

Economic Nationalism... American Style



Today's Menu

Economic Nationalism

- A. Review: The key principles of Economic Nationalism
 - 1. competition among states for wealth and power
 - 2. a nation-state, not global, individual, or class perspective
 - 3. Wealth and Power
- B. Economic Nationalism American Style
 - 1. How to structure Political Economy: Liberal or Nationalist?
 - a. How to use labor
 - b. How to use capital
 - c. How to deal with foreign economic policy
 - d. How to deal with debt
 - 1) Hamilton vs. Jefferson
 - 2) Hamilton's proposal: A National Bank
 - 3) Jefferson's objections
 - 4) Hamilton wins: A National Bank is Created
- C. Hamilton, Jefferson, and the Fiscal Cliff

Summary of Economic Nationalism

- Competition among states for wealth and power (not Smith and Ricardo's harmony of interests)
- Identity is national (not global, not a class perspective)
- The State should direct the economy for the good of the nation
- Relationship between wealth and power: state must amass national wealth in order to enhance national power.
- Beliefs about the international economy: It is competitive. States will always struggle for power and wealth, will necessarily be imperialist. Relative wealth and power are what matter most
- Relative gain is more important than mutual gain or aggregate gain.

	Free Trade	The State	Source of identity in political economy
Smith and Ricardo	Good for all countries; creates aggregate wealth	A neutral umpire in making sure trade remains free	The free individual
Marx	Allows the capitalist class to roam the world, exploiting labor	Committee to manage affairs of the ruling class	Economic class
List	Only rich and powerful states like Free trade. It destroys weaker states	Protector of society; it must amass wealth for the good of the nation	The nation

Econ Nationalism: Specialization and Trade

England trades Portugal 4 units of cloth for 4 units of wine

Exchange rate is 1 to 1.

	Wine	Cloth
England	5	6 (available goods =11)
Portugal	12	4 (available goods =16)

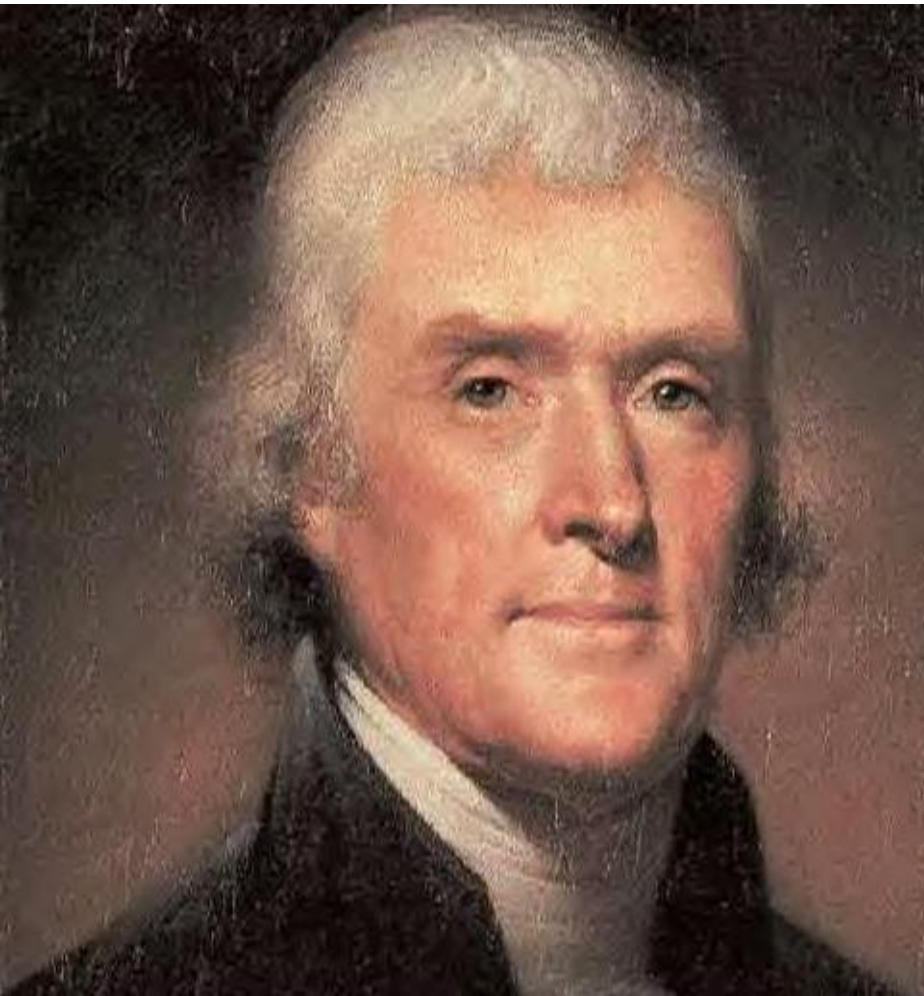
Total goods produced is still 27 but each country is better off than before trade and both are better off than before “efficiency”

What matters is that Portugal is richer, and therefore more powerful than England

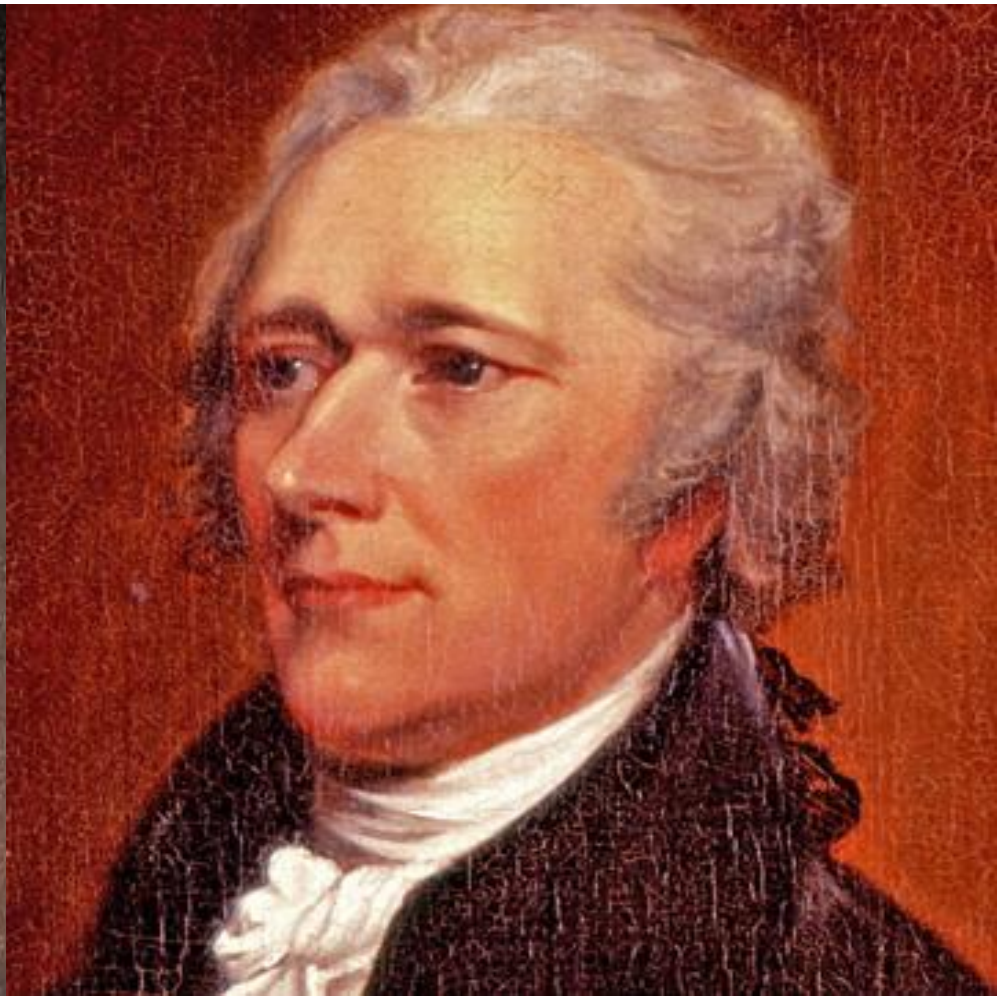
Objective of Econ. Nationalism: Industrial Power

- Powerful industry has spillover effects throughout the economy
- Industry makes a country self-sufficient
- Industry is the basis of military power

Clash between classic Liberalism and Nationalism: Hamilton and Jefferson



rural, self-sufficient—know
your neighbors



Rift Still Exists!

The Problem: How to Structure the Political Economy of the United States—Market Freedom or National Power

The Issues

How to use Human capital

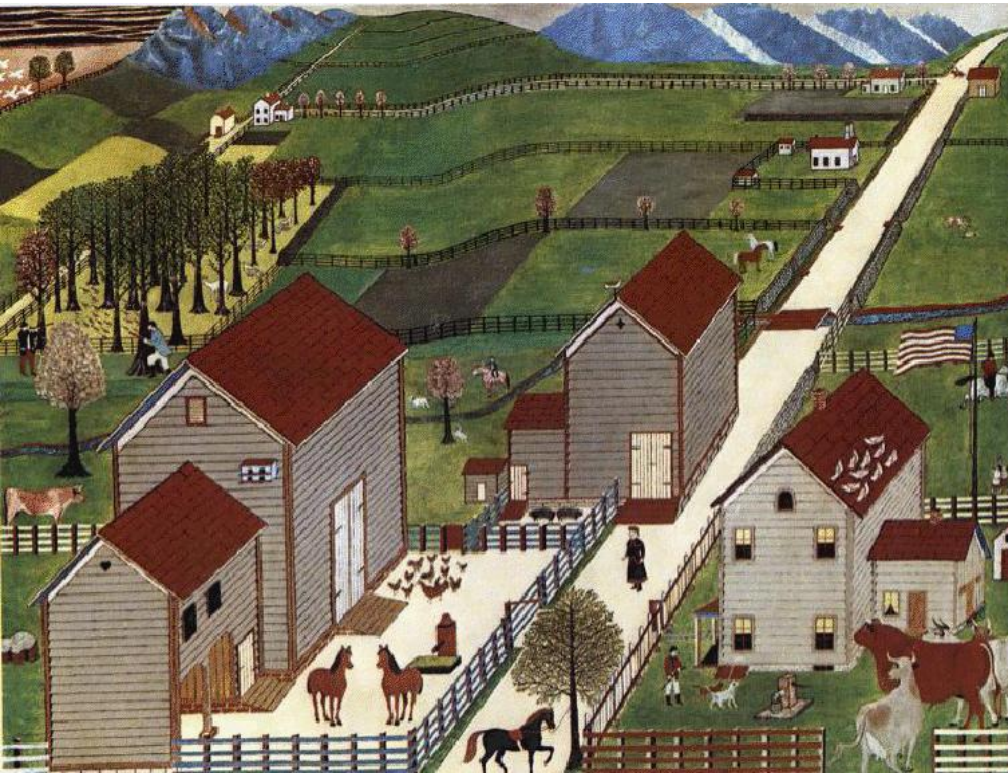
How to use capital (machinery, land, i.e. “dead labor”)

How to deal with Foreign Economic Policy

How to deal with the problem of debt

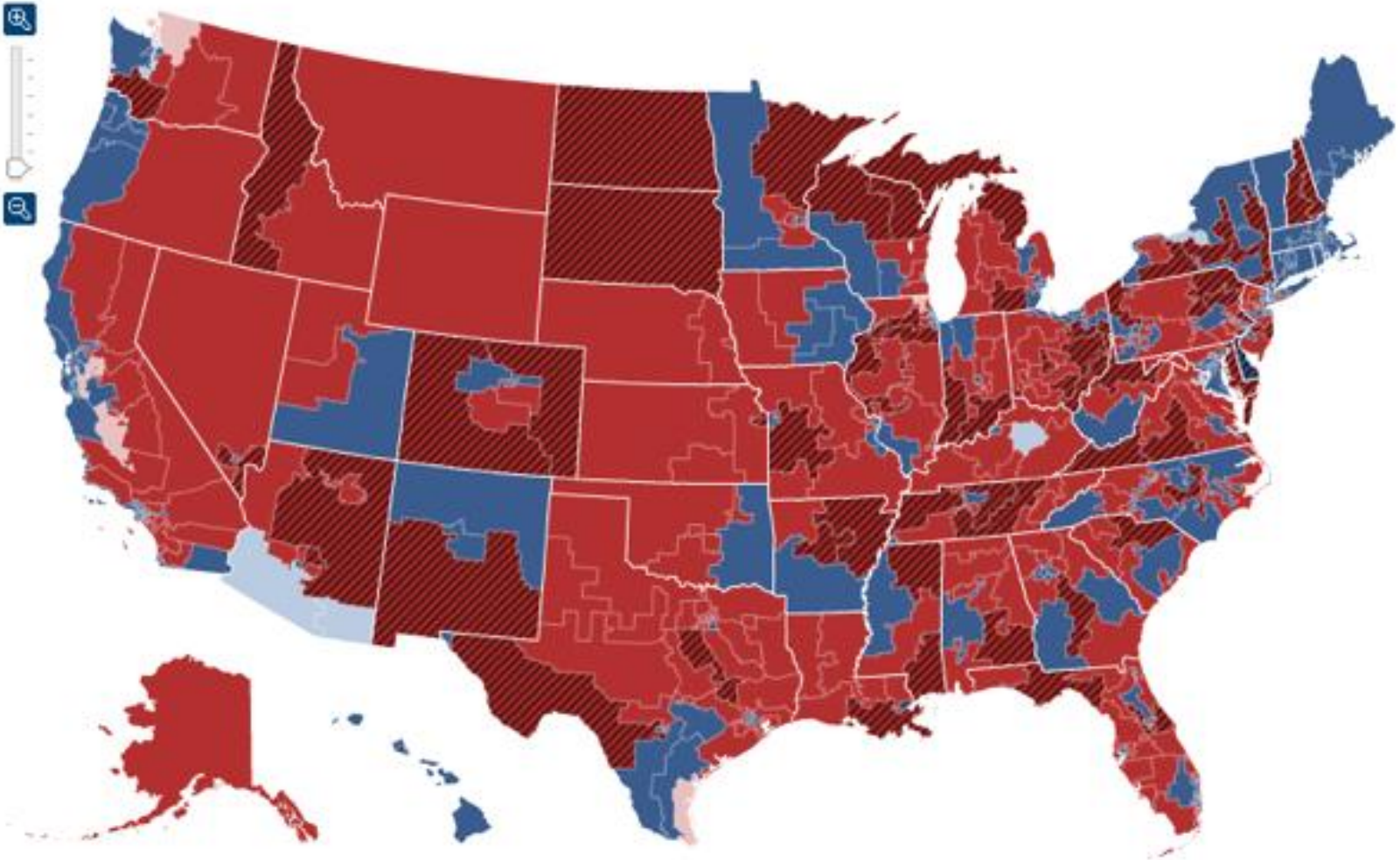
Jefferson, the economic liberal vs. Hamilton, the economic nationalist

- How to use human capital: America as an agrarian society vs. America as an industrial power
- How to use Capital : Govt. should leave well enough alone vs. promote manufacturing



- How to deal with foreign economic policy: Restriction of imports vs. Free trade

Urban-Rural Split in the US



How to deal with money and debt

History

- States in US with many different currencies—
high transaction costs
- No regulation—wildcat banks
- willy nilly printing of money—inflation
- War debt—all the above created the inability to
pay
- What should the U.S. do? Put debt to use or Pay
the debt off?

Hamilton and Jefferson on this question

- **Alexander Hamilton:** “A national debt, if it is not excessive, will be to us a national blessing.” --
 - A federal debt is secure because there is confidence that the government will pay—people will buy bonds and trade them
 - Debt doubles as a secure paper currency: Don’t redeem bonds, trade with them, increasing the quantity of money circulating without inflation (scarcity of gold and silver)
- **Thomas Jefferson:** “I am for a government rigorously frugal and simple...[and not] for increasing, by every device, the public debt, on the principle of its being a public blessing.”
 - Dangerous!
 - Promotes manufacture of unnecessary luxuries!

Hamilton's Proposal for making debt a blessing: Create a National Bank

Bank would assume state war debts and issue bonds

Bank would facilitate payment of taxes (lots of money in circulation)

Would enable govt. to deposit tax revenues and pay debts.

Would offer loans to the government in emergencies

Would create a stable financial system and currency

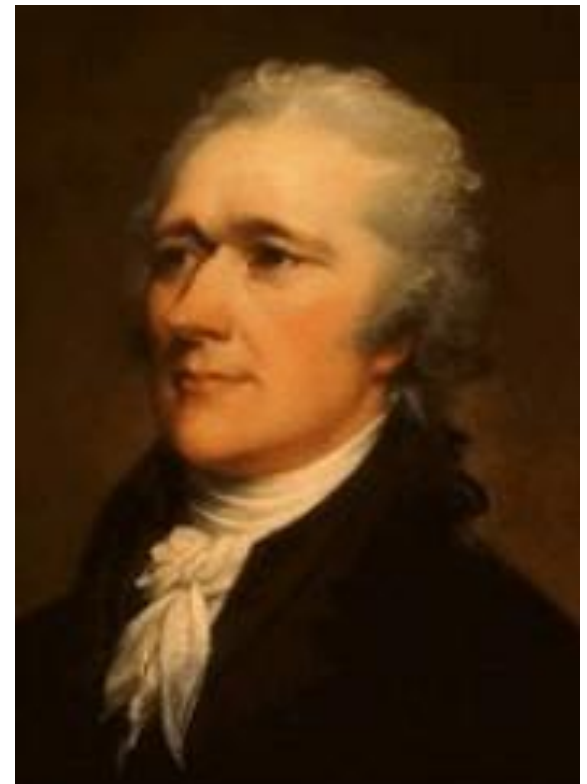
Would promote commerce and manufacturing

Would create business incentive to support the new federal government

A National Bank was the policy of the economic

Nationalist! Why

- <http://www.bloomberg.com/video/93793143-alexander-hamilton-turns-into-unlikely-sex-symbol.html>



Jefferson's objections

- Unconstitutional!
- Undemocratic Competes with state banks
- UnAmerican: most of its stock is foreign-owned
- Immoral: Violates principles of virtue,
- Unsustainable: reduces American self-sufficiency
- Unsound: an elaborate paper scheme
 - Unsound in origins
 - Unsound in effects

Jefferson's Alternatives

- Our farmland is our main industry!
 - “Cultivators of the earth are the most valuable citizens.”
- Self-sufficiency is our motto: No debt!
“Let us pay these debts off and be done with them”



First Bank of the United States



Summary of what Hamilton did:

- Refinanced the debt
- Established an infrastructure---roads, waterways,
- But he did not:
 - Raise taxes across the board
 - Cut existing programs
- And....
 - There was econ. Growth
 - Which increased government revenues
 - Which allowed the government to pay down the debt

A Government Bond (from the first Bank of the United States)



Debt doubles as a **secure paper currency**... Instead of redeeming it, **trade with it** And thus increase quantity of circulating medium (money)

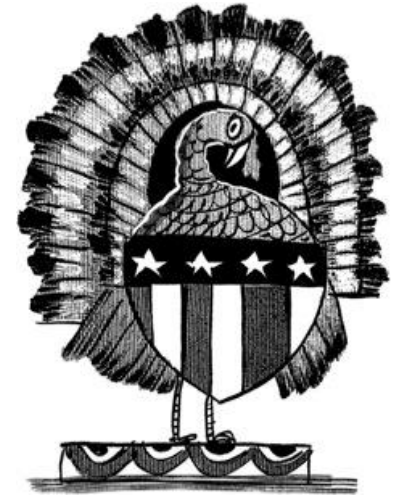
What do Hamilton and Jefferson mean for us today?

http://live.wsj.com/video/everything-you-need-to-know-about-the-fiscal-cliff/EE994540-68DA-4374-81FE-287A76422E5C.html?mod=wsj_article_tboright#!EE994540-68DA-4374-81FE-287A76422E5C



**did something really unusual,
they built a fiscal cliff,**

Liberals Clash over the National Bird!: should it be a peaceful nationalist or an imperialist?



Happy Thanksgiving!

