REBOOTING THE AMERICAN DREAM

11 WAYS TO REBUILD OUR COUNTRY

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An Excerpt From

Rebooting The American Dream:
11 Ways To Rebuild Our Country

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Introduction: Back to the Future

> *I know no safe depository of the ultimate powers of the society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion by education. This is the true corrective of abuses of constitutional power.*
>
> —Thomas Jefferson, letter to William Charles Jarvis, September 28, 1820

On April 14, 1789, George Washington was out walking through the fields at Mount Vernon, his home in Virginia, when Charles Thomson, the secretary of the Continental Congress, rode up on horseback. Thomson had a letter for Washington from the president pro tempore of the new, constitutionally created United States Senate, telling Washington that he'd just been elected president and the inauguration was set for April 30 in the nation's capital, New York City.[1]

This created two problems for Washington.

The first was saying goodbye to his 82-year-old mother, which the 57-year-old Washington did that night. She gave him her blessing and told him it was the last time he'd see her alive, as she was gravely ill; and, indeed, she died before he returned from New York.

The second problem was finding a suit of clothes made in America. For that he sent a courier to his old friend and fellow general from the American Revolutionary War, Henry Knox.

Washington couldn't find a suit made in America because in the years prior to the American Revolution, the British East India Company (whose tea was thrown into Boston Harbor by outraged colonists after the Tea Act of 1773 gave the world's largest transnational corporation a giant tax break) controlled the manufacture and the transportation of a whole range of goods, including fine clothing. Cotton and wool could be grown and sheared in the colonies, but it had to be sent to England to be turned into clothes.

This was a routine policy for England, and it is why until India achieved its independence in 1947 Mahatma Gandhi (who was assassinated a year later) sat with his spinning wheel for his lectures and spun daily in his own home. It was, like his Salt March, a protest against the colonial practices of England and an entreaty to his fellow Indians to make their own clothes to gain independence from British companies and institutions.

Fortunately for George Washington, an American clothing company had been established on April 28, 1783, in Hartford, Connecticut, by a man named Daniel Hinsdale, and it produced high-quality woolen and cotton clothing as well as items made from imported silk.[2] It was to Hinsdale's company that Knox turned, and he helped Washington get—in time for his inauguration two weeks later—a nice, but not excessively elegant, brown American-made suit. (He wore British black later for the celebrations and the most famous painting.)

When Washington became president in 1789, most of America's personal and industrial products of any significance were manufactured in England or in its colonies. Washington asked his Treasury secretary, Alexander Hamilton, what could be done about that, and Hamilton came up with an 11-point plan to foster American manufacturing, which he presented to Congress in 1791. By 1793 most of its points had either been made into law by Congress or formulated into policy by either President Washington or the various states, which put the country on a path of developing its industrial base and generating the largest source of federal revenue for more than a hundred years.

Those strategic proposals built the greatest industrial powerhouse the world had ever seen and, after more than 200 successful years, were abandoned only during the administrations of Ronald Reagan, George H. W. Bush, and Bill Clinton (and remain abandoned to this day). Modern-day China, however, implemented most of Hamilton's plan and has brought about a remarkable transformation of its nation in a single generation.

Hamilton's 11-point plan for "American manufactures" is a primary inspiration for this book (see sidebar). It was part of a larger work titled *Alexander Hamilton's Report on the Subject of Manufactures: Made in His Capacity of Secretary of the Treasury.*

Alexander Hamilton's 11-point Plan for "American Manufactures"

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.…

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 [import taxes, now called "tariffs"]—
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.…[I]t 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 fill on raw materials, wear a beneficent aspect towards the manufacturers of the country.

II. Prohibitions of rival articles, or duties equivalent to prohibitions.

This is another and an efficacious mean of encouraging national manufactures;…Of duties equivalent to prohibitions, there are examples in the laws of the United States…but they are not numerous.…*[I]t 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 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 practised upon by the government of the United States, (unless the allowance on the exportion of dried and pickled fish and salted meat, could be considered as a bounty,) and though it is less favoured 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 per cent duty on the foreign article converted into a bounty on the domestic, will have an equal effect with a duty of two per cent 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 per cent; in the other, in that of two per cent. 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.…
4. Bounties are sometimes not only the best, but the only proper expedient, for uniting the encouragement of a new object.…

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.…

[P]ecuniary bounties are in most cases indispensable to the introduction of a new branch.…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.…

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.…

VI. The exemption of the [raw] materials of manufactures from duty.

The policy of that exemption, as a general rule, particularly in reference to new establishments, is obvious. . . . 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, clothes, 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.

VII. Drawbacks of the duties which are imposed on the materials of manufactures. . . .

[S]uch drawbacks are familiar in countries which systematically pursue the business of manufactures; which furnishes an argument for the observance of a similar policy in the United States; and the idea has been adopted by the laws of the Union, in the instances of salt and molasses. It is believed that it will be found advantageous to extend it to some other articles.

VIII. 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. . . .

It is customary with manufacturing nations to prohibit, under severe penalties, the exportation of implements and machines, which they have either invented or improved.…As far as prohibitions tend to prevent 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 improve the quality and preserve the character of the national manufactures…

X. 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.

XI. The facilitating of the transportation of commodities.

Improvements favouring 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 manufacturers of Great Britain, than the meliorations 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…

These examples, it is to be hoped, will stimulate the exertions of the government and 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....

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 a town. They are upon that account, the greatest of all improvements."...

It may confidently be affirmed, that there is scarcely any thing, which has been devised, better calculated to excite a general spirit of improvement, than the institutions of this nature. They are truly invaluable.

In countries where there is great private wealth, much may be effected by the voluntary contributions of patriotic individuals; but *in a community situated like that of the United States, the public purse must supply the deficiency of private resource. In what can it be so useful as in prompting and improving the efforts of industry?*

All which is humbly submitted.

Alexander Hamilton
Secretary of the Treasury

Note: This excerpt has been edited for length by the author, eliminating Hamilton's debate with Jefferson over an industry- versus agriculture-based economy. The italics are Hamilton's.

Source: http://www.archive.org/details/alexanderhamilt00caregoog

Hamilton looked at the nation and determined what needed to be done to rebuild the country after the Revolutionary War had devastated it and subservience to England's Tudor Plan "free trade" policies had left Americans without any significant domestic industrial base.

In the same tradition, this book goes through 11 steps we can take today to rebuild our country in the wake of the devastation of 30 years of Reaganomics and how we can recover the industrial base we've lost to the "free trade/flat earth" idiocy of the Reagan-Bush-Clinton-Bush era.

11 Ways

Chapter 1, "Bring My Job Home!" covers how economies work and why we need to heed Alexander Hamilton's advice. It points out that simply moving money around or creating a service economy ("Do you want fries with that?") doesn't produce long-lasting wealth in a country; only manufacturing does. Political economist Adam Smith pointed out that it's the application of human labor to raw materials—his example was turning a tree branch into an axe handle—that fuels a growing economy. We've gone from more than 20 percent of our economy being based on manufacturing before Reagan to around 11 percent now. This has left us in the precarious position of being unable to make a missile or an aircraft carrier that we may need if we have to defend Taiwan from China without parts from the communist dictatorship of China. These "free trade/flat earth" policies are stupid on national security grounds as much as anything else, but their major impact has been to dismantle the American middle class and consequently put our democracy itself at risk.

Chapter 2, "Roll Back the Reagan Tax Cuts," points out how when top income-tax rates on millionaires and billionaires are above 50 percent, not only does the gap between the very rich and the working poor shrink but the nation's economy stabilizes and grows. One of the most interesting features of this chapter is a little-known study done by the chairman of the libertarian Cato Institute, which found that Ronald Reagan's and George W. Bush's tax cuts actually *stimulated the growth* of the size of government, whereas the higher taxes that had preceded Reagan and the increased taxes under Clinton (passed into law without a single Republican vote) actually *shrank* the size of government.

Chapter 3, "Stop Them from Eating My Town," covers the ground of monopoly- and crony-capitalism, an economic system born and bred when Reagan stopped enforcing the Sherman Antitrust Act of 1890. From too-big-to-fail to too-big-to-allow-competition, oligarchic corporations have come to dominate virtually every major sector of the American economy; the result has been the devastation of local economies and the prevention of new entrepreneurial small ventures. In the 200 years before Reagan, the downtowns and the business districts of every city in this nation were unique—and locally owned and operated. There was a certain inefficiency associated with it, but that inefficiency guaranteed healthy local businesses and communities. Only when we roll back Reagan's hands-off policies on Big Business and re-embrace the "trust-busting" practices of Republican Theodore Roosevelt will we see a revitalization of Main Streets across America.

Chapter 4, "An Informed and Educated Electorate," begins by showing how badly our news media has deteriorated, how it caters only to what people want and not to what they need, and how important it is that we take our media back from the profit-hungry monopolies that have abandoned the public-service mission of media. This chapter also tells the story of Thomas Jefferson's dream—made explicit when he founded the University of Virginia as this nation's first *free* college—that every American, regardless of birth or station, should be able to get an education from primary school through postgraduate university programs—*at no cost.* Spending on the education of young people pays back handsomely when they go on to make the society richer and, because of their higher incomes, provide higher income-tax revenues. When Reagan took a budgetary axe to the University of California and ended its free admissions policy, he handed to the countries of Europe and Asia the opportunity to overtake us in everything from patent applications to doctor-to-patient ratios to excellence in engineering and invention. And they've taken that opportunity. We need to take it back.

Chapter 5, "Medicare 'Part E'—for Everybody," points out how a nation that liberates its citizens from worrying about getting proper medical care is a nation of entrepreneurs, innovators, and stress-free families. It's also a nation that can successfully compete internationally for manufacturing work, when companies are free of health insurance burdens. Instead of handing off trillions of dollars to for-profit health insurance companies—which are forbidden by law in *every other industrialized nation on earth* from providing basic health insurance—we have attached giant corporate leeches to our own backs. The salt we need to pour on them is a national single-payer health insurance system—simply by expanding Medicare to include all Americans and plugging the loopholes in it that have been drilled by corporate lobbyists and their wholly-owned prostitutes…er…politicians.

Chapter 6, "Make Members of Congress Wear NASCAR Patches," tackles the problem of our private money–fueled electoral system and all the havoc it has wreaked. We need to fix—seal, really—the revolving door between government and industry; repair our monetary, investment, and banking systems; and change how we finance campaigns in this country. The idea of public financing of campaigns has recently been made very problematic by five Republicans on the U.S. Supreme Court, who ruled in 2010 that corporations are "persons" with full "free speech" rights under the First Amendment. This chapter offers some workarounds, and chapter 10 takes on the problem of the Court's decision directly.

Chapter 7, "Cool Our Fever," shows the incredible problems that arise from our own addiction to oil, especially in transportation, and it calls out the corporations and the billionaires who are making fortunes by pumping carbon into our atmosphere, putting all life on earth at risk—including us. The solutions include a carbon tax, but we must act soon.

Chapter 8, "They Will Steal It!" is based on one of the greatest foreign policy insights I've ever gotten, shared with me by activist and comedian Dick Gregory at around 3:00 A.M. as we were well into our third glass of wine and about five miles above the Atlantic Ocean on our way to Uganda. It is about how we cannot force other countries through military might to adopt our values of democracy and an open society—and how they will steal our ideas and our values if we engage them constructively so they can see how they can benefit from those ideals. It's high time that America became less dependent on the military by cutting back the Pentagon, by bringing back the draft, and by returning to a functional democratic republic like our Founders envisioned and most of the developed countries of the world enjoy.

Chapter 9, "Put Lou Dobbs out to Pasture," addresses the problem of what's popularly referred to as "illegal immigration," when, in reality, it is a problem of economics and illegal hiring by American companies. The problem started in 1986, when Reagan granted a blanket amnesty to millions of people who'd come into this country illegally, declared war on unions, and thus broke down the main barrier to entry to the workforce for people here without citizenship. The result has been more than 10 million noncitizens flowing across our borders (from countries all over the world—many come in on tourist or student visas and simply stay after their visa has expired), producing a massive dilution of the labor market. Add to that incendiary mixture a few right-wing racists pointing out the immigrants and telling frightened American workers, "Those *brown people* want your jobs!" and you have an explosive brew. We can fix all of this by cracking down on companies illegally hiring "undocumented workers" and by tightening the labor market to shore up wages for American workers.

Chapter 10, “Wal-Mart Is *Not* a Person,” tells the story of how back in the 1880s corporations—then the railroad corporations, the giants of the Robber Baron Era—turned to the U.S. Supreme Court to give them human rights under the Constitution. Although the Court didn’t actually do that, the court reporter *wrote* that they did, and for 130 years we’ve seen the creeping encroachment of the corporate form into rights our Founders fought and died for to give exclusively to humans. The pinnacle of this came in 2010 when the Supreme Court ruled that corporations are people and have political free-speech rights to spend millions, even billions, of dollars for or against political candidates and ballot initiatives. The result—if not fixed soon—will be the complete transformation of this country from a democracy into a corporate plutocracy. We need to block the Court in this superactivist behavior by amending the Constitution to say that only *humans* are “people.”

Chapter 11, “In the Shadow of the Dragon,” tells the story of a visit to the Mondragon Cooperative headquarters in the town of the same name in the Basque region of Spain in late 2009. We saw one of the world’s largest *worker-owned* businesses, with more than 90,000 employees turning over more than $14 billion a year worldwide. There are alternatives to the traditional top-down investor-owned corporate form, and people around the world are increasingly embracing these alternatives because they are better for local communities, better for the workforce, and better for the environment. The only losers are billionaires, particularly those who own most of our media and thus never tell you that every corporation in Germany, for example, must have at least 50 percent of its board of directors coming directly from the ranks of labor.

The conclusion, “Tag, You’re It!” is about tried-and-true methods—most that we’ve used before in this country and all that we’ve at least flirted with—that can bring back a strong middle class and restore America to stability and prosperity without endangering future generations. It’s straightforward, easily understood, and the only obstacle to implementing virtually every chapter's suggestion is the power of vast wealth (usually corporate wealth). Past presidents—most famously Teddy and Franklin Roosevelt—have openly challenged that corporate power, and the time has come for the current or next president (and Congress) to do the same. But they won't if *We the People* don't demand it.

This book is an outline to lay down those demands. Good luck!

CHAPTER 1

Bring My Job Home!

> ***By preferring the support of domestic to that of foreign industry,*** *he [the entrepreneur] intends only his own security, and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.*
>
> —Adam Smith, *Wealth of Nations*, 1776*

THE WHITE HOUSE CALLED ME.

About a year after President Barack Obama took office, on the first anniversary of his major economic recovery legislation, his administration was struggling to get the word out that the legislation was, in fact, quite a success story. I found myself invited to the White House as part of a small group of well-known authors and bloggers to meet with a top administration economist as part of this promotion effort.

It was an odd problem they were facing, given that this president was masterful during the 2008 election campaign in communicating his ideas and his vision to the American public. So what happened? Why didn't America know that the $787 billion legislation represented one of the largest middle-class tax cuts in American history, that it had demonstrably created or preserved

*Emphasis added to rebut "free trade" misuse of this quote, as free-traders always drop the first 11 words.

between 1.5 million and 3 million jobs, and that it had, in all probability, prevented the severe recession Obama inherited from George W. Bush from turning into a second Republican Great Depression, at least in the short term?

Part of the problem was that the Democrats hadn't much mentioned or marketed the legislation leading up to the one-year anniversary, nor had they given it a catchy name—a "New Deal" or "Contract with America" sort of thing—leaving it instead as a "stimulus bill" (officially called the American Recovery and Reinvestment Act of 2009).

A second problem was that a lot of the Republicans in Congress—the Disloyal Opposition—were blatantly lying to the American public about the bill's impact, saying it had created absolutely no jobs. Adding insult to injury, they were simultaneously attending ribbon-cutting and check-giving ceremonies in their own districts, celebrating its successes—even though they all voted against it. Most of the corporate media didn't bother to even mention the irony or hypocrisy of this.

The Democrats in Congress and the Obama administration had, in fact, crafted and passed legislation that moved money into the hands and the pockets of working people, who spent virtually all of it, which fueled the economy by direct stimulation and its multiplier effect, as intended. The bill reduced both tax and deduction rates for working people and poured billions of dollars into programs designed to get people to buy new products—programs like the $3 billion "Cash for Clunkers," which offered incentives for people to trade in gas guzzlers for fuel-efficient vehicles.

What drove the legislation was precisely what drove Franklin D. Roosevelt's New Deal, which got us out of the Great Depression: Keynesian economics. John Maynard Keynes, the British economist, believed in the private sector but also in a strong government role, especially during dire economic straits. Keynes understood that *demand* from consumers drives an economy; and when consumers don't have a job, an economy will stagnate or worse. So during a cyclical depression, the best response of government is to use government money—even borrowed government money if need be—to put people to work so they'll have money to buy things.

Those expenditures by working-class people—on computers, television sets, clothes, toys, furniture, power tools, and so on—would help restart the economy, which would grow gross domestic product (GDP) and tax revenues, so government would be able to pay back the borrowed money and wean people off of government jobs as private industry picked up the load. (Keynes even suggested that this was such an important principle that it would work if government simply hired one man to dig a hole and another man to fill it back up a week later.)

It worked in the 1930s with federal projects like Roosevelt's Civilian Conservation Corps (CCC), which put 3 million Americans to work on various conservation and natural resources projects; his Works Progress Administration (WPA), which employed millions on public works projects; and an alphabet soup of other "pubic employment" agencies. That same principle—government stimulating the economy through job creation—was working in 2010, albeit anemically, in large part because the stimulus bill was one-third the size it should have been. It was a vindication of Keynesian economics, but nobody knew it outside of political insiders and policy wonks because the stimulus package hadn't been large enough to actually create a net surplus of jobs. Instead it had only stopped the hemorrhaging that had started during the Bush administration with the loss of more than 7 million jobs in less than two years.

So there I was at the White House, listening to the top economist trying to figure out why this "stimulus bill" had not really stimulated much of anything, certainly not good PR for Obama. For example, four days later a front-page headline in the *New York Times* blared "Despite Signs of Recovery, Chronic Joblessness Rises." Among other things, the article reported that more than 6.3 million Americans had been jobless for more than six months, the largest number since government started tracking joblessness in 1948, and more than 15 million Americans were jobless in January 2010.[1]

What happened to Keynes? How could hundreds of billions of dollars pumped into the economy fail to create jobs making things that working people could buy? If it worked so well in the 1930s and the 1940s, why did it fail to go beyond just "stopping the bleeding" and move into the net creation of new manufacturing jobs in the United States in the 2010s?

In fact, it hadn't failed. It *did* create millions of jobs—probably tens of millions of jobs. The problem is that they were mostly in China.

The simple fact is that we no longer make computers or TVs or clothes or power tools or toys or pretty much anything in the USA, except military hardware, processed food, and pharmaceuticals. So when we "stimulate" our economy by putting money into the pockets of working people, they go to Wal-Mart and buy things made in Asia—creating jobs in *that* part of the world.

So here is the first big way we can reboot the economy: lose our recent fascination—obsession, really—with "free trade," get back to protectionism, and impose tariffs (import taxes) on imported consumer goods as we used to do. Let's apply the lessons that our own rich history teaches us. In other words, let's resume the manufacture of consumer goods in the United States, protect these industries from cheap foreign labor, and bring all those jobs back home.

The High Cost of "Free Trade"

During the 1930s none of the "Asian powerhouse economies" had adopted American industrialization strategies, so when Roosevelt put money into workers' pockets and they bought toys or clothes or radios, all of those items were made in Alabama or Connecticut or Michigan. Now they're made in China, which experienced a "labor shortage" in 2009, causing its average wage to increase from $0.80 per hour to $1.14 and its economy to grow by more than 8 percent.[2]

China has been following the lead of Japan, Taiwan, and South Korea during the past half century and has become an industrial powerhouse as a result. And, ironically, each of those countries got its strategy from us: George Washington's Treasury secretary, Alexander Hamilton, proposed it in 1791, and by 1793 most of the parts of his *Report on the Subject of Manufactures* had been instituted as a series of legislative and policy steps.[3]

And it didn't start with Hamilton; he was just building on King Henry VII's "Tudor Plan" of 1485, which turned England from a backwater state with raw wool as its chief export into a major developed state that produced fine clothing and other textile products from wool. He accomplished this by severely restricting the export of wool from England with high export tariffs and restricting the import of finished woolen products with high import tariffs. King Henry learned this from the Dutch. They copied the Romans. And the Romans got it from the Greeks three thousand years ago.

Nonetheless, President Obama continues to follow his predecessors—Bush Jr., Clinton, Bush Sr., and Reagan—in the religious belief that "free trade" will save us all. It's nonsense. "Free trade" is a guaranteed ticket to the poorhouse for any nation, and the evidence is overwhelming. Even the very phrase *free trade* was introduced by Henry VII as something that England should encourage *other* countries to do while *it* maintained protectionism.

The Korean Experience

A more contemporary example of the application of that wisdom can be seen in South Korea. In the 1960s Korea was an undeveloped nation whose major exports were human hair (for wigs) and fish and whose average annual income was around $400 per working family. Today it's a major industrial power with an average annual per capita income of more than $32,000, and it beats the United States in its rate of college attendance, exports, and lifespan. Korea did it by closing its economy and promoting its export industries. A decade earlier Japan had done the same thing. Forty years earlier Germany had done it.

In July 2009, with no evident irony or understanding of how South Korea went about becoming a modern economic powerhouse, President Obama lectured the countries of Africa during his visit to Ghana. As the *New York Times* reported: "Mr. Obama said that when his father came to the United States, his home country of Kenya had an economy as large as that of South Korea per capita. Today, he noted, Kenya remains impoverished and politically unstable, while South Korea has become an economic powerhouse."[4]

In the next day's newspaper, the lead editorial, titled "Tangled Trade Talks," repeated the essence of the mantra of its confused op-ed writer, Thomas L. Friedman, that so-called free trade is the solution to a nation's economic ills. "There are few things that could do more damage to the already battered global economy than an old-fashioned trade war," the *Times* opined. "So we have been increasingly worried by the protectionist rhetoric and policies being espoused by politicians across the globe and in this country."[5] But South Korea did not ride the "free trade" train to success.

South Korean economist Ha-Joon Chang details South Korea's economic ascent in his 2007 book *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism.* In 1961 South Korea was as poor as Kenya, with an $82 per capita annual income and many obstacles to economic strength. The country's main exports were primary commodities such as tungsten, fish, and human hair for wigs. That's how the Korean technology giant, Samsung, started—by exporting fish, fruits, and vegetables. Today it's the world's largest conglomerate by revenue ($173 billion in 2008). By throwing out "free trade" and embracing "protectionism" during the 1960s, South Korea managed to do in 50 years what it took the United States 100 years and Britain 150 years to do.[6]

After a military coup in 1961, General Park Chung-hee implemented short-term plans for South Korea's economic development. He instituted the Heavy and Chemical Industrialization program, and South Korea's first steel mill and modern shipyard went into production. South Korea also began producing its own cars and used import tariffs to discourage imports. Electronics, machinery, and chemical plants soon followed—all sponsored or subsidized and tariff-protected by the government. Between 1972 and 1979, the per capita income grew more than five times. In addition, new protectionist slogans were adopted by South Korean citizens. For example, it was viewed as civic duty to report anyone caught smoking foreign cigarettes.

All money made from exports went into developing industry. South Korea enacted import bans, high tariffs, and excise taxes on thousands of products.

In the 1980s South Korea's economy was still far from that of the industrialized West, but the country had built a solid middle class. South Korea's transformation was, to quote Chang, as if "Haiti had turned into Switzerland." This transformation was accomplished through protecting fledgling industries with high tariffs and subsidies and by only gradually opening itself to global competition.

In addition, the government ran or heavily funded many of the larger industries, at least until they were globally competitive. The government ran or regulated the banks and therefore the credit. It controlled foreign exchange and used its currency reserves to import machinery and industrial products. At the same time, the government tightly controlled foreign investment in South Korea and largely ignored enforcement of foreign patent laws. Korea focused on importing basic goods, to fuel and protect its high-tech industries with tariffs and subsidies.

Had South Korea adopted the "free trade" policies espoused by Friedman and the *New York Times,* it would still be exporting human hair.

Another favorite Friedman free-trade example is the success of Toyota's Lexus luxury car, immortalized in his book *The Lexus and the Olive Tree.* But again, the reality is quite different from what Friedman naïvely portrays in his book. In fact, Japan subsidized Toyota not only in its development but even after it failed terribly in the American markets in the late 1950s. In addition, early in Toyota's development, Japan kicked out foreign competitors like General Motors. Thus, because the Japanese government financed Toyota at a loss for roughly 20 years, built high tariff and other barriers to competitive imports, and initially subsidized exports, auto manufacturing was able to get a strong foothold, and we now think of Japanese exports as being synonymous with automobiles.

Founding Father Knows Best

For about 200 years, we understood well the benefits of tariffs, subsidized exports, and protectionist policies in the United States. Had the Founders, like Abraham Lincoln, George Washington, Andrew Jackson, or Ulysses S. Grant, applied for loans from the International Monetary Fund (IMF), they would have been denied: all of them believed in high tariffs and a heavy control of foreign investment and considered "free trade" absurd.

But it was another Founding Father, Alexander Hamilton, who knew best how to spawn American industry to make the country independent and competitive. As the nation's first Treasury secretary, Hamilton submitted his *Report on the Subject of Manufactures* in 1791 to the U.S. Congress, outlining the need for our government to foster new industries through "bounties" (subsidies) and subsequently protect them from foreign imports until they become globally competitive. Additionally, he proposed a road map for American industrial development. These steps included protective tariffs on imports, import bans, subsidies, export bans on selected materials, and the development of product standards. (See "Alexander Hamilton's 11-point Plan for 'American Manufactures'" in the introduction.)

It was this approach of putting America first that our government followed for most of our history, with average tariffs of 30 to 40 percent through the nineteenth and twentieth centuries. There is no denying that it helped turn America into an industrial and economic juggernaut in the midtwentieth century and beyond. The three periods when we radically dropped tariffs—for three years in 1857, for nine years in 1913, and by Reagan in 1987—all were followed by economic disasters, particularly for small American manufacturers.

The post-Reagan era has been particularly destructive to our economy because we not only mostly eliminated the tariffs but we also became "free trade" proponents on the international stage. After Reagan blew out our tariffs in the 1980s and Clinton kicked the door off the hinges with the General Agreement on Tariffs and Trade (GATT), North American Free Trade Agreement (NAFTA), and World Trade Organization (WTO), our average tariffs are now around *2 percent.* The predictable result has been the hemorrhaging of American manufacturing capacity to those countries that do protect their industries through high import tariffs but allow exports on the cheap—particularly China and South Korea.

The irony is that we have abandoned Hamilton's advice—and our own history—while China, South Korea, Japan, and other nations are following his prescriptions and turning into muscular and prosperous economic entities.

It's high time we relearned Alexander Hamilton's lessons for our nation.

The first third of Hamilton's report deals with Jefferson's objections to it (withdrawn later), which were primarily over the subsidies to industry, as Jefferson in 1791 favored America's being an agricultural rather than an industrial power. After that, Hamilton gets to the rationale for, and the details of, his 11-point plan to turn America into an industrial power and build a strong manufacturing-based middle class.

First, Hamilton notes that real wealth doesn't exist until somebody makes something. A "service economy" is an oxymoron: if I wash your car in exchange for your mowing my lawn, money is moving around, it's an "economy" of some sort, but no real and lasting wealth is created. Only through manufacturing, when $5 worth of iron ore is converted into a $2,000 car door, or $1 worth of raw wool is converted into a $1,000 suit, is real wealth created. Hamilton also notes that people being paid for creating wealth (manufacturing) creates wages, which are the principal engine of demand that drives an economy. And both come from a generally protectionist foreign-trade policy.

In an early version of Keynesian economics, Hamilton noted that when people make things, they also earn money, which will be used to buy more things, thus creating a real economy with things of real value circulating in it. In addition, Hamilton saw a clear government role in fostering manufacturing, not just in subsidizing it until it could compete on its own but also in crafting a foreign policy that favored the protection of American enterprises. "It is for the United States to consider by what means they can render themselves least dependent," on other nations' manufactures, Hamilton wrote, "on the combinations, right or wrong, of foreign policy."[7]

But there were many voices—the loudest being the young Thomas Jefferson—who argued that instead of becoming an industrial power the United States should remain an agricultural nation. Hamilton believed that both were possible, and there would even be a desirable synergy between the two. He felt that if America wanted to be competitive, it couldn't just leave it to the free market, at least not until homegrown industries were robust enough to compete on their own in the international marketplace.

Government ought to play a role in fostering a strong industrial base, he argued: "To produce the desirable changes, as early as may be expedient, may therefore require the incitement and patronage of government." In fact, Hamilton believed that success was not possible without government. "To be enabled, to contend with success, it is evident that the interference and aid of their own government are indispensable," he wrote.

His reasons were pretty straightforward: it would take government's power to set up a playing field for the game of business where investors who would otherwise be able to make more money overseas would keep their money in the United States. "There are weighty inducements to prefer the employment of capital at home, even at less profit, to an investment of it abroad, though with greater gain," he wrote.

Having provided this overview, Hamilton got right to the meat of the matter—his 11-step plan (see the sidebar in the introduction). It called for government to take an active role in developing its own industry, in discouraging imports through tariffs and prohibitions, in building transportation routes at home for internal trade, and in subsidizing manufacturing until companies become strong enough to compete on their own.

Consider the historical impact of Hamilton's plan, which was adopted in a series of piecemeal legislative steps mostly in 1793: tariffs became so important that they constituted pretty much the only source of revenue for the federal government until the Civil War, and they were the single largest source of federal revenue from then until World War I. And even when the U.S. government grew exponentially in the lead-up to World War II, fully one-third of all federal revenues came from tariffs.

It is only since the Reagan era and subsequently with Bush Sr., Clinton, and then Bush Jr., that we have forsaken tariffs and have been chanting the "free trade" mantra—to our own detriment and destruction. A protectionist approach, including tariffs, is what the USA needs so that it can get back in the game of manufacturing—before it's too late.

Rebooting the Economy

So in my meeting in February 2010 at the White House, I pointed out to the administration economist that when Ronald Reagan came into office, as the result of 190 years of Hamilton's plan, the United States was the world's largest importer of raw materials; the world's largest exporter of finished, manufactured goods; and the world's largest creditor.

After 30 years of Reaganomics, we've completely flipped this upside down: we've become the world's largest exporter of raw materials, the world's largest importer of finished goods, and the world's largest debtor. We now export raw materials to China, and buy from it manufactured goods. And we borrow from China to do it. I pointed out that China's "stimulus package"—about the same size as ours at around $800 billion—could explicitly be spent only on Chinese-made products from Chinese-owned companies employing only Chinese workers. Ditto for the 2009 Japanese version of "Cash for Clunkers," which mandated the purchase of only Japanese cars.

Although no fan of the Reagan revolution, the Obama administration's economic policy team is no fan of protectionism either. Nevertheless, the senior economist at the table reiterated the administration's goal of creating "new jobs" here in the United States.

Well, here's how we can do it.

Create New Jobs Here at Home

First, charge an import tax—a tariff—on goods made overseas that compete with domestic manufacturers, while keeping import taxes low on raw materials that domestic industries need.

Somehow it has become unfashionable in the post-Reagan era to talk about tariffs. An easy way of explaining tariffs is to say, "If there's a dollar's worth of labor in a pair of shoes manufactured in the United States, and you can make the same pair of shoes with twenty cents worth of labor in China, we're going to charge you an eighty-cent tariff when those shoes are imported into the United States. If you can make them with fifty cents of labor in Mexico, our import tariff from Mexico is fifty cents." In short, import duties are used to equalize manufacturing costs and protect domestic industries.

And the tariffs' equalizing effects shouldn't be limited to labor. Products from countries where toxic chemicals can just be poured into rivers (eventually ending up in the oceans we all share) instead of being more expensively disposed of or recycled, should be assessed a tariff to reflect that environmental cost. The same should apply to the way they generate their electricity (for example, using old coal-fired power plants that belch toxins into our air) to manufacture parts for the products.

Second, pull us out of the WTO, NAFTA, CAFTA (Central American Free Trade Agreement), and the rest, and mandate that all purchases made with U.S. taxpayers' dollars be spent on goods and services provided by American workers employed by U.S.-domiciled and -incorporated businesses on American soil. No exceptions. (No more hiring Dubai-based Halliburton, for example.)

Third, have the government support new and emerging industries through tax policy, direct grants, and funding things like the National Institutes of Health, which funds most university research that leads to profitable new drugs for our pharmaceutical companies. In Japan it's the Ministry of Industry and Trade that helped develop the Lexus so beloved by Thomas Friedman. There is no shame in subsidizing our own companies—so long as they show their loyalty to the nation by employing American workers, investing in American enterprises, and not engaging in international business ventures that hurt America.

Then there are other tax incentives and domestic policies to pursue that will benefit the creation of jobs at home. Encourage Americans to save so that there's a strong pool of investment capital for businesses to borrow against and grow. The best way to do this is to offer people an above-the-inflation-rate interest rate on savings. This could easily be accomplished by offering U.S. government savings bonds with a guaranteed rate of return (for example, inflation plus 3 points) and limiting their purchase to people who have a net worth of less than $5 million and selling no more than $1 million per person. This would establish a benchmark against which banks would have to compete, stimulating private banks and credit unions to offer higher returns on savings.

These are bold moves, no doubt, for any president or party to make, but they do have the advantage of pleasing the Tea Party conservative populists as well as the Coffee Party progressive populists. Of course, such protectionist policies would not sit well with some of the multinational conglomerates, whose loyalty is not to America but to their investors and shareholders. A lot of them manufacture products in China or Vietnam and sell them here at a huge profit without giving a damn about the consequences of these actions to American workers.

And these multinational corporations have newfound power, given the recent *Citizens United v. Federal Election Commission* decision of the U.S. Supreme Court (see chapter 10) asserting that even foreign corporations are persons with constitutional protections of things like free speech. Now they can freely carpet-bomb politicians they either love or hate with cash or attack ads during elections. This poses a serious threat to any politician who pushes policies or legislation that is not in the financial interest of the corporations—even if it *is* in the economic interest of the USA.

Whether it was coincidental or consequential, a week after that Supreme Court decision President Obama was backpedaling on many of his criticisms of bankers and other companies who could easily outspend him or any other politician or political party.

And no matter how well the authors and the bloggers I was with at the White House can help President Obama and the Democrats in Congress tell the story of their accomplishments, that ability of corporations to now promote or destroy a politician or political party is a problem that—like our persistent unemployment arising from our loss of manufacturing—is not going to go away on its own. The President and Congress need to do something drastic, like amending the Constitution to say that corporations are not "persons," and reinstituting the trade policies that worked so well from the time of George Washington to, most recently, Harry S. Truman, Dwight D. Eisenhower, John F. Kennedy, Lyndon Baines Johnson, Richard M. Nixon, and Jimmy Carter.

Instead, Obama and the Democrats seem to have joined the Republicans in drinking the Tom Friedman Kool-Aid, and Middle America is looking more and more like Jonestown.