

Nation, State, and National Economy:  
the Early 19th Century American Developmental State

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I hold a deep sense of gratitude to my professors and colleagues with whom I have grown intellectually and personally. I am most indebted to my thesis advisor and professor Dr. Rhyu Sang-young, with whom I took courses on Japanese and Korean political economy and first read the works of Chalmers Johnson, Alice Amsden, and Peter Evans, among others. Dr. Jennifer Oh deserves special recognition as the professor who helped me build a solid foundational knowledge about East Asian political economy more generally. I am also grateful to Dr. Seo Jungmin, whose class on nations and nationalism greatly influenced my understanding of the modern nation-state era, and Dr. John Delury, whose mentoring as a professor and thesis committee member has been instrumental in my intellectual growth. Lastly, I want to thank Darcie Draudt and Jin Seong-bak for print editing my thesis.

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## **Abstract**

America, like Japan, was a developmental state during the earliest decades of its modern national history. The developmental state also had a constitutive effect: in America's formative years, the federation of loosely connected states formed a union through national economic planning. In Japan it supported empire-building efforts. Overall, this thesis shows how embedded autonomy, as a developmental state theory, can explain how the national economy plays a constitutive role in nation-state formation. In early 1900s America and in Japan/Manchuria between 1920-1930, developmental states used the national economy for both nation-building and economic developmental purposes.

The American nation-state came into existence at a unique time and in a space. With the Age of Revolution came the idea that the national and the political unit were one. With the notions of "union," "progress," and the "subjective spirit of national unity" in their ideational repertoire, early American nationalists, Alexander Hamilton chief among them, set about on the difficult and divisive task of binding the nation to the state through state intervention in the economy and society. The demands of economic management and governance created a space through which an archetypical Weberian bureaucrat, Albert Gallatin, rose to a position of prominence. Using the capacity granted him as Secretary of Treasury, Gallatin executed a countrywide survey for the purpose of producing a report on internal improvements for the US Senate. The efforts required to produce Gallatin's *Report* had the effect of embedding the state within the national economy and society. Though unsuccessful in its putative objective of establishing the central government as the primary agent of national economic development, the *Report* would serve as the ideational foundation and blueprint for further development projects by individual states, local governments, and private enterprise. As the economy grew and industry expanded westward, calls for the protection of American industry from foreign competition, in the form of tariffs, made their way into the mainstream political discourse. What started with calls for internal improvements progressed into appeals for a unique "American system" of governance and economic development.

Though broad-based support for tariffs took another war with the British (a national war) and the internal improvements made during the early 19th century were never implemented under the banner of a coherent industrial policy or five-year plan, the American state—a newly christened modern state apparatus—intervened in the economy in order to tame domestic and international market forces for purposes of economic development and national interest. The twin concepts of the state as “surrogate entrepreneur” and actor that “induces decision-making” that Gerschenkron and Hirschman, respectively, put forward in their writings on developmental economics have been used to explain the developmental states of East Asia. However, no mainstream scholars have made the obvious, and appropriate, parallel to the American developmental state. Callender, had he been writing *after* Gerschenkron and Hirschman did, likely would have. But since he did not, the parallel is made here. America did indeed have a developmental state in its formative years. Moreover, the American developmental state shares several key characteristics with the early Japanese developmental state. In America and Japan archetypical Weberian bureaucrats arose through state bureaucracies or bureaucratic institutions to lead state-centered efforts at organizing socially embedded economic developmental efforts.

In the 1920s, Japan was entering the nation-state system as an expansive development state. At a time in world history when competition between nation-states was reaching its peak, Japan entered onto the stage with every intent to do what the other modern, industrialized countries were doing and had done in the name of the nation-state: expand and incorporate. Though Japan’s westward expansion into Korea and the Manchurian plains brought real and lasting social, economic, and political hardship, it was here that bureaucrats, especially Kishi Nobusuke, acquired valuable administrative experience. His experience in imperium, when combined with his time in Germany and on the main island, bolstered his influence and increased his clout within Japan’s administrative apparatus. Kishi’s new authority allowed him to lead the effort at “embedding” the bureaucracy within Japan’s complex imperial social-economic web. The idea that economic and industrial growth should serve the empire reinforced the development of bureaucratic capacity and, following some political wrangling with the military, the ability to execute its role as a relatively autonomous institution responsible for

“administrative guidance.” The bureaucracy’s newfound role is illustrated most vividly in its use of cartelization and more generally in its control over economic and industrial development.



## **Introduction: Nation, State, and National Economy**

How did the United States become a nation-state: a single political, economic, and cultural unit? This question represents the primary research question of this thesis. Interestingly enough, the answer proffered here does not begin in the annals of American history but springs from the literature on the developmental states of East Asia. America, like Japan, was a developmental state during the earliest decades of its modern national history. The developmental state also played a constitutive role: in America's formative years, the federation of loosely connected states formed a union through centrally planned economic development. In Japan, the efforts to create an empire were supported by the developmental state. While the federal government in Washington DC never attained the degree of centralization that East Asian governments did during their developmental periods, the American state was able to link itself to the nation *via* the national economy and national economic planning.

Though plenty of literature exists on the early American republic, there is no literature that employs theories on the developmental state to explain the relationship between nation-state formation and national economic development in early 19th century America. Likewise, no comparison between the American and Japanese developmental states during their formative years has been attempted. Using the theory of "embedded autonomy" to make a comparative study in nation-state formation and economic development, the research presented in this thesis fills both gaps.

This thesis is divided into three parts, in addition to the Introduction and Conclusion. Part 1 is an overview of the most recent literature on development economics and a critique of the developmental state literature. Located in the most recent literature on development economics is a paradigm shift that beckons a revaluation of the developmental state as a concept. The theory of embedded autonomy, as political economist Peter Evans uses it, is emphasized as the theory that best explains the developmental state. As such, it is used to highlight the key characteristics of both the early American and Japanese developmental states and nation-state formation.

Part 2 explores the origins of Japan's developmental state during the formation of the imperial nation-state in the 1920s and 1930s. Though Japan's westward expansion into Korea and the Manchurian plains brought real and lasting social, economic, and political hardship, it was here that bureaucrats, especially Kishi Nobusuke, acquired valuable administrative experience. His experience in imperium, when combined with his time in Germany and on the main island, bolstered his influence and increased his clout within Japan's administrative apparatus. Kishi's new authority allowed him to lead the effort at "embedding" the bureaucracy within Japan's complex imperial social-economic web. The idea that economic and industrial growth should serve the empire reinforced the development of bureaucratic capacity and, following some political wrangling with the military, the ability to execute its role as a relatively autonomous institution responsible for "administrative guidance." The bureaucracy's newfound role is illustrated most vividly in its use of cartelization and more generally in its control over economic and industrial development.

Part 3 builds the case for an American developmental state and locates the origins of the modern American nation-state in the early 19th century. With the notions of "union," "progress," and the "subjective spirit of national unity" in their ideational repertoire, early American nationalists, Alexander Hamilton chief among them, set about on the difficult and divisive task of binding the nation to the state through state intervention in the economy and society. The demands of economic management and governance created a space through which an archetypical Weberian bureaucrat, Albert Gallatin, rose to a position of prominence. Using the capacity granted him as Secretary of Treasury, Gallatin

executed a countrywide survey for the purpose of producing a report on internal improvements for the US Senate. The efforts required to produce Gallatin's *Report* had the effect of embedding the state within the national economy and society. Though unsuccessful in its putative objective of establishing the central government as the primary agent of national economic development, the *Report* would serve as the ideational foundation and blueprint for further development projects by individual states, local governments, and private enterprise.

The Conclusion summarizes the American and Japanese developmental states, with an emphasis on the research findings for the American case. It also points to the similarities between the two models and revisits the theory of embedded autonomy as it was used in the thesis to explain economic development and nation-state formation. In America and Japan archetypical Weberian bureaucrats arose through state bureaucracies or bureaucratic institutions to lead state-centered efforts at organizing socially embedded economic developmental efforts. In both cases, the developmental efforts had broader constitutive effects: in America it created the Union, whereas in Japan it buttressed the efforts of an empire.

## **PART 1: Discourse on Development and the Developmental State**

As little as a decade ago, it would have been anathema to publish an article in support of, or even indicate tacit support for, a model of overt state intervention for the purpose of fostering economic growth in America. The historical reevaluation presented in this research, which emphasizes the positive role of state intervention in the market and in society, comes at an optimal time. The anti-interventionist neoliberal understanding of state-market and state-society relations, best understood as the “Washington Consensus,” is no longer the orthodox view.<sup>1</sup> A new paradigm has replaced it: “New Structural Economics” (NSE). Three major events have had a major influence upon this process of change: first, the late 1990s Asian financial crisis, which put the credibility of pure market-based approaches to the sternest of tests; second, the ongoing rise of the Chinese economy as part of a broader regional economic success story, one characterized by development frameworks presumed to be suboptimal in structural adjustment terms; and third, the global financial crisis, which began in 2008 and, arguably, has yet to be overcome. NSE, in addition to proposing a new way to think about development, invites a reconsideration of the concept of the developmental state and our understanding of the

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<sup>1</sup> The Washington Consensus, a package of policy prescriptions assigned to developing countries in economic and financial crises by Washington-based developmental institutions, such as the International Monetary Fund and World Bank, was for the most part synonymous with neoliberalism and the market-based approach to development in the 1990s. See: Williamson, John: What Washington Means by Policy Reform, in: Williamson, John (ed.): Latin American Readjustment: How Much has Happened, Washington: Institute for International Economics 1989.

relationship between the modern state and the relationship between the state, the nation, and the national economy.

### **The Era of New Structural Economics**

New Structural Economics is a new way of thinking about development economics that differs significantly from neoclassical economic theory. NSE centers on the notion that a state wishing to follow a development track must ultimately opt to pursue its comparative advantages, and one that does so will “successfully upgrade its endowment structure, tap into the potential of latecomer advantages, sustain industrial upgrading, increase its national income, create jobs and reduce poverty.”<sup>2</sup> However, where it diverges from the neoclassical school is in its insistence that this process requires significant state intervention in the economy: in the end, it explains, governments need the freedom to offer “transitory protections to [pre-existing] nonviable firms” and to actively facilitate the entry of private companies and foreign direct investment into sectors in which the nation enjoys comparative advantage, thus improving resource allocation and bringing about dynamic economic growth. In essence, it is a process of “opening markets while also providing government support to facilitate the growth of new industries.”<sup>3</sup>

As a result of this shift in emphasis, institutions such as the World Bank are now publishing reports advising governments to “play an active, facilitating role in the industrial diversification and upgrading process and in the improvement of infrastructure,”<sup>4</sup> in addition to implementing “an appropriate sequencing of liberalization policies ... in domestic finance and foreign trade [rather than ‘shock therapy’] so as to achieve stability and dynamic growth simultaneously during [economic] transition.”<sup>5</sup> That the World Bank’s chief economist from 2008 to 2012, Justin Yifu Lin, now has much in common with formerly outlying development economist Chang Ha-joon

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<sup>2</sup> Justin Yifu Lin, *The Quest for Prosperity* (Princeton: Princeton University Press, 2012), 256.

<sup>3</sup> Ibid.

<sup>4</sup> Justin Yifu Lin, “New Structural Economics: A Framework for Rethinking Development,” Paper presented at the DEC’s fourth Lead Economists Meeting, 3.

<sup>5</sup> Justin Yifu Lin, *New Structural Economics: A Framework for Rethinking Development* (Washington DC: The World Bank, 2012), 33.

certainly marks a proverbial “paradigm shift” in development economics thinking.<sup>6</sup> In the discursive space created by this paradigm shift is where the expansion of our understanding of the developmental state as concept begins.

### **Broadening the Discourse on the “Developmental State”**

The term “developmental state” emerged from analysis of three much earlier examples of state intervention for the purpose of facilitating economic growth: first Japan, and then South Korea and Taiwan.<sup>7</sup> Research into these success stories has shown that these three states were not just lucky to be developing in a “fortunate” geopolitical environment with diligent workforces and favorable trading relations with the United States.<sup>8</sup> There was no small amount of intervention and deliberate disobedience towards the tenets of neoclassical economics, especially its most crucial directive: that countries seeking long-term, balanced growth must produce that which they have a comparative advantage in producing. While East Asian developmental states did not adhere to the

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<sup>6</sup> In a *Development Policy Review* publication, Justin Lin and Chang Ha-joon debate the merits of state intervention and comparative advantage. Though their opinions diverge regarding the degree to which the state can intervene without hindering economic growth and the degree to which a state should deviate from its comparative advantage, both development economists agree that state intervention is necessary to foster economic growth in developing economies. That Lin, the chief economist for the Washington-based World Bank, not only finds common ground with Joon but also actually agrees in principle with many of his main arguments is significant. Justin Lin and Chang Ha-joon, “Should Industrial Policy in Developing Countries Conform to Comparative Advantage or Defy it? A Debate Between Justin Lin and Chang Ha-joon,” *Development Policy Review* 27, no. 5 (2009): 483-502.

<sup>7</sup> For review of the development state literature, see the following: Chalmers Johnson, “The Developmental State: Odyssey of a Concept,” in Meredith Woo-Cumings, ed., *The Developmental State* (Cornell: Cornell University Press, 1999); Alice Amsden, *Asia’s Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press, 1989); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990); Peter Evans, “Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State,” *Sociological Forum* 4, no. 4 (1989): 561-587; and Ha-Joon Chang, ed., *Rethinking Development Economics* (London: Anthem Press, 2003), amongst others.

<sup>8</sup> The notion that the Cold War was a favorable geopolitical environment for developing countries perceived to be at the forefront of battle to stem the (economic, political, and ideology) tide of Communism is an argument made by scholars. For one, see: Bruce Cumings, “The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences,” *International Organization* 38, no. 1 (Winter 1984): 2-40.

tenets of neoclassical economics or the policy prescriptions recommended by Washington-based economic and financial institutions, neither were they centrally planned economies where state planning supplanted the function of the market. Rather, research has found that in a developmental state the state intervenes, but in a “market conforming” way that mobilizes market forces in a different, typically more efficient manner than that of an unfettered free market.

But it was even more than that. As Chalmers Johnson, the author of the discourse-changing study on the Japanese developmental state, put it:

When a state substitutes itself for society and legitimates itself through some political project such as social revolution or economic development, we have a strong state and a weak society, as in Japan after the Meiji era. Asian economic success, pioneered in Japan but duplicated in various different ways in South Korea, et al, is based on the activities of what [Johnson calls a] ‘capitalist developmental state.’<sup>9</sup>

Though helpful in showing that East Asia “miracle economies” were not miracles at all but deliberate outcomes of a state-directed development program, Johnson’s definition of the developmental state is too exclusive; it does not permit a broader application of the developmental state literature to regions behind Asia and periods outside of the 20th century. NSE provides some balance and beckons scholars of developmental states to reconsider how exclusive the literature should be.

In ways different from the East Asian models, a developmental state can, *theoretically*, grow in an un-explosive, fragmented, and unimpressive way. What is more, a state can be developmental without having to supplant or coopt civil society. In other words, not all developmental states are rule over by highly centralized governments. There are a myriad of characteristics associated with the constitutive elements of the developmental state; some of the more prominent characteristics include: an “elite,” Weberian bureaucracy; the use of administrative guidance; the implementation of a market-incentive altering industrial policy; a strong alliance between state and business; and the presence of

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<sup>9</sup> Chalmers Johnson, *Japan, Who Governs? The Rise of the Developmental State* (New York: Norton and Company, 1995), 67.

embedded autonomy (a interdisciplinary concept explained in greater detail below).<sup>10</sup> The still ongoing debate regarding the extent to which state intervention is warranted is left untouched here and, if anything, assumed a *fait accompli*—or at least as close to a done deal as is possible.<sup>11</sup> Above all, the ultimate purpose of the developmental state—and thus what defines the bottom line—is, as White and Wade put it in their study of the South Korean development state: to “[play] a strategic role in taming domestic and international market forces and harnessing them to a national economic interest.”<sup>12</sup>

This research is concerned primarily with the “national” aspect of the developmental state, focusing on how the central government, especially a bureaucratic entity, tames domestic and international market forces in the interests of both the state and the nation. Using the developmental state concept of embedded autonomy, this research looks into the origins of nation-state formation and economic growth in the early American republic.

#### *The modern state and the bureaucracy*

Max Weber said it best in his colossal study *Economy and Society*, wherein he sketches an outline of the modern state and its most essential element: the bureaucracy. “In a modern state the actual ruler is necessarily and unavoidably the bureaucracy, since power is exercised neither through parliamentary speeches nor monarchical enunciations but through the routines of administration.”<sup>13</sup> The state, ergo the bureaucracy, was seen by Weber as a useful agent in the market because it did not operate according to the logic of costs and benefits, but instead acted in the name of the state: the *raison d’etat*.

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<sup>10</sup> These traits are taken from a plethora of studies on the developmental state. See, among others: Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982); Wade, *Governing the Market*; and Amsden, *Asia’s Next*.

<sup>11</sup> That the World Bank’s most recently publications cite extensively from Alexander Gerschenkron is an indication that the debate is over. Gerschenkron is portrayed by most students and authors of the developmental state as a less polemical Frederic List. His work on industrialization and backwards economies highlights the necessity of government intervention in the market.

<sup>12</sup> Gordon White and Robert Wade, “Developmental states and markets in East Asia: An introduction,” in Gordon White, ed., *Developmental States in East Asia* (New York: St. Martin’s Press, 1988), 1.

<sup>13</sup> Max Weber, *Economy and Society*, ed. Guenther Roth and Claus Wittich (Berkeley: University of California Press, 1978), 1393.



Corporeal coherence was a variable that distinguished modern, bureaucratic states from earlier pre-bureaucratic forms and represents an essential component for the successful management of a capitalist society by a developmental state.

Overall, the modern bureaucracy is characterized by three primary traits: 1) political autonomy; and 2) corporeal coherence; and 3) disinterestedness. The separation of the bureaucracy from the influence of politics and society is what enables the creation of a distinct, professional identity which, in turn, fosters a sense of disinterestedness. In order to be removed from the immediate interest of ordinary citizens and, as Nico Poulantzas would have it, the control of the “dominant classes,” requires that bureaucrats have the distinct position as one in but not entirely of society.<sup>14</sup> A quote from Weber is illustrative:

Whether he is in a private office or a public bureau, the modern official, too, always strives for and usually attains a distinctively elevated *social esteems* vis-à-vis the governed. His social position is protected by prescription about rank order and, for the political official, the special prohibitions of the criminal code against ‘insults to the office’ and ‘contempt’ of state.... The social position of the official is normally highest where... there is a strong demand for... administration by trained experts.<sup>15</sup>

The insulation enjoyed by a “modern official” promotes effective state management of the market-economy through standardized, “calculable” decision-making. In the words of political economist Peter Evans, “Weber’s bureaucrats were concerned only with carrying out their assignments and contributing to the fulfillment of the goals of the apparatus as a whole.”<sup>16</sup> As separate from the whimsical demands of society, a new interest takes shape; the bureaucracy, by nature of its isolation from society, comes to best promote its own interest through promoting the interest of the state, and thus the national economy. To Weber, the impersonal and “objective” pursuit of the bureaucrat, a condition fostered by a sense of professionalization and aided by political insulation, is

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<sup>14</sup> Nicos Poulantzas, *Political Power and Social Classes* (New York: Verso, 1975). Also quoted in Evans, “Predatory, Developmental, and Other Apparatuses,” 569.

<sup>15</sup> Weber, *Economy and Society*, 959-960.

<sup>16</sup> Peter Evans, “Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State,” *Sociological Forum* 4, no. 4 (1989): 561-587, 567.

what ensured the effective administration of the modern state and capitalist development, ergo state-led growth. In Weber's own words:

The rule and the rational pursuit of 'objective' purposes, as well as devotion to these, would always constitute the norm of conduct. Precisely those views which most strongly glorify the 'creative' discretion of the official accept, as the ultimate and highest lodestar for his behavior in public administration, the specifically modern and strictly 'objective' idea of *raison d'état*.<sup>17</sup>

In an ideal Weberian world, the interest of the bureaucrat perfectly aligns with that of the state. If the interest of the state is to promote the growth of the market, then it follows that a corporately coherent, autonomous bureaucracy is a must for the management of a developmental state.

### *Embedded autonomy*

Peter Evans found that what truly differentiates a developmental state from other typologies of state is not just the presence of market conforming government intervention. Rather, it is the internal structure of the state apparatus. Building on previous work in the comparative political economy literature, Evans uses the idea of "embedded autonomy" to explain the unique institutional traits of developmental states.<sup>18</sup> Drawing from the works of Alexander Gerschenkron and Albert Hirschman, Evans shows how the state acts as both "surrogate entrepreneur" and the agent that "triggers private initiative."<sup>19</sup> According to Evans, embedded autonomy captures the way "pilot agencies"

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<sup>17</sup> Weber, *Economy and Society*, 979.

<sup>18</sup> Evans focuses specifically on Japan, Korea, and Taiwan. Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995).

<sup>19</sup> Evans reading of Gerschenkron and Hirschman are best summarized by this quote: "A Prussian style bureaucracy might well be effective at the prevention of force and fraud, but the kind of surrogate entrepreneurship that Gerschenkron talks about or the kind of subtle triggering of private initiative that Hirschman emphasizes would demand more than an insulated corporately coherent administrative apparatus." Evans, "Predatory, Developmental, and Other Apparatuses," 568. Gerschenkron set forth this idea in his well-known collection of essays published together in one volume entitled *Economic Backwardness in Historical Perspective*. For the essay wherein Gerschenkron put forward his idea of a surrogate entrepreneur, see: "Economic Backwardness in Historical Perspective," in *The Progress of underdeveloped Areas*, B.F. Hoselitz, ed. (Chicago: University of Chicago Press, 1962), 5-30. For

in developmental economies represent an amalgamation of Weberian “corporate coherence,” institutional insulation, and the necessary state capacity to intervene in a way that replaces entrepreneurship and “induces decision-making.” In addition to enjoying a relatively high degree of isolation from political influence, the key bureaucratic institutions in such states are also tightly connected to social structure, which enables smoother state/bureaucracy-society relations.

Though protection from the influence of politics and rent-seeking politicians and businessmen is conceptually simple enough, the concept of “embeddedness” is more complex, with roots in sociologist Mark Granovetter’s critique of economic and sociological theories of economic behavior. Granovetter asserted that much of economic theory under-socializes behavior, while much of sociological theory over-socializes it. He thus proposes a more accurate view of economic behavior as being “embedded” within social relations.<sup>20</sup> Evans makes use of Granovetter’s conceptual framework to explain how bureaucracies in developmental states take advantage of close ties to society, especially in business and industry, for the purpose of developmental coordination and as a way to enhance the receptiveness and effectiveness of administrative guidance. Embeddedness, as Evans understands it, “implies a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation.”<sup>21</sup> In the context of a developmental state, this means that the state, now bureaucratized and with a mandate to promote the national economy, has intricately embedded itself within society in a way that promotes economic growth by acting as a surrogate entrepreneur and inducing decision making amongst private actors. In addition to stimulating economic growth, it also increases the state’s pervasiveness and its legitimacy. In other words, embedded autonomy explains both state formation (autonomy) and economic development (through embeddedness).

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Hirschman’s relevant work, see: Albert Hirschman, *The Strategy of Economic Development* (New Haven and London: Yale University Press, 1958),

<sup>20</sup> Mark Granovetter, "Economic Action and Social Structure: the Problem of Embeddedness," *American Journal of Sociology*, 91 (1985): 481-93.

<sup>21</sup> Evans, *Embedded Autonomy*, 59.

The next two Parts show how embedded autonomy, as a developmental state theory, can explain both nation-state formation and economic growth. In Part 2, focus is placed on the origins of the Japanese developmental state and the formation of an *imperial* nation-state during the early 20th century. Given Japan's prominence in the developmental state literature (Japan is often considered the standard-bearer of developmental states), this research will first discuss Japan's developmental state experience as a way to build a comparative case study for the American case. In Part 3, the concept of embedded autonomy will be used to explain early nation-state formation and economic development efforts in the early American republic.

## **PART 2: The Japanese Developmental State**

If we are intent on making an honest comparison of the American and Japanese developmental state models, then one crucial *difference* must first be identified. Japan, during the 1930s was preparing itself for imperial conquest. As any realist would point out, a state uses its economic power to mitigate the vulnerability created by the anarchic international system, namely the uncertainty instilled by the constant possibility of war.<sup>22</sup> Japan, however, took a more proactive role. By all indications, Japan was not acting to prepare itself *against* the threat of war, but to prepare itself *for* war.<sup>23</sup> Japan during this period was, like no other time in its history as a modern nation-state,<sup>24</sup> experiencing a level of economic growth that put it on a trajectory to “catch-up” with the countries of the West, which were at this time in history considered the developed countries of the world; the various countries of Asia were decades behind. Unfortunately, whereas a country like

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<sup>22</sup> For more on this understanding of the international system, see: Kenneth Waltz, *Theory of International Politics* (New York: Random House, 1979) and Jonathan Kirshner, Chapter 8, “States, Markets, and Great Power Relations in the Pacific,” in *International Relations Theory and the Asia Pacific*, 273-298, John G. Ikenberry and Michael Mastanduno, eds., (New York: Columbia, 2003).

<sup>23</sup> By the late 1930s, this was certainly the *perception*. However, as Johnson points out, what the Americans, specifically the press, perceived to be the intentions of the Japanese did not always correspond to reality. See Johnson’s analysis of the American press reaction to Yoshino’s issuance of his famous joint statement with Finance Minister Kaya of the “three fundamental principles” of economic policy in Johnson, *MITI and the Miracle*, 135-136. Nevertheless, the various policies pursued by Japan during this period were, indeed, for the purpose of strengthening the military for the purpose of imperial expansion. The military was seen by many Japanese bureaucrats and statesmen as a vehicle to secure economic power. See Johnson, *MITI and the Miracle*, 308; for historical analysis of the macro-economic effects of expansionist foreign policies and heavy investment in military development and expansion see: Miles Kahler, “External Ambition and Economic Performance,” *World Politics* 40, no. 4 (1988).

<sup>24</sup> Japan’s entry into the world as a modern nation-state from the time of the Meiji-restoration forward.

America had the sparsely populated western territories in which to build its continental empire, Japan's frontier was other, sovereign states.

### **Japan in World Historical Perspective: Ideas of Imperium**

Japan was a latecomer to the international system. Its victory in the Russo-Japanese War of 1905—the first time a “peripheral” country could claim a military victory over an industrialized European power—represented Japan's ascent to status of major power in the game of imperialist politics. The timing of its ascent, and the geopolitical conditions under which it realized its place in the community (of largely imperialist) nation-states, set it on a path of regional expansion.<sup>25</sup> In the words of Peter Duus, “The adoption of an expansionist policy was intimately linked to the timing of Japan's decision to modernize.”<sup>26</sup>

The revolutionary effects that the Opium Wars had on China quickly permeated the entire region, precipitating the Meiji Restoration and instilling in the minds of Japanese statesmen and bureaucrats a sense of perpetual insecurity: a typical trait of the international system. In *Japan Rising*, Kenneth Pyle describes the situation as such. “In the face of an East Asian system dominated by Western powers, an ambitious Japan was bound to be a revisionist actor.” The decline of China and the unraveling of the Sino-centric tributary system precipitated a shift in the regional distribution of power.<sup>27</sup> At this time, “Japan was,” according to Pyle, “beset by a combination of insecurity and ambition that drove it to undertake policies to secure regional hegemony....”<sup>28</sup> Such was the nature

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<sup>25</sup> Akira Iriye, “Imperialism in East Asia,” in Modern East Asia, J. Crowley, ed., (New York: Harcourt, 1970), 122-50.

<sup>26</sup> Peter Duus, *The Abacus and the Sword* (Berkeley and LA: University of California Press, 1995), 2.

<sup>27</sup> Japanese modernization was an attempt to move the center of the tributary trade structure to Japan. The main issues in Japanese modernization were how to cope with Chinese dominance over commercial relations in Asia and how to reorganize relations among Japan, China, Korea and Ryukyu Kingdom in a way that put Japan at the center. Japan opted for industrialization after the opening of its ports because of its location in a web of commercial relations with China. Takeshi Hamashita, “The Intra-regional System in East Asia in Modern Times,” in Peter Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997), 113-135.

<sup>28</sup> Kenneth B. Pyle, *Japan Rising: the Resurgence of Japanese Power and Purpose* (New York: PublicAffairs, 2007), 56-57.

of a system comprised of competing nation-states. As Duus understands it, “The main agent of expansion was not the adventurous entrepreneur,” as it had been several centuries prior, “but the nation-state.” In an age of Benedict Anderson’s imagined communities, “what gave the nineteenth-century nation-state its political cohesion was the belief... that political boundaries conformed to ethnic or cultural boundaries:” in other words, a congruent national and political unit.<sup>29</sup> However, as a late developer with a dearth of natural resources, Japan was lacking alternatives. That “civilization” was equated with the ideas of Herbert Spencer and social Darwinists, it is no surprise that Japan viewed international relations, and its place within the international system, as governed “not by law or morality but by force.”<sup>30</sup> It was expand or fall by the wayside in an international great power struggle. Though Japan’s imperial expansion had devastating social, political, and economic effects on the region, it was a period during which the early Japanese developmental state managed Japan’s transition to modern nation-state.

A very brief overview of the conditions in 1930s Japan will help sketch a backdrop onto which the early Japanese developmental state can be drawn. This is followed by analysis of one of Japanese most well known proponents of state-intervention in the economy for national purposes: Kishi Nobusuke, an archetypical Weberian bureaucrat. In the section on key figures, a focus is placed on the influence that Nobusuke’s ideas, politicking, and economic policies had on the formation of the Japanese developmental state model from his position within the Ministry of Commerce and Industry (MCI)—a relatively “autonomous” and “disinterested” institution. Particular focus is placed on the laws and legislation that laid the groundwork for the creation of the Ministry of International Trade and Industry (MITI)—the world renowned organization best known for its use of an industrial policy to increase national power through industrial and economic growth.

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<sup>29</sup> Duus, *The Abacus and the Sword*, 4-5.

<sup>30</sup> Ibid., 17. For the pervasiveness of Social Darwinism in Japan during its modernization period, see: Michio Nagai, “Herbert Spencer in Early Meiji Japan,” *The Far Eastern Quarterly* 14, no. 1 (1954): 55-64.

## Initial Economic Conditions

G.C. Allen describes Japanese economic development in the 1930s as follows:

...Japan passed through a period of exceptionally rapid economic growth. In manufacturing industry her progress was especially remarkable. She demonstrated her command of new skills and technologies. She made extensive additions to her capital equipment at home and she invested heavily in regions beyond her own shores [imperialism]. At a time when international trade was stagnating, her exports flourished. In a wide range of products and in a diversity of markets she became a formidable competitor of the older industrial countries of the West....<sup>31</sup>

Japan was on a trajectory to catch up with the West, in terms of economic growth and industrial output. Similar to the postwar period, Japan was playing economic and development “catch-up.” However, unlike the postwar era, Japan was not developing for development’s sake; economic development had a much clearer motivation: imperial expansion. Because of its military-driven external expansion, Japan had vast swaths of underdeveloped or developing land under its sovereign control. This included the occupied portions of Chinese Manchuria and the colonies of Korea and Taiwan. As Miles Kahler points out, “Japanese foreign economic policy in the 1930s was shaped by its colonial empire, which was contiguous to Japan.” Not totally dissimilar from the initial conditions of the American West a century prior (see Part 3), “Japan’s empire was... its frontier,” which had significant implications for Japanese development policies, particularly industrial development.<sup>32</sup> The pressure to expand overseas was exacerbated by the global depression that started in New York and quickly spread to Tokyo. The troubles caused by a worldwide depression were aggravated by a constant sense of external threat in the form of Western imperialism.<sup>33</sup> The Japanese response to this

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<sup>31</sup> G.C. Allen, *Japan’s Economic Expansion* (London: Oxford University Press, 1965), I. Qtd. in Kahler, “External Ambition, 430.

<sup>32</sup> Kahler, “External Ambition,” 436-438. Kahler also points out that Japan, unlike Western empires, did not use its colonies for pecuniary extraction or simply for raw material extraction, it forced industrialization on its imperial territories – a fact many would rather forget. See more discussion on imperial Japan’s colonial development projects, see: Cumings, “The Origins and Development of the Northeast Asian Political Economy,” esp. 8-16.

<sup>33</sup> Bao, “The State and the Associational Order,” 421.



ominous situation was to turn inward—inward meaning to the home islands plus its colonies—and pursue policies of a developmental state.<sup>34</sup>

### **State Intervention: Hitching the (Imperial) State to the Economy**

A closer look at the conditions during this period are often overlooked or ignored because of the dark shadow of militarism that looms over the period. Despite the disastrous results of Japan's expansionist-driven economic growth, analysis of this period is indispensable for understanding the state-directed economic development Japan is so well known for today. During this period, there were major structural changes to Japan's economy, most notably the rise of government involvement in economic planning for the purpose of advancing national interest and the power of the state: this linkage of nation, state, and national economy (for imperialist purposes) contrasts sharply to the American variant explored in Part 3. This involvement is best understood by examining the origins of Japan's developmental state, specifically Japan's industrial policy and the interaction between the military, business, and bureaucracy.

#### *Leading figures: Kishi Nobusuke*

Analysis of the Japanese developmental model in its early years revolves primary around what Chalmers Johnson calls the Yoshino-Kishi line: Yoshino Shinji and Kishi Nobusuke's influence over the shaping of economic and industrial policies from their powerful positions within the MCI, the forerunner to MITI,<sup>35</sup> from 1930 until 1936. During these six years, through a series of policy moves, laws, and political decisions taken primarily because of the actions, ideas, and policies of Kishi Nobusuke, the foundation of Japan's developmental state was laid out.

The Yoshino-Kishi line all started with the initiative Johnson calls "the beginning of modern Japanese industrial policy:" the Commerce and Industry Deliberation Council, set up by Finance Minister Korekiyo Takahashi for the purpose of examining "broadly

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<sup>34</sup> For a more detailed explanation of the makings of Japan's neo-mercantile state under the international conditions in the 1930s, see: Cumings, "The Origins and Development of Northeast Asian Political Economy," 11-14.

<sup>35</sup> The Yoshino-Kishi line is the central focus of part 3 in Johnson's foundational work on Japanese industrial policy in *MITI and the Japanese Miracle*, 83-115.

what was ailing the Japanese economy and what the government ought to do about it.” This council, which Johnson identifies as the predecessor to the Industrial Structure Council—“MITI’s number one official channel to the business community”—set a precedent for government intervention for the purpose of economic and industrial development. These moves, however, were not the most important. The introduction of “industrial rationalization,” a concept which “became a rallying cry for the integration of industrial policy,” would have far greater impact.<sup>36</sup> The story of Japan’s developmental state begins here.

### *The rise of cartelization*

Despite its association with Japan, the concept of industrial rationalization was not a homegrown idea. It was imported from Germany. Johnson explains:

...in 1930 by far the greatest influence on the Japanese theory of rationalization came from the Germans. Germany had been a powerful model for modern Japan ever since the [Meiji] Restoration, but in 1930 German precedents were introduced directly into the TIRB because of some unforeseen internal bureaucratic events.<sup>37</sup>

Importing and implementing these ideas in the form of laws would not have occurred without the active participation of key figures within the MCI, most notably Kishi Nobusuke. His trip to Germany in 1930, on behalf of the TIRB, cannot be overlooked. The seven months Kishi spent in Berlin “reporting on the industrial rationalization movement... directly influenced the path it took on Japan.”<sup>38</sup> Based on his observations, Kishi concluded that competition should be checked by “cooperation and control,” similar to the way German cartels mitigated competition in the market.<sup>39</sup> Of the various

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<sup>36</sup> More specifically, “The council ... convinced MCI to strengthen its compilation of industrial statistics ... authorized some 30 million Yen in loans to medium and smaller enterprises ... proposed for the first time the amalgamation of the Yawata steel works with private steel firms ... and underscored the need for improved trade intelligence and subsidies for export industries.” Johnson, *MITI and the Japanese Miracle*, 102-103.

<sup>37</sup> Ibid., 103.

<sup>38</sup> Ibid., 108.

<sup>39</sup> Ibid. For a discussion of the effect of the German model on Japan, see: Gerhard Lehmbuch, “The Institutional Embedding of Market Economies: The German ‘Model’ and Its Impact on Japan,” 39-93, in

aspects of the German economic model that impressed Kishi, the German's use of bureaucracy-lead industrial rationalization to "control" industrial production and economic growth had by far the most impact.<sup>40</sup>

Almost soon as Kishi returned from Berlin, he started planning his return trip. This time around he would be going under the auspices of the newly created MCI Rationalization Bureau. The purpose of his second trip was to draft blueprints for a law that would grant the Japanese bureaucracy the authority to group private companies within a similar industry into a cartel. The result was the TIRB-drafted Important Industries Control Law, a watershed law that authorized the creation of cartels, and after a MCI-sponsored amendment to the law, approval of industrial mergers.<sup>41</sup> According to Gao Bai, this piece of legislation was responsible for accelerating the rationalization of cartels "in almost all major industries" and, most importantly, "changed the nature of the private cartel from an organization whose major goal was to promote the interests of its member companies to an organization that functioned *as policy instrument of the state*."<sup>42</sup> As shown in Daniel Okimoto's book *Between MITI and the Market*, the effect that the Kishi-inspired "cartelization" movement would have on postwar industrial policy cannot be discounted.<sup>43</sup>

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Wolfgang Streeck and Kozo Yamaura, "The Origins of Nonliberal Capitalism: Germany and Japan in Comparison (Ithaca: Cornell University Press, 2001), esp. 74-77. Lehmbruch notes the German influence of a "managed economy" had on Japan's "economic general staff" (Johnson's phrase).

<sup>40</sup> Samuels, *Machiavelli's Children*, 143.

<sup>41</sup> Ibid.

<sup>42</sup> Gao, "The State and the Associational Order," 410. [emphasis added] The postwar effects of the control over industrial cartelization are discussed in more detail in Robert M. Uriu, *Troubled Industries: Confronting Economic Change in Japan* (Ithaca and London: Cornell University Press, 1994), esp. 10-41. Extensive literature on his trip and the influence it had on Japan's economic policies, especially industrial policy, is not well documented. However, the influence of the German model of state intervention in the market to achieve national policy goals, especially the emulation of Germany's "war economy," is duly noted and its influence on Japan's militarist proclivities at the time would soon become destructively clear.

<sup>43</sup> For more on the role of MITI and the use of cartels and other market-conforming mechanisms, see: Daniel I. Okimoto, *Between MITI and the Market* (Stanford: Stanford University Press, 1989), esp. 38-54.

### *Kishi in imperium*

The groundwork laid out during Kishi's first few years in positions of power within the bureaucracy would soon be expanded. The appearance of "administrative guidance," a concept made famous by MITI, was first used by Kishi under the authority of the MCI. In 1936 Kishi, with prodding from the military, relocated to the frontier of the Japanese imperium: Manchuria. Outside the main islands, Kishi "imbibed the ideas of industrial guidance." Some of his biggest projects, as noted by Johnson, included "dams for hydroelectric power generator on the Ungari and Yalu rivers and the extensive land reclamation projects." Other internal improvement projects undertaken with Kishi's "guidance" included the construction of electrical transmission lines and the build-up of the Japanese aluminum industry.<sup>44</sup>

While Kishi was passing down his acumen of industry in the form of administrative guidance, the "industrial train" he had set into motion with the adoption of the Important Industries Control Law was beginning to pick up speed. The evidence for this was in the adoption of "industry-specific development laws." The first of these laws—the Petroleum Industry Law of 1934—was implemented before he left for Manchuria; the Automobile Manufacturing Industry Law followed shortly after in 1936. Both of these laws represented cooperation between the military and MCI to protect strategic industries. The 1934 law "gave the government authority to license the business of importing and refining petroleum" in addition to giving the government the power "to set quotas, fix prices, and make compulsory purchases of petroleum products." The Automobile

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<sup>44</sup> Johnson, *MITI and the Japanese Miracle*, 132. It should also be noted that total bureaucratic control—or even high levels of involvement—were strongly opposed by the *zaibatsu*, which represented one of the three corners to what would become the so-called "iron triangle." However, during the imperial years, the military (which represented a fourth corner, thus making it an "iron square" during the prewar period) tended to side with the bureaucrats, with whom their views of using government control to control for, increase or shift production were complimentary, albeit for slightly different end goals – the military wanted to increase the strength of the military via economic policy; the bureaucrats wanted to increase the strength of industry in order to strengthen the state. Either way, they were both for the purpose of increasing the power of the state. For more on the interaction between the many "corners" of Japan, specifically the military, business and bureaucracy, see: Samuels, *Machiavelli's Children*, esp. 142-144 and Gao, "The State and the Associational Order," esp. 409-411.

Manufacturing Industry Law extended the government's licensing authority to cars and trucks in Japan. This would not be applied "fairly." The only two companies to receive licenses were Toyota and Nissan. These highly discriminating laws had, by 1939, forced Ford and General Motors out of the Japanese market.<sup>45</sup>

Above all else, these two laws represent, according to Johnson, "a part of prewar heritage most directly relevant to postwar industrial policy." They represent market-conforming mechanisms that MITI would later use in order to promote strategic industries through a compromise "between the state-control and the self-control persuasions." The most significant part of these laws, as far as this research is concerned, is best illustrated by Johnson and deserves a full quote:

The petroleum and automobile were the first of a series of laws designed to provide special governmental financing, taxes, and protective measures for individual industries, and the first that were defend in terms of national defense needs... They were resurrected during the 1950s and 1960s for different industries and for nonmilitary (but nonetheless national defense) objectives.<sup>46</sup>

During this period, Kishi's backing for the military's push for further state control over industry is found in his documented support for combining the trade functions of the Finance, Foreign Affairs, and Commerce ministry into a new trade ministry for the purpose of earning foreign exchange—a function that would later be taken over by MITI. Despite objections by the Foreign Office, Kishi, and the rest of MCI, came down on the side of the military.<sup>47</sup>

With Kishi's blessings, MCI officials, with the support of the military, tried to go even further by attempting to establish an internal trade ministry. This was, at the time, strongly opposed by the Foreign Ministry's Trade Bureau, particularly Nomura Kichisaburo. So, the plan was for the time being "scrapped." However, the intent behind the move—giving MCI the power to control trade and the flow of foreign exchange—

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<sup>45</sup> Ibid., 120.

<sup>46</sup> Ibid., 120-121, 133.

<sup>47</sup> Ibid., 133-134.

never died. It would be realized shortly after the official end of the Yoshino-Kishi line. Johnson recounts:

... on July 14, 1937 (and wholly unrelated to the outbreak of war with China on July 7), MCI's Trade Bureau was elevated and transformed into a semidetached bureau with its own director-general and secretariat, and with military officers serving in it in policy-making roles. MCI's external Trade Bureau was the direct ancestor of the powerful Board of Trade of the occupation period, and *MITI itself came into being in 1949 essentially as a merger of MCI and the Board of Trade*.<sup>48</sup>

The point behind MCI's push for the creation of a trade ministry was for the purpose of exerting stronger control over foreign trade—a form of indirect industrial policy aimed at developing vital industries, maximize gains from international trade and, at the time, supporting military expansion. Together with the cartelization and mergers that started with the Important Industries Control Law—a direct form of industrial policy—the institutional foundation for what would eventual become MITI and Japan's developmental state model were set firmly into place. In a way that Hamilton and List would approve, Kishi ensured that the Japanese state would exercise comprehensive state control over the economy for the purpose of increasing state power and protecting the nation.

## **Conclusion**

At a time in world history when competition between nation-states was reaching its peak, Japan entered onto the stage with every intent to do what the other modern, industrialized countries were doing and had done in the name of the nation-state: expand and incorporate. Though Japan's westward expansion into Korea and the Manchurian plains brought real and lasting social, economic, and political hardship, it was here that bureaucrats, especially Kishi Nobusuke, acquired valuable administrative experience. His experience in imperium, when combined with his time in Germany and on the main island, bolstered his influence and increased his clout within Japan's administrative apparatus. Kishi's new authority allowed him to lead the effort at “embedding” the bureaucracy within Japan's complex imperial social-economic web. The idea that

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<sup>48</sup> Ibid., 134. [emphasis added]

economic and industrial growth should serve the empire reinforced the development of bureaucratic capacity and, following some political wrangling with the military, the ability to execute its role as a relatively autonomous institution responsible for “administrative guidance.” The bureaucracy’s newfound role is illustrated most vividly in its use of cartelization and more generally in its control over economic and industrial development. Furthermore, the bureaucracy’s autonomy and control of capital and the structure of foreign trade permitted it to spearhead economic development and buttress the formation of an imperial Japanese nation-state. Interestingly enough, the bureaucracy’s interventive capacity accumulated during these years would later assist Japan recover, at least economically, from the devastation wrought upon it by the Pacific War.

## **PART 3: The American Developmental State**

This Part uses the concept of embedded autonomy to describe the American developmental state. As indicated in previous parts, the American developmental state was concerned with both nation-state formation and economic development and used the latter to buttress the former. Like in Part 2, emphasis is put on leading figures, their ideas, and the policies that resulted from their efforts to implement these ideas in the form of concrete policies. A short summary of the initial conditions in American at the time in addition to a review of trade policy and internal improvements, as forms of indirect industrial policy, is conducted by looking at three key figures in the history of American economic, social, and political developmental whose ideas help lay the foundation of the American nation-state: Alexander Hamilton, Albert Gallatin, and Henry Clay.

### **America in the Age of Revolution**

The idea upon which the American modern state apparatus was built finds its roots in the “Age of Revolution.” In world historical time, America—the nation and the state—were arriving at a most unique and unparalleled moment. If the French Revolution brought about in 18th century France the first real nation-state in Europe, as scholars of nations and nationalisms maintain, then America was, as Benedict Anderson suggests, the first in the Western Hemisphere.<sup>49</sup> Before this time in history, one would be hard-pressed

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<sup>49</sup> For sources on nations and nationalism in the Age of Revolution, see: Eric J. Hobsbawm, *The Age of Revolution* (New York: Vintage, 1962); Lucien Febvre, “Frontiere. The word and the concept,” in Lucien Febvre, *A New Kind of History and Other Essays*, Peter Burke, ed., trans. by K. Folca (New York: Harper, 1973); and Rogers Brubaker, *Citizenship and Nationhood in France and Germany* (Cambridge: Harvard



to speak of congruent national and political units bound together by a national economy, which make up Ernest Gellner and Eric Hobsbawm's nation-state.<sup>50</sup> The state, as we know it today, did not exist. The pre-modern era of absolute monarchies, although pivotal in building the infrastructure upon which the state would later operate, was, as Karl Marx found it, "clogged by all manner of medieval rubbish, seigniorial rights, local privileges, municipal and guild monopolies and provincial constitutions."<sup>51</sup>

Though America, as a group of colonies in the "New World," far away from the "Old," was never "clogged" by "medieval rubbish," it was not completely cut off from those that were and must, by extension, be understood vis-à-vis other European monarchies and the ideas formed within their territories. In other words, America was an offshoot of a European idea. That the 13 original states of America were originally colonies of a European power is proof enough. What is most important to note, however, is that the Age of Revolution was less about Jacobin excess than it was about centralization: centralization of government power, or, in the words of James Madison in Federalist Paper No. 10, "a well constructed Union." The era of nation building, the international system, and consolidation of state power had arrived.

Alexander Hamilton, like other influential Federalists, was strongly influenced by ideas of the Enlightenment, particularly that of the Scottish variant.<sup>52</sup> As such, he was

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University Press, 1992). The best source for discussion of the emergence of the nation-state in North America, see: Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (New York: Verso, 2006).

<sup>50</sup> See: Ernest Gellner, *Nations and Nationalism* (Ithaca: Cornell University Press, 1983); and Hobsbawm, *Nations and Nationalism*.

<sup>51</sup> Karl Marx, "The Eighteenth Brumaire of Louis Bonaparte," 170, quoted in Brubaker, 48.

<sup>52</sup> Michael Lacey, who has written extensively on America's most influential figures in the early years of the republic, describes how Enlightenment thinking, which stressed human agency and autonomy, impressed figures like Hamilton into believing that one's environment was malleable, moldable, and open to the volition of ambitious persons. This is most clearly borne out in his statecraft and economic ideology. Michael J. Lacey, "Federalism and National Planning: The Nineteenth-Century Legacy," in *The American Planning Tradition: Culture and Policy*, Robert Fishman, ed. (Baltimore: The Johns Hopkins University Press, 2000), 89-145, esp. 94-95. See also: Darren Staloff, *Hamilton, Adams, Jefferson: The Politics of Enlightenment and the American Founding* (New York: Hill and Wang, 2007).

interested in how a centralized government could tether itself to the nation in a way that made its presence seem quotidian and almost natural. In addition to the issue of legitimacy, Hamilton was interested in economic development.<sup>53</sup> This, however, is not unique to Hamilton. Though a remarkable figure, no doubt, Hamilton's way of thinking was similar to the way other early nationalist figures and those born of an Enlightenment tradition: the use of the state intervention to, in the words of Michael Lacey, "shape the circumstances that give rise to a dynamic national community."<sup>54</sup> Nevertheless, if one is to speak or write of the American developmental state, Hamilton must be considered a—if not *the*—foundational figure.

*Hobsbawm's quandary: linking nation, state, and national economy*

Though much has been written about the unifying affects of industrialization and capitalism on the nation and the administrative role played by the state in managing the national economy,<sup>55</sup> little has been said about the relationship between the nation, the state, and the national economy. Though Eric Hobsbawm speaks of the linkage between nation, state, and national economy that Hamilton called for in late 18th, early 19th century America, his examination of the matter is uncharacteristically brief. This is, perhaps, because he thought "Nineteenth-century American development economists were, in general, too mediocre to make much of a theoretical case for Hamiltonianism...."<sup>56</sup> Though he finds satisfaction in the writings by Friederic List, that no one produced a multi-volume work on economic theory and the value in promoting the national economy for the good of the state and the nation seems to bother Hobsbawm and inquiry into an American theory of economic-borne nationalism. This, as will be

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<sup>53</sup> Alexander Hamilton, *Report on the Subject of Manufactures*, in *Alexander Hamilton: Writings* (New York: Columbia University Press, 2001).

<sup>54</sup> Lacey, "Federalism and National Planning," 84.

<sup>55</sup> For one such source, see: Gellner, *Nations and Nationalism*.

<sup>56</sup> More to the point: Hobsbawm did not believe that early nationalists, particularly those like Hamilton and List, understood or cared for the "nation," in the sense that nation means culture and a country's worth of like-minded individuals who associate strongly with one another. As indicated in the text above, his understanding of early 20th century nationalists' ideas codifies national economy and nation as one and the same. Eric J. Hobsbawm, *Nations and Nationalism since 1780: Programme, Myth, Reality* (Cambridge: Cambridge University Press, 1990), 29-32.

shown throughout the following sections, is an overly dismissive view of early American thinkers, particularly Hamilton, whose lasting impact Hobsbawm downplays.

At a time when the presence of the state was minimal, Hamilton in Federalist No. 27, wrote, “A government continually at a distance and out of sight can hardly be expected to interest the sensations of the people.” To remedy the state’s distance from the people, as a fragmented nation, Hamilton recommends the state play an active role in “matters of internal concern,” an action that would strengthen “the authority of the Union and the affections of the citizens towards [the state].”<sup>57</sup> Hamilton was, in the earliest days of the American nation-state, arguing for the linkage between (a centralized) state and a nation not yet cognizant of an American state apparatus. The missing link here, that which completes Hobsbawm’s linkage inquiry, is Hamilton’s belief that a state that intervenes in the economy—a huge matter of “internal concern”—would tie together the nation and legitimize/normalize the state. In other words: *the lynchpin of the nation-state is the economy*. A quote from Hamilton’s *Report on Manufacturers*, found in Lacey’s writing on the matter, best summarizes Hamilton’s nation-building blueprint, which centered on economic growth induced by the intervention of the state. The circumstances most responsible for the government to shape were:

1) the division of labor. 2) An extension of the use of machinery. 3) Additional employment to classes of the community not ordinarily engaged in the business. 4) The promoting of emigration from foreign countries. 5) The furnishing of greater scope for the diversity of talents and dispositions, which discriminate men from one another. 6) The affording of a more ample and various field for enterprise. 7) The creating in some instances a new, and securing, in all, a more certain steady demand for the surplus produce of the soil. *Each of these circumstances has a considerable influence upon the total mass of industrious effort in a community; together they add to it a degree of energy and effect which is not easily conceived.*<sup>58</sup>

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<sup>57</sup> Federalist 27, Chilton Rossiter, ed, *The Federalist Papers* (New York: Mentor Books, 1961), 176. Qtd. in Lacey, “Federalism and National Planning, 93.

<sup>58</sup> From Hamilton’s *Report on Manufactures*. Qtd. in Lacey, “Federalism and National Planning, 94. [emphasis added]

Lacey adds, immediately following this quote, that Hamilton's blueprint would ultimately lead to "the 'American system' of interlocking national development policies and the Gallatin Plan for a national transportation and communications network."<sup>59</sup> Both the American system and Gallatin's Plan will be discussed in the sections to follow.

*Space, time, and the American experience*

Though Hobsbawm may not have adequately explored the link between nation, state, and national economy in the American case, another less well-known historian did. Major L. Wilson, in *Space, Time, and Freedom: The Quest for Nationality and the Irrepressible Conflict, 1815-1861* reconstructs the debate that took place in post-revolution America between the two dominant groups.<sup>60</sup> One group promoted a corporeally coherent government that would use rationally calculated internal improvement projects and government intervention to develop the economy. The second consisted of those who opposed government intervention on the grounds that an agricultural homestead culture that maximized freedom and liberty of the individual was the ideal governing system.<sup>61</sup>

Wilson makes an argument that address Hobsbawm's underexplored linkage phenomenon in the following manner: the state, as a socially embedded entity, carries the responsibilities of defining the nation by linking its national past (newly defined) to present conditions and then projecting a future that belongs to the nation as a subjective, "imaginary community." Critically, the link was, at this particular time in history, the "development of manufactures and the thickening patterns of internal commerce and improvements," a process that would "create irreversible ties of Union, bringing new

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<sup>59</sup> Ibid.

<sup>60</sup> Major L. Wilson, *Space, Time, and Freedom: The Quest for Nationality and the Irrepressible Conflict 1815-1861* (Westport, CT: Greenword Press, 1974).

<http://www.questia.com/library/1909758/space-time-and-freedom-the-quest-for-nationality>.

<sup>61</sup> The interventionist group consisted of people such as: Henry Clay, James Madison, John C. Calhoun and "Jeffersonian realists," like Hezekiah Niles. Earlier proponents included Alexander Hamilton, John Q. Adams, and Albert Gallatin. Those opposing government intervention included: Thomas Jefferson, his loyal followers, and later Andrew Jackson. See: Wilson, *Space, Time, and Freedom*, esp. chapter 3, 49-72.

interests into being and [relating] them in the self-same process to the good of the whole.”<sup>62</sup>

The “subjective spirit of national unity,” as Wilson calls it, was to be harnessed for the “progress” of a new nation (integrated by the state using economic planning as the unifying mechanism). The understanding of time and space avowed by Wilson’s advocates of a corporeally coherent national government would later be reflected in Benedict Anderson’s reconceptualization of “messianic time” as “homogenous, empty time” and progress as it was understood by Walter Benjamin and his “angel of history.”<sup>63</sup> This is precisely how a Hamiltonian union would function: united through economic development, past generations linked to the present, and the present responsible for the future. Before more is said on early American nationalism, a backdrop of the initial economic conditions is helpful in understanding the environment in which a nation and a state were coming into formation as a nation-state.

### **Initial Economic Conditions**

Before describing the economic conditions in early 19th century America, it is first necessary to dispel the myth of the American development story. The notion that American economic development was lead by the proverbial “invisible hand” and the productive energies of unhindered (by government regulation) private entrepreneurs does not stand up to the scrutiny of historical analysis. The largely untold story of American development is certainly an unfortunate victim of the politics of history. Carter Goodrich, the American economic historian of mid-20th century whose historicity is shared with Guy Callender, finds the revisionist notion of an America built on laissez-faire economic

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<sup>62</sup> Ibid., 63.

<sup>63</sup> “The face of the angel of history is turned toward the past. Where we perceived a chain of events, he sees a single catastrophe which keeps piling wreckage and hurls it in front of his feet. The angel would like to stay, awaken the dead, and make whole what has been smashed. But a storm is blowing from Paradise; it has got caught in his wings with such violence that the angel can no longer close them. This storm irresistibly propels him into the future to which his back is turned, while the pile of debris before him grows skyward. The storm is what we call progress.” For the quote and some contextualization, see: Heather Love, *Feeling Backward: Loss and the Politics of Queer History* (Cambridge: Harvard University Press, 2007), 148.

principles highly disagreeable. The notion that “the American empire of the West was settled and developed in a fit of absence of mind” is completely false. He continues:

Throughout our history statesmen have been concerned with devising measures to promote economic growth, and individuals and corporations have often come to governmental agencies with demands for encouragement and assistance. Many of the great debates on political issues have turned on what would today be described as development policy.<sup>64</sup>

America in its younger years was sparsely populated and consisted mainly of newly explored or recently settled territory. Overall, the conditions of the new American nation at the turn of the 19th century can be summarized in one word: underdeveloped. America was huge but its potential for economic growth and prosperity was largely unrealized. Outside of the American urban areas and the market-centers of Boston, New York, and Philadelphia, infrastructure development was left seriously wanting. Some obvious differences notwithstanding, like geopolitical conditions, a parallel with Imperial Japan in the 1930s can be made. The vast tracts of lakes, rivers, rolling plains and flatlands were to America what Manchuria, and to some extent Korea and Taiwan, were to Japan: underdeveloped terrain.

Sparsely populated land with little to no available capital provided little to no incentive for investment. Under these conditions, Hamilton’s call for harnessing “the spirit of enterprise”<sup>65</sup> through government initiative or his “plea for the Funding System... that

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<sup>64</sup> Carter Goodrich, “American Development Policy: The Case of Internal Improvements,” *The Journal of Economic History* 16, no. 4 (1956): 449-450. Goodrich, writing in the mid-1990s, was adding to a sparse but certainly existing literature on what we have been referring to as the American developmental state. By the time Goodrich began his writing, Guy Callender, the so-called founder of the American school of economic history, had already come to conclusions similar to that of Gerschenkron and other foundational writers on the developmental state that the lack of capital, profit incentive, and infrastructure necessitated the intervention of the state. For a good summary of Callender, as a person and his work, see: Sault Engelbourg “Guy Stevens Callender: A Founding Father of American Economic History,” *Explorations in Economic History* 9, no. 3 (1972): 255-267.

<sup>65</sup> Hamilton’s quote from *Report on the Subject of Manufacturers* reads: “To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of

would provide a favorable climate for foreign investment” was most appropriate.<sup>66</sup> The American frontier (land outside the major cities), despite its vast economic potential, did not provide ample profit incentive for private enterprise or corporations to venture out on their own. Goodrich juxtaposes this to the situation in Britain at the same time: “Contrary to the English, whose canals and railways were built entirely by private enterprise, American canals and railways were for the most part products of governmental or mixed enterprise of recipients of government aid.”<sup>67</sup>

In the English case, once these projects were complete, they could expect immediate use—thus immediate profit for their managers. The American case was different. “A route across the Appalachians to the largely unsettled West or a railroad running from Chicago west across almost empty plains could hardly be profitable until settlement took place along its route and at its terminus.”<sup>68</sup> For America, the purpose behind infrastructure development was not to take advantage of existing economic opportunity, but to *create* or *develop* economic opportunity in order to foster development that would otherwise not occur in the “free market.” Another economic historian of the Goodrich era, Jerome Cranmer, calls this “developmental enterprise”—something not totally dissimilar to Japan’s military-led economic expansion into Manchuria and the development of its other colonies.<sup>69</sup> To expect developmental undertakings to take off in these areas of America would require “either government enterprise, subsidy to private enterprise, or else extraordinary illusions on the part of the original investors.”<sup>70</sup> There simply were not enough people inhabiting the states and territories west of New England.

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the expedients, by which the wealth of a nation may be promoted. Even things in themselves not positively advantageous, sometimes become so, by their tendency to provoke exertion ... . The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded in proportion to the simplicity or variety of the occupations and production, which are to be found in a Society.” Hamilton, *Report*, 663-664.

<sup>66</sup> Carter Goodrich, “American Development Policy, 450.

<sup>67</sup> *Ibid.*, 451.

<sup>68</sup> *Ibid.*, 452.

<sup>69</sup> H. Jerome Cranmer, “The New Jersey Canals: A Study of the Role of Government in Economic Development,” unpublished dissertation (Columbia University, 1955), Qtd. In Carter Goodrich, “American Development Policy,” 451.

<sup>70</sup> Goodrich, “American Development Policy,” 455.

As Goodrich points out, there were barely over one million people living in these regions of the US out of a population of more than seven million.<sup>71</sup> Without people, who would buy goods? Without adequate hands, who would build the roads, bridges, canals, and other vital forms of infrastructure that would eventually connect the country? In parts of the country lacking profit incentive for business ventures, the intervention of the state was necessary for development.

At a time when America was attempting to establish its national economy and consolidate its newly formed democracy, laissez-faire economic principles and decentralized government were increasingly viewed as endangering these goals. Away from the ports and on the frontier, the lack of available capital and profit incentive prompted calls for government involvement to spur internal improvements. And, as development proceeded, the external threat posed by predatory British capitalism lead many to believe that America's nascent industrial base was under threat. In addition to the need for internal improvements, this feeling of vulnerability provoked calls for an indirect form of industrial policy: tariffs. Together, internal improvements and the implementation of tariffs would come to represent key pillars of an American developmental state and some of the foundational ideas of early American nation-builders.

### **Internal Developments Through National Planning**

In April of 1808, Albert Gallatin, Secretary of the Treasury to Thomas Jefferson's administration, submitted upon request a report on roads and canals (what today would be refereed to as "hard infrastructure") entitled, *Report of the Secretary of the Treasury on the Subject of Public Roads and Canals* (referred to hereafter as Gallatin's *Report*).<sup>72</sup> The document begins by noting the great potential for economic growth hindered by inadequate profit incentive and lack of capital prevent in the frontier states and territories of the United States. Predating the writings of both Gerschekron and Hirschman, Gallatin's *Report* found "the great demand for capital in the United States, and the extent

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<sup>71</sup> Goodrich, "National Planning of Internal Improvements," *Political Science Quarterly* 63, no. 1: 23.

<sup>72</sup> The report can be found in the *American State Papers, Class X, Miscellaneous*, vol. I, 724-921. <http://memory.loc.gov/ammem/amlaw/lwsp.html>. The report is referred to as "Gallatin's *Report*" in this thesis, as it is in Goodrich's writing as well.



or territory compared with the population, are, it is believed, the true causes which prevent new undertakings, and render those already accomplished less profitable than had been expected.”<sup>73</sup> Though he never used the words “surrogate entrepreneur” or “induced decision-making,” Gallatin most certainly meant them. “The General Government,” declares Gallatin in the *Report*, “can alone remove these obstacles” to the development of the national economy and, by extension, the nation itself, through internal improvements. In addition to economic development, internal improvements would, as a consequence, unite the Union and effectively tie the nation and the state together as one—a congruent national and political unit, as Gellner would put it. Gallatin wrote:

Good road and canals will shorten distances, facilitate commercial and personal intercourse and units, by a still more intimate community of interests, the most remote quarters of the United States. No other single operation, within the power of Government, can more effectually tend to strengthen and perpetuate that Union which secures external independence, domestic peace, and internal liberty.<sup>74</sup>

Gallatin was fully aware of the prominent role that the federal government *could* play in employing America’s natural terrain, which both defined and divided the individual states of an unconsolidated union. The *Report* was an attempt to manipulate the geographical landscape, by way of internal development, for the purpose of national consolidation. The main problem, observed Gallatin, was related to infrastructure (communication and transportation). Though contiguous and legally united through the Constitution, the geographical opportunities presented to the country were not being taken advantage of by federal and state powers. Gallatin found that “the United States possess ‘a tide water inland navigation... which, from Massachusetts to the southern extremity of Georgia, is principally, if not solely, interrupted by four necks of land [Cape Cod, New Jersey between the Raritan and the Delaware, the peninsula between the Delaware and the Chesapeake], and the ‘marshy tract which divides the Chesapeake from Albemarle Sound.’” To connect New York southwardly to Georgia required the mountain ranges of the Appalachians, which could be connected by using the four pairs of rivers located thereabouts; “therefore—the Allegheny and the Susquehanna or the Juniata, the

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<sup>73</sup> *American State Papers*, 724.

<sup>74</sup> *Ibid.*, 725.

Monongahela and the Potomac, the Kanawha and the James, and the Tennessee and the Santee or the Savannah.” And, lastly, the Hudson River to the north, which was not at the time connected to any other significant waterway, (e.g. the Great Lakes), was identified by Gallatin as a river whose ideal location gave it great latent potential. The largest barrier to the development of the territory described above was lack of capital.<sup>75</sup> “The true causes, Gallatin wrote early in the *Report*, “which prevent new undertakings, and render those already accomplished less profitable than had been expected” was the “great demand for capital,” which the “General Government can alone remove.”<sup>76</sup>

Through the developmental of “good roads and canals,” internal improvements would “facilitate commercial and personal intercourse and unit, by a still more intimate community of interests, the most remote quarters of the United States” as part of a greater effort to “strengthen and perpetuate that Union which secures external independence, domestic peace, and internal liberty.”<sup>77</sup> For Gallatin, the government’s role was to intervene for the purpose of internal improvements, effectively shirking time and space. This would have the effect of spurring economic development and accelerate the process of national consolidation. Gallatin’s *Report* propelled to the forefront a national debate about the government’s role in internal development as a matter of economic, state, and national importance.

#### *Gallatin: a Weberian bureaucrat*

The *Report* aside, Albert Gallatin’s role as an agent of the state and the ideology that guided his actions. Though scholars debate the degree to which Gallatin supported a highly centralized, corporeally coherent government, recent scholarship indicates that the great debate between Federalists (Wilson’s advocates of corporate coherence) and anti-Federalists (those favoring a pre-1800 Jeffersonian homestead state) had been superseded by the imperatives of good governance and the inexorable push of “progress” *a la* Benjamin’s angel.

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<sup>75</sup> Ibid., 725-736. Quotes not attributed to Gallatin are the words of Goodrich. See: Goodrich, “National Planning,” 20.

<sup>76</sup> *American State Papers*, 725.

<sup>77</sup> Ibid.

John Lauritz Larson, in his work *Internal Improvement: National Public Works and the Promise of Popular Government in the Early United States*, devotes an entire chapter to the domestic political battle waged over the need to consolidate and centralize government power.<sup>78</sup> In the Chapter “Toward a National Republican Alternative,” Larson sketches a scene wherein the ideologues from both sides of the debate either give way to the needs of the nation, i.e., centralized government, or become politically irrelevant.<sup>79</sup>

According to Larson, a motion by John Quincy Adams, a “Federalist by birth but recent convert to nationalistic Republicanism,” precipitated the call for Gallatin’s *Report* to the Senate was. Adams, who had become impatient with die-hard Jeffersonians, old guard Federalists, and the “back-scratching style of legislation” that was taking place at the time, opposed an internal improvements bill submitted by Jefferson him which Adam’s thought was poorly devised—this was a shocking and symbolic move: many at the time, especially Jefferson, considered Adams a strong supporter of Jeffersonian policies. Though Adam’s motion to postpone the bill was ultimately rejected, his fellow senators would “adopted a substitute motion... ordering Gallatin to draw up a plan” of internal improvements that would accomplish what the central government was failing to do, and what private enterprise was incapable of doing: internal development. Gallatin “seized [the] opportunity and produced a classic work of public planning.” Though true intentions are hard to uncover, Larson finds the Senate’s call for a national development plan a response to the “need to impose leadership and order on a program of internal improvements.”<sup>80</sup>

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<sup>78</sup> John Lauritz Larson, *Internal Improvement: National Public Works and the Promise of Popular Government in the Early United States* (Chapel Hill: University of North Carolina Press, 2001).

<sup>79</sup> Larson, *Internal Improvements*, 58.

<sup>80</sup> Ibid. The literature on early American politics, internal improvements, and Gallatin’s involvement in both points to a clear division. On one side are those who believe that Gallatin and Hamilton were on the same page, despite friction between Gallatin and early Federalists, regarding the role of the government in the development of the economy and society. See: L.B. Kuppenheimer, *Albert Gallatin’s Vision of Democratic Stability: An Interpretive Profile* (Westport, CN: Praeger, 1996). Conversely, there are those who see Gallatin as a critic of the Federalists, the crude mercantilist Hamilton included, through and through; according to this view, Gallatin, equipped with his Jeffersonian view of government and society, was concerned with “controlled development” and “orderly expansion” or a sort fundamentally different

The effort it took to produce the report, as it is described by Larson, reproduces a scene wherein a cool-headed, calm, and collected Gallatin rises above the politically-charged atmosphere of post-revolutionary American politics in a way befitting a Weberian bureaucrat acting in the name of the state (*raison d'état*):

First gathering and arranging into a giant appendix all evidence of projects being planned and executed throughout the United States (with engineer's reports, charters, petitions, and other supporting documents) Gallatin assembled with the help of Benjamin Henry Latrobe ... a comprehensive framework that elegantly blended engineering technicalities, commercial probabilities, and political sensitivities. Skillfully ignoring recent pettiness in Congress, Gallatin blamed inaction on confusion, not disharmony. Guided only by the 'great geographical features of the country,' he selected 'those lines of communication' that appeared to 'embrace all the great interests of the union.'<sup>81</sup>

Though a Jeffersonian at heart, and an integral member of his administration, Gallatin understood the importance of a strong state embedded within society for the purpose of fostering growth of the national economy. This issue was, above all else, a matter of practicality: how could internal improvements be accomplished? The colossal effort required behind the 200+ page report indicates as much. In a communiqué with Senator George Clinton, Gallatin refers to document as a "mass of facts" he hopes can be of some use to the public at-large.<sup>82</sup> For those who have the time and patience to sludge through the original report, the lack of political overtones or buoyant prose typical of early

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from the that being proposed by Federalists and Hamiltonians. Larson falls into the latter category. See: Lacey, *Federalism and National Planning*," 102; and John R. Nelson, *Liberty and Property: Political Economy and Policymaking in the New Nation, 1789-1812* (Baltimore: Johns Hopkins University Press, 1987). Larson seems to draw from Nelson in his understanding of the relationship between Gallatin and Hamilton.

<sup>81</sup> Ibid., 59-61. Lacey description of Gallatin, in "Federalism and National Planning," provides a strong case for understanding Gallatin as partial to Jeffersonian thought (the "Spirit of 1778" and the "Revolution of 1800") but more dedicated to the priorities of governance.

<sup>82</sup> The communiqué is cited in *Albert Gallatin, Report of the Secretary on the Subject of Public Roads and Canals, Reprints of Economic Classics* (New York: Augustus M. Kelley, 1968), 4. Cited in Michael J. Hostetler, "The Early American Quest for Internal Improvements: Distance and Debate," *Rhetorica* 29, no. 1 (Winter 2011): 60.

appeals for internal improvements is obvious. Save for the first 28 pages, the report consists almost entirely of responses to a questionnaire sent by Gallatin to dozens of local officials, engineers, and entrepreneurs asking for reports on the current conditions of internal improvement projects. The responses came in the form of technical reports, maps, charts, and tables. Together with the report proper, responses to the questionnaire, and appended letters from engineers Benjamin Henry Latrobe and Robert Fulton, Gallatin produced what one scholar called “one vast inartistic proof” wherein a “magisterial, nearly uncontested ‘scientific’ voice speaks through [the] data, supported by an overwhelming accumulation of facts.”<sup>83</sup> Thus, instead of a political manifesto, such as *The Federalist Papers*, the emphasis on technical and practical details precludes any latent political biases from appearing in the *Report*. The following quotation from Latrobe’s letter, taken from the appendix of the *Report*, indicates the “disinterested” disposition of the document and its primary author (Gallatin):

In order to connect the basin of the James River canal which the tide, a very simple means is offered by the nature of the ground. To do this it will be necessary to form a capacious basin at Rockets, communicating with the tide by one or more locks. To carry a canal from thence along the level bank of James river to Shockoe creek. A cheap aqueduct of one arch of 30 feet span will carry the work across the creek into the back street. The canal will then go up the back street, mounting by successive locks, not more than two in each tier, into the basin. The canal from Rocktes to the basin on Sockoe hill, should be of 9 feet draft of water, and the locks 100 feet long and 18 feet wide.<sup>84</sup>

Though historians and scholars of American internal improvements may debate the degree to which Gallatin was or was not a true Jeffersonian upholding the spirit of 1798, his *Report* is an uncontested piece of evidence that indicates a Weberian-like interest (or disinterest, perhaps) in promoting internal improvements in the name of the state.

Gallatin’s *Report* concluded that the lack of a profit-incentive and “the relative scarcity of capital” warranted intervention by the government through an internal development plan. This was deemed necessary in order “to strengthen and perpetuate that Union which

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<sup>83</sup> Hostetler, “The Early American Quest for Internal Improvements,” 60-63.

<sup>84</sup> From Gallatin’s *Report*, cited in Hostetler, “The Early American Quest for Internal Improvements,” 62.

secures external independence, domestic peace, and internal liberty.”<sup>85</sup> The development of America’s waterways and stretches of land through the construction of canals, roads and other forms of infrastructure development would, according to Gallatin, help spur economic growth in the form of domestic production and trade, as well as provide for the common defense. The cutting of canals would “would be useful ‘in peace and war’ as protection against storms and enemies.” The building of “good roads will shorten distances, facilitate commercial and personal intercourse, and unite, by a still more intimate community of interests, the most remote quarters of the United States.”<sup>86</sup>

### **Beyond Narrow Views of Defeat: the Lasting Effects of Gallatin’s Report**

Overall, Gallatin’s *Report* presented to the Senate in 1808 is considered a failure, insofar as it failed to build a consensus on the role of the federal government in directly funding internal improvements. The biggest challenges it faced were related to questions of constitutionality (an issue of federalism) and financing. The vetoing of two bills, the Bonus Bill of 1817 and the Cumberland Road Bill of 1822, are portrayed as the twin death-knells to a clear, unified national plan for federal government intervention for the construction of roads, canals and other forms of internal improvement.<sup>87</sup> Thus, we can

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<sup>85</sup> Goodrich, “National Planning,” 19. The report he uses is the *American State Papers, Class X, Miscellaneous*, Vol. I, 724-921.

<sup>86</sup> Ibid.

<sup>87</sup> The issue of power sharing, states rights, and federalism, a largely constitutional issues perhaps best summarized (and problematized) in the 10th Amendment to the US Constitution is covered by myriad of sources. See: Goodrich, “National Planning,” 28-36; and Larson, *Internal Improvements*, 63-70, esp. the section in part 2, “Nationalism Redux: The Bonus Bill.” In this section Larson describes the wrench thrown into the engine of the internal developments project when James Madison, contrary to expectations, vetoed the Bonus Bill, which would have diverted federal funds to internal improvement projects, on his “Strict Constitutionalist” principle. Though he did, in vetoing the bill, recommend to the Congress that a constitutional amendment be passed that would give Congress the constitutional authority to earmark federal revenue for federal development projects, the veto itself effectively put to a halt the movement for the funding of internal improvements. For more on the issue of constitutionality of the Bonus Bill and early debates about government intervention in the economy, see: Stephen Minicucci, “Internal Improvements and the Union,” *Studies in American Political Development* 18, no. 2 (2004): 160-185. For a discussion of the significance of the Cumberland Road Bill veto, see: Frederick Jackson Turner, *Rise of the New West, 1819-1829* (New York: Harper and Brothers, 1906), 230-232.

<http://www.questia.com/library/1977336/rise-of-the-new-west-1819-1829>. James Monroe, president at the

say that the formulation and implementation of a unified national plan was defeated in the early years of the American republic; many of the debates that took place during the early years of the American republic indicate as such.<sup>88</sup> This raises an interesting question: did the debate surrounding Gallatin's *Report* set an anti-industrial policy precedent for America that it would never overcome? Did it prevent the emergence of an American development state during America's developmental years? The answer to both of these questions is "no." A more thorough look at the effects of Gallatin's *Report* shows why.

*The value of intellectual coherence for state embeddedness*

To write-off Gallatin's *Report* as a complete failure would require a very narrow view of what constitutes success. The several years worth of effort required to collect the necessary information for Gallatin's *Report*, executed by a team of professionals at the behest of the state, should be understood as a broader and successful organizational effort. If viewed as such, whether or not the *Report* succeeded in positioning the government as the primary agent of economic development becomes a tangential concern. The *Report*'s ultimate importance lay not in its immediate political effectiveness but in its broader vision of defining the relationship between state and society. Though it may have "failed" in its immediate objectives, the *act of carrying out the survey* laid the foundation for the newly created American state's embeddedness in society and for state-directed growth, American style: piecemeal, with a mix of contribution from the three levels of government: local, state (the smaller units of government), and federal (the larger "state," responsible for governing the smaller unites). The questionnaire itself

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time, staying true to his Jeffersonian, anti-Federalist roots vetoed the bill. Though he vetoed the bill, a move that agitated Clay and others' efforts at an American system, his post-veto "Views on the Subject of Internal Improvements" highlights the division between those advocating a coherent, rationally-planned system and those who favored what Monroe called "divided sovereignty"—though he left open the possibility of a federal-lead internal improvements project "if it could be established by means of a constitutional amendment." Whether he actually meant it, or was just playing good politics, is a matter of debate. Turner, *Rise of the New West*, 232.

<sup>88</sup> One such debate in the House of Representatives between the Bonus and Cumberland Roads bills, alluded to by Jackson, can be read in the *Annals of Congress*, 15, Congress 1, Session I, 1249. <http://memory.loc.gov/ammem/amlaw/lwac.html>. This debate, in particular, highlights the division within Congress that prevented Gallatin's recommendation, and others, from ever being adopted and implemented under a unified industrial/economic development policy.

represents a sort of pre-census era (economic) census; the information obtained from the responses aided in the creation of a sense of unity centered on the national capital.

In the early part of the countrywide survey, before the final report was submitted to the Senate, Gallatin's informants were in the field, establishing connections between state and society. "[C]risscrossing the northern and middle states with a network of moderately improved toll roads... Gallatin's informants were able to indicate certain main lines of travel formed by connecting turnpikes" is the way Goodrich, drawing from Callender's sources, puts it.<sup>89</sup> Furthermore, the questionnaire handed out by these informants and completed by local officials and entrepreneurs would provide Gallatin with the information necessary to complete the *Report*. Gallatin would use the information he obtained to make a general, countrywide assessment of the economic conditions of ongoing local and private development projects.

After making inquiries into the economic conditions in the states of New York, Pennsylvania, and Kentucky, the Secretary of the Treasury collected reports and made an assessment. Based on the findings of his informants, the conclusion was drawn that development had become "arrested" for several reasons, chief among them: insufficient manpower and the lack of expertise amongst project managers. However, of all the reasons discovered, "the most common explanation for the lack of progress ... '[arose] from want of money.'" <sup>90</sup> "One correspondent," as portrayed by Goodrich, conveyed to Gallatin's informants, around the year 1806, that "the best way to [unite the Union], and at the same time to 'wither the consequence of Quebec,' was to build a road uniting 'the navigation of our great western lacks with that of the Atlantic.'" The question posed by the correspondent at the time was: "'Would not such improving authority be proper to be vested in the General Government?'" <sup>91</sup>

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<sup>89</sup> Carter Goodrich, *Government Promotion of American Canals and Railroads, 1800-1890* (New York: Columbia University Press, 1960), 22. <http://www.questia.com/library/100694987/government-promotion-of-american-canals-and-railroads>.

<sup>90</sup> Ibid., 21-23. All the projects surveyed would be included in Gallatin's *Report*.

<sup>91</sup> Qtd. in Goodrich, *Government Promotion of American Canals and Railroads*, 24.



Furthermore, in the report on the conditions of internal improvements in New York, Philip Schuyler, president of the Western and Northern Inland Lock Navigation companies, provided a detailed account of the (failed) efforts to build a small system of canals connecting the Hudson River in New York to Lake Champlain in the northern part of the state that had started in the late 1790s, funded partly through public offers and a small amount of state funding. Though there was no talk of embezzlement and project mismanagement, Schuyler's claim that the "want of funds" had arrested development of canal construction in northern New York was probably a relatively honest evaluation—there was also the very serious issue of technical expertise, of which every project in America seemed to lack at the time.<sup>92</sup> Schuyler's request for assistance was recognized in Gallatin's proposal, under section wherein he called for funds to be distributed to efforts that aimed at "forming inland navigations between the Atlantic seacoast and the great lakes and the St. Lawrence," specifically the "Inland navigation between the North river and Lake Champlain." The broader point here is not Schuyler's lament for the lack of funds or even Gallatin's acknowledgement that capital was scarce—those these are certainly important!—but that Gallatin, acting in the name of the state, was communicating with Schuyler, a business working in upstate New York. This is precisely the sort of role Hamilton had in mind for the government when he said: "A government continually at a distance and out of sight can hardly be expected to interest the sensations of the people."<sup>93</sup> It is also a constitutive element of in the concept of (social) embeddedness; when the government connects with canal builders, it is establishing ties with society that both brings the state into society and establishes a connection that can be later used for economic development.

Although the report's recommendations were initially defeated, the value of Gallatin's *Report* lies not in the specific plan for action but, as Goodrich puts it, in the "orderliness of thought and comprehensiveness of view" that the report superimposed on a movement already underway in America at the time. "What [Gallatin's *Report*] did was to give

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<sup>92</sup> For a summary of early efforts by the Western and Northern Inland Lock Navigation companies to construct a series of small canals in New York, see: Larson, *Internal Improvements*, 27-38. Schuyler's report is located in the *American State Papers*, 770-781.

<sup>93</sup> See footnote 82.

coherence and intellectual organization to the proposals of a movement that was already vigorous.”<sup>94</sup> In other words, Gallatin’s *Report* organized into one document the myriad of arguments for intervention by a government that had yet to clearly define its relationship with the nation and its role in the national economy. Gallatin, acting in a relatively disinterested, bureaucratic fashion, oversaw the project that took Hamilton’s idea of state-led economic development and manifested it in an agency, the United States Treasury, which employed its resources to carry out a massive, country-wide survey. The result was a state no longer “out of sight.”

### **The Erie Canal and internal improvements after the *Report***

Unless success is attributable only when a proposal is *fully* adopted and implemented, then Gallatin’s *Report* can be considered successful, insofar as it provided the impetus for the creation of the American developmental state and the formation of the nation-state in the early years of the American republic. Throughout the decades after Gallatin presented his *Report*, several of the projects on his initial list of recommended internal improvements would be completed. The best example of the impetus of Gallatin’s efforts manifesting itself in a tangible and lasting internal improvements project is the massive Erie Canal, built with capital provided by the state of New York. What started with overtures by New York commissioners to the federal government for Congressional aid would, as a consequence of the capital-monopolizing War of 1812, wind up one of the most successful state-lead (not federal) development projects of the 19th century.<sup>95</sup>

Construction on the canal began in 1817 when New York Governor DeWitt Clinton secured *state* funding for the project through a “canal fund” created by state legislation and backed by the credit of the state of New York during the construction of the canal, New York would float its first large sum loan for a public works project.<sup>96</sup> In a way that

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<sup>94</sup> Goodrich, “National Planning of Internal Improvements,” 28.

<sup>95</sup> Goodrich attributes Gallatin’s failure to plant the central government at the helm of a national development plan to the War of 1812. America’s first national war used up the surplus capital that Gallatin’s *Report* recommended the government to use for a state-lead internal development effort. See: Goodrich, *Government Promotion of American Canals and Railroad*, 35.

<sup>96</sup> Larson, *Internal Improvements*, 76-77.

other East Asian countries would experience during their “learning” years, the inexperienced engineers chosen by the canals commissioners would, according to Larson, train “themselves to serve as the Erie’s principle technicians.” Larson description of this on-the-job training reads very similarly to the way scholars would later describe the way an inexperienced Chung Ju-young and Hyundai engineers entered the shipbuilding enterprise with little technical expertise.<sup>97</sup> Not entirely unlike Hyundai engineers in the 1970s, American engineers learned to build a canal by learning what they could from “inventors” (i.e. the British), by “borrowing” technology (i.e. reading British methods) and through fact-finding missions across the Atlantic (to Britain). Even still, the method of trial and error proved most used and useful. Larson recounts:

Armed with the spirit level, a few books, a tour of Boston’s Middlesex Canal, and whatever expertise one assistant could pick on a quick trip to England ... [the American technicians] set to work on the ‘experimental’ middle section connecting the Utica with the Seneca River [the rivers that would help connect the Atlantic Ocean to the Great Lakes]. Here the Engineers perfected the use of the level, worked out techniques for excavating different kinds of soil and rock, and developed bidding procedures that turned hundreds of farmers into construction contractors, who then transformed common laborers into American ‘navvies.’ By trial and error they discovered the inadequacies of wooden locks, the mysteries of hydraulic cement, the relative merits of deep cuts and long embankments. They invented... learned... [and were] relatively close to budget [that by early 1820] eager users were contributing tolls to the fund intended for servicing debt. Over 200 miles were open by the end of 1822 and technical feats such as the long stone aqueduct over the Genesee River at Rochester bore witness to the talent of the men in charge... the cumulative impact of successful experimentation, steady financing, and a rising tide of traffic on the finished canal guaranteed victory over [initial barriers].<sup>98</sup>

The opening up of new shipping lanes and other opportunities for commerce with the completion of the Erie Canal in 1825—an effort of the state acting as a surrogate entrepreneur—would “induce decisions” amongst many private entrepreneurs to invest along the canal, and especially in New York City, because now that the infrastructure was there, money was to be made. “Lured by the canal itself and the prospect of immediate

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<sup>97</sup> See, amongst others: Bruce Cumings, *Korea’s Place in the Sun* (New York: W.W. Norton & Company, 2005), chapter 6, “Korean Sun Rising: Industrialization, 1953-Present.”

<sup>98</sup> Larson, *Internal Improvements*, 79.

access to markets, ambitious pioneers flocked into upstate New York. Lumber, grain, and flour poured down into the city and out into the markets of the Atlantic world,” recounts Larson. And in New York City, “merchants, bankers, warehousemen, shippers—entrepreneurs of all sorts—seized the opportunity....” The Erie Canal had made New York “by far the best place in America to engage in commerce.”<sup>99</sup>

Though many states attempted to replicate the “New York model,” none were as nearly successful. Nevertheless, the drive for development sparked by Gallatin and his team inspired further internal improvements, spearheaded by public funds. The construction of the Chesapeake and Delaware Canal, the Falls of Ohio and the Dismal Swamp projects, the construction of a canal from lake Michigan to the Illinois River, and more canals and the construction of roads in Indian and Ohio are a few. Also, in May 1828 “the Congress authorized an appropriation of \$1,000,000 for the greatest of the proposed projects [by Gallatin in his *Report*], the Chesapeake and Ohio Canal which was the heir of Washington’s Potomac Company.”<sup>100</sup> However, as Goodrich emphasizes, “the principal methods employed were those of state and mixed enterprise.”<sup>101</sup>

As Gallatin’s *Report* makes clear, the federal government was plenty interested in harnessing the forces of enterprise (waiting to be unleashed once properly “induced”) and the government’s reach and embeddedness in society for the purpose of development. However, unlike a highly centralized state apparatus with a minimum level of pluralism (e.g., Imperial Japan), the American central government was hamstrung by issues of constitutionality, fears of over-centralization, and competing political factions. Though a

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<sup>99</sup> Ibid.

<sup>100</sup> Goodrich calls this “the greatest,” because, “in this case, the position of the federal government was to be the dominant one, and state and municipal contributions were to outweigh those of private subscribers.” Goodrich, “National Planning of Internal Improvements,” 35.

<sup>101</sup> Ibid., 439. See also: Carter Goodrich, “The Gallatin Plan after One Hundred and Fifty Years,” *Proceedings of the American Philosophical Society* 102, no. 5 (1958): 436-441. For an overview of the projects that took place post-*Report*, many of which were started because of Gallatin’s recommendations, see: G.S. Callender, “The Early Transportation and Banking Enterprises,” *The Quarterly Journal of Economics* 17, no. 1 (1902): 111-162; and Turner, *Rise of the New West*, esp. chapter 8, “Internal Improvements (1818-1824),” 286-298.

developmental state does not have to be ruled over by a highly centralized government, the American experience suggests and the East Asian experience confirms that centralized governments are better at directing economic development plans. Nevertheless, America, in the early 19th century meets the basic requirements for the label of developmental state. That the federal government was lacking on the implementation side of things is no matter, finds Goodrich in his evaluation of Gallatin's *Report* after 150 years. That a "concentrated national plan of action was prevented largely by the fervor of the states and local patriotisms," a bottom-up resistance that has never entirely been overcome, was not an entirely negative trait of the American developmental state. In fact, "this disorderly American process exhibited certain elements of strength which planners for the less industrial nations would do well to understand." In addition to drawing "into the developmental undertakings the energies of private enterprise and capital," it also "drew into the effort the great energies of state and civic patriotism."<sup>102</sup> Or, in other words: the American developmental state effectively constructed a nation-state.

Thus, what stifled efforts of centrally lead development galvanized localized interests, especially state governments. The internal development projects executed primarily by state governments, though not all shining success stories, illustrate two things: 1) that government-led development was, contrary to the orthodox development story, the order of the day in the early 19th century; and thus 2) in the spirit of Gallatin and his informants, the state was becoming integrated within society by way of economic development. Though development may have proceeded in a piecemeal fashion, progress in internal developments can be understood as a process pushed by a centripetal force emanating from the center: Washington DC.

If the *Report* is understood as a driving force for development, then the debate moves beyond the question of whether Gallatin succeeded in propelling the federal government to the position of primary agent for economic development; it did not (the reasons for which are cited above). The question at hand is a matter of state-society and federal-state relations and the issue that many early nationalists and proponents of a corporeal

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<sup>102</sup> Goodrich, "The Gallatin Plan," 440.

government were driving at: how can many states be forged into a union? Gallatin and his team provided the answer: economic development through internal improvements. Though carried out in a disjointed and piecemeal fashion, the effort behind Gallatin's *Report* nevertheless beckons Evans part-sociology, part-political understanding of state-society relations (addressed in Part 1):

Embedded autonomy depends on the existence of a project shared by a highly developed bureaucratic apparatus with interventive capacity built on historical experience and a relatively organized set of private actors who can provide useful intelligence and a possibility of decentralized implementation.<sup>103</sup>

By embedding itself in society, the American state, acting through Gallatin and his team of cartographers, engineers, and technicians, would simultaneously tether the state to society (individuals, states, business) and *define* the contours of the American nation-state.

Though an imperfect one, Benedict Anderson's description of the effects that colonial mapmakers had on the national subjectivity of colonial subjects in his chapter on "Census, Map, Museum," in the second edition of *Imagined Communities*, can, if very carefully done, be used as a parallel to the country-wide, nation-defining land survey conducted for Gallatin's *Report*.<sup>104</sup> Though boundaries already existed at the time, there was little coherence as to what constituted the boundaries and contours of the national economy. The collection of reports on the geography of the space being defined as places of economic opportunity (places where canals and turnpikes could be constructed) did for the American economy, and thus the nation and American nationalism, what Dutch cartographers did for an incipient Indonesian nationalism, though to the eventual detriment of those in "East Timor."

America's internal development and expansion, though fragmented, resulted in the construction of a distinct American national economy. And a national economy is, as nationalists and politicians representing constituencies employed in domestic manufacturing industries are well aware, something that must be protected. Enter the

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<sup>103</sup> Evans, "Predatory, Developmental, and Other Apparatuses," 575.

<sup>104</sup> Anderson, *Imagined Communities*, "Census, Map, Museum," 167-190.

importance of the tariff and an industrial policy. Though America has never used the sort of direct industrial policy that the Japanese and other developmental states used, it has employed the tariff as a way to protect domestic industry from foreign competition, and as such must be considered as a vital component of the American developmental state.

### **Trade policy under the American System**

The perception that British and French manufactures were practicing what is referred to today as “predatory capitalism,” in the form of dumping and other “unfair” economic policies, precipitated the early calls for government intervention in the form of protection. Former commissioner for the US International Trade Commission (USITC) Alfred Eckes, Jr.’s history of US trade policy following the war supports this conclusion. His historical account of the conditions at the time find that “US imports soared as British merchants resorted to discount pricing to liquidate inventories accumulated during the war,” a policy also known as “dumping.” The aggressive trade policies used by the British at the time instilled a sense of fear in US industries that the British were attempting to “eliminate competition from start-up US industries.”<sup>105</sup> That there was a fear of “British” or “French” competition indicates that, in world time, the *international* system had arrived in full force. That there were people calling themselves representatives of America and protectors of American national interest indicates how far the first nation-state in the Western hemisphere had come. The era of national economies had arrived. The War of 1812, and the nationalist response, highlights the arrival of this era better than any other event.

America’s war with Britain in 1812, which resulted in the burning of the White House and a serious wakeup call for those still advocating a laissez-faire style of government, “produced a major shift away from the idealistic policy of promoting equality and reciprocal access for US exports to Europe.”<sup>106</sup> Although the torches used in the burning down of the White House were not directly responsible for igniting the flame of American protectionism, the perception that American industry was losing out to its competition, something that would endanger the burgeoning national economy, was

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<sup>105</sup> Alfred Eckes, *Opening America’s Market*,” 18.

<sup>106</sup> Ibid.

enough of a flicker to set afire a new way of thinking and to turn the tide of political opinion in favor of policies that were more in line with what Hamilton had called for 20 years earlier.

### *The American system of governance*

America's move towards the trade policies advocated for by Hamilton and others was not supported or pursued immediately following independence. At the time of Hamilton's *Report on the Subject of Manufacturers* (1791), the prevailing mood indicated support for free trade and laissez-faire economic policies.<sup>107</sup> By the end of the War of 1812, shifting political and economic conditions and a "spirit of nationalism and consolidation"<sup>108</sup> precipitated calls for an interventionist state model that not only supported internal improvements but also protected domestic American industry under a codified and politicized agenda: an "American system."

Broadly speaking, the American system was a strand of thought associated with early nationalists (Federalists, Democratic-Republicans, and later Whigs) who, through their "loose interpretation" of the Constitution, sought to establish a principle of government intervention in the economy specifically and in society more broadly.<sup>109</sup> Though its roots lie in the formative years of the American republic, it gained notoriety in the 1820s when Representative Henry Clay of Kentucky adopted it as his—and other Whigs'—grand vision for the state, the nation, and the national economy. Before its politicization, following the War of 1812, advocates for a government-sponsored internal improvements

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<sup>107</sup> Leading figures, like Benjamin Franklin, Thomas Jefferson, John Quincy Adams, and James Madison were influential in the shaping of America's early commercial policy based on neoclassical free trade principles. See: William Anthony Lovett, Alfred E. Eckes, and Richard L. Brinkman, *U.S. trade Policy: History, Theory, and the WTO* (New York: M.E. Sharpe, Inc.), 40-44. In fact, under the banner of "free trade and sailor's rights," President James Madison and the Democratic-Republicans went to war in 1812 with the British. Although there were other, strictly political issues, one of the main reasons Madison and others favored war was to establish free trade as the dominant commercial paradigm. For a more detailed account of the issues involved in the decision to go to war, see: Ransom Hooker Gillet, *Democracy in the United States: What it has Done, What It is Doing, and What It Will Do* (North Stratford, NH: Ayer Publishing, 1868), 38-45.

<sup>108</sup> Wilson, *Space, Time, and Freedom*, 50.

<sup>109</sup> *Ibid.*, 5.



effort can be understood as early proponents of the American system. However, after its politicization and maturation, it took on several components: seven, exactly, according to Michael Lacey.<sup>110</sup> Of the several components, a system of internal improvements and a national industrial policy, as part of an effort to grow and promote the national economy, interest us most here. Though controversial, the American system can be alternatively understood as the American developmental state.

The political and administrative efforts for internal improvements and the politicking taken up for the implementation of tariffs were, in the grand scheme of things, part of the same program to unite the country through economic planning. However, the symbolic meaning behind the politicization of national trade is far more significant. The explosion of nationalism precipitated, in the words of Major Wilson, “the widespread call for building a ‘national character.’” The war with the British (a non-revolutionary war; a national war) deepened the “subjective spirit of national unity” which was now, in the new age of American nationalism, “to be objectified and institutionalized.” Thus, upon this backdrop ascended a nationalist clad in red, white, and blue: Henry Clay.

*Henry Clay: politician and nationalist*

According to Wilson’s understanding of Clay, in addition to promoting internal improvements, the Kentucky Representative thought “the nation required a ‘systematic’ effort by the government to promote manufactures, create a home market for agricultural staples, and effect a close interdependence of domestic pursuits.”<sup>111</sup> In other words, internal improvements were not enough to create sufficient economic bonds between the states and the people. In addition to the development of infrastructure, American industry, and thus the national economy, had to be protected.

Clay, like many others, considered himself a “friend of free trade.” He held that free trade was the ideal condition for international trade, so long as all governments believed and

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<sup>110</sup> These seven were: 1) “a foreign policy of American commercial imperialism;” 2) “a national industrial policy;” 3) “a national banking policy;” 4) “public lands policy;” 5) “federal internal improvements;” 6) “revenue policy;” and 7) “policy of cooperative federalism.” Lacey, *Federalism and National Planning*, 100.

<sup>111</sup> Wilson, *Space, Time, and Freedom*, 59.

traded according to its dictums. Of course that was not the case. Clay's insistence on "free trade of perfect reciprocity" justified his advocacy of protectionist trade policies. If other governments protected their markets and industries, so should the US; without reciprocal protectionism, foreign industries would grow at the expense of US industries. Like realists believe today, the pattern, or composition, of trade is ultimately what matters.<sup>112</sup> At the time, European states "[did] not guide themselves by that romantic philanthropy [free trade theory]" which dictates that the US "should continue to purchase the produce of foreign industry, without regard to the state or prosperity of our own."<sup>113</sup> In order to protect US industry, Clay argued that the US must play by the same rules as everyone else and fix its trade policies accordingly. Adhering to lofty ideas, like "perpetual peace" and the pacifying effect of free trade, would harm the US economically, dull its national power, and endanger its national security. A strong shot of reality convinced Clay that the maxims of Smith, Kant, Ricardo and advocates of free trade (List's cosmopolitans) were not in the national interest of America. To Clay, cheap was expensive—Clay understood the tradeoff between "consumer welfare" (cheap products) and national security. His position on the issue was unambiguous: "If the governing consideration were cheapness... why not subsidize foreign powers to defend

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<sup>112</sup> Jonathan Kirshner, a realist international scholar, focuses on the concern that realists place on the "composition of trade," best sums up this position. Realists, according to Kirshner, are not "crude protectionists," but are, from a position like Clay's, prudent statesmen who understand that trade is more often than not used as a tool in international relations for one country to gain at another's expense—a relative gains strategy. Consider this quote, which defends protectionist measures from the position of a statesman concerned about national power: "Realists do not deny the existence of mutual economic gains from trade, but rather question whether the existence of such shared gains are sufficient to assure that they will be reached. One barrier to cooperation is the question of dynamic comparative advantage: whether the pattern of specialization imposed by international market forces would put a nation on a trajectory of relatively low growth. Economically rational specialization might also make the state less able to defend itself, causing a contraction of the steel industry for example, in favor of expanded agricultural cultivation." Thus, in the name of national power, protectionism can be justified, even if it imposes "short-term costs on society for greater benefits in the long run." Jonathan Kirshner, "States, Markets, and Great Power Relations in the Pacific," in John G. Ikenberry and Michael Mastanduno, eds., *International Relations Theory and the Asia Pacific* (New York: Columbia University Press, 2003), page 5.

<sup>113</sup> Eckes, *Opening America's Market*, 22.

us? ... Why not get our arms of all kinds, as we do, in part, the blankets and clothing of our soldiers, from abroad?”<sup>114</sup>

In addition to conquering space, Clay, like his Japanese counterparts in the next century, understood that industrial development was a pillar of national power. Although not nearly as powerful as holding a key position in the MCI, Clay’s position as Speaker of the House provided him the bully pulpit from which he called for the enactment of protective tariffs by the US Congress. With Clay’s support and active encouragement, the first protective tariff was enacted in 1816. In 1824, under the auspices of Clay, Congress raised the rates. His efforts culminated under the Tariff Act of 1828, under which rates on dutiable goods increased to over 60 percent, many “percentage points higher than under the much reviled Smooth-Hawley Tariff of 1930.”<sup>115</sup> Clay pushed for economic policies in the form of protective tariffs that would spur economic growth by protecting America’s infant industries. Clay’s industrial policy would help American industry grow, thus increasing America’s national power and ensuring the continuity of a national economy.

### **Conclusion: Henry Clay, Space, and a critique of the Turner Thesis**

Returning, again, to Hobsbawm’s linkage quandary, we can chalk up Henry Clay under the heading “Jeffersonian at heart” but “Hamiltonian in practice.” As Wilson finds, “Clay clung to the Jeffersonian view that an independent yeomanry was still necessary for political virtue and the permanence of the republic.”<sup>116</sup> Clay was, however, as much a nationalist as Gallatin and Hamilton before him. To these statesmen, “unsettled space was for them less a safety valve from the evils of civilization than the means for building up the good of civilization.”<sup>117</sup> Or, in less esoteric terms, underdeveloped or undeveloped territory and industry were economic opportunities and a means through which to tethered the state to the nation under one banner: the Union. Herein lies a subtle, yet potent critique of the way Frederic Turner understood American economic development

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<sup>114</sup> James F. Hopkins, ed., *Papers of Henry Clay* (Lexington: University of Kentucky Press, 1961), 825-836.

<sup>115</sup> Eckes, *Opening America’s Market*, 23.

<sup>116</sup> Wilson, *Space, Time, and Freedom*, 64-65.

<sup>117</sup> *Ibid.*, 65.

and the American frontier. Though Turner's view of the "potent nationalizing effects" that westward economic expansion had on the nation is helpful in understanding the linkage between nation, state, and national economy, a close reading of his understanding of the relationship between ideology and the frontier uncovers his "environmental interpretation of American history," a view quite at odds with the views espoused by early American nationalists.<sup>118</sup>

Turner's view of American society was such that he could effectively separate it from the European annals of history and rebrand it as uniquely American. For Turner, space constituted culture. This permitted Turner's view of the American frontier as a transformative space. According to Robert Berkhofer, Jr., the frontier was understood by Turner as "an area or a process; it was, in its deepest sense, an interaction of space as nature and of society as an evolutionary organism to produce those virtues upon which Americans prided themselves most."<sup>119</sup> In other words, what *made* America—and Americans—unique was the experience of the frontier; this was a mythical, and no doubt Jeffersonian, view of nature as a new "Garden of Eden," with all the purity and transformative effects. However, in light of our understanding of the early American nationalists' take on the frontier, this view cannot be maintained. Under the influence of European ideas, as members of a yet consolidated but certainly existent American nation-state, the reverse was true.

Flipping Turner's fundamental premise on its head, America's westward expansion, by way of internal improvements and indirectly through tariffs, was the process of culture conquering space, not the other way around: *the frontier was not transformative, it was transformed*. In the words of Wilson:

By this process, the development of manufactures and the thickening patterns of internal commerce and improvements would create irreversible ties of Union, brining new interests into being and relating them in the self-same process to the good of the whole. Indeed, [Hezekiah] Niles adopted the view that such 'a close community of interest'

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<sup>118</sup> This interpretation of the "Turner thesis" is explained in Robert F. Berkhofer, Jr., "Space, Times, Culture and the New Frontier," *Agricultural History* 38, no. 1 (1964): 21-30, 23.

<sup>119</sup> *Ibid.*, 24.

would bind Americans far more strongly than ‘a daily recollection of their consanguinity.’ In this way, might the American System conquer space.<sup>120</sup>

Manchuria was to Japan what the underdeveloped country and western territories were to America: spaces wherein the state could exercise its role as a developmental state. In the grand nation-building scheme, the concept of a national economy and the need for the state to tether itself to the nation would provide the justification for the American state to “conquer space.”

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<sup>120</sup> Wilson, *Space, Time, and Freedom*, 63.

## **Conclusion: Two Eras, Two Developmental States, One Theory**

In America's formative years, the federation of loosely connected states formed a union through centrally planned economic development. America, like Japan, was a developmental state during the earliest decades of its modern national history. The developmental state also played a constitutive role: in America's formative years, the federation of loosely connected states was made a union through national economic planning. In Japan, the efforts to create an empire were supported by the developmental state. While the federal government in Washington DC never attained the degree of centralization that East Asian governments did during their developmental periods, the American state was able to link itself to the nation *via* the national economy and national economic planning.

The American nation-state came into existence at a unique time and in a space. With the Age of Revolution came the idea that the national and the political unit were one. With the notions of "union," "progress," and the "subjective spirit of national unity" in their ideational repertoire, early American nationalists, Alexander Hamilton chief among them, set about on the difficult and divisive task of binding the nation to the state through state intervention in the economy and society. The demands of economic management and governance created a space through which an archetypical Weberian bureaucrat, Albert Gallatin, rose to a position of prominence. Using the capacity granted him as Secretary of Treasury, Gallatin executed a countrywide survey for the purpose of producing a report on internal improvements for the US Senate. The efforts required to produce Gallatin's

*Report* had the effect of embedding the state within the national economy and society. Though unsuccessful in its putative objective of establishing the central government as the primary agent of national economic development, the *Report* would serve as the ideational foundation and blueprint for further development projects by individual states, local governments, and private enterprise. As the economy grew and industry expanded westward, calls for the protection of American industry from foreign competition, in the form of tariffs, made their way into the mainstream political discourse. What started with calls for internal improvements progressed into appeals for a unique “American system” of governance and economic development.

Though broad-based support for tariffs took another war with the British (a national war) and the internal improvements made during the early 19th century were never implemented under the banner of a coherent industrial policy or 5-year plan, the American state—a newly christened modern state apparatus—intervened in the economy in order to tame domestic and international market forces for purposes of economic development and national interest. The twin concepts of the state as “surrogate entrepreneur” and actor that “induces decision-making” that Gerschekron and Hirschman, respectively, put forward in their writings on developmental economics have been used to explain the developmental states of East Asia. However, no mainstream scholars have made the obvious, and appropriate, parallel to the American developmental state. Callender, had he been writing *after* Gerschekron and Hirschman did, likely would have. But since he did not, the parallel is made here. America did indeed have a developmental state in its formative years. Moreover, the American developmental state shares several key characteristics with the early Japanese developmental state. In America and Japan archetypical Weberian bureaucrats arose through state bureaucracies or bureaucratic institutions to lead state-centered efforts at organizing socially embedded economic developmental efforts. For both countries, the developmental efforts had broader constitutive effects: in America it created the Union, whereas in Japan it buttressed the efforts of an empire.

In the 1920s, Japan was entering the nation-state system as an expansive development state. At a time in world history when competition between nation-states was reaching its

peak, Japan entered onto the stage with every intent to do what the other modern, industrialized countries were doing and had done in the name of the nation-state: expand and incorporate. Though Japan's westward expansion into Korea and the Manchurian plains brought real and lasting social, economic, and political hardship, it was here that bureaucrats, especially Kishi Nobusuke, acquired valuable administrative experience. His experience in imperium, when combined with his time in Germany and on the main island, bolstered his influence and increased his clout within Japan's administrative apparatus. Kishi's new authority allowed him to lead the effort at "embedding" the bureaucracy within Japan's complex imperial social-economic web. The idea that economic and industrial growth should serve the empire reinforced the development of bureaucratic capacity and, following some political wrangling with the military, the ability to execute its role as a relatively autonomous institution responsible for "administrative guidance." The bureaucracy's newfound role is illustrated most vividly in its use of cartelization and more generally in its control over economic and industrial development.

This thesis has shown how embedded autonomy, as a developmental state theory, can explain how the national economy plays a constitutive role in nation-state formation. In early 1900s America and in Japan/Manchuria between 1920-1930, developmental states used the national economy for both nation-building and economic developmental purposes.



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## 초록

미국도 현대 국가 역사의 초기에는 일본, 한국, 타이완처럼 개발국가였다. 당시 워싱턴의 연방정부가 개발기 동아시아 국가들처럼 중앙집권화를 이룩하지 못했기 때문에, 미국의 주(州)들은 서로 느슨하게 연결되어 있었을 뿐 국가경제를 통해 국가에 연결될 수 없는 상태였다. 연방국가가 국가 차원의 경제계획을 실시하면서 연방정부가 비로소 결성되었고, 이를 통해 미국의 개발국가는 구성적 영향을 지니게 되었다. 미 공화국 초기를 다룬 문헌들은 매우 많지만, 19세기 초 미국의 국가형성과 국가경제계획의 관계를 설명하기 위해 개발국가론을 활용한 문헌은 없다. 또한 형성기 미국과 다른 개발국가들을 비교한 문헌도 없다. 이 논문은 미국과 일본의 국가형성과 경제발전을 비교하는 사례 연구를 위해 ‘묻혀진 자율성’ 이론을 활용하여, 양자의 간극을 채우고자 하였다.