

# Want Economic Growth? Study Hamilton's Report on Manufactures

By Nancy Spannaus

Dec. 5, 2017—Today is the anniversary of the submission of First Treasury Secretary Alexander Hamilton's most conceptual report on the science of economics, his *Report on the Subject of Manufactures*. That report, submitted to Congress Dec. 5, 1791, provided an in-depth refutation of the "free market" ideas of Adam Smith, and a fulsome outline of how the United States could develop its land and its people into an industrial power, able to provide all the basic necessities for its population, and pursue a pathway of continuous prosperity.

If you want real economic growth, it's time to study this report.

These days this report is largely ignored. After all, the Congress never even took it to a vote. Not only that, but Hamilton's fledgling experiment in manufacturing, the Society for Useful Manufactures established in Patterson, New Jersey, was sabotaged and underwent a short-term scandal (although the project lived on to become a prosperous industrial center decades later). But such a dismissal of this report is a big mistake.



Passaic Falls, the site and power source for Hamilton's Society for Useful Manufactures (New York Historical Society)

The *Report on Manufactures*, with its rich exploration of what creates national wealth, its debunking of the arguments against industrialization, and its outline of concrete measures needed for the United States economy at that time, has had an enormous impact on the course of not only American, but world history. It was widely circulated in newspapers and Mathew Carey's American Museum in the United States, and spread internationally—ultimately serving to inspire future generations of nation-builders who took up Hamilton's arguments against the British imperial imposition of “free trade” (i.e., you sell us your raw materials, we manufacture, you buy what we've produced) all around the world.) As *Executive Intelligence Review* documented on the Report's 200th anniversary in 1992, the industrial development of Germany, Russia, Japan, and leading countries of South America owes a major debt to the ideas of Hamilton, which were picked up by their leading statesmen.

The particulars of the U.S. economic situation have changed dramatically over recent decades, as have those in other countries. Yet, Hamilton's arguments against the anti-industrial currents of his day are not only relevant, but urgently needed today. The ideas of industrial progress which

built the United States into a global industrial power are mortally threatened by both the financialization of the global economy, and outright opposition to economic development. Hamilton's principles were indispensable to Presidents Abraham Lincoln and Franklin D. Roosevelt, in particular, in periods of existential crisis for our country. The only way we can get out of the current national emergency—of which the opioid plague and lowered life expectancy are the most dramatic examples—is by applying them again.

In this short article, I will deal with two major scientific premises which Hamilton relies on throughout his Report: 1) the responsibility of government to use its powers to develop the economy, and 2) the source of productivity in an economy. Clearly, neither of these principles functions without the other. Nor can I, on this occasion, deal with all the intricacies of Hamilton's arguments. But I believe these two core arguments go to the heart of the American System principles which must be restored.

### **Principle I: Government Has Responsibility for the Economy**

One of the major arguments Hamilton takes on is that of Adam Smith's "invisible hand"—the assertion that capital will "naturally" flow into manufactures when the time is right, and government should do nothing to interfere. "To leave industry to itself, therefore, is, in almost every case, the soundest as well as the simplest policy," he quotes Adam Smith. This idea may sound plausible, Hamilton says, but it's based on totally false assumptions about the importance of manufacturing for the health of the entire economy and the real basis for achieving prosperity.



Alexander Hamilton,  
in a painting  
commissioned by New  
York merchants in  
1792. (New York  
Historical Society)

Indeed, as he concludes by the end of the piece, the Federal government has a responsibility to attend to the “general welfare,” in the broadest terms possible, by promoting the manufacturing interest—which, in turn, will advance the productivity of agriculture as well. He writes:

*Not only the wealth; but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavor to possess within itself all the essentials of national supply. These comprise the means of Subsistence habitation clothing and defence.*

*The possession of these 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.*

Government action can take many forms, from tariffs, to bounties, to provision of the necessary infrastructure (especially transportation) to cheapen and facilitate industrial efficiency and progress. Hamilton takes on the objections that the government action will raise prices too much, or advantage one section of the country (the North) at the expense of the other, or fail because of lack of capital.

Supporting domestic production may initially result in higher prices, he says, but ultimately, through creating conditions for technological advance, the prices will be cheaper than those of cheap imports. And in fact, cheap imports overall impoverish the country, by making it dependent upon getting the foreign exchange to purchase necessities abroad, and bankrupting local industry. Has the United States not seen that in spades?



Improving transportation is one of government's responsibilities, according to Hamilton. Here, the C&O Canal, built in the 1820s and 30s with government support. (National Park Service)

As to government fostering of manufacturing only benefitting the Northern, more industrialized states of the Union, this is

a fallacy, since building up manufactures increases demand for agricultural products from the South, and contributes to the welfare of the whole nation. "It is a truth as important as it is agreeable, and one to which it is not easy to imagine exceptions, that every thing tending to establish substantial and permanent order, in the affairs of a Country, to increase the total mass of industry and opulence, is ultimately beneficial to every part of it."

(Obviously, Hamilton's understanding of economy is based on people being organized into nation states, in which populations with common histories and language cultures cooperate to contribute to their common welfare—as opposed to a society being conceived as a collection of individuals or families, each fighting the other for survival. The latter is appropriate to the Hobbesian conception of a society based on "each against all," where only a strongman or Leviathan can maintain order.)

As to the lack of capital, Hamilton refers to his Bank of the United States, through which he has transformed instruments of the Federal government's debt into capital for the use of industry, commerce, and agriculture—the mission of the Bank. Such a bank, which would turn the U.S.'s massive debt obligations into credit, has been [proposed](#), and is urgent, today. (Hamilton also expected to attract foreign capital for investments in industry.)

The specific means by which Hamilton proposed to encourage manufactures also included "the encouragement of new inventions and discoveries" and the introduction of such from elsewhere, such as machinery: "the facilitation of the transportation of commodities;" and constituting "a fund for the operations of a Board, to be established, for promoting Arts, Agriculture, manufactures, and commerce." These are precisely the kinds of measures which have been slashed since the end of Kennedy's Apollo program, which provided the last major scientific and technological boost of productivity into

the American economic. Such a slashing, about to become even deeper under the current administration, is to the clear detriment of the American economy as a whole.

**Principle II: Prosperity depends upon increasing the productive powers of labor**

The second major principle which pervades Hamilton's presentation deals with the role of manufacturing in increasing the overall productivity of an economy as a whole. Here he was taking on the physiocratic notion adopted by Thomas Jefferson, as an apologist for an agriculture-based economy, that only the cultivation of the land produces real wealth. This is not true, Hamilton argues; the combination of manufactures with agriculture leads to the greater prosperity of the whole. It enhances the productivity of agriculture (cf. labor-saving machinery), and leads to greater wealth in society as a whole. Hamilton argues that he has established

*...as general propositions, That it is in the interest of nations to diversify the industrious pursuits of the individuals who compose them—That the establishment of manufactures is calculated not only to increase the general stock of useful and productive labour; but even to improve the state of Agriculture in particular; certainly to advance the interests of those who are engaged in it.*

Hamilton outlines seven major circumstances by which manufacturing

*not only occasions 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 Labour.*
- 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.*

Of critical importance are numbers two and six.



The development and use of advanced machinery increases the productivity of labor.

The increase of the use of Machinery means that man is improving the power, and productivity of his labor. It is bringing to bear “an artificial force... in aid of the natural force of man; and, to all the purposes of labour, ... [creating] an increase of hands; an accession of strength, *unencumbered too by the expense of maintaining the laborer.*’ (emphasis in the original) This is an economic argument for an increase in capital intensity as key to an increase in productivity of the economy as a whole—a crucial scientific principle previously established by German scientist Gottfried Wilhelm Leibniz and others.

In number six, Hamilton addresses the subjective side of this question, utilizing the creative mental faculties of the



population. He writes:

*To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of 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 productions, which are to be found in a Society. It must be less in a nation of cultivators and merchants, than in a nation of cultivators, artificers and merchants.*

## **Time for Action**

The neglect of Hamilton's principles and promotion of an advanced industrial economy during major parts of American history has been responsible for a large portion of the nation's ills. Arguably, the Civil War itself—and the aftermath we still suffer today—could have been averted if Hamilton's perspective on industrialization had been carried through.

The stakes are even higher today. The United States faces a massive debt buildup (pure speculation), a dangerous degradation of the physical infrastructure and industry of the nation, and a growing section of the population which is demoralized and desperate. All portend a catastrophic breakdown, even if we should avoid an international cataclysm. The leadership of both political parties, and the Trump Administration itself, are either explicitly, or implicitly, anti-Hamiltonian in their economic policies, and thus driving us toward oblivion.

The solution lies in returning to what might be called "first

principles.” Those leaders ready to fight to return to the American System will find Hamilton’s *Report on Manufactures* a major weapon in their arsenal.