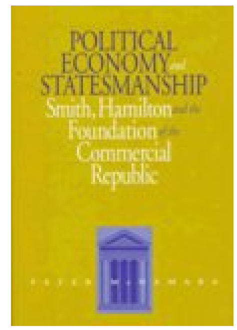
H-Net Reviews
in the Humanities & Social Sciences

**Peter McNamara.** *Political Economy and Statesmanship: Smith, Hamilton, and the Foundation of the Commercial Republic.* DeKalb: Northern Illinois University Press, 1998. xi + 191 pp. $35.00 (cloth), ISBN 978-0-87580-228-2.




**Reviewed by** Richard Sylla (Department of Economics, Stern School of Business, New York University)
**Published on** EH.Net (April, 1998)

## TWO FOUNDING FATHERS

Peter McNamara, a political scientist at Utah State University, compares and contrasts the political economies of Adam Smith (1723-1790), founding father of Economics, and Alexander Hamilton (1757-1804), the founding father of the United States most involved in shaping the country's financial and economic systems. From a thorough study of the writings of the two–and in Hamilton's case, from his activities in the public arena–McNamara draws out a number of implications and conclusions. His bottom line may surprise you, although it did not surprise me: "The chief conclusion…is that the *example* of Hamilton's words and deeds provides a more useful guide for a liberal statesman than does the economic *model* yielded by Smith's science of political economy" (McNamara's emphasis). This conclusion is related to McNamara's own agenda, to which I shall return.

The careers of Smith and Hamilton intersected in the great events of the last quarter of the eighteenth century. *The Wealth of Nations* appeared just before the Declaration of Independence, and in it Smith devoted some attention to the "colonial disturbances." He gave little credence to American protests over taxes and mercantilist regulations. Taxation of the colonies was justified by Britain's costs of defending them, and regulation–while bad in principle–had done little actual harm. For Smith, the Americans' real economic advantage was, and long would remain, agriculture. Smith thought the Americans were fortunate in this, because his theories had persuaded him that the productivity of agriculture was superior to that of either manufacturing or commerce. He also thought that rural life was less degrading of the human spirit than life in cities.

Smith's preferred solution to the colonial disturbances was peaceful separation. By saving on the costs of defense, this was in Britain's interest. But he realized that peaceful separation was "visionary" because it conflicted with the "pride" of the British nation and its ruling classes. His fallback position was therefore to grant the colonies free trade and representation in Parliament. That would likely satisfy the ambitions of colonial politicians. Given the superior productivity of agriculture and therefore America's economic and demographic prospects, America's leading men could look forward to the day when the seat of empire would move there. Had George III and Lord North followed Smith's advice, Parliament might now meet in Chicago, Toronto, or Kansas City, with Tony Blair, Jean Chretien, or Bill Clinton as Prime Minister, and the British Isles as somewhat more populated constituencies than Hawaii, Bermuda, Puerto Rico, and the Falklands.

Smith's work was well known to the U.S. founding fathers. His political economy extolling reason, enlightened self-interest, free trade, agriculture and rural life, and America's long-term prospects appealed to the likes of Jefferson, the idealist, and Madison, the realist, both members of Virginia's planter aristocracy. Much of it also appealed to Hamilton, like Madison a realist, but one with a more commercial and industrial outlook. But parts of Smith did not. Hamilton's 1791 Report on Manufactures, as has often been noted, is an extended and critical commentary on Smith's views. These views, given their appeal to many U.S. leaders, had to be addressed and in some cases refuted if Hamilton was to achieve his goals.

Because he dared to disagree with Smith and because of Smith's icon-like status amongst Jeffersonians, libertarians, and mainstream and public-choice economists, Hamilton's detractors have tended to dismiss him as a mercantilist, a regulator, and a statist. His admirers, in contrast, have viewed him as a modernizer, an advocate of economic growth and development with advanced insights into the roles technology and finance would play in them. Hamilton was not encumbered with the baggage of Smith's labor theory of value, his quaint theoretical notions of agriculture's superior productivity, his inadequate appreciation of new industrial technologies, his primitive ideas on money and finance, his laissez-faire ideology regarding government, or his undeveloped concepts of the threats nation-states might pose to one another in pursuing their real or imagined self-interests.

McNamara's contribution, it seems to me, is to move to the side these common characterizations and caricatures of Smith and Hamilton, and to raise to a higher plane the analysis of their agreements and differences. Simply put, McNamara says that the key difference between Smith and Hamilton is over method. Smith developed political economy as a deductive system, the conclusions of which should be the main guides to economic policy. Hamilton, on the other hand, distrusted the conclusions of deductive systems as practical guides to policy, preferring instead to rely on experience and history.

Smith launched a tradition that would revolutionize political economy. He began with broad, seemingly self-evident assumptions, such as that every person had a natural and rational interest in bettering his or her condition. He then deduced from the assumptions conclusions as to the optimality of free trade and the folly of governmental interferences with it. While still a revolutionary soldier and apparently before reading Smith, Hamilton in 1779 pronounced his judgment on deriving policy from such grand deductive systems: "A great source of error in disquisitions of this nature," Hamilton wrote in a long letter, "is the judging of events by abstract calculations, which though 'geometrically true' are 'practically false' as they relate to the concerns of beings governed more by passion and prejudice than by an enlightened sense of their interests."

McNamara shows that a recurring theme of Hamilton's thought, and of his statecraft, was the notion that passions and prejudices were at least as powerful in human affairs as rational self-interest. In his view, trade in history expanded not so much because the traders pursued their self-interest–other traders had just as much of an interest in stopping them–but because the enlightened statesmen of the Dutch Republic, England, and France established policies that overcame parochial passions and prejudices. Two centuries later, I would note, the economic historian Eli Heckscher said much the same thing in his great study, *Mercantilism*.

The problem as Hamilton saw it was that not all statesmen were enlightened. The pride of British leaders overcame their and their country's interest when they rejected Adam Smith's suggestions for preventing the American Revolution. As a result of British pride and prejudice, Hamilton had to spend six years of his life fighting the redcoats and the Hessians. In war, he learned to distrust the practicality of deductions based on assumptions of rational self-interest. When the war was over, Hamilton saw American proponents of state sovereignty and weak confederation, again for reasons of passion and prejudice, condemning the country for which he had fought to an early breakup and the endless commercial and political warfare that plagued the states of Europe.

Hamilton's solution, formulated in the 1780s with Madison and other nationalists, was a strong federal government to defend the United States against external threats and to subject the states to a higher sovereignty that would avoid European-like strife in North America. The federal government would have to have strong finances–public credit, a national bank, a common currency. Establishing these would also promote a financial system for the country that would give rise to "a general spirit of improvement," or economic development. The passions and prejudices of foreign nations also suggested to Hamilton that the U.S. government would be wise to take measures promoting manufactures, to diversify the American economy, put idle resources to work, and capture advantages of new technologies. This in essence is McNamara's interpretation of Hamilton's tenure as the new nation's Secretary of the Treasury from 1789 to 1795.

To keep the federal government itself from becoming a threat to liberty, Hamilton worked with other nationalists to create the Constitution's elaborate system of checks and balances. A strong executive (president) and an independent judiciary would counterbalance the legislative supremacy favored by many Americans. In Hamilton's conception, McNamara argues, constitutional government, not Smith's deductive science of political economy, set the parameters for economic statesmanship.

McNamara's skillful and thorough development of Smith's and Hamilton's contrasting approaches to political economy is the main contribution of his book. Each approach proved influential in U.S. history. Comparing and contrasting the Scottish theorist and system builder with the American applied economist and statesman helps us to understand the achievements and continuing appeal of each man's thought, and also Hamilton's deeds. In practice, America's political economy has been mainly Hamiltonian, and with Hamiltonian results–a nation that is more powerful, better governed, and richer than just about any other. Yet its dominant theory of political economy is still pretty much Adam Smith.

McNamara's study is provocative. He makes a strong case–which no doubt will be contested–for Hamilton as the more insightful and relevant thinker on political economy. But I think he may go too far in suggesting that Hamiltonian precepts of constitutional government could–and maybe should–replace the insights of Smith and mainstream economics in guiding statesmen. Smith, like Hamilton, recognized that there were exceptions to the general presumption for free trade. And Hamilton understood–even developed–insights of deductive economic theory. In his "Report on Manufactures," for example, he held that subsidies were better than tariffs as a method of promoting desired activities because they achieved the intended results without making the consumer pay a higher price. Economics, wise economists instruct us, is a bag of tools, and there is room under the big tent of political economy for Smithian and Hamiltonian insights.

McNamara doesn't like mainstream, deductive economics. His agenda calls or getting away from it, at least in political economy, and emphasizing instead the concept of statesmanship. I doubt he will persuade economists, though. If they can't fit entrepreneurship into their models, and therefore ignore it, how likely are they to find a place for statesmanship? Political scientists and historians will have to carry that torch.

I also wonder if McNamara is right in suggesting that Hamilton's example of economic statesmanship has much to offer new and developing nations, although I agree with him that it is relevant to current U.S. political economy, and also relevant in studying U.S. economic history. The lesson from Hamilton would seem to be to ground political economy in constitutional government and the rule of law. But using that as policy advice to leaders of new and developing nations strikes me as about as promising as telling aspiring musicians to study and follow Mozart's example if they want to become great composers.

I have spent a lot of time studying Hamilton. He was, I think, altogether exceptional in his ability to define a problem, think it through, come up with a good solution, persuade others that it was the right thing to do, and then see to it that the solution was implemented. As the British writer Paul Johnson says in his recent *A History of the American People*, "The truth is, Hamilton was a genius–the only one of the Founding Fathers fully entitled to that accolade–and he had the elusive, indefinable characteristics of genius." Europeans–Talleyrand and Lord Bryce are additional examples–have recognized that genius for two centuries. Without a Hamilton, they are still trying to implement Hamiltonian political economy. So when McNamara recommends following Hamilton's example as a guide to political economy elsewhere, he comes perilously close to adopting the sort of mainstream, "can-opener" economics he so dislikes: Assume we have a genius.