

Report on Manufactures (1791)



ALEXANDER HAMILTON

Even as the United States achieved its independence in the 1780s, Britain was building unprecedented new economic capacities that would enable it to more than compensate for its loss of much of its North American empire. Britain was becoming the world's first full-scale capitalist economy, in a process that historians often call the "Industrial Revolution." The emergence of machine-centered textile production in the cotton spinning and weaving mills of the West Midlands (i.e., the area around the city of Manchester) was leading to a new working class who lived on factory wages, ate food sold by commercial farmers, and made exportable products at ever-increasing levels of productivity. This was one of the core processes that broke the old Malthusian trap of agricultural economies. Over the next fifty to seventy years, the emerging British textile industry provided market incentives and technological models that would transform all sectors of the British economy. Eventually this process would do the same for much of the rest of the world, as well.

One aspect of the new textile production at the core of the British transformation was the way the new factories could make cloth which, even accounting for the cost of transportation, could be sold cheaper than traditionally made fabrics anywhere around the world. The history of capitalist transformation often includes the destruction of old business sectors along with the creation of new models. Whether those changes are good or bad often depend on how equitably the gains and losses are distributed, and often people disagree—based on their perspectives—about said equitability. But surely, what is especially inequitable is when a more technologically advanced economy sells its goods in a foreign market at below the cost of production with the specific purpose of destroying that other country's capacity to produce that good, thus hoping to create dependent markets. And that is exactly what British manufacturers were allegedly doing in the new United States of the 1780s. Taking advantage of the fact that under the Articles of Confederation there were thirteen separate trade policies, British merchants were "dumping" the goods of their emerging factory economy on the U.S. market—even as the angry empire kept most markets in Britain's remaining colonies, like the crucial food and timber markets of the Caribbean sugar islands, closed to American producers and middlemen.

British trade activities were one crucial target of Hamilton's pro-manufacturing agenda, which he laid out in the following document. Yet his policy, which argues for carefully targeted protective tariffs and other policies that would protect and stimulate manufacturing, seems to go against some core ideas of both his own and, more broadly, the revolution's leaders. The revolution certainly built on ideas about natural rights, as in the Declaration of Independence. American resistance to the British Crown also relied on deeply held ideas about representative government. And, as some argue, the fact that many of the revolution's leaders were slaveholders is also relevant, since they above all abhorred the idea that they would be thought of as unequal, subject, or in any way the dependents in a slavlike relationship. But the revolution was also deeply antimercantilist—deeply opposed to the rules imposed by European empires on their colonies with the specific purpose of creating trade barriers that would keep the colonies in the dependent relationship of being producers of low-value-added primary goods, while also being closed markets that could only buy from the mother country's manufacturers. The revolutionaries were, in a word, free traders.

Free trade seemed a key component of being a free citizen. Buy from whom you want, sell to whom you want, at whatever price you want. And in this the anti-merchant revolutionaries agreed with one of Hamilton's probable inspirations, the Scottish political economist Adam Smith. That kind of market

freedom, Smith argued, was a key component of a broader “Society of Perfect Liberty.” Even here Hamilton draws, it seems, on Smith—when, for instance, he discusses the way that the division of labor leads to greater productivity and national wealth.

And yet Hamilton argues for a nationalist policy of creating protected markets for certain kinds of manufacturing. So the question arises: Was Hamilton a prophet of a new U.S. capitalism that would emerge in the nineteenth century and beyond, or just another old-fashioned eighteenth-century mercantilist?

Thomas Jefferson certainly thought Hamilton was a mercantilist. Jefferson believed in free trade. And like many recent proponents of free trade, he thought that a country should produce what it was best suited to produce. In his *Notes on the State of Virginia*, he argued that the United States was particularly well-placed to produce agricultural commodities. Unlike British workers, American farmers were used to property ownership, and they had a whole continent laid out before them to occupy (provided they uprooted the original occupants, of course). Unlike British workers, they were also used to freedom, and Jefferson thought manufacturing towns and cities undermined the habits of self-reliant citizenship necessary to maintain such free institutions of self-government. He and his allies would oppose Hamilton’s trade policies for decades to come.

So the question to think about as you read Hamilton’s Report is this: is a certain kind of nationalist economic policy necessary to develop a nation’s capitalism from a standing start? This debate was part of the arguments over development ideology in the 1950s. Some emergent economies, particularly in East Asia, would use a similar policy to vault into international economic power. In other cases, as in Africa, India, Latin America, and the Caribbean, such policies would by the 1970s come in for massive criticism. Developmentalist policies very similar to the ones that Hamilton here advocates for the United States would be blamed for the failure of development. International institutions like the IMF (International Monetary Fund) and the World Bank, backed by the United States and other industrialized nations, eventually imposed “structural adjustment” policies designed to open those developing economies fully to the world market. The debate still goes on today in controversies over globalization.

December 5th, 1791.

The Secretary of the Treasury, in obedience to the order of the House of Representatives, of the 15th day of January, 1790, has applied his attention, at as early a period as his other duties would permit, to the subject of Manufactures; and particularly to the means of promoting—such as will tend to render the United States independent on foreign nations, for military and other essential supplies:

And he thereupon respectfully submits the following REPORT:

It ought readily to be conceded, that the cultivation of the earth, as the primary and most certain source of national supply; as the immediate and chief source of subsistence to man; as the principal source of those materials which constitute the nutriment of other kinds of labor; as including a state most favorable to the freedom and independence of the human mind; one, perhaps, most conducive to the multiplication of the human species, has intrinsically a strong claim to pre-eminence over every other kind of industry.

But that it has a title to any thing like an exclusive predilection, in any country, ought to be admitted with great caution; that it is even more productive than every other branch of industry, requires more evidence than has yet been given in support of the position. That its real interests, precious and important as, without the help of exaggeration, they truly are, will be advanced rather than injured, by the due encouragement of manufactures, may, it is believed, be satisfactorily demonstrated. And it is also believed, that the expediency of such encouragement, in a general view, may be shown to be recommended by the most cogent and persuasive motives of national policy.

It is now proper to proceed a step further, and to enumerate the, principal circumstances, from which it may be inferred, that manufacturing establishments not only occasion a positive augmentation of the produce and revenue of the society, but that they contribute essentially to rendering them greater than they could possibly be without such establishments. These circumstances are,

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 greater scope for the diversity of talents and dispositions, which discriminate men from each other.
6. The affording a more ample and various field for enterprise.
7. The creating, in some instances, a new, and securing, in all, a more certain and 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 are not easily conceived. Some comments upon each of them, in the order in which they have been stated, may serve to explain their importance.

I. As to the division of labor.

It has justly been observed, that there is scarcely any thing of greater moment in the economy of a nation, than the proper division of labor. The separation of occupations causes each to be carried to a much greater perfection than it could possibly acquire if they were blended. This arises principally from three circumstances:

1st. The greater skill and dexterity naturally resulting from a constant and undivided application to a single object. It is evident that these properties must increase in proportion to the separation and simplification of objects, and the steadiness of the attention devoted to each; and must be less in proportion to the complication of objects, and the number among which the attention is distracted.

The employment of machinery forms an item of great importance in the general mass of national industry. It is an artificial force brought in aid of the natural force of man; and, to all the purposes of labor, is an increase of hands, an accession of strength, unencumbered too by the expense of maintaining the laborer. May it not, therefore, be fairly inferred, that those occupations which give greatest scope to the use of this auxiliary, contribute most to the general stock of industrious effort, and, in consequence, to the general product of industry?

It shall be taken for granted, and the truth of the position referred to observation, that manufacturing pursuits are susceptible, in a greater degree, of the application of machinery, than those of agriculture. If so, all the difference is lost to a community, which, instead of manufacturing for itself, procures the fabrics requisite to it's supply from other countries. The substitution of foreign for domestic manufactures, is a transfer to foreign nations of the advantages accruing from the employment of machinery, in the modes in which it is capable of being employed, with most utility and to the greatest extent.

The cotton-mill, invented in England within the last twenty years, is a signal illustration of the general proposition which has been just advanced. In consequence of it, all the different processes for spinning cotton are performed by means of machines, which are put in motion by water, and attended chiefly by women and children; and by a smaller number of persons, in the whole, than are requisite in the ordinary mode of spinning. And it is an advantage of great moment, that the operations of this mill continue with convenience, during the night ' as well as through the day. The prodigious effect of such a machine is easily conceived. To this invention is to be attributed, essentially, the immense progress which has been so suddenly made in Great Britain in the various fabrics of cotton.

It is evident that the exertions of the husbandman will be steady or fluctuating, vigorous or feeble, in proportion to the steadiness or fluctuation, adequateness or inadequateness of the markets on which he must depend, for the vent of the surplus which may be produced by his labor; and that such surplus, in the ordinary course of things, will be greater or less in the same proportion.

For the purpose of this vent, a domestic market is greatly to be preferred to a foreign one; because it is, in the nature of things, far more to be relied upon.

Considering how fast, and how much the progress of new settlements in the United States, must increase the surplus produce of the soil,

This idea of an extensive domestic market for the surplus produce of the soil, is of the first consequence. It is, of all things, that which most effectually conduces to a flourishing state of agriculture. If the effect of manufactories should be to detach a portion of the hands which would otherwise be engaged in tillage, it might

possibly cause a smaller quantity of lands to be under cultivation; but by their tendency to procure a more certain demand for the surplus produce of the soil, they would, at the same time, cause the lands which were in cultivation to be better improved and more productive. [. . .]

It merits particular observation, that the multiplication of manufactories not only furnishes a market for those articles which have been accustomed to be produced in abundance in a country; but it likewise creates a demand for such as were either unknown, or produced in inconsiderable quantities. The bowels, as well as the surface of the earth, are ransacked for articles which were before neglected. Animals, plants, and minerals, acquire an utility and value which were before unexplored.

The foregoing considerations seem sufficient to establish, as general propositions, that it is the interest of nations to diversify the industrious pursuits of the individuals who compose them. [. . .]

1st. If the system of perfect liberty to industry and commerce, were the prevailing system of nations, the arguments which dissuade a country in the predicament of the United States, from the zealous pursuit of manufactures would doubtless have great force. . . .

But the system which has been mentioned, is far from characterizing the general policy of nations. The prevalent one has been regulated by an opposite spirit. The consequence of it is, that the United States are, to a certain extent, in the situation of a country, precluded from foreign commerce. [. . .] The regulations of several countries, with which we have the most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States.

In such a position of things, the United States cannot exchange with Europe on equal terms; and the want of reciprocity would render them the victim of a system which should induce them to confine their views to agriculture, and refrain from manufactures. A constant and increasing necessity, on their part, for the commodities of Europe, and only a partial and occasional demand for their own, in return, could not but expose them to a state of impoverishment, compared with the opulence to which their political and natural advantages authorize them to aspire. [. . .]

The remaining objections to a particular encouragement of manufactures in the United States, now require to be examined.

One of these turns on the proposition, that industry, if left to itself, will naturally find its way to the most useful and profitable employment. Whence it is inferred, that manufactures, without, the aid of government, will grow up as soon and as fast as the natural state of things and the interest of the community may require. [. . .] Experience teaches, that men are often so much governed by what they are accustomed to see and practice. [. . .] The apprehension of failing in new attempts, is, perhaps, a more serious impediment. [. . .]

The superiority antecedently enjoyed by nations who have pre-occupied and perfected a branch of industry, constitutes a more formidable obstacle than either of those which have been mentioned, to the introduction of the same branch into a country in which it did not before exist. To maintain, between the recent establishments of one country, and the long matured establishments of another country, a competition upon equal terms, both as to quality and price, is, in most cases, impracticable. The disparity, in the one, or in the other, or in both, must necessarily be so considerable, as to forbid a successful rivalry, without the extraordinary aid and protection of government. [. . .] The undertakers of a new manufacture have to contend, not only with the natural disadvantages of a new undertaking, but with the gratuities and remunerations which other governments bestow. To be enabled to contend with success, it is evident, that the interference and aid of their own governments are indispensable.

[. . .] One more point of view only remains, in which to consider the expediency of encouraging manufactures in the United States.

It is not uncommon to meet with an opinion, that, though the promoting of manufactures may be the interest of a part of the Union, it is contrary to that of another part. The northern and southern regions are sometimes represented as having adverse interests in this respect. Those are called manufacturing, these agricultural States; and a species of opposition is imagined to subsist between the manufacturing and agricultural interests. [. . .] It is nevertheless a maxim, well established by experience, and generally acknowledged, where there has been sufficient experience, that the aggregate prosperity of manufactures, and the aggregate prosperity of agriculture, are intimately connected. In the course of the discussion which has had place, various weighty considerations have been adduced, operating in support of that maxim. Perhaps the superior steadiness of the demand of a domestic market, for the surplus produce of the soil, is, alone, a convincing argument of its truth.

Ideas of a contrariety of interests between the Northern and Southern regions of the Union, are, in the main,

as unfounded as they are mischievous. The diversity of circumstances on which such contrariety is usually predicated, authorizes a directly contrary conclusion. Mutual wants constitute one of the strongest links of political connexion; and the extent of these bears a natural proportion to the diversity in the means of mutual supply. [. . .]

If the northern and middle States should be the principal scenes of such establishments, they would immediately benefit the more southern, by creating a demand for productions, some of which they have in common with the other States, and others of which are either peculiar to them, or more abundant, or of better quality, than elsewhere. These productions, principally, are timber, flax, hemp, cotton, wool, raw silk, indigo, iron, lead, furs, hides, skins and coals: of these articles cotton and indigo are peculiar to the Southern States. . . . The extensive cultivation of cotton can, perhaps, hardly be expected, but from the previous establishment of domestic manufactories of the article; and the surest encouragement and vent for the others, would result from similar establishments in respect to them.

In order to a better judgment of the means proper to be resorted to by the United States, it will be of use to advert to those which have been employed with success in other countries—The principal of these are:

I. Protecting duties—or duties on those foreign articles which are the rivals of the domestic ones intended to be encouraged.

Duties of this nature evidently amount to a virtual bounty on the domestic fabrics; since, by enhancing the charges on foreign articles, they enable the national manufacturers to undersell all their foreign competitors. The propriety of this species of encouragement need not be dwelt upon; as it is not only a clear result from the numerous topics which have been suggested, but is sanctioned by the laws of the United States, in a variety of instances; it has the additional recommendation of being a resource of revenue. Indeed all the duties imposed on imported articles, though with an exclusive view to revenue, have the effect in contemplation, and, except where they fall on raw materials, wear a beneficent aspect towards the manufacturers of the country.

VIII. The encouragement of new inventions and discoveries at home, and of the introduction into the United States of such as may have been made in other countries; particularly those which relate to machinery.

This is among the most useful and unexceptionable of the aids which can be given to manufactures. The usual means of that encouragement are pecuniary rewards, and, for a time, exclusive privileges. [. . .] For the last, so far as respects “authors and inventors,” provision has been made by law. But it is desirable, in regard to improvements, and secrets of extraordinary value, to be able to extend the same benefit to introducers, as well as authors and inventors; a policy which has been practised with advantage in other countries. [. . .]

X. The facilitating of pecuniary remittances from place to place—

[. . .] A general circulation of bank paper, which is to be expected from the institution lately established, will be a most valuable mean to this end. But much good would also accrue from some additional provisions respecting inland bills of exchange. If those drawn in one State payable in another, were made negotiable every where, and interest and damages allowed in case of protest, it would greatly promote negotiations between the citizens of different States, by rendering them more secure; and with it the convenience and advantage of the merchants and manufacturers of each.

XI. The facilitating of the transportation of commodities.

Improvements favoring this object intimately concern all the domestic interests of a community; but they may, without impropriety, be mentioned as having an important relation to manufactures. There is, perhaps, scarcely any thing, which has been better calculated to assist the manufactures of Great Britain, than the meliorations of the public roads of that kingdom and the great progress which has been of late made in opening canals. Of the former the United States stand much in need; for the latter they present uncommon facilities. [. . .] This is one of those improvements which could be prosecuted with more efficacy by the whole, than by any part or parts of the Union. There are cases in which the general interest will be in danger to be sacrificed to the collision of some supposed local interests. [. . .]

There are certain species of taxes, which are apt to be oppressive to different parts of the community, and among other ill effects, have a very unfriendly aspect towards manufactures. All poll or capitation taxes, are of this nature. They either proceed according to a fixed rate, which operates unequally and injuriously to the industrious poor, or they vest a discretion in certain officers, to make estimates and assessments which are necessarily vague, conjectural, and liable to abuse. They ought, therefore, to be abstained from in all but cases of distressing emergency.

All which is humbly submitted.

Alexander Hamilton,
Secretary of the Treasury.

Questions

1. Return to the question asked at the end of the introduction to this reading: was Hamilton a forward-looking capitalist prophet, or was he advising Americans to re-run the mercantilist playbook that had made Britain a great but (in many American revolutionaries' view) tyrannical empire?
2. Why, in Hamilton's view, should the U.S. *not* focus on agriculture as its main source of economic growth?
3. Which policy did the U.S. choose over the next seventy years? What about over the next two hundred and twenty-five years?
4. Are trade barriers bad for developing countries, or good? What should their economic development goals be, and how should they best achieve them?
5. As the first postcolonial country to develop into an industrial, capitalist society, does the United States have any special responsibility to assist countries that are trying to follow a similar path? What if helping actually hurts U.S. citizens in some economic sense?