

The real economics of the American System

Here are excerpts from the writings of two highly influential international leaders of the anti-British school of political economy—Henry Carey of the United States and Count Sergei Witte of Russia.

Carey ripped Britain's 'free trade' looting

Henry C. Carey 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 is excerpted 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.

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.

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



Leading warriors in the fight against British free trade: Henry Carey of the United States (left) and Count Sergei Witte of Russia. Those looking for a solution to today's economic and financial crisis should scrutinize the works of the "American System" economists and their international collaborators.

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 grand-children. 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. . . .

Sergei Witte: The fight for Russian industry

Count Witte's appointment to the Ministry of Finance commission to draft the 1891 tariff law for Russia 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 became

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.

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 following excerpts are taken from Witte's two-volume Lectures on Political Economy and State Finance, published in 1912. 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 development 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

For further reading

The LaRouche movement internationally has, for over 20 years, published many books and articles on the real history of economics: the fight between British free trade and the American System of Political Economy. Here are a few useful resources:

"200 Years Since Hamilton's 'Report on Manufactures,' " *EIR*, Jan. 3, 1992. A special commemorative issue, surveying the Hamiltonian tradition all over the world, with excerpts from primary sources.

Anton Chaitkin, "The Land-Bridge: Henry Carey's Global Development Program," *EIR*, May 2, 1997.

Friedrich List: Outlines of American Political Economy (Wiesbaden: Dr. Böttiger Verlags-GmbH, 1996). English and German texts on facing pages, with an epilogue by Lyndon H. LaRouche, Jr. and commentary by Michael Liebig.

The Political Economy of the American Revolution, Nancy Spannaus and Christopher White, eds. (Washington, D.C.: EIR News Service, 1996).

Allen Salisbury, *The Civil War and the American System: America's Battle with Britain, 1860-1876* (Washington: Executive Intelligence Review, 1995).

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.

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.

If You Thought Adam Smith Is The Founding Father of America's Economic Strength—

Think Again.

READ
*Friedrich List: Outlines of
American Political Economy*

With a Commentary by Michael Liebig and
an Epilogue by Lyndon H. LaRouche, Jr.

"I confine my exertions solely to 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."

—Friedrich List to Charles J. Ingersoll,
July 10, 1827

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DO YOU KNOW

- that the American Revolution was fought against British "free trade" economics?
- that Washington and Franklin championed Big Government?
- that the Founding Fathers promoted partnership between private industry and central government?

READ

The Political Economy of the American Revolution

edited by
Nancy Spannaus and
Christopher White

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