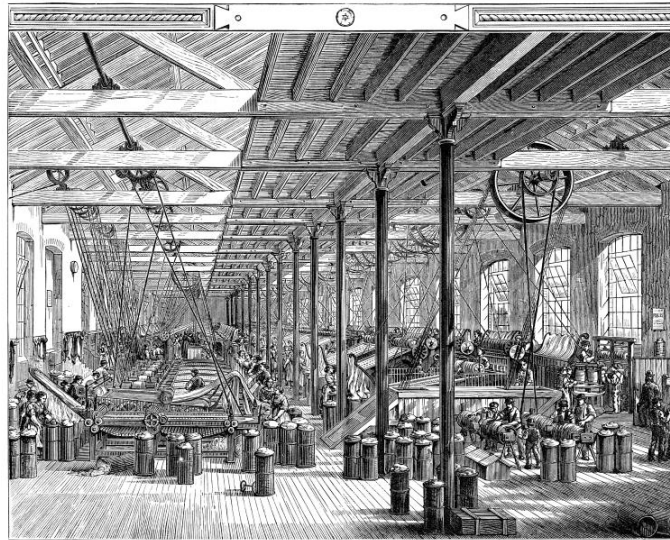


Ch. 5 - Alexander Hamilton - Notes on Manufacturing



THE SPINNING-ROOM IN SHADWELL HOPE WORKS.

The document “Notes on Manufacturing” written by Alexander Hamilton described the importance of manufacturing in the United States. He believed industry was an important component towards the economic prosperity and development of America. Hamilton described a strong domestic manufacturing base resulting in cheaper American products rather than relying on imported goods created from abroad, which would result in higher prices. He believed the ability for a nation to produce its own materials was vital to the security of a nation. America in its 200 plus year history has produced more wealth than any other civilization in history through the ability to manufacture its own goods. The founders through their studies of prior economic systems were able to put together documents and reports, which included favorable tax systems towards businesses, commerce, and domestic manufacturing. This document articulates the necessity for the encouragement of manufactures in the United States.

“Notes on Manufactures

Alexander Hamilton, 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.

The expediency of encouraging manufactures in the United States, which was not long since deemed very questionable, appears at this time to be pretty generally admitted.

There still are, nevertheless, respectable patrons of opinions unfriendly to the encouragement of manufactures. It has been maintained, that agriculture is not only the most productive, but the only productive species of industry. The reality of this suggestion, in either respect, has, however, not been verified by any accurate detail of facts and calculations; and the general arguments which are adduced to prove it, are rather subtle and paradoxical, than solid or convincing.

The objections to the pursuit of manufactures in the United States, which next present themselves to discussion, represent an impracticability of success, arising from three causes: scarcity of hands, dearness of labor, want of capital.

With regard to scarcity of hands, the fact itself must be applied with no small qualification to certain parts of the United States. There are large districts which may be considered as pretty fully peopled; and which, notwithstanding a continual drain for distant settlements, are thickly interspersed with flourishing and increasing towns.

As to the dearness of labor (another of the obstacles alleged), this has relation principally to two circumstances: one, that which has just been discussed, or the scarcity of hands; the other, the greatness of profits. It is also evident, that the effect of the degree of disparity, which does truly exist, is diminished in proportion to the use which can be made of machinery.

The supposed want of capital for the prosecution of manufactures in the United States, is the most indefinite of the objections.

The introduction of banks, as has been shown on another occasion, has a powerful tendency to extend the active capital of a country. Experience of the utility of these institutions, is multiplying them in the United States. It is probable that they will be established wherever they can exist with advantage; and wherever they can be supported, if administered with prudence, they will add new energies to all pecuniary operations.

It is a well known fact that there are parts of Europe which have more capital than profitable domestic objects of employment. Hence, among other proofs, the large loans continually furnished to foreign States. And it is equally certain, that the capital of other parts may find more profitable employment in the United States than at home.

It is not impossible, that there may be persons disposed to look, with a jealous eye, on the introduction of foreign capital, as if it were an instrument to deprive our own citizens of the profits of our own industry; but, perhaps, there never could be a more unreasonable jealousy. Instead of being viewed as a rival, it ought to be considered as a most valuable auxiliary, conducing to put in motion a greater quantity of productive labor, and a greater portion of useful enterprise, than could exist without it. It is at least evident, that, in a country situated like the United States, with an infinite fund of resources yet to be unfolded, every farthing of foreign capital which is laid out in internal meliorations, and in industrious establishments, of a permanent nature, is a precious acquisition.

But, while there are circumstances sufficiently strong to authorize a considerable degree of reliance on the aid of foreign capital, towards the attainment of the object in view, it is satisfactory to have good grounds of assurance, that there are domestic resources, of themselves adequate to it. It happens that there is a species of capital, actually existing in the United States, which relieves from all inquietude, on the score of want of capital. This is the funded debt. Public funds answer the purpose of capital, from the estimation in which they are usually held by moneyed men; and, consequently, from the ease and dispatch with which they can be turned into money. This operation of public funds as capital, is too obvious to be denied; but it is objected to the idea of their operating as an augmentation of the capital of the community,

that they serve to occasion the destruction of some other capital, to an equal amount.

But, though a funded debt is not, in the first instance, an absolute increase of capital, or an augmentation of real wealth; yet, by serving as a new power in the operations of industry, it has, within certain bounds, a tendency to increase the real wealth of a community, in like manner, as money, borrowed by a thrifty farmer, to be laid out in the improvement of his farm, may, in the end, add to his stock of real riches.

There remains to be noticed an objection to the encouragement of manufactures, of a nature different from those which question the probability of success. This is derived from its supposed tendency to give a monopoly of advantages to particular classes, at the expense of the rest of the community, who, it is affirmed, would be able to procure the requisite supplies of manufactured articles on better terms from foreigners than from our own citizens; and who, it is alleged, are reduced to the necessity of paying an enhanced price for whatever they want, by every measure which obstructs the free competition of foreign commodities.

But, though it were true that the immediate and certain effect of regulations controlling the competition of foreign with domestic fabrics, was an increase of price, it is universally true that the contrary is the ultimate effect with every successful manufacture. When a domestic manufacture has attained to perfection, has engaged in the prosecution of it a competent number of persons, it invariably becomes cheaper. Being free from the heavy charges which attend the importation of foreign commodities, it can be afforded, and accordingly seldom ever fails to be sold, cheaper, in process of time, than was the foreign article for which it is a substitute. The internal competition which takes place, soon does away every thing like monopoly, and by degrees reduces the price of the article to the minimum of a reasonable profit on the capital employed. This accords with the reason of the thing, and with experience.

There seems to be a moral certainty 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....There is always a higher probability of a favorable balance of trade, in regard to countries in which

manufactures, founded on the basis of a thriving agriculture, flourish, than in regard to those which are confined wholly, or almost wholly, to agriculture.

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 a national supply. These comprise the means of subsistence, habitation, clothing, and defense.”