious community that raises food and is *dependent* on the idle one that makes iron must give much of the one for little of the other. The peaceful community that raises cotton and is *dependent* on the warlike one that raises silk, must give much cotton for little silk. Dependence on others for articles of necessity thus makes a community of goods, and the sober and industrious must help to support the idle and the dissolute—nations as well as individuals. . . .

The policy of England has tended to produce *communism* among nations. She has rendered herself dependent upon other communities for supplies of the articles of prime necessity, obtaining her rice from the wretched Hindoo, her corn from the Russian serf, and her wool from the Australian convict, neglecting her own rich soils that wait but the application of labour to become productive.

The necessary consequence of this is a tendency downwards in the condition of her people, and as it is with those of England that those of this country are invited to compete, it may not be amiss to show what is the condition to which they are now reduced by competition with the low-priced labour of Russia and of India.

How protection affects morals

The whole tendency of the [free-trade] system is to the production of a gambling spirit. In England, it makes railroad kings, ending in railroad bankrupts, like Henry Hudson. If we could trace the effect of the great speculation of which this man was the father, we should find thousands and tens of thousands of husbands and wives, parents and children, utterly

begged to build up the fortunes of the few, and thus increase the inequality of social condition which lies at the root of all evil. If we examine it here, we see it . . . sending thousands of boys and girls to our cities—the former to become shopmen, and the latter prostitutes, while hundreds of thousands are at the same time making their way to the West. . . . With every step of our progress in that direction, social inequality tends to increase. The skilful speculator realizes a fortune by the same operation that ruins hundreds around him, and adds to his fortune by buying their property under the hammer of the sheriff. The wealthy manufacturer is unmoved by revolutions in the British market which sweep away his competitors, and, when the storm blows over, he is enabled to double, treble, or quadruple, his already overgrown fortune. . . . The system tends to make the rich richer and the poor poorer. The coal miner of present year works for half wages, but the coal speculator obtains double profits, and thus is it ever—the producer is sacrificed to the exchanger. . . .

The whole system of trade, as at present conducted, and as it must continue to be conducted if the colonial system be permitted longer to exist, is one of mere gambling, and of all qualities, that which most distinguishes the gambler is ignorant selfishness. He ruins his friends and wastes his winnings on a running-horse, or on a prostitute.

In England, a large portion of the people can neither read nor write, and there is scarcely an effort to give them education. The colonial system looks to low wages, necessarily followed by an inability to devote time to intellectual improvement. Protection looks to high wages that enable the labourer to improve his mind, and educate his children. The English child, transferred to this country, becomes an educated and responsible being. If he remain at home, he remains in brutish ignorance. To increase the productiveness of labour, education is necessary. Protection tends to the diffusion of education, and the elevation of the condition of the laborer. . . .

If we desire to raise the intellectual standard of man throughout the world, our object can be accomplished only by raising the value of man . . . throughout the world. Every man brought here *is* raised, and every man so brought tends to diminish the supposed surplus of men elsewhere. Men come when the reward of labour is high, as they did between 1844 and 1848. They return disappointed when the reward of labour is small, as is now the case. Protection tends to increase the reward of labour, and to improve the intellectual condition of man.

Conclusion

Much is said on “the mission” of the people of these United States, and most of it is said by persons who appear to limit themselves to the consideration of the *powers* of the nation, and rarely to think of its *duties*. By such men the grandeur of the national position is held to be greatly increased by having expended sixty or eighty millions upon a

war with a weak neighbour. . . .

The English doctrine of "ships, colonies, and commerce" is thus reproduced on this side of the Atlantic, and its adoption by the nation will be followed by effects similar to those which have been already described as existing in England. There, for a time, it gave the power to tax the world for the maintenance of fleets and armies, as had before been done by Athens and by Rome, and there it is now producing the same results that have elsewhere resulted from the same system: poverty, depopulation, exhaustion, and weakness.

To substitute true Christianity for the detestable system known as the Malthusian, it is needed that we prove to the world that it is population that makes the food come from the rich soils, and that food tends to increase more rapidly than population, vindicating the policy of God to man.

Two systems are before the world; the one looks to increasing the proportion of persons and of capital engaged in trade and transportation, and therefore to diminishing the proportion engaged in producing commodities with which to trade, with *necessarily* diminished return to the labour of all; while the other looks to increasing the proportion engaged in the work of production, and diminishing that engaged in trade and transportation, with increased return to all, giving the labourer good wages, and to the owner of capital good profits. One looks to increasing the quantity of raw materials to be exported, and diminishing the inducements to imports of men, thus impoverishing both farmer and planter by throwing on them the burden of freight; while the other looks to increasing the import of men, and diminishing the export of raw materials, thereby enriching both planter and farmer by relieving them from payment of freight. One looks to giving the *products* of millions of acres of land and of the labour of millions of men for the *services* of hundreds of thousands of distant men; the other to bringing the distant men to consume on the land the products of the land, exchanging day's labour for day's labour. One looks to compelling the farmers and planters of the Union to continue their contributions for the support of the fleets and the armies, the paupers, the nobles, and the sovereigns of Europe; the other to enabling ourselves to apply the same means to the moral and intellectual improvement of the sovereigns of America. One looks to the continuance of that *bastard* freedom of trade

which denies the principle of protection, yet doles it out as revenue duties; the other by extending the area of *legitimate* free trade by the establishment of perfect protection, followed by the annexation of individuals and communities, and ultimately by the abolition of customs-houses. One looks to exporting men to occupy desert tracts, the sovereignty of which is obtained by aid of diplomacy or war; the other to increasing the value of an immense extent of vacant land by importing men by millions for their occupation. One looks to the *centralization* of wealth and power in a great commercial city that shall rival the great cities of modern times, which have been and are being supported by aid of contributions which have exhausted every nation subjected to them; the other to *concentration*, by aid of which a market shall be made upon the land for the products of the land, and the farmer and planter be enriched. One looks to increasing the necessity of commerce; the other to increasing the power to maintain it. One looks to underworking the Hindoo, and sinking the rest of the world to his level; the other to raising the standard of man throughout the world to our level. One looks to pauperism, ignorance, depopulation, and barbarism; the other to increasing wealth, comfort, intelligence, combination of action, and civilization. One looks towards universal war; the other towards universal peace. One is the English system; the other we may be proud to call the American system, for it is the only one ever devised the tendency of which was that of *elevating* while *equalizing* the condition of man throughout the world.

Such is the true *mission* of the people of these United States. To them has been granted a privilege never before granted to man, that of the exercise of the right of perfect self-government; but, as rights and duties are inseparable, with the grant of the former came the obligation to perform the latter. Happily their performance is pleasant and profitable, and involves no sacrifice. To raise the value of labour throughout the world, we need only to raise the value of our own. To raise the value of land throughout the world, it is needed only that we adopt measures that shall raise the value of our own. To diffuse intelligence and to promote the cause of morality throughout the world, we are required only to pursue the course that shall diffuse education throughout our own land, and shall enable every man more readily to acquire property, and with it respect for the rights of property. To improve the political condition of man throughout the world, it is needed that we ourselves should remain at peace, avoid taxation for the maintenance of fleets and armies, and become rich and prosperous. To raise the condition of women throughout the world, it is required of us only that we pursue that course that enables men to remain at home and marry, that they may surround themselves with happy children and grandchildren. To substitute true Christianity for the detestable system known as the Malthusian, it is needed that we prove to the world that it is population that makes the food come from the rich soils, and that food tends to increase more rapidly than population, vindicating the policy of God to man. . . .

Discoveries and inventions

Abraham Lincoln's favorite speech of the 1860 presidential campaign, sets forth the basic philosophical principles of the American System of political economy.

Abraham Lincoln once described this speech as his favorite stump speech of the 1860 presidential campaign. Lincoln uses the Bible to demonstrate that by use of inventions and discoveries, man has made successive advancements in his culture. More importantly, he locates the fundamental distinction between man and beast in man's continuing ability to change his mode of labor through such discoveries and inventions. We reprint it From The Civil War and the American System, America's Battle with Britain, 1860-1876, by Allen Salisbury, Campaigner Publications, New York, 1978. The book is now out of print; this particular speech has been omitted from all widely available collections of Lincoln's works.

All creation is a mine, and every man a miner.

The whole earth, and all *within* it, *upon* it, and *round about* it, including *himself*, in his physical, moral, and intellectual nature, and his susceptibilities, are the infinitely various "leads" from which, man, from the first, was to dig out his destiny.

In the beginning, the mine was unopened, and the miner stood *naked*, and *knowledgeless*, upon it.

Fishes, birds, beasts, and creeping things, are not miners, but *feeders* and *lodgers* merely. Beavers build houses; but they build them in nowise differently, or better now, than they did, five thousand years ago. Ants and honey bees provide food for winter; but just in the *same way* they did, when Solomon referred the sluggard to them as patterns of prudence.

Man is not the only animal who labors; but he is the only one who *improves* his workmanship. This improvement he effects by *Discoveries* and *Inventions*. His first important discovery was the fact that he was *naked*; and his first invention was the fig-leaf apron. This simple article, the apron, made of leaves, seems to have been the origin of *clothing*—the one thing for which nearly half of the toil and care of the human race has ever since been expended. The most important improvement he ever made in connection with clothing, was the invention of *spinning* and *weaving*. The spinning jenny, and power loom, invented in modern times, though great *improvements*, do not, *as inventions*, rank with the ancient arts of spinning and weaving. Spinning and weaving brought into the department of clothing such

abundance and variety of material. Wool, the hair of several species of animals, hemp, flax, cotton, silk, and perhaps other articles, were all suited to it, affording garments not only adapted to wet and dry, heat and cold, but also susceptible of high degrees of ornamental finish. Exactly *when*, or *where*, spinning and weaving originated is not known. At the first interview of the Almighty with Adam and Eve, after the fall, He made "coats of skins, and clothed them" (Genesis iii: 21).

The Bible makes no other allusion to clothing, *before* the flood. Soon *after* the deluge Noah's two sons covered him with a *garment*; but of what *material* the garment was made is not mentioned (Genesis ix: 23).

Abraham mentions "*thread*" in such connection as to indicate that spinning and weaving were in use in his day (Genesis xiv: 23), and soon after; reference to the art is frequently made. "*Linen breeches*" are mentioned (Exodus xxxviii: 42), and it is said "all the women that were wise-hearted did *spin* with their hands" (Exodus xxxv: 25), and, "all the women whose heart stirred them up in wisdom *spun* goats' hair" (Exodus xxxv: 26). The work of the "*weaver*" is mentioned (Exodus xxxv: 35). In the book of Job, a very old book, date not exactly known, the "*weaver's shuttle*" is mentioned.

The above mention of "*thread*" by Abraham is the oldest recorded allusion to spinning and weaving; and *it* was made about two thousand years after the creation of man, and now, near four thousand years ago. Profane authors think these arts originated in Egypt; and this is not contradicted, or made improbable, by anything in the Bible; for the allusion of Abraham, mentioned, was not made until after he had sojourned in Egypt.

The discovery of the properties of *iron*, and the making of *iron tools*, must have been among the earliest of important discoveries and inventions. We can scarcely conceive the possibility of making much of anything else, without the use of iron tools. Indeed, an iron *hammer* must have been very much needed to make the *first* iron hammer with. A *stone* probably served as a substitute. How could the "*gopher wood*" for the Ark have been gotten without an axe? It seems to me an axe, or a miracle, was indispensable. Corresponding with the prime necessity for iron, we find at least one very early notice of it. Tubal-Cain was "an instructor of every

artificer in *brass and iron*" (Genesis iv: 22). Tubal-Cain was the seventh in descent from Adam; and his birth was about one thousand years before the flood. *After* the flood, frequent mention is made of *iron*, and *instruments* made of iron. Thus "instrument of iron" at Numbers xxxv: 16; "bedstead of iron" at Deuteronomy iii: 11; "the iron furnace" at Deuteronomy iv: 20, and "iron tool" at Deuteronomy xxvii: 5. At Deuteronomy xix: 5, a very distinct mention of "the ax to cut down the tree" is made; and also at Deuteronomy viii: 9, the promised land is described as "a land whose stones are iron, and out of whose hills thou mayest dig brass." From the somewhat frequent mention of brass in connection with iron, it is not improbable that brass—perhaps what we now call copper—was used by the ancients for some of the same purposes as iron.

Transportation—the removal of persons and goods from place to place—would be an early *object*, if not a *necessity*, with man. By his natural powers of locomotion, and without much assistance from discovery and invention, he could move himself about with considerable facility; and even, could carry small burthens with him. But very soon he would wish to lessen the labor, while he might, at the same time, extend, and expedite the business. For this object, wheel-carriages, and water-crafts—wagons and boats—are the most important inventions. The use of the wheel and axle has been so long known, that it is difficult, without reflection, to estimate it at its true value. The oldest recorded allusion to the wheel and axle is the mention of a "chariot" (Genesis xli: 43). This was in Egypt, upon the occasion of Joseph being made governor by Pharaoh. It was about twenty-five hundred years after the creation of Adam. That the chariot then mentioned was a wheel-carriage drawn by animals is sufficiently evidenced by the mention of chariot *wheels* (Exodus xiv: 25), and the mention of chariots in connection with *horses* in the same chapter, verses 9 and 23. So much, at present, for land transportation.

Now, as to transportation by *water*, I have concluded, without sufficient authority perhaps, to use the term "boat" as a general name for all water-craft. The boat is indispensable to navigation. It is not probable that the philosophical principle upon which the use of the boat primarily depends—to wit, the *principle*, that anything will float, which cannot sink without displacing more than its own *weight* of water—was known, or even thought of, before the first boats were made. The sight of a crow standing on a piece of drift-wood floating down the swollen current of a creek or river, might well enough suggest the specific idea to a savage, that he could himself get upon a log, or on two logs tied together, and somehow work his way to the opposite shore of the same stream. Such a suggestion, so taken, would be the birth of navigation; and such, not improbable, it really was. The leading idea was thus caught; and whatever came afterwards, were but improvements upon, and auxiliaries to, it.

As man is a land animal, it might be expected he would learn to travel by land somewhat earlier than he would by

water. Still the crossing of streams, somewhat too deep for wading, would be an early necessity with him. If we pass by the Ark, which may be regarded as belonging rather to the *miraculous* than to *human* invention, the first notice we have of water-craft is the mention of "ships" by Jacob (Genesis xlix: 13). It is not till we reach the book of Isaiah that we meet with the mention of "oars" and "sails."

As man's *food*—his first necessity was to be derived from the vegetation of the earth, it was natural that his first care should be directed to the assistance of that vegetation. And accordingly we find that, even before the fall, the man was put into the garden of Eden "to dress it, and to keep it." And when afterwards, in consequence of the first transgression, *labor* was imposed on the race, as a *penalty*—a *curse*—we find the first born man—the first heir of the curse—was "a tiller of the ground." This was the beginning of agriculture; and although, both in point of time, and of importance, it stands at the head of all branches of human industry, it has derived less direct advantage from Discovery and Invention, than almost any other. The plow, of very early origin; and reaping, and threshing, machines, or modern invention are, at this day, the principal improvements in agriculture. And even the oldest of these, the plow, could not have been conceived of, until a precedent conception had been caught, and put into practice—I mean the conception, or idea, of substituting other forces in nature, for man's own muscular power. These other forces, as now used, are principally, the *strength* of animals, and the *power* of the wind, of running streams, and of steam.

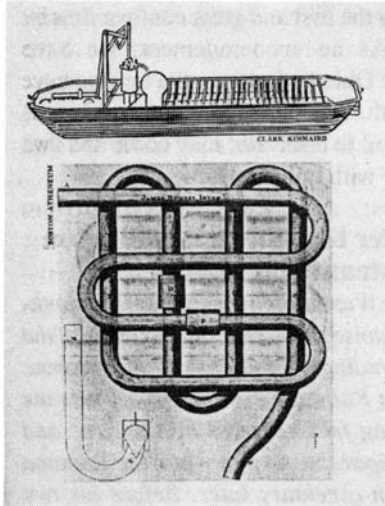
Climbing upon the back of an animal, and making it carry us, might not occur very readily. I think the back of the camel would never have suggested it. It was, however, a matter of vast importance. The earliest instance of it mentioned, is when "Abraham rose up early in the morning, and saddled his ass" (Genesis xxii: 3), preparatory to sacrificing Isaac as a burnt-offering; but the allusion to the *saddle* indicates that riding had been in use some time; for it is quite probable they rode bare-backed awhile, at least, before they invented saddles.

The *idea*, being once conceived, of riding *one* species of animals, would soon be extended to others. Accordingly we find that when the servant of Abraham went in search of a wife for Isaac, he took ten *camels* with him; and, on his return trip, "Rebekah arose, and her damsels, and they rode upon the camels, and followed the man" (Genesis xxiv: 61).

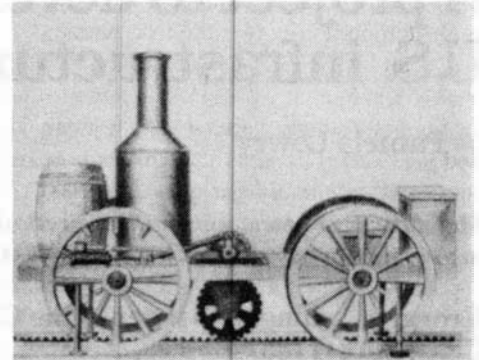
The *horse*, too, as a riding animal, is mentioned early. The Red Sea being safely passed, Moses and the children of Israel said to the Lord "the *horse* and his *rider* hath he thrown into the sea" (Exodus xv: 1).

Seeing that animals could bear *man* upon their backs, it would soon occur that they could also bear other burthens. Accordingly we find that Joseph's brethren, on their first visit to Egypt, "laded their asses with the corn, and departed thence" (Genesis xlii: 26).

Also it would occur that animals could be made to *draw*

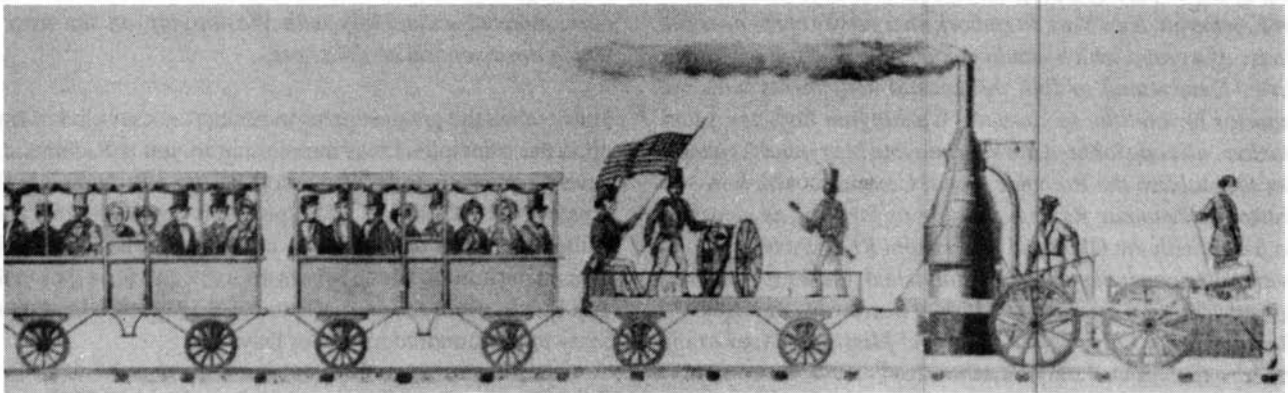


James Rumsey's steamboat and pipe boiler.



John Stevens's locomotive.

Early American railroad trains. The Charleston locomotive, below, was manufactured at the West Point Foundry, Cold Spring, New York, set up by Joseph Gardiner Swift, the first graduate of West Point. It produced pipes for the Erie Canal, locomotives, and cannon.



burthens *after* them, as well as to bear them upon their backs; and hence plows and chariots came into use early enough to be often mentioned in the books of Moses (Deuteronomy xxii: 10; Genesis xli: 43; xlii: 29; Exodus xiv: 25).

Of all the forces of nature, I should think the *wind* contains the largest amount of *motive power*—that is, power to move things. Take any given space of the earth's surface—for instance, Illinois; and all the power exerted by all the men, and beasts, and running-water, and steam, over and upon it, shall not equal the one hundredth part of what is exerted by the blowing of the wind over and upon the same space. And yet it has not, so far in the world's history, become proportionably *valuable* as a motive power. It is applied extensively, and advantageously, to sail-vessels in navigation. Add to this a few wind-mills, and pumps, and you have about all. That, as yet, no very successful mode of *controlling*, and *directing* the wind, has been discovered; and that, naturally, it moves by fits and starts—now so gently as to scarcely stir a leaf, and now so roughly as to level a forest—doubtless have been the insurmountable difficulties. As yet, the wind is an *untamed*, and *unharnessed* force; and quite possibly one of the greatest discoveries hereafter to be made, will be the taming, and harnessing of it. That the

difficulties of controlling this power are very great is quite evident by the fact that they have already been perceived, and struggled with more than three thousand years; for that power was applied to sail-vessels, at least as early as the time of the prophet Isaiah.

In speaking of *running streams*, as a motive power, I mean its application to mills and other machinery by means of the "*water wheel*"—a thing now well known, and extensively used; but, of which, no mention is made in the Bible, though it is thought to have been in use among the romans. (Am. Ency.-Mill), the language of the Saviour "Two women shall be grinding at the mill, etc." indicates that, even in the populous city of Jerusalem, at that day, mills were operated by hand—having, as yet had no other than human power applied to them.

The advantageous use of *Steam-power* is, unquestionably, a modern discovery. And yet, as much as two thousand years ago the power of steam was not only observed, but an ingenious toy was actually made and put in motion by it, at Alexandria in Egypt. What appears strange is, that neither the inventor of the toy, nor any one else, for so long a time afterwards, should perceive that steam would move *useful* machinery as well as a toy.

A project to develop U.S. infrastructure

by Pamela Lowry

The following are documents on the project to develop American infrastructure from the Revolution to the Civil War.

George Washington's letter to the Chevalier de Chastellux (1783)

In 1783, as George Washington waited for news of the signing of the Treaty of Paris, he left his military headquarters at Newburgh, New York to embark on a survey of the possible route of a canal which would connect the Hudson with Lake Erie. Determined to link the coastal settlements with the interior beyond the mountains, Washington had, ten years earlier, already lobbied the Virginia and Maryland Assemblies to establish the Potomac Canal Company, which was to make the Potomac River navigable as far west as possible, to link it with the Ohio and Mississippi River systems. Now, with American independence established, General Washington envisioned a system of national waterways which would link the Great Lakes to the Ohio and Mississippi and to the rivers which flowed into the Atlantic.

I have lately made a tour through the Lakes George and Champlain, as far as Crown Point. Then returning to Schenectady, I proceeded up the Mohawk River to Fort Schuyler, and crossed over to the Wood Creek, which empties into the Oneida Lake, and affords the water communication with Ontario. I then traversed the country to the head of the eastern branch of the Susquehanna, and viewed the Lake Otsego, and the portage between that Lake and the Mohawk River at Canajoharie. Prompted by these observations, I could not help taking a more contemplative and extensive view of the vast inland navigation of these United States, from maps and the information of others; and could not but be struck with the immense diffusion and importance of it, and with the goodness of that Providence, which has dealt her favors to us with so profuse a hand. Would to God we may have wisdom enough to improve them.

George Washington's letter to the Marquis de Lafayette (1785)

Echoing John Winthrop's reasons for the Puritan colonization of New England, Washington sets out the motivation for the settlement of the American Midwest.

I wish to see the young people of this world at peace, all

busy and happy in fulfilling the first and great commandment: Increase and multiply. As an encouragement, we have opened the fertile plains of Ohio to the poor, the unfortunate, the oppressed of the earth. All those who are overladen, broken down, seeking a soil to cultivate, may come and find the promised land flowing with milk and honey.

James Rumsey's letter to George Washington on the future of the steamboat (1785)

Sponsored by both George Washington and Benjamin Franklin, millwright James Rumsey worked on perfecting the steamboat while superintending the building of the Potomac Canal locks around Great Falls. The canal project was the most advanced engineering feat yet tried in America, and caused an excitement comparable to that when the Panama Canal was dug more than a century later. Before his two successful steamboat trials on the Potomac in 1787, Rumsey corresponded extensively with Washington on the uses to which the invention could be put.

I have taken the greatest pains to perfect another kind of Boat upon the principles I was mentioning to you at Richmond. I have the pleasure to Inform you that I have Brought it to the greatest perfection. . . . The power is immense and I am Quite convinced that Boats of passage may be made to go against the current of the Mississippi or Ohio River, or in the gulf Stream from the Leeward to the Windward Island, from Sixty to one hundred miles per Day.

Joel Barlow's 'Vision of Columbus' (1787)

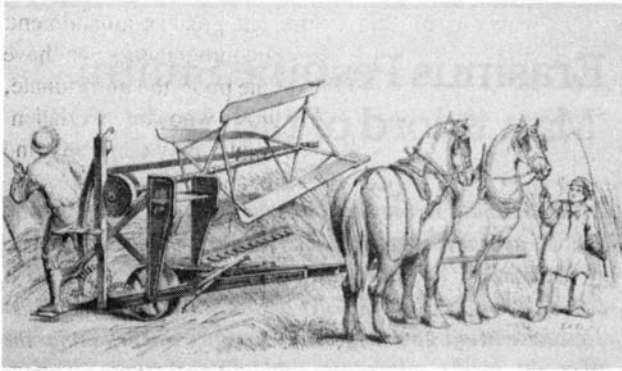
Joel Barlow, future American minister to France, who would sponsor the work of Robert Fulton, published his poem "The Vision of Columbus" in 1787. In this work, Columbus is portrayed as languishing in a Spanish prison, doubting whether his discovery of America has brought any benefit to future ages. An angel appears to show him the future, which includes the following lines:

He saw, as widely spreads the unchannell'd plain
Where inland realms for ages bloom'd in vain,
Canals, long winding, ope a watery flight. . .
Meet the far lakes, the beauteous towns that lave,
And Hudson joined to broad Ohio's wave.

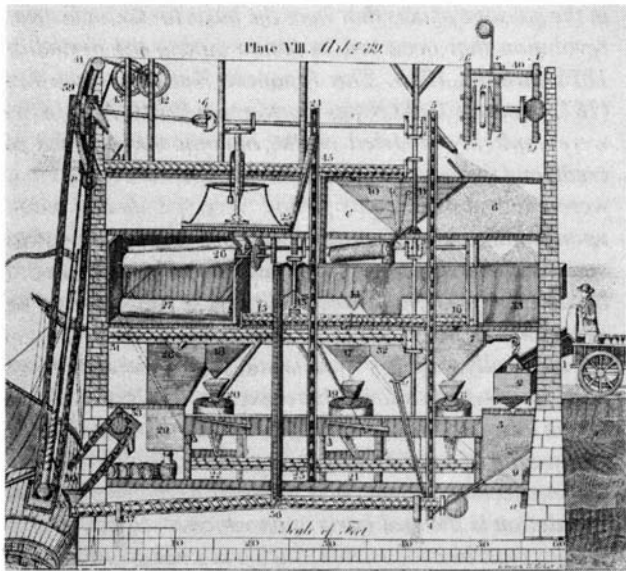
First automobile patent to Oliver Evans (1787)

Oliver Evans, a Delaware wheelwright, invented and built a fully automated flour mill in 1785, the world's first fully automated factory. George Washington became one of the system's licensees in 1791, installing it at his Dogue Creek Mill at Mount Vernon. Evans went on to work on the automobile, railroad, gas lighting, artificial refrigeration, and the high-pressure steam engine.

The State of Maryland grants a patent for Mr. Oliver Evans'



Early reaper.



Oliver Evans's fully automated flour mill.

new Plan of applying Steam to Propelling land Carriages to travel with heave Burdens Up and Down Hills without the aid of Animal fource with such Velocity as may be Convenient, and be guided by a person sitting therein Secure from the Inclemency of the weather.

Oliver Evans on the future of railroads (1813)

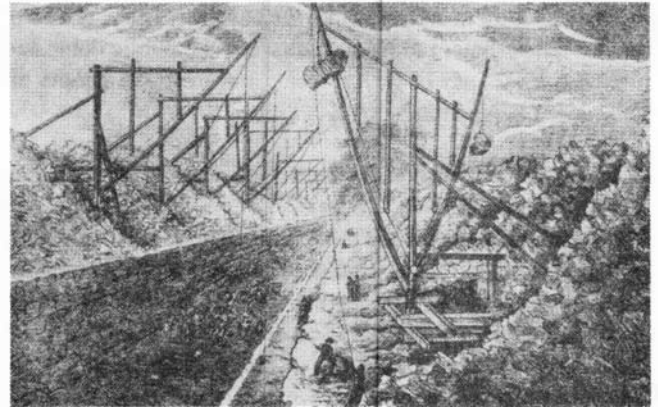
“Prophecy by the Poet”:

The time will come when people will travel in stages moved by steam engines, from one city to another, almost as fast as birds fly, fifteen or twenty miles in an hour.

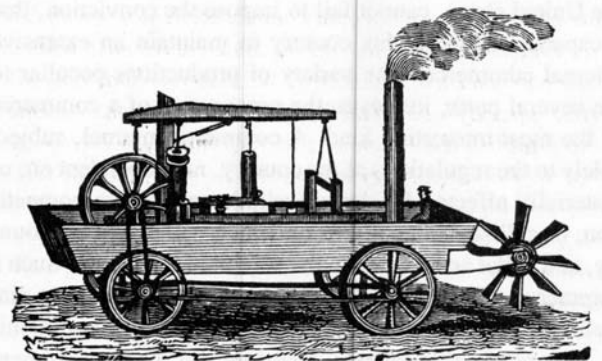
Passing through the air with such velocity, changing the scene in such rapid succession, will be a most exhilarating, delightful exercise.

A carriage will set out from Washington in the morning, the passengers will breakfast at Baltimore, dine at Philadelphia, and sup at New York, the same day.

To accomplish this, two sets of railways will be laid so nearly level as not in any place to deviate more than two degrees from a horizontal line, made of wood or iron or paths



Construction of the Erie Canal.



The first American automobile (1804), invented by Oliver Evans. It was also used as a steam dredge.

of broken stone or gravel, with a rail to guide the carriage, so that they may pass each other in different directions and travel by night as well as by day; and the passengers will sleep in these stages as comfortably as they now do in stage boats. . . .

And it shall come to pass, that the memory of those sordid and wicked wretches who opposed such improvements, will be execrated, by every good man, as they ought to be now.

Oliver Evans on the economic benefits of technological progress (1814)

Evans published a pamphlet for the U.S. Congress, urging it to pass legislation which would extend the term of years allowed for patents on inventions, thus allowing inventors the time to bring their inventions into actual production.

The writer, however, begs leave to declare that he believes that as early in 1786, he himself had conceived and discovered useful improvements, which, if they had been promptly and extensively put into operation, and the savings or gains

by the use of them collected into the public treasury, it would have been sufficient to have discharged the public debt, defrayed the expense of government, and freed the people of the United States from taxes.

The report of the U.S. Senate Committee on Roads and Canals (1816)

The catastrophic results of the War of 1812 demonstrated the folly of the laissez faire attitude demonstrated by Presidents Jefferson and Madison. The American System faction within Congress therefore presented their argument for a dirigist development of infrastructure, a policy which was not to reach complete fruition until the inauguration of John Quincy Adams in 1825.

That a view of the extent of territory, the number and magnitude of navigable lakes, rivers, and bays; the variety of climate, and consequent diversity of productions embraced by the United States, cannot fail to impose the conviction, that a capacity exists in this country to maintain an extensive internal commerce. The variety of productions peculiar to the several parts, invites to the prosecution of a commerce of the most interesting kind. A commerce internal, subject solely to the regulations of the country, not dependent on, or materially affected by the vicissitudes of foreign competition, or collisions; the profits on which will rest in the country, and make an addition to the wealth of the nation. Such a commerce will in its natural tendency, create interests and feelings, consonant with the great interests of the community. Any practicable scheme, therefore, for the improvement of roads and inland navigation, having for its object the encouragement and extension of a commerce so beneficial, has strong claims to the attention and aid of a government, constituted to promote the general welfare.

Such improvement executed on an extensive scale, would unquestionably contribute to the general interest, and increase of wealth in the nation; for whatever tends to accelerate the progress of industry, in its various and particular branches, or to remove the obstacles to its full exertion, must, in the result, produce that effect. The contemplated improvement in roads and canals, by extending the communication for commercial and personal intercourse, to the interior and distant parts of the Union, would bestow common benefits, and give an enlarged faculty to the great branches of national industry, whether agricultural, commercial, or manufacturing.

The agricultural products, which at present from inconvenient distance, their weight, or bulk, are unportable, could then be carried to a distant market; the reduction on the charge for transportation would become an addition to the price; and a ready market, and increased price, enhance the value of the lands, from which the products were drawn.

To insure to the pursuits of useful industry in a nation, a state of the greatest prosperity, it is only necessary to protect

Erasmus Peshine Smith: 'Man is lord of nature'

In 1858, Smith wrote his A Manual of Political Economy (1858) as a means of popularizing the American System of economics, as opposed to the "English economists." In 1871, Smith was officially appointed an adviser to the Japanese Meiji government's Foreign Ministry on issues of credit, tariffs, education, and bilateral treaty arrangements with the western powers. Smith's work was decisive in the passage of acts that were the basis for the industrial revolution that occurred in Japan during the period of 1876 through 1886. The Japanese National Bank Act (1872) and the Gold Notes Conversion Bonds Act (1873) were explicitly modeled on the Hamiltonian notions of credit and national banking. The educational reforms that were enacted during this period were specifically based upon Smith's ideas of creating scientific and technological optimism in a system of universal education that was to become integrally attached to Japanese industry and its development.

Ironically, Smith's work is still in print in Japan and he is more widely known there than in the United States. As his introduction beautifully displays, the idea that the real wealth of a nation comes from the multiplication and the intellectual, moral, and physical development of its population is the real basis upon which a science of economics must be constructed. Such a science is one of hope and progress, rather than the "Dismal Science" of the British apologists of usury and genocide. From the introduction to A Manual of Political Economy:

Starting from the central highlands of Asia—the loftiest habitable region of the globe, where the great rivers take their rise that flow into the Frozen Ocean, and the Bay of Bengal, the Mediterranean, and the Chinese Sea—the human race has descended in an ever-widening flood, to spread over the earth and to subdue it. Sacred history and Hindu tradition point to the same region as the cradle of mankind. They are confirmed by the reflection, that it must have been the first to emerge from the primal waste of waters; and the belief, that here it is that wheat and

their interests from foreign aggression, to leave them unrestrained by artificial provisions, and to remove, or meliorate, the natural obstacles to their exertion, by public works, rendering conveyance practicable and cheap.

Such public works, while they are calculated to subserve the pecuniary interests of every industrious class of the com-

barley are of indigenous growth, and that the animals run wild who have been tamed by man, and have followed him in his migrations through every clime. . . . As the different offshoots of the race descended to the lower tracts that the receding waters gave up to culture, and as each little tribe waxed in numbers, it has taken a higher social organization, with a vast increase in the command of the individual members over the elements of physical comfort, a vast accession to their realized property, and to their power to elaborate yet more from the materials and the forces which nature gives without stint to those who know how to ask her. With diminished toil for the satisfaction of the material wants, and diminished fear of inability to meet them in the future, man has acquired leisure for the cultivation of his intellect, and increased freedom to indulge the social affections, which lift him out of the domain of selfishness, soften and refine his nature, and make it capable of moral improvement. Physical, intellectual, and moral progress, inseparably interdependent, is the historical fact characteristic of our species, and union in societies, its observed condition.

To investigate the laws which explain man's attainment, through association, of enlarged power over matter in all its forms, and the development of his intellectual and moral faculties, in virtue of that power, is the object of Political Economy. . . .

Every accession to knowledge diminishes the catalogue of things thus regarded as outside the pale, within which certain effects are confidently anticipated to result from given causes, and arranges them in relations with each other, no longer imagined and fluctuating, but distinctly seen to be constant and invariable. Knowledge gives power, because when a law is once perceived and understood man can conform to it, for the purpose of producing an effect he desires, by arranging the ascertained causes in that method of grouping which the law dictates, instead of wasting his energies and missing his object, in blind endeavors to obtain it in a way other than that which the Lord of Nature has appointed. . . .

Is it possible to construct a science of Political Economy? In other words, are there laws grounded in the constitution of things and of man, fixed and invariable succession of effects determined by the causes which precede them,—regulating the progress of men in association with

each other, in extending their dominion over matter and their concurrent improvement in intellect and morals?—and are these laws discoverable? What and how many of them have been discovered, is a different question. What is unquestionable is, that there are professors of what is styled a science of Political Economy, teaching in the schools and through the press a body of precepts, tending more or less to the object we have assigned as that of its investigations. On the other hand, it is denied that there is yet such a science. . . .

[The British System] would not, perhaps, be Political Economy such as we have described it. It would be, as it has been called, "the Dismal Science," instead of a science of Progress and Hope. . . .

The strongest instinct of man is that which leads to the increase of population. The European Economists, since Adam Smith, have very generally believed, that the laws of matter were such as to make the repression of this instinct essential to the prosperity of communities. Their system presents a controlling law of humanity as conflicting with the immutable laws of brute matter. It is impossible for them, upon this basis, to construct a science which contemplates the human faculties as acting freely in accordance with their own laws; and to contemplate them as acting under partial and uncertain restraints, is to clog the problem with an insurmountable difficulty. (In reading certain Economists, one might be led to think that the products of industry were not made for man, but that man was made for the products.) If the difficulty is purely suppositious we can proceed with good hope, regarding man as he is, and trusting that we may safely infer the uniformities of the future from the uniformities of the past. . . .

We are to regard man then as the lord, not the slave of Nature, but no arbitrary lord—as acting in accordance with fixed laws of his own being, all of which exercise their due force, and none of which are suspended, any more than the law of gravitation—as securing freedom for that harmonious exercise of all his faculties, in which happiness consists, by means of the intelligence which enables him to apprehend the inevitable necessity that the physical laws must operate, and teaches him how to avoid opposing the irresistible, and how to make it work for him. . . .

munity, are highly important in a political point of view. The citizens, in the most remote parts, would be brought into close connexion, by a facility to commercial and personal intercourse. The common interests and identity of feelings thence arising, would, as a cement to the parts, bind together the whole, with the strong bond of interest and affection,

giving stability and perpetuity to the Union. And as a means of security, tend to increase our capacity for resistance to foreign aggression by rendering less expensive, and more effective, our military operations. The disadvantages experienced, and heavy charges incurred, during the late war, for want of inland navigation along the seacoast, connecting the

great points of defence, are of too recent date, and decisive a character, to require any other demonstration that a facility in inland communication, constitutes a principal means of national defence.

It is believed that improvements so important to the political and general interest of society, stand strongly recommended to the attention of the national legislature. The general government alone, possess the means and resources to give a direction to works calculated for general advantage, and to insure their complete execution.

John Stevens builds the first American steam railroad (1825)

In the winter of 1824-25, the prospects for the full implementation of the American System were never brighter. The Second Bank of the United States had been chartered in 1816, the Survey Act of 1824 allowed the government to loan West Point engineers to infrastructural projects, and John Quincy Adams was about to be inaugurated as President of the United States. To give a sharp impetus to the building of railroads, inventor John Stevens built a half-mile circular track in his backyard at Hoboken, New Jersey, and, at the age of 76, fashioned with his own hands the first steam locomotive in America. He invited ladies and gentlemen from New York to take a ride, and whisked them around the track at six miles an hour.

Stevens, one of the three original patent holders for the steamboat, had early lobbied Congress for federal patent laws that would protect advancements in steam transportation:

It is evident that from a reciprocal exchange of the production and manufactures of one country for those of another a general advantage would result to the whole. The earth would then be everywhere stimulated to bring forth with its utmost vigor; civilization and the arts would spread rapidly over the face of the globe; then, and not till then, might it be said that man was really the master of this world, with everything in it subservient to his will.

In 1813, Stevens had written to the Erie Canal Commissioners, encouraging them to build a railroad rather than a canal. This statement, written long before there was even one functioning railroad anywhere in the world, has been called "the birth certificate of all railroads in the United States."

So many and so important are the advantages which these States would derive from the general adoption of the proposed railways that they ought, in my humble opinion, to become an object of primary attention to the national government. On the success of an experiment, a general system of internal communication and conveyance should be adopted, and the necessary surveys made to embrace and unite every section. It might then, indeed, be truly said that these States would constitute one family intimately connected and held

together in indissoluble bonds of union.

The revenue which this mode of transportation would be capable of producing, would far exceed the aggregate amount of duties on foreign importation. It is an indisputable fact that the aggregate of annual interstate commerce is vastly greater than that of external commerce. The farmer would save four-fifths of his present expense in transporting his produce to market. Innumerable ramifications would be extended in every direction. The sources of private and public wealth would increase with a rapidity beyond all parallel.

There remains another important point—celerity of communication—a consideration of the highest moment. If the Proas of the Pacific can be driven at twenty miles an hour by the wind, I can see nothing to hinder a steam-carriage from moving with a velocity of one hundred miles an hour."

Capt. Basil Hall visits the infant city of Rochester, New York (1827)

Infrastructural projects such as the Erie Canal unleashed an unprecedented wave of city-building. The spirit of nation-building was reflected in the comments of a West Point cadet to an English visitor: "We must get up early, for we have a large territory; we have to cut down the forests, dig canals, and make railroads all over the country." Retired Navy Capt. Basil Hall, a native of Edinburgh, Scotland, provides an account of the pace of that development.

On the 26th of June 1827 we strolled through the village of Rochester, under the guidance of a most obliging and intelligent friend, a native of this part of the country. Everything in this bustling place appeared to be in motion. The very streets seemed to be starting up of their own accord, ready-made, and looking as fresh and new, as if they had been turned out of the workmen's hands but an hour before—or as if a great boxful of new houses had been sent by steam from New York, and tumbled out on the half-cleared land. The canal banks were at some places still unturfed; the lime seemed hardly dry in the masonry of the aqueduct, in the bridges, and in the numberless great saw-mills and manufactories. In many of these buildings the people were at work below stairs, while at top the carpenters were busy nailing on the planks of the roof.

Some houses were half painted, while the foundations of others, within five yards' distance, were only beginning. I cannot say how many churches, court-houses, jails and hotels I counted, all in motion, creeping upwards. Several streets were nearly finished, but had not as yet received their names; and many others were in the reverse predicament, being named, but not commenced,—their local habitation being merely signified by lines of stakes. Here and there we saw great warehouses, without window sashes, but half filled with goods, and furnished with hoisting cranes, ready to fish up the huge pyramids of flour barrels, bales and boxes lying in the streets. In the centre of the town the spire of a Presbyterian

church rose to a great height, and on each side of the supporting tower was to be seen the dial-plate of a clock, of which the machinery, in the hurry-scurry, had been left at New York. I need not say that these half-finished, whole-finished, and embryo streets were crowded with people, carts, stages, cattle, pigs, far beyond the reach of numbers;—and as all these were lifting up their voices together, in keeping with the clatter of hammers, the ringing of axes, and the creaking of machinery, there was a fine concert, I assure you!

Thomas P. Kettell on the development of American railroads (1859)

Although the Jacksonians launched a full-scale attack on the American System, canceling the charter of the Second Bank of the United States in 1833 and revoking the Survey Act of 1824, the American dirigist faction found ways to keep infrastructural development on track. West Point engineers resigned from the U.S. Army in order to design canals, railroads, and harbor improvements. States invested their own funds in railroad development. And the federal government used its vast store of federal lands beyond the Allegheny Mountains as capital for financing infrastructure projects.

By the eve of the Civil War, the United States possessed a comprehensive railroad network, commented on here by Thomas Kettell, the editor of the Merchants' Magazine and author of various economic statistical works.

The great object of the railroad companies has not been so much to derive a direct profit from the investment, as to cause the construction of a highway, which should by its operation increase business, enhance the value of property, and swell the floating capital of the country by making available considerable productions of industry, which before were not marketable, since the influence of a railroad in a new district is perhaps if not to create, at least to bring into the general stock more capital than is absorbed in its construction.

The grand result is over 28,000 miles of road, which have cost, in capital and funded debt, \$1,066,866,284, which has been expended in the period since the first road was begun. The expenditure of such an enormous sum of money, amounting to \$54 per head for the average population during the 30 years in which they have been building, is marvellous in so young a country, which, 40 years before this outlay occurred, was mostly destitute of capital. The railroads, however, exist, and capital is now, at this moment, more abundant for general purposes than it was before the construction of the railroads. It is, in fact, cheaper in the general market, and in this we recognize the vast utility of the works in developing capital.

Charles L. Flint refutes malthusian theory (1859)

Charles Flint, the Secretary of the Massachusetts Board of Agriculture, provided a section on agricultural improve-

ments for a book entitled Eighty Years' Progress of the United States. After describing the vast increase in the powers of labor effected by the invention of agricultural reapers, balers, and threshers, Flint throws the result in the teeth of Parson Malthus and his British System adherents.

These vast and acknowledged improvements in harvesting and threshing grain will be seen to be of the utmost importance, when it is considered that we annually raise about two hundred millions of bushels of wheat, and of rye, barley, and oats over one hundred millions, and that the resources of the country may be developed, by the use of machinery, to an extent far beyond the reach of present calculation.

The reaper, the thresher, and the mower are types of the ever restless and progressive spirit of the age. They point out to us a glorious future, in which they will accomplish for us and for our country triumphs grander than the triumphs of arms, for they will develop the means of supporting the millions of human beings which the implements of war can only destroy.

Could the learned Malthus—who proclaimed the gloomy theory that war, famine, and pestilence were checks, designed by an all-wise Being to keep down the increase of population to a level with the means of sustenance—now rise up from his sleep of death and see the population of England more than doubled since his day, and that of this country multiplied many times, while the people are better fed, and better clothed, with less labor and less suffering, with the possibility of a famine wholly and forever removed, he might change his shameful doctrine, and adopt a more cheerful and hopeful view of the providence of God. With an immense multiplication of the human species in all civilized countries which have been devoted to the arts of peace and the development of their material resources, a bountiful Father has sent us a superabundance of food, instead of famine, and has taught us to rely on the exhaustless bounty of the fruitful earth, and upon his beneficent promise that seed time and harvest shall never fail to supply the daily wants of his children.

But with all the progress which we have made in improving the implements of the farm, we have not reached perfection. No bound is set to human ingenuity, and further means may yet be devised to shorten labor and increase the products of the soil.

We cannot hope, nor is it desirable, to avoid labor. This is not the object of improved machinery; but to make labor more attractive, agreeable, and productive; to bring into subjection the rude forces of nature, and make them do our bidding and increase our stores; to redeem thousands of acres now lying waste from wildness and desolation, and to make our country the granary of the world—these are triumphs we may hope to gain from the introduction and use of improved machinery, and in this view the subject commends itself to the attention of the highest intellect, and opens a field for the labors of the noblest philanthropy.

'Free trade' is for barbarian tribes

Congressman from Pennsylvania Thaddeus Stevens, who during the Civil War and the period of "reconstruction" afterward was chairman of the House Ways and Means Committee and Republican majority leader, was a staunch supporter of the economic outlook of Henry Clay's "American System." He was a central figure in 1861 in the re-establishment of those American System policies, ensuring that the war could be successfully prosecuted, and with it allowing for the most massive economic expansion in this nation's history. He was, as well, the central figure in the effort to ensure that those policies would be continued after the war, and that the institutions of the South shaped by British free trade would be eliminated from American soil. This speech, in opposition to free trade, given in the tariff debates of 1852, makes clear the outlook that the "American System" core of the Republican Party had toward such questions.

The gentleman from Massachusetts [Mr. Rantoul] supports these grants to railroad companies on the principles of free trade. It is not my intention to discuss at much length the doctrine of free trade. That has been so amply done of late, both orally and in writing, as to become tedious.

But although the theory has been much discussed, it has never been reduced to practice, except among barbarian tribes. I think gentlemen cannot point to a single highly-civilized commercial and manufacturing nation capable of producing the raw material, that has ever adopted it. Every highly-cultivated nation has made the protection of domestic industry the special care of Government. It has been found by the experience of more than twenty centuries that the protection of domestic manufactures by prohibitions, discriminating duties, and commercial regulations, has been, and is, the true, natural, and wise policy of nations, or all history is a lie. It is a mistake to suppose that the elevation of one national interest is the depression of others, as is more than insinuated by the Baltimore platform [platform of the Democratic Party—ed.], which is intended, not only for all kinds of men, but for every fowl of the air, fish of the sea, four-footed beasts, and especially for every creeping thing to stand upon. All classes of national industry, like the arts

and sciences, are bound together by one common band. All flourish or languish together.

Manufactures come first

Manufactures, in every age, have been the especial handmaid of agriculture and commerce. Select from history any example that you please—take Tyre, which was perhaps as highly commercial as any nation of her time. She was also the furthest advanced in manufactures. Many of her fabrics have scarcely ever been excelled. Her dyes have passed into proverb. She transplanted her policy with her colony to Carthage, which soon became a powerful—the most powerful maritime nation of her time. The same cause has produced the same effect wherever it has existed in ancient or modern times—at Syracuse, at Genoa, and Venice. But the most powerful example of the influence of manufactures on the commerce and wealth of nations, is to be found in the case of Holland.

Up to the end of the reign of Charles I Holland was the workshop of Europe. Her ingenious and industrious mechanics and manufacturers produced not only enough for their own country, but large surpluses to export to other nations. That surplus furnished employment for a large number of her own vessels, which took her fabrics to other countries, and brought back rich cargoes, not merely for her own consumption, but for the supply of neighboring markets. While other nations were trafficking in the bulky raw materials of little value, she was dealing in the same material, increased a hundred fold in value by the industry and skill of her people. Thus she commanded the market of every country, and not only enriched her mechanics and manufacturers, but her traders and shippers became merchant princes. She had more wealth than any other nation, and her commercial marine exceeded in number the ships of all the other nations of Europe together. Her war vessels also exceeded that of any other nation. All this wealth, all this commerce, all this power, was produced by a country of small circumference and with little agricultural advantages. It was done by manufactures alone. How did she lose this superiority, and what country has gained it, and by what means?

Whatever else may be said of the English Puritans, it is certain that the Commonwealth under Cromwell produced some of the ablest statesmen of the world.

England, at that time, was a poor nation, with but few manufacturing establishments. Her wise men saw that her insular position, and her small territory, rendered it impossible for her to become rich and powerful except through commerce and manufactures. . . .

England has acquired all this power, wealth, and grandeur through her protective policy alone. And now she preaches "free trade" to others—to young nations! And there are found shallow dupes who swallow the bait!

It is often objected to a protective tariff, that it is for the benefit of the rich capitalists. This argument, I know, is never

used by statesmen, or writers on political economy; but often by demagogues, who fancy themselves statesmen.

Now, sir, it is easy to show that protection against foreign competition is mainly for the benefit of the laborer. True, it helps the capitalist; for it is impossible to benefit labor without aiding capital, and it is impossible to benefit capital without aiding labor.

I have said that protection would principally benefit labor. The chief value of most manufactured articles consists in labor. Take iron for an example. The cost of a ton of pig-metal in the most favorable locations in this country, is about \$20. The capital invested consists of the real estate—the furnace and land for fuel and ore. Of the \$20 cost, the labor in producing the ore, coal, and smelting, amounts to about \$18 per ton. Not more than \$2 is capital. Any protection given to iron is given to the laborer in the proportion of \$9 to \$1 to capital.

The whole of the labor, to be sure, is not done by the collier, the miner, and the furnace hands—a part of it is the labor of the farmer, the miller, and the butcher, who supply the grain, beef, and other provisions. Still, the protection is mainly to the laborious industry of the country. So it is with fabrics of cotton and wool. The value of the raw material is increased by the labor of the operatives from 4 to 20 times. And a great part of the value of the raw material is the effect of labor, not capital. Whoever, therefore, sustains the protection of domestic industry, sustains the labor of the people; whoever opposes it, votes for their oppression and poverty.

I have said that every branch of national industry is dependent on every other, and partakes of its prosperity or depression. But, perhaps no class is so largely benefited by protection as the farmers, as none contributes so largely to the power and independence of nations. If it were necessary that either commerce or agriculture should sacrifice something to the other, let it be commerce. It is possible to push foreign trade too far. Cicero, in his treatise on the Republic, says that the reason of the great weakness of Carthage, was that she gave too much attention to her shipping, and neglected agriculture. The wealth of the farmer arises from his surplus products. And their value depends upon a ready, a handy, and a constant market. The nearer to his farm you bring that market, the better for him. The farmer who must send his produce from Pennsylvania to England for a market, must deduct from the price the cost of freight. The farmer in Ohio, Indiana, or Illinois, who sends his to the sea-board, and thence to Europe, finds half the price consumed in carriage. If each had as good a market in his own State, he would save all that expense, and double his profits.

How to build the home market

How are you to create that market? In the same way that other nations have done. Build up manufacturing villages, towns, and cities in your own land. Your surplus provisions

now go to a distant market, to feed those who make your cloths, your cottons, and your iron! If those consumers were within ten mile of you, instead of three thousand or four thousand miles, how much more profitable would farming be! Give the home market to your own manufactures, and you would find flourishing cities filled with consumers springing up on your numerous water-falls, from Maine to Missouri.

So it was that England built Manchester, Birmingham, Sheffield, Glasgow, and all her other manufacturing cities. Under this system not only would such establishments exist in the Atlantic States, but they would swarm in the vast world that lies north and west of the Ohio.

The true policy of this country is to build up large manufacturing and commercial cities on the great lakes and the waters that feed the Mississippi. There is perhaps no country in the world of equal extent more fertile than that valley. A few years will fell the forests, and reduce it to cultivation. Where will that vast grain-growing country find a market for its products?

One gentleman [Mr. Rantoul] advises them to build railroads, and send it to New York, Boston, and Philadelphia, instead of consuming it at home; but they should recollect, that when they have got it there, they will find no market. They have simply taken it to the place of embarkation to a European market—a poor and uncertain market. They are taught that the true policy is to raise the raw material, of great bulk and little value, to carry five thousand miles to a precarious market! They are not even to encourage a market for it in Pennsylvania, New York, or Massachusetts.

It seems to me that the interest of the Northwest is, to find their market beyond the Alleghanies; why should not the shores of the great lakes and rivers become the seat of the great manufacturing and commercial towns and cities, as well as the shores of Euxine and the Baltic?

Suppose all the people of the West to be agriculturists, and to bring their produce to the Atlantic cities for a market, what would be the effect on the farmers this side of the Alleghanies—of Virginia, Pennsylvania, Maryland, and New York? The Eastern market would be glutted by Western produce, and the prices so depressed as to destroy the farming interests of the Middle States. Land in Pennsylvania and New York would greatly sink in value, and all stimulants to industry be taken away. Surely this free trade is a lovely system, which not only casts its blight on the manufacturer and laborer, but reduces real estate to half its value!

It is a question of serious import, whether this country will ever become sufficiently manufacturing to produce enough for her own consumption, and furnish for exportation. It is very certain that under the free-trade system she never will. It is just as certain that she may soon become so if she follows the system which gave England her present preeminence. Take iron, and see how England fostered its growth from infancy to its present gigantic stature.

The legacy of List's 'National System of Political Economy'

by Lawrence Freeman and Marsha L. Bowen

Friedrich List (1789-1846) lived and consciously deployed himself as part of three republican networks that were at political war with the British empire: the Prussian Reformers movement in Germany, the Ecole Polytechnique of France, and the heirs of the American Revolution. After being imprisoned at the behest of Prince Metternich for his attempts at reforms in Württemberg, the German-born List was invited by the French hero of the American Revolution, General Lafayette, to join him on his triumphal tour of the United States in 1825. List lived in Pennsylvania for several years, where he worked with the Careys, Henry Clay, and John Quincy Adams to build the fight for protective tariffs for industry. After 1830, he returned to Germany to implement the American System there. Known as the "Father of the German Railways," he was perhaps the most outspoken opponent of free trade in the world. His book *The National System of Political Economy*, translated into numerous languages, has served since 1841 as a manual on how to fight the evils of the British cosmopolitan "free trade" system of looting.

Opposing the physiocratic notion of the landed oligarchy and the British-Swiss-Venetian banking interests, List believed that the creative powers of human mentation were a nation's greatest wealth. When he had returned to Europe, he wrote that the greatest book he had read in America was the book of life: to see the potential of a new republic for growth, if put under proper economic policies. The economic policies of List are alive today in the battle in Europe to build the "Productive Triangle" railway project envisioned by London LaRouche.

In his first Letter from Reading to the General Convention at Harrisburg, in 1827, List stated that he would concentrate on "the refutation of the theory of Adam Smith and Co., the fundamental errors of which have not yet been understood so clearly as they ought to be.

"It is this theory, sir, which furnishes to the opponents of the American System the intellectual means of their opposition. . . . Boasting of their imaginary superiority in science and knowledge, these disciples of Smith and Say are treating every defender of common sense like an empiric whose mental power and literary acquirements are not strong enough to conceive the sublime doctrine of their masters." List admonished Americans to stand up in print for the superiority of their doctrine, pointing out that Smith's *Wealth of Nations* never addresses the issue of national economy at all, but instead puts forward the utopian thesis of a universal republic.

Battle for protectionism

According to the British free-traders, any form of protectionism used by a country to foster the growth of its own agro-industrial sectors is in violation of "pure," unfettered competition. The British themselves never practiced this nonsense. List pointed out that "England was unwilling to found settlements in Asia in order to become subservient to Asia in manufacturing industry. She strove for commercial supremacy, and felt that of the two countries maintaining free trade between one another, that one would be supreme which sold manufacturing goods, while that one would be subservient which could only sell agricultural produce. In her North American colonies, England had already acted on those principles in disallowing the manufacture in those colonies of even a single horseshoe nail, and still more, that no horseshoe nails made there should be imported into England."

But England insisted on free trade for its colonies. List continued: "Accordingly, England prohibited the import of goods dealt in her own factories, the Indian cotton and silk fabrics. . . . Not so much as a thread of them would England permit to be used. She would have none of the beautiful and

cheap fabrics, but preferred to consume her own inferior and costly stuffs. . . .

"She was, however, quite willing to supply the continental nations with the far finer fabrics of India at lower prices, and willingly yielded to them all the benefit of that cheapness; she herself would have none of it."

In short, free trade was merely a tool to enforce economic backwardness. This practice went to nearly comical lengths, as List reported:

"So late as the year 1750 a hat manufactory in the State of Massachusetts created so great a sensation and jealousy in Parliament, that it declared all kinds of manufactories to be 'common nuisances,' not excepting iron works, not withstanding that the country possessed in the greatest abundance all the requisite material for the manufacture of iron." Ultimately, he continued, "The monopoly of all manufacturing industry by the mother country was one of the chief causes for the American Revolution; the tea duty merely afforded an opportunity for its outbreak."

The nation-state

List insisted that the sovereign nation-state must be recognized as essential for a healthy economy:

"Between each individual and the entire humanity, however stands *the nation*, with its special language and literature, with its peculiar origin and history, with its special manners and customs, laws and institutions, with the claims of all these for existence, independence, perfection, and continuance for the future, and with its separate territory; a society which, united by a thousand ties of mind and interests, combines itself into one independent whole. . . . As the individual chiefly obtains by means of the nation and in the nation mental culture, the power of production, security, and prosperity so is the civilization of the human race only conceivable and possible by means of the civilization and development of the individual nations. . . . A nation in its normal state possesses one common language and literature, a territory endowed with manifold natural resources, extensive and with convenient frontiers and a numerous population."

Protectionism is the battleground where the unity of national sovereignty and economic development becomes most clear. U.S. tariffs were simply necessary to allow the growth of essential industry, like iron production, shipbuilding, etc. If England could use its economic and military muscle to flood the world with cheap products, then how was any nation to develop its own means of production except by protecting and nurturing manufacturing industries? Developing indigenous industry, List argued, provides jobs, stable prices, an expanding home market for goods, protection from foreign manipulation, and the basis for realizing new technologies, which would also lead to increased productivity in the agricultural sector.

Adam Smith claimed to believe that each individual, in pursuing his own interest, automatically promotes the inter-

ests of all, and therefore, any sovereign effort by the state to ensure the prosperity of its people is wrongful interference. List quoted Smith's dictum that: "Restrictions on trade imposed on behalf of the internal industry of a country, are mere folly; every nation like every individual, ought to buy articles where they can be procured the cheapest; in order to attain to the highest degree of national prosperity, we have simply to follow the maxim of letting things alone (*laissez faire et laisser aller*)."

What is wealth?

With the insistence that the *exchange value* of a commodity is its true wealth, the British Liberals return man to a talking animal simply instinctively pursuing pleasure and avoiding pain. List counterposed to this economically empty notion, his superior theory of *productive power*:

"*The causes of wealth* are something totally different from *wealth itself*. A person may possess wealth, i.e. exchangeable value; if, however, he does not possess the power of producing objects of more value than he consumes, he will become poorer. A person may be poor; if he, however, possess the power of producing a larger amount of valuable articles than he consumes, he becomes rich. *The power of producing wealth* is therefore infinitely more important than *wealth itself*; it insures not only the possession and the increase of what has been gained, but also the replacement of what has been lost. This is still more the case with entire nations (who cannot live out of mere rentals) than with private individuals."

List elaborated three principal components to his theory of the productive power: a) the capital of nature, b) the capital of productive matter, and c) the capital of mind. He placed the greatest importance on the third. The relationship between man's powers of reason, acting on the physical universe through the force of productive manufacturing, is not explainable from the standpoint of simple exchange value.

Adam Smith was a materialist, List explained: "If he had followed up the idea '*productive power*,' without allowing his mind to be dominated by the idea of 'value,' 'exchangeable value,' he would have been led to perceive that an independent *theory of the 'productive power'* must be considered by the side of a '*theory of values*' in order to explain the economical phenomena. But he thus fell into the mistake of explaining mental forces from material circumstances and conditions, and thereby laid the foundations for all the absurdities and contradictions from which his school suffers up to the present day."

The mere quantity of labor, or labor time as Marx put it, which corresponds to the notion of exchange value, cannot account for the great historical evolution of mankind, because these constructs are rooted in materialism. List recognized that the creative activity of man is fundamental to the growth of nations:

"If we consider mere bodily labor as the cause of wealth,

how can we then explain why modern nations are incomparably richer, more populous, more powerful, and prosperous than the nations of ancient times? The ancient nations employed (in proportion to the whole population) infinitely more hands, the work was much harder, each individual possessed much more land, and yet the masses were much worse fed and clothed than is the case in modern nations. In order to explain these phenomena, we must refer to the progress which has been made in the course of the last thousand years in sciences and arts, domestic, and public regulations, cultivation of the mind and capabilities of production. The present state of the nations is the result of the accumulation of all discoveries, inventions, improvements, perfections, and exertions of all generations which have lived before us; they form the *mental capital of the present human race*, and every separate nation is productive only in proportion in which it has known how to appropriate these attainments of former generations and to increase them by its own requirements.”

List’s lifelong dedication to constructing railroads flowed from these principles. First of all, “only by means of thoroughly good transport can every district or province convey the surplus of its peculiar products to all other provinces, even to the most distant ones, and procure in return supplies of the peculiar products of the latter.” If there were no roads, canals, and trains, there would be no markets, and without industry, farmers would still be peasants. But railroads and infrastructure also bring the power of science and manufacturing to all parts of the country, breaking up and transforming pastoral modes of existence with the more cultured and educated activities of city life.

Manufacturing powers of the nation

From List’s The National System of Political Economy:

Manufactures are at once the offspring, and at the same time the supporters and nurses, of science and the arts. We may observe how little the condition of raw agriculture puts sciences and arts into requisition, how little of either is necessary to prepare the rude implements which it employs. It is true that agriculture at first had, by yielding rents of land, made it possible for men to devote themselves to science and art; but without manufactures they have always remained private treasures, and have only extended their beneficial effects in a very slight degree to the masses. In the manufacturing state the industry of the masses is enlightened by science, and the sciences and arts are supported by the industry of the masses.

There scarcely exists a manufacturing business which has no relations to physics, mechanics, chemistry, mathematics, or to the art of design, etc. No progress, no new discoveries and inventions, can be made in these sciences by which a

hundred industries and processes could not be improved or altered. In the manufacturing state, therefore, sciences and arts must necessarily become popular. The necessity for education and instruction, through writings and lectures by a number of persons who have to bring into practice the results of scientific investigations, induces men of special talents to devote themselves to instruction and authorship. The competition of such talents, owing to the large demand for their efforts, creates both a division and cooperation of scientific activity, which has a most beneficial influence not merely on the further progress of science itself, but also on the further perfection of the arts and industrials. The effects of these improvements are soon afterwards extended even to agriculture. Nowhere can more perfect agricultural machines and implements be found, nowhere is agriculture carried on with so much intelligence, as in countries where industry flourishes. Under the influence of manufactures, agriculture itself is raised to a skilled industry, an art, a science.

The sciences and industry in combination have produced that great material power which in the new state of society has replaced with tenfold benefits the slave labor of ancient times, and which is destined to exercise on the condition of the masses, on the civilization of barbarous countries, on the peopling of uninhabited lands, and on the power of the nations of primitive culture, such an immeasurable influence—namely, *the power of machinery*.

A manufacturing nation has a hundred times more opportunities of applying the power of machinery than an agricultural nation. A cripple can accomplish more by directing a steam engine than the strongest man can with his mere hand.

The power of machinery combined with the perfection of transport facilities in modern times, affords to the manufacturing state an immense superiority over the mere agricultural state. It is evident that canals, railways, and steam navigation are called into existence only by means of *the manufacturing power*, and can only by means of it be extended over the whole surface of the country. In the mere agricultural state, where everybody produces for himself the greater part of what he requires, and consumes himself the great part of what he produces, where the individuals among themselves can only carry on a small amount of goods and passenger traffic, it is impossible that a sufficiently large traffic in either goods or passengers can take place to defray the costs of the erection and maintenance of the machinery of transport.

New inventions and improvements in the mere agricultural state are of but little value. Those who occupy themselves with such things in such a state fall themselves, as a rule, a sacrifice to their investigations and endeavors, while in the manufacturing state there is no patch which leads more rapidly to wealth and position than that of invention and discovery. Thus, in the manufacturing state genius is valued and rewarded more highly than skill, and skill more highly than mere physical force. In the agricultural state, however, excepting in the public service, the reverse is almost the rule.

The fight to bring the American System to 19th-century Russia

by Rachel Douglas and Barbara Frazier

A Russian edition of Alexander Hamilton's 1791 *Report on the Usefulness of the Manufactories in Relation to Trade and Agriculture* was published in St. Petersburg in 1807. Minister of Finance D.A. Guryev sponsored the pamphlet. In an introduction, Russian educator V. Malinovsky wrote, "The similarity of American United Provinces with Russia appears both in the expanse of the land, climate and natural conditions, in the size of population disproportionate to the space, and in the general youthfulness of various generally useful institutions; therefore *all the rules, remarks and means proposed here are suitable for our country.*"

Malinovsky and Guryev belonged to a faction of Russian scientists and statesmen who cherished the legacy of the programs Gottfried Leibniz drafted for Tsar Peter the Great in the early eighteenth century. The Russian Academy of Sciences was founded according to Leibniz's design, and, while it had been subjected to many assaults and subversions of its scientific and nation-building agenda, by British- and Venetian-linked political and science figures, it remained a center of Leibnizian endeavor. Members of the Academy corresponded with America on scientific research, and closely watched the creation of the American republic. An Academy member, Franz Epinus, drafted the Treaty of Armed Neutrality, under which Russia and other continental European powers protected shipping during the American War of Independence.

At the time that Guryev commissioned the translation of Hamilton, there was a struggle for influence over the young Tsar Alexander I. Friedrich Schiller's brother-in-law, Wilhelm von Wolzogen, was in St. Petersburg for five years to prepare the marriage of Alexander's sister to a prince of Weimar, which took place in 1804. Wolzogen held seminars for the royal family. Schiller himself began a play called *Demetrius*, where he posed, in a Russian setting, the truth that a nation can only be great, if its leaders and the whole nation obey "that which is beautiful in humanity."

A few years later, Freiherr vom Stein and other Prussian reform leaders would be training the Russian Army against Napoleon and attempting to educate Tsar Alexander in statecraft. In 1809, the young John Quincy Adams arrived as American Minister Plenipotentiary to Russia, where he had long talks with the tsar about the protection of neutral shipping and how to limit British power on the high seas. As one

result, Alexander interceded with Denmark, to stop detaining American ships as "British."

John Quincy Adams found a kindred intellect in Count N.P. Rumyantsev, the Russian chancellor. Rumyantsev, who told Adams, "Our attachment to the U.S. is obstinate," lobbied for further anti-British initiatives. In 1812, he wrote a memorandum in favor of developing Russian trade with the rebelling Spanish colonies in South America. Adams reported home that the State Council's rejection of Rumyantsev's proposal was due to "a lurking English influence working at bottom." When he was ousted from power in 1813, Rumyantsev told Adams, "I could say that my guts are American; and were it not for my age and infirmities, I would go now to that country."

The spread of culture

In education and culture, this faction was trying to make of Russia something other than the "gendarme of Europe" it became after the 1815 Treaty of Vienna. Leading German scholars, including the philologist Adelung, worked in St. Petersburg. Minister of Justice Derzhavin, a poet, was involved in the early stages of a great translation project, to put Greek and other classics into Russian. Count Rumyantsev was a bibliophile, whose collection became the kernel of the huge Moscow-based library, known in the twentieth century as the Lenin Library. (As of 1991, this largest library in Europe has suffered an unknown extent of destruction, as the collapsing former Soviet economy left it with no lights, minimal staff, water dripping onto the books, and cracks in the walls.) Malinovsky became the first headmaster of a secondary school called Tsarskoye Selo Lycée, whose original curriculum plan mandated two three-year courses: Russian, French, German, and Latin grammar (one collaborator on the project proposed to include Greek); religion, ethics, and philosophy; arithmetic, algebra, trigonometry, and physics; history, geography, writing, literature, and rhetoric; art, dance, fencing, riding, and swimming. Count A.K. Razumovsky, the Minister of Education, gutted the curriculum. What did a diplomat or civil servant need with chemistry and astronomy? he demanded. Even more objectionable to him would be the study of "philosophical opinions on the soul, ideas and the world," which would confuse the youths. And

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Alexander Hamilton and the American System

European Precursors



Jean Baptiste Colbert
(1619–1683)



Gottfried Wilhelm Leibniz
(1646–1716)

American Precursors



John Winthrop
(1588–1649)



Cotton Mather
(1663–1728)



William Penn
(1644–1718)



Benjamin Franklin
(1706–1790)

Nathaniel Ames
(1708–1774)



George Washington
(1732–1799)



Alexander Hamilton
(1755–1804)

American System, 19th Century

Theorists

Mathew Carey
(1760–1839)

Henry Carey
(1793–1879)



Thaddeus Stevens
(1792–1868)



Erasmus P. Smith
(1814–1882)



Statesmen

Joel Barlow
(1754–1812)



John Quincy Adams
(1767–1848)



Henry Clay
(1777–1852)



Abraham Lincoln
(1809–1865)



Inventors

James Rumsey
(1743–1792)

Oliver Evans
(1755–1819)



Robert Fulton
(1765–1815)



John Stevens
(1749–1838)



Charles L. Flint
(1824–1889)

ican System: A Political Genealogy

Europe

Germany



Friedrich List
(1789–1846)

Russia

Dmitri Ivanovich Mendeleyev
(1833–1878)



Sergei Witte
(1849–1915)

France

Paul Cauwes
(1843–1917)

Asia

Japan



Yukichi Fukuzawa
(1835–1901)

Prince Tomomi Iwakura
(1835–1883)

Toshimichi Ōkubo
(1830–1878)

Shigenobu Ōkuma
(1838–1922)



Dr. Sun Yat-sen
(1866–1925)

Ibero-America

Mexico



Estevan de Antuñano
(1792–1846)

Carlos de Olaguíbel
(d. 1878)

Brazil

Ruy Barbosa
(1849–1923)

Ferro Costa
(fl. 1878)

Antonio Felicio dos Santos
(fl. 1881)

Colombia

Rafael Nuñez
(1825–1894)

Chile

José Manuel Balmaceda
(1838–1891)

Argentina

Luis María Drago
(1858–1921)

Gen. Juan Enrique Guglielmelli
(1918–1983)

United States



Lyndon H. LaRouche, Jr.
(1922–)

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Greek, Razumovsky insisted, was not needed by any Russian diplomat, who would fare quite well with French.

Rumyantsev's faction lost the struggle on policy. Alexander I became the Tsar of the Holy Alliance, negotiated at Vienna with Metternich and Castlereagh, by Venetian- and British-pedigreed diplomats in the Russian service: Giovanni Capodistria, Napoleon's cousin Pozzo di Borgo, Count Nesselrode, and that same Count Razumovsky. (Razumovsky, who opposed the study of Greek, was notorious for his inability to speak even Russian well.)

Especially after the murder, in 1837, of Tsarskoye Selo graduate Aleksandr Pushkin, the great poet who strove to make the Russian language capable of expressing universal ideas, Russian culture plunged into a relative dark age.

But it was impossible to expunge the knowledge that had been gained about the drawbacks of British economics. Pushkin's novel in verse, *Yevgeni Onegin*, showed how this was common knowledge, when the poet mocked his phony hero, Onegin, like this:

*Branil Gomera, Feokrita,
Zato chital Adama Smita
I byl gluboki ekonom.*

He cursed out Homer and Theocrites,
But read Adam Smith instead,
And was a profound economist.

Even during the era of the Holy Alliance, various Russian officials were protesting that without industrialization, Russia would suffer from its excessive dependency on Europe. For forty years after the Congress of Vienna, including the 1825-55 reign of Nicholas I, Russia kept a stiff protective tariff. Absent agrarian reform and a thorough industrial program, however, the tariff by itself would not guarantee strong national development. On the contrary, Russia under Nicholas plunged deep into debt to finance its "gendarme" military machine. The House of Stieglitz, court bankers to the tsar, arranged millions of rubles in loans from Baring, Hope and other London and Amsterdam banks, to finance the Russian military. British banks also had financial control of the first Russian railroad, built from St. Petersburg to Moscow in the 1840s, although Maj. G.W. Whistler, formerly of the U.S. Army Corps of Engineers, was the project's master engineer.

The Crimean War (1853-56) left Russia bankrupt. This violent falling out with England also opened the door for a resuscitation of Russia's American connection.

Rapid industrialization

By the late nineteenth century, the American System was the cornerstone of economic development in the U.S. (increasingly under attack after the assassination of President Abraham Lincoln), Japan, and Russia. In Germany and

France, political factions were seeking to bring their nations into accord with such policies. There was a potential alliance of industrial republics, stretching from the Atlantic to the Pacific, which would have destroyed the British Empire's trade and financial hegemony. The efforts to disrupt that potential, by the British and their allies on the continent, marked the road to World War I.

In Russia, measures begun during the 1860s alliance between Tsar Alexander II and President Lincoln helped to save the United States from dissolution in the American Civil War (the tsar sent the Russian Navy to protect American ports from the British), and placed at the disposal of Russian entrepreneurs the most advanced scientific and technological know-how, and economic science. In the decades that followed, a small but powerful faction in the Russian Ministry of Finance and among the country's entrepreneurs fought to copy the American System, against bitter opposition from the Russian landed nobility, backed by British and other international financiers.

As a result, Russia's industrial development in the 1890s was among the most rapid in the world.

Tsar Alexander II's abolition of serfdom in 1861 was the first step to prepare for Russia's large-scale industrialization. His regime then launched an overall economic plan, including financial reorganization, agronomy research, development of the petrochemicals industry, and building of a nationwide transportation and communications infrastructure centered on railroads.

At that time, over 95% of the population was illiterate. There was virtually no skilled labor. The landed nobility clung to the most primitive forms of cultivation, making Russian agriculture among the least productive in the world. The nobility forced onerous conditions for the abolition of serfdom, namely the payment of "redemption" fees by the peasants in compensation to their former masters.

Mikhail A. Reutern, a student of Henry Carey's economics, which was promoted in St. Petersburg by U.S. Ambassador to Russia Cassius Clay, became minister of finance in 1862. He placed Russia on a unified budget and a central bank was created to control all currency and revenue. Prior to this, there had been no uniform tax levy system. Reutern also established the currency, which had been wrecked after the Crimean War. Reutern emphasized that "without railways and mechanical industries, Russia cannot be considered secure in her boundaries."

The foremost statesmen who promoted the American System in Russia were the scientist Dmitri Ivanovich Mendeleev (see accompanying article), otherwise known for his development of the Periodic Law in chemistry, and his friend and ally, Count Sergei Witte, Russian Finance Minister from 1892 to 1903. Their polemics in connection with the adoption of the protective tariff of 1891, and other writings, expound the economic ideas of Hamilton and List, as they were fought for in Russia at the turn of the century.

Scientist-statesman fought British 'free trade' in Russia

by Barbara Frazier

The chemist Dmitri I. Mendeleev emerged as a leader of Russia's industrialization. In 1865, under the influence of the German chemist Justus Liebig, Mendeleev founded Russian agro-chemistry, setting up experimental field stations in Russia's five soil-type regions, and beginning investigations into the effects of mineral fertilizers.

*Mendeleev represented Russia at the 1867 International Paris Exposition, where he could make contacts with industrialists and study the technologies presented, for possible introduction into Russia. Mendeleev then toured every major chemical plant in Germany, France, and Belgium. When he returned, the government issued his findings as a book, *The Current Development of Certain Chemical Industries in Application to Russia—The World Exposition of 1867*.*

In 1868, Mendeleev founded the Russian Chemical Society, to serve as a forum for scientific thought directed to "building up the wealth of the country." Among this core group of scientists, industrialists, government officials, and financiers was Ivan A. Vyshnegradsky, a mechanical engineer, military technology expert, director of the Southwestern Railroad Company, and director of the St. Petersburg Technological Institute.

Vyshnegradsky became minister of finance, in 1889. His two most important accomplishments in office were the start-up of the Trans-Siberian Railroad project and the drafting of a protective tariff. Among the men brought into his ministry to oversee these tasks were Mendeleev, to chair the commission on the protective tariff, and Count Sergei Witte, then executive director of the Southwestern Railway Company, to head the new railroad department of the Finance Ministry.

*For Mendeleev, the tariff commission was a platform from which to organize for the American System. His 1891 *Tariff Report*, which we excerpt here, was a manifesto against British free trade and the enforced backwardness of Britain's colonies.*

Peter the Great [Tsar 1682-1725] reorganized Russia, in order to prepare for its industrial growth and in order to lead it closer to the rest of the world, and together with the West. (Until the abolition of serfdom and the construction of the

railroads, the fundamental idea of the reformer could not be realized on a large scale; only the Russian eagles rose to meet this idea and made the "colossus of the East" one of the powerful new forces, influencing the destiny of the whole world.) Our weapons have been sheathed for a long time, although they are close at hand, but it is clear that strength does not reside in them, but rather in economic production relations. . . .

If there is a visible glimmer of the dawn of general peace and of a just distribution of the prosperity possible for countries and peoples, then this is strictly thanks to industry, because the experience of history has shown the inadequacy of other means for achieving this—neither the concentration of military power, nor any particular form of land ownership, nor the very highest development of education. . . . The ancient and even the middle ages were strong due to armies and their conquests, but the coming period derives its strength from science and industry and their conquests. . . .

The present book is intended, within my ability, to clarify the relation existing between the development of industry in our country and the tariff. But since the tariff, like any law, is designed not for the past but for the present time, the degree of effect of the new tariff on industry belongs to Russia's future. . . . Most of all, it is my desire to show the possibility of a coherent Russian economic life through the development of its industry. This will, however . . . be in full understanding that the possibility of finding additional productive work for the people is more necessary than anything else.

It is not without reason, that the whole world considers us Russians to be a still young and fresh people. We're young and still fresh in respect to industry. My knowledge of Russia's existing conditions and my knowledge of the Russian people's capabilities for the highest form of human activity, convince me that Russia's forthcoming industrial conquests should be the true crowning achievements of Peter, an unprecedented flourishing of Russia's strength. Not to conquer India, the way history has it, but to conquer a more suitable place in the industrial progress of the entire world—this is what Peter bequeathed us, and not secretly,

but openly. But this will has remained as yet unfulfilled, and the time is ripe for its fulfillment.

Russia's agricultural period has come to a close. There are so many seeking new additional earnings, and so many debts are piled up on the surface of the land, that one inevitably comes to think: Couldn't payment be extracted from underneath the arable layer? For you realize, that a few hundred thousand Englishmen digging coal . . . earn for themselves and for all of Europe, just as much as tens of millions of Russians sowing and reaping rye. . . .

The danger of free trade

In conclusion, I consider it necessary to say that one of the collateral causes for the appearance of this work is the circumstance that in our Russian literature very often, and in the current literature even too often, there are to be found works of the so-called free trade tendency, where it is usually asserted that protectionism is only supported in Russia by people who lack scientific training, and for petty, self-serving ends.

Belonging to the small circle of Russians who have given their entire lives to science, who own neither factories nor plants, and knowing that contemporary science has uncovered crude untruths and omissions in the "classical" and "orthodox" teachings of the free trade school, and, finally, seeing that the historical and experimental—that is the real—path of study of political economy leads to different conclusions than those of the freetraders, which are taken on faith as "the last word in science"—I consider it my duty, partly in defense of truly contemporary, progressing science, to say openly and loudly that I stand for rational protectionism. Free tradism as a doctrine is very shaky; the free trade form of activity suits only countries that have already consolidated their manufacturing industry; protectionism as an absolute doctrine is the same sort of nonsense as free trade absolutism; and the protectionist mode of activity is perfectly appropriate now for Russia, as it was for England in its time. . . .

[Concerning] the "classics" Adam Smith and David Ricardo, it is time to cease taking them at their word on everything. It is worth reading them, but in reading them, one ought to see how erroneous is their reasoning; and if someone does not see this, then he should not pretend to understand the subject. The doctrine of the free-traders may be logical, rational, and beautiful. That does not mean it is true. "Phlogiston" was very logical, rational and beautiful, but it did not pass the test of experiment and turned into something completely different, to the degree that all chemistry was at one time called "anti-phlogiston teaching." It must be understood, that the economic doctrines of the "nationalists" and the "historical school" have long since broken free-tradism at the roots, and that contemporary economic science should, for clarity, be called "anti-free trade." This must, absolutely must be known by anyone who would speak on economic questions in the name of science.

Sergei Witte, 1912

The fight for Russian industry

Count Witte's appointment to the Ministry of Finance commission to draft the 1891 tariff law came as he was finishing his Russian-language edition of Friedrich List's *National System of Political Economy*, a work Witte called "the solution for Russia." Witte shared List's view, that railroads were vital for large-scale national development, and for drawing the rural population into an increasingly urban-oriented society.

One year after the tariff was inaugurated, Witte replaced Vyshnegradsky as minister of finance. He initiated financial reforms to accelerate the influx of foreign capital, and capital accumulation domestically. In 1894, he ended speculation on the ruble on the Berlin money markets, by secretly buying up rubles and then pulling the plug on speculators when their contracts came due. He reorganized the state bank to issue loans for industry, and created a network of state savings banks, both to "awaken the restlessness of enterprise" in the peasantry and working population, and to increase capital formation. Every railroad station and school was authorized to install a bank branch.

In January 1897, Witte placed Russia on the gold standard, calling this "one of the greatest successes in the peaceful cultural development of mankind." This measure, coupled with the 1894 stabilization of the ruble, created the conditions for a rapid influx of foreign capital, which increasingly took the form of investment in founding chartered companies and industrial works, rather than credit to the government.

Scientist Dmitri Mendeleev's assertion in the 1891 tariff report, that "Russia has now reached the period at which the already existing germs of manufacturing industry must develop with tremendous pace," was becoming reality. Railway development is exemplary: The 5,400-mile Trans-Siberian Railroad was completed on schedule in 1903; the amount of track laid from St. Petersburg to the Crimean Sea tripled. Railroads were the largest single industry in the country, employing 400,000 people in 1900, and were forcibly transforming other sectors. The metallurgical industries were developing apace, while approximately one-half of all finished metal products were railroad tracks. The oil and

chemical industries were operating at full throttle, and coal production in the Donets basin tripled between 1892 and 1903.

Under Witte's direction, government structure and financial policy were reorganized, in order, as he put it, to "give the country such industrial perfection as has been reached by the United States of America, which firmly bases its prosperity on two pillars—agriculture and industry."

The Ministry of Interior and the Ministry of Agriculture and Domains remained strongholds of the landed nobility, who for the most part supported an alliance with England and perpetuation of Russia's role as chiefly a grain exporter. Chipping away at their areas of control would not be enough, as Witte's eventual defeat in 1905 showed. Agriculture remained backward and hobbled comprehensive industrialization. Although Russia's industrial growth was among the most rapid in the world, over seven-eighths of the population lived at subsistence level in rural villages.

In his 1890 budget report for the Ministry of Finance, Witte wrote, "The railroad is like a leaven, which creates a cultural fermentation among the population. Even if it passed through an absolutely wild people along its way, it would raise them in a short time to the level requisite for its operation."

Witte called the landed nobility "parasites with exaggerated hopes of government assistance." He openly advocated the dissolution of the rural communes, a form of land tenure that kept the ex-serfs in bondage, observing, "I doubt whether a man can be found, who could carry through the change from *obshchina* [commune] to the individual farm basis, so necessary for economic progress."

In his *Memoirs*, Witte analyzed the immorality of the oligarchy in Russia: "Speaking of our nobility, I feel impelled to say again that I am a hereditary noble . . . and that I am aware that some nobles are truly noble, men who are concerned for the entire people, particularly the weak. Such nobles were the ones who worked out the reforms of Emperor Alexander II, but, unfortunately, they are in the minority. Politically speaking, the majority of the nobles constitute a band of degenerates who are concerned solely with their own interests, their own appetites, and it is they who direct their efforts at extracting favors from the government at the expense of the people."

Meeting his domestic opposition head on, over what was to be done for the peasantry, Witte wrote in an October 1898 memorandum to Tsar Nicholas II: "The peasant, while personally free, still finds slavery in arbitrariness, lawlessness, and ignorance. . . . Slavery robs the individual of the impulse to improve himself." He reported that "rural education remained not only behind Europe, but behind Asiatic and transatlantic countries as well. It is necessary to move energetically; a dark [ignorant] people cannot be perfected." He also condemned the whippings meted out by peasant courts, since this practice "killed God in human beings."

Count Witte's 'Lectures on Political Economy and State Finance'

The following excerpts are taken from Witte's two-volume Lectures on Political Economy and State Finance, published in 1912. The Lectures originated as classes for Tsar Nicholas II's brother and, at the time, heir, the Grand Duke Mikhail Alexandrovich, whom Prime Minister Witte tutored after 1900. A decade later, out of power, Witte published transcripts of the lectures. Our translation, by William Jones, is from the 1913 German edition, published by Josef Melnik. Subheads are added.

On what basis economic activity should be conducted will be the subject of investigation when we discuss international trade; in passing we should note that only three states—England, Belgium and Holland—have considered it advantageous to introduce free trade; all other states are adherents of a protectionist system of tolls. We would also like to note that in the economic literature, the number of those proposing protectionism are increasing, and there is a growing understanding of the defects of the theory of the English school, which claims that free trade is advantageous for all countries, regardless of their level of development.

The English school of national economy has attributed much too great a significance to the division of labor among nations and to the economy of labor, which asserts that each country should produce only those products, which, thanks to the peculiarity of its soil, its climate, and its mineral deposits, it can produce more cheaply than other countries, and whose production, therefore, would represent a more economic utilization of the world's productive forces. The writers of this school view the world as a mammoth workplace, in which each country produces only those goods, which it can produce in the most effective manner, and, therefore leads to the best possible utilization of the productive powers of our planet and of humanity.

Such a conception, however, is much too one-sided, and disregards the significance of international trade; its implementation, without taking into consideration the level of industrial development that the country in question has achieved, can fully paralyze the productive forces of the country and inflict great unhappiness on its people; its introduction in all countries of the world would lead to the suppression of the industrially weaker countries by the industrially stronger.

In such a manner the United States, thanks to its size and the fertility of its agriculture, produces grain under much more advantageous conditions than do the western European countries. If the import of American grain deprived the French farmer of the possibility of producing grain, what would he then do? Should he then, might you say, occupy himself with wine production? But then, how would such an extraordinary wine production be disposed of? France finds itself in the same unfavorable position with regard to

the silk production of China, the wool production of Australia, and the beef production of Argentina. Should then the French farmers, who constitute half of the population of that country, leave their farms and move to the cities? But with what perils would such a migration be associated? Perils not only from a purely economic point of view, but also from the point of view of general health, of morality, of political safety and of the entire future of the country? And, furthermore, where would the masses migrating to the cities find profitable work? Each country must strive to diversify its production and introduce all innovations as soon as they appear compatible with the climate and with the natural resources of that country. . . .

Population density

The most important factor determining the transition from one level of economic production to another, is the increasing population density. . . . Let us assume that by means of hunting alone, one can feed on one square kilometer of land no more than 40 people; the surplus population will find no food and will die. Only with great effort, does man slowly learn how to tame animals and gradually shifts to a more pastoral form of life, a transition which permits him to feed a greater number of people and guarantees him a more certain livelihood. . . .

Increasing population density compelled man to exert his intellectual powers and to discover new methods for the greater cultivation of the soil. . . . In this way, agriculture progressed and cattle-raising became a mere adjunct to agriculture; in the period of farming, people became settled. . . .

In our time, in all the countries of western Europe as well as in Russia, the growth of national wealth out-distanced population growth: The wealth of nations grows more rapidly than does the population. And this is possible, thanks to the extraordinary progress of the natural sciences, and their ever broader application in the technology of commodity production. Without going into its many other causes, we see already that the introduction of machinery into production has increased the productivity of human labor more than tenfold. . . .

Every form of labor is associated with a particular use of man's physical and intellectual powers. Even a purely physical exertion of human powers requires the presence of man's intellectual capabilities, and vice versa, creative intellectual activity is always accompanied by the expenditure of some muscular exertion. As, however, in any form of labor generally, either the physical element or the creative element predominates, leading us to characterize it as either physical or creative labor. . . .

Knowledge is one of the most essential forms of capital. The entire history of the process of production testifies irrefutably, to the prominent role played by this form of capital. You cannot imagine any form of capital, any tool, any instrument, any machine, any industrial installation, the de-

velopment of which was not preceded by the study of some phenomenon of nature prompting the original idea for that discovery. It could be said without exaggeration, that every machine, every chemical process, is nothing but the material realization of some technical, scientific knowledge. The skill of the workers, the talent of the leading engineers, or of entrepreneurs, appear in their turn as the result of a labor of reason, which is the fruit of knowledge, the form capital takes as it spreads to the broad layers of the population. . . .

Not less important, in this respect, are the provisions for providing greater access to knowledge to the entire population. The results of a broad organization of popular education, for example, in Germany, became so evident that its influence on the development of the country's capitalization should be considered irrefutable.

Two objectives must be aimed for in education: first, to secure a high level of scientific organization in the education system, thereby expanding the field of scientific thought, to which we owe the most fundamental discoveries; and second, an expanded dissemination of general practical knowledge, which contributes to raising the quality of labor, both physical and intellectual, on all levels. Scientific and practical knowledge, stimulated through such an organization of education, develop ever closer and firmer bonds, as we observe in Germany, by which the process of production and the capitalization associated with it are advanced.

The menace of 'free trade'

Developing their theoretically convincing, but for individual countries, practically useless, axioms of free trade, Adam Smith and a number of his more thoughtful disciples, operated mainly for the benefit of England. The superbly developed theory enticed even statesmen in countries with a poorly developed national economy onto the road of free trade; it strengthened the economic dependence of these countries on England, and secured for a long time the trade and industrial ascendancy of that nation. In the 1850s and '60s, enthusiasm for the idea of free trade was universal. Bitter experience, however, soon convinced people of the drawbacks to the untimely application of this theory. . . .

In addition to the detrimental results of the untimely application of the principles of free trade, an unquestionable influence on the shift toward protectionism was exerted by the noted German economist Friedrich List, who with particular emphasis exposed the shortcomings of the dominant English school of economists and demonstrated the ever-present necessity for each country to strive for the independent development of all its productive forces.

Just as there can be no freedom in the unlimited struggle of all individuals against each other, where the weaker become dependent upon the stronger, so also in the struggle between peoples under the rule of the free trade principle,

the weaker nations become dependent on the stronger, which surpass them, and they are given no possibility for a normal development. Every country must therefore develop itself independently and take necessary measures to secure for itself the possibility of development.

The wealth of a nation consists not so much in the sum of exchange values it disposes of, but rather in its labor and in the diversity of its productive forces, which create those values and for whose benefit it must strive for a many-sided development. But the single individual cannot accomplish this by himself; this is the function of the state, the nation, which comprises the link between the individual and mankind. Every nation traverses a series of successive stages of development, the highest of which is the commercial-industrial phase. A policy of protectionism, the establishment of primarily moderate customs duties, serves as a means to the achievement of that highest phase.

List has penetrated deeper into the meaning of protectionism; he saw in it only a temporary school for the nation, a means to defend its national freedom, and a potentiality for unfolding the powers of the nation in order to more extensively participate in the labor of the world. He is the first one to establish the relationship between protectionism and nationalism, but not a narrow-minded nationalism striving only for a greater amount of goods for itself and at the cost of others, but rather a nationalism of a higher order. Each nation must develop all its capabilities in order to acquire, in the broader universal labor process and in free exchange with other nations, the opportunity to contribute as much as possible to the treasure house of the world.

Malthus refuted

The basic idea of Malthus, that the physical universe places a limit on population growth and on further development to the extent this is conditioned by a greater population density, may be correct, but at a point so far in the future that it cannot be foreseen. With regard to the present, the theory of Malthus is deprived of all practical significance. The improvements achieved in technology have shown themselves to be so great, that, for individual regions, a much more rapid increase in production than in population has been possible for a long period of time. . . .

How little practical use the malthusian theory has, is best seen in the example of the United States of America, whose population growth Malthus took as the basis of the exposition of his well-known progressions. Since the end of the eighteenth century, when the "Essay on the Principle of Population" was first published, until the present time, the population of the Union has found itself in rapid growth; in spite of exporting enormous quantities of grain to the European countries, there can be seen no disparity between foodstuffs and the demand for them by the native population, but rather it has proven to be possible to even accept around 12 million immigrants and their progeny and to feed them.

Book Reviews

Witte: Tariff helped build our industry

by Denise Henderson

The Memoirs of Count Witte

translated by Sidney Harcave
M.E. Sharpe, Armonk, N.Y., 1990
885 pages, hardbound, \$39.95

The writings of Count Sergei Iulievich Witte (1849-1915) have not been generally available in English, but historian Sidney Harcave has translated and edited a new and more complete translation. Few efforts could have been more apropos: As of this writing, the Soviet Union will formally pass from existence on Jan. 1, 1992, and the crucial battles for the newly freed republics will revolve around the same issues as Witte's efforts to stop the inroads of Adam Smith's "free trade" into Russia.

Harcave's introduction provides a helpful thumbnail sketch of Witte's life and career. He documents that Count Witte wrote three works, two of them draft memoirs, which have been edited and translated into seven languages. Another, which Harcave excerpts briefly in the *Memoirs*, was *The Origins of the Russo-Japanese War*, in which Witte documented his efforts at war-avoidance, beginning with the trans-Siberian railroad. Harcave points out that much of the material in the *Memoirs* assumes the reader has access to the former work, which included a full volume of documents.

The following excerpts from Witte's memoirs were written around 1911, after his ouster from government.

I feel obliged to speak of the response to my proposal that with the construction of the Siberian Railroad there should come greater migration from European to Asiatic Russia. . . . Such a movement would help thin out the population of European Russia and thus make it easier to improve the peasant lot there and, in the long run, help the railroad pay for itself by developing Siberia.

Yet the idea, far from receiving support, met with hidden

opposition, of a kind appropriate to the mentality of the days of serfdom, of the Middle Ages. Many of our influential landowners and their supporters among the Petersburg bureaucracy, particularly Ministry of Interior Ivan Nikolaevich Durnovo, considered my idea harmful. . . . They, of course, preferred a dense peasant population that would be forced to pay high prices for land or accept low agricultural wages, under the goad of hunger. . . .

As indicated earlier, under Emperor Alexander III we began a shift from private to governmental construction and operation of the railroads, a shift that was to be completed in the reign of Emperor Nicholas II. The new policy was and is based on the belief that railroads have a major importance for the state and that private enterprise, which is basically concerned with private interests, cannot adequately serve the interests of the state in this field. Consequently, both as minister of ways and communications and as minister of finance, I carried out a policy of buying up privately owned railroads as well as promoting construction and operation of new railroads by the government. . . .

After working with railroads for 40 years, it is my conviction that all strategic considerations concerning the routing of railroads are chimerical, that the state will benefit far more if it is guided exclusively by economic considerations in such matters. How we have wasted money is shown by the fact that for 30 years we built railroads for use in a war in the West, but in the end we had to fight in the Far East.

During my tenure as finance minister, industry grew so rapidly that it could be said that a Russian national industrial system had been established. This was made possible by the system of protectionism and by attracting foreign capital.

I was criticized by some blockheads for building up industry too rapidly. Also, I was criticized for using "artificial means" in promoting industry. What does this phrase mean? By what means other than artificial can industry develop? Everything that man does, is, to a certain degree, artificial. Only barbarians manage to live without artificial means. Industry has always been developed by artificial means, and the artificial measures I employed were far weaker than those employed for the same ends by other states. This, of course, our salon ignoramuses do not know.

Our landed nobility attacked the protective tariff of 1890, but that tariff helped us build our industry, as did the influx of foreign capital. Unfortunately, in addition to the hindrances I encountered in attracting foreign capital, I encountered opposition in the Committee of Ministers . . . to my efforts to improve legislation regarding the establishment of corporations.

Generally speaking, the importance of industry is not appreciated or understood. Only a few men, like Mendeleev—that great scientist and scholar and my devoted associate and friend—understood its importance and tried to enlighten the Russian public about it. I hope that his book on the subject will be of use to Russian society. . . .¹

It should be noted that the growth of railroads and industry under my direction took some 4 to 5 million working adults (a total of 20-25 million persons, if one includes their families) off the land. This meant, in effect, an increase in the amount of available land by 54-67 million acres. Of course this meant only a slight increase in labor productivity. To raise productivity significantly we must see to it that the people, particularly the peasantry, have both the incentive and the opportunity to work more productively.

Witte recalled his efforts to prevent the pro-war faction from gaining ascendancy over Nicholas II. He described how the Russian ambassador to Constantinople, Alexander Nelidov, wanted to create "incidents that would allow us to gain control of the Upper Bosphorous."

It turned out that I was the only one . . . who objected, and very strongly, sharply, and decisively, to the proposed venture. I pointed out that this undertaking would lead in the direction of a European war that would undermine the excellent political and financial situation in which Emperor Alexander III had placed the Russian Empire.

In an 1897 discussion of tariff policy, Witte briefed Kaiser Wilhelm on his vision of war-avoidance:

Imagine, Your Majesty, the European countries united in one entity, one that does not waste vast sums of money, resources, blood, and labor on rivalry among themselves, no longer compelled to maintain armies for wars among themselves, no longer forming an armed camp, as is the case now, with each fearing its neighbor. If that were done, Europe would be much richer, much stronger, more civilized, not going downhill under the weight of mutual hatred, rivalry, and war.

The first step toward attaining this goal would be the formation of an alliance of Russia, Germany, and France. Once this were done, the other countries of the European continent would join the alliance. As a consequence, Europe would be freed of the burdens created by existing rivalries: Europe would be mighty, would be able to maintain a dominant position for a long time. But, if the European countries continue on their present course, they will be risking great misfortune.

Notes

1. Mendeleev's 1906 book, *Toward a Knowledge of Russia*, emphasized that the most important resource for Russia's development was the creativity of the human mind: "Not only 10 billion, but a population many times that size will find nourishment in this work, not only through the application of labor, but also through the persistent inventiveness which governs knowledge. This philosophy of Jean-Jacques Rousseau and now of Tolstoy, for a back-to-nature existence, is semichildish. Because in a patriarchal society, as well as among higher animals, there is a definite limit to growth, but human beings taken as a whole recognize no such limit."

If France had followed Paul Cauwes, World War I could have been avoided

by Jacques Cheminade

As the author developed in an EIR feature in the Dec. 13 issue, entitled "Will We Repeat the Blunders That Led to World War I?" it was the retreat of the French political leadership in the 1890s from a head-on challenge to Great Britain's imperial designs in Africa, as well as to British free-trade ideology, that set the world on the course to World War I. The passage below is adapted from a three-part article written for the French newspaper Nouvelle Solidarité, "Fashoda, When the Storm Clouds Brought the Storm," translated from the French.

The tragically unrealized potential of the French "American System" faction was exemplified by the government of Jules Méline, prime minister of France from April 29, 1896 to June 15, 1898. This was an exceptional political longevity for that era—almost 26 months.

In 1896, French capital was not yet inalterably oriented toward ground rent and overseas investment. A great industrial and agricultural mobilization was still possible—one which could have turned France toward the productive economy of peace and a system of mutual economic development on the European continent. The railroads of Méline's Foreign Minister Gabriel Hanotaux, instead of becoming the means to move troops rapidly toward the front, could have become the bearers of economic growth in the heart of Europe.

That promise was thwarted after, on June 14, 1898, the first Anglo-French accord over Africa was signed. This was a general convention delimiting spheres of influence and covering the length of the continent, from Senegal to the Nile basin. One day later Méline's government fell, and Gabriel Hanotaux left office permanently. Later that year came the French humiliation at Fashoda that ended the dream of a trans-Africa railway.

If Méline had been able to consolidate power, the force which he represented would not have been sidetracked into the conflicts which he considered to be "weakening"—anti-clericalism, monarchism, militarism, or colonialism. Jules Méline was the president of the Customs Commission in the National Assembly, and also president of the Association of French Industry. The speech he gave on May 19, 1893 at the Palace of Consuls in Rouen is a vigorous and documented broadside against British liberalism and free trade.

Méline explained how the general tariff of 1881 and the

tariff conventions of 1882, which had reduced customs duties across the board, had threatened to ruin French industry and agriculture. "The industries sacrificed by the treaties have continued to vegetate at a miserable level," he asserted. He showed how, in the name of national production, he and his friends in industry and agriculture had succeeded by 1893 in at least "arresting the victorious march of free trade."

To "save the nation's agriculture from an irreparable disaster," they had passed protective laws for the sugar-refining industry, livestock, and wheat, in 1884-85, and in 1892 passed a new "safeguard tariff" for agriculture and industry which "increased the minimum tariff by some 25-30% over the previous tariffs established by the convention." Méline lambasted "the general staff of free trade which is in Paris. It is made up of the bigshots of finance, the big importers and speculators who work with foreign products."

He attacked the pro-British media: "The masters of the financial markets, the free-traders . . . have possessed themselves of the major press in order to operate on public opinion. . . . That is their power. . . . Our Association of French Industry, on the other hand, is in a miserable state." He proposed, then, to create a major daily political and economic journal, capable of defending "the national economy," a "Republic of work and progress."

Méline and the industrial party around him had well learned the ideas of the great German economist Friedrich List. It is to these far-sighted men that France owes, in great part, her relative progress at the beginning of the twentieth century. The harshest enemies of British liberalism, they were doubtless were among those who understood it best in Europe. Their inspiration was a professor of political economy, Paul Cauwes, who was the president of the national Society of Political Economy, while Jules Méline was its honorary president.

'The National Economy' of Paul Cauwes

In his note published by *The Review of Political Economy* on Jan. 12, 1898—in the era of Prime Minister Méline—Paul Cauwes brilliantly situated the ideas of List in the European and French context.

He first attacked the "doctrinairism" which came from England and for which "political economy is a science of things, and not of man." This "liberal school," he continued,

had committed the error “of applying purely logical reasoning to the science of economics.” He saw its origin in the work of Quesnay and Adam Smith, with an optimistic tone in the beginning, when ground rent or financial profit was safe. Then, necessarily, this method of thinking became “pessimistic,” because it did not take into account the production of goods, or life, but only the revenue from things which already existed, and which necessarily diminished with time. Cauwes saw two “pessimist” schools deriving from this initial matrix. The one which was more properly liberal and

“Nations have other goals than just to make a fortune in the most direct way; an increase in riches is of little significance if it is acquired at the expense of the progressive development of industrial power.”

financial, was that of Ricardo and Malthus, leading directly to “contemporary malthusianism.” The other school deriving equally from the analysis of Ricardo and Smith, led to a battle for the possession of things, which destroyed the solidarity between those who produced them; that was the “school of Proudhon, of Lassalle, and of Marx.”

To these two schools—apparently opposed, but in fact two branches of the same stem—he contrasted in the nineteenth century the efforts of “Carey and of List.” This was the “principle of the union and solidarity of the productive forces,” and “at the same time the principle that governments have the mission to protect [the productive forces] against all perils, from within or without.” Cauwes underlined that this “school of national economy” had as its name “mercantilism, held today in such low esteem,” even though it was “at the root of the existence of our industry and our agriculture.”

In a century in which Jean-Baptiste Say had so popularized free trade and liberalism in France that he had made of it “the only possible doctrine”—like today’s “market economy”—Cauwes showed that France’s real tradition was the opposite, preceding and nourishing the work of Friedrich List: “National political economy is, in fact, the taking up again of a truly French tradition. France is the country of Sully and Laffemas, of Henri IV, of Richelieu and of Colbert.” He cited, too, Galiani and the inquiries of Antoine de Montchrétien on the various branches of production, underlining that this step rested on two notions:

- “The unity of the national economy,” the perception of the nation as a single productive enterprise;
- And the “necessity of intervention by the public power, in the interests of the economic production of the country.”

This is because, for Cauwes, “free initiative and governmental action are not antagonistic.” “There remains to the state a role which is great enough; that of arbiter and moderator among opposed interests, that of the protector of our industries against unfair competition, of centralizer of economic information, of creator of its own supplementary organizations to stimulate and support courageous entrepreneurs.”

It is this conception which is fundamental—that of the state as “defender of national labor” which must “maintain the workers in a continual state of productivity”—for this is utterly opposed to the liberal thesis, that “liberal school which has sown among us the idea that the state is a necessary evil.”

Transportation is productive

The debate was particularly lively on the question of railroads. The pro-Rothschild faction of Raynal, Rouvier, and Say handed them over to the corporations, conceiving of the railroads as being a punctual “service,” as fixed-price transportation of merchandise and of passengers from one place to another, belonging “naturally” to the financier interests.

Cauwes went to the heart of the debate, even though to do so he had to contradict Carey, to whom he nevertheless gave “the title of the best economist of labor.” For him, “the industry of transport” was not a “service,” but a truly “productive industry,” for “production consists in any and all actions of which the effect is the movement of material.” He included in this the transport performed by the extractive industries, which searched for minerals in the earth, and “transported” them to factories.

He also believed that transportation should not be left to the financial interests, which could not see in transportation its long-term “profitability,” its infrastructural impact. In a report of November-December 1895, Cauwes asserted that “the nationalization of a specific branch of industry” might become necessary, under conditions in which “we discern in that branch the character of service to the collective interest.” When an industry was menaced by financiers’ control, the state must intervene to assure the priority of industry, diffusing its effects throughout the entire economy.

Cauwes concluded by proclaiming his absolute opposition to the “school of Smith”: “a national economy based on other perspectives and other expectations than the program of buying as cheap as possible, and selling as dear.”

In his *Course on Political Economy*, printed in 1893, he defined the object of his study as being “the science of managing private firms and states”—the notion of the national economy which is encountered in Friedrich List. The object of this science is to realize “the productive power of labor,” which “is not the result of the qualities inherent in things,” but “varies not only according to the state of the industrial art, and advances in mechanical processes, but also

with the energy of the individual, with family morals and customs, with national traditions, and according to social combinations—division of labor, association: everything which can constrict or reinforce industrial relations.”

It was from the standpoint of this active notion, which defines economics not as a “science of things,” a dead logic, but as a science of the production of things, of “human creativity,” that Cauwes attacked Herbert Spencer, Huxley, and Bagehot, “the chieftains of this new school in England whose precursors were Cabanis and Gall.” He demonstrated that Spencer’s theory—the Victorian ideology of “social Darwinism”—leads to a “biological sociology,” to a pure “social determinism” which “has no place for free will.” “A modern theory,” he said, “which is connected with, on the one hand, the utilitarian doctrine of Bentham and John Stuart Mill; and on the other, with the Darwinian theory of evolution, assimilating social science to biology; that would be a simple natural science governed by the laws of matter.” He asserted that this British school, no matter what it claimed, was in the process of placing human behavior on the same level as that of the animals.

Cauwes demonstrated the malthusians’ bad faith, even according to their own terms: “The absolute doctrine of free trade is found among the same economists who hold to Malthus’s population theory, so narrowly nationalist. . . . For the markets, the territorial boundaries of states do not count, whereas, when it comes to the means of subsistence, one must tremble before the menace of overpopulation.”

Finally, in analyzing the systematic anti-natalism of John Stuart Mill, he laid bare the foundations of the British system: “To penalize population growth . . . is an eccentric opinion; if we admit that population is not regulated by free decisions, there is, logically, only one institution which can contain or increase changes in population—and that is slavery!” (Volume II, page 63 of his *Course on Political Economy*, 1893, Larose and Forcel, editors.)

As opposed to these fixed conceptions—relations of slavery between human beings or between countries—Cauwes elaborated his conception of the self-development of nations: “Nations are in the continual act of transformation, of development; it is therefore inaccurate to suppose them to be passive and immobile. . . .

“Normal nations (in the sense in which List uses the term) are complete organizations; their economic system resembles the physiology of the most perfect living beings; the multiple parts which make them up—the crops, the factories, and the commerce—are intimately associated and subject to a law of internal growth (interdependency): like the organs of the body, they languish or flourish together.”

The goal of leadership is “to develop the productive forces in a harmonious fashion,” and “to guarantee national independence” in “augmenting productive employment for the profit of national labor.” There is thus a sort of generalized labor to organize, a “great national production” which is

never achieved in any given moment, but is a “continuing creation”; and “it cannot come into being without protection.”

And so we come to the necessity and the justification for the protectionism so much attacked by the liberals, who pretend to see in it nothing but “an unhealthy safeguard of interests,” the desire to maintain enterprises “artificially,” “without competition.” Cauwes turned the argument against them, starting from the necessity of producing, the economic and moral necessity of not leaving a population unemployed: “Without doubt, nations ought to enrich themselves through reciprocal commerce, but above all, they have to live and to progress; now, with this goal, it is necessary to arrive at methods of developing the productive forces with which nature has endowed them. The real question is thus to determine which exchange system most favors the industrial growth of societies.” “Commercial freedom” runs the risk of “depopulating the countries whose industries are not in a condition to weather competition, because they are becoming tributaries to foreigners.” And so, inevitably, “free trade leads to the ruin of the competitors” which are weaker or newer, and “thus to monopoly.”

The free-traders, under their “generous” theories and their fallacious version of freedom, are nothing but hypocrites who want to “hold onto their markets.”

Cauwes was, however, not an absolute partisan of protection in opposition to the absolutists of free trade; he conceived of “protection” as a necessary means, and not an end in itself; the end was the development of the productive forces, the progress of labor. “The protection of national industries,” he emphasized, “thus constituted is, most often, not perpetual; it is a transitional system favorable to industrial education; it is a trusteeship which ought to come to an end naturally when the age of full economic development is arrived at.”

Cauwes denounced the direction in which the French economy was headed at the close of the nineteenth century. It is erroneous, he insisted, to judge the impact of commerce on national wealth solely from the point of view of the value of trade and the accumulation of capital. “Nations have other goals than just to make a fortune in the most direct way; an increase in riches is of little significance if it is acquired at the expense of the progressive development of industrial power.”

It should be recalled that France was a great investor worldwide in 1914, a country dominated by “income” and the ideology of the rentier, a country of whose private income between 3.6 and 5.2% was, in 1908, converted into “Russian funds.” Yet, it had seen its share of the world’s industrial production drop from 9% in 1880, to 6% in 1913.

Cauwes, in defending “a system of trusteeship and progressive industrial education,” defined the appropriate path—the one which made it possible to avoid wars—which ought to have been followed by France and by Europe at the end of the nineteenth century.

Hamilton's ghost haunts Washington from Tokyo

by Kathy Wolfe

Shocking as it seems, the nation of Japan is the greatest living "success story" today of Alexander Hamilton, Friedrich List, Henry Carey, and the American System of Political Economy. It is Hamilton's success, in Japanese form, which has come back to haunt a United States now grown weak and decadent by its rejection of Hamilton's programs.

Despite ignorance of most Americans and Japanese today of the facts, modern Japan was founded when a handful of Japanese intellectuals, lead by Yukichi Fukuzawa, Toshimichi Ōkubo, and Shigenobu Ōkuma, created an American System Renaissance in Japan in the 1860s and 1870s, modeled on Abraham Lincoln's programs. Traveling to the United States, Germany, and Europe, and bringing back with them American advisers and professors, this Japanese elite based themselves explicitly on the writings of Hamilton, Friedrich List, and Henry Carey.

They adopted List's term "American System" for their plan to promote national industrial production, technology, and the elevation of the common man through education. List and Carey were widely translated into Japanese. "America is our Father," wrote Fukuzawa in his newspaper. Without the "U.S.A. as chaperone of Japan," Japan might have been just another colonial satrapy, wrote Ōkuma in his *Fifty Years of the New Japan*.

To found such an American System, these Japanese patriots, born noblemen but ardent supporters of the American Constitution, formed an army to subdue the feudal Tokugawa warlords and restore central government to the young Emperor Meiji in 1868, an event known as the Meiji Restoration. Behind the new government were the leading students of Henry Carey, who later dubbed themselves the *Meiroku* (Sixth Year of Meiji) Society. During the next quarter-century as a result of their adoption of Hamiltonian economics, Japan crushed feudalism, created a Constitution and parlia-

ment, doubled its population, built a national railroad, founded modern universities, and more than quintupled industrial and agricultural output.

The Meiji leaders were explicitly opposed to the British free trade system of usury. They were consciously allied with the Lincoln forces in America, the Christian republican movement of Dr. Sun Yat-sen in China, and humanists in Korea to create a community of American System nations in Asia, in order to halt Britain's Opium Wars which were enslaving the continent.

While it is often said that the Meiji imitated only the trappings of the West, buying a few machines but remaining internally an Asian despotic culture, in fact Fukuzawa and his collaborators rose to the level characterized by Friedrich Schiller as "a patriot and a world citizen." They realized that only by promoting the highest ideas developed by humanity, many of which originated in European Christian civilization but which belong to all men, could they save Japan from subjugation by the British fleet as suffered by the rest of Asia.

In order to do this, Fukuzawa wrote in his *Jiji Press* newspaper, it would be necessary to join western culture and "to liberate Japan from the dregs of Chinese philosophy":

"The final purpose of my work was to create in Japan a civilized nation as well equipped in both the arts of war and peace as those of the West. I acted as if I had become the sole functioning agent for the introduction of western culture. . . ."

"I regard the human being as the most sacred and responsible of all orders, unable therefore, in reason, to do anything base. So in self-respect, a man cannot change his sense of humanity, his loyalty or anything belonging to his manhood, even when driven by circumstances to do so. . . ."

Later, in the twentieth century, it was *Britain* which broke up the Japano-American alliance, and then obliterated all word of it from the modern record. Just as the British

attempted to break up the United States itself by financing the Confederacy in the Civil War, Britain sought to prevent the development of any industrial state in Asia which might follow the American model, and refuse to kneel to the British Empire. After the Meiji Restoration, Britain feared that an alliance of the technology of the United States and Japan might end the British System. To these ends the British created the Russo-Japanese War of 1905 and eventually World Wars I and II.

We present here the facts which Britain has tried to cover up for a century, in terror that the United States and Japan might ally again to re-industrialize the world based upon our common Hamiltonian heritage.

The collapse of Chinese feudalism

The tremendous job done by the Meiji intellectuals is underlined by contemporary accounts of the disaster to which 500 years of Chinese-model feudalism had brought Japan by 1800. The population had been held at zero growth for hundreds of years at the 30 million level, by food control, a caste system, serfdom, the prohibition of travel and trade, and widespread infanticide.

Society was divided into two large castes, overwhelmingly the commoner castes (91%), mainly illiterate peasants and the nobility. The basis for rule was food control. During the seventeenth century, the Tokugawa war lords at Edo (Tokyo) had made themselves Shogun (military dictator) by force and taken power from the Imperial Court at Kyoto. They held the peasants as serfs, tied permanently to the land, forced to pay a large proportion of their rice crop to the local lord (*daimyo*) who in turn paid a large portion of his aggregate collection to the Shogunate.

By the early 1800s, this feudal structure of looting had broken down, creating widespread famine, epidemic, and anarchy. The Meiroku intellectuals acted to break Japan from that Chinese-model feudalism, the worst imperial tyranny ever known to man. Most western tracts on the Meiji Restoration falsify this completely. They claim the Meiji sought to forge a Chinese-style Imperial Dynasty to rival the British Empire, and were forced to do so only by the invasions of western fleets. They claim that the Meiji nobility created the regime to perpetuate their own feudal power structure, with no larger moral concerns for their population. Thus, most western texts claim, a pro-Nazi fascist movement in Japan in the 1940s was the direct outcome of the Meiji Restoration.

This is a lie. The Meiji patriots built a state on the American constitutional model, for which the emperor was needed to unify the nation in the face of anarchy.

Both the Meiroku leaders and the American Lincoln republicans were well aware that the British were militarily attacking the Americas and Asia simultaneously, with the Opium Wars and the British finance for the Confederacy in the Civil War. The unloading of opium by the force of British gunboats upon China during the Opium War of 1840-42,

which led to Britain's first colonial possession in East Asia, Hong Kong, caused tremendous concern in Japan and the United States, as did the Taiping Rebellion in China against Britain's Manchu puppet regime (1850-65) and the Indian Mutiny (1857-59).

The United States fought Britain with a policy for spreading civilization around the globe through commerce and industry which could help foster new republican nations to ally with America, not by military occupation, drugs, and looting. This was behind U.S. Commodore Matthew Perry's sailing into Tokyo Harbor in 1853.

"When we look at the possessions in the East of our great maritime rival England, and at the constant and rapid increase of their fortified ports, we should be admonished of the necessity of prompt measures on our part," Perry wrote before sailing to Japan for the first time in 1853.

"Fortunately the Japanese and many other islands of the Pacific are still left untouched by this unconscionable government; and some of them lie in the route of a great commerce, which is destined to become of great importance to the United States. No time should be lost, in adopting active measures to secure a sufficient number of ports of refuge."

The Benjamin Franklin of Japan

The intellectual leader of the Meiji Renaissance was Yukichi Fukuzawa. During the 1840s and 1850s, Fukuzawa was a member of the Dutch Studies movement, a group of young intellectuals who flocked to the Dutch colony at Nagasaki, the only venue to learn western science under the Shogun feudal dictatorship. There they studied the works of Johannes Kepler, among other leading western thinkers.

In 1858, ten years before the Meiji era, Fukuzawa founded Keio University on part of his clan's estate near Tokyo, the first university in Japan. As soon as he was able, he staffed it with American professors from the school of Henry Carey and Mathew Carey.

In 1860, Fukuzawa visited America; in 1862, Europe; and in 1867, America again. The 1860 trip was clandestine as it was illegal under the Shogun feudal lord. After his 1867 visit, Fukuzawa brought back as many American books as he could carry.

Fukuzawa never joined the government, but concentrated on founding universities and newspapers, including Japan's first newspaper, the *Jiji Shinpo*, in 1871. His friends from the Dutch Studies movement formed the first "Hanbatsu Cabinet" at the restoration of the Emperor Meiji in 1868:

Toshimichi Okubo, the "George Washington of Japan," forged a faction for the American System within the Japanese elite. The first minister of finance in 1868, he became vice envoy of Japan in the first Meiji government mission to the United States and Europe, the Iwakura Mission of 1871-73. He founded the Industrial Production Board, the precursor of today's Ministry of International Trade and Industry (MITI).

Shigenobu Okuma, Okubo's successor as finance minis-

ter, was the Alexander Hamilton of Japan. He set up a banking system modeled explicitly on Lincoln's Hamiltonian system, beginning with his foundation of the First National Bank of Japan in 1873.

Prince Tomomi Iwakura, a leader of the Imperial Sanyo (Council of Advisers) was the first prime minister and headed the Meijis' first mission to the United States and Europe in 1871. The Education Decree promulgated by Iwakura in 1872 created the first public school system in Asia.

Arinori Mori and Tetsunosuke Tomita, Japanese con-

The speed with which the Meiroku Society overthrew feudalism and built a nation was astonishing, and due to the Fukuzawa group's realization that Hamiltonian economics was a universal scientific method. This science could be used by all humanity, just as scientific inventions like electricity and the steam engine belong to the human race.

sults in Washington and New York, respectively, worked closely with Carey in the U.S. and traveled frequently to Japan to assist in the restoration. Tomita commissioned the first Japanese translations of the works of Carey and List.

The National Bank

Toshimichi Ōkubo led the drive for a Hamiltonian banking system and American-style industrialization. Upon his return from America in 1873, on the advice of Washington's adviser in Tokyo, Erasmus Peshine Smith, a student of Lincoln's economic adviser Henry Carey, Ōkubo founded the Ministry of Home Affairs and set up within it the Industrial Promotion Board. Ōkubo placed his friend Shigenobu Ōkuma, another intellectual leader, as finance minister, and they founded the First National Bank of Japan the same year.

Without the national banks, of which Ōkuma set up a series during the 1870s, explicitly modeled upon Alexander Hamilton's 1791 First National Bank of the U.S., Japan could never have industrialized. Japan thus became the first nation in Asia to found an independent state bank. For this reason alone, the British, who always owned the central bank of the nation they occupied, such as the Hongkong and Shanghai Bank in China, were unable to crush Japan.

Ōkuma took his cue from Hamilton who, in his 1790 "Report on a National Bank," solved the crisis of the huge

American Revolutionary War debt. The Continental debt, he wrote, should be used as *specie*, that is, be circulated as currency, and could be *capitalized*, used as the capital of a national bank, to then issue a much greater sum of credit for industrialization (see p. 15).

In Meiji Japan, the state was the source of credit, for feudalism had left Japan with few private money lenders, almost no money economy, little national debt, and no industrialists. Where were they to begin?

Ōkubo and Ōkuma constructed a solution, based on Hamilton's solution to the Continental debt, which eradicated feudalism in Japan in less than a decade. They abolished the ownership of Japan's land by the feudal *samurai* nobles, "reverting" ownership to the nation in 1871. They did this by *creating a national debt*, paying the nobles in new government paper—a vast transfer completed by force of arms where necessary by 1876.

The government then urged the *samurai* to put their new sums of capital into creating new industries. Ōkuma's Ministry of Finance created additional government debt credits to aid these new industrialists, and also to capitalize a national bank, in which the *samurai* were encouraged to deposit their cash.

Ōkuma never hesitated to run large government deficits to industrialize, unlike International Monetary Fund-run Third World governments today, which put book-balancing before eating. The new government debt credits were issued in amounts as large as half again the amount of annual tax receipts.

On the urging of the American advisers to beware of British plans for financial control, foreign loans were tightly regulated. When President Ulysses S. Grant visited Japan in 1879, he cautioned Ōkuma and the Emperor Meiji himself against all foreign borrowing. "Look at Egypt, Spain, and Turkey," he said, "and consider their pitiable condition. . . . Some nations like to lend money to poor nations very much. By this means they flaunt their authority, and cajole the poor nation. The purpose of lending money is to get political power for themselves."

Japan borrowed virtually nothing abroad, i.e., from London, from 1870 to 1897, and only then because British agents in Tokyo had dragged Japan into a war against China, for which loans became needed.

When Ōkuma later became finance minister again, he acted to ensure that Britain's Hongkong and Shanghai Bank could also not manipulate Japan through trade from the outside. He founded the Yokohama Specie Bank in 1887 as a Meiji government monopoly over all dealings with foreign countries. All foreign loans to the Japanese government were done in the form of purchases of bonds of the Yokohama Specie Bank, a Hamiltonian mechanism whereby debt was turned into state credit for industry. Furthermore, the Yokohama Bank took over the finance of all foreign trade, previously exclusively financed by Britain's Hongkong and

Shanghai Bank, which broke the British monopoly on the foreign exchange market in Asia. Only when British assets in Tokyo forced through the 1902 alliance with Britain against Fukuzawa's Russian ally Count Witte did Japan allow British banks to operate freely inside the country.

Hamiltonian industry

The speed with which the Meiroku Society overthrew feudalism and built a nation was astonishing, and due to the Fukuzawa group's realization that Hamiltonian economics was a universal *scientific method*. This science could be used by all humanity, just as scientific inventions like electricity and the steam engine belong to the human race—those with the brains to apply them.

The industrialization of Japan is perhaps one of the best examples in history of Hamilton's *voluntarism*. These intellectuals conceived of the state first, and then created it, demonstrating that such things can be done in any nation with the quality of *mental leadership* to buck British "free trade" dogma.

The Meiji in fact avoided elevating the few big feudal merchant houses, such as Mitsui and Co., which were close to the British. Instead, they created new industrialists from the ex-samurai, under the direction of Ōkubo's Industrial Promotion Board.

"The Industrial Promotion Board had three divisions: Agriculture, Commerce, and Industry, but the policy aimed at an organized unity. While in foreign trade and shipping the formation of private companies was encouraged, in agriculture and industry, state intervention was more extensive. Public experimental stations, model factories, and educational institutions, built by the Board for Technical Improvement and Industrial Promotion, initiated and directed industrial activities from above. Hence the need for experienced foreign employees," reported a contemporary account.

From 1873 to 1882, some 310,970 samurai received public bonds equivalent to over \$113 million (1880 dollars), and 200 new corporations were established as a result of government loans and encouragement, creating shipbuilding, construction, cement, fertilizer, salt works, textile mills, and other companies. In 1873, Ōkubo fostered Japan's first independent shipping company, Mitsubishi, founded by Yataro Iwasaki, an ex-samurai provided by Ōkubo with large government loans. A shipping company was needed, Ōkubo wrote, to stop Britain's total domination via the P&O Line over Japan's transportation system.

Throughout the 1870s, Ōkuma intervened to assure the expansion of the Mitsubishi fleet. In 1874, the government purchased 13 steamers and gave them to Mitsubishi. During the British-instigated Satsuma samurai rebellion, Mitsubishi alone was able to transport the troops needed to save the Meiji regime. The government expanded it into a maritime academy, a marine insurance agency, a warehousing chain, and a major coal-mining concern.

The government itself also operated the overwhelming majority of heavy industries until well after the turn of the nineteenth century in a manner often advised by American System economists. In 1875, government-operated factories accounted for 56% of the total number of factories, 75% of the total horse power of energy used, and 88% of the manufacturing employees. The government built a railway system nationwide, a chemical industry, a shipbuilding industry, and so on. As these militarily and strategically critical new industries became capable of standing on their own without being destroyed by foreign dumping, the Meiji government sold them off to the private sector.

America as the protector of Japan

The American alliance was a joyful collaboration to the Meiji intellectuals, and a military necessity, which had nothing to do with plagiarization. If the United States had not protected the young Japan, it could never have remained independent in a world where Britain sought to occupy Asia by opium and force. As Shigenobu Ōkuma wrote in *Fifty Years of New Japan*:

"Fortunately, helping hands were not wanting, ready to chaperone Japan in her debut upon the world stage. The friendly part which the United States took for its Japanese protégé especially deserves mention. Indeed, this spirit has pervaded all her proceedings toward Japan from the very first. Commodore Perry, while outwardly overbearing, entertained friendly sentiments toward our country. He scored the idea of following the submissive methods of the Hollanders, but neither did he agree to the proposal of a Russian admiral to coerce Japan by force.

"His diplomacy was as adroit as it was magnanimous, and this wise precedent was followed by the first minister which his country sent us, for Townsend Harris was the confidant and adviser of the Japanese government in the new business of diplomacy. It was he who advised Japan to forbid the introduction and use of opium, thus enabling her to keep clear of this source of national disaster."

In 1869, the Dutch-American missionary Guido Verbeck became the first foreign Japanese government employee, at the recommendation of Ōkubo and Ōkuma, as a legal adviser to the emperor and a teacher at the Kaisei School in Tokyo. Such foreign employees totaled over 500 by 1873.

From 1871 to 1877, Ulysses S. Grant sent State Department official Erasmus Peshine Smith to act as the official economic adviser to the Meiji regime. Smith advised Ōkubo and Ōkuma on Carey's system for protective tariffs and development of domestic industries. "The Japanese statements appear to have sound notion upon the policy of encouraging the protection of native industry," Smith wrote home. By the time he left Japan, "The American System of protectionist economic theory had become generally common thinking among Japanese statesmen, government officials, and philosophers," as one Japanese historian put it.

From the leaders of the Meiji Restoration

Shigenobu Ōkuma

Shigenobu Ōkuma founded the First National Bank and the basic credit policies of the Japanese Ministry of Finance. He transformed the Japanese feudal system into a modern banking system, using a credit policy directly modeled upon Alexander Hamilton's first National Bank of the United States.

After the British assassination of Ōkubo, Ōkuma, who was no technocrat economist but a universal mind and a patriot, took over as the leader of Japan's Meiji faction. In 1881, he forced the creation of a Parliament and the creation of a modern Constitution for Japan.

In his "Proposal Concerning the Abolition of the Fief System by the Issuance of Government Securities," dated March 20, 1876, Ōkuma proposed to turn all remaining samurai into industrialists by issuing them government securities for use in investments:

The feudal system for nobles and warriors dates back a long time. . . . Warriors who were especially talented were given a stipend or other annual award by the state. These samurai were to occupy themselves solely with military service, with no need to go into agriculture, industry, or mercantile professions. With the establishment of the feudal system, this fief-right came to be hereditary, and for the past several centuries a large amount of the government's rice crop has been used up in these allowances . . . which is truly a misfortune for the nation. . . . For the government to spend its revenues on them without getting any real use from them not only harms the nation but causes the samurai to doubt the government. . . . The people complain vehemently, and their minds are very disturbed. . . .

As the samurai have already surrendered political power to the new regime . . . it is due time that contracts concluded during the feudal era be canceled. . . . Since the annual revenue of the government is meant to be used for the nation's public purposes, especially at the present time when many many offices are to be equipped at once . . . useful state enterprises must be established and encouraged by making full use of economic measures in accordance with the national ability to do so. This is the basic principle of national economy. Despite this fact the government has always been in want of capital . . . because the government has divided

the revenue into three portions, and a third of it has been used for the payment of feudal fiefs and stipends. . . .

The first thing to be done is to regard all the fiefs and stipends of nobles, *samurai*, and even commoners, as debts of the government. In order to redeem these all within thirty years, government securities should be issued and, whether the fiefs were hereditary, lifetime, or for a limited term, the securities are to be limited according to the acts attached herewith. . . . An interest rate should be given annually of perhaps five, six, or seven percent according to par value, and the capital sum should be repaid (by the government) in the sixth year, as far as the means of the government allow. . . .

At that time, it is obvious that upon receiving all at once an enormous amount of money equivalent to several years payment . . . those who wish to pursue their own livelihood can go into the appropriate enterprise. . . . Even those who cannot make up their minds will take into account that there is now a limit to their funds, and in the end plan some way to support themselves. In this way the accumulated customs of several hundred years will all at once be changed, terminating the abuse of providing for a useless group with valuable assets, and succeeding instead in making a useless group occupy itself in useful occupations.

In addition, at present there are many bankruptcies among our major merchants and businessmen, causing the circulation of currency to slow nationally, and drying up the source of capital. At this time, if the above measures were put into effect, these evils would be readily remedied, simply by issuing government securities for approximately 150 million yen or more. [In the 1870s, the yen was equal to one U.S. silver dollar, so this was a huge sum—ed.] It would serve in a positive way to create better currency circulation, and would kill two birds with one stone. I therefore humbly propose the above along with a draft of the decree, the acts concerned, and other materials attached herewith.

Toshimichi Ōkubo

Toshimichi Ōkubo created the Ministry of the Interior and set up the Industrial Promotion Board (Kangyo Ryo), precursor of today's Ministry of International Trade and Industry (MITI).

His main writings deal with 1) industrialization and the building of government model factories; 2) promoting exports and improving their quality; 3) development and construction of a merchant marine; 4) expansion of government credits to industry; and 5) increasing agricultural productivity, improving education, and fostering land reclamation.

His praise of England's "protectionism" here is half diplomacy and half tongue-in-cheek, for Ōkubo was not only clearly an American protectionist, but he describes dirigist laws promulgated in England during the Tudor Renaissance of the sixteenth century, long before Britain was occupied by Venice and became the free trade capital of the world.

Ōkubo founded the Tomioka Silk Mill in 1872, the first state-owned factory in Japan, with the assistance of Phillippe Brunat, a textile expert sent to Tokyo by the French government to train Japanese engineers and workers in mechanical reeling and other textile machinery construction and operation.

Proposal of Toshimichi Ōkubo, "Concerning Industrial Enterprises for Increasing Production," May 1874:

Generally speaking, a country's strength depends on the wealth or poverty of its people, and the latter is closely related to the volume of national production. The volume of production originates in the industriousness of the people, but if we go back to the true source of that strength, we find that no industry has ever been independent of the guidance and encouragement of the government and its officials. If I may say so, imperial prosperity grew between 1868 and 1873, and the evil customs and old abuses which had for some hundreds of years been deeply entrenched, were thoroughly eradicated, with not a trace left. . . . Since that time, the various strong points of other countries have been studied widely . . . and rapid progress has been made in civilization.

Nothing is more urgent for the government at this time, than the promotion of industry and trade, the provision of the essentials for the population. By essentials, I mean the means of production. Without such productive assets at hand, everyone, high or low, scrambles for his means of subsistence, leaving no time to care for anything else. . . . Looking at the present situation, we see that . . . the people still lack the essentials for producing prosperity, and the government's encouragement of industry is inadequate. Those who are responsible for the people should ponder this carefully, then establish methods for procuring everything necessary for the maintenance of the population, from the profits of industrial products, to the conveniences of land and water transport routes . . . and make this the core of the government's policies.

To cite an example, England is but a very tiny country. But being an island, possessing bays and ports and mineral resources, the government considered it their greatest duty to take advantage of these and use them to their fullest. The king and his subjects all have tried to use the advantages of the world's waterways to foster their domestic industries. They courageously passed a novel, special Navigation Act, which banned any imports of foreign goods, unless brought on British ships, and prohibited the use of foreign ships for transportation of goods between the country's ports. One purpose was to increase the number of British ships and to have the people become well-trained in navigation.

Another reason was to block in this way the haphazard intrusion of foreign goods, so as to protect and foster domestic industries. It has been many years since the measure was



Yukichi Fukuzawa, leader of the Meiroku Society and mastermind of the Meiji Restoration (see page 57).

taken, and now the number of ships has greatly increased. . . . Since then their industries have grown extremely prosperous and domestic products are now more than sufficient to meet domestic demands. At this point, they have removed the prohibition and allowed free trade.

There are many similar examples in other foreign countries of the governments properly protecting the people and encouraging their own industries. . . . We should not necessarily imitate slavishly what England has done. . . .

It is the duty of the ministers of the central government to lead and inspire our docile people to industriousness, and the endurance of hardships, in order to create industrialization. I request your Reverence to determine a policy, study the natural blessings of our country, and investigate which products are to be increased, and what kind of industries are to be encouraged and concentrated upon. The policy should be to initiate industrial enterprises for increasing production, by setting a standard appropriate to the people's temperament, and their level of knowledge. In this way no one will be indolent, none will be left without a fitting place to work; in this way the people would enjoy immense prosperity. If the people enjoy such prosperity the country will grow rich and powerful as a result. . . .

Encouraging industries for export

Proposal of Toshimichi Ōkubo, "Concerning the Need for Encouraging Industries for Export," 1875:

The natural resources of a nation are first developed by agriculture, and then by industries. However, if manufactured goods were bought and consumed only by the few, how could we promote agriculture and encourage industry? That which mediates between agriculture and manufacturing on one side, and consumers on the other and distributes the goods, is commerce. . . . Thus to promote agriculture and industry, we must expand the distributive system of commerce, so that there will be no bottlenecks.

Since the opening of ports in the country, trade with foreign countries has been mostly in the hands of foreign merchants, so that our merchants have not been free from domination by them. There are certainly a few who, starting out as very small merchants, have become involved in large-scale trading in Yokohama, but they rise and fall, one after another, and yet not one can possibly compete with foreign merchants, nor stay in the market.

One of the reasons is that they are not accustomed to trade with foreign countries. Another is that they have only such small capital, that they cannot survive for long. If they are not accustomed to trade with foreign countries, their outlook is inevitably narrow. If they do not possess sufficient funds, how can they think about long-term business? They, therefore, are apt to engage in narrowminded small tricks, or obtain good fortune by chance. As a result they are unable to escape domination by foreign merchants, and finally lose their entire fortune. . . .

If this continues, how can we some day have merchants who can sufficiently compete with foreign traders? We have recently been importing foreign goods, more than we export our own goods, so that the national power is in an endless process of losing, and our nation may, in the end, fall into bankruptcy if this trend continues.

Since 1868 the Imperial Court has realized this, and established an Office of Trade to promote commerce, and made government loans to several companies. But these have mostly failed to prosper in their business, and their willingness to improve is almost nil, so that the Ministry of Finance last year ordered them to repay the public funds loaned them.

Because our silkworm eggs and silk were the two products most desired abroad, the government established a system of standards, to suppress those of bad quality, and award those of high quality, for there were many of poor quality and many fakes. The government also introduced a reeling machine at the Tomioka Silk Mill, to raise the standards of the workers and protect and encourage the silk industry. But these measures were the objects of many complaints from foreigners, and the government was forced to abandon the project.

The cooperation of government and merchants, however, awoke the population to the necessity and convenience of such cooperative undertakings. As a result, hundreds of such companies have been established, and flourish today. The Tomioka Silk Mill has not yet been able to make ends meet,

but has served the purpose of enhancing the fame of our silk industry abroad, raising the quality of silk at home, and stimulating other private companies to set up reeling machines. . . .

[Ōkubo describes the recent bankruptcy collapse of the foreign-owned Onogumi silk traders near Tokyo, due to a "quick profit" mentality, which had caused mass unemployment in the Yokohama port area and a panic by Japan's private lenders, who were afraid to make loans for less than 40% annual interest rates—ed.] Thus the Onogumi affair affects not only the locale of its main office and branches but the entire country. The resulting financial collapse has now become the greatest obstacle to our foreign trade.

Our plan now consists in having our merchants ship, and sell, our exports by themselves, directly to foreign countries, freeing themselves from the control of foreign traders. The urgency for opening to our merchants a means to sell abroad is clear, but the current great financial difficulties make it most difficult to persuade them. If we hesitate, however, and lose this chance to expand in the American market, there will be no other such chance.

Thus it is that the government should now take the appropriate initiative for a while, to find a mechanism to sell our goods abroad, expanding this step by step, so that [this new mechanism] . . . shows its profit to our merchants. Of course, the government itself must not be involved in business. Hence, it must persuade a few companies to do so, loan them the capital to set up an agency in Yokohama, and let this agency contact companies in foreign countries to sell our goods. If this business progresses well, the government should encourage it to set up branches in foreign countries to expand. . . .

There are two problems commonly raised here. One is that since 1868, few companies for which the government has provided the investment funds have functioned well. The other is that such a project might conflict with the interests of private merchants in Yokohama, creating in the future a conflict between government and private profits. Having taken all this into consideration I assert, however, that whether an enterprise succeeds or not, is far more dependent upon *how* it is conducted, and the quality of men conducting it, than upon whether the capital comes from government or from private companies. . . .

One must invent the most careful and scrupulous ways to prevent conflict of interest. The government must clearly define the conduct of such businesses, and set all accounts and money transactions under the supervision of government officials. . . . Then, when in the future a stage is reached in which the business becomes so profitable that other companies become envious, the government should, since its plan will have been accomplished, then entrust the business to the private sector. I also therefore submit to you here, an outline of the means, methods, the amount of legal capital, and the aim of such an enterprise.

Hamilton influenced Sun Yat-sen's founding of the Chinese Republic

by Michael O. Billington

One of the slogans displayed prominently by the youth who defied death at Tiananmen Square in the days preceding June 4, 1989 was, "You cannot fool all of the people all of the time." This quote from Abraham Lincoln evoked in the mind of every Chinese patriot the legacy of the father of the Chinese Republic, Dr. Sun Yat-sen. Dr. Sun had based his fundamental principles, known as the "Three Principles of the People," on the concept presented by Lincoln in his Gettysburg Address: "government of the people, by the people, and for the people," an historical connection which Dr. Sun never failed to present, proudly, to any audience. In fact, Sun Yat-sen considered this concept to be the connection between his view of a world truly governed by Christian morality and reason, and the profound truths of the Confucian tradition which had governed China for 3,000 years.

Dr. Sun saw the founding of the American republic as the most advanced expression of the effort to create a society governed by *agapē*, the Christian notion of the love of God, truth, and mankind. He compared it to the Confucian notion of a "Great Commonwealth," where man would govern himself on the basis of "jen," the Confucian term that approximates the Greek *agapē*.

A Christian world view

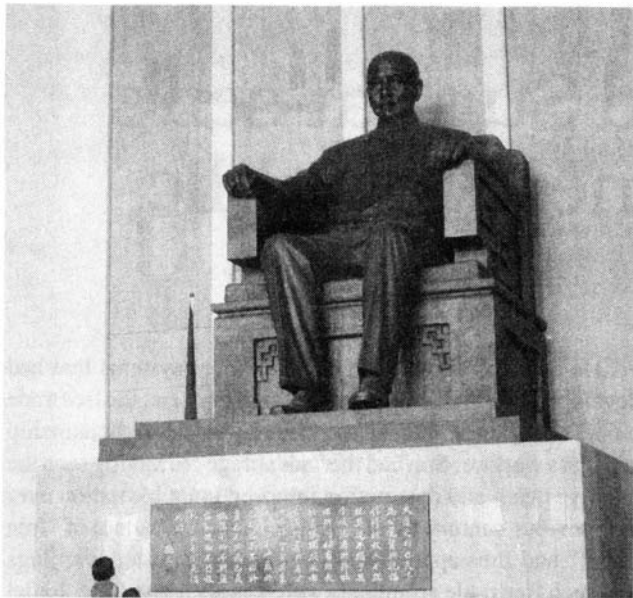
Sun gave primary credit for the successful development of the United States to the work of Alexander Hamilton, both in his role as the head of the Federalist fight for a Constitution and for his economic policies. He believed that responsibility rested with the government for the development of the physical infrastructure and the creation of a credit system necessary for successful agricultural and industrial progress. The success of such a system had proven itself in the progress of the United States. Said Sun: "The U.S.'s wealth and power have not come only from the independence and self-government of the original states, but rather from the progress in unified government which followed the federation of the states."

A Christian, Dr. Sun shared the Renaissance view of the American Founding Fathers that the role of science was found in the command in Genesis for mankind to "bring dominion over nature." He wrote: "The advance of science has made it possible for man to usurp the powers of nature and to do what natural forces have done." This, he believed, is the basis for social progress.

He attacked equally the two dominant systems that had developed in opposition to the American system: the free trade model of Adam Smith and the Marxist model of dictatorship and class warfare. Sun had the "advantage" of having seen the massive death and destruction imposed upon his nation over the previous century by the British under the banner of "free trade," and thus appreciated Hamilton's repeated warnings that such free trade arguments were simply a ruse for colonial economic domination and looting. Hamilton, said Sun, was concerned about "liberty and equality pushed to excess," and "founded the Federalist Party which advocated the centralization and not the diffusion of sovereign power." He described the U.S. Constitution as "the first complete constitution in human history," and adopted the policy of strong centralized government with a separation of powers in his own proposed Constitution for the struggling Chinese Republic.

In his highly developed programmatic proposals for the *International Development of China* written in 1921, Sun reflected the Hamiltonian rejection of Adam Smith's free trade dogma: "All matters that can be and are better carried out by private enterprise should be left to private hands, which should be encouraged and fully protected by liberal laws. . . . All matters that can not be taken up by private concerns and those that possess monopolistic character should be taken up as national undertakings." For these major projects, especially, "foreign capital, foreign experts and organizers, and gigantic methods have to be adopted." He added that the unbridled competition of the Adam Smith school had proven to be "a very wasteful and ruinous system. . . . It has been discovered by post Darwinian philosophers that the primary force of human evolution is cooperation, and not struggle as that of the animal world. . . . If we still retain the custom of free competition or *laissez-faire*, it will be like encouraging a lame man to contend with an automobile in a race."

Sun did not merely plead for assistance from the developed nations for the development of China. Like the circles around Hamilton and Benjamin Franklin, who saw that the building of a true republic in the New World was a step toward saving Europe from the impending Dark Age under the destructive oligarchical forces centered in England, so Dr. Sun saw that the western nations were on a suicidal course, and that unless the rapid technological development of the poor nations of the colonial world were taken on as a priority by the



*Dr. Sun Yat-sen, the founding father of the Republic of China, modeled his treatise *The Three Principles of the People* on Abraham Lincoln's *Gettysburg Address*.*

West, then further self-destruction was in store. Like Lyndon LaRouche, Sun recognized that the massive development of the Third World was the necessary centerpiece for any serious effort to stop the cycle of depressions and wars in the West.

The U.S. had the potential, following World War I, to replace the British imperial system and return to American System principles, consistent with those of Hamilton. "But unfortunately," said Sun, "the U.S. has completely failed in peace, in spite of her great success in war. Thus the world has been thrown back to her pre-war condition. The scrambling for territories, the struggle for food, and the fighting for raw materials will begin anew." The West refused to heed his advice, or to support his proposals—and, as he had warned, a new, more horrible depression and war ensued.

'A sheet of loose sand'

Sun also studied the heated debates by Hamilton and his collaborators with the spokesmen for "pure democracy" and libertarianism. He had seen how the British, under Bertrand Russell's direction, had moved into China in 1919 after the Versailles Treaty had sold out China and inflamed the Chinese people. Using the arguments of the British liberals and the French Enlightenment, Russell helped create a counterculture, a "new age" cult of irrationalism, and a terrorist movement which ultimately produced the horror of Maoist China. Sun warned against "a group intoxicated with the new culture which has begun to reject the old morality."

He attacked Thomas Jefferson for accepting similar arguments from J.S. Mill, Rousseau, and others. The application of Mill's "extreme liberty for the individual" would create a society that is like "a sheet of loose sand," said Dr. Sun. He

praised the U.S. for following the Hamilton model, while pointing out that libertarian "pure democracy" had seized control of the French Revolution. In a haunting passage, almost a premonition, of the Maoist Cultural Revolution 50 years later, Sun describes the French Revolution: "No one in the country dared to say that 'the people' did not have intelligence and power; if one did he would be accused of being a counter-revolutionist and would be immediately brought to the guillotine. The result was that a mob tyranny was instituted. Anarchy followed, society was panic stricken, no one was sure of his life from morning till evening. Even a member of the revolutionary party might, because of a careless word which offended the multitude, be sentenced to death."

Class war a 'disease'

This "tyranny of the mob," like the bestial Darwinian notion of "survival of the fittest," could only lead to a false materialist sense of reality and to the collapse of society, Sun warned. "From ancient times until now, man has exerted his energies in order to maintain his existence. And mankind's struggle for continuous existence has been the reason for society's unceasing development, the law of social progress. Class war is not the cause of social progress, it is a disease developed in the course of social progress." Marx thus knew nothing of the real process of social progress, concluded Dr. Sun: "Marx can only be called a social pathologist, not a social physiologist."

Dr. Sun published his economic policies under the title *Plans of National Reconstruction*, with the dirigist measures developed by Hamilton as his model. The "regulation of capital" was his central conception, utilizing both regulated private capital and the development of state capital to promote industry and launch large infrastructure programs in communications, railways, waterways, mining, and manufacturing.

With the vision of the expansion in the western U.S. as a guide, Sun mapped out the criss-crossing of the vast Chinese interior with railroads. Dams across the great river systems would provide power and eliminate the massive death and destruction of recurring floods. These plans are still largely untouched, 70 years later, and are still today the core necessity for preventing yet another holocaust upon the Chinese people.

The current regime in Beijing is clinging to power through terror, while "opening up" to the West by adopting the same failed form of free trade policies which Hamilton attacked 200 years ago. Under the tutelage of Henry Kissinger and associates, Deng Xiaoping and the reformers have created free trade zones for unregulated exploitation of cheap labor and speculation, while the basic industry and agriculture of the nation slides into collapse. In explicating his "Three Principles of the People," Sun Yat-sen defined the "nurture of the people," rather than short-term profit, as society's true aim.

Book Reviews

Is there a Brazil that can say 'no'?

by Mark Sonnenblick

The "Japanese miracle" is of great interest to Third World leaders since Japan is one of the few non-white countries which has been able to escape from underdevelopment. The prevailing myth attributes Japan's progress to its being "opened up" to free trade and international capital. Barbosa Lima Sobrinho, a feisty 94-year-old institution known as "the dean of Brazilian journalists," refutes that myth in a book whose title translates into English as *Japan: Capital Is Made at Home* (the second edition of *Japão: O Capital Se Faz em Casa*, in Portuguese, was published in 1991 in Rio de Janeiro by Paz e Terra, 238 pages). He proves Japan rose to world power status thanks to economic policies modeled on Alexander Hamilton's "American System." He emphasizes that, since 1868, the Japanese state has made sure the credit system favored necessary industries, with ownership and markets protected from foreign onslaught.

These are crucial issues for Brazil. It, like all Third World countries, is being bludgeoned by Washington's "free traitors" to relinquish sovereign control over the economy. President Fernando Collor de Melo is paying debt by handing over to creditors the industries and natural resources developed by decades of state initiative. Collor, like all Latin American Presidents, is capitulating to international usury on the pretext there is no other way "to attract foreign investment." Barbosa Lima counters, "U.S. economic history shows that the USIS [U.S. Information Service] thesis" that foreign capital is vital, "is false and destined only to console foreign countries which put themselves under its tutelage."

In his new concluding chapter to the second edition, the Brazilian nationalist states, "When you have a debt which reaches \$100 billion and is subject to \$12 billion in interest payments, there is no way to hide from the question: wouldn't it be better if those \$12 billion each year were invested in economic development programs?"

When the first edition was published in 1974, a battle raged among Brazil's military elites over whether to leave the country's destiny to foreign banks and multinational com-

panies or to forge a powerful, state-led Brazilian industrial capitalism. The first edition sold out rapidly and became a rarity, even in second-hand stores; Barbosa Lima's cogent refutation of the "free enterprise" thesis is once again at the center of strategic debate over Brazil's path.

Not fooled by British

Although he researched the book mainly from western sources, Barbosa Lima avoids most of the pitfalls of British historiography. He reports that the late-nineteenth-century Japanese elites were shocked by the Opium War and Open Door Policy with which the British imperialists and their emulators bled China. "China's experience also became a Japanese experience, to serve as a warning to a people which, until then, had managed to live distanced from foreign influences and penetration."

Barbosa Lima reminds us, "Japan knows, and always knew, that the countries which developed, such as England, the United States, France, and Germany, relied upon capital formed at home." How did the Japanese learn the dirigist methods which had succeeded in other countries? The book does not say. But, in articles published in 1991, Barbosa Lima notes the Japanese still study "American System" economists Alexander Hamilton, Henry Carey, and Friedrich List who launched the industrialization of the United States and Germany. In the June 30 issue of *Jornal do Brasil*, he asserted, "*Laissez-faire* is nothing more than a prescription to captivate fools."

"Japan's economic development which began in 1868 with the Meiji period is development commanded and directed by the state, obedient to the guidelines set by it," he states in the book. He outlines the Meiji policies quite as they are set forth elsewhere in this issue.

Japan made its own capital. A national bank, created in 1872 on Hamilton's model, financed industry by issuing credit by fiat and by forcing samurais to use the pensions which had been granted them for productive investment. Thus, government obligations were transformed into capital. The 1873 harvest, for example, was divided with the government and the landowners each taking 34% and the sharecroppers 32%.

Barbosa Lima writes, "If we consider that the accumulation of savings resulted, in great part, from a financial policy organized by the state itself, through taxes on agriculture, to pull together resources which rather than be voluntary savings, were contributions created and imposed by the state, we would have to accept that Japan's high level of economic growth is due to one basic and essential factor: The state's action, exercised in the form of effective leadership in industrial modernization, acting as entrepreneur and as promoter, founded on the public credit and, in the initial phase, inflation itself, which only was restricted and controlled when the industrialization and modernization of the economy was already well under way."



Japanese intellectuals gathered for the 1872-73 Iwakura Mission which sent 40 Japanese leaders to the United States and Europe to study modern ways (see page 56). At left, Shigenobu Ōkuma, founder of Japan's first national bank; second left, Toshimichi Ōkubo, the "George Washington of Japan," leader of the Meiji Restoration and father of Japanese industry; center, Prince Iwakura, Japan's first prime minister and creator of Japan's modern compulsory free educational system.

Foreign banks' efforts contained

The Japanese authorities "undermined" foreign banks, Barbosa Lima reports. "The foreign banks were permitted and tolerated in Japan to the exact degree they favored the country's national interests, in foreign trade. . . . Foreign banks played no role in the country's economic development, which was entirely handed to Japanese banks, that is, banks dominated and controlled by Japanese capital, supervised by its authorities. . . . Even in that sector, the organic interpretation of Japanese economic development was preponderant. [Investment decisions] were not left dependent upon capricious and untimely and sometimes even contradictory and redundant individual initiatives, motivated merely by the spirit of profit and not by the necessity to complement a common task, stimulating sectors which had to be developed within the exigencies of a comprehensive plan."

When dealing with Japan's imperial and militaristic phases, Barbosa Lima notes, with the plainly expressed wisdom which fills the book, "In balance of power politics, victories only serve as fuses for new wars." While underplaying the British role in Japan's internal factionalization, he observes Japanese sphere of influence policies were "in accord with British interests."

Barbosa Lima ascribes the postwar "Japanese miracle" not to "the new shogun, Gen. Douglas MacArthur," but to clever Japanese resistance. Lacking the power to prohibit foreign capital, "the Japanese made use of their customary smile and traditional courtesy. . . . There was no way to avoid impositions, but the most important thing was to reduce them to a minimum, without losing the desire to recover whatever concessions had been forced upon them."

Thus, postwar Japan restrained multinational companies as much as it could. The government made sure Japanese

companies bought foreign know-how under the best possible conditions. Looking at the overwhelming protectionism cleverly applied by the Ministry of International Trade and Industry (MITI), he concludes, "Japan is a country in which the public sector makes itself the center of fundamental decisions."

Much of what Barbosa Lima generalizes from Japan's experience was crafted as a metaphor to apply to Brazil. For example: "An economic development policy which tries to exclude the presence of foreign capital in direct investments, which blocks immigration of [obsolete] factories and which disdains local businessmen-for-rent, could entail higher costs. But costs which are rapidly recovered, when industries founded with domestic savings or with national credit begin to produce ever greater savings."

Barbosa Lima focuses on the positive lessons to be learned from Japan. Unfortunately, he apparently did not have access to the Japanese Hamiltonians whose quotes, otherwise all but unavailable to western readers, appear in English in this issue. These sources are invaluable to understand the historic battle between Hamiltonians and British monetarists inside Japan, and to explain why Japan went through a "militarist phase," or why its relations today with Third World countries are so ambivalent. One is left perplexed at the irony of a country which has honorably won its own economic sovereignty denying it to others. During the debt crises of the 1980s, Japanese spokesmen repeatedly performed the Kissinger faction's dirty work of issuing Ibero-American countries crudely worded ultimatums to crawl before their foreign creditors.

A reader must ask, "What can be done to help Japanese—and Americans—allow others to apply the lesson of their own history: Capital is made at home"?

Brazilians heeded Carey's advice against British free trade

by Geraldo Lino

Since its independence from Portugal in 1822 up to the first decades of this century, Brazil was the stage for a factional struggle between a small and most precariously organized group of nationalists whose aim was developing their nation around the idea of industrialization, and a European-minded crowd of agricultural landlords, brokers, and speculators whose "national project" was based solely on exploiting what they regarded as the "natural vocation of the country," namely, agriculture. Most of the time the "agriculturalists" held the reins of political power, to the extent that they managed to infiltrate and control the first institution nominally dedicated to the promotion of industry—the National Society to Promote Industry, created in 1824.

The kernel of the debate was over import tariffs. Although the importance of protective tariffs for nascent national industry was perceived as fundamental, the agriculturalist-dominated Parliament prevented most of the attempts to set up such tariffs, which were labeled "artificial barriers" and "losses to customers." A remarkable exception was the administration of Finance Minister Alves Branco, whose 1844 tariff act was responsible for an important enhancement of industrial activity in the country.

The debate grew heated in the 1870s, when the industrialist faction was better organized and began to promote the ideas of the National System of Political Economy, as advocated by Friedrich List and Henry Carey. In particular, Carey's attacks on the British free trade system were highly influential among the leaders of the Industrial Association, which was created in 1881.

In 1889 Brazil became a republic, and this brought about the most complete economic program devised up until then to promote industrialization as a basis for national development. Conceived by Finance Minister Ruy Barbosa, the plan was explicitly based on U.S. Treasury Secretary Alexander Hamilton's ideas on public credit and banking. Although Ruy Barbosa's term in office was brief, his economic measures laid the foundation for the takeoff of Brazilian industry, which occurred in the first decades of the 20th century.

The following excerpts are from the writings of three individuals who are most representative of the protectionist school of thought in Brazil.

Ferro Costa

In 1878, a series of letters by U.S. economist Henry Carey to the London Times which attacked the concept of free trade, was republished in Rio de Janeiro, Brazil. An introduction to the Carey letters was written by Ferro Costa, one of Brazil's leading protectionist figures of the period. Excerpts follow:

A capital idea stands out from the writings of the eminent American economist, to wit: the established and fundamental principles of free trade are harmful to the development of civilization in new nations. Laissez-faire and laissez-passer are bitter fruits, which experience has already condemned. . . .

There is, therefore, no plausible reason why Brazil should remain stagnant, tied to the routine of Old World ideas which have been so logically fought by the splendid results of doctrines adopted by the United States of North America. . . .

The false situation in which we find ourselves, our failure to pay enough attention to national productive activity, has produced and will continue to produce serious and prolonged evils. The drought in Ceará would not have reached such vast proportions, would not have caused such enormous and today irreparable damage, if a part of its population had been employed in diverse industries, if the country had spread out manufacturing establishments throughout its interior. How many lives would have been saved! Those regions would not have been abandoned by their inhabitants, because their cultural level would have informed them long ago of the best way to confront the problem, or at least modify its intensity—mainly, they would have had the assistance of many railways, as should have already existed, to cover all distances and provide aid to all who needed it.

This, plus what has recently occurred in the British Indies—which is nothing but a confirmation of the history of all peoples—is a shrill warning to us that the nation which engages exclusively in agriculture is mortgaging its future to eternal poverty and dependency.

The case of coastal trading offers us clear evidence of the harmful effects of free trade. After the March 27, 1866 decree [granting foreign ships access to coastal trading] was promulgated, our merchant marine was reduced to the worst possible

condition, and with it we had to view as lost the school which supplied sailors for our warships. As can be seen in the statistics of Rio de Janeiro port—the Empire’s most important—during the last four fiscal years, the proportion of the number of Brazilian ships and their respective crews remained stagnant; the number of foreign ships during this same period rose nearly 300%!

In a country like Brazil, with such a vast coastline and so many rivers, the development of a national merchant marine is undoubtedly of the greatest importance. Its delay is having devastating consequences, because it has everything to do with the most pressing social concerns. These include, apart from that already mentioned, great harm caused to the art of construction and to agriculture, which provides it with materials. The citizen is forced to limit his activities to other industries. . . .

What anguish will afflict our descendants, and what responsibility will fall upon ourselves, when the time comes that Brazil—in this soil blessed by providence—does not harvest a single bean, a single grain of corn or rice! And why should it, if the foreigner comes to our markets to offer these products at a price that makes it useless to cultivate them here?

A country that is fed by the hand of a foreigner, suffers in that which is most sacred, its sovereignty!

These reflections, suggested to us in reading Carey’s letters, lead us to the unavoidable conclusion that national productive activity demands a radical reform according to the best economic principles, which could give Brazil autonomy among the civilized nations.

We ardently defend a doctrine; it is true, they could call us utopian, or whatever they want, but we would answer by pointing to history—both ancient and modern—and especially to what is happening today in various countries, such as France and Germany, where, following the most detailed investigation, it has become clear that the liberal regimen has caused the paralysis of trade and the depreciation of industry in those countries.

We do not nurture the hope of achieving the desired reforms at once, because this is a matter that requires deep thought; nonetheless, once these occur, we have no doubt of the triumph of protectionist principles, the only ones capable of developing the moral and material progress of a nation.

The welfare and civilization of the Brazilian Empire essentially depends upon the economic and social laws it adopts; may these facilitate and lead to the expansion of national productive activity, and to the provision of equal rights to the men who will run it as a new country. . . . The founding of manufacturing establishments and factories in every province, interconnected by electricity and by steam, is the surest guarantee of lasting internal peace and prosperity. Such a future lies in the hands of man: his will is his incentive, and those who follow it will inscribe their names in the golden book of their nation.

Antonio Felicio dos Santos

The following are excerpts from the founding manifesto of the Industrial Association of Brazil, signed, among others, by its first president, Antonio Felicio dos Santos. The association was founded in 1881:

The school of free trade in Brazil is not solely based upon imperfect study and the seductive appearance of the theory: there is another point of support, more dangerous because it is more highly placed. And that is vanity; it is (our) seduction through the treacherous applause of the opinion of the industrialized countries, interested in keeping us dependent, as tributary consumers of their factories.

As long as Brazil is not guided by a protective system, England will continue to exploit us as consumers.

After being strengthened for centuries by a nearly prohibitive regimen, and possessing a population educated in the school of highly protected and unchallenged industry, that nation is today a great advocate of free trade. That is why [in England] the United States of America is considered uncivilized for basing its wealth on a protectionist regimen, rejecting the old path of the metropolis and thereby drawing unto itself and assimilating a perennial immigration of workers and small capitalists.

In the shadow of the star-spangled banner, meanwhile, they have developed an industrial activity which already exceeds domestic consumption and is expanding in exports. And even though their products are already competing in every market with those of the more industrialized countries, the North Americans still do not consider harmful that protective system to which, more than to any of their completely free institutions, they owe the material progress of their nation. The brilliant prospect of American prosperity is offered us to imitate free of charge. [However,] Brazil is not losing sight of Europe’s glitter, giving rise to the anti-American policy pursued here in all foreign relations, the economic system that ruined our merchant marine and paralyzed national industry, prolonging thus the colonial regime. . . .

It is urgent to raise our voices and call the attention of the government and of the people to these matters. This is one of the goals of our association. In the new countries, industry cannot grow without the encouragement of the state’s highest authorities. All civilized governments began thus, favoring the development of industry. . . . The moralization of the poor classes is, more than anything, a question of policy. Production for consumption is at the very least a function of elementary economics. The example of preferring native products to foreign ones, when they are otherwise equal, is an act of patriotic common sense practiced invariably by every government. [Striking] a balance between national production and foreign imports falls primarily under a customs regimen. It is not extreme protectionism we seek; any practice based on invariable and absolute rules is absurd. . . .

Ruy Barbosa

The following is from the Report of the Finance Ministry (1891) written by Ruy Barbosa (1846-1923), finance secretary in the provisional government of Marshall Deodoro da Fonseca:

When Hamilton, first Treasury Secretary following independence, founded American finances, one of the foundations of his system was the creation of a National Bank, whose currency would be accepted throughout the territory of the United States.

But already that which we would today call extremist federalism . . . which demanded for the states a sovereignty parallel to that of the Union as a whole, viewed with distrust any institution intended to cement national unity.

The idea of a national bank could not fail to draw the ire of that dissolutionist tendency, antagonistic to any government, whose efforts were on the verge of subverting the American Union in the middle of this century. Once the law was approved in Congress, the greatest pressure was brought to bear to force Washington to oppose it with his veto. The President listened to his cabinet, where political sentiment was divided between Hamilton, author of the project, and Jefferson, leader of the movement opposed to the consolidation of the federal forces. But Hamilton prevailed.

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Estevan de Antuñano

'Promoting industry is a matter of honor'

In his 1985 book *Mexican Mercantilism vs. British Liberalism*, Peruvian historian Luis Vásquez Medina identifies Estevan de Antuñano (1792-1846) as one of the early proponents of mercantilism in Mexico, as well as a fervent admirer of the American System of economics. Antuñano also considered himself a follower of France's Colbert. Born in Veracruz, he was educated in Spain and returned to Mexico in 1820. By 1830, he had built a large business, producing textiles, porcelain, and iron.

In 1835, he revolutionized Mexican industry with the first modern textile factory, run with hydraulic energy—the first step in his ambitious project to transform the Atoyac River valley into "Mexico's industrial valley." He was adamantly opposed to the idea that Mexico's future lay in minerals export, which he viewed as a continuation of the colonial regime. Constantly battling those who said that Mexico could not industrialize, in 1845 Antuñano presented his own program for Mexico's industrialization which he called *Mexico's Political-Economic Plan*. Excerpts from that plan, as well as from other major writings, follow:

In the Dec. 24, 1842 edition of *El Cosmopolita*, Antuñano wrote:

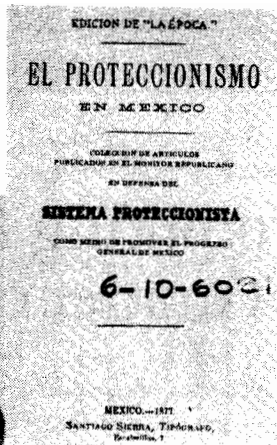
"For our Republic, the promotion of industry is not merely a matter of convenience, but rather one of honor and of independence."

In September 1837, Antuñano wrote *Exposition on the Advantages for Mexican Industry and Wealth Resulting from the Exploitation of Iron and Building of Factories to Produce Machinery and Fine Tools to be used in the Arts and Agriculture*. It read in part:

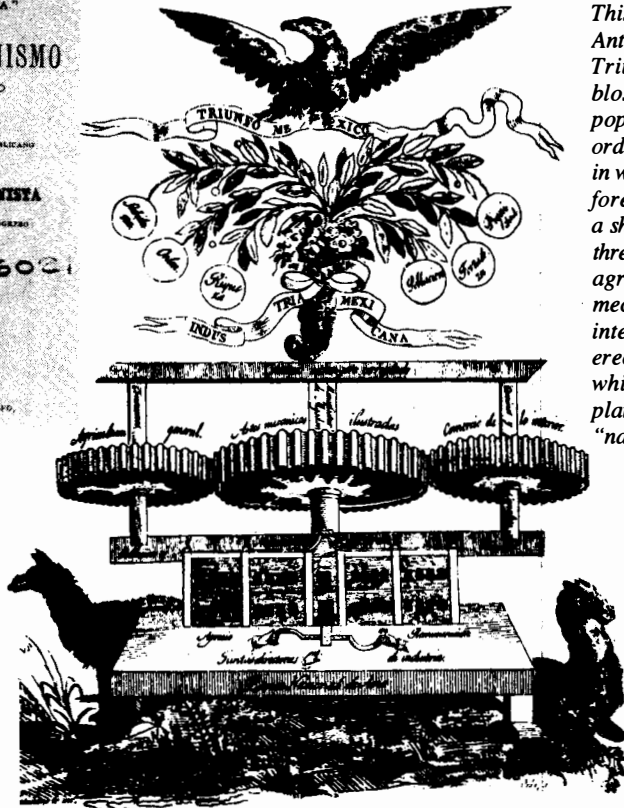
"Exploitation of iron is so necessary for national wealth that it would be impossible for any nation to make great progress in its arts and agriculture if it did not dedicate itself to this important object of wealth; iron is the general and most economic material for producing all those instruments by which human understanding, through the senses, puts its useful ideas into practice.

"Exploitation of iron can lead to advances in the production of tools; this is the primary motive behind its exploitation: there can be no other purpose than to smelt, hammer, and transform that metal into useful form, to provide more leisure time for man, and more thrift and perfection in the products, as well as in rural operations. . . .

The cover of the “anti-GATT treatise” of the era, Carlos de Olayúbel’s 1877 book on “Protectionism in Mexico.”



Estevan de Antuñano



This illustration from Antuñano shows the Triumph of Mexico, blossoming in population, wealth, and order, above a machine in which regulated foreign trade arises from a shaft supported on three gears: general agriculture, applied mechanical arts, and internal trade. This is erected over an edifice which rests on a platform labeled “national bank.”

“In factories for producing instruments, a greater number of Mexicans could be employed; wealth, the census and the population’s lifespan would increase directly and in the same proportion by means of useful and honest work. . . .

“The building of factories will allow us to easily train good local artists in all fields, [provide] good tools to all of them, and finally, give to our manufacturing and rural goods greater efficiency than they now enjoy. . . .”

In 1846, in *La Insurrección Industrial*, he wrote:

“The Mexican nation cannot be satisfied, rich, strong or civilized, despite its great natural advantages and its national independence, as long as it fails to also achieve industrial independence—for the regeneration of its industry, and for new and more perfect economic methods to use in the industrial arts.”

Invention, infrastructure, and industry favored

Antuñano’s 1845 *Mexico’s Political-Economic Plan* called in part for:

“The creation of industrial boards of directors, as they should direct the operations of the agricultural and manufacturing industries, indispensable in our situation of economic backwardness.

“Appreciation and remuneration for those who faithfully and intelligently dedicate themselves . . . to discoveries and promotion of industry, to awaken through the most powerful

stimulus—that is, interest—the fertile Mexican ingenuity for productive and noble objects.

“[Building of] roads and canals, because without them, it is impossible to have an efficient and useful communication, and all efforts in the arts, agriculture, and trade will become useless.

“Creation of factories for the production of modern tools and iron exploitation, because these should be considered the first step, the introduction and the material basis of all industry. I’ll talk at greater length about this in the second section.

“Absolute prohibition of all foreign manufactures, which we could probably build easily and cheaply here, is the basis for all of Mexico’s economic reform. . . . This is the most efficient stimulus, the only guarantee by which Mexicans can progress in the mechanical arts, encouraging them [to enter] costly, risky, and even unknown activities which, at the same time, are the best means by which to oppose the scandalous and destructive contraband . . . which has provoked, secondarily, the annihilation of our tender and backward industry, not to mention the anguished and disgraceful state in which our national treasury finds itself. . . . As long as people cannot find abundant, useful, and honest work, and as long as the government depends only . . . on the precarious assistance offered it by foreign merchandise, constantly cut off by contraband and by repeated usurious negotiations—prohibition is the only moral basis for industry.”

'The system of Malthus is fatal'

During the 1860s and 1870s, Mexican economist Carlos de Olaguíbel y Arista, a follower of Friedrich List, was a leading proponent of protectionism in Mexico. In 1875-76, he was a spokesman of the republican cause opposing the "purists" who advocated free trade. His polemics against British economic liberalism were published in the newspaper Monitor Republicano and later in the book El Proteccionismo en México (Protectionism in Mexico). Olaguíbel devised one of the most complete programs for Mexico's industrial development. He had studied List as well as Alexander Hamilton. The following excerpts are taken from Protectionism in Mexico, written in 1875:

Free trade would presuppose the exclusion from Mexico of many important manufactured products, the complete destruction of our industry, the misery of many families, and many other evils, because it would destroy—as it has already destroyed—the natural division of labor. We are told that since Mexico is an essentially agricultural or mining country, it does not need industry to progress. This objection implies several fundamental considerations. The first is that experience shows that an essentially agricultural or mining country does not progress without the aid of industry; secondly, that agriculture neither develops nor serves the progress of a people unless it is sustained, converted into industry, by industry itself.

We believe that our honorable antagonists will recognize the truth of the assertion that the United States is a country whose agricultural and mineral resources have virtually no rival in the world. Its West, rich in land and in mines, could supply the Earth's population with grains and metals. However, the economic history of that admirable republic proves, very significantly, that every time its government has abandoned a protectionist system, the country's general progress has been observed to decline considerably.

It is appropriate here to briefly review the history of the protectionist system in the United States, because revealing how much our neighbor owes to the economic doctrine we defend, confirms the point that currently concerns us; namely, that a country, even if an agricultural or mining one, cannot develop without the aid of industry. . . .

The enormous development of the United States began to take off thanks to the protectionism adopted at that time. When war broke out between Great Britain and its American

colonies, the English imports ceased. While causing temporary hardship, this permitted the establishment of factories in the states. . . .

Once the peace treaty with England was signed, imports were reestablished and the country returned to agriculture. Based on the history of that time, American writer Orin Skinner notes that when conducted intelligently—we could say industrially—agriculture by itself not only does not produce the same result as industry does, but also makes clear that the country cannot progress without the factories which, in our view, have made the natural division of labor possible. The country felt then, quite urgently, the need to return to the healthy and practical doctrines promoted by Alexander Hamilton in his admirable 1791 report. According to the writer we have quoted: "The most satisfactory results followed the adoption of those principles; not only was manufacturing reestablished, but with its advance came the development of trade and agriculture. . . ."

The second point I want to address broadens and strengthens the issue under discussion. We said that agriculture neither develops nor serves the progress of a people unless it is sustained, or better transformed into industry, by industry itself. List, the distinguished German economist, has made interesting observations in this regard, considering data from several countries. It would seem naturally to follow that the extraordinary demands of industry promote the prosperity of agriculture. . . .

Industry is the basis of productive forces

While enjoying the fruits of the peace to which we have aspired, Mexico offers a practical demonstration—in our view—of the obstacles which agriculture, unsupported by industry, presents to the material, intellectual, and moral development of a new nation. When, in obedience to a centuries-long routine, agriculture yields enough for man to live on comfortably, he feels no need to educate himself and seek new horizons for the intellect; he consumes what he produces and a little more derived from trade of his crop surplus. He does not live, as do people in nations where industry flourishes, by acquiring knowledge and applying it to the exploitation of the land, to overcome the competition of his neighbors. . . .

Industry is the foundation for agriculture, industry gives value to agricultural products, gives life to trade, and requires by its very nature the aid of science; in a word, industry is, in my opinion, the spring which sets into motion all the productive forces. . . .

The victory of protectionism is highly important because it will do away with misery, with the diseases it yields, and even with the system of Malthus which has necessarily been established among us and which, ultimately . . . is fatal, because it prevents the growth of the population, that growth we need so and which must be maintained even if it should increase too much, as long as industry is protected.

Colombia looked to the American example

The following are excerpts from the writings of Rafael Nuñez, several times President of Colombia in the latter part of the 19th century, and author of that country's republican constitution, written in 1886. The Nuñez Constitution survived until this year, when it was "re-written" by a Constituent Assembly dominated by amnestied narco-terrorists and front-men for the cocaine cartels. Nuñez advocated a protectionist economic system modeled on that of the United States, and promoted the development of infrastructure. On April 8, 1880, during his first presidential inauguration, Nuñez proposed a program for achieving "National Union." He motivated his program thusly:

Our agriculture is barely in its infancy.

Our [industrial] arts are less than stagnant.

Our vast territory has but a few rail lines . . . and it is clear that national productive activity is in decay; the formidable calamity of public misery approaches our doorstep. . . . A vast plan of measures intended to promote the development of domestic industry should therefore be devised and immediately put into practice. An adequate system of education is indispensable as the departure point for such a plan. The customs system needs to be reformed to encourage the [industrial] arts. This point needs to be studied, such that only that which offers a certain hope of progress is protected. The great industries of Europe were not formed and improved, generally speaking, except by this method.

Nuñez observed that the United States had increased its savings deposits by the equivalent of 632 million Colombian pesos in the course of 22 years of a "strict protectionist regime," while Great Britain had only increased its savings by 350 million pesos during 34 years of free trade. He wrote:

This comparative figure demonstrates more than any other the singular growth of U.S. wealth. It is not possible to determine exactly how much influence the protectionist system has had on the economic development of that great republic, but it is clear that that system has been, to a greater or lesser extent, the nearly constant soul of American tariff legislation. One could further assert that among the reasons which inspired those colonies to free themselves from the

mother country, one of the most powerful was the desire and intention to create for itself a rich and varied industry under the shelter of a protective tariff.

Attacking British economic liberalism, Nuñez wrote:

If someone dare speak out against so-called "economic freedom," *anatema sit* [he will be anathema]. How does one argue, how does one proceed against principles so clearly defined and demonstrated by that science's great apostles such as Adam Smith, Federico Bastia, and others? Economic freedom was to have brought us everything, because the masters said so: banks, railroads, industry, agriculture. . . . All will appear and thrive in the country in due time.

But having waited long enough without any happy result, and at the same time noting the alarming fact that we find ourselves with more and more generals and doctors and fewer solid productive enterprises, for lack of the fundamental elements of useful labor. . . . Having also frequently heard the sinister bugle call of civil war, the legitimate fruit of growing misery, some thoughtful and patriotic men have concluded that a change of direction in economic and fiscal matters, as well as in political matters, is urgently required.

In 1882, upon leaving the presidency for the first time, Nuñez summarized some of the projects built by his government:

The national government that ended on March 31, 1882 found an anemic public treasury, as did its predecessors, with some new burdens stemming from the civil wars and from earlier penury. The government nonetheless built the first railroad of Girardot and all the other required materials (rails, locomotives, cars, etc.) are stockpiled; it built the railroad of La Dorada, which has just begun to operate between Caracoli and Noria; it provided funds for building the Soto railroad; it promoted one in Buenaventura, such that trade today is now free of the constant dangers of navigating the Dagua; it also promoted the railroad of Antioquia, whose first stretch has just gone into service. . . . It promoted the great iron-works of Samaca and La Pradera, in the states of Boyacá and Cundinamarca, which are preparing to produce rails and many of the numerous other implements that are derived from iron-making.

The railroad that began in the state of Magdalena and its extension to Salgar will be operating shortly, as will the postal navigation of Dique. To this gratifying list, one must also add the multiplication of telegraph lines, among them the ones between Bogotá and Caracas, and the increase and efficiency of the postal service. This efficiency is not the result of more rules, but of greater spending. And this is not even mentioning the Postal Union, nor the underground cable that has put us in direct communication with the rest of the planet, because these great improvements were not obtained through expenditures.

The pro-industry faction in Chile

José Manuel Balmaceda (1840-91) was the leader of a pro-industry, protectionist faction in Chile which based itself on the policies advocated by German economist Friedrich List. As President from 1886-91, Balmaceda battled British financial interests which controlled the nitrate mines and raw materials extraction industries, and took specific measures to promote industry and infrastructure development.

Balmaceda called for control of the national banking system, built railroads, channeled credit to industry, and insisted that this process would not be inflationary. He urged that nitrate income be used to finance national development projects and that the cost of government administration and services be paid by internal taxes. He promoted the development of Chile's railroads, and launched an aggressive colonization program in the southern part of the country. Almost 50% of the total number of immigrants who settled in Chile between 1849 and 1910 arrived during the four years of Balmaceda's presidency.

Threatened by these development policies, British-allied domestic factions launched the "1891 Revolution" and overthrow of Balmaceda, forcing him to take refuge in the Spanish embassy, where he allegedly committed suicide.

On Jan. 17, 1886, in accepting the Liberal Party's nomination for the presidency, Balmaceda stated:

If, following the example of Washington and the great Republic of the North, we prefer to consume our domestic production, though it may not be as perfect and polished as the foreign one; if the farmer, miner, and manufacturer use goods or machinery that can be produced in Chile; if we broaden and vary the production of raw materials, and work and transform them into useful goods for our life or personal comfort; if we ennoble industrial work by raising wages in proportion to the increased intelligent devotion of the working class; if the state, maintaining the level of its revenues and its expenditures, devotes part of its wealth to the protection of national industry and sustains and provides for it in its first trials; if we have the state with its capital and its economic laws cooperate; if all of us individually and collectively cooperate in producing more and better, and consuming what we produce; then, richer blood would circulate through the industrial body of the republic and more wealth and welfare would give us the possession of the

supreme good of a diligent and honest people: to live and clothe ourselves, by ourselves.

The idea of national industry is associated with the idea of industrial immigration and with building, through special and better paid work, a home for a large class of our people—not the man of the city, nor the tenant farmer, but the working class which roams the countryside and lends a hand in the big construction sites, but which in times of possible social agitation can intensely disturb the peace of mind.

Call for creating a state bank

On July 9, 1891, Balmaceda's government issued the following call for the creation of a state bank:

The creation of a bank, with the state's assistance and supervision . . . is one of the most efficient ways to promote wealth and labor; to prevent economic upheaval and protect the economic life of all industries and honest trade from the speculation and influence of a few—by the effective action and assistance of the community.

The system of private banks entitled to issue [money] has ended in Chile. . . . It is therefore indispensable to create the bank that can do this. . . . In this institution, there will be no banking classes, oligarchies, or credit directors for their exclusive benefit or to develop pernicious political influences. This bank will be one which does not create wealthy individuals. . . .

To this bank corresponds the exclusive right of [credit] issuance, and as it will have substantial capital, the issuance will occur in the proportion necessary to carry out daily operations.

On March 9, 1889, Balmaceda addressed the need for expanding the country's railroads:

I want Chile to become the owner of all the railroads built on its territory. Private railroads necessarily respond to private interests, in the same way that the state's railroads above all obey the interests of the community, rates which are low and encouraging to industry, promoting the value of the property itself.

British railroads targeted

In Antofagasta on March 17, 1889, Balmaceda discussed the need to expropriate British-owned railroad lines:

The day is not far off when the republic's private railroads will be expropriated. Their rates are three and four times higher than those set by the state's railroads in the central and southern part of the republic; this has resulted in the stagnation of mining and agriculture [which are] subject to speculators who, on a vast scale, use the efforts of large and small industrialists with visible and grave harm [caused] to general industry and production.

The Drago Doctrine to protect the Americas

Argentine Foreign Minister Luis María Drago wrote the letter excerpted here to his government's ambassador in Washington. His comments, which he later characterized as "the financial corollary to the Monroe Doctrine," have since been incorporated into international law as "the Drago Doctrine." Drago issued the letter at a time when Great Britain, Germany, and Italy had blockaded Venezuela's ports to force it to pay its foreign debts.

It should be noted in this regard that the capitalist who lends his money to a foreign state is always aware of the resources of the country in which he is going to act and the greater or lesser possibility that the contract will be complied with without problems.

All governments, depending on their level of civilization and culture and their conduct in business matters, thereby enjoy different [levels] of creditworthiness, and these circumstances are measured and weighed before any loan is contracted. . . .

The creditor is aware that his contract is with a sovereign entity; it is an inherent condition of sovereignty that executive procedures cannot be initiated or carried out against it, since that type of collection would compromise its very existence, causing the independence and action of the respective government to disappear.

Among the fundamental principles of public international law which humanity has consecrated, one of the most precious is that which determines that all states, regardless of the power at their disposal, are legal entities—perfectly equal among themselves and thereby, in reciprocity, deserving of the same consideration and respect.

Recognition of the debt and its liquidation can and must be carried out by the nation, without in any way undermining its fundamental rights as a sovereign entity; but, at a given moment, compulsive and immediate [debt] collection by force could only result in the ruin of the weakest nations and their absorption by the powerful of the Earth. . . .

The principles proclaimed on this continent of America state otherwise. "The contracts between a nation and particular individuals are enforceable according to the conscience of the sovereign and cannot be the object of compulsory force," wrote the famous [Alexander] Hamilton. "Outside of

the sovereign will, they cannot be enforced."

The United States has gone very far in this regard. The eleventh amendment of its Constitution establishes, in effect . . . that a nation's judicial power cannot extend to any legal case or equity brought against one of the states by citizens of another state, or by citizens or subjects of a foreign state. . . .

What it has not established, and what is by no means admissible, is that once the amount owed is legally determined, the right to choose the means and opportunity of payment cannot be denied the creditor . . . because the collective honor and creditworthiness [of all] are bound therein.

This is by no means a defense of bad faith, disorder, or deliberate or voluntary insolvency. It is simply a protection of the respect of the public international entity which cannot be dragged to war in this fashion, undermining the noble purposes determining the existence and freedom of nations.

The recognition of the public debt, the definite obligation to pay it, is not, on the other hand, an unimportant statement even though its collection cannot in practice, lead us onto the path of violence. . . .

Your Excellency will understand the sense of alarm which has arisen upon learning that Venezuela's failure to pay the service on its public debt is one of the reasons for the detention of its fleet, the bombardment of one of its ports, and the military blockade rigorously established along its coasts. If these procedures were to be definitively adopted, they would set a dangerous precedent for the security and peace of nations. . . .

The military collection of debts implies territorial occupation to make it effective, and territorial occupation means the suppression or subordination of local governments in the countries to which this is extended.

Debt cannot justify armed intervention

This situation appears to visibly contradict the principles so often advocated by the nations of America, particularly the Monroe Doctrine, always so ardently maintained and defended always by the United States. . . .

We by no means imply that the South American nations can remain exempt from all the responsibilities which a violation of international law implies for civilized nations. The only thing that the Republic of Argentina maintains, and what it would with great satisfaction like to see consecrated regarding the developments in Venezuela by a nation which, like the United States, enjoys great authority and power, is the already accepted principle that there cannot be European territorial expansion in America, nor oppression of this continent's peoples just because an unfortunate financial situation could cause one of them to postpone meeting their obligations. In a word, the principle I would like to see recognized is that the public debt cannot give way to armed intervention, or a material occupation of American soil by a European power.

Our new industries must be protected

Argentine Gen. Juan Enrique Guglielmelli (1918-83) was a career army officer who for years promoted the protectionist policies of American System economists Friedrich List and Henry Carey. During some of the darker periods of Argentina's recent history, when unbridled monetarism wreaked havoc on the country's economy and its industry, his voice could always be heard. He demanded the adoption of dirigist economic policies, a defense of wages and living standards, and the protectionist approach needed to serve the national interest.

One of his fights was with the military junta which took power in March 1976, on behalf of the policies of Henry Kissinger and David Rockefeller. Months after taking over, the junta's economics team imposed a decree substantially lowering protectionist tariff barriers, allegedly to make Argentine industry "more competitive" internationally. Finance Minister José Martínez de Hoz rammed through the tariff reduction at the request of international bankers.

In the national media and his own publication *Estrategia*, Guglielmelli spoke his mind about the Martínez de Hoz policies. In the July 10, 1977 issue of the Buenos Aires daily *Clarín*, these policies were characterized as: "a plan to insert Argentina into an external order based on Nelson Rockefeller's formula: that each country is singled out 'according to its greatest selective and relative efficiency.' . . . The role of agro-exporter to which the lack of industrial protection ineluctably leads, condemns us to foreign dependency, cuts off national decision-making capability, and prohibits fulfillment of the needs of well-being and prosperity to which our society is entitled."

The tradition of Carlos Pellegrini

In an article entitled "Carlos Pellegrini: Protectionism for National Industry," published in the March-April 1977 issue of *Estrategia*, Guglielmelli took the occasion of the tariff reduction law to review the late-nineteenth-century battle in Argentina between the followers of Friedrich List and Henry Carey, and the promoters of British free trade who wished Argentina to remain a producer and exporter of agricultural goods. A member of the political grouping led by Vicente F. López, Pellegrini led the fight for a protectionist policy during the congressional debates of 1875-76. As President from 1890-92, he and his finance minister, Vicente López, tried with limited success to implement the protectionist policies

advocated by List and Carey.

General Guglielmelli wrote in *Estrategia*: "Knowledge of a substantial portion of Pellegrini's thinking on the matter not only has historical value, given his role in Argentine politics, but also has value because his ideas take on a particular timeliness, in view of the tariff reductions carried out at the end of last year [1976], which can have the gravest consequences for national industry and labor."

The general emphasized that not only the example of the United States, "but also the new currents of economic thought," especially the ideas of Friedrich List, Henry C. Carey, and the traditional German school, greatly influenced the López and Pellegrini group.

Noting the influence on List of Alexander Hamilton's *Report on Manufactures*, Guglielmelli summarized List's thinking: "Principles of economics shouldn't be applied in a general way, but rather according to particular situations; the nation, which is the link between man and humanity, is the object of political economy. Counterposed to free trade as an absolute value, are the interests of the nation, subordinating economic policy to general politics . . . [List] establishes stages through which nations must pass successively. That is, savage, pastoral, agricultural, agricultural-manufacturing, manufacturing, commercial. . . . To attain these goals, and accelerate the stages, protection for new industries is indispensable, guarding them against foreign competition. This protection will be of a limited and selective nature.

"Depending on the degree to which it gains an ability to compete with foreign industry, the latter should never be prematurely unprotected. Rather, protective tariffs should be rigorously observed. Customs barriers are the best tool for industrial protection; the national market should be preserved for national producers."

Guglielmelli reproduced Pellegrini's statements from the 1876 debate in the Argentine Congress on free trade versus protectionism: "It is evident . . . that today we are simply a pastoral people, and that our only resource is reduced to shepherding, and to a very small degree, agriculture. Where is the nation that has become great and powerful, being only a pastoral nation? I think it would continue being what we have been, and who says that industry is an exotic plant, and says that for the Republic of Argentina, there is only the cow or the sheep. [For him], there are only two sources of wealth which depend on a whim from the heavens. I say that a nation whose sole and only wealth depends on this whim, is condemned, from one moment to the next, to be reduced to penury."

In a letter to F. Costa in 1902, Pellegrini wrote: "This idea of attacking protectionism and affecting principles of free trade is a mania of all dilettantes, of the aficionados of economic digressions, information, and adornments, and of all those among us who entertain themselves by discussing theories without the slightest concern for the results or their practical applications."

On the battle for a 'True Fourth Development Decade'

by Warren A.J. Hamerman

The following was a presentation to the Schiller Institute conference on Dec. 7-8, 1991 in Arlington, Virginia.

We are living at a singular moment in world history.

The Schiller Institute's proposal for a True Fourth Development Decade entered the world a little over two months ago at the opening of the U.N. General Assembly on the same day that the then-seemingly invincible George Bush, lighting his own pathway through the darkness in the afterglow of the Gulf war and the collapse of the former Soviet Union, declared before the United Nations in New York that history had ended and that all should stand in awe of his not-so-beatific vision of a new world order, a *Pax Universalis* for centuries to come.

Two months later the entire world economic system is in perceived shambles and there is a general appreciation of the rapid demise of Bush and the Anglo-American Establishment. Their once-famed "control" over the disintegrating process is becoming the subject of ridicule in political cartoons around the world. The liberal Adam Smith financial pallbearers at the recent Marxist economics funeral are themselves now in their final death throes. Neither system has proven capable of providing food, clothing, shelter, and basic health care for the billions of people who live under their sway.

Unprecedented economic breakdown

There is a complete world economic breakdown crisis unprecedented in human history. The world's debt is unpayable. The external debt for the developing sector alone is

over \$1.4 trillion and accelerating rapidly.¹ The debt of developing nations has nearly quadrupled since the 1982 debt crisis.² The eastern European debt is unpayable. The West is in financial chaos.

Simultaneously, the world's population today stands at 5.4 billion and should increase at least 1 billion by the year 2000; some 95% of this increase will be in the underdeveloped countries where the per capita income fell drastically throughout the 1980s; in South Asia, for example, the per capita income is only \$320 and collapsing rapidly.³

This is the unique climate in which the True Fourth Development Decade proposal suddenly and unexpectedly entered into the sharp debate on what to do in the midst of the unsolvable world debt and economic crisis and polarized opinions around the world.

A moment of opportunity

Now is a moment of golden opportunity under the conditions of perceived global economic collapse and the political demise of George Bush. This year was supposed to be the beginning of the U.N.'s Fourth Development Decade, the one leading into the twenty-first century, yet virtually every major official agency had written off development as impossible and infeasible given the magnitude of the world financial crisis.

The Schiller Institute proposal, prepared under the direction of Lyndon LaRouche, is the only positive global proposal on the table and has already demonstrated the potential to become a worldwide rallying point for a definitive challenge to "the system" by linking up a coalition of the South and the

East with the anti-free trade, pro-infrastructure forces in the once advanced sector.

Two diametrically contrasting reactions to the proposal demonstrate this effect.

The first reaction is from Dr. Kofi Nyidevu Awoonor, who is the ambassador and permanent representative of Ghana to the United Nations. He is also chairman of the Group of 77, which represents the more than 100 developing sector nations on earth. His remarks to the International Conference of Schiller Institute in Berlin stated, in part:

"I would like to indicate my deep appreciation of the work of the Schiller Institute for presenting to the world in its proposal for a *True Fourth Development Decade* a clear institutional alternative for a life more satisfactory for the developing world.

"The world cannot continue to have peace if so vast a part of mankind is poor, starving, and suffering.

"I also believe that it must be emphasized that the concerns and focus of the advanced nations must be turned and focused on the questions of improving the conditions of the poor. Therefore, I am deeply grateful for your work in struggling to bring this about.

"Finally, I am highly appreciative of the Schiller Institute, for drawing the attention of the advanced world to the deprivations of the developing world and suggesting certain concrete proposals for ending poverty and misery everywhere with programs of education and economic growth.

"I also call on our brothers from East European nations who have just thrown off the shackles of communist imperialism to join with us in building a New Just World Economic Order based on development for all."

Organizing a 'new game'

In total contrast, in Geneva, Switzerland recently, a top official for one of the United Nations' leading economic agencies cut me off when I began to explain that the only solution to the world economic breakdown crisis lies outside the collapsed institutions. He explained, "The prevailing view at the top of the institutions—the U.N., Unctad, IMF, World Bank, General Agreement on Tariffs and Trade, et al.—is the exact opposite of yours. Everyone else is running around trying to keep the game going. When eastern Europe won its freedom there was a general fear that they wouldn't enter the game, that they would link up with the developing sector and challenge the game. Fortunately, they decided to be good little boys and play by the rules of the game. That means that the developing sector won't be rekindled to challenge the game either." When I asked, "What game?" he responded, "Bretton Woods of course. . . . You're the only ones running around and trying to organize a new game."

The actual breakdown of the functioning Bretton Woods system occurred back in the period 1968-72, and was caused by the collapse of the Anglo-American financial system. The breakdown began with the collapse of the British pound in

1967, the disastrous decision by President Richard Nixon to take the U.S. dollar off the gold standard in 1971, and the failure of the monetary conferences leading into 1972.

It would, therefore, seem self-evident that the solution to the world's financial crisis lies in creating a new world monetary system outside the remains of that Bretton Woods system since it actually collapsed over two decades ago.

Imagine an extremely oppressive prison containing an ever-growing multitude of prisoners. One day, the prison walls collapse. Yet, the prisoners stay and remain prisoners under control of the guards. New wardens are periodically appointed over the years. Eventually, outside shipments of food and supplies to the prison end; many starve and die; others fight each other; even the guards are weak and dying. It would seem natural for the prisoners to march to their freedom. They could easily go out and find fields in which to plant crops or produce for their human needs. They all long for freedom. Yet, 20 years later the prisoners still march inside the formerly walled-in area in fear of the armed guards as if the prison still existed.

Indeed, the elements of resistance to the International Monetary Fund (IMF), and what Malaysia's Prime Minister Mahathir Mohamad and his African colleagues call the "new religion" of free trade and free enterprise abound everywhere. What the True Fourth Development Decade proposal uniquely brings to this singular moment in history is the only path that can succeed because it proceeds from Lyndon LaRouche's primary policy premise for over two decades—the Bretton Woods/Versailles system is a decayed carcass and has to be brushed aside for history to proceed. All attempts to make reforms and improvements in the conditions inside Hell are certain failures.

The malthusian agenda

It is also the only concrete alternative on the table to the Four Horsemen of the Apocalypse—famine, disease, war, and death—which the desperate old powers are scrambling to impose in order to establish an equilibrium at a lower order without nation-states and with several billion fewer people on earth through malthusian genocide.

Let us look at the deadly consequences of such policies in their human totality—their fate on the world's children:⁴

- Approximately 40,000 children die every day from malnutrition and related diseases.

- Wars have killed nearly 2 million children in the last 15 years; more than twice that number have been physically disabled.

- Seven million children are growing up in refugee camps because of war and natural disasters; a slightly larger number have been uprooted from their homes in their own countries.

- Approximately 80 million children work in often monotonous, repetitive, and dangerous jobs; in some countries these exploited children earn wages of five to seven cents an

hour.

- Fifteen percent of the world's 2 billion children under 15 years of age live under what Unicef terms "especially difficult circumstances." Millions, for example, live in the streets of socially exploding Third World cities, resorting to theft, drug trafficking, prostitution, and other desperate measures to survive.

- AIDS will produce an estimated 10 million orphans in this decade in Africa alone.

Kissinger promotes eco-fascism

In a recent national column entitled "What Kind of New World Order?" Henry Kissinger, the architect of the infamous National Security Study Memorandum 200 genocide policy, proposed to impose even more brutal conditions. He stated that idealistic conceptions such as "national sovereignty" and "domestic governance" would have to be replaced by "genuinely global" solutions to the crisis in population, environment, and nuclear proliferation (the latter is a globalist code word for "excess" science and technology in the developing sector.)⁵

The United Nations has a full agenda over the next years just to achieve these results. Early in February of next year, the Unctad VIII conference is scheduled to worship the "new religion" of free trade in Cartagena, Colombia. A few months later in Rio de Janeiro, Brazil in June, the infamous UNCED conference on the environment is scheduled. Its intent is to use the pretext of saving the environment to cut back technology and production through imposing green conditionalities on the world. One year later, in June 1993 in Berlin, there will be an international United Nations conference on human rights; and then in 1994, an international U.N. conference on population. Through these events, national sovereignty is scheduled for extinction as areas of the world are taken over by the global authorities who will impose their malthusian agendas under the pretexts of protecting the environment and human rights and curbing excess populations.

Principles for true development

We propose, instead, to place this entire conference agenda in deep freeze, and in its stead hold a Preparatory Meeting for a Fourth Development Decade Conference to organize a new world monetary system. The aim of the new world monetary system is to foster credit mechanisms in accord with national sovereignty, since credit is created and regulated at the level of sovereign nations. National credit systems, organized through a national bank along the design of the post-colonial, new American republic during the late eighteenth and early nineteenth centuries—not over-reliance on borrowing from abroad—is the foundation of productive economic investment and output.

A True Fourth Development Decade is based upon a desire to end the spread of chaos through the world monetary

system by returning to a threefold policy of:

- 1) generalized debt moratoria for the usurious debt which the old institutions imposed on nations as a means to loot their productive wealth;

- 2) long-term, low-interest new credit rates for investment in large-scale development projects;

- 3) stable parities among currencies based upon a gold reserve (not gold standard).

These aims can only be achieved through returning to the principles of Christian economics based upon the historic ideas of development and economic justice developed by the opponents of radical free market approaches—Leibniz, Colbert, List, Hamilton, Carey, Witte, and Sun Yat-sen—and carried into the modern era by the school of physical economy associated with Lyndon H. LaRouche, Jr. The overall quality of these economic principles draws its strength from its absolute commitment to the belief that all men and women are created equal, each the sacred child of a loving God.

The substantive content of the development decade is to build, plant, and produce the food, medicine, clothing, and shelter which mankind desperately needs. This can only be achieved by dumping the "post-industrial society" policy which has wrecked the Anglo-American economies, and returning to the traditional approach of enhancing productive output in agriculture and industry through a combination of large-scale water development and transport infrastructure projects on every continent, and technology transfer.

The necessary projects

The True Fourth Development Decade proposal encourages consideration of the following development proposals which were developed by Lyndon LaRouche and his collaborators over the past two decades:

- 1) The Productive Triangle Proposal for western and eastern Europe: the unleashing of the economic development potential in the "triangle" between Berlin, Vienna, and Paris as a productive "engine" for the world economy. Through the construction of high-speed rail lines, the economic output from this area will be transferred via radiating arms from the triangle into eastern, southern, and northern Europe as well as the Middle East and the Maghreb.

- 2) An Oasis Plan for the Middle East designed to "green the deserts" through large-scale water purification and irrigation projects. The plan includes the creation of artificial rivers and peaceful nuclear energy-driven desalination projects for revitalizing the entire economy of the region.

- 3) A series of Great Projects for Africa including: the construction of a trans-African east-west railway from Dakar to Djibouti; transforming the Qattar Depression into a man-made lake; connecting Lake Chad with a man-made lake on the Zaire River for the purpose of greening the Sahara; completion of the Jonglei Canal in Sudan to turn that region into a breadbasket.

4) The Ibero-American Integration Plan which includes the following projects: a second Panama Canal; a Northern Mexican Water Development Project; the "Polygon of Development" to construct a canal system to connect the Amazon Basin with the Rio de la Plata across Brazil, Argentina, Bolivia, and Uruguay; and an east-west railway across the continent through Brazil, Bolivia, and Peru.

5) A series of Great Projects for Asia including: the Pacific and Indian Ocean Basin Project; the Ganges-Brahmaputra development project for water management; the Mekong development project; and the construction of the Kra Canal in Thailand.

6) The United States requires a vast program of urban, agricultural, and industrial infrastructure revitalization which has as its aim the realization of Martin Luther King's dream of economic justice for *all* its citizens. Specific programs for the U.S. would include the North American Water and Power Alliance plan for water and power increase; building a rapid-transport system through maglev and other technology systems; rebuilding cities, basic industries, and capital goods export capabilities.

Advanced technologies needed

The development project orientation outlined above includes the construction of new cities founded around nuplex complexes in each area, and is vectored toward a commitment to encourage a space program with the aim of colonizing Mars and incorporating the Moon into man's economy in the first third of the twenty-first century.

The moment is propitious to realize such ambitions because of recent promising scientific breakthroughs in the fusion energy field, the same energy means which safely powers the Sun.

That this overall development perspective would be more desirable for most of mankind during the rest of this century than what the malthusians have on their agenda, is undeniable. Even more, it will shape the character of future generations for centuries to come. Hopefully, our descendants will look back proudly from the beautiful new Renaissance cities they have built, at our humble efforts in these primitive times in the midst of the greatest global crisis mankind ever faced, with gratitude that we were able to give each one of them and their children, on whatever continent or planet they may inhabit, the opportunities to live lives worthy of the sacred creations of God.

Notes

1. Report of U.N. Secretary General Javier Pérez de Cuellar, July 1991.
2. German Economic Institute (DIW), December 1991.
3. Pontifical Institute of Sciences, November 1991.
4. Unicef, as reported in "Putting Children and Families First: A Challenge for Our Church, Nation, and World," a statement by the U.S. Catholic Bishops, Nov. 14, 1991.
5. *Washington Post*, Dec. 3, 1991.

Time to nationalize the Federal Reserve

by Lyndon H. LaRouche, Jr.

The article which follows was edited from the message sent by Mr. LaRouche on Dec. 8 to the Schüller Institute conference in Arlington, Virginia, and remarks he made in a presidential campaign statement of Dec. 13.

A few leading political figures in the Democratic Party, including, of course, Gov. Mario Cuomo of New York State, have picked up on my suggestion that a recovery package for the United States requires a return to the Kennedy-style investment tax credit program.

However, on the fundamental issues, no visible Democratic competitor of mine for the presidential nomination, nor any Republican, so far seems to grasp the reality of our situation. Yes, it's good that people do go as far as understanding that we need a Kennedy-style investment tax credit program; but that is not going to solve the problem by itself. That is a very important *add-on* to what's needed.

But without the main theme, nothing works. There will be no recovery from the collapse into a continuing deep economic depression worse than the 1930s, unless and until my proposal for the nationalization of the Federal Reserve System, to transform it into a constitutional, United States Bank, is adopted. Without the replacement of British-style finance monetary central banking policies, by American System policies of the type that were instituted under George Washington, the United States Bank policy, there is no possibility of a U.S. recovery.

I wish to emphasize that people who suggest that we can cut this, cut that, cut out welfare, cut salaries, cut out business, cut out programs, cut off hospital care: These people are dangerous idiots. That will not work; that will only make the collapse worse.

They have to bite the bullet. We need a United States National Bank, operating on the basis of state-created credit. Unless that policy is followed, nothing is going to work; it's waste of time. Tsongas and the rest of them won't face up to the fact, that what we need to do is scrap the Federal Reserve System in its present form, in the most expedient way, without disruption.

And there's only one way to do that: under emergency provisions, citing the fact that we have an economic depression, *nationalize* the Federal Reserve System, make it a body no longer in violation of the Constitution. Make it a National Bank as Alexander Hamilton, George Washington's Secretary of the Treasury, defined the First National Bank, or as

Nicholas Biddle of Philadelphia, back in the early nineteenth century, also founded a National Bank, the Second Bank of the United States.

We must put out hundreds of billions of dollars of low-cost credit for federal, state, and local basic economic infrastructure, and for credit for physical goods producing high-tech industry, manufacturing, machine tool shops, and so forth. Without that, there is no recovery.

Over the period especially since 1970, which was a turning point in rates of replacement of worn-out infrastructure, the United States has physically been going downhill. Traditionally and in fact, the wealth of the United States has depended upon technological progress in agriculture, infrastructure, and manufacturing—or industry generally. That technological progress has been the engine of our growth and, as we turned away from that policy, toward a policy of so-called administration and services, the U.S. economy's collapsed down hill.

For a while, because we inflated figures, the overvaluation of the income of banking or finance generally, administration and services, caused us to think for a while that this was a new form of prosperity.

About 1982, the United States reached a low point, the last chance to really bail out our banking system. Forces opposed to me in and around the Reagan administration at that time, including Bush, Kissinger, Walter Wriston over a Citicorp, won out; they beat me. They forestalled a monetary reorganization of the international debt including the U.S. debt situation. As a result of that, and as a result of the great speculative bubble which they used to try to keep up the appearance of prosperity over the latter part of the '60s, by 1987, the Reagan administration false recovery bubble had popped, and in the fall of 1989, we began the process of an accelerated downslide.

We are now in the process of a disintegrating financial and monetary system; it is not exploding, like an exploding volcano, but it is disintegrating in the way a Hawaiian volcano, for example, disgorges its remorseless mudslide day after day, week after week. Every day we wake up, our financial and monetary system has shrunk; a new airline has crashed; a new industry has crashed; four or five banks have crashed; and more and more people are unemployed, or, to put it the way the government puts it, fewer and fewer people in the U.S. are employed.

Now, we also come to some hard choices in the matter of recovery. If I were President, with the support of a majority of the American people, and therefore of the Congress, I guarantee you a genuine recovery, which would make the Roosevelt recovery modest by comparison:

- First, under the emergency powers of government and Article I of the Constitution, pertaining to the monopoly of the U.S. government in emitting legal tender, we will nationalize the Federal Reserve System. The Federal Reserve System will stand there, the people will be there, the branches

will be there, the relationship to the national banks will be there, but it will be nationalized. It will no longer, therefore, emit new Federal Reserve notes as currency.

- We will continue to circulate existing Federal Reserve notes until we call them in for replacement. But the only *new* currency issued, will be *U.S. Treasury bills*, currency issued according to law, according to Article I of the U.S. Constitution, an article that has never been repealed! The U.S. Congress will pass a bill authorizing the U.S. Executive branch, the Treasury, to emit certain denominations and quantities of legal tender for specific uses. This new currency, will be deposited with the Federal Reserve System, now nationalized.

- The nationalized Federal Reserve System will loan these new dollars, on two lending tracks: very low interest rates for long-term loans, with construction progress payment-type arrangements. These loans will be for basic economic infrastructure, by federal agencies and subsidiaries, by state and local agencies and subsidiaries. The objective is to employ, immediately, as fast as possible, with this credit, in water projects, in power generation and distribution, in transportation, in urban infrastructure, including building hospital and clinic facilities, schools, etc., *3 million people* from the highest skill layer of the now-unemployed labor force.

- We will spend about \$300 billion a year for these projects: about the size of our defense budget. Out of this, for a rule of thumb, about \$100 billion will go as value added, in the projects themselves. About \$200 billion will come as purchases from private-sector firms supplying these government projects, totaling about \$300 billion, a ballpark figure of what is needed.

- We will also have tax reform. We will increase the taxes on capital gains somewhat, but we will decrease taxes on useful investments by a Kennedy-style investment tax credit program. People who invest their savings in useful things, infrastructure, and so forth, will get a tax credit for that investment, which will be a tax benefit, whereas if someone goes out and spends money on something useless, they'll pay the full rate of tax. But those who invest in something useful—invest for the purpose of their old age—in something productive, solid, not junk bonds, then they should get an investment tax credit.

- The results will be to create employment for another 3 million, a total increase in employment of *over 6 million people*. This means the Treasury will receive more than the initial \$300 billion a year spent, through increase in the tax-revenue base of the federal, state, and local governments. This means we get back toward balancing the budget, because we're increasing the tax revenue base without increasing the tax rates.

We'll use the fiscal power of government, the monetary power of government, to get the economy moving. It will work, on condition that this economy, as we try to rebuild it, has foreign markets. Those foreign markets depend upon the expansion in other parts of the world, upon the Eurasian Triangle development plan.

'Every time the United States went in Hamilton's direction, we prospered'

Mr. LaRouche is a declared candidate for the 1992 presidential nomination of the Democratic Party. He has been a political prisoner since Jan. 27, 1989, after he was convicted on a series of false "conspiracy" charges in a federal court in Alexandria, Virginia. Given his reputation around the world as the only economist who clearly foresaw, and has prescribed clear solutions for, the current global economic depression, his incarceration has spotlighted the question of why George Bush fears this opponent above all others. He was interviewed at the Federal Medical Facility in Rochester, Minnesota, by Nora Hamerman on Dec. 9, 1991. EIR is grateful for the courtesy and cooperation extended by the facility's staff. Portions of the wide-ranging interview are excerpted below; others will appear in future issues.

EIR: This month marks the 200th anniversary of Hamilton's *Report on Manufactures*, which was presented to Congress on Dec. 5, 1791. I would like some of your thoughts, as we are putting together a world picture of the influence of these ideas that came to be called the American System.

LaRouche: Two hundred years plus or minus since the establishment of the United States as a federal republic, there are two things which are demonstrated:

1) The American Revolution was absolutely necessary, against George III and what the British represented in policy—*then* and *now*—and in-between.

2) Relative to economic policy in the United States itself, every time the United States has moved in the direction of the philosophy which Hamilton represented, we have prospered. Every time we have gone in a contrary direction, such as a free trade or a British Adam Smith direction, we have gone into a pit. And now we have gone into the deepest pit of all. People who call themselves rational and capable of learning from experience can be judged accordingly.

Otherwise, the American Revolution is often treated *sui generis*, and you can't make any sense of it. All the isolationists and populists and so forth will talk about it as *sui generis*, or worse, they will place it within Enlightenment Jacobinism, which it was not. Certainly there were a lot of noisy people who got foreign British subsidies for writing their papers, or French subsidies later, who *claimed* the American Revolution was Enlightenment or Lockean, but it was not.

Take the case of Cotton Mather, or the Massachusetts

Bay Colony. They had problems with their conception of natural law, but they had a conception of natural law and they operated accordingly. So you can judge by the deeds and by the process. If you take Cotton Mather and the question of the library, and you take William Penn and his connections, his secretary Logan for example, into Europe, as Graham Lowry has indicated, the essential thing about the American Revolution was the extension of an English-speaking faction within a larger network which is centered in the beginning of the eighteenth century and afterward around Leibniz. The entire eighteenth century centered on the battle between Leibniz on the one side and the empiricists and future positivists on the other side. The Americans were the anti-empiricist tendency.

Everything about Hamilton's reforms and so forth is anti-empiricist, it's *Colbertiste*, as informed by French connections and so forth.

The key battle was not the American Revolution in the eighteenth century. The key battle was Britain's attempt to destroy France. What became the United States was part of the battleground.

The initial colonization of Quebec was *Colbertiste*, specifically—Mazarin-Colbert. That was a true colonization, as the Spanish colonization was a true colonization. It was not a British colonization, in the sense of putting in a government and looting poor people, but actually establishing colonies, building cities, which had mixed populations, where people had lived in the slough of despair beforehand; Quebec was that kind of operation.

Louis XIV made the shift against Colbert and got himself caught in a perpetual war, which was continued by his heir Louis XV, so that from the beginning of the wars up until 1753, France was being ruined from the top.

EIR: You can see it in French culture. You can see it in Racine, and the academic school of painting.

LaRouche: And in the music, in Rameau. Look at the comparison of the French and the Spanish of that period. There is a war going on.

Nonetheless, despite this, France has a power which is given to it in a sense by the legacy of Charlemagne, which is revived under Louis XI—in 20 years Louis XI *doubled* the per capita income of France! That was not unimpressive.

Then, due to the accomplishments which were typified by the *Colbertistes*, France was the leading nation in science, in technology, in economy, in the eighteenth century. That emerged out of the influence of Richelieu, Mazarin, and Colbert in the seventeenth century which is why the Venetian Party sought to destroy it.

They corrupted it by what they did to Louis XIV and the way they controlled Louis XV, the infant who became king.

So the destruction of France, the erosion, the rise in toleration of the Physiocrats who had tremendous intellectual power, was typified not so much by Quesnay, who was the ideologue, as by Turgot, and the influence of Turgot in French politics in the 1770s and 1780s, the period of the American Revolution. It was on that basis that they were able to destroy what grew up in France as a recrudescence under Louis XVI, "The Watchmaker," so to speak. France's military and economic power increased. The British were determined to destroy it.

EIR: The Physiocratic rise in power contributed to this?

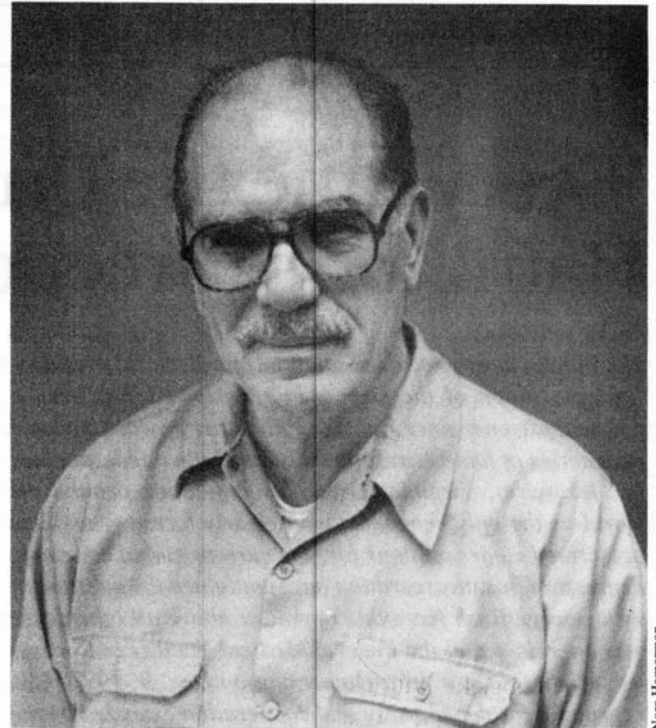
LaRouche: It was a constant eroding factor. For example, du Pont said that Adam Smith plagiarized Turgot, and to a large degree that is a fact. He learned his economics from Voltaire.

So they destroyed France with these two things, with the rise of the Jacobin movement, and with this foolish treaty, which came out of French-speaking Switzerland (Lausanne, Geneva), and out of Britain in 1783-86, the treaty which established Necker as the banker of France. He was the Henry Kissinger of French finance, and his daughter Madame de Staël did terrible things. So France was essentially destroyed by the Jacobins in 1789-93.

Yet France was not altogether destroyed. The unfortunate part was that Napoleon essentially was a Third Rome oligarch. The French ruled Rome. This was the crazy perversion of Charlemagne, that the French ruled Italy. That's why Napoleon's son was called the King of Rome. So he had this idea of the Third Rome. And what did he do to Europe? He imposed this abomination called the Code Napoleon. It was an anti-natural law abomination, by a virtual Jacobin, Montesquieu, horrible stuff. He looted and weakened Europe, and let France be looted of its men, for armies. Napoleon was taken and used as the model for the Nazis.

With a complication, which is Savigny. Savigny was largely a German-speaking French Romantic, who reshaped the law and culture of Germany from the inside. He is probably more significant than Hegel in terms of his influence in the nineteenth century. One of the most evil figures I know of is Savigny.

EIR: To what do you attribute the fact that in the present century, Andrew Mellon, the treasury secretary under Herbert Hoover, had a portrait of Alexander Hamilton hanging in his office, and even today, I am told that in eastern Europe



Nina Hanerman

Political prisoner Lyndon H. LaRouche, Jr. in Rochester, Minnesota. The period which best compares to the present is the Europe of 1340-60, when the Black Death and the English default on debt to the Bardi produced a shattering discontinuity.

some of the Project Democracy operatives have blasphemously invoked the name of Hamilton for what they are doing—which is really Adam Smith?

LaRouche: It is [Adam Smith]. Hamilton in setting up the Bank of the United States, in respect to the requirement for foreign loans to fund the construction of the United States, set up a system where we could buy foreign currency, which then was hard currency, through these loans, by promising that we would be creditworthy in the eyes of these Europeans, the Dutch, the Swiss, and the French and the British. Therefore he did, to a significant degree, finance the development of the United States on foreign loans. Now these fellows pick on that aspect of Hamilton, because for them that is central banking.

EIR: The Soviet Union, now defunct, left behind a good deal of debt. If you were in the position to advise the new "community" of Ukraine, Russia, and Belarus which was announced over the weekend in Minsk, on how to handle their international credit situation, to what extent should they acknowledge this Soviet debt and pay it?

LaRouche: You take the population of the Russian Federation, Ukraine, and Belarus, and add Kazakhstan. If you take the productive potential of this region, and the productive investment which already exists there, the foreign debt of the former Soviet Union is of absolutely no significance whatsoever. Compare it with the U.S. foreign debt per capita. Or

compare it with the German, or the French, or the British foreign debt. The Russian foreign debt is really a very small issue. For example, suppose you have assets of \$1 million and you have a \$100 bill you can't pay because you don't have the cash on hand. And somebody will force you to sell part of your million dollars, maybe several thousand dollars worth, to him, to pay \$100. Therefore the Soviet foreign debt is significant only to twist the arms and to obtain concessions. Economically, as some Europeans have said, a bridge loan is obvious, to maintain the debt service on these debts. The Russians, the Ukrainians, the Belarussians and so forth are *good* for it! Really good for it. They're one of the most creditworthy operations in the world, if they don't blow up.

So unless someone says, "No, everything is placed on your current payments. We're going to value you on the basis of current payments," essentially the Russian debt is not that big a problem. If they submit to the International Monetary Fund, they are in trouble, and that's the only way it is a problem. Or submit to Bush's conditions, or Ukraine submits to Bush's conditions. The problem is getting their economies moving!

There's a joke, with a large degree of truth to it, to understand the Soviet and Russian problems today. For 70 years the communist rulers of the Soviet Union have been telling the people that capitalism is nothing but theft. Then one day they said, "We're all going to become capitalists."

EIR: So everybody turns into a thief!

LaRouche: And that's why you've got chaos in the Soviet Union, they are all stealing! Everybody's blackmailing everybody. The farmers would rather burn the food than sell it below their price to the cities.

EIR: It is a coincidence of course that *Rerum Novarum*, the encyclical of Pope Leo XIII, came in 1891 and the *Report on Manufactures* in 1791, but how would you describe the development in the century in-between?

LaRouche: To understand *Rerum Novarum* you have to understand what it is not. It is not in any sense an economic policy, not by intention or otherwise. It only deals with the morality of certain practices. It is more, like *Quadragesimo Anno*, a definition of solidarism; that a rule of solidarism must be imposed on society, regardless of its economic system per se. So it attempts to be ecumenical with respect to differing views of economy, and it places only these principles which might be summed up as solidarist, and tries to argue solidarism implicitly from the standpoint of natural law. So it is something which is imposed upon the economy as a moral issue, not a prescription or economic design.

This becomes a problem when people look to the Catholic Church for leadership on economic questions, and you see precisely in the case of Poland, what the Catholic Church has not done and does not do. It does not prescribe economic systems. It is somewhat blind to the issues of what economic

systems are, except insofar as they accept or deviate from acceptance of these principles. So they would say, "Poland has to go through this horrible business. But as long as they maintain solidarist principles, it's tough, but they can do as they will." So they get a separation of church and state on this issue, which is sometimes rather painful, as in the case of Walesa.

The Aristotle question is also a problem. To raise the question of economy is to project Aristotle on ethics, politics, and political economy. That is, to make a positive statement of what the objectives of economic policy must be—the moral criteria of what an economic policy must be—as opposed to what must be *excluded* from the results of economic policy. The specific issue in which this arose is the content of the nineteenth century so-called meliorist movement, in which the specific question came into the trade-union form, posed by issues such as the Knights of Labor in the United States and similar movements around the world, around the alternatives to the role of the Mazzinians forming labor organizations. These meliorist kinds of questions were posed. Essentially *Rerum Novarum* was looking at the labor organizations, the rights of labor, the conditions of employment, the right of property—yes there is a right to property but there are certain obligations.

Now there are some things which are in there and which are in the commentaries such as *Quadragesimo Anno* and others, which go further in terms of natural law. But they never attempt to draw out an economic science from natural science, as such, which is what I've done.

No one except Leibniz, before me, has ever defined economic science in terms of natural law.

EIR: And you had, let's say, in the American System, attempts to apply those ideas?

LaRouche: It was the influence of Leibniz and others which had drifted in, but it was not the generation of new ideas. I have gone through most of the sources, either primary or second-hand. We have done it in the theory of cameralism—people tend to forget to look under cameralism for economics. Leibniz made the relevant discoveries. For example, the term technology, as we properly use it, is Leibniz's term. The concept of this does not even exist among most people who are called economists.

If you look at what I have done, and what Church officials have done, you see they do not address this question. What I am dealing with involves something much more profound. The greatest impediment in the Catholic Church and other churches, among the people who really understand this stuff, the great problem they have had in these areas of physical science and economy—and the problem they have had with economy stems from their problem with physical science—is the Aristotle question. Because Aristotle, by excluding consideration of the infinite, even forgetting his *Politics* and *Ethics*—they're horrible, it is a Spartan slave society, with all the

most objectionable features—looking only at the core of his *Organon*, as a scientific method, excludes, by method, by teaching, the infinite. A comprehension of science is impossible.

This is where the Bugger influence comes in, through the power of usurers. The history of Florence is a good example of this, the ebb and flow of Florence as a center of finance. Before the Black Death, Florence was a center of usury. Florence was depopulated by the Black Death, and into this, new influences came.

EIR: Dante talks about the problem, in 1300. It was usually disguised, because officially they were not allowed to collect usury, so it was large commissions on exchange rates, and insurance fees.

LaRouche: It's important what I have been doing on this subject of buggery. Taoism in China is buggery, yin-yang is buggery. Ahuramazda is buggery. That's Zoroastrianism, in Iran: Cybele, Dionysius, light-dark. It did not begin with Manes.

EIR: The Aztecs had the same dualism. The modern admirers of the Aztecs have this same ideology.

LaRouche: It may have come from China. Remember the navigational maritime capabilities of the populations of South China and Southeast Asia. Obviously the real Mayan culture of those cities is before 1000 B.C. The slash-and-burn people who came in and are called the Mayas are not the builders of the cities. They may have been the degenerated cultures which descended from the inhabitants of the cities, after a great depopulation occurred.

EIR: It seems to me that those civilizations in the era when they were being built, could not have extensively practiced human sacrifice, though these became universal in the degenerated period.

LaRouche: Look at that breakdown. We have it now. We have satanism spreading. Young people in their 40s say, "Grandma's eating again. She's getting medical care, she's using up our inheritance. It's time to pull the plug." When you get the spread of that kind of immorality the lack of sacredness of individual human life, you have created the preconditions for that. When you combine that with the rock-drug-sex culture, satanic rock, which is produced by satanists—

EIR: And radical feminists—

LaRouche: Radical feminism is this. Satan is a radical feminist. He gets it from his mother.

EIR: Have you read the epic poem *Beowulf*? The monster is called Grendel. Then there is Grendel's mother. After the hero, Beowulf, kills Grendel, the mother comes in and starts eating people because she is so angry. I thought this was an

extraordinarily truthful epic from the dark ages of the Anglo-Saxon past, to realize that Grendel had to have a mother.

LaRouche: That was the golden age. They've degenerated since! We have all these mythologies that the wheel was not discovered in America. But when I was at Teotihuacán, I saw children's toys that had wheels on them. Why did the people not use wheels? Environmentalists!

Archeology, *primarily*, is the study of failed cultures. What are these failed cultures? There is only one culture in the world that is not a failed culture. And that is in danger of failing. That is European civilization. Why did Europe become a superior culture? Because of Paul's mission to the Gentiles. It's that simple. Every other culture was incapable of maintaining its own survival, except European civilization.

The lack of something produces this evil. It leads to this form we call yin-yang and so forth, characteristically: the distinction between mind and flesh.

Now getting back to the question of the Church and the economy. One group, the Bogomils, is a product of religious policy of the Byzantine Empire, which sets them up to colonize the Slavs and control them, like Manes the Persian who did the same thing about 900 years before. He spread Manicheanism from Persia into the area of Thrace.

Now again, a new infusion comes in, from Asia, a military kind of cult of bandits, introduced to colonize the Slavs. The Bogomil cult established its headquarters in what is called Bosnia. That remained its center until these Bosnians converted *en masse* to Islam, to join with the Ottoman Empire in defeating the Serbs in Kosovo in 1389. This was the center that was sending missionaries out from there. Now what are the Cathars? They are the cult of the Perfected Ones who have been purged of all evil. This is not the entire scope of the believers. This is just one stratum of them.

EIR: Like the 33rd degree?

LaRouche: They become that. They are not allowed to do anything. They are not allowed to toil. They are not allowed to change nature. So what do they do? They beg, like the Oriental beggars of these cults. Now what can a beggar who gets money do with it? *Usury*. When a beggar-priest in Lyons can sell for 12 ducats a letter which can be cashed for 10 ducats by a man in Padua. The relationship of the Church to usury was Peter's Pence. Somebody would sell to a banker, would get paid by a letter in Netherlands, which could be cashed on the south bank of the Tiber. That was the Lombard system.

EIR: Right on that street, the Via de' Banchi in Rome, the Venetian gossip sheets that spread out over Europe in the late sixteenth century, were the first newspapers. There is your *Wall Street Journal*.

LaRouche: These fellows spread across from Bosnia, through Venice, and were very influential in Venice. As a

matter of fact the state religion of Venice, which was brought into the Church by some aliens, was this religion. They became part of the Lombard system. And the Jews moved with them, the Jewish usurers. Why? The same business. In the commercial business centers a merchant would pay 12 ducats to get 10 in Padua—or vice versa.

In southern France where did they go? In the Rhône Valley, from the mouth of the Rhône, up to Geneva, Lake Lemans; in Bordeaux's river system—Bordeaux, Toulouse, Albi, etc; the old counties of Roman France, which were the great merchant centers for France. The Jewish bankers who came there at the same time, did the same thing. And Aristotelianism spread along the same route, from Padua, to Bordeaux, to Geneva and so forth.

There are elements of Calvinism which are pure buggery. It is a pure Cathar, the separation of light and dark, of daily life—what you see in Adam Smith. Geneva was the center of buggery. This spreads by usury.

EIR: Dante puts sodomy and usury together in Hell, as crimes of violence against God and nature; but also because he noticed, no doubt, that wherever there is a major center of usury, there was a great deal of sodomy.

LaRouche: That's where the powerful sodomy comes from, as opposed to what's just loose. This becomes the separation of light from dark, the repudiation of the conquest of nature as something for the lower people not the higher ones. It is the separation of the sensual world from the spiritual world—materialism.

EIR: In the extremely degenerate cultures, the top classes were adorned in a such a way, that they were physically deformed, as in the binding of feet in China, or the heavy gold labrets that the Aztec rulers wore through their lower lip and jewels in other parts of their faces. These clearly made it impossible for them to function in the most minimal way, walk, eat by themselves.

LaRouche: The long fingernails in China—

EIR: It seems to go along with the oligarchical separation of the physical and spiritual.

LaRouche: It's easy to show how this works. My work against information theory is the key. One can understand this by looking at the six-sided snowflake paper of Kepler. It is all implicitly there. That is the way I would teach secondary school students to understand it. The idea that the form of communication contains the idea, is the great fallacy. We can show that every medium of communication can be reduced to a discrete manifold. Therefore it cannot contain diversity. The way that ideas are mediated by communication, is through metaphor.

In metaphor, the experience of forming a concept by one mind is signaled. By signaling that experience—not by transmitting it—which only exists in the other person's mind,



China's Empress Dowager Cixi, the bitter enemy of Chinese "Hamiltonian" nation-builder Sun Yat-sen. Her long fingernails and bound feet, indicating disdain for toil, are typical affects of oligarchical societies.

Courtesy Freer Gallery, Smithsonian Institution

you signal that concept in their mind. They are synthesizing the concept in their mind of what you are signaling. They find out, "Voilà! Ah, I see it, I see it! It does this, and does this, and does this." This is how ideas are communicated. The communication comes precisely because the communication does not contain the idea. You say, "There's a cap." Cap, a noun in this case, and the verb is obvious. Now you create a metaphor in which this obvious communication signal is not what you are receiving. You are receiving something beyond the signal, by means of a metaphor. This is true metaphor. You use something which obviously it is not, to force the mind to recognize what it is not, by mental processes.

Art is a metaphor of itself. It lies in the mind as the sender and receiver. But the poem must be rigorously constructed, in order to achieve that recognition. Therefore it must be metaphor. When you fail to recognize this distinction, is when you accept information theory; when you accept systems analysis, which is a variety of information theory. You accept linguistics, which is a variety of the same thing.

Recognize what this does when you introduce this into the curriculum. You stop teaching. You transmit information. "This is what authorities say." "But somebody else says that." "Well that is a different opinion. It may be true, but this is the opinion which we're teaching here."

EIR: Do you think that the political upheavals will make people more prepared to break loose? Is it, to use a bad word, a propitious moment?

LaRouche: It is an unpropitious moment for recent tradition, because we are dealing with a discontinuity. What opens people to ideas is the fact that their ideas don't work.

They get in the car one day, turn the ignition switch on, and the sun roof flies off. You accelerate by the steering wheel, and steer by a pedal, or the window button. Nothing works the way it is supposed to. And yet can the vehicle move? Yes, it can move. How is it constructed? We are now in that kind of period, where everything that we have been conditioned to, breaks down.

EIR: What periods in the past would you compare this to, if any?

LaRouche: The closest period we have is about the years 1340-60.

EIR: The Black Death, and the realization after that that they needed Plato and Dante.

LaRouche: The crisis of the Black Death and the English nullification of the debt to the House of Bardi (1343) set off the chain reaction. These two things make it the most comparable period in recent history.

EIR: In your first book *Dialectical Economics*, one of the passages that moved me the most was a part where you described tearing up New York by the roots and rebuilding it. You described the prerequisites for a dwelling for a family of four, including sound-proofing of rooms for the children, and adequate space for private activities for each individual to develop. But modern architecture, even if it did subscribe to principles of adequate space for a growing population—which it doesn't—is ugly. When the Spanish were colonizing the New World, they brought the ideal of Renaissance cities. The way they really evangelized the indigenous people was not by preaching to them, but by getting them involved in building these cities. That activity of building, as well as teaching them to sing in polyphonic choirs, was what changed the society. How are we going to build beautiful cities?

LaRouche: What I referenced in the Mars program, for example, is that this is a great stimulus to city building on earth. If you can construct a city on Mars—and you can do it, it just requires enough energy per capita—you can build a city in the Sahara. Two things have to happen. If this country is going to be capable of doing anything, it is going to do as I wish it to do. For example, the water projects—we can't do without them. But to do the water projects, we have to build cities. If we end deregulation, we have to go back to city planning.

EIR: Not malthusian city planning, which is what most of the academic field is today—

LaRouche: Thousand-year city planning, is what I have always been for. A city should cost too much for you to afford it today, but the price of possession over succession generations will be such that it will be cheaper to own it today than it would be if you had anything else. Your increase in productivity will more than pay for it.

In the process of building the cities, you will develop the technologies which can be generally applied. So we should start, and not wait till we have the technology, because we will only develop the technology by facing these problems. Sub-surface, we know how to do. There are topological problems of how to design this. You start with the family, because that is the indivisible unit.

EIR: It used to be!

LaRouche: It still is. You have to have *people*, unless you want feral creatures that slither in the gutters and sewer pipes.

Look back in history at cities which still exist. Look at layouts of extinct cities. If you want to build a city of any particular size, it is a definable proposition. Then you have the logistics. People are not going to eat little pills. So a human system requires a certain quantity and weight of food. We need the logistics to support the movement of people, whose habits and functions are known. The functions break down by time phases of the day, and by places where these functions occur. You can plan the city; these requirements will be as true a thousand years from now as they are today.

We have buildings 500 years old, which have undergone technological changes, as in Italy, where they put in wiring and things like that. So you can anticipate that. You can design a city as a machine of families for living and producing. You know where you want the heavy work—outside the city. This has to be done now. What we are building is junk. It cannot go on this way.

EIR: In a book I have on Renaissance city planning, the author attributes a concept to St. Augustine. The problem is the old one of how do you inculcate virtue in the young. Many Florentines, such as Alberti, endorsed the idea that you have to provide appropriately beautiful spaces for acts of virtue to be carried out in public, so that young people would see the right behavior in such settings. This, they thought, is the best way to bring up a generation that would provide leaders for the republic.

LaRouche: The only one I got to see was Lucca, which is a preserved city of that type. We spent the better part of a day in Lucca, so much, that I regretted we wasted any time going to Pisa. We got a sense of what it was like to live in that city, and certain features had not changed. We went from one end of the small city to the other.

EIR: So in the middle of these cities there would be cathedrals, parks, city hall, public places.

LaRouche: These are spread around, not just in one place: You have piazzas all over the place. Satellite piazzas, every church has a piazza.

EIR: And they have shops around them. It seems to me that is still a valid concept.

LaRouche: Yes it is. You look at it and think, the rooms are a bit small here, but that is the only difficulty. And it was

so easy to walk around.

EIR: Do you believe there is a limit to the population size of new cities?

LaRouche: Yes, I think so. It is better to build a number of cities than to put everything in one place.

EIR: A million people?

LaRouche: A million is getting to be the maximum. A half million, quarter million, 100,000—those are manageable. But with a million, you begin to wish you had several cities. As a matter of fact they tend to become several cities when they get large.

EIR: They don't function as well.

LaRouche: If they are not integrated. You can integrate them. We should judo all this environmentalist nonsense, which has a semblance of rationality around it. They say, "Wouldn't it be nice if we had some green?" Well, fine. "Isn't gaseous emission from automobiles unpleasant?" Fine. But people drive in these congested cities with the two hour traffic jams. Obviously magnetic levitation transport is the ideal inter-city transport system. We have these technologies, so we build cities which are clean, which are safe, and we are running out of them. We need them. You can't rehabilitate New York City. It's impossible. You can take the area and checkerboard it, make a master plan. . . .

EIR: The perverted form in which this takes place, is that parts are getting a face-lift, "gentrified."

LaRouche: It does not function any better and is enormously costly. It does not solve any of the basic problems. It's like getting a scenic view of a cesspool. I would pull up the entire transit system, and build a free transit system.

EIR: Would you not have to build a new city elsewhere first, to attract people with jobs and housing?

LaRouche: Yes. The water projects require that. Part of the great American desert is going to become potentially a great city.

EIR: Our correspondent in Brazil, Lorenzo Carrasco, has pointed to the bad example of Brasilia, which is a new city, but it is fascist architecture.

LaRouche: I had two experiences with Brazil which indicate the problem. Back in 1979 I was in the Brazilian embassy in Washington D.C. and the chairs were massive, square upholstered chairs, and you fell into them. It was unusual—obviously, Brazilian interior design. Then in 1984 I landed at Manaus airport, in one of the legs down to Argentina, and it was the same styling. Then I received this report about the Federal District in Brazil: same thing. The problem is that it is not efficient, actually.

The harmonic ordering of function applies to the organization of space for human beings as well as it does to living

organisms. So we do have principles to guide us. Take the principle of least action. You remember when I did the Martian city design. The way the planets are organized is a very good example of how to organize a city. You organize it in concentric circles, with not only spokes but a cross-axis to get the greatest amount of connectivity. Once you have defined the functions it fits together. For example, the center of the city has the highest density of population. You want the least distance from the functions which have to be there.

EIR: Walking distance?

LaRouche: Exactly. A dominant feature of the city should be a central educational park. Around the edge you have the governmental administration and other major functions. Now as you get out further, your distance functions change. After the central functions, the greatest density functions are the neighborhoods, which are households. Then you have industrial employment functions, which involve only a small portion of the population at any one time. You have to have movement within them but you don't need great frequency of movement among those things and other things. You need accessibility from the city to those, and back.

Now how do you move things? You want to do this 24 hours a day, particularly freight. It has to be quiet. Well, we have that. You have warehousing, etc. Then what is the cheapest way for fire protection? You have to centralize it. You have to build it in. What is the best way of air conditioning? Look at the Mars problem.

EIR: A serious air conditioning problem!

LaRouche: You don't just go underground and build a large roof. You may, but you are going to have to have secondary systems inside your residential units, with airlocks in case of a failure or contamination.

EIR: It needs to be like a ship with hulls that have different compartments.

LaRouche: Exactly. Think about all these things, and they fall into place so beautifully.

EIR: It would be useful to remind people of what human modules are in architecture. The great Florentine architect Brunelleschi never built the base of a column higher than a man's shoe. Some of these columns might be twice as high as an individual, or even more, but when you walk up to them, you would feel how the column was a metaphor for a human being.

LaRouche: Like a caryatid.

EIR: Yes, but without human features. Most construction today is done by industrially produced, prefabricated modules. I do not know who decides, and on what basis, how big those modules are.

LaRouche: It is an educational problem. People say, "I want to live in one of those." The way these function is as

large bedrooms for employers and managers. So we provide it that way, instead of these crazy suburban communities on the interstate routes.

EIR: A person in Poland or Ukraine looks at your proposed Productive Triangle plan, spanning Paris-Berlin-Vienna, and asks, "Why do you want to concentrate infrastructure investment there, where they already have so much, as opposed to here, where we are so poor and have so little?"

LaRouche: Very simple. They are looking at it from the standpoint of the market, the Keynesian or Walter Reuther standpoint. First of all, the Russians have a problem. They are educated in Marx, and Marx was not much on transportation, because for him it was not productive. So therefore they think of transportation as non-productive, and they say we have to put our emphasis on productive investments. You want to build a factory in a place where there are no highways, no rail system. And that is where the irrationality comes in.

EIR: From Marx?

LaRouche: It's reinforced by Marx. But it is also reinforced by the Rothschilds, who had the same ideas. The Rothschilds would never invest in railroads. The United States was unique in being the center—also Colbert in France—for forcing this issue of transportation. The United States was created as a federal union on the basis of infrastructure: canals, roads, etc. The railroad concept was developed here, which Friedrich List took to Europe after participating in the development of the American railroad. So we understood this; we had to develop a large country, and we needed roads and other things to be able to do so. And they had a military strategic conception of infrastructure. Then power—water power, steam, all these things became obvious. But in general what is taught as economics, starts with the individual fund of money, the finiteness of the purchasing power of consumers. And these poor people think in terms of money. "We have to get this, this is more important to us. We don't need a railroad. We don't need to take a trip." Yes, but the raw materials that go into producing the product that you wear, and eat, and use, require it. They don't see that the density of ton-miles per hour per square kilometer is what determines it. They don't see that the amount of kilowatts per square kilometer per capita has something to do with the productivity. They may see that water development has something to do with it. They may see that education is necessary. But they may not understand it axiomatically.

You see what happens with health insurance. We don't need a health insurance policy. What we need are hospitals and clinics. Because if people are sick, and they can get to a clinic or hospital that is staffed, then we will figure out in the morning after we have started treatment, who is going to pay for it. We don't want a system where they check your credit card before they decide if you go to a hospital, and which one. You're bleeding on the street, and they say, "We can't

move you till we check your credit card." The idea that every individual has to make his own contribution is an insurance racket. In the old days the idea was to have the hospitals, a combination of public and voluntary, and clinics to supplement them. Everyone gets treated. One budgetary item is to produce that capacity of medical care for that year. It is produced by various people and you have a certain income assigned for it.

EIR: Doesn't the lack of that relate to what you talked about before, "Pull the plug on Grandma, she's consuming too much." Now the whole idea—which I understand is not true—but is repeated everywhere, is that health care costs are rising. "With the capability of keeping people alive longer than we used to, it's getting more and more expensive," they say.

LaRouche: It has nothing to do with anything. Insurance companies require more money because they are users who require a gain on this rolling cash. It is an intrinsically wasteful method which is used only to give the private insurance companies money.

And this is the NAFTA [North American Free Trade Agreement] ideology. "The wages are too high and we have to get the wages down." Or the fellow says we have to produce milk at 50% or 30% of the cost to the farmer producing it. Why? "Well this is better to make things cheaper, and that's progress." That is insanity.

They have their own brand of it in eastern Europe. They don't understand productivity and capital intensive investment. They think that capital intensity is Stalin, that we have a finite amount of money, and we want more to come to the households and less to the businesses. That means the end of progress.

The rise of the productive powers of labor is the activation and realization of the creative powers of the individual. So they say, "Let's be practical." Then you say if you want to be practical in the sense that you are implicitly defining it, there is no sense wasting money in your country at all in any way, it's not going to make it. Because without the creative powers of the individual, the human race does not exist, and no nation, except as a parasite. Therefore, let's really be practical. Let's go back to the creative powers of the individual.

The problem is mythologies. We have to say, look, we are telling you that this is necessary. Why? Because we have to produce capital for the development of the world. To have capital you have to produce it. Therefore we have to increase the productivity of the areas which have the highest productivity, in order to meet the needs of the areas which have the lowest. If you don't do it that way, nothing will work.

Now productivity means per hectare, per square kilometer. Where do you get the highest concentration of productive power and potential per capita in the world? In this triangular area of Europe. Where do you expand to? You expand to the productive area contiguous to it. Now you have enough to develop the world.



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DERAIL NAFTA

fast track to rule by the big banks

EIR Special Report, May 1991

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In this 75-page Special Report, *EIR's* investigators tell the truth about what the Bush administration and the media have tried to sell as a once-in-a-lifetime opportunity to get economic growth started across the Americas. The Wall Street crowd—led by none other than David Rockefeller of Chase Manhattan—are going berserk to ram this policy through. Rockefeller threatened in May, "Without the fast track, the course of history will be stopped." With this report, *EIR's* editors aim to stop Rockefeller and his course of history—straight toward a banking dictatorship.

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