What is 'American System' Economics?

by Nancy Spannaus and Lonnie Wolfe

The following feature, reprinted from the New Federalist *newspaper's* American Almanac, *explains the economic policies known in the 19th century as the "American System"—policies which not only built the U.S. into the most powerful nation in the world, but also which King O'Malley and the "old" Labor Party implemented to build the new nation of Australia into a high-skilled, high-wage, high-technology manufacturing powerhouse. ALP traitors Hawke and Keating destroyed Australia's productive base by ditching Labor's commitment to these American System policies, and instead exposing Australia to the ravages of the British System, aka free trade.*

There is no task more urgent for the American Congress, and the American people, than to immediately put in place an emergency economic recovery program based on the principles of the American System of Economics. There is one big problem: Virtually no one in this country outside the LaRouche movement, seems to understand what the American System of Economics is!

I would be misleading if I were to say that I could convey the full substance of the American System in the series of columns of which this is the first. A working understanding of the subject actually requires a mastery of the major economics writings of Lyndon LaRouche, who proceeds both epistemologically and philosophically from the root of the matter. However, it is possible to prepare the ground for you, as citizens, to grasp what must be done, both by defining what the American System is not, and by providing some historical grounding in the crucial principles, as they were put into practice.

Let's start with a shocker: the American System of Economics is not capitalism.

British Lies

In his "Man's Original Creations" paper, published in June of 2005, Lyndon LaRouche wrote:

"In contrast to contemporary European constitutions and systems, the actual form of society which the U.S. Declaration of Independence and Federal Constitution, with its crucial Preamble, define the U.S. economy to be, is neither capitalism nor socialism, but what U.S. Treasury Secretary Alexander Hamilton, among others, defined as The American System of political-economy. What the British system, and the Karl Marx it trained, defined as 'capitalism,' was the British imperial form of Anglo-Dutch, Venetian-style ultramontane rule by a financier oligarchy. This was the system established by the victory of the Anglo-Dutch financier oligarchy, centered in the power obtained by the British East India Company through the February 1763 Treaty of Paris, which concluded the preceding, mutually ruinous 'Seven Years War' among the powers of continental Europe. From 1848 on, the power of the old feudal systems of Europe, such as those of the decadent Hapsburgs, were largely absorbed in what became, increasingly, the appendages of the Anglo-Dutch Liberal monarchical system. The power in this imperial system was located in that financier oligarchy which became known as the Synarchist International of the 20th century, the same Synarchist International whose cabal of private bankers gave us Mussolini, Hitler, and World War II.

"The European system, which the credulous of the world have accepted as what they describe as 'the capitalist system,' is, in fact, usually the system of tyrannical rule which the private financier-oligarchical syndicates of Europe and elsewhere have exerted as a power placed legally above the authority of governments, through arrangements often described today as 'independent central-banking systems'."

In fact, during the course of the 20th century, the whole concept of the American System of Economics, which had been known by name through the bulk of the 19th century, virtually disappeared. Instead, the London and Austrian schools of economics invaded our universities, and embedded the paradigm of socialism (or communism) vs. capitalism, left vs. right, class vs. class.


First U.S. Treasury Secretary, Alexander Hamilton.

In fact, these options represent no choice at all. For as LaRouche said, both depend upon a reductionist concept of economics which denies the fundamental source of wealth in a physical economic system: the creative powers of the human mind.

American Beginnings

Although rooted in concepts developed in Europe, from the Italian Renaissance through Gottfried Leibniz, and substantially foreshadowed in the early Massachusetts Bay Colony, the American System of Economics did not fully develop until after the American Revolution. For it was not until this time that there was developed the sovereignty of a government, which had the power to carry out the economic policies.

Two individuals epitomize the thinking that led to the establishment of the American System: Benjamin Franklin, and our first Treasury Secretary, Alexander Hamilton. Not surprisingly, both of these Founding Fathers have known connections to the Leibnizian networks in Europe which developed the science of physical economics. Crucially, both also played indispensable roles in devising and enacting the U.S. Constitution which established the moral, political, and legal framework for accomplishing their economic goals.

Franklin's economics is wildly misunderstood by those who choose to identify it by his Almanac adages ("A penny saved is a penny earned"). To the contrary, Franklin's economic policy was based on building institutions of scientific learning, establishing banking institutions which would fund productive industry (including manufactures), building infrastructure, increasing wages, and promoting population growth.

While there was nothing in Franklin's program that Hamilton would have disagreed with, it fell to Hamilton to devise the specific government programs and institutions—the national bank, the tariff, and the prospectus for internal improvements—which actually came to be known as the American System by the time of the early 19th century. It is these programs, in contrast to the laissez faire which most so-called economists identify as the "American way," which we will be discussing as the series progresses.

The 'American System' Means Sovereignty, Not Free Trade

Nothing shows the ignorance of an economist or a historian more than the assertion that the American System of economics is based on the "principle" of free trade. Yet this assertion has largely prevailed in the last decades of popular culture and "learning" in the United States, with the result of instilling an academic excuse for the hatred of government by even those citizens who absolutely depend upon government functioning the most.

It was "free trade" that the American Constitution, and the economic system which it enabled to be brought into being, was founded against. And had "free trade"—specifically the British system of control of trade which was dominating the world even after the end of the American Revolutionary War—not been curbed by the establishment of the Constitution, the funding system, and the Bank of the United States, there would have been no American Republic, and thus no roadblock to the global British imperium.

'Free Trade' Assumptions

The assumptions behind "free trade" in fact go back to Aristotle, who defined the subject of economics as merely an extension of managing a household budget. Under this concept, each family simply seeks to manage its affairs for its own benefit, and leaves the management of the society as a whole to the "invisible hand," or, more likely, the very visible fist of the rich and powerful overlords who have amassed the greatest wealth and resources through the exercise of force. The result is an oligarchical society, controlled by a handful of the very rich, who seek primarily their own interests, not that of society as a whole. And there is no organized force, except another oligarchical one, which is prepared to stop their depradations!

The contrary notion of economy, which was developed during the 15th-Century Italian Renaissance, and further elaborated by the great scientist Gottfried Wilhelm Leibniz, understands the subject of economics to be the general welfare of society as a whole, and its ability to reproduce and improve itself. Under this concept, individual families or cities are not left to fight out their fate against others, but are obliged to participate in governing bodies which, more or less scientifically, devote themselves to knowing and implementing the policies which promote the general welfare of all.

Much more, of course, could be said on this subject, and has been by leading economist Lyndon LaRouche. Readers are referred to www.larouchpub.com, where an archive of his major writings, and attacks on free trade, can be found.

But the two fundamentally antagonistic assumptions behind the "free trade" system, on the one side, and the "general welfare" system on the other, can be readily grasped by the layman. Under the "free trade" universe, man is pitted against man, with all his bestial instincts mobilized for survival at the expense of others. Under the "general welfare" universe, man is a human being concerned with promoting good for his society as a whole, not only in the present, but in the future. And this "good" is scientifically knowable through his constant improvement of nature, and himself.


"Benjamin Franklin Drawing Electricity from the Sky" by Benjamin West (1738-1820).

Establishing the United States

The victory of the American colonies in the War of Independence by no means ended the domination of the British imperial "free trade" system, even on these shores. The British continued to use their domination of the seas, and their developed manufacturing sector, to flood the rest of the world with goods, and, to the extent possible, to prevent the emergence of other manufacturing centers. Great Britain wanted the rest of the world to serve as her plantation, providing the raw materials she needed at the lowest possible price, and she was prepared to deploy her resources to preserve that arrangement.

The British policy in the mid-1780s was devastatingly successful. Not only was France, her only potential superpower rival, pushed into signing a free trade agreement that favored the British, but the various American colonies were being pitted against one another by British trade policies. While providing different concessions to different colonies, the British were being guided by a unified intention: keep the colonies at each others' throats, and prevent their development as a unified nation with the ability to defend and improve itself. In a word, reconquest.

And the name of the policy by which they hoped to accomplish this aim, was "free trade."

Thus, when Alexander Hamilton, George Washington, Benjamin Franklin, and others began to organize, and correspond around the project of replacing the ineffective Articles of Confederation with a Constitution of the United States, they were not simply talking about a "good idea." What they understood is that, unless they created continental and governmental institutions which were devoted specifically to promoting the general welfare of the colonies as a whole, the British Empire was going to destroy everything that had been won in the Revolution.

First and foremost, the new nation had to have sovereignty over its economy. That meant controlling its currency, controlling its trade, controlling its debt, and controlling its economy as a whole. The idea of being able to defend the United States against foreign powers, when the United States did not have the ability to raise funds, or to provide basic economic security for its population, from the basics of food and clothing, to the infrastructure required to maintain and improve the economy, was recognized to be a sick joke.

Thus, the U.S. Constitution itself was established with an explicit commitment, in its Preamble, to provide for national sovereignty, the general welfare, and the nation's posterity—to preserve the nation against British "free trade."

The 'American System' Requires that a Nation Control Its Own Currency

Under Hamilton's American System, the key to the determination of economic value is the human creative intervention that produces physical product and alters the land. A productive economy must encourage individual creative discoveries, which discoveries have the power to transform that economy. The use of credits, distributed through a banking system, is the primary way such creative "enterprise" can be encouraged.

Hamilton set out to erect a national economy based on these principles. Just as Lyndon LaRouche must deal with a nation which is effectively bankrupt, under a stifling debt load, Hamilton took over a United States encumbered with debt to foreign lenders who had financed the Revolution, and then the government under the 1783 Articles of Confederation; this debt problem was compounded by the huge debt loads of the various states. Under these circumstances, Hamilton's first task in building a productive economy was to defend the sovereign public credit of the United States.

To do that, he had to consolidate the debt under the new sovereign government of the United States.

Defending Public Credit

In response to a Congressional mandate to propose a way out of this morass, Hamilton issued his famous "Report on Public Credit" in 1790; in it he proposed, for the sake of repairing the nation's credit to ensure its future necessary ability to borrow, that all war debts of the states be assumed by the Federal government, and that the government place the "full faith and credit of the United States" behind all its debt obligations, without restriction. Foreign creditors and others were to be told that they would be paid, as rapidly as prudence permitted, and that the government and future governments were committed to this repayment, as soon as the United States had the ability to make good on its obligations by the improved performance of the economy.

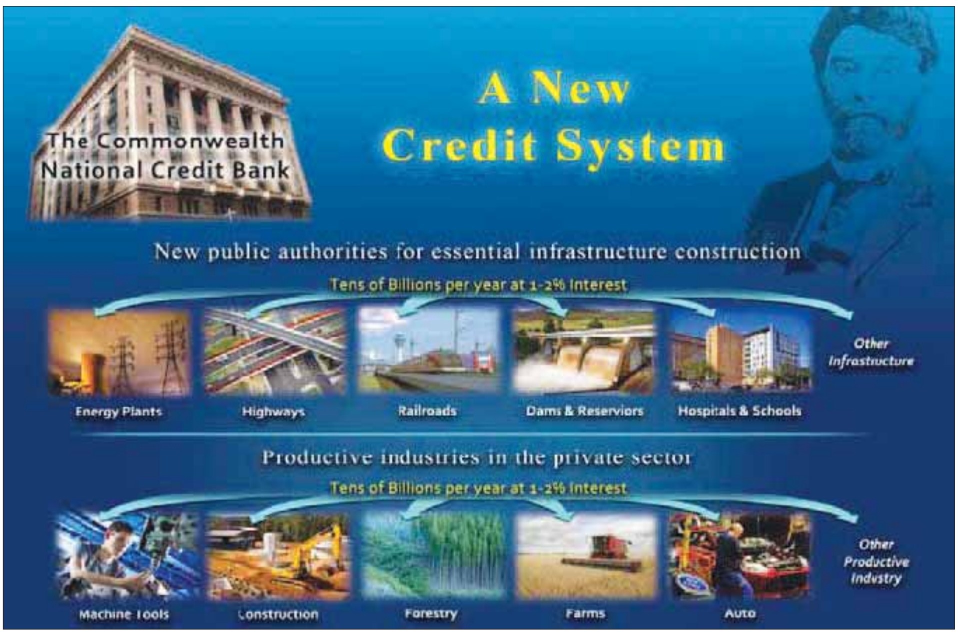
While establishing the sanctity of U.S. sovereign debt obligations, Hamilton also ridiculed the idea that government should operate on a "pay as you go" basis, without borrowing. The incurring of debt, so long as it was judged to be in the national interest and for the promotion of the General Welfare, was sound economic policy; a debt obligation which might appear to be a negative, a debit, on some accountant's balance sheet, was capable of being transformed into a positive or "a credit," beneficial to the economy, by creating the capability to generate a "profitability" well beyond its own mere repayment. Such a debt had a "cycle" which, if set at a proper length, would ensure its repayment, and would produce a benefit in productive economic activity whose real worth was far greater than the debt's principle and interest. (In this way, Hamilton, like LaRouche, distinguishes between short-term debts, which have maturations of a few years or less, and either do not tend to add to longer-term increased capacity for productive economic activity and/or are for purposes of "speculation," and long-term debt with a 25-50 year cycle, for productive investment.)

While discussing the "positive" qualities of debt, Hamilton also warned against any simple-minded resort to incurring debt that was not carefully scrutinized according to the principle of investing in the "General Welfare"; any debt is an obligation to pay by the United States that must be met—and which, if properly managed, creates greater benefit to the nation, than to the lender:

"To justify and preserve their [lenders'] confidence; to promote the increasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources both to agriculture and to commerce; to cement more closely the union of states; to add to their security against foreign attack; to establish public order on the basis of an upright, liberal policy. These are the great and invaluable ends to be secured, by a proper and adequate provision, at the present period, for the support of public credit."

Hamilton also insisted that the credit extension not be limited by deposits of "hard currency," coin, or metals—that is, gold, silver, etc.—and that paper currency would serve the purposes of the nation. However, as the Constitution dictates, only the Federal government can be responsible for emission of such paper currency, because only the Federal government can assure its stability. Credit, he told Congress, is the means to place money into circulation; credit, when offered for sound economic purpose, not only assures the lender of repayment, but, through advancing the economic well-being of the nation, makes its currency valuable and enhances our standing among nations.

The Hamilton report, especially its recommendation for the assumption of state debt, stirred up a bitter debate, with opponents, mostly in the Southern states, led by James Madison of Virginia, a former ally of Hamilton in arguing for a strong central government and for ratification of the Constitution, claiming that the Constitution did not specifically grant the Federal government this power, and that Hamilton was unfairly discriminating against states that had prudently dissolved their debts. But the Treasury Secretary realized that his debt assumption and reorganization was the only viable pathway to establish the credit of the new nation, and would not give in. Eventually, the report, debt assumption and all, was adopted in 1791, by way of a famous "barter deal"—in exchange for Southern votes for its passage, Hamilton organized President Washington to support the location of capital of the new nation in a special district on the Potomac, rather than in the North.



The 'American System' Requires a National Bank

Once the new government of the United States had assumed central responsibility for its debts (see previous column in this series), the next step was for it to assume responsibility for generating credit which would be available for building the nation, and assuring prosperity for current and future generations. Treasury Secretary Alexander Hamilton proposed to fill this need in his "Second Report on Public Credit," otherwise known as the "Report on the National Bank." In it, he laid out the need for the establishment of a public bank, partly funded by the U.S. government debt, and regulated by the U.S. Treasury, which would provide both the basis for a national currency, and a source of capital for long-term investment to promote the general welfare.

The Bank of the United States, as the new institution was known, was intended to free the country from dependence upon foreign or private interests, and provide the means by which the country could grow. Hamilton called the Bank a "nursery for public wealth," and conceived of its operations not primarily as an adjunct to Federal finances, but as a resource to permit private entrepreneurs to invest in the nation. His political descendants, among them nationalists such as Mathew Carey, Henry Clay, John Quincy Adams, and Abraham Lincoln, considered the National Bank to be, along with tariffs and internal improvements, the touchstone of the American System of Economics.

Because the Bank of the United States was responsible to the government, was partially owned by the government, and was capitalized largely by government debt, it was a regulated body, which not only had to carry out its operations in order to make a profit for its shareholders, but also was constrained to invest for the benefit of economic growth in the physical economy of the nation. Those who opposed it were primarily from the ranks of plantation owners and other large land-holders, who saw in the creation of the Bank an institution that would promote manufacturing and industrialization. Indeed, industrialization, a sine qua non for making the new nation economically independent of the Empire which it had just defeated, was precisely what Hamilton was up to when he proposed the national bank, as his subsequent "Report on Manufactures" made clear.

A bank—any bank—in Hamilton's view, was only as good as the judgment of its directors and administrators in discriminating sound ventures from purely speculative ones. But Hamilton does not want to over-regulate such creative judgment, by listing what a bank can and can't do; this, he fears, would cripple its operation and require constant changing, since judgments of what is in the national interest at specific times, will (and should) change; instead, he proposes to establish "guideposts" that should direct such judgments. For example, Hamilton recommended that to avoid speculation in real estate, the National Bank be prohibited from lending for real estate purchases or from owning or holding property, other than the land and improvements for the Bank's offices and branches. Human intellect must otherwise discern the sound from among many possible investments, but priority must be given to the enhancement of physical production or "public improvement" (i.e., infrastructure).

Turning Debt into Credit

To generate the starting capital for the National Bank, Hamilton proposed that it sell $10 million in subscriptions (shares) denominated at $400 each, and available to individuals, as well as "bodies politic"; the shares would then be allocated a dividend, as and when deemed fit by the Bank's directors.

The shares were payable one quarter in currency, gold or silver, and three-quarters in instruments of U.S. sovereign debt, carrying 6% interest (which was among the debts assumed from the states and other lenders; see previous section). In that way, Hamilton was assuring the fungibility of the assumed U.S. debt. Further, Hamilton proposed that President be authorized to subscribe to the Bank with $2 million in sovereign U.S. debt, while then borrowing from the Bank an equal sum payable in equal installments, over a 10-year period, or in such larger payments as the government deemed fit.

Thus, Hamilton was capitalizing a bank with debt—an impossibility from an accountant's standpoint. But, this was not just any debt: It was the sovereign debt of the United States of America, and as such had the full faith and credit of the nation behind it. The sovereign debts of the United States (or any nation) are not merely a liability on some accountant's ledger book; they are potential assets, awaiting guaranteed repayment. Repaid by what? Why, by the revenues created by the productive economy of the nation, for which they generate investment capital (through the Bank, and through their fungibility as an asset) to increase the wealth of the nation! Hamilton has turned what financiers and their flaks like Adam Smith consider a "dead" financial instrument—a debt—into a living, breathing part of the economy: productively invested capital with the potential to create physical wealth.

In fact, through the structure of the Bank of the United States, Hamilton was wedding the nation's private interests to the public, in such a way that the physical economy of the nation would benefit, with a stable currency, low interest rates, long-term investment, and a secure economic future. Those who opposed the Bank sought a contrary future, as experience would show.