

in weeks of these statements. His warnings are not “Cold War rhetoric.” The most dangerous and unstable aspect of the relations between the United States and Russia do not come from the residual military capabilities of potential adversaries, but from the economic shock effects caused as the scientific R&D capabilities, based in the military apparatus, are destroyed.

The legacy of the Bush budgets includes an array of problems stretching from the labs to the shop floor:

Congressional pressures for privatization exacerbate conflict between the labs and the aerospace industries, which are reduced to fighting the labs for budget scraps—small satellite development programs, for example.

Congressional “competitive bidding” mandates are similarly shaping a conflict between the services, which need to overhaul their depot maintenance programs, and the manufacturers who badly need contracts to employ their skilled work force. Procurement and long-term maintenance contracts for new weapons systems are a vital tool to strengthen and stabilize a shaken defense industry.

The C-17 program has been delayed so long that the workhorse of the transport fleet, the C-141, has deteriorated to the point that it operates at less than 75% of its design capability. Self-sufficient military airlift, in effect, is nonexistent.

The Air Force predicts a serious shortage of bombers by 1995, and all services are dealing with huge expenses related to the extensive flying done during George Bush’s murderous “Persian Gulf live-fire exercise.”

The most deadly legacy of the Bush budgets is the equipment and mission failures directly related to cuts in O&M. You can’t balance a budget simply by cutting weapons procurement, because the programs are budgeted over long periods of time. Cash savings are found by cutting the training and maintenance funds—a move which puts the lives of the troops at risk.

The cuts in O&M funds, which began under the Bush-Reagan administration in 1985, built a \$1.7 billion backlog in maintenance and repair and an \$11 billion backlog in depot-level maintenance. A \$5 billion increase in O&M funding in the 1995 Clinton budget is eaten up by an identical expenditure in “environmental security” drawn from the same account. Dismantling of the nuclear arsenal of the former Soviet Union draws \$400 million from the same account, and, most absurdly, \$300 million of O&M funds goes to support U.N. peacekeeping.

Unless there is a national mobilization to defend the scientific research and development capabilities of the United States and Russia, Clinton’s defense budget will founder: Rep. John Murtha (D-Pa.), chairman of the House Appropriations Defense Subcommittee, told the *Armed Forces Journal* that “we are really in a position where this two-front war strategy cannot be done. . . . As long as [the administration] gives us an honest budget, and they do not deploy overseas we will be all right.”

Hamilton’s economics draws new interest

by Jeffrey Steinberg

During his recent trip to Moscow, Lyndon LaRouche emphasized to Russian intellectuals that no nation will survive the imminent global financial blowout unless it adopts Hamiltonian economic policies and fights to establish an international system based on those principles.

Up until very recently, LaRouche was practically a lone voice on the American political scene preaching the virtues of the economic, credit, and national banking policies of our first secretary of the Treasury, Alexander Hamilton. LaRouche has gone far beyond Hamilton in his own unique contributions to the science of political economy, but has been a persistent advocate of the cornerstone policies spelled out in Hamilton’s 1791 *Report on Manufactures*. In January 1992, *EIR* devoted its entire New Year issue to a commemoration of the 200th anniversary of that Hamiltonian recipe for economic progress, featuring excerpts of the work of some of the world’s most important “Hamiltonian” economists of the past two centuries.

Last year’s tumultuous debate over the North American Free Trade Agreement (NAFTA) sparked a mini-revival of Hamiltonian ideas. Now, with the world financial system teetering on the edge of a blowout, and with the General Agreement on Tariffs and Trade (GATT) before the U.S. Congress for ratification, a second burst of enthusiasm for protectionist policies and a growing worry about the implications of the new global free trade pact are bubbling to the surface.

Writing in the *Washington Times* on May 4, conservative syndicated columnist and recent defector from the free trade camp Patrick Buchanan railed against the assault on national sovereignty embedded in the GATT treaty. Referring to the World Trade Organization, the new one-world body that would have authority under GATT to impose sanctions on any nation seeking to protect its domestic manufacturing or agricultural bases, Buchanan wryly noted: “The glittering bribe the globalists are extending to us is this: enhanced access to global markets—in exchange for your national sovereignty! . . . Washington, thou shouldst be living at this hour!”

Another longtime free trader, House Minority Whip Newt Gingrich (R-Ga.), the man who delivered the GOP votes to President Clinton at a crucial point in the NAFTA fight, is also edging toward defection from the GATT treaty, a 29,000-page, 300-pound document that the most obsessive number cruncher would have difficulty digesting. He recently told the

“Meet the Press” television program, “I’m for world trade, but I am against world government.”

For political animals like Buchanan and Gingrich, the clashes over NAFTA, GATT, and the role of the United Nations tend to trigger short-term bursts of patriotism that sometimes even drive them to invoke the images of the Founding Fathers, particularly Washington and Hamilton. However, for a growing minority of more serious thinkers, the more gradual but deadly erosion of the United States’ manufacturing and agricultural base, and the all but total disintegration of the nation’s infrastructure and credit system, have forced a serious reconsideration of Hamiltonian policies.

It hasn’t caught the attention of Hollywood yet, and CNN hasn’t felt the obligation to launch a smear campaign, but a debate is beginning to surface in some of the establishment’s scholarly journals and on the financial pages of some major daily newspapers over the viability of Hamiltonian solutions to the current breakdown crisis. And while the American System of Political Economy, the school of economics developed by Hamilton and his leading followers—Mathew Carey, Henry Carey, Friedrich List, et al.—has not been invoked by anyone aside from Lyndon LaRouche and his closest collaborators, the message is beginning to get out to broader layers: There is a viable alternative to the insanity of the free trade, free market British System.

Former Fed official invokes List

On Feb. 28, 1994, the *San Francisco Chronicle* published a “Point of View” column by former San Francisco Federal Reserve Bank Vice President William M. Burke, calling for a revival of the ideas of the German-American economist Friedrich List. Burke wrote:

“Writing in *The National System of Political Economy*, published in 1841, [List] argued that policymakers can assure national greatness only by supporting their industries with a system of tariffs, subsidies and other protectionist policies. . . . List and his theories were involved in all three of the great economic success stories of the past century—America, Germany, and Japan. . . . He was strongly influenced by Alexander Hamilton’s *Report on Manufactures*, where the first Treasury secretary made a strong case for protectionism for the nation’s infant industries, and by Henry Clay’s ‘American System’ of Clinton-style public works.

“Returning to Germany, List led the fight for the Zollverein, an early model for the European Community, which eliminated internal German tariffs but erected high trade barriers against the outside world.

“Then, a generation after his death in 1846, Japan’s Meiji-era reformers adopted List’s book as a model for transforming their country into a military-industrial power.”

Burke noted that economist John Kenneth Galbraith has also been a recent convert to the theories of List, quoting Galbraith: “The former infant-industries exception has become the aged and senile industry exception. In tactful modern ter-

minology, it is called not protection but an industrial policy.”

Burke’s plea for a revival of List’s policies was aimed at the Clinton White House, which, he attempted to argue (albeit unconvincingly), had unknowingly borrowed a leaf from List’s national system of political economy in its pursuit of its “aggressive managed trade policy,” particularly toward Japan. Concluded Burke: “We will hear much more about Friedrich List in future years.”

Hamilton’s role featured

The Winter 1993 issue of the *American Scholar*, the quarterly journal of the Phi Beta Kappa Society, featured a call for a Hamiltonian renaissance. Thomas K. McCraw, Strauss Professor of Business History at the Harvard Business School, penned a lengthy biographical account of Alexander Hamilton’s unparalleled contributions to the American Republic, titled “The Strategic Vision of Alexander Hamilton.”

Presenting a competent summary of Hamilton’s major contributions as the nation’s first secretary of the Treasury, McCraw gave a compelling argument for a revival of Hamilton’s policies today, warning: “The practical lesson of Alexander Hamilton is that such success requires a combination of unusual talent and rare opportunity, but also that the possibility of great achievement exists if things are done right.”

McCraw highlighted Hamilton’s role as the great defender of the federal system a decade prior to his penning most of *The Federalist Papers*, citing a 1782 essay in which Hamilton wrote: “There is something noble and magnificent in the perspective of a great Federal Republic, closely linked in the pursuit of a common interest, tranquil and prosperous at home, respectable abroad; but there is something proportionably diminutive and contemptible in the prospect of a number of petty states.” He identified Hamilton as the staunch opponent of both Thomas Jefferson and Adam Smith, “both of whom emphasized individualism in politics and consumption in economics. Hamilton stressed nationalism in politics and production in economics.”

McCraw underlined the importance of Hamilton’s fight for the First National Bank of the United States, and his two other seminal reports as Treasury secretary: the *Report on Manufactures* and *Report on Public Credit*. “In the pivotal years 1790 and 1791, he had made a carefully calculated reciprocal wager. He had bet the viability of his monetary and fiscal system on the country’s capacity for economic growth. And he had reinforced the potential for that growth with this very same system. Both bets came through in grand fashion.”

McCraw summed up his case for a Hamiltonian revival by observing: “Because of the economic nature of his achievement, Hamilton as a statesman is best compared historically not with his contemporary rival Jefferson . . . but with the builders of modern economies in other countries at other times. He was the direct intellectual descendant of Jean Baptiste Colbert, the great French minister who devised a system for the promotion of manufactures during the reign

of Louis XIV. . . . In turn, Hamilton was himself an inspiration to Friedrich List, who envisioned and tirelessly promoted the German customs union, national railway network, and other measures leading to the eventual unification of the German Empire in 1871, long after List's own death. . . .

"In Japan, the program of forced modernization carried out by the Meiji reformers of the late nineteenth century was almost purely Hamiltonian in its economics, though not in its repressive politics. Hamilton's *Report on Manufactures*, written nearly a century before, could have served as a blueprint for Japan's phenomenal leap into a modern industrial economy. Even the post-World War II Japanese economic miracle, based on a deliberate, focused development of competitive domestic manufacturing in selected strategic industries, was fundamentally Hamiltonian in its conceptualization and execution. So too with the more recent development of the economies of Korea and Taiwan."

Call to arms on infrastructure

McCraw's article was not the first recent call for a reconsideration of America's economic axioms. In the November and December 1993 and January 1994 issues of the *Atlantic Monthly*, economist James Fallows had written about the differences between the Hamiltonian-Listian system of political economy and that of free market zealot Adam Smith. Although flawed in many respects, the Fallows articles drew a great deal of public attention to the debate, and Fallows elaborated some of those themes in a just-published book-length comparative study of American and Japanese economic policies.

A less ambiguous series of articles was given prominence in the Winter 1993 issue of the *Wilson Quarterly*, an establishment organ produced by the Smithsonian Institution. The cover of the issue and two lengthy articles were devoted to the theme: "To Build A Nation: America's Infrastructure." The editors introduced the package by noting: "President Bill Clinton's campaign pledge to 'rebuild America' has lifted 'infrastructure'—that most unlovely term for roads, sewage-treatment plants, and other essentials—near the top of the national agenda. Clinton's \$80 billion shopping list includes not only the usual public works, but 'information superhighways,' 'bullet trains,' and other exotica. In the past, the debate over how to build America has occasioned some of the great shifts in American political history . . . and some very ingenious solutions."

The first of the two articles, a historical account of the buildup of America's national economy by Bruce Seely, a Michigan Technological University professor and secretary of the Society for the History of Technology, was titled "A Republic Bound Together." Seely was blunt in his assessment of the wretched state of America's infrastructure, and called for a national debate on how to revive it:

"For almost two centuries, there has been broad public support in America for infrastructure development. The issue

has been how, not whether, to build and more to the point how to pay. Americans, rarely fettered by ideological dictates on the proper role of government, have shown great ingenuity in solving the latter problem. The political process, however, has never produced a coherent infrastructure policy. Our infrastructure has been cobbled together with little understanding of how one system affects and is affected by others—a failing that has at times brought disastrous consequences, including the decline of the railroads. For nearly a century, from the late 19th century to the 1970s, the nation dealt with the question of what to build and how to build it by vesting much control in engineers and other technical experts. Today our unquestioning faith in such expertise is gone, but infrastructure systems have increased in complexity, size, and expense. The 200-year ebb and flow of infrastructure debate, it appears, is approaching yet another high water mark."

Seely proceeded to provide a detailed history of the debate, beginning with President George Washington and his Treasury Secretary Hamilton's push for a strong federal role in "internal improvements," and following through the 19th-century buildup of America's railroads, and the 20th-century efforts of people like New York's Robert Moses to develop urban infrastructure, and the post-World War II buildup of America's highways.

Fissures in the free market camp

Other publications, with more clearly defined political connections, like *Forbes* magazine and *CEO* magazine, have given a forum to critics of the free market system and of such recent expressions of the Adam Smith mania as the International Monetary Fund's shock therapy recipes for Russian entry into the "free market system."

An unlikely article in the March 30, 1992 issue of the *New Republic*, by John Judis, reported on a growing split among conservatives over the free trade issue. Judis cited a 1984 article in the *National Review* by economist William Hawkins. Hawkins, describing himself as a "neo-mercantilist," called for a revival of the Hamiltonian policy of using government to create "an environment in which Americans would attain economic success." Free trade guru Milton Friedman dismissed Hawkins as a "socialist" in the very next issue of the William F. Buckley journal. According to the Judis article, the fight between free traders and "neo-mercantilists" has produced further fissures, with the Heritage Foundation admitting that it lost over \$200,000 in contributions in 1992 alone because of its free trade stance.

Judis summed up the situation: "In the nineteenth century, when the United States had difficulty holding its own against imports, no issue except for slavery was as important to American politics. Now, as American producers are once again threatened, the issue has reemerged among both liberals and conservatives." This is "not the end of the debate, but the beginning."