

## BOOK REVIEW

### *CONCRETE ECONOMICS: THE HAMILTON APPROACH TO ECONOMIC GROWTH AND POLICY*

STEPHEN S. COHEN AND J. BRADFORD DELONG  
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Cohen and DeLong are well-known economists, but they indict their fellow economists for an overemphasis on theory. Away with models that have little relation to reality, our authors say. Instead, we need to grasp a simple lesson about the source of America's prosperous economy.

What is this simple lesson?

In successful economies, economic policy has been pragmatic, not ideological. And so it has been in the United States. From its very beginning, the United States again and again enacted policies to shift its economy

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onto a new growth direction.... These redirections have been big. And they have been collective choices.... Government signaled the direction, cleared the way, set up the path, and, where needed, provided the means. And then the entrepreneurs rushed in, innovated, took risks, profited, and expanded that new direction in ways that had not and could not have been foreseen.

The heroic leaders include, first and foremost, Alexander Hamilton; Hamilton's nineteenth-century successors, who continued his high tariff policies; Teddy Roosevelt and FDR; and Dwight Eisenhower. Hamilton, a "major economic theorist," favored "high tariffs, high spending on infrastructure, assumption of the states' debts by the federal government [and] a central bank." The rationale for this ambitious program was to reshape the economy "to promote industry... the aim was not to shift the new and fragile economy to its comparative advantage, but rather to shift that comparative advantage."

Hamilton's policy is open to an obvious objection, but Cohen and DeLong stand ready with an answer. The objection is that free trade benefits everyone engaged in it. If, by contrast, the government picks "winners," such as industries it wishes to support, there will be losers as well. If so, do we not have here a case in which the value preferences of the policy makers have been substituted for the freely expressed wishes of the consumers?

The authors answer in this way:

The textbooks tell us that the operations of a free trade system produce a positive sum game: all sides gain. But in industries of substantial economics of scale, of learning and spillovers, there is a major zero-sum element to the outcome. Few governments, if any, place the welfare of the rest of the world above that of their own citizens—my gain can well be your loss.... In terms of the structure of production and employment, the gain of one side comes at the expense of the other side, unless ...the other side (in this case, the United States) can move its resources and people into still higher-value-added activities, industries of the high-value future.

This response blatantly begs the question. Of course, they are right that if an industry subsidized by the government drives out of business a competing industry from another country, the subsidized industry benefits and the losing industry suffers. It

hardly follows from this, though, that a free trade policy puts the welfare of the world above that of its own citizens. Why do the losses to the unprotected industry outweigh the gains of consumers in one's own country now able to buy products more cheaply from the foreign firm? Of course, if one assumes that a prosperous economy must be heavily industrialized, our question can be answered; but this is just what is at issue. Why not let the balance between industry and non-industrial products be settled by the freely expressed wishes of consumers?

Cohen and DeLong cannot yet be forced from the field of battle. They say about the "East Asian Model,"

The objective was to steer investment into industries that would pay off over the long run. It is not to direct resources into industries that earn the largest immediate profits for businesses at some set of [Adam] Smithian free-market prices. The object is to direct resources to industries that will pay off in terms of economic development.

Is not the far-seeing state able to see into the future better than businessmen, heedless of the long-run out of avidity for current profits? Readers more skeptical of the state than the authors will be pardoned for doubting the matter, all the more so when the authors themselves acknowledge problems with their scheme: "Can such policies go wrong? Yes. Can such policies produce horrible economic disasters? In many cases they have."

Further, even if the state spotters of future trends "get it right," from the viewpoint of the industrial policy our authors favor, the fundamental question recurs. Why should the balance between current production and production for the future be set by anything other than the decisions of the consumers? Why is a greater emphasis on the future than consumers wish somehow "better?" The authors suggest that if the economy grows fast enough, sacrifices of present consumption will be repaid by higher consumption in the future. Even if they are right, though, who are they to say that the sacrifices are worth it? Once more, Cohen and DeLong substitute without basis their own value judgments for those of the free market consumers.

I suspect that the authors, if they deigned to read these remarks, would respond with derision: "Raise all the free market purist

points you want. What we propose works!" They say, "What we do know is that since the days of Hamilton, it is a fact that America's successful economic policy has been pragmatic, not ideological. It has been concrete, not abstract."

America, under the high tariff pro-industrial policy the authors support, became the most prosperous economy in the world; and the success of state-directed economies in China and East Asia adds further evidence. Is it not simply obstinate to deny this?

This argument is vulnerable at two points. The first of these will be familiar to any reader of Bastiat and Hazlitt. Granted that the American economy has attained great prosperity, how do we know that prosperity would not have been even greater under the *laissez-faire* regime our authors disdain? Must we not examine "what is unseen," as well as "what is seen," as Bastiat long ago noted?

Have we been too hasty in this response? The authors might be taken to answer us in this way: "The United States had every chance of sharing what W. Arthur Lewis called the economies of temperate European settlement. These other countries---Australia, Argentina, Canada, and even the Ukraine---became in the nineteenth century great granaries and ranches for industrial Europe. But none of these developed the industrial base to become fully first-class balanced economies in the late nineteenth century.... When commodity price trends turned against them, they lost relative ground. By contrast, the twentieth century became an American century precisely because America by 1880 was not a gigantic Australia."

Here once more our authors have begged the question. They assume that, in the absence of "industrial policy," the United States would have been a largely agricultural country. Why think this?

The doubt here is more than an abstract possibility, of the sort Cohen and DeLong view with contempt; and this raises the second line of attack that may be directed against their "it works" argument. There is little reason to think that Hamiltonian policies led to American prosperity. True enough, tariffs were often high, and nineteenth-century governments favored internal improvements. But tariffs were virtually the only source of government revenue, and the size and scope of government was minuscule in comparison to today's bloated state. Why not ascribe

the success of the American economy to the relative freedom of the economy rather to industrial policy? Appeal to the “concrete” avails nothing; facts without theory are blind. The question becomes all the more pressing when one considers that the authors count as a case of successful state intervention the government’s making land available through the Homestead Act of 1862. The fact that the government made it very easy to acquire title, rather than selling land by auction to the highest bidder, is somehow counted as a triumph for state policy. If one is going to call a way of privatizing land an instance of state oversight of the economy, the case for state control of the economy is readily made. To readers who do not share the biases of Cohen and DeLong, though, their procedure will seem akin to calling white black.