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Alexander Hamilton and Asian Capitalism

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Hamiltonian thinking about American policy in the Far East was guided by principles that changed very little until the cataclysmic events that swept through Asia in the 1940s. Even then, the changes were superficial; American thinking about the Far East today is visibly descended from the views of men like John Adams, Commodore Perry, and William Henry Seward (Mead. 1996: 99).

Introduction

Alexander Hamilton (1755-1804), extensive essayist (including *The Federalist*), long-serving aide de camp to George Washington (1732-1799), the first Secretary to the Treasury (1789-1795), and author of a series of *Reports to Congress*, takes his rightful place as one of the United States of America's founding fathers. Like all members of Washington administrations (1789-1797), Hamilton on taking office was acutely aware of the highly precarious nature of the new nation's future. What was to replace British rule was far from certain, and at the time the construction of a functioning republic beyond a small geographical area was considered by political orthodoxy to be dubious. In the economic and strategic realms, Hamilton immediately recognised that Britain's defeat in the War of Independence (1775-1783) in no way signalled the decline of the British Empire. Indeed the opposite was the case, with the British re-energised in their efforts to secure and expand their economic and strategic interests globally, including within the North American continent (Canada and the West). Hamilton, under the political protection of Washington, was to fully utilise his renowned intellectual vigour, his extensive practical knowledge gained from the War of Independence and his encyclopedic knowledge of fiscal affairs, to forge much needed fiscal, legal and strategic institutions for the new nation. Institutions that have proven capable of enduring the test of time and varying circumstances to ensure the United States of America's continued security and prosperity (throughout the remainder of this study simply referred to as the United States or U.S.). Hamilton's name will forever be associated with fighting for the United States' birth and then securing its political, economic and strategic sovereignty. This crucial work and legacy resonated further abroad beyond the United States by providing substantive answers to governance challenges faced by other leaders, of other nations, in other times. Hamilton's legacy to East Asian development, through both direct and indirect readings of his works by Asian leaders and through direct adaptation of the 'the American system' of commerce, trade and industry, is the focal point of this study.

The nations examined in this study beyond the United States include Japan, Taiwan and South Korea.

¹The authors recent manuscript *Common Foundations of American and East Asian Modernisation: from Alexander Hamilton to Junichero Koizumi* (2009: Select Books: Singapore) undertakes an extensive examination of the influence of Alexander Hamilton on the political economy of the U.S., Japan, Taiwan and South Korea .

Where possible, the use of policymakers, scholars and professional specialists who have actively participated in policy-making within these nations have been utilised as the primary sources. Japan has been chosen, as it was the first East Asian nation to undertake modernisation under the Meiji Restoration (1868-1912). Many of the Meiji leaders studied in and toured the United States extensively (1871), actively read Hamilton and the work of Hamiltonian advocates like United States General and President Ulysses S. Grant (1822-1885). They then moved onto Europe (1871/72) to read the work of Friedrich List and meet Bismarck in Berlin on a number of occasions. Japan was also chosen due to its position as a global and Asian regional economic giant and technological leader. Taiwan and South Korea are included in the study due to the direct policy and institutional transfer through Meiji Japan's colonialism during the pre-1945 period and due to the continuity of these Meiji economic foundations in the post-1945 period. The emergence of these nations as economic powers in such a relatively short time indicates the presence of common state-policy directions in state revenue, credit, industry, trade, education and industrial relations. What defines Hamilton, and indeed united all the central political figures of Japan, Korea and Taiwan in this study, is the fact that all based their economic decision-making on national interests. Without exception they, as Hamilton had a century earlier, ignored calls of any kind to apply universal principles to achieving economic sovereignty (Greenfeld 1992 and Chang 2002). Given the centrality of finance to Hamilton's work in securing the United States of America's peace and prosperity, the East Asian elite immediately placed significant emphasis on having members of their best and brightest enter the field of state fiscal governance. Consequently, for the purpose of this study the East Asian elite refers not only to those found within political institutions, but also those who control the state's revenue.

The Founding of the United States of America's Governance Institutions: Alexander Hamilton

Alexander Hamilton recognised that, for the United States, interventionism (selective credit, protectionism) was essential to provide it with economic independence from the industrial giant of the time, Britain. Hamilton had the unequivocal support of the first United States President, George Washington (1789-1797), in laying the state foundations for achieving economic sovereignty (Fallows 1995, Lind 1997, Brookhisher 1999, Anderson and Cayton. 2005 and Ellis 2004). Hamilton, like most of the founding fathers, recognised the importance of the renowned Scottish philosopher Adam Smith's (1723-1790) works by openly acknowledging both its strengths and weaknesses. Hamilton's balanced assessment of Smith's work was much informed by direct correspondence with Smith himself and with fellow founding father Benjamin Franklin (1706-1790). Hamilton and Franklin saw that Smith's work was not universally applicable, that a developing economy like the United States could not compete on an equal footing with the advanced mercantile British superpower. Their stance is in stark contrast to the post-1945 neoclassical schools continued highly selective examination of Adam Smith to advocate universal developmental

approaches (Ree 2006). Throughout his life Hamilton sought to gain and maintain the new nation's sovereignty and prosperity in the face of a powerful mercantile Britain. It was also a reaffirmation of what the Bostonians, like all their fellow North American brethren, saw as their rights as British citizens (Greenfeld 1992: 411–416). For they very much saw themselves not as rebels, but patriots, to be represented and consulted within British parliament in relation to colonial governance.

The Meiji elite pursued exactly the same path, with Japan attempting to maintain sovereignty in the face of both British and American encroachment. Their actions, therefore, are best defined not as ideological, but pragmatic in reasoning. Hamilton did not seek state intervention at the expense of the private-sector development. He was indeed the very product of the British trading system having gained his business experience as a youth in a privately owned Caribbean trading house and later in New York. Hamilton, the most pragmatic and commercially-oriented of the Founding Fathers (only Benjamin Franklin amongst the Founding Fathers could be seen as his peer in commercial matters), recognised that modernisation required the effective development and governance of political and economic institutions (public and private). Beard (1913), in his groundbreaking study, *An Economic Interpretation of the Constitution of the United States*, rightly describes Hamilton as:

the colossal genius of the new system... It is true, that he had little part in the formulation of the constitution, but it was his organizing ability that made it a real instrument bottomed on all the substantial interests of the time... he perceived that governments were not made out of thin air and abstract principles (Beard 1913: 100-101).

Hamilton, and later the Meiji elite (and contemporaries such as Germany under Bismarck), rejected Adam Smith's free trade position that the state remain outside of the economy, as engaging would only result in 'government failure' (*The Economist*. 1-7 March 1997:79. & Argyrous and Stilwell. ed. 1996: 219). All these leaders rightly pointed out that at the time they came to power, in the seventeenth and eighteenth centuries, no practitioner of free markets actually existed, with the global superpower of the time Britain itself rising to prominence squarely on mercantilism and empire (Sachs, Jeffrey D. 2005, Sugiyama, Chuhei. 1994. and Najita, Tetsuo. 1993).

The root of the economic development of the United States under consideration is the ideology of nationalism (Greenfeld 1992). More precisely it was the determination of the local elites, Washington and Hamilton, to maintain their own national economic sovereignty without yielding too much influence to outside forces (principally Britain, but also continental powers such as France), and to do so as rapidly as possible. To counter the British Empires continuing search for expansion in North America, Hamilton, representing both his president's and his own wishes, sought to bring the thirteen disparate states of the

new union under the umbrella of an effective and functioning Federal government. Throughout the American War of Independence the Continental Congress, beholden to the thirteen state legislatures that refused to hand over any of their powers, was ineffectual in providing the Continental Army with any real measure of material support. The Continental dollar lacked any kind of authority amongst the populace (the popular retort being 'not worth a continental'). Hamilton and Washington, having seen the results of such lack of central authority in the near disintegration of the Continental Army at Valley Forge, made the central goal of the Washington administrations the establishment and practice of effective federal governance (Ellis, 2004., Randall 2004., Brookhiser 1996 & 1999, Knott 2002, Walling 1999, Chernow 2004 and McCullough 2005). Due to his practical experience as aid-de-camp to Washington throughout much of the War of Independence, Hamilton understood that rules and regulations were meaningless without talented people of practical understanding. As Walling (1999: 171) states: "For Hamilton perhaps even more than Madison, free government was not exact science with absolute certain rules. Instead, it was a calculated risk that ultimately depended on the prudence and character of the people themselves". Further, as a student at King's college Hamilton "already took the long view of American destiny, seeing that the colonies would someday overtake the mother country in economic power" (Chernow 2004: 61).

It was to be Hamilton's practical and functional approach to the governance, explored in great detail through several *Reports to Congress* and other writings, that later proved so appealing to the Meiji elite in establishing their own nations systems of modern governance (Hamilton, Madison and Jay. 1788). Knott (2002) makes this fact clear by referring to Hamilton's *Report on the Subject of Manufactures*:

Though Congress refused to adopt his proposal, he alone among the principal founders championed an American spirit of enterprise that eventually transformed a Third World nation into the greatest economic power ever known (Knott, 2002: 223).

Further, rather than becoming fervently anti-British and pro-French like Jefferson and Madison as a result of the War of Independence, Hamilton took as his governance benchmark for the new Union his former enemy's unequalled institutional capacity and strength. All bitter denounciators of Hamilton's vision, the *anti-Federalist* Presidents, Thomas Jefferson (1743-1826, presidency 1801-1809), James Madison (1751-1836, presidency 1809-1817) and Andrew Jackson (1767-1845, presidency 1829-1837), nonetheless all actively and rapidly expanded the United States territorial, strategic and commercial interests upon taking office. That they did so utilizing Federalist institutions and instruments (the Federal government, military forces, domestic and international banking) confirmed to the European elite, and later the Asian elite, that the U.S. was an active Hamiltonian imperial and mercantile power in the forming (Halliday 2001).

This work will show that the United States consistent use of powerful state-institutions throughout the

twentieth and early twenty-first century to impose selective neoclassical economics in the international political-economic sphere is perfectly consistent with the central Hamiltonian founding objective: strengthen the nation (Chang 1996). Classical and Neoclassical economics and policy, based on the work of Adam Smith and David Ricardo, seeks to open markets throughout the world on the theoretical basis of comparative advantage, in which each nation would focus on specific areas in which they have a 'natural' strength. This work will show that United States neoclassical economics is a political construct aimed at serving the very same economic nationalist objectives as with Britain's advocacy of free trade during its time as the premier global mercantile power (seventeenth to nineteenth century) (Ferguson 2001 & 2004). For example in the second half of the twentieth century the neoclassical economic policy approach became another arm, with politics and military strategy being the others, in the United States' Cold War conflict with Soviet Union Communism (Kunz 1997). Mead (2002) highlights the United States consistency in pursuing Hamiltonian objectives:

Although Hamiltonian trade policy has changed its methods over the centuries, the central idea – that national prosperity through an appropriate trade regime is the responsibility of the federal government – has never changed. Hamiltonians have never believed in using tariffs simply as a revenue tax, raising or lowering tariffs in line with the fiscal needs of the government. For Hamiltonians tariffs and trade policy have always been a political levy, used to shape national economic development (Mead, 2002: 105-106).

Through the World Bank and the International Monetary Fund (IMF), both heavily funded by the United States and correspondingly both unwavering supporters of neoclassical thought, the United States in the beginning of the twenty-first century continues to ideologically limit the states role to governance rather than direct participation (The World Bank. 1997. & The World Bank. 1999/2000)². Even with a growing recognition of the East Asian states' central role in development, the neoclassical school and neoclassical-oriented institutions, including the IMF, have and continue to call for the dismantling of the East Asian states' industry and export policies and institutions (Islam 1996: 564). The United States desire to dismantle these state institutions in East Asia is steeped in irony. For these same East Asian state institutions have their origins in Meiji elite's keen study and observation of Hamilton's words, work and legacy, particularly first-hand examination of American policy institutions, finance and industry in the late nineteenth century. As keen observers of international economics, to the Meiji elite it was clear that Hamilton's legacy of commerce and industry promotion enabled the United States to overtake Britain as the world's financial and commercial centre in the early twentieth century. The United States position on international trade in the early years of the twentieth-first century, therefore, amounts to nothing less than denying underdeveloped and developing states of the very same tools that it utilised so effectively to become the dominant player in the global economy (Chang 2002).

²Full Details of the IMF's response to the 1997-98 East Asian Financial crisis can be found in its Annual Report 1998. International Monetary Fund. 1998. www.imf.org

As this study will show other members of the world's economic elite, Germany, Japan, Taiwan and South Korea have all made full use of Hamiltonian developmental tools presently being denied the underdeveloped and developing world.

During the Asian financial crisis of 1997-98 for example, the United States Treasury under Robert Rubin (1995-1999) and the Federal Reserve Chairman Alan Greenspan (1987-2006) utilised U.S. dominance over the International Monetary Fund (IMF) to promote liberal measures that clearly favoured U.S. financial and commercial sector interests³. The IMF's initial policy approach and prescriptions were correctly seen as flawed in relation to bringing the financial crisis to a swift end for the benefit of the Asian nations because its primary objective was in fact Hamiltonian - to open new markets to U.S. enterprise (Cumings 1999, Hamilton 1999). Free trade, as George Washington, Alexander Hamilton and the Meiji Prime Minister Ito Hirobumi knew all too well, is the most effective tool in the hands of the ascendant power/s. It allows the power/s to define as the 'norm' those developmental criteria that most advances its/their own interest (read globalisation, internationalisation) as Sachs (2005: 39) explores:

When a society is economically dominant, it is easy for its members to assume that such dominance reflects a deeper superiority – whether religious, racial, genetic, cultural, or institutional – rather than an accident of timing or geography.

It was only after the initial programs made the Asian financial crisis deepen and expanded into a deeper political crisis did the IMF change policy proscriptions, from a constrictive to expansionary monetary approach, which aimed at ending Asia's severe economic contractions (International Monetary Fund. 1998. www.imf.org and Blustein, Paul. 2003). The effects of the crisis on the political-economic governance nexus are still playing themselves out in the region, with both domestic reforms and concerns over the international capital market running parallel. On the strategic level the Asian financial crisis, mirroring previous colonial experiences, brutally exposed regional leaders again to the fact that national sovereignty can be forfeited through poor governance. That the United States today, like the British Empire before it, will take advantage of such circumstances to advance its select enterprise interests, often through 'international organisations' utilising universal standards that they themselves set (Chang 2002, Sachs 2005. & Ferguson 2001. & 2004).

³This macroeconomic stability has been defined by the World Bank (1993) to: mean[s] that inflation was kept under control, internal and external debt remained manageable, and the macroeconomic crises that emerged were resolved quickly, usually within a year or two. The World Bank. 1993. p. 105.

The Political Ascendancy of the U.S. Federal Government in the 1860s to 1890s

The Meiji Iwakura Embassy members on arriving in the United States of America in 1871, having just sacrificed so much to achieve political unity within Japan, found themselves in a nation that had also recently sacrificed so much over the question of unity. The American Civil War (1861-1865), and the victory of the North, heralded the end to the political imbalance, and the ultimate triumph of Hamilton's more centralist national governance. Knott (2002) makes clear the Civil War impact as it:

ushered in an era that saw Alexander Hamilton eclipse Thomas Jefferson as a revered figure in the minds of most Americans, at least in the North.... [Hamilton was] the advocate of strong national government that eclipsed in importance the particular states seemed to many to have advanced ideas that, had they been heeded, could have voided the turmoil and bloodshed that had pulled the nation apart (Knott 2002: 47).

The northern States' steady growth as financial and manufacturing centres through federal measures in tariffs and internal improvements (road, canals and rail) transformed into unprecedented rampant industrial expansion with the onset of the war. The Civil War confirmed Hamilton's belief that the Union would ultimately be defined by a powerful central government, an economy increasingly defined by manufactures and trade, and a permanent professional military establishment (Appendix I).

Abraham Lincoln's (1809-1865) just intentions, primarily the emancipation of African-American slaves (September, 1862), would have amounted to little without the crucial changes taking place within the American industrial landscape. Perret makes this point clear (1999):

With their backs increasingly to the wall as the North developed a modern economy and left the South far behind, slave owners were driven more by visions of impending poverty than by any realistic appraisal of macroeconomic development. They looked to politics to shore up a system that was as doomed as an economy based on barter or the exchange of sea shells (Perret 1999: 42).

The South, always a closed society dominated by the agrarian elite, deluded itself into thinking that its vision of State's rights, and hence the continuation of slavery, was a model of society more sustainable than one based on finance, manufactures and free men. Lincoln's administration was in fact packed with Hamiltonians keen to challenge this limited vision for the United States and including the secretary of State, William Seward, the president's assistant, John Hay, and secretary of the Treasury, Salmon P. Chase. All openly advocated for a national bank, internal improvements and protective tariffs. During the Civil War, Chase as an avowed Hamiltonian utilised the Treasury to undertake a massive expansion of Federal government fiscal power during the war to secure victory. In April 1862 Chase issued \$150 million on the credit of the United States, followed by a further \$300 million over the next 12 months (Goodwin 2003: 220). Further, the National Bank Act of 1863 forced State banks to charter with the Federal government if they wanted to issue currency and a tax was levied on State bank notes with the specific purpose of eliminating them. As Goodwin (2003: 272) makes

clear: “Now the dollar was an affair of state... the dollar now represented the sovereign majesty of the United States”. The United States currency’s rise to global currency dominance had begun. The United States, fortified as a political union, rapidly left Jeffersonian agrarianism behind and took on the role of a Hamiltonian manufacturing powerhouse (Goodwin 2003: 272). From abroad both Otto von Bismarck and the Meiji Japan elite keenly observed the political, strategic and economic impact of the Civil War upon the United States of America, and came to the same conclusion: an empire was in the making.

The Hamiltonian General and President: Ulysses S. Grant

After the assassination of President Lincoln (1865), and the ineffectual presidency of Andrew Johnson (1865-1869), Lincoln’s war-time general and like-minded successor to the presidency, Ulysses S. Grant, was elected to the lands highest office (1869-1877). Grant left no one in any doubt as to his presidency’s fiscal leanings as “the principal theme of his [inauguration] speech was not Reconstruction but the urgent need to reduce the national debt” (Perret 1999: 407). From 1812 to the Civil War, in line with *anti-Federalist* policy, the United States government had largely been debt free, but to enact the war the North had borrowed more than \$2.75 billion. This was a staggering amount beyond any scale deemed acceptable pre-war, but more importantly it transformed Wall Street with a few short years. Most of this was borrowed internationally from European financial centres, mainly British banks, and management of the debt became the Grant administration preoccupation as it attempted to prevent the United States entering post-war recession. By 1870 Grant had effectively extended the Hamilton-founded Treasury’s reach with a tax base totaling \$185,000,000 per annum, “with everyday household items incurring tax for the first time” (Kume 1871-73 Vol. 1: 329). Jefferson, Madison and their *anti-Federalist* successors could never have imagined that the Federal governments reach would extend so far. Hamilton had always desired it be so. The net result was that in the year (1871) of German unification and Japan’s Iwakura Embassy tour to the United States, the Grant administration was openly advocating and pursuing Hamiltonian governance.

Despite Grant’s efforts, in 1873 the United States suffered a financial panic over the continuation of hard money – gold – versus the benefits of soft money – the greenback. The Continental Congress’s mismanagement of the continental dollar (‘not worth a continental’) over a hundred years ago during the War of Independence (1775-1783), which Robert Morris and Alexander Hamilton so railed against, was still very much in the national conscious. In April 1874 Congress passed the Inflation Bill and Grant immediately vetoed it because it could well have destroyed the credit of the American government. The significance of this most Hamiltonian of acts by Grant should not be underestimated:

For the rest of his life Grant was convinced that vetoing the Inflation Bill was one of the greatest things he ever did for his country. The struggle between the hard-money East and the soft-money West nevertheless

continued for another twenty-five years, and the recession triggered by the Panic of 1873 proved one of the longest in the nation's history (Perret 1999: 422).

Whilst the Grant presidency could not prevent the nation entering economic recession after the exhaustion of a long and taxing war, the United States from the 1870s onwards raced ever further towards being a nation defined by large cities, major corporation and mass consumption.

Ulyses S. Grant's "Hamiltonian" administration

- Ulysses S. Grant – President (1869-1877)
- Schulyer Colfax – Vice President (1869-73)
- Hamilton Fish - Secretary of State (1869-73)
- George S. Boutwell - Secretary of the Treasury (1869-73)
- William W. Belknap - Secretary of War (1869-73)
- George H. Williams – Attorney General (1872-73)
- John A. Creswell – Postmaster General (1869-1874)
- George M. Robeson - Secretary of the Navy (1869-73)
- Columbus Delano – Secretary of the Interior (1870-73)

At the conclusion of his presidency Ulysess S. Grant spent 18 months touring Europe, the Middle East and Asia (1877-1878), with an agenda focused on examining industrial areas. As a clear sign of his personal interest in technology and manufactures, Grant spent a full day in March 1878 at the Paris Exposition examining state-of-the-art machinery. Grant's day at the Paris Exposition reflected the American elite's full adoption of Hamiltonian thinking on America's future. Grant had no diplomatic agenda; "what Grant wanted from Europe's leaders wasn't pomp but stimulating conversation, such as he got at his meeting with Bismarck, who talked frankly in fluent English about European politics and questioned Grant closely on the Civil War" (Perret 1999: 452). As this study examines, Bismarck never discussed policy without storing its implications in his formidable mind for later use. Having travelled Europe, Grant moved onto Egypt, Turkey, Palestine and Syria through the remainder of 1878, and then spent 1879 moving through Bombay India (Mombai), Delhi, the Straits of Malacca, Singapore, Siam (Thailand), Hong Kong, Canton, Shanghai, Tientsin and Peking (now Beijing) before visiting Japan. Whilst limited in time by his wife's desire to return to the United States, Grant had a discussion with the Meiji Emperor and noted his desire to modernise and admired the nation's high organisational ability and moves towards modernity.

Grant was to die (July 23, 1885) of cancer upon his return to the United States, but through his *Memoirs*

left a very Hamiltonian strategic-military doctrine blueprint “that consisted largely of recommendations for American defense and foreign policy in the years to come” (Mead 2002: 24). The *Memoirs* themselves were a runaway publishing success, with the huge sales levels providing Grant’s family with a significant source of income. It belies belief that the final work of American’s most prominent general and president, who had spoken directly to Bismarck, the Meiji Emperor and the bulk of Japan’s elite, would not have found its way into the hands of both the German and Japanese political leadership. Particularly given that the *Memoirs* themselves were a runaway publishing success, selling over 150,000 alone on initial subscription, and eventually to be literally found in every Northern household and library (Perret 1999: Chapter 32).

United States Governance (1860-1890s): Corruption and Rapid Growth

Otto von Bismarck and the Meiji elite would also have noted that even with its high level of corruption throughout the federal, state and local governments, the United States rapid economic development continued apace. Indeed, as the high inflation of the Civil War resulted in the salaries of Congressional Representatives, Cabinet members and public servants declining from already inadequate levels to near token payments the inevitable result was rampant corruption. Perret (1999: 433-435) makes this clear in stating that:

By 1869 parts of the Federal bureaucracy, much of Congress, and both national political parties, were sustained by corruption... Virtually the entire Republican party leadership in the House, in fact, was open to bribery. Hamilton’s old position of the Port of New York customs collector in particular was considered a primary post as the port collected \$500 million in duties; providing ample opportunity for graft. Grant tried to kill the spoils system through the introduction of a competitive examination system, similar to the one he experienced at West Point, but was knocked back by his very own appointees whose economic interests were being served by the existing corrupt arrangements. Whilst ineffectual in his efforts to reign in corruption, Grant’s own “reputation for honesty was almost as solid as his reputation for horsemanship” (Perret 1999: 443). Indeed, the United States in the last-half of the nineteenth century proved that high-levels of corruption in governance is no real barrier to rapid industrial development. The key to the United States developmental success lay in the fact that the corrupt bargains centred on major infrastructure projects, such as the transcontinental railroad and the Panama Canal that proved the drivers of national economic progress (Landes 1998. & Chang 2002). Bismarck’s Germany and Meiji Japan took the lesson from the emerging North American power that industrial outcomes trumped governing process, with the cost of corruption negated as long as national strategic and developmental objectives were met.

East Asian Development: Japan, Taiwan and South Korea.

Empirical examination and historical accounts make clear that the respective elite of Japan, Taiwan and South Korea, operating in a world defined by economic nationalism, adopted long-term strategic developmental goals for their respective nations that were anchored neither to neoclassical nor interventionist ideology (Johnson, 1995). In the case of Japan, the impetus was the United States Commodore William Perry (1853), who forced a move from an inward to outward looking elite (from the Tokugawa to the Meiji reign, 1868). The Meiji elite's central aim was to build sustainable political, strategic and economic structures to not only prevent Japan being colonized like most of Asia, but to follow the path of the great European and North American powers and be a regional colonizer itself. The United States sought to open Japanese markets to U.S. goods purely for its own national gain. Japan correspondingly, and not surprisingly, sought to maintain economic sovereignty for its national benefit. The reasoning behind Perry's voyage and the unequal treaties (1854) enforced upon Japan was that the British and Dutch were actively seeking to seal up Asia as their own trade and strategic preserves and an expansionist United States saw its own Pacific-destiny under threat⁴. This lesson in imperial power was one the Meiji elite learnt very fast: principally that any nation seeking to expand its trade and strategic relations in a world defined by competing trade-oriented powers would have to do so via force. They embraced this imperial vision without hesitation and moved quickly to impose Japanese power upon Taiwan, Korea and China. Bix (2000: 8) makes clear the importance of Japan's imperial ambitions:

Japan's colonial empire and new status as a great regional power in control of both continental and insular possessions was the second great legacy Meiji bequeathed to [Emperor] Hirohito.

The United States as a colonial power which breached Japanese sovereignty, and Japan in extending imperial ambitions over Taiwan and then Korea, both defined their self-serving actions as very much the 'norm' in international affairs. Indeed, Japan's colonial actions (strategic, political and economic) were largely determined by external circumstances; namely British, U.S., and European powers extension of influence by force throughout Asia. Their response to these external circumstances was to maintain sovereignty over their political, strategic and economic structures in the face of this forceful foreign influence.

The Japanese elite, and later other East Asian elites, adopted and developed state-policy tools and institutions anchored in achieving political and economic stability and growth. Morris-Suzuki (1994: 85) states:

One of the great strengths of the Meiji leaders, in fact, was the fact that, as a group who seized power without a prolonged revolution, they had little commitment to any defined philosophy and were, in many respects, free to make up their own ideology as they went along.

⁴Mead, (Walter Russell. 2002. p. 65) states: "President Millard Fillmore who sent Comm Mathew Perry ten thousand miles to open up Japan in March 1852 – and he, and the political community around him, had solid reasons for sending the long-suffering commodore on this wearing and dangerous voyage".

In the work of Yoshitake (1986), their strategies can be and are, described as pragmatic, i.e. responding to real situations to which they had to react. These tools and institutions were derived from the words and the works of Hamilton and his followers in the cabinet of Grant's administration. Japan's Meiji elite (Saigo Takamori, Okubo Toshimichi, Kido Koin, Ito Hirobumi, Inouye Kaoru, Itagaki Taisuke and Okuma Shigenobu) found the interventionist work of Hamilton and his followers far more practicably applicable to their respective late-developing nations' political, economic and social needs than the words and work of classical (Adam Smith, David Ricardo) advocates.

National Elites and State Institutions

Japan's present economic position, as the third largest economy in the world (after the U.S. and China) and the largest creditor nation, has been the result of its successful adaptation of Hamiltonian theories and the continuity of *Kokutai* as a national ideology. Under this national ideology established by the Meiji elite (1868):

it would be foolish for the government *not* to intervene (in the economy). Only results matter. The Japanese are not fettered by the dogmas of either free enterprise or socialism. Nor do they mind fostering cartels - as long as the cartels work to the national advantage (Elegant, 1990: 127. Also see Sugiyama 1994, Yoshitake 1986, Morris-Suzuki 1989 & 1994 and Najita 1974 & 1993).

Kokutai has placed measurable economic results above the ideological debate of liberal vs statist approaches to the State in the economic development of Japan. Japan's elite from the Meiji period onwards continuously utilised both state and private resources to achieve national development. *Kokutai* ideology was instituted during Japan's colonial rule over Taiwan and South Korea, and its continuation under the Kuomintang (KMT) in Taiwan (1945-2000, 2008-present), and under Park Chung Hee (1961-1979) and his successors in South Korea (See Appendix II for more complete details).

Japan, Taiwan and South Korea have all benefited long-term from their respective bureaucracy's ability to formulate budgetary policy largely independent from interest-group pressure. The lesson from Japan and South Korea's failure in recent decades (1990s-2000s) to maintain this monetary policy independent from external pressures reveals that state autonomy from rent-seeking is a constant contest that can be lost far easier than it is gained. As Hamilton emphasised, state autonomy must be developed, enhanced and then maintained as 'state-capture' by external or internal interests' inevitable results in poor economic governance. The East Asian elites have, however, over a long-time frame proved themselves most capable of moving resources to new sectors or developing the economy to bring about structural change. Their capacity to bring about significant structural reforms to their economies cannot be questioned; therefore, the central question is one of East Asian elite political will.

The Iwakura Embassy (1871-1872): The United States of America

On May 5th 1873 a fire destroyed the extensive library of thousands of writings, books and documents sent back to Japan from the United States of America by the Iwakura Embassy as they were housed at the Dajokan which was completely razed. Given that the Embassy members visited the federal treasury, the federal mint, various financial institutions and numerous industrial leaders, it is almost inconceivable that the lost collection did not include Hamilton's *Reports to Congress* covering credit and manufactures at a minimum. Nevertheless, a turn of history means that irreplaceable insight into the exact nature of the collection and aspects of the thinking of its members were lost. Fortunately, one document that provides us with an unmatched insight into the thinking of the Embassy members is the multi-volume work compiled by Kume Kunitake. The Iwakura Embassy returned to Japan in September 1873. Kume produced his completed manuscript in 1876 with the approval of Embassy leader and Prime Minister Iwakura Tomomi, and it was published in 1878 as a five volume set and an invaluable tool for Japan's policy practitioners. This section highlights some of the key points made within Kume's work to inform us as to the Embassy members' exploration of Hamiltonian words, work and legacy, as it was being exercised in the United States at the time of their visit (1871-1872) and throughout the Meiji period (1868-1912) (Appendix III and IV).

The central objective of the Iwakura Embassy during its travels was to have the unequal treaties with the United States and Britain (1854 and 1858) annulled and to gain crucial insights into American and European industrial development. After 205 days in the United States, 122 days in Britain and 23 days in Prussia, as well as, time in France, Holland, Belgium and Russia, the Embassy failed spectacularly at the former, whilst succeeding equally spectacularly at the latter. The Embassy's desperation to have the unequal treaties annulled was perfectly rational as Chang (2002: 46) makes clear:

the average rate of tariff on manufactured products in Japan in 1875 was five percent at a time when the USA, despite having a much smaller technological gap with Britain, boasted an average industrial tariff rate up to 50 per cent. The Japanese government therefore had to use other means to encourage industrialization until it recovered tariff autonomy, which did not happen until 1911.

Clearly, the United States was pursuing a Hamiltonian path of promoting domestic industry before any notion of pursuing Adam Smith's laissez faire model. Given Britain had also turned its back on laissez faire at this time (1870s), as it came under pressure from United States and German manufactures, the Meiji elite witnessed national economics in the ascendancy across the Northern hemisphere. Further, their failure to achieve treaty annulment provided a key lesson to the Meiji leadership: that in the hierarchy of nations, Japan, as a less developed nation could only achieve national sovereignty and prosperity through emulating the Western nation's strengths in the military and industrial realms (including colonialism).

The talent of the Iwakura Embassy's members is without dispute, with many of Meiji Japan's most prominent policymakers and intellectuals making the tour. For example, Hatakeyama Yoshinari (also known as Sugiura Kozo, 1840-1877), has been a Satsuma samurai in Britain since 1865, and the senior member of a 15 man group undertaking industry research when in 1866 he was ordered to move to the United States. He studied at Rutgers College, New Jersey, for 3 years observing New York's and Philadelphia's continuing rapid rise as financial and industrial centres. As one of the key centres for Hamiltonian thought, studies at Rutgers College would have informed Hatakeyama fully of the industry promotion that created the 'American system'. He was not alone in choosing Rutgers College to gain insight into the United States commercial success, the head of the Embassy, Prime Minister Iwakura Tomomi, himself had three of his sons studying at Rutgers for the purpose of gaining a practical understanding of the United States rapid industrial ascendancy. About to return to Japan, Hatakeyama was ordered to join the Iwakura Embassy as his command of English was without peer amongst the Embassy members and he went on to help Kume in compiling accounts. In 1873 he returned to Japan to head both the Kaisei School and the School of Foreign Languages, and in 1876 returned to the United States with Education Secretary Tanaka Fujimaro to study the American education system. Unfortunately, Hatakeyama died on the return journey to Japan aged 37 (Editors in Kume Vol. 1: 8-9). Another member of the Embassy, Oshiiima Takato (1826-1901), focused on shipbuilding, mining, iron and steel production, and industrial technology, and after returning to Japan became regarded by some as 'the father of modern Japanese industry'. Another member, Uryu Furuu (1853-1920), focused on railroads and industrial development, and became a key member of the Department of Railways of the Ministry of Construction before taking up various roles within the Mitsubishi *Keiretsu* (Editors in Kume Vol. 1: 78-79).

Crucial to understanding the nature and ultimate success of the Iwakura Embassy is to recognise that, far from being embittered by the United States imposition of unequal treaties upon their sovereignty, Embassy members saw their responsibilities as designing Japan's future entry into the league of modern powers. The clearest sign of this was the fact that the Iwakura Embassy sought out the very United States president who had imposed the unequal treaties upon Japan and "entertained [former President Millard] Fillmore [1800-1874] at a dinner while they were visiting Niagra. In effect, they were celebrating the forced opening of Japan as a very positive development" (Editors in Kume Vol 1: 59). Collectively the members of the Embassy were to make up a significant proportion of the policy and intellectual core of Meiji Japan. Their legacy continues today in Japan via the crucial policy institutions, like the Bank of Japan and the Ministry of Finance, that have made the nation the second largest economy in the world.

The Iwakura Embassy was extended full diplomatic honours on their visit to Washington, with President

Grant's wife, Mrs Julia Dent Grant, sending a bouquet of flowers upon their arrival at the Arlington Hotel [February 29th, 1872]. The Embassy met the most Hamiltonian of Presidents, Ulysses S Grant (1822-1885, President, 1869-1877), in a formal White House state reception on March 4th [1872]. On the 6th (March) they visited Congress, the Supreme Court and the Library of Congress, and followed up on subsequent days with visits to numerous public institutions and commercial locations (see tables at end of text). On March 14th [1872] the Iwakura Embassy held a formal reception at Arlington House Hotel with President Grant and over 1000 of Washington's most prominent political, commercial and social movers in attendance. On April 1st [1872] the Iwakura Embassy had another dinner with President Grant which also included the Vice President, Schulyer Colfax (1823-85), and 28 heads of the U.S. military and civilian affairs. Grant himself was in an election contest with his opponent Horace Greeley, so the Embassy members witnessed first-hand the United States highest electoral contest⁵. The Embassy's formal assessment of Grant was highly favourable:

Grant, thanks to his ability, reputation and perseverance, managed to keep the country calm...

[President] Grant is normally a quiet man whose actions are measured and tranquil. Although somewhat reserved and self-contained, as a general he appeared like a great tree. As a result of the convention [Republican on June the 5th and 6th], his reputation and political momentum were restored (Kume Vol. 1: 329).

Reflecting the high regard in which he was held by the Meiji elite, Grant was latter (1879) asked to serve as arbitrator to the Japan-China dispute over the Ryukyu Islands in which he found in favour of Japan. Along with Grant and his cabinet, another prominent Hamiltonian visited by the Embassy was Henry D. Cooke (1825-1881), then governor of the District of Columbia in 1871. Iwakuri Embassy members stayed at his extensive home near Philadelphia and engaged in in-depth discussions on American politics and commerce. The Hamiltonian nature of their discussions is beyond question. As "both journalist and a banker Cooke who advocated the development of street railways for Washington D.C. – organised the First National Bank of the District, helped to finance the northern cause during the Civil War – [and] promoted the plan to build the Northern Pacific Railroad from 1870" (Editors in Kume Vol. 1: 204). The Embassy would leave the United States having been hosted the Grant administration, a President and Cabinet who openly advocated a Hamiltonian world-view, having visited numerous public institutions (political, financial, industrial and military), and engaged with the nation's leading financial and industrial figures.

⁵The Meiji elite were keen observers of the American political system: "In the presidential election of 1868, Grant, though capturing twenty-six out of thirty-four states, was elected with a popular majority of only 306,000 out of 5,715,000 votes. A Negro vote exceeding 700,000 decided the election, in which three southern states did not participate and six others were under Radical domination... In the presidential election of November 5th, 1872, Grant was the victor, with 286 electoral votes to 66 for Greeley, and a popular majority of 763,000. [Horace] Greeley [born 1811] died on November 29th, 1872". Kume Vol. 1: 337.

They would go onto Britain and continental Europe with what they witnessed in the United States as a comparative as they sought out answers to their own nation's peace, sovereignty and security within a fiercely competitive international environment.

East Asian Financial Institutions

Adam Smith recognised that the private sector failed to provide the long-term credit necessary for national economic development, but rejected State intervention as damaging to the overall economy (Smith 1776: 272). Classical and neoclassical economists, such as Richardo and Rostow, also perceived high rates of savings and investment as central to sustained economic development (Cameron 1997: 214-216). The East Asian national elites, as leaders of late-developing nations, however, simply did not have the luxury of Smith's non-interventionist evolutionary approach to credit and institutional development. In the absence of developed private-sector financial markets, and the presence of clear strategic threats (Communist China and Communist North Korea respectively), Taiwanese and South Korean policymakers had little policy choices other than to maintain and develop the State corporate-banking sectors inherited under Japanese colonial administration. Even financial sector policymakers, such as Chung-yum Kim (South Korea), who was more ideologically in favour of neoclassical policy prescriptions, pragmatically adopted State intervention in the absence of effective private financial sector development (Kim 1994).

Through State and private financial institutions, East Asian policymakers, fully aware of the central need for an effective internal national credit system, moved to establish special credit institutions to bring about key national investments and enforce national savings. The empirical evidence is clear:

Besides fostering favourable general conditions and getting policy fundamentals right, some high-performing Asian economies (HPAEs) have deliberately intervened in markets to solve specific coordination problems related to accumulation. These interventions aimed at boosting savings and investment rates are the most controversial of the HPAEs accumulation policies (The World Bank 1993: 192).

Along with providing macroeconomic stability, numerous financial institutions and services have been created by the East Asian elite to increase savings rates. In Japan, Taiwan and South Korea, State structures, financial institutional arrangements, wage structures, postal savings regimes, superannuation and insurance all enforced saving upon the polity. The study will also show that cultural explanations of broader economic development are severely limited. Instead, one needs to look at the economic institutions, both public and private, which have enabled the East Asian elites to achieve rapid economic development for their nations. Correspondingly, cases where the East Asian elites have failed to adapt State institutions to achieve structural economic change must also be examined, the 1997-98 regional economic crisis being a clear example. The crisis resulted in both severe criticisms and restructuring (bankruptcy, mergers and acquisitions) of domestic institutions within East Asian States and of the international financial structures themselves.

East Asian Industry Policy

As Samuels (1995), Cumings (1999), Sims (2001) and Andressen (2002) ably explore, the East Asian elite, like their Western counterparts, facilitated infrastructure development and industry policy for domestic and geo-strategic reasoning (military and civil). Neither Adam Smith nor Karl Marx was seen as viable in providing this strategic security by Meiji Japan's policymakers in the late nineteenth century. Marx was rejected because the Meiji elite had little interest in either political or social revolution, and Smith was rejected for the simple reason that his brand of market economics was not at that time practised by any nation. The industrial giant of Britain at the time was the principal example not of Smith's classical economics, but of a successful mercantilist regime (Jones 1996. Mann 1988. & Landes 1998). As a result, in seeking state and private (*Keiretsu/Zaibatsu*) institutions by which to achieve rapid economic modernisation, Japan's Meiji oligarchy looked not only to the economic powers Britain and increasingly the United States, but also keenly at the developing nations of continental Europe, particularly Germany⁶. Germany having achieved nationhood (1871) a mere three years after the Meiji Restoration (1868) was most immediately instructive because it faced the same political-economic challenges as Japan – developing state institutional capacity to maintain and enhance national sovereignty in the face of Imperial powers. And indeed both the German and Japanese elites' sought to emulate the empire building of Britain and the United States as soon as possible. In adapting and developing State institutions from Hamilton's successors within the United States and List's and Bismarck's Germany, the Meiji elite placed the State as central to economic development and readily adaptable to Japan. In doing so, instead of:

state intervention in the economy resulting in the inefficiencies predicted by neoclassical economists... the East Asian economies responded well to this particular blend of state intervention which did not ignore the role of the market in determining industrial efficiency (Dalton. 1993. pp. 63-79).

The work of Hamilton on how to tackle the problems of late-comers to industrialisation was later implanted in Japan's colonial possessions: Taiwan (1895-1945) and Korea (1910-1945).

In the post-1945 period the East Asian elites continued rejection of the neoclassical school was, ironically, reinforced by the respective communist threat to their national sovereignty. Japan clearly identified the Soviet Union as its primary geo-strategic threat, Taiwan identified China as its primary geo-strategic threat, whilst South Korea identified North Korea and its international backer communist China as its primary geo-strategic threat. Clearly, it is no accident that up until the mid-1980s, it was “not only the East Asian economies that have built dynamic economies without highly-developed capital markets, but so, too,

⁶Johnson, Chalmers. 1995. (pp. 81-82) talks of the commonality is the use of the terms *Keiretsu* and *Zaibatsu* to refer to Japanese conglomerate groups.

[West] Germany"(Henderson 1993: 214). In Germany, Japan, Taiwan, South Korea, the elites all aligned with the United States against communist adversaries and placed the need for an interventionist approach to economic development as a key component of national security. National security against the Soviet, China and North Korean threat was not for the free market. Even the small number of prominent East Asian policymakers who were trained economists and did ideologically favor neoclassical economics (the overwhelming majority being industrial technicians by training), carried out heavily-interventionist economic policies in the context of policy pragmatism. In a world of competing nations, they developed political and economic institutions designed primarily to achieve the national elite's long-term goal of securing national sovereignty (political, economic and military) (Kim, 1994). They pragmatically acknowledged that their respective East Asian nations' paths to sound economic development required the development and the strengthening of the State's institutional capacity (administrative, strategic/security, legal structure, incentive system, and human resource development). State-institutional development in turn would, they determined through empirical examination of British, United States and continental European history, enable the domestic private sector to develop fully and overcome market failure. Market failure in this work includes the failure of the private sector to invest in developmental projects that would greatly enhance national economic development and sovereignty, but that are deemed beyond private sector investment horizon (Chang, Ha-Joon. 1996 & 2002). This pragmatic nature of policymaking in East Asia means, "while the region's technocrats followed each other's experiments closely, they had to develop and adapt institutions to meet the special requirements of their own economies" (Chang 1996 & 2002). Nevertheless, while acknowledging differences in the structure and the period of institutional development, this work argues that much commonality remains, as in every case, adaptation was undertaken to strengthen State institutions. Furthermore, the advantage of starting as early as the Meiji Restoration (1868) is clear, as "taking a longer-term perspective frees us from our obsession with contemporary issues which invariably cloud our perception of the over-all picture"(Sundhaussen 1996: 28).

This study shows that nations achieve sustainable economic growth through the systematic development of State institutions capable of carrying out three crucial tasks simultaneously:

1. Effective market regulation.
2. Execution of commercial sector development aimed specifically at export development when market failure is preventing national development.
3. Provision of private sector incentives to participate in long-term commercial ventures (The United States Transcontinental Railway, Meiji Japan's Railroad privatisation scheme).

Consequently, for late-developing nations, the experience of the East Asian nations which themselves borrowed extensively from the British, United States and European experiences, does provide policy directions for minimising both government and market failure, that can accommodate various socio-cultural variants.

Alexander Hamilton, the East Asian Elite and Modernisation

Exploring the writings and work of Alexander Hamilton shows that the East Asian developmental process can be firmly established within a historical context of the industrial developmental process started by Britain and fully adopted and adapted by a Hamiltonian United States (Hobson, 1997. Landes 1998. Chang, Ha-Joon. 2002). Neither Hamilton, nor his political and strategic mentor Washington, were ever overtly interested in ideal visions, both rejecting the laissez faire economic model advocated by Adam Smith or the French Revolution romanticism embraced by Thomas Jefferson and James Madison. Having endured seven years of war and deprivation within the Revolutionary army, both Hamilton and Washington embraced purely pragmatic responses to secure the sovereignty of the new fledgling nation. A nation and political union that at the time was unified largely in name only. The Federal government in Washington's first year as President (1789) consisted of barely a few dozen people, whilst the thirteen founding States struggled to find any common political and economic ground. Hamilton's idea of State intervention, therefore, arose from his experience during war and as the first U.S. secretary to the Treasury where he immediately faced near total British dominance over the U.S. economy (banking, finance, trade and the largest sector, agriculture). Hamilton's response was to establish firm governance foundations in the areas of public credit and fostering manufactures upon which the new nation could eventually secure its national sovereignty and prosperity. Despite fiercely ideological opposition from Jefferson and Madison, Hamiltonian defined finance and manufactures ultimately took place under *anti-Federalist* administrations because they provided the most effective means of securing Hamilton's ultimate goal; national sovereignty and prosperity. Crucial to the subsequent influence of Hamilton abroad was his prolific documentation of his work; he wrote down everything at length and in complete detail. His writings, including the *Congressional Reports*, are effectively a 'how to govern' collection for the leadership of a late-developing State facing challenging international strategic, fiscal and industrial environments. Hamilton was all about securing the new nations political and economic sovereignty in the face of a mercantile British Empire. Japan's Meiji elite faced exactly the same challenge as nearly one hundred years after the United States' own foundation (1776), British global strategic and economic dominance stood without peer.

Post-1945, neoclassical policy and economic advocates consistent efforts to negate the central role of the State in British, United States and East Asian developmental success must be seen as a continuation of British free traders advocacy. From the seventeenth to nineteenth century the British free traders, selectively utilising Adam Smith to advance their theoretical position, attempted to secure greater international market access only *after* the British Empire was firmly predominate on a global scale. Given Britain's constant use of both military

and mercantile power against those who challenged its trading predominance, Hamilton, List, Bismarck and the Meiji elite would have to have been completely uneducated to British empirical action to have engaged the British Empire in free trade. Far from being uneducated, all actively studied and emulated British imperialism and mercantilism as the international norm. In today's geopolitical-geo-economic context, those seeking to challenge China's position on currency and trade must first acknowledge that first Britain, and then the United States under Hamiltonian direction, secured their prosperity not through free trade – but through mercantile finance, manufactures and trade aimed at securing international markets (Ferguson 2004. Landes 1998., Chang 2002. and Sachs 2005).

The development of East Asian State institutions and policies, beginning with Meiji Japan (1868), Taiwan (1890) and South Korea (1910), as these latter developers moved to follow the Japanese path to economic development. Far from pursuing a unique developmental path, the national elite of Japan, Taiwan and South Korea all undertook keen empirical examination of British, United States and European industrial history and practice which left them in no doubt that success was founded on effective mercantilism. Consequently, the East Asian national elite have never possessed an ideological commitment to a division between '*public*' and '*private*' enterprise in achieving rapid national development. A very same combination of developmental factors that drove Hamilton, List and Bismarck - colonialism, geo-strategic necessity, weakened State and private institutional capacity, and market failure - forced the East Asian national elites to pursue State-interventionist models adapted and developed from similar late-developing States. By explicitly harnessing private resources in an effort to develop both State *and* private institutional capacity simultaneously, the East Asian elite have made the neoclassical public-private paradigm a false paradigm for examining either their success or failings (Johnson 1995: 107). Further, East Asia's rise to economic prominence has made it clear to all those interested in empirical economic examination that only nations with high levels of State institutional capacity can achieved high levels of economic status and become full participants of globalisation. It is a Hamiltonian acknowledged that modern capitalist economies and societies are a product of concerted political and governance institution (central banks, monetary authorities) built by nation-State policymakers.

The Primacy of State Power or a New Global Economic Architecture

Having written extensively on the Asian financial crisis of 1997 and 1998, and having witnessed its impact first hand through living and researching in Singapore and Southeast Asia at the time, for me it is impossible not to draw contrasts and comparisons with the American financial and economic crisis (2007-2009). In both crises too much cheap credit, was extended to too many, who possessed too few resources to sustain their repayments across economic cycles. At an international level the current financial crisis has claimed both enterprises (Northern Rock, United Kingdom; Fortis NV, Dutch-Belgian) and States (most

notably Iceland), with governments across Europe and Asia delivering massive bail-out packages to surviving firms and equally large stimulatory packages to their faltering economies.

Of course there are differences between the two events that reflect differences in financial and national economic structures, but the end result seems very much the same. Ideologies, political players and various institutions collapse or are found severely wanting in the face of them being proved inadequate in dealing with risk and new circumstances. Just as the ruling political parties in South Korea, Thailand and Indonesia were dispensed with; the Republican Party has seen its anti-regulatory ideological adherence translated into a form of governance recklessness. Others, such as Robert Rubin, Bill Clinton's former Secretary to the Treasury, and Alan Greenspan, former head of the Federal Reserve, who at the time of the Asian crisis were proclaimed by the media as know-it-all-titans, have also come under intense scrutiny.

Another major difference over the decade is the roles of the World Bank and International Monetary Fund that until recently were determined by minds in New York and London to be adequate in regulating international capital. During the Asian financial crisis IMF official with no or little experience of the Asian national/regional economies they were supposed to save descended upon the besieged capitals to dictate terms to sovereign leaders. The World Bank walked more softly and avoided the storm of criticism bought down on the IMF during and after the Asian financial meltdown. Today, in relation to the largest international financial crisis since 1929, both have been denied prominent roles. The recent utilization of the G20 group of nations makes very clear that their current structures, along with that of another North American-Euro institution, the G7 group of economies, does not reflect the current state of world economic development. The absence of China, India and Brazil from these groups is now plainly, and manifestly, inadequate. They will either have to be seriously restructured or face a future of irrelevancy. Indeed, even the G20 excludes key economies such Spain which will clearly have to be included in any future structure.

In this authors view China and India must become central players in the international financial environment. This is essential to having them 'buy in' to responsibility for a new multi-polar financial system. The US interest in divulging a level of decision-making power, lies in the fact that as increasingly equal players within the international financial architecture, China and India must have a stake in acting collectively. China and India must be a crucial part of the international financial architecture not solely because of their current success, but for their future failings. China and India will themselves in the future have significant financial systems failures, no nation's achieving long-term economic progress have ever achieved uninterrupted success, and this needs to be contemplated in terms any news designs on global economic structures.

Appendix I

The Civil War and Economic Development
<p>“The triumph of the Union in the Civil War was in many ways a vindication of Hamilton’s vision of American destiny, as was the rise of the United States as one of the world’s great powers by the time of the Spanish-American War”. [Michael Lind 1997: 6]</p>
<p>“The civil war had turned the Northeast into a behemoth of production, setting the US on course to become the world’s largest manufacturer a generation later... Once it had been land, now it was industry that drove the economy”. [Goodwin 2003: 272]</p>
<p>“The Civil War saw Wall Street active in raising war bonds and other financial instruments to fund the North’s massive war machine... during the war federal government issued over \$1 billion throughout the war....At wars end the federal government needed even more finances to rebuild the Union with a final bond issuance that raised \$800 million.... A staggering amount for the age”. [Geisst 1997: 56-57]</p>
<p>“American thinkers, too, would come to question the ideal of laissez-faire in the last quarter of the nineteenth century, marking the rise of the Progressive movement. Thus the appeal of the ideal of laissez-faire liberalism was fading in the West just as the Meiji leadership was orienting Japan towards Doitsugaku [German economic nationalism]”. [Erik Grimmer-Solem June 2005: 215]</p>

Appendix II

The State and National Ideology in East Asia.		
<i>Nation</i>	<i>Ideology</i>	<i>State Structures</i>
Japan	<p>Kokutai Introduced by Meiji elite (1868-1912).</p> <p>Members included:</p> <p>Saigo Takamori, Okubo Toshimichi, Kido Koin, Ito Hirobumi, Inouye Kaoru, Itagaki Taisuke and Okuma Shigenobu.</p> <p><i>The Charter Oath</i> stipulating: "Knowledge shall be sought from all over the world and thus shall be strengthened</p>	<p>Kokutai instituted under 1890 Constitution.</p> <ul style="list-style-type: none"> • Framed by Ito Hirobumi after consultation with Bismarck and von Gneist. • Employed Germans Alfred Mosse and Herman Roesler to write 1890 Constitution. • Kanai Noburu (1865-1933), the first dean of economics at Tokyo University, studied for four years in Germany (1886-1890) • Ministry of Finance (MoF) controls Budgetary Process including the resources of the Bank of Japan (BoJ) and MITI (Trade and Industry).

	the foundation of the imperial polity".	<p>Kokutai continued under 1947 SCAP Constitution through 'Collective Institutional Memory' (CIM).</p> <p>Japanese Prime Minister Ikeda Hayato's (July 1960-November 1964) adviser and economists Dr Osamu Shimomura founder of the 1960 Income Doubling Plan which continues Kokutai.</p>
Taiwan	<p>Sun Yat-sen 'Three Principles'.</p> <p>Nationalism, Democracy and Livelihood - which were perceived as a superior catechism to Communism.</p> <p>Adopted/adapted from Meiji Japan.</p>	<p>Authoritarian Leaders of KMT.</p> <ul style="list-style-type: none"> ▪ Chiang Ki-shek (1949-1975) ▪ Chiang Chiang-kuo (1975-1988). ▪ Democratic Regime KMT ▪ Lee Teng-hui (1988-2000) <p>Democratic Progressive Party Chen Shui-bian (2000-2008)</p> <p>Current Democratically elected leader Ma Ying-jeou of the KMT (2008-present)</p> <p>State Policy Structures Remain Unchanged.</p> <ul style="list-style-type: none"> • Central Planning Agency • Central Bank established under Meiji rule • Difang zizhi (local populace participation)
South Korea	<p>Korea's Post-1945 Political Regimes</p> <ul style="list-style-type: none"> • Syngman Rhee Regime (1948-1960). • Park Chung Hee (1961-1979) • Chun Doo Hwan (1979-1987) • Roh Tae Woo (1987-1993) • Kim Young Sam (1993-1998) • Kim Dae Jung (1998-2003) • Roh Moo-hyun (2003-2008) • Lee Myung Bak (2008-present) 	<p>Corporatist Party Structure. Park (1961-1979) Corporate State.</p> <ul style="list-style-type: none"> • Presidential palace • Central Planning Agency • Central Bank established under Meiji rule <p>Largely maintained Park's economic structures.</p> <p>Greater democratisation of the political system emerged under Chun and then fully emerged under Roh.</p> <p>Democratisation process reaches new height with election of Kim Dae Jung, for over thirty years an opponent to authoritarian rule and a democratic advocate.</p>

Appendix III

Selected Quotations from the Iwakura Embassy by Kume Kunitake in The Iwakura Embassy. Vol. 1.
General Observations
Japan and the World “When we consider what has happened [the Meiji Restoration], we realise that everything was related to changes in the trend of world affairs” (p. 4)
Theory and Practice “In Western arts, sciences and technology, theory and practice stand distinct from each other. Theory lies in so-called general rules. Practice involves acquiring skills by working with actual machines in different fields. Neither should be favoured above the other, not should either be neglected” (p. 9).
Western and Eastern Practice “ <i>Westerners stress the practical science and rationality of material things, whereas Eastern people emphasise the science of the abstract and non-materials.</i> The disparity between the wealth of the peoples of the East and West is, I feel, the result of their different natures” (p. 56).
Trade “The people of America and Europe regard commerce as the most important human activity and Eastern people describe them as mercantile nations. However, the majority of people in these countries are engaged in agriculture, with less than half in manufacturing and only five or six out of a hundred actively involved in trade. However, all those in agriculture and manufacturing are concerned with the exchange of commodities. Cities co-operate to attract merchants and ships. This is unthinkable in the agricultural countries of the East... We do not recognise the main benefits of commerce <i>as a medium for buying and selling among people, moving goods to places where they have value</i> ” (p. 89-90).
The possibility of Japan’s rapid economic ascendancy “Thirty years may seem a very long time, but actually it is hardly more than the blink of an eye. Much of the historical past seems only yesteryear. The changes in the country [U.S.] have been so great that we must wonder what kind of changes we will see in another thirty years. The answer depends upon thoughtful, concentrated, long-range planning, which triumphs over shallow thinking and short-sighted, ill-considered action” (p. 94-95).
Observations by The Embassy on the United States of America
On the Founding Fathers, <i>Federalist vs Anti-Federalists</i>

“When the thirteen colonies rejected British rule, they established a confederation in which the representatives of the states debated issues and made decisions. With the war won and independence declared to the world, statesmen scholars such as Jefferson, Hamilton, Franklin, and other drafted a constitution establishing a federal republic... When these proposals [the various divisions between the President, the House of Representatives, the Senate and the Judiciary] were debated in the states, many delegates vociferously opposed them” (p. 210).

“Washington later said: *‘In establishing the Constitution, the debates within the country were many times more severe than eight years of hard war with the British army. Our endurance was tested to the limit’*. Truly, as he indicated, nothing is more difficult than securing peace after waging as bitter war”(pp. 195-196). [No doubt Kume was reflecting on the Meiji elite’s own bitter rise against the Tokugawa regime.]

Federal Government Structure

“Seven secretaries serve [as a cabinet] under the president in order to set executive policy. They are the Secretaries of State, Treasury, War, Navy, Interior, Post and Transport [the Postmaster General], and Justice [the Attorney General]. Responsibilities are shared among them, but there is no prime minister. Legislation may be initiated in either the upper or lower house and presented to the president” (p. 211).

On American democracy:

“The defects in the American character are that the people make light of public authority, resulting in laws having little effect and people asserting their own individual rights. Officials take bribes and factionalism is rampant within the established parties. Yet, long steeped in such a style of government, Americans have formed a thoroughly democratic policy. They would not wish to return to the peace of monarchical rule.

Nevertheless, when this attitude spreads to foreign countries it can divide ruler from subject. And once the established institutions are overthrown, the foundations of the nation is shaken and disturbed [eg France and Spain]” (pp39-40).

Iwakura Embassy visited the Department of the Treasury (April 24th 1872)

“This is the government’s ‘bank vault’, in other words, the finance department. Built of white stone, it is one of the biggest buildings in the city... [consisting of four stories, two below ground and two above] Although currently \$100,000,000 is said to be stored in the vaults, this amount occupies only one-tenth of the storage space” (pp. 235-237).

On the crucial role of the railroad in the United States development

“When it comes to laying railroads, however, America has surpassed Europe. By 1864-65 the total length of track was 38,000 miles, and by 1870 it was almost 60,000 miles. This figure is roughly half the world’s total mileage. The transcontinental railroad which was built between Omaha and California and completed three years ago astonished the world for its daring construction and grandeur of scale. In an instant it changed the structure of trade

and commerce [in America and with Asia]" (p. 45).

Mining, Industry and Textiles

"Now I will discuss mining and industrial production in America. In recent years, nothing is more profitable in mining than coal and iron, and America's coal mines are so rich that they produce three times as much as the whole of Europe... The rise of manufacturing and the industrial arts stems from the development of iron and steel works. America is rich in coal and iron-ore, and thus the production of iron and steel flourishes... Apart from agricultural equipment, textile machines are the most profitable in the use of iron and steel for people of this country. Machines are used to spin and weave cotton and wool, which America has in abundance... These factories are among the greatest sources of profit in the whole country" (pp. 5-51).

American Commerce

"The purpose of commerce is to add value to items produced through agriculture and manufacturing and to derive profit from the process. For this reason, *all the people of America and Europe place great importance on the strength and weakness of commerce in the same way as agricultural countries pay great attention to levels of crop production. Realising that the economic decline of one town or one port can affect the whole country, they are always alert to such problems*" (p 52).

Trade or Perish

"America possesses a vast land lavishly endowed with natural resources. It's population, even including visitors, is less than 50,000,000. With so many resources in proportion to the size of the population, if it does not develop trade and export goods to other countries, then these would simply rot and decay on the ground" (p. 52).

United States –European Trade

"There is a great deal of trade between America and Europe. America exports raw materials in exchange for European manufactured goods, and so American politicians, in an effort to encourage domestic manufacture, impose heavy taxes on foreign-manufactures products. This is called a 'tariff', or 'protective tax'. As a result, in America, clothing, utensils, household goods and toys – in fact all manufactured products – become more costly than in Europe... Most of the trade was with Britain; the most significant export to Britain was cotton, to the amount of 62,000 tons, and the next largest was grain" (p.53).

United States 'Gunboat' Diplomacy in Asia

"During our Kaei era (1848-54), hoping to open up trade with China, the southern seas and India, the American president [Millard Fillmore, 1800-1874] sent Commodore Perry as an envoy to Japan to initiate opportunities for commerce. Since then, the Americans have been most eager to realise the potential trade with China and Japan" (p. 52).

New York Merchants and American Wealth in the 1870s

“Actually, there are many extremely wealthy merchants in America, as many as in the great European countries. In a state such as New York, the resources of the rich are enormous and their influence dominates politics. Under a republican government people’s rights are extended and the political regime has to accommodate them. Similarly, the situation of commerce cannot be understood from looking at government statistics alone” (p. 53).

New York’s Economic Power

“Everybody knows that the manufacturing and commerce of New York State are the foremost in America. The wealth of the state, however, is really due to agriculture [the presence of Lake Erie, Lake Ontario, the Hudson River and a network of other rivers and canals] New York State can readily export hundreds of products... New York City has a number of piers where a great quantity of goods are dispatched and received. Manufacturing also flourishes. Iron machines, steel tools, cotton and woollen cloth are all manufactured with great skill. With sources of products well-established within the state, and an effective system of distribution, New York is the leading state in the nation, far ahead of most others in its economic vitality... In 1870 New York State had 36,206 manufacturing establishments, 4,664 steam-engines, 9,011 water-wheels operated by 351,800 hands” (p. 284).

Philadelphia

“Among America’s cities, the great metropolitan centres of New York and Philadelphia are rivals. Philadelphia, in particular, is a manufacturing city, casting and forging iron and steel, weaving cotton, wool and hemp, and making glass, gold, silver and leather goods. Just by driving around and observing the prosperous shops, we could see how thriving its industries are. It surpasses New York in the pleasantness and spaciousness of its avenues” (p. 354).

American Poverty

“The hovels where these base people live are so dirty and unsanitary that legal efforts to educate and protect them need strengthening” (p. 54).

American Finance

“The New York Stock Exchange was organised in 1817 by a group of 28 brokers. Its business at first was small – daily volume was only a few thousand shares – and consisted almost entirely of bank and insurance stock. Railroad securities began to dominate it by the 1840s and continued to do so until the end of the century. The Stock Exchange settled at its current site at Broad and Wall streets in 1865. The 1860s were a decade of major changes. Fueled by wartime speculation, trading flourished at the exchange and at other sites in lower Manhattan. In 1869 the Stock Exchange absorbed one of its rivals to become a body of 1,060 members, more than ten times the number of a decade earlier. Membership of the exchange became a saleable property right in 1868, with seats selling for \$4,000 in the 1870s. In 1871 the exchange was converted from a ‘call market’, where each stock was called and traded one by one, to the continuous auction market, which remains the principal means of trading” (p. 375).

American Agriculture

“Although many industries flourish in America, the greatest profits are derived from agriculture. The encouragement of agriculture is, therefore, particularly important and is given close attention throughout the whole country. For most ordinary people in America, promoting agriculture *means increasing the opening and development of land rather than increasing yields*” (p. 247).

American Industrial Ingenuity

“The people of America are bursting with vitality. Because of the energy of its people, new machines are being energetically invented. The ingenuity of these machines, of which the people of this country are justly proud, is said to be the greatest in the world. When we examined machines made in this country, their operation was speedy and their design astonishingly innovative. Many of them gladden the heart. When we travelled through the countries of Europe and scrutinised hundreds of machines, we saw ingenious mechanisms with superb designs. Each time we enquired about their origin we were told that many of them were invented in the United States. However, the one defect they have in common is that they are rather rough-and-ready in construction. When compared with German precision, British quality or French elegance, they must inevitably be called ‘unrefined’ and rather crude” (pp. 51-52).

The United States Education System

“Americans put great effort into elementary education. The number of elementary schools, newspapers, and students entering school exceeds those of every other country... The federal government does not interfere much with the methods of education, and such matters are left to the state or territory. Each state government regards education as its major administrative responsibility and expense. Every year the state governments set the education taxes and discuss how to increase the funds raised from taxes... There is no single, nation-wide, unified system of education... There are 369 universities or colleges in the United States (1870 statistics). These are most numerous in Pennsylvania and Ohio. Amongst the most famous is Harvard College in Cambridge, founded in 1638. In its library are 894,000 volumes. Yale College in New Haven is almost comparable” (pp. 55-56).

Washington Capitol

“As the seat of the federal government, Washington is thronged with official visitors. Bureaucrats, generals, senators and congressmen from all over the country, as well as foreign diplomats, are constantly coming and going, all travelling at public expense and residing here only temporarily” (pp. 195-196).

Reflections on departure from the United States via Boston on August 6 1772

“From our arrival in San Francisco until our departure from Boston we traversed the breadth of America. If I summarise very simply what we actually witnessed, this whole land, taking after European culture, *is filled with the*

spirit of independence and enthusiasm for promoting industry and accumulating property, and these have amply developed in this country... Because production of manufactured goods and agricultural produce is abundant, a tolerant country with a thriving economy has been established. Although many things are still rough-hew, [commercial] victory after victory has been gained in the world. It must be said that this is truly what makes America America” (pp. 393-394).

Appendix IV

Institutions and Locations in the United States visited by the Embassy

- ❑ Visited the United States naval shipyards in San Francisco where they were hosted by Commodore Enoch Greenleaf Parrot (1814-79), also visited Booth and Company of San Francisco - Union Foundry – a manufacturer of mining machinery.
- ❑ Examined militia and military academies for boys.
- ❑ Central Pacific Railroad Company Visit – undertook a 35 mile journey to San Jose.
- ❑ Tour of the Denman School for girls and Lincoln elementary school.
- ❑ The U.S. Patent Office where they saw American innovation blossoming.
- ❑ Tours of the Smithsonian Institute, Mount Vernon, The National Observatory, The United States General Post Office, The Bureau of Agriculture.
- ❑ The U.S. printing Office and its array of mechanical type-setting innovations.
- ❑ The United States Naval Academy at Annapolis (Chesapeake Bay) – founded in 1845 - hosted by the Secretary of the Navy, George M. Robeson and Secretary of State, Hamilton Fish – the Academy allowed for foreign students one of which in 1872 was Prince Takahiko – another Junjo Matsumara entered in 1869 and became a vice-admiral in the Japanese Navy.
- ❑ The United States Military Academy at West Point – hosted by Secretary of War, William Belknap and General Thomas H. Ruger.
- ❑ The Federal Arsenal was established in 1777 and the Armoury in 1794 at Springfield Massachusetts – manufacture guns for the army in the whole of the country – employed 800 people and stored 175,000 arms.
- ❑ The Philadelphia Library established by Benjamin Franklin in 1731 – together with the Loganian Library [the Collection of James Logan, 1674-1751] – total 180,000 volumes.
- ❑ Visited the Philadelphia Mercantile Library which held 30,000 volumes.
- ❑ The United States Mint, Chestnut Street Philadelphia.
- ❑ Independence Hall, Chestnut Street Philadelphia – location where the Declaration of Independence was formulated and ratified.
- ❑ 24 July 1872 Chief Ambassador Iwakura led the associate ambassadors to the White House to meet President Grant to bid him farewell – the Secretary of State and War, Myers, was present – later they visited the Secretary of State,

Fish at his home and once more farewelled Grant who was also present.

- ❑ July 31st 1772 - Visited the University of the City of New York – Washington Street [Square]- renamed New York University. The New York Stock Exchange on Wall Street, Federal Hall and City Hall on Empire Street. Visited Astor Library and provided with catalogues.
- ❑ August 2nd 1772 Visited the Massachusetts Institute of Technology on Beacon Street – and the Boston Society of Natural History – banquet at the Boston Board of Trade.
- ❑ August 3rd 1772 – Visited cotton mills (Pacific Mills) in Lawrence Massachusetts – Rhode Island – a burgeoning industry in the U.S. with hundred of mills employing tens of thousands of people.

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