

Industrial and Commercial
Correspondence
of
Alexander Hamilton
Anticipating His Report
on Manufactures

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Preface

IT is fitting that the first publication of documents undertaken by the Business Historical Society should be this edition of letters and reports to Alexander Hamilton on the state of industry in the United States at the beginning of our national history. As throwing light on the activities of the most interesting and important figure in the economic history of the new nation, the founder of our economic policy, and as illustrating the industrial and commercial conditions of his time, Hamilton's papers, now deposited in the Library of Congress, merit publication. The Business Historical Society was well-advised by Professor Cole to select, for its initial volume, this set of documents.

All that remains of the materials which Hamilton gathered for his notable "Report on Manufactures" is here printed, almost without exception for the first time. The "Report" itself is appended, together with a discriminating analysis by the editor, which admirably supplements his general introduction. It has seemed also advisable to make accessible the other papers of business interest contained in the Hamilton correspondence. These give new information on the opening of American trade in the Far East and on Hamilton's plan for a great industrial enterprise at Paterson, New Jersey. Development in both these directions, the furtherance of home industry and the access to wider foreign markets, were recognized by Hamilton and his contemporaries as necessary economic accompaniments of the newly-won political independence. These letters depict the situation confronting American business men when they found themselves freed from the trammels but also without the protection of the English colonial system.

I may be permitted, both as a member of the Business Historical Society and as a student of economic history, not only to welcome this volume, so competently edited by Professor Cole, but to commend earnestly the purpose of the Society. Business documents, of even more significance to the future historian than these here published, are every year destroyed. Their preservation not only in the national archives but by state historical societies and university libraries is of the utmost

consequence. The present holocaust of valuable historical material can be checked only by the arousing of public interest and by that national co-operation between business men and scholars which is the aim of the Business Historical Society. This book, therefore, issued under such auspices, is a symbol both of the Society's reverence for the past and of its forethought for future generations.

EDWIN F. GAY.

Introduction

STUDENTS of business and of economic history are always eager to tap the ultimate sources of information concerning the industry or time-period with which they happen to be dealing. To be sure, even such material—letters, business documents, descriptions by contemporaries, and the like—are subject to many inaccuracies and liable to erroneous interpretation. Possibly, as Fontanelle so cynically remarked, history of any sort is but a fable upon which men have agreed. Nevertheless, our only hope of securing a fair and just evaluation of the past is by penetrating as far as possible into the intimate details of conditions as they then existed, absorbing the material as it appears in the writings of the participants—not as perhaps garbled by some prejudiced or unscientific intermediary—and then constructing a story as conformable to the known facts as we can devise.

As an aid in this endeavor, I have brought together the following sheaf of letters. These are practically all the letters of an industrial and commercial flavor, that remain to us of the correspondence in which Alexander Hamilton was involved—and the exceptions, as will appear shortly, are of minor importance to the general student. These letters have lain for a hundred and twenty-five years unavailable to most investigators, in the collection of Hamilton Papers now preserved in the Library of Congress, Washington, D.C. Occasionally a zealous, conveniently located, or financially able student has sought them out, but for most of us they have existed only as a name. And yet they are documents of first-rate importance to a thorough-going study of American economic development. The letters herewith reproduced are in the main closely related to Hamilton's Report on Manufactures, that remarkable treatise written by Hamilton in 1791, to which every one engaged upon research into the growth of any of our older industries turns at some time. Accordingly, we should take special note of the origin and character of that document. As Secretary of the Treasury, he was called upon by the House of Representatives for data upon the manufactures of the country and "the means of promoting such as will tend to render the United States

independent of foreign nations for military and other essential supplies". His reply was epochal, despite the fact that it was composed at a time when he was engaged upon such varied tasks as re-establishing the financial credit of the new nation, creating a coinage system out of his own imaginings, and outlining a plan for a central bank. The Report was epochal because it gave the first important impetus to that policy of protection which with increasing force has since that time dominated the tariff-making of this country, and because, breathing new vigor into the moribund system of restriction and government interference, it marks the first revolt from the free-trade doctrines of Adam Smith which were already beginning to pervade English thought. It signalized the self-assertion of a new-sprung but purposeful country—possibly an appeal to expediency rather than long-run verities, but still an appeal not unbefitting the nation as it then found itself. Because of its historical importance, the Report is well deserving of re-publication.

But the document is significant to the economic historian in another way: it contains the first attempt ever made to survey the industrial resources and activities of the United States. For this reason the investigator, whether concerned with the early cotton manufacture or the beginnings of "fossil coal" production in this country, searches the pages of this Report for any data that it may hold. All too meagre often is the information that he acquires, even though he squeeze the paragraphs or phrases for every suggestion that they can be made to convey. Too often a generalization of "considerable supply" or "interesting extent" comes to dull the sharpness of outline which one seeks and he is repeatedly tempted to inquire: just what does Hamilton mean? At other points it seems that Hamilton must have had a substantial amount of information before he could draw conclusions as sweeping as those he offers; and frequently we find ourselves asking: just how did he arrive at that opinion?

In some measure the answers to these queries are to be found in the documents which I present below. In so far as now exists, here is the evidence that Hamilton utilized: this is how he came to such and such conclusions. By examination of these data, we can extend as in no other way the survey of

American industry as of 1790 which Hamilton so courageously attempted. For such reasons, these letters to Hamilton are well worth putting into usable form.

But the letters are of absorbing interest in themselves. First of all, they are quaint and delightfully human. Spelling, for example, was still an art and not a science, for we read that country people made "there corse wairing aparel" in the "domystic" way, and that "particular valuations" as to the amount of household production would be "Intirely matter of Gess". Again, local pride not infrequently raises its head. Leffingwell extols Norwich, Connecticut, as an exceptional place for manufactures "on a large Scale"; Walker boasts of the "fine Mill seats" in South Carolina; and Davenport, of Stamford, Connecticut, cognizant of the cotton-manufacturing venture at Paterson in which Hamilton was personally involved, makes the pertinent inquiry: why should New Jersey be preferred to the excellent Connecticut? Finally, not without the human touch also is a postscript following on John Mix's description of his button factory at New Haven, Connecticut, in which he suggests his willingness to accept a government contract: he would "Furnish [buttons] at a very reasonable rate, and would Put U S A on Each Button or any other figure or Divise that Should be required."

On the whole, however, the letters are noteworthy for the high level of tone in which they are couched, and the great frankness with which the writers express themselves to the Secretary of the Treasury. While these results in large measure flow from the known sympathy of Hamilton for domestic manufactures and from a keen appreciation of his ability—the latter of which is indicated by the obsequious, though involved tribute at the close of Nathaniel Hazard's letter—they are also in part attributable to the method by which Hamilton sought the information. A certain amount of the data, to be sure, was secured by direct inquiry—as is evidenced by the correspondence from such men as George Cabot and Nathaniel Gorham, persons already known to Hamilton; but most of the information was derived through the local agents and representatives of the Treasury Department. Collectors of the customs and surveyors of the ports had been set up by the Act of July 1789 in which provision was made for the administra-

tion of the new customs law; and a system of supervisors and inspectors had been erected by an Act of March 1791 for the collection of the internal revenue duties just imposed—a supervisor overseeing each state and an inspector covering, under the eye of a supervisor, a smaller district within the larger states. To the collectors and supervisors Hamilton seems to have directed a circular letter—although no copy remains—and they in turn made inquiry of the officials under them or to others who would be familiar with conditions in the several localities.

From a similarity of phrasing in various items of the attached correspondence—as, for example, the letters of Huntington to Chester and of Moses Brown to Dexter—it appears that Hamilton's original letter, dated June 22, 1791, surely contained inquiries as to the "Manufactures of Consequence" in the particular area and as to any "Impediments and Encouragements" by which the growth of manufactures in such districts was checked or facilitated. Beyond this we cannot be sure, though possibly there was a question upon the degree to which importations affected the position and fortunes of local manufacturing activities.

The supervisors in turn, as just suggested, passed the inquiries along to inspectors or to others. In Virginia, inspectors such as Thomas Newton, Jr., or Drury Ragsdale, transmitted information to Edward Carrington, supervisor, and he forthwith handed it on to Hamilton. Elsewhere, effort was made by the supervisors to reach men who would be specially well-informed upon the subject of manufactures in the several counties or other districts of their respective states. Daniel Stevens of Charleston, South Carolina, sent a circular letter "to the most leading Characters throughout the State"; Aaron Dunham of Trenton, New Jersey, wrote to "such Gentlemen in the Different parts of this State" as he thought would be likely to provide him with the desired information; while John Chester of Wethersfield, Connecticut, not only corresponded with similar gentlemen in that state, but, following what seems to have been a happy concept, wrote to each member of the Governor's Council, the upper house of the state legislature. Finally, the manufacturers of at least two cities, Providence, Rhode Island and Charleston, South Carolina, were moved to

take common action, probably not without some encouragement from the local supervisors; and we have reports upon the divers industries of Providence and upon the leather manufactures of Charleston, done by committees of the interested producers.

In the course of these manifold inquiries, only one difficulty seems to have arisen except the one which might naturally be expected, the occasional failure of individuals to respond. In Virginia, the employment of the revenue officers stirred up people in at least one district of the state. Mr. Anselm Bailey of Surrey County in southeastern Virginia reports that "most of the people in these parts have got into such a spirit of Jealousy that they suspect some design unfavorable to them in everything that is attempted of a public nature. 'What! are they going to Tax our Cloath too' was the reply of several." This evidence of hostility to internal revenue imposts is of much interest, especially in view of the "whisky insurrection" that came a few years later in an area somewhat similarly circumstanced.

For the most part, however, the inquiries were met with a hearty spirit of co-operation. Not only are there repeated expressions of hope that the information transmitted may be satisfying to "the Secretary," but individuals unburdened their minds in an exceedingly candid manner. Moses Brown of Providence went into exceptional detail as to his experiences in the cotton manufacture. Indeed, one may say of this particular letter that it contains a more complete account of his early difficulties than elsewhere exists. Similarly Elisha Colt described the troubles of the Hartford woolen mill, the earliest woolen-cloth factory erected in this country; George Cabot, his experiences at the Beverly Cotton Manufactory; and John Mix, his efforts to establish the manufacture of metal buttons at New Haven, Connecticut. Again, various producers went to the trouble of transmitting samples of their manufactures, buttons, saddle cloth, silk lace from Ipswich, Massachusetts, woolen cloths from the Hartford mill, and the like. Unfortunately for the present-day investigator, almost all of these specimens of eighteenth-century handiwork have been lost. Only a few pieces of the Ipswich lace remain. Finally, correspondents not infrequently rose from the specific to the general,

pouring out to "the Secretary" their impressions concerning the broader features of the situation. For example, Edward Carrington's report to Hamilton contains an extraordinarily good survey of economic conditions in the whole of Virginia as of about 1790. I know of none better, none which so well considers the several natural divisions of the state, their varying economic interests and activities, and the reasons for such diversities. Again, Peter Colt called attention to one of the evils particularly potent at the time when refunding in full by the Federal Government of its outstanding debt had given impetus to a host of speculative ventures, asserting that manufactures would be most promoted and extended "when the active Stock of the Citizens shall no longer be embarked in paper Speculations." And there is some significance as well as humor in Nathaniel Gorham's glowing description of the fortunate state of this country as he saw it in 1791: the check to importations of textiles with "other concurring causes has rendered the People of this Country at the present moment the happiest on the face of the Earth—& so far as I can recollect history, does not furnish any instance of a people equally happy—in short I believe it is not in the case of Human nature to be exceeded— & the People seem sensible of it—all uneasiness and murmuring being at an end— & good humour & chearfullness universally prevailing."¹

For the general student, however, there are additional treasures to be mined from these letters. One feature which is common to many of them is the desire to nurture domestic industries—a desire which seemingly attached to industries of all sorts and did not balk at any cost. Of course such an attitude might be expected of individuals committed to particular branches of manufacture; but the spirit is not confined to them. Already there was a widespread notion that somehow imports were undesirable and even distinctly harmful—an idea that was indicated also by the societies for promoting domestic in-

¹ Perhaps not without connection with Mr. Gorham's optimistic frame of mind is the fact that he was at the time engaged in a grandiose land speculation which in 1791 seemed to be prospering well. He, with others, had purchased from the state of Massachusetts all her western lands and was then arranging for their distribution. Unfortunately for him and his associates, who included Robert Morris, the venture did not prosper as well as he had anticipated and he died in 1796 leaving no considerable fortune.

dustry, which were now increasing in numbers. Mr. Learned of New London, Connecticut, quoted manufacturers as holding that the tariff duties on saddles were not high enough; John Mix, above mentioned, desired the importation of buttons to be prohibited; and Samuel Breck of Boston wrote Hamilton with obvious satisfaction that the state bounty on hemp would, he presumed, "render our dependence on Russia much less, & probably in a few years annihilate that Commerce." Mr. Benjamin Huntington, a member of the Governor's Council in Connecticut, refers to the advantage of producing as much as possible at home; and Mr. Peter Colt, a merchant, intimates his hope that "this Country [may be] freed from a disgracefull dependance on Europe for their ordinary Cloathing." With all such views it is interesting to contrast the relatively moderate attitude taken by Hamilton himself when he came to compose his Report on Manufactures.

Furthermore, the letters teem with data upon the difficulties with which the early manufacturers were confronted. Some of these are such as might readily be expected under the circumstances. Mr. John Treadwell of Farmington, Connecticut, speaks of the troubles encountered by a local textile manufacturer in marketing his output: while imported cloths commanded cash, he had to dispose of his goods through barter because of their inferior quality. "It commonly takes two or three turns before he can convert them into money and this is an inconvenience he cannot remove for want of proper machinery to give a high finish to his cloths, which his property will not enable him at present to procure." Again, in the sale of hats, according to O. Burr & Company of Danbury, domestic goods suffered from the inferiority of manufacture in this country by certain producers—here, as these gentlemen think, due to the fact of "Persons setting up the Business who never served [apprenticeship] for the Trade." Especially interesting, however, in the light of modern conditions are two other features to which, as far as I know, attention has heretofore been called but rarely. One relates to the unavailability of raw material in the cotton manufacture. Both Moses Brown and George Cabot speak of the poor quality of American cotton and the necessity of using imported material. The former points out that while the inferior stuff "will Answer to work by hand,"

"Cotton must be clean before it works well on the Mashine." To this Cabot adds the novel thought that "it appeared early to be essential" to the interest of the Beverly mill "to use cotton of the longest fibre & the best cleaned" for this reason: that "in proportion as our workers are awkward & unskillful is the necessity of furnishing the best materials—bad materials wou'd be wasted altogether."

Cabot is responsible also for the other feature above mentioned. With respect to the employment of foreign artisans in starting operations, he makes the keen observation that "destitute of the necessary information ourselves" of the business undertaken, "we are subject to be misled by every pretender to knowledge." He goes on to remark that "a number of Europeans chiefly Irish have been successively employed by us, but as no one of them was master of any branch of the business, and most of them proved deficient in some quality essential to usefulness, one only has remained in our service." And a somewhat similar case is intimated by Moses Brown relative to certain machinery, when "Two persons from Scotland who took their Ideas from Observation and not from Experience" constructed apparatus which in fact failed to work well. Apparently Yankee shrewdness could not entirely obviate mistakes of over-confidence under circumstances of industrial infancy.

Equally interesting to the historian are the suggestions of localization in industry and the indications of new manufacturing processes or machinery. As to the former, perhaps it will suffice to note the importance already attained by Danbury as a center of hat manufacture; and the intimation that Suffield, Connecticut, had once excelled in the production of wooden dishes. This production, "the Ancient Characteristic Manufacture of Suffield," is reported to have disappeared—"Our Materials are gone." As to new processes and equipment: one may note the enlargement of a furnace for the manufacture of "Blisterd Steel," as mentioned by Aaron Elliott of Killingworth, Connecticut; the "New" manner and process of making potash, as spoken of by Alexander King of Suffield in the same state; and various textile improvements described by Moses Brown, Elisha Colt, George Cabot, and others.

Such are some of the treasures to be found in these "ancient"

letters. They are valuable to the modern investigator, and undoubtedly were of exceptional worth to Hamilton. The fact that he preserved them is some indication of his attitude, and there is evidence to be drawn from the Report itself that he found them highly informative. To be sure, many of Hamilton's descriptions of existing domestic industry, as above suggested, are quite general in character: that production of steel "has already made a considerable progress," or that "manufactories of paper are among those which are arrived at the greatest maturity in the United States." Such propositions indicate that he had gathered together scattered bits of data relative to such industries and drawn summary conclusions in his own way. But there are also numerous occasions at which specific connection may be established between the letters and the Report. The citation of "essays" at silk manufacture in Connecticut, of the "flourishing manufactory" of sail-cloth in Boston, of a "prolific" lead mine in Virginia, and the "precious embryo" in wool manufacture at Hartford are cases in point—and various others, including the cotton mills at Beverly and Providence could be quoted. Moreover, now and again one finds a similarity of thought between some general statement in a letter and a passage in the Report. Such, for example, is apparent with respect to a point raised by Benjamin Huntington in his letter to John Chester, when he suggested that the encouragement of manufactures might serve "to Increase the Commerce between the Northern & Southern States & by that means at once to Increase our Internal Trade & Strengthen the Union as also to promote an Acquaintance and Assimilation of Manners among the People in the several States." With this one may compare a section of the Report on Manufactures, where in developing his theme of the nation-wide gain from establishing manufactures, Hamilton says: "Mutual wants constitute one of the strongest links of political connexion. . . . Suggestions of an opposite complexion are ever to be deplored as unfriendly to the steady pursuit of one great common cause and to the perfect harmony of all the parts."¹

But there is another face to the shield. At least one defect appears in the series of letters now presented—as one glances over them—if they be considered as original data for a broad in-

¹ See Report, p. 286, below.

dustrial survey of the United States in 1790-1791. One notes that almost no material is included with respect to the middle states.¹ This is at first surprising. But upon consideration I am inclined to think that the lack is not due to loss of manuscripts from Hamilton's effects, as one might at first suspect. I doubt if Hamilton made any inquiries with regard to the manufacturing activities of these communities. It is not unreasonable to assume that if there had been correspondence with individuals of New York and Pennsylvania about these matters, at least some scrap would have survived when so large a stock from gentlemen of Connecticut and Virginia and other states has come down to us. Secondly, a perusal of the Report shows that, while Hamilton made specific mention of mills or mines in Massachusetts, Rhode Island, and elsewhere, he fails to cite any particular enterprises in these chief middle-Atlantic areas. On the other hand, it is equally obvious that he was familiar with developments there, since in various connections, as of the manufacture of glass or iron, he makes assertions which are not supported by any evidence drawn from New England or Southern sources.

I am disposed to hold that by reason of his own broad familiarity with industrial conditions in the middle states he felt no necessity of acquiring additional data. The only indication that he relied upon others for information with respect to middle-state manufactures is the presence among his Papers of a newspaper clipping from the American Museum, a Philadelphia paper, which has a note appended that it had come "from the Author." This article, written by a man who was later the biographer of David Rittenhouse, exhibits the results of considerable research on the author's part; and there is some indication that Hamilton made direct use of these "cursory remarks" of Mr. Barton. Not only is there frequently a similarity of thought in this composition and in the Report on Manufactures, but with respect to the condition of particular industries there appears a dependence upon Barton, unless of course Hamilton drew wholly from his own personal knowledge. Certain manufactures, ignored or but lightly touched upon in

¹ Only one document is presented for each of the states, New York, New Jersey, and Delaware, barring a letter of transmission; and one of these, the letter from Nathaniel Hazard of New York, is only incidentally concerned with manufactures.

the correspondence already discussed, and yet given appreciable prominence in Hamilton's Report, are described in some detail in Barton's paper—for example, printing and glass-making. And somewhat odd portions of particular industries—the making of paper-hangings and that of edged tools—appear in both documents. Because this print of Mr. Barton's article apparently was treasured by Hamilton, because with the superscription from the author it technically falls within the bounds of Hamilton's correspondence, but most because it makes some contribution toward an understanding of the Report on Manufactures, I have thought it worth while to include this item in the present publication.

The correspondence which forms the next two parts of the present volume is of quite a different character from any of the foregoing. Not only are they chiefly commercial, while the first was chiefly industrial, but they do not center about any particular composition from Hamilton's hand. Occasional passages in the Report on Manufactures or in other of his state papers seem to reflect the material of this correspondence, though of course one cannot be sure. A case in point arises in connection with a brief report by Hamilton to the House of Representatives upon trade with the Orient, transmitted February 10, 1791.¹ Here he speaks of the possibility that "an additional and extensive field for the enterprise of our merchants and mariners" and "an additional outlet for the commodities of the country" may exist in the trade with China and India; but adds that "a full and accurate examination should be made into the nature and tendency of that trade" before any encouragement beyond that already given should be extended to the commerce. One wonders if Hamilton was thinking of the conditions in the China trade revealed by Randall in his most interesting letter to Hamilton—the initial letter in the Part on this eastern trade. Again, one may quote the identity of thought concerning the results of a recent "insurrection in Hispaniola" as given in the Report on Manufactures when Hamilton is treating of molasses imports, with a section in the essay which Jeremiah Wadsworth transmitted to Hamilton under date of December 10, 1791.

Defence for the publication of this correspondence must rest

¹ This report is printed in *American State Papers, Finance*, vol. I, p. 107.

rather upon the intrinsic value of these documents. Thomas Randall's story of the beginnings of our trade with China perhaps needs least comment. It is an absorbing yarn in itself. Here is the testimony of the man who went as joint super-cargo on the first American vessel to trade with China, and who later served as American vice-consul at Canton, concerning the conditions under which business with the Chinese had to proceed in those early days. To be sure, another account of that first voyage exists, one written by Mr. Samuel Shaw of Boston who went as the other super-cargo of the vessel. This account, which was subsequently printed by the government, also gives some description of the trading difficulties then existing at Canton. Randall's story, nevertheless, is well worth reproduction. It is much fuller on the side of Chinese commercial practices—or mal-practices—than is Shaw's, and is done in a much more picturesque style. Shaw's tale is dull reading after Randall's.

The documents transmitted by Randall with his letter to Hamilton are also valuable. The instructions of the British East India Company to their Canton agents and the list of ships arriving and leaving Canton in 1789, fragmentary though they be, carry data upon this early trade which are not available in existing histories—not even in Morse's four-volume work on the British Company. Especially noteworthy are the manner in which the East India Company computed its requirements year by year, and the lists of "country" (Anglo-Indian) and foreign ships which put in at Canton.

The rest of the letters, though somewhat miscellaneous in character, give highly useful information upon various aspects of our foreign commerce about 1790. Particularly significant are the letters of George Cabot and Jeremiah Wadsworth upon the trade to the French West Indies. With these islands, the United States was just then beginning to have increased commercial relations; since, with the abnormal conditions imposed by the French Revolution upon the trade between the mother country and the French West Indies, the ports in the latter were being opened to American vessels.

The third group of letters herewith presented relate to the personal venture of Hamilton in connection with the Society for establishing Useful Manufactures, frequently spoken of as

the "S. U. M.", which erected a cotton-manufacturing plant at Paterson, New Jersey. This enterprise was in a certain sense the practical side of Hamilton's advocacy of domestic manufactures, of which the theoretical side was displayed in his distinguished Report. Fortunately the formation, flotation, and vicissitudes of the company, especially during the first years of its existence, have been recounted by Professor Joseph S. Davis in his excellent volumes, "Essays in the Earlier History of American Corporations." There, in a wealth of detail which goes much beyond the scope of these letters, appears an intimate history of this "first New Jersey business corporation"—though a history which was in part drawn from these letters now presented.

Yet the publication of these communications to Hamilton is not without value. For one thing, these documents, though concerned with a particular business undertaking, are not without connection with the main interest of this present volume, the Report on Manufactures. The S. U. M. was in process of flotation at just the time that Hamilton was drafting his Report and specific mention to it is made therein. After a general reference to activity in working cotton within the country, he says that "in addition to this, it may be announced, that a society is forming, with a capital which is expected to be extended to at least half a million of dollars, on behalf of which, measures are already in train for prosecuting, on a large scale, the making and printing of cotton goods." Perhaps it may be attributable to common human frailty that this announcement precedes by some little space consideration of the Providence and Beverly cotton-manufacturing plants!

Furthermore, among these documents, there is included the "Prospectus" of the S. U. M., an outline for public consumption of the scheme then well under way, which is also related to the Report on Manufactures. The first paragraphs are devoted to an examination of the desirability and practicability of domestic industry, and, as Professor Davis points out, these paragraphs give "ordered expression to a group of ideas which reappeared three months later in a famous state paper."¹ On the whole, to be sure, the cast of thought in the "Prospectus" is more extreme than in the Report. Thus the statement contained in the

¹ Davis, *Essays*, vol. I, p. 357.

opening paragraph of the Prospectus, that "it seems an almost self-evident proposition that communities which can most completely supply their own wants are in a state of the highest political perfection", becomes moderated in the subsequent document. Hamilton there contents himself with the assertion that possession of the means of subsistence and defence is "necessary to the perfection of the body politic; to the safety, as well as to the welfare, of the society; the want of either is the want of an important organ of political life and motion; and in the various crises which await a State, it must severely feel the effects of any such deficiency".¹ Again, the Prospectus seeks to show what the Report ignores—the identity of individual and common interests: that while it is manifest "that the interest of the community is deeply concerned in the progress of this species of industry, there is as little room to doubt that the interest of individuals may equally be promoted by the pursuit of it".

Another aspect of these letters which tells in favor of their publication is the evidence contained in them of the technical difficulties of launching a manufacturing enterprise in those early days. The applications of Thomas Marshall and others for employment, the criticisms of William Hall (whose letter brings to mind the thought expressed by Cabot that manufacturers were then exposed to imposition by foreigners), and the explorations made in connection with the choice of site—not only are these all of marked interest to the modern student of economic conditions in 1790, but they play a part in our investigation into the back-ground of Hamilton's Report. He carried from the tribulations of the S. U. M. an intimate knowledge of the obstacles involved when attempting to establish a new industry; and he may well have been influenced thereby in his general attitude toward "the intrinsic difficulties incident to first essays", of which he makes so much his famous state paper.

For these reasons, I have thought it worth while to select the more general documents of this group preserved in the Hamilton Papers at Washington, in so far as they antedate the Report on Manufactures, and to present them here with the letters and other material more closely allied to that Report.

¹ See Report, p. 284, below.

The Background of
Hamilton's Report
on Manufactures

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FULL appreciation of Hamilton's Report on Manufactures is impossible without some knowledge of the conditions, economic, political, and intellectual, under which it was written. Obviously no thoroughgoing account of these conditions can be attempted here, but a brief sketch is possible. This must be limited chiefly to those features of the general situation which bear most closely upon the contents of the Report, and help us most readily to apprehend the origin and nature of the arguments for protection advanced so ably in that document.

First, it will be at once understood that in 1791 the United States was not a manufacturing nation in any substantial degree, nor had manufactures been stimulated appreciably by the disturbed commercial conditions of the Revolutionary War. To be sure, certain industries closely connected with war supplies, such as the manufacture of powder and of firearms, had been initiated or enlarged; and the household production of divers necessities, such as woolen cloth, had been broadened. The Revolutionary War, however, should not be considered a true dividing line in the industrial history of this country; and it will be noted that Hamilton gives little consideration to war-sprung manufactures as a basis for his protective argument. He suggests that "the extreme embarrassments of the United States during the late war, from an incapacity of supplying themselves," were still a "matter of keen recollection"; but his plea for protection, unlike that of many protectionists after the subsequent wars in which the country has been involved, is not based upon the need of nurturing "war babies". The feature of "vested interests", indeed, plays on the whole no significant rôle in Hamilton's argument. To be sure, he indicates a "most ardent" wish to "cherish and bring to maturity this precious embryo" of the Hartford woolen factory, and elsewhere shows keen interest in existing enterprises; but the

whole tone of the document is one of anticipating a glorious future for its own sake, and not one of attempting by government intervention to provide shelter for the accidents of the past. In short, while existing manufactures were at that time sufficient in number and diversity to give support to a proposal for further development—to infuse confidence into the speculation—the state of domestic industries should not be looked upon as the occasion for Hamilton's advocacy of protection.

The political situation in 1791 was a more important factor, at least in so far as it resulted in a set of commercial conditions unfavorable to the United States. Political independence had not resulted in commercial independence; and the new nation, having now placed itself outside the area of the British Empire, found its position difficult. An inquiry made but a couple of years after the composition of this Report,—in 1793,—exhibited the many “restrictions” with which the navigation and commercial laws of foreign countries surrounded the trade of the American nation. “Our tobaccos are heavily dutied in England, Sweden, and France, and prohibited in Spain and Portugal”; “our bread stuff is at most times under prohibitory duties in England”; Spain and Portugal “refuse all direct intercourse” with their American possessions: in short, trade was generally difficult and almost everywhere cumbered with restraints.¹ Here in the Mercantilistic policies of foreign nations was a real excuse for a greater self-dependence. Obviously, if other countries limited trade with us and would not permit the purchase of their goods on terms advantageous to us, a possible remedy was to set up our production of those commodities—manufactures—which we chiefly secured thence.

Thirdly, a word may be added as to Hamilton's intellectual background. Into an age, of which the characteristic feature of commercial policy was still a considerable reliance upon artificial barriers to trade, had burst Adam Smith's book, *The Wealth of Nations*, published in 1776. This treatise proved epochal, changing profoundly the course of human thought on matters economic. William Pitt had been a student of this volume, and as the youthful Prime Minister of England already by 1791 had instituted measures which tended to make England's commercial policy conform more closely with the laissez-

¹ *American State Papers, Foreign Relations*, vol. I, pp. 300-304.

faire precepts laid down by Smith. Curiously enough, Hamilton, the first protectionist, was also a student of *The Wealth of Nations*. Numerous paraphrases of passages in that book may be pointed out in the Report on Manufactures; and at one place, where Hamilton is speaking of the benefits to be derived from improved means of transportation, there is a sizeable literal quotation from that source.¹ But beyond the more or less direct dependence of Hamilton upon "the father of modern political economy", the more general influence of Smith is important to note. Indeed, the whole cast of Hamilton's argument seems to have been affected by the study which he had made of *The Wealth of Nations*—as will appear to some degree in the analysis of the Report hereunder subjoined.

A secondary element in Hamilton's intellectual background was the haze of Physiocratic doctrine which, despite attempts to dispel it, still influenced the economic thought of his time. The Physiocrats were a school of writers in eighteenth-century France, among whom Quesnay and Turgot, finance minister, of Louis XV, were most prominent. The distinctive feature of their views was the emphasis upon the productivity of land. They believed that agriculture had a peculiar productivity, upon which, indeed, all other elements in the population depended. No one was really productive except the farmer. These views, to be sure, were known to Smith, were considered by him in his book, and rejected. But, as just suggested, the ideas of the Physiocrats were still current; and, since they were so diametrically opposed to the policy which Hamilton had set himself to advocate, he felt it necessary to give them some special consideration—a consideration which forms an essential section of the famous Report.

Then, finally, one must realize in a consideration of Hamilton's position that he was working almost without precedent in the field of protectionist theory. He was breaking a new path, except in so far as he could draw upon the fund of Mercantilist doctrine which still retained its hold over the commoner minds of the period. The only inspiration which could have carried much weight with him was that which came to him from the existing, popular clamour for domestic manufactures. This desire for domestic production of manufactured goods arose

¹ See pp. 298, below.

first in the conflicts with the mother country that preceded the Revolutionary War, and was heightened by the popular movements of the Revolutionary period itself. It persisted as part of the country's heritage from the War, and has since that time never wholly lost its hold upon some sections of the American people. Moreover, this agitation had by 1791 brought forth some fruit. It had led to the enactment of tariffs of a distinctly protectionist flavor—low, of course, but surely not for revenue only—both in certain states during the period of the Confederation and in the federal Act of 1790. These manifestations of public interest in manufactures, however, were not productive of theory. The earlier ones had no conscious basis other than a fond desire somehow to hit at England through her merchants, and the later emphasized only the desirability of national self-sufficiency (as far as practicable), because of possible military needs and because of the inconveniences suffered during the recent dislocations of normal commercial relations with Europe. Expediency, not rational policy, guided the advocates of protective measures in those days. The formulation of a broad, theoretical basis awaited the genius of Hamilton.

With this hasty glance over the conditions under which the Report of Manufactures was drafted, we may turn to the document itself. At the outset I would suggest that I have not attempted here a meticulous examination of the ideas therein expressed, nor any substantial criticism of those which in the light of subsequent advances in economic theory today seem erroneous. I wish merely to indicate the principal sections into which the Report may be divided, the questions raised and answered by Hamilton, and the features thereof which today seem strange or unusual. The interrogations which I have set myself are: Just what does the Report contain, and in how far are its contents a reflection of the time at which it was written?

The initial problem which Hamilton sets himself to answer is whether or not, as a general proposition, manufactures should be encouraged. Here he is immediately concerned with the Physiocratic contention that agriculture alone is productive; and, even if this extreme position be relinquished, he must

deal with the dictum—perhaps more plausible and so more dangerous—that agriculture is “the most beneficial and productive object of human industry”. Of such views Hamilton cannot permit a single pretention to remain, or his later advocacy of manufacturing industry might as well at once be dismissed. And he proceeds first to a thoroughgoing demolition of the Physiocratic position, at least in so far as he can by his own ingenuity and that of his predecessor, Adam Smith,—from whose *Wealth of Nations* he here presents a long paraphrase. This portion of the Report, however, is of little present-day significance. Not only would we nowadays attack the Physiocratic position with somewhat different weapons, but the views of Quesnay and his followers no longer have currency in our thought, and an elucidation of their error would here have little more than academic interest.

In refutation of the second point, the alleged superiority in productivity of land, Hamilton has to advance independently beyond Smith, who had admitted a special effectiveness of labor engaged in agriculture. Smith had suggested that “in agriculture nature labours along with man; and though her labour costs no expence, its produce has its value as well as that of the most expensive workman”.¹ But, says Hamilton, the labor of man alone, if it be applied with “great skill and art”, may be more productive than the combined work of nature and man, if their operations be directed towards “more simple” objects,—although, to be sure, he fails to show what “more productive” in this case really means. And besides, adds Hamilton, nature does in fact work with man in manufacturing industries, since there “the application of the mechanical powers” involves the aid of nature. Hamilton then goes on to observe that labor in agriculture lacks some evidences of productiveness, which on the other hand labor in manufactures does possess. In the former case, work is “periodical and occasional, depending on the seasons”, and, because of the fertility of the land, is not infrequently careless; whereas in manufactures labor is “more constant, more uniform, and more ingenious”. And, lastly, Hamilton seeks to draw the props from under the argument advanced by other writers that land must be more productive since it alone yields a rent or “neat

¹ *Wealth of Nations*, Bk. II, chap. 5.

surplus". His contentions here are unacceptable to most modern economists, especially when he asserts that "land is itself a stock or capital"; but, then, one should not forget that Hamilton was writing when economic science was very young, nor ignore the fact that after all Hamilton's argument is equally persuasive with that which he was trying to combat.

More valuable for modern consideration are certain observations which Hamilton makes when he turns to the positive side,—a demonstration of the real productivity of manufactures. These observations are worthy of special note, not only because of their continuing, present-day influence, but because of their importance in Hamilton's general position. Frequently they are returned to in his Report in support of some special or collateral argument, and they form an essential portion of his whole thesis. Moreover, they constitute for the most part original contributions by Hamilton. They may be stated as follows:

1. Manufactures promote a greater division of labor than agriculture, and "there is scarcely anything of greater moment in the economy of a nation than the proper division of labor". Thereby "an increase of productive industry is assured".¹

2. Manufactures lead to an extension in the use of machinery, and in this way "an artificial force" is in production brought to the aid of "the natural force of man".

3. They add to the productivity of the country by giving employment to "classes of the community not originally engaged in the particular business".

4. They encourage the immigration of foreign workmen.

5. They furnish "greater scope for the diversity of talents and dispositions which discriminate men from each other". And this proposition, it may be added, grew into a distinct and notable argument for protection, commonly spoken of in Hamilton's own phrase as the "diversity of talents" argument.

6. Manufactures afford "a more ample and various field for enterprise"; and "to cherish and stimulate the activity of the human mind by multiplying the objects of enterprise is not

¹ This first contention is decidedly not original with Hamilton, but was drawn directly from Smith's *Wealth of Nations*. Indeed, Hamilton relies so largely upon Smith that, in his more detailed exposition of the advantages in the division of labor, he follows almost exactly the analysis previously made by Smith: "the greater skill and dexterity" which would naturally result, "the economy of time," and the like.

among the least considerable of the expedients by which the wealth of a nation may be promoted”.

7. And, finally, the establishment of manufactures contributes to an “augmentation of the produce or revenue of the nation” through “creating, in some instances, a new, and securing in all a more certain and steady demand for the surplus produce of the soil” and here is the origin of another protective argument, the so-called “home market” plea, which in the hands of Henry C. Carey and others came to have exceptional influence in American thought.

But let us proceed with Hamilton’s further analysis. Having disposed to his own satisfaction of the general question of productiveness or unproductiveness in manufactures, he turns to the more immediate problem of whether or not manufactures should be encouraged in the United States. Here at once the influence of Adam Smith again becomes apparent. Hamilton appears to accept, at least provisionally, the line of reasoning presented by the former concerning the broad validity of a *laissez-faire* policy. “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”; and the persuasive factor in Hamilton’s mind is the system of hindrances already existent which confronted the nation in its export trade. In brief, expediency controls Hamilton’s decision, not theoretical soundness. Anticipating Cleveland by a hundred years, he contends that “a situation, not a theory”, confronts the nation.

Shortly after, however, Hamilton seems to change his emphasis. When he is directly confronted with the proposition of thoroughgoing *laissez-faire* that “industry, if left to itself, will naturally find its way to the most useful and profitable employment”, he makes a more positive reply. Now he finds that “the strong influence of habit”, “the fear of want of success in untried enterprises”, and similar forces may just as “naturally” prevent the development of manufactures, whatever be the suitability of the country for such an advance. This argument, too, it may be noted, is almost altogether original with Hamilton, and, receiving a publicity, especially in the United States, through the distribution of the Report of Manufactures,

it has since produced important results. Fully developed as the "young industries argument" for protection, it forms a particularly striking part of the protective views of List, Carey, and others; has been accepted by such professional economists as Mill and Taussig (although with reservations as to its applicability); and has figured prominently in the introduction of protective duties in many countries.

In the meanwhile—though seemingly out of place in the orderly development of his thought—Hamilton has considered and met, at least to his own satisfaction, the contention that by keeping population more concentrated in the East the introduction of manufactures would lead to a retardation of settlement of the country. His reply consists of two sections: in the first, he doubts the validity of such views, because of the attractive force which manufactures would have to foreign labor and because of the "home market" which manufactures would provide for agricultural products; and in the second, he asserts that even if the settlement of the empty western area were somewhat retarded, the advantages flowing from manufactures would outweigh the losses due to this delay.

Hamilton now turns to other possible objections which might be raised against the artificial stimulation of manufactures in the United States:—the prevailing scarcity of labor, the consequent dearness of that productive factor, and the scant supply of capital. He believes that these difficulties can be overcome by the development of unused capacities within the country itself or by the aid of labor and capital drawn from abroad. Interesting by reason of their contrast with most modern views, are his sentiments that persons ordinarily engaged in other occupations may be employed in manufactures "during the seasons or hours of leisure"; and that children as well as women may be more largely utilized in manufactures. Children, he added, could be rendered "more early useful" in manufacturing establishments "than they otherwise would be".¹

Likewise, Hamilton's treatment of capital is interesting, especially his attempt to show that government bonds "answer the purpose of capital". Some critics of Hamilton have accused him of identifying these paper evidences of debt with real capital, but this charge, it seems to me, cannot be sub-

¹ See p. 259, 269, below.

stantiated. He recognizes the difference between "an absolute increase of capital, or an accession of real wealth", and "an artificial increase of capital", i.e., government securities. He associates the latter with bank credit and "every species of private credit" as "an engine of business"; and finds therein, if indeed not "an augmentation of real wealth", at least a means whereby the real wealth of the community may be increased. From such distinctions and from the whole character of his discussion, it appears that Hamilton views government funds in somewhat the same light as we nowadays view money when we speak of it as a "store of value". The ready convertibility of the bonds give to their current possessors a means and a power of subscribing to the stock of new manufacturing enterprises, second only to the possession of actual cash. If they only would do so, government bondholders could dispose of their securities to the supposedly ever-present conservative investor, and transfer their "capital" to the new projects—just as a modern corporation with a surplus invested in government bonds or notes might sell them and buy an interest in some other corporation. In short, while no present-day economist would view the matter in just the light that Hamilton did, there is a certain plausibility to his argument, and we should be swift to overlook the portion of error contained in his propositions.

Hamilton, however, does not content himself with an argument from probabilities in his attempt to meet these particular objections to his policy of artificially stimulating manufactures. Having stated the case in theoretical terms, he turns to the very practical demonstration that his views are sound by appealing to the evidence of accomplished facts:—that manufactures of skins, iron, wood, etc., have already come into existence "with a rapidity which surprises, affording an encouraging assurance of success in future attempts". And this catalogue of past accomplishments, it may be noted, is drawn in large measure from the correspondence on existing manufactures which is published herewith.

Proceeding with his main argument, Hamilton finally considers that problem which was later to play such a large part in tariff controversies, and which is indeed of real importance today—the possible conflict of interests between classes of the "protected" community, which arises through the enhancement

of domestic prices over what would otherwise be paid for similar foreign goods. Although this is in reality but a practical aspect of the general problem of government interference, Hamilton is justified in considering the matter again with special reference to class interests. His disposition of the subject accords for the most part with that which he has already outlined in connection with his "young industries argument". Possibly prices will not be raised at all, he says; and the burden of the new duties will fall on the foreign producer, although here he appears to overlook how little actually this would benefit domestic manufactures. If prices are enhanced, he goes on to say, they will soon be driven down again, by force of internal competition, "to the minimum of a reasonable profit on the capital employed",—although here also his argument is inconclusive, since he fails to establish that the price finally attained will be as low as that at which the goods might be purchased from abroad. Despite such gaps in his reasoning, however, at least this may be said for Hamilton's treatment: that it goes fully as far as subsequent protectionists usually have gone in their consideration of the matter, and in fact concedes more to the enemy than most have been willing to do.

Therewith the Report on Manufactures concludes consideration of the general or specific objections to the encouragement of manufacturing industries. But Hamilton is not content to allow no more than purely negative virtues to his cherished policy, and he proceeds to enunciate certain positive advantages which should follow from its adoption. These are generally comprehended under the thesis that "the trade of a country which is both manufacturing and agricultural will be more lucrative and prosperous than that of a country which is merely agricultural"; and that "not only the wealth, but the independence and security of a country appear to be materially connected with the prosperity of manufactures".

There is no need to enter into a detailed examination of these views. The first depends largely upon the dubious points of the greater dependability of a "home market", and the advantages *per se* of diversified industry; although, to these factors, might well be added the further matter treated by Hamilton later as a consideration "of a more particular nature": that the burden of transportation charges falls largely upon

the country which exports agricultural products alone. (This burden of transportation, in Hamilton's view, comprises not only the charges upon the agricultural products exported, but also those upon manufactured articles imported.) Hamilton's analysis upon these points is very interesting historically, but unfortunately more fallacious in the light of modern ideas than much that had gone before. To support his views, he presents much that antedates *The Wealth of Nations*—much that is reminiscent of Mercantilism rather than of the teachings of Adam Smith. Apparently Hamilton has confidence in the value of a "favorable balance of trade" and holds to the belief that there is an intimate relationship between "pecuniary wealth or money" and actual prosperity of a country. Since these fallacies persist even to the present day in some localities, although their untruth has been exhibited repeatedly in sound economic writings, perhaps one should not judge too harshly the hesitant doubts of Hamilton in a world but recently shown the error of its ways. Much less may one condemn unsympathetically his analysis of the incidence of transportation charges, although in this case also subsequent development of the theory of international trade has given another answer to the problem there raised, i.e., the answer that, other things being equal, the burden will be divided between trading nations in accordance with their reciprocal demands for each other's products.

Even less need be said concerning the second general argument above noted. The notion that every nation with a view to independence and security "ought to endeavor to possess within itself all the essentials of national supply, . . . subsistence, habitation, clothing, and defense" has been approved in greater or less degree by nearly every protectionist writer, and has been admitted by economists as the most important non-economic argument in the protectionist's arsenal. This "nationalistic" or "military" argument, however, is emphasized less strongly by Hamilton than by many of his successors in the advocacy of protection, and it plays no essential part in his system. Possibly the position of relative importance in which he places this argument may be explained by the futility in his eyes of the hope of any appreciable self-dependence in the

United States for the years immediately ahead. Hamilton is too practical to expect the miraculous.

After brief consideration of the reasons why encouragements to manufactures might at once be extended and not delayed, Hamilton turns to the final topic that is of particular interest here—and, indeed, the topic which holds the final place in the general thesis of his Report—just preceding his examination of the special industries. He now feels that he has adequately defended his chosen policy and that there remains but a discussion of the means to be adopted to the furtherance thereof. Protecting duties, prohibitive duties, prohibitions on the export of raw materials, bounties, premiums, etc., are all scrutinized with care, and the advantages and disadvantages of each weighed in the balance. Oddly enough, especially in view of the frequency with which Hamilton's name has been called upon to justify a protective tariff, he finds protective duties less desirable than a system of "pecuniary bounties". The latter "specie of encouragement" is more positive in its action, avoids the inconvenience of a temporary enhancement of prices and the creation of a scarcity, and may be used frequently to reconcile the divergent interests of the raw-material producer and the manufacturer.

Taken all in all, the Report of Manufactures richly deserves the place that it has had in the politico-economic writings of this country. It is a complete document, presenting the bases on which encouragement to domestic manufactures were to be advocated at the time of its composition, meeting the various objections that might be raised against any such policy, prescribing the means that should be adopted for its introduction, and finally suggesting the particular industries to which it might most successfully be applied. Moreover, the Report is formulated with a judicious moderation, with a cogency of reasoning, and with a steadiness of purpose such as few subsequent papers on the same subject have possessed. One cannot peruse it without feeling the power of Hamilton's mind; and, when the lack of guiding lights for his novel excursion into this field of economic analysis is taken into account, one cannot fail to appreciate the brilliancy of his accomplishment. If testimony were needed of the latter, it can readily be found in the degree to which latter protagonists of the protectionist

policy—List, Carey, and even more modern writers—have dipped into the pages of the Report on Manufactures, and at times paraded their findings as something particularly new. Indeed, so pervasive has been the influence of this document, at least in this country, that no one should pretend to an acquaintance with our protectionist literature who has not read and studied the Report with the attention which it unquestionably deserves.