

# Alexander Hamilton and the Encouragement of Manufactures: An Interpretation of the Hamiltonian System<sup>1</sup>

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## PREFACE

WITH THE conclusion of the Anglo-American peace treaty in September 1783, the United States won recognition of its independence from Britain. The former thirteen colonies now joined the family of nations as an independent state. But the control machinery of the new nation was weak under the Articles of Confederation. This weakness handicapped independent America in coping with the internal and external problems confronting it. Since European powers were competing fiercely for global political and economic hegemony, it was by no means easy for the new nation to maintain the independence which it had won at great pains. Besides, the United States faced serious problems at home. Under these circumstances, the weakness of Congress threatened to jeopardize not only the political unity of the nation, but also its very independence.

Hoping to overcome such a crisis, the conservatives among the patriots reached the conclusion that it was necessary, among other things, to reconstruct the weak Confederation government into a more powerful central government which would bring about “a more perfect union.”

<sup>1</sup> This article is the revised version of the following article by the author: “Hamiruton hogo shugi no rekishi-teki seikaku” [The Historical Character of Hamilton’s Protectionism], in *Amerika shihonshugi no seiritsu to tenkai* [The Establishment and Development of American Capitalism], eds., Shigeto Tsuru, Sozo Honda, and Keiji Miyano (Tokyo, Iwanami Shoten, 1974), pp. 68–88. In revising this article, he incorporated into it his views expressed in “Hamiruton keizai seisaku no shi-teki bunseki—kōgyō seisaku o chushin to shite” [An Historical Analysis of Hamilton’s Economic Policy—A Study Focusing on His Industrial Policy], *Shakai keizai shigaku*, Vol. 44, no. 1 (May 1978), pp. 25–49.

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Thus, they started a drive for a drastic reform in 1786, and succeeded, after many twists and turns, in putting the Constitution of the United States into effect in 1788. The newly strengthened federal government was inaugurated in the following year under the leadership of President George Washington. Thus, a strong, unified nation-state came into existence in the form of a federal republic. It was a group of former conservative patriots, now called the Federalists, who were instrumental in creating a more perfect union.

Bringing forth a powerful federal government, however, the Federalists were only halfway through with their grand enterprise of nation building. The people's support of the new federal government was not solid then and the financial base of the government was fragile. It was imperative for the federal government to introduce some kind of system that would function as "a cement of union" in order to establish itself on a solid national basis. It was equally necessary for the federal government to secure the "power of the purse." The federal government could perform a substantial role suitable to a national government only when it had succeeded in solving those critical problems. The attainment of such goals was the most important task assigned to the Federalist administration. And it was Alexander Hamilton, the first Treasury Secretary, who was charged with the task of formulating policies for attaining such goals.

Upon taking office at the Treasury as its chief on September 11, 1789, Hamilton began formulating policies in response to an order from the House of Representatives. First, he proposed that all the existing unfunded wartime debts of Confederation, which amounted to approximately 70 million dollars, be funded in exchange for new federal government securities at the face value. Congress legislated his proposal. Thus, Hamilton was able to restore public credit on a sound basis at once. Following this accomplishment, he succeeded in a short period in carrying out such policies as levying duties on distilled spirits, erecting a national bank, and creating coinage, all of which were necessary to restore public credit. Furthermore, on December 5, 1791, Hamilton submitted to Congress his famous *Report on the Subject of Manufactures* in which he proposed the policy to encourage the growth of manufactures. He considered that the United States, the then late-developing nation, must adopt such a policy if it wanted to achieve its economic independence. By submitting this report to Congress, he sought to advance further his grand design of economic nation-building. Although he failed in getting his proposals approved by Congress, the presentation of this report

brought him later the reputation of having been a great advocate of protectionism.

Hamilton's economic policy as a whole came to be termed the "Hamiltonian System." It was often called "Hamilton's protectionism" by those who emphasized its protectionist features. This study will attempt to elucidate the historical characteristics of Hamilton's protectionism, which has frequently been equated with his economic policy itself. More specifically, it will attempt to clarify the meaning of the protectionist features in Hamilton's over-all economic policy-system (which this author calls the Hamiltonian System) the essence of which, in this writer's view, lay in the establishment of public credit. Before going on to elucidate this interpretation, he will briefly survey the historiography of Japanese studies on Alexander Hamilton in order to clarify the background of this article.

## I

## THE STATE OF JAPANESE STUDIES ON ALEXANDER HAMILTON

To date, the topic of Hamilton's protectionism has attracted the interest of many Japanese scholars. For them, the subject has been important, because the evaluation would define their understanding of the developmental stage and the structure of American capitalism in the Early National Period.<sup>2</sup> Two articles, which appeared simultaneously in *Shakai keizai shigaku* in 1944, set the stage of Hamiltonian studies in Japan.<sup>3</sup> One is the article written by Keisuke Suzuki,<sup>4</sup> and the other, by Nobuo

<sup>2</sup> Curtis P. Nettels, *The Emergence of a National Economy, 1775-1815* (New York, 1962) pp. 45-129. The present writer is not in complete agreement with Nettels's understanding of Hamilton's economic policy. John C. Miller, *The Federalist Era, 1789-1801* (New York, 1960) pp. 1-69; Miller, *Alexander Hamilton, Portrait in Paradox* (New York, 1959), pp. 83-210.

<sup>3</sup> Keisuke Suzuki, "Waga kuni ni okeru Amerika keizaishi no hatten" [The Development of Japanese studies of American Economic History], *Gaigo bunka* (Tokyo University of Foreign Studies), No. 2 (1957), pp. 9-12. Perhaps the first Japanese work on Hamilton, though it was not written by a professional scholar, may be Umekichi Yoneyama, "Beikoku dokuritsu tōji no seijika: Arekisanda Hamiruton" [Statesman at the Time of American Independence: Alexander Hamilton] in his *Kan-un roku* [A Diary of a Cloudwatcher], (Tokyo, 1938), pp. 39-97.

<sup>4</sup> Keisuke Suzuki, "Amerika gasshūkoku shoki no keizai seisaku—Areguzanda Hamiruton no gyōseki o chūshin to shite" [The Economic Policy in the Early National Period—A Study Focusing on the Achievements of Alexander Hamilton], *Shakai keizai shigaku*, Vol. 14, no. 1 (1944). This article is reprinted in his books, *Amerika keizai-shi*

Yamakawa.<sup>5</sup> Examining closely Hamilton's political career, Yamakawa argued that Hamilton's thought and policy represented the economic interests of a mercantile-and-manufacturing class, which was politically powerful in spite of its smallness in number. He called attention to the necessity of studying the mercantile-and-manufacturing class in detail. In other words, he proposed to investigate whether that class was made up mainly of merchant capitalists or industrial capitalists and how those two kinds of capitalists were connected and/or in conflict with each other. Thus, Yamakawa's essay touched the heart of Hamiltonian studies.<sup>6</sup>

Suzuki carried Hamiltonian studies further both theoretically and empirically. In his analysis of Hamilton's economic policy, he insisted that Hamilton's protectionist policy was designed to promote the growth of industrial capital in an underdeveloped America. His "industrial capital" interpretation might be termed a classic interpretation in the historiography of Hamiltonian studies in Japan.<sup>7</sup> Well acquainted with the historical debate over the nature of Japanese capitalism,<sup>8</sup> Suzuki analyzed the historical characteristics of Hamilton's economic policy by employing a comparative approach advocated by Hisao Otsuka.<sup>9</sup> Suzuki's study was the first attempt in this country to elucidate the structural characteristics of American capitalism.<sup>10</sup> In this sense, it towers as a pioneering work in the annals of Japanese studies on Hamilton's protectionism. Following the line of Suzuki's interpretation, Katsumi Nakamura analyzed "Hamilton's protectionist" policy, by focusing on his *Report on Manufactures*.<sup>11</sup> Like Suzuki, he argued that Hamilton's

*kenkyū josetsu* [An Introduction to the Study of American Economic History], (Tokyo. Nihon Hyoronsha, 1949) and *Amerika keizai-shi no kihon mondai* [Fundamental Problems of American Economic History], (Tokyo. Iwanami Shoten, 1980).

<sup>5</sup> Nobuo Yamakawa, "Zaimu chokan Hamiruton to Washinton naikaku" [Treasury Secretary Alexander Hamilton and the Washington Administration], *Shakai keizai shigaku*, Vol. 14, no. 1 (1944), pp. 20–41.

<sup>6</sup> *Ibid.*, pp. 40–41.

<sup>7</sup> Suzuki, *Amerika keizai-shi no kihon mondai*, pp. 20–41.

<sup>8</sup> Kenzo Mori, "Fasshizumu ka ni okeru Nihon shihonshugi ronsō" [The Controversy on Japanese Capitalism Conducted under the Japanese 'Fascist' Regime] in Vol. 2 of *Kindai Nihon keizai shisōshi* [A History of the Economic Thought of Modern Japan], eds. Yukio Cho and Kazuhiko Sumiya (Tokyo, Yuhikaku, 1971).

<sup>9</sup> Hisao Otsuka, *Ōshū keizai-shi josetsu* [An Introduction to European Economic History], (Tokyo, Jichosha, 1938).

<sup>10</sup> Keisuke Suzuki *et al.*, "Zadankai—Amerika keizai-shi kenkyū no kaiko to tembō" [A Round-Table Discussion: Studies in American Economic History—Retrospect and Prospect], *Shakai kagaku kenkyū* (Institute of Social Sciences, University of Tokyo), Vol. 24, no. 2, (1973), pp. 153–55.

<sup>11</sup> Katsumi Nakamura, "Hamiruton to Amerika kōgyō—'seizō kōgyō hokoku sho'

policy intended to promote the growth of industrial capital in America. He also pointed out that Hamilton presented in the report an argument that could be placed as a forerunner of the “theory of national productive forces”—the theory to be advanced by the well known German theorist, Friedrich List,<sup>12</sup> in later years.<sup>13</sup> In addition to Nakamura, Keiji Ohara<sup>14</sup> and Yoshikazu Kubo<sup>15</sup> offered interpretations which likewise emphasized Hamilton’s role as the promoter of industrial capitalism.

The contributions made by those scholars of the “industrial capital” interpretation may be summarized as follows: First, they upgraded the studies of Hamilton’s *Report on Manufactures*. Second, they studied the local market area<sup>16</sup> (which has recently been called the area of proto-industrialization).<sup>17</sup> They pointed out that the local market areas which developed in New England towns functioned as a fundamental basis of Hamilton’s economic policy. Despite their marked achievements, however, these scholars left important problems unsolved. Empirical studies of industrial capital in the Early National Period remained to be done. Besides, there is the question of how “industrial capital” was related to “merchant capital,” which was known to have supplied a powerful social base of Hamilton’s economic policy.

In opposition to the scholars who support the “industrial capital” interpretation, there is another group of historians who argue that Hamilton’s economic policy aimed to promote the interests of merchant

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o chūshin to shite” [Hamilton and American Manufacturing—A Study Focusing on the *Report on Manufactures*], *Shakai keizai shigaku*, Vol. 17, no. 4 (1952), pp. 1–19. The revised version of this article can be found in his *Amerika shihonshugi-ron* [A Treatise on American Capitalism], (Tokyo, Miraisha, 1971).

<sup>12</sup> Friedrich List, *Das Nationale System der Politischen Ökonomie* (Stuttgart und Tübingen, 1841). Friedrich List, *Keizaigaku no kokumin-teki taikai*, trans. Noboru Kobayashi (Tokyo, Iwanami Shoten, 1970).

<sup>13</sup> Nakamura, *Amerika shihonshugi-ron*, p. 116.

<sup>14</sup> Keiji Ohara, *Amerika keizai shisō no chōryū* [Currents in American Economic Thought], (Tokyo, Keiso Shobo, 1951).

<sup>15</sup> Yoshikazu Kubo, *Amerika keizaigaku shi kenkyū* [A Study of the History of American Economics], (Tokyo, Yuhikaku, 1961).

<sup>16</sup> Hisao Otsuka, “The Market Structure of Rural Industry in the Early Stages of Development of Modern Capitalism,” *Second International Conference of Economic History in Aix-en-Provence: 1962*, Vol. 2, (Paris, 1964); Keiji Miyano, “Kyokuchi-teki shijō ken no keisei—Amerika shokuminchi no baai” [The Formation of the Local Market Area—A Case Study of an American Colony] in Vol. 2 of *Seiyō keizai-shi kōza* [European Economic History], ed. Hisao Otsuka, *et al.* (Tokyo, Iwanami Shoten, 1960).

<sup>17</sup> F. F. Mendels, “Proto-Industrialization: The First Phase of the Industrialization Process,” *Journal of Economic History*, Vol. 32 (1972), pp. 241–61.

capitalists because they comprised the social and class base of the Secretary's policy. Such a view may generally be called the "merchant capital" interpretation, although there are some differences in nuances among the arguments of these scholars.<sup>18</sup> Nobumitsu Yamada,<sup>19</sup> Nobumichi Hiraide,<sup>20</sup> and Kinichiro Toba<sup>21</sup> are included among these historians. It is noteworthy that among them, Yamada, in particular, made fundamental criticism of Suzuki's "industrial capital" interpretation by marshalling empirical data. He remarked that there was a gap between theory and practice in Hamilton's economic policy. According to Yamada, the Treasury Secretary's protectionist policy sought, in theory, to encourage the growth of industrial capital by protecting the domestic market, but in practice, Hamilton's economic policy, as a whole, ended up with promoting the interests of merchants. Yamada's critical comments were directed at the "industrial capital" interpretation, which held that Hamilton's economic policy served simply to promote the interests of industrial capitalists.<sup>22</sup> Other historians later accepted some part of Yamada's arguments and they debated the problem of "a gap between theory and practice" seen in Hamilton's protectionism.<sup>23</sup> In this debate, however, Toshio Kusui argued that there was a concurrence rather than a gap between theory and practice. It was his opinion that the apparent gap could be better understood if one takes the Hamiltonian system

<sup>18</sup> In his previous article on which the present article is based, the writer once classified historians of the "merchant capital" interpretation into two categories: the scholars of a "gap" interpretation and those of a "fosterage" interpretation. Despite such a difference, however, both groups take the same view that merchant capital was the class base of Hamilton's economic policy. Therefore, the author lumps them together in this article as the historians of the "merchant capital" interpretation.

<sup>19</sup> Nobumitsu Yamada, *Hamiruton ni okeru hogoshugi no seikaku* [The Character of Hamilton's Protectionism] (Tokyo, Nishida Seihansho, 1979). His work, edited by Mitsujiro Yamada, his brother, was posthumously published.

<sup>20</sup> Nobumichi Hiraide, *Tomi to minshū* [Wealth and People], (Tokyo, Nihon hyorosha, 1958); Hiraide, *Kindai shihonshugi seiritsu-shi-ron* [A Treatise on the Establishment of Modern Capitalism] (Tokyo, Nihon Hyoron Shinsha, 1958).

<sup>21</sup> Kinichiro Toba, *Kindai keizai-shi* [A Modern Economic History] (Tokyo, Nihon Hyoron Shinsha, 1958).

<sup>22</sup> Yamada, *op. cit.*, p. 66.

<sup>23</sup> Katsumi Nakamura, "Hamiruton hogoshugi no ichi kosatsu" [An Examination of Hamilton's Protectionism], *Tochiseido shigaku*, Vol. 49 (1965). This article can be found in the same author's *Amerika shihonshugi-ron*. Keiji Miyano, "Amerika niokeru shihon no hongen-teki chikuseki katei—iwayuru 'Hamiruton taisei'" [The Process of the Primitive Accumulation of Capital in America—the so-called 'Hamiltonian System'] in chapter 2, section 1 of *Amerika keizai-shi* [An American Economic History], ed., Keisuke Suzuki (Tokyo, University of Tokyo Press, 1972).

as a policy system that underdeveloped countries often adopt for realizing the primitive accumulation of capital from the above.<sup>24</sup>

The “merchant capital” interpretation has its merit in the fact that it shed a new light on the relationship between Hamilton’s economic policy and the mercantile interest which supplied the most important political base for it. While identifying a contradiction in the “industrial capital” interpretation—i.e., “a gap between theory and practice” in Hamilton’s economic policy—the merchant capital interpretation did not explain the important problems lying at the heart of Hamiltonian studies. Why were merchants willing to support Hamilton’s protectionism? Granted that the Hamiltonian System was a policy-system that an underdeveloped country normally adopts to industrialize itself, should it be argued that the Hamiltonian System itself failed because his policy of industrialization ended in failure? There may be several reasons why neither the industrial capital interpretation nor the merchant capital interpretation has been able to answer those fundamental questions. But it must be pointed out, first of all, that proponents of the industrial capital interpretation and those of the merchant capital interpretation alike have narrowly focused on Hamilton’s *Report on Manufactures* and his industrial policy in their studies on his economic policy-system (the Hamiltonian System). Needless to say, this writer is not suggesting that Hamilton’s industrial policy and his *Report on Manufactures* itself are unimportant historical subjects. What he is arguing is that historians have failed to address the problems such as whether or not those subjects occupy the center of the Hamiltonian System, or how the subjects should be placed in the context of Hamilton’s over-all policy-system if they do not oc-

<sup>24</sup> Toshiro Kusui, “Amerika keizai to sangyō kakumei” [American Economy and the Industrial Revolution] in *Kindai-ka no keizai-teki kiso* [An Economic Basis of Modernization], eds., Kohachiro Takahashi and Toshio Furushima (Tokyo, Iwanami Shoten, 1968); Kusui, “Kōyūchi seisaku” [A Policy of Public Land] and Kusui, “Shinyō seido no tenkai” [The Development of the Credit System] in Suzuki, *op. cit.*, chapter 2, sections 2 and 6. Shigeru Fujii, “Kōgyō hogo-ron no ichi gensoku—Arekisanda Hamiruton no sangyō-ka-ron” [A Principle of the Protection of Industry—Alexander Hamilton’s Idea of Industrialization], *Kokumin keizai zasshi*, Vol. 103, no. 4 (1961). This study analyzes Hamilton’s economic policy from the viewpoint of the post-World War II industrialization of underdeveloped countries.

<sup>25</sup> Keiji Tajima, “Hamiruton to kō-shinyō” [Hamilton and Public Credit], *Aoyama keizai ronshū*, vol. 26, combined no. 1–3 (1974), pp. 201–21. The author is indebted to D. F. Swanson for his remark on the importance of public credit for understanding Hamilton’s economic policy. Donald F. Swanson, *The Origins of Hamilton’s Fiscal Policies*, (University of Florida Monograph: Social Science, no. 17) (Gainesville, Fla., 1963).

copy the center of it. In other words, it appears that the central problem of the Hamiltonian System has escaped scholars' inquiries. To put it simply, the central problem in this author's opinion is the meaning of public credit in the Hamiltonian System.<sup>25</sup> This issue will be treated in detail in the following sections.

Scholars who specialize in the theory of money and banking have also produced works on Hamilton's policies of a national bank and coinage. Among those, the name of Sadao Katayama should be mentioned first. In his analysis of Hamilton's *Report on a National Bank*, Katayama discussed the Secretary's theory of banking comparing it with Adam Smith's theory of banking presented in *The Wealth of Nations*. He also compared the banking operation of the First Bank of the United States with that of the Bank of England. After identifying similarities and differences between them, he insisted that Hamilton's policy of the national bank was neither an imitation of Smith's idea nor a copy of the Bank of England. He went on to argue that the Treasury Secretary conceived his original idea in order to overcome the problems that the young Republic faced at its underdeveloped stage.<sup>26</sup> Moreover, in his analysis of Hamilton's *Report on the Establishment of a Mint*, Katayama contended that the Secretary grappled with the problem of the coinage policy as a pragmatic statesman rather than as an inflexible theorist, and that the coinage system which Hamilton adopted was the most appropriate one for an underdeveloped America.<sup>27</sup>

Secondly, Hisaya Takahashi and Shozo Tanida have produced studies that analyzed Hamilton's national bank policy from the perspective of Marxian economics. Takahashi argued that the First Bank of the United States was established as a part of the Hamiltonian System in order to create capitalistic relations from above. He also argued that the Bank helped accelerate the primitive accumulation of capital for the development of American capitalism, while contributing to the solidification of the fiscal basis of the federal government.<sup>28</sup> Tanida noted that there existed two types of banks in the history of the development of American

<sup>26</sup> Sadao Katayama, "Hamiruton no kinyūseido ron to daiichi gasshūkoku ginkō" [Hamilton's Idea of the Banking System and the First Bank of the United States] in chapter 4 of his *Doru no rekishi-teki kenkyū* [A Historical Study of the Dollar] (Kyoto, Mineruba Shobo, 1967).

<sup>27</sup> Katayama, "Hamiruton no kahei seido ron to doru" [Hamilton's Idea of the Coinage System and the Dollar] in chapter 2 of his *Doru no rekishiteki kenkyū*.

<sup>28</sup> Hisaya Takahashi, "Dai-ichi gasshūkoku ginkō no setsuritsu ni tsuite" [On the Establishment of the First Bank of the United States], *Kinyū Keizai*, no. 61 (1960).



banking since the colonial days: one was the specie bank and the other the land bank. He went on to say that the first Bank of the United States belonged to the former category and was forced to be abolished by the opposition consisted largely of small farmers demanding a liberal issue of paper money.<sup>29</sup>

Despite the contributions made by these scholars of the theory of money and banking, however, they were unable to introduce to the study of Hamilton's protectionism a new perspective focusing on his public credit policy. They certainly found economic historians not so helpful to them since the latter disagreed with one another. Besides, there was no intellectual dialogue between scholars of the two disciplines.<sup>30</sup>

Since the 1960s, a marked progress has been made in the studies of Hamilton's protectionism, because conditions for historical inquiries have improved greatly. By the publication of *The Papers of Alexander Hamilton* which began in 1961 and was completed in 1979 under the editorship of H. C. Syrett,<sup>31</sup> numerous primary source materials covering Hamilton's public and private life became available to scholars. Studies based on these sources have been published in Japan as well as in the United States.<sup>32</sup> The significance of the publication of Hamilton's Papers is incalculable.

<sup>29</sup> Shozo Tanida, "Amerika ni okeru kindai-teki ginkō-gyō hatten no keifu ni tsuite—Amerika chūō ginkō seiritsu zenshi" [On the Development of Modern Banking in America—The Earlier History of the Establishment of the American Central Bank], *Keiei kenkyū*, no. 33 (1958); Tanida, "Gasshūkoku ginkō to Amerika shinyō seido—Amerika chūō ginkō zenshi (2)" [The Bank of the United States and the American Credit System—The Earlier History of the American Central Bank (2)], *Kei-ei kenkyū*, no. 38 (1958).

<sup>30</sup> Toshiro Kusui, "Shinyō seido no tenkai," ed., Suzuki, *op. cit.*, pp. 330–31.

<sup>31</sup> Harold C. Syrett, ed., *The Papers of Alexander Hamilton* (26 vols., New York, 1961–79.)

<sup>32</sup> Jacob E. Cooke, "Tench Coxe, Alexander Hamilton, and the Encouragement of Manufactures," *The William and Mary Quarterly*, Third Series, vol. 32, no. 3, (1975), pp. 369–92; Cooke, *Alexander Hamilton* (New York, 1982); Forrest McDonald, *Alexander Hamilton, A Biography* (New York, 1979); John R. Nelson Jr., "Alexander Hamilton and American Manufacturing: A Reexamination," *The Journal of American History*, Vol. 65, no. 4 (1979), pp. 971–95; Bernard Mason, "Alexander Hamilton and the Report on Manufactures: A Suggestion," *Pennsylvania History*, Vol. 32, no. 3 (1965), pp. 288–94; Katsumi Nakamura, "Hamiruton hogo shugi no ichi-kōsatsu" *loc. cit.*; Keiji Tajima, "Hamiruton to kō-shinyō," *loc. cit.*; Tajima, "Hamiruton keizai seisaku no shi-teki bunseki—kōgyō seisaku o chūshin to shite," *loc. cit.*; Tajima, "Iwayuru the 'S.U.M.' ni kansuru ichi-kōsatsu" [An Examination of the So-called 'S.U.M.'], *Aoyama keizai ronshū*, Vol. 30, combined nos. 2–4 (1979); Tajima, "Hamiruton kinyū seisaku no shi-teki bunseki—Dai-ichi gasshūkoku ginko no setsuritsu o chūshin to shite" [A Historical Analysis of Hamilton's Financial Policy—A Study Focusing on the Establishment of the First Bank of the United States], (1) (2), *Aoyama keizai ronshū*, Vol. 33,

While primary source materials have become more accessible, progress in theoretical studies has provided the study of the Hamilton's protectionism with new stimuli. First, the studies have progressed of James Steuart of Scotland, whose works preceded Adam Smith's.<sup>33</sup> Thus, a

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no. 1 (1981), pp. 17-44, no. 2 (1981), pp. 48-108.

Of those studies listed above, this writer would like to make a comment especially on Nelson's work. The argument that Nelson makes in his article is largely similar to the view that C. A. Beard once presented. He contends that just as Hamilton's industrial policy was conditioned by the interest of the holders of government securities, the "S.U.M." plan, which was the embodiment of Hamilton's *Report on Manufactures*, was also in line with the interest of those people. Except for the differences that will be mentioned later, Nelson's study is very similar in argument and analytical method to the present author's "Hamiruton keizai seisaku no shi-teki bunseki," which appeared in *Shakai keizai shigaku* in 1978. The present writer was greatly surprised at the striking similarities between the two works when he read Nelson's article in 1982 for the first time. It is interesting to note that the two authors, living in Japan and the United States across the Pacific, have produced the articles that are extremely similar in view and analytical method to one another without having any exchange of ideas between them. That fact shows that the argument and method have a universal validity, for one thing, and those works are taken as the natural outgrowth of a long-term accumulation of Hamiltonian studies, for another.

A major difference in view between Nelson and the present writer is that while Nelson mainly analyzes Hamilton's economic policy, especially his policy toward manufactures, from the angle of public debt, the latter takes the view that 'public credit' was the essence of Hamilton's economic policy, the view which is the same with that of D. F. Swanson (see footnote 25), and he analyzes consistently his economic policy from the angle of public credit. The problem is that there is no mention of D. F. Swanson's work in Nelson's article. This writer believes that C. A. Beard's study, which explains away the Constitution of the United States and the Hamiltonian System simply from 'government securities,' has already been surpassed today by the work of D. F. Swanson and James E. Ferguson's *The Power of the Purse* (1961). Moreover, there seems to be a problem in the way Nelson analyzes the *Report on Manufactures*. Namely, he discusses only the means to execute policies and policy proposals, both of which are found in the latter half of the *Report* and he does not mention Hamilton's criticism of physiocracy at all, which is found in the first half of the *Report*. It must be pointed out that in his criticism of physiocracy, the Secretary clarified how harmful the South's economic structure of monoculture was to the maintenance of America's economic independence. He argued that America's economic independence would become possible only when an industrial structure, in which agriculture, industry, and commerce were all well balanced, was created by the promotion of manufacturing. In this sense, this author evaluates the industry consciousness of Hamilton higher than Nelson does. Therefore, by missing these important points, it is feared, one may become blind to the significance of Hamilton's idea in regard to industrial policy.

<sup>33</sup> Since the end of World War II, progress has been made in Japanese studies of J. Steuart, the representatives of which are as follows: Noboru Kobayashi, *Kobayashi Noboru Keizai-gaku-shi chosaku-shū*, 5—*J. Suchuato kenkyū* [Noboru Kobayashi's Collected works on the History of Economics, Vol. 5—A study of J. Steuart] (Tokyo, Miraisha, 1977); Nobuyoshi Kawashima, *Suchuato Kenkyū* [A Study of Steuart] (Tokyo, Miraisha, 1972).

light has been shed on the relations between Hamilton and Steuart, which were almost completely unknown to historians.<sup>34</sup> As a result, it became clear that Steuart's major work, *An Inquiry into the Principles of Political Economy* exerted no small influence over Hamilton's maxims of policy, and his theories of banking and coinage.<sup>35</sup> Second, triggered by the rise of the North-South problem after World War II, theoretical studies have made progress in regard to the structural characteristics of underdeveloped countries and the processes of the primitive accumulation of capital in underdeveloped countries.<sup>36</sup> Thanks to advances in theoretical studies, historians have become able to consult these new theories to analyze Hamilton's protectionism as a policy for the United States of the Early National Period.

This writer has studied Hamilton's protectionism for many years, making use of source materials and theoretical achievements mentioned above. As his studies progressed, he became convinced that a new viewpoint centering on "public credit" was not only useful but also necessary to analyze the Hamiltonian System, of which his protectionist industrial policy was a part. With such a conceptualization, this article aims to clarify the historical characteristics of Hamilton's protectionism. The following section of this paper will analyze the way that the Hamiltonian System evolved and discuss how the problem of public credit became the central concern of his system.

## II

### THE HAMILTONIAN SYSTEM AND PUBLIC CREDIT

As soon as Alexander Hamilton assumed office as Secretary of the Treasury, he started executing economic policies designed to strengthen

<sup>34</sup> A relationship between Hamilton and Steuart has recently been pointed out. *The Papers of Alexander Hamilton*, Vol. 10, (New York, 1966), pp. 17, 251ff; McDonald, *Alexander Hamilton*; Tajima, "Hamiruton kinyū seisaku no shi-teki bunseki," loc. cit.

<sup>35</sup> *The Papers of Alexander Hamilton*, Vol. 7, pp. 462ff; Tajima, "Hamiruton kinyū seisaku no shiteki bunseki," loc. cit. Steuart's *An Inquiry into the Principles of Political Economy* was published in 1767.

<sup>36</sup> Hisao Otsuka, *Kōshin-shihonshugi no tenkai katei* [The Evolutionary Process of Late-Starting Capitalism] (Tokyo, Asia Keizai Kenkyu-sho, 1973); Yasushi Yamanouchi, "Rekishiteki taihi-kōshin-shihonshugi ni kansuru Marukusu-shugi koten no sai-kentō" [An Historical Comparison—A Re-examination of Classical Marxism on Late-Starting Capitalism] in his *Igirisu sangyō kakumei no shi-teki bunseki* [An Historical Analysis of the English Industrial Revolution] (Tokyo, Aoki Shoten, 1966), chapter 2.

the national unity and solidify the fiscal basis of the federal government. Congress had already passed the Tariff Act of 1789 and the Tonnage Act in order to secure revenue sources for the federal government when Hamilton became Treasury Secretary. It was the policy of public credit that Hamilton formulated first at the request of Congress. Before that time, the federal government had done nothing about the war debts, which totalled approximately seventy million dollars including principal and interest. Government securities had depreciated, and they had become the object of speculation. As a result, government securities had gradually been bought up by speculators and merchants. But an adequate funding of the war debts was essential, for they were "the price of liberty," as Hamilton called them. How to fund them was a matter of great importance, because it would inevitably affect the public credit of the federal government. Moreover, whether or not the government was able to support public credit was crucial, because it would affect the destiny of the newly-born federal government. Those were the fundamental problems of Hamilton's funding policy.

In his *Report relative to a Provision for the Support of Public Credit* submitted to the House of Representatives on January 14, 1790, the Treasury Secretary proposed that war debts including all domestic and foreign debts be funded in exchange for new federal government securities at face value.<sup>37</sup> Congress spent more than eight months in discussing Hamilton's proposal and enacted, on August 4, the Funding Act<sup>38</sup> in a form that was almost identical with Hamilton's proposal. Public credit was rapidly restored after the passage of the Act. Hamilton's public credit policy turned out to be almost a faultless success, and it established the axis around which the Hamiltonian System would evolve later.

On August 9, immediately after the enactment of the Funding Act, the House ordered Hamilton to devise and report "such further provision as may, in his opinion, be necessary for establishing the public credit."<sup>39</sup> Upon receipt of this order, he drew up two reports which were submitted to Congress on December 13 and 14. One was the *First Report on the Further Provision Necessary for Establishing Public Credit*, in which the Secretary proposed to levy duties on distilled spirits, especially excise on domestic whisky. The proposal was designed to secure a new source of revenue for paying the interest of old state debts which were

<sup>37</sup> *The Papers of Alexander Hamilton*, Vol. 6, pp. 51-168.

<sup>38</sup> *Annals of Congress*, Vol. 1, pp. 1092, 1018-49, 1179-1712.

<sup>39</sup> *Ibid.*, p. 1723.

to be funded by the federal government.<sup>40</sup> The other was the *Second Report on the Further Provision Necessary for Establishing Public Credit*, which is usually called the *Report on a National Bank*. In it Hamilton proposed to establish the Bank of the United States to be capitalized at ten million dollars. The Bank was intended to serve as the fiscal agent of the government and as a commercial bank.<sup>41</sup> What should be borne in mind is that, as the titles of the two reports show, the establishment of public credit was the purpose for levying duties on distilled spirits and erecting the Bank of the United States.

Congress spent several months discussing Hamilton's reports. On February 25, 1791, it passed the Act to Incorporate the Subscribers to the Bank of the United States,<sup>42</sup> while legislating the act to tax distilled spirits<sup>43</sup> on March 3.<sup>44</sup> Congress approved Hamilton's proposal almost in its original form.

Before then, in his *Report on Vacant Land* submitted to Congress, Hamilton had proposed a public land policy.<sup>45</sup> But it was after his resignation as Secretary of the Treasury that his proposal became law. Furthermore, upon submitting those two reports, Hamilton drew up the *Report on the Establishment of a Mint*.<sup>46</sup> In it he proposed the coinage system which he believed should be the basis of the whole credit system including public credit. In response to the report, Congress enacted the First Coinage Act on April 2, 1792.<sup>47</sup>

Those policies helped the Hamiltonian System function more effectively, thus further strengthening public credit. It is amply attested, for instance, by the degree to which the first Bank of the United States contributed to the improvement of public credit.<sup>48</sup>

Hamilton proceeded to carry out a protectionist industrial policy for

<sup>40</sup> *The Papers of Alexander Hamilton*, Vol. 7, pp. 210–35.

<sup>41</sup> *Ibid.*, pp. 236–342.

<sup>42</sup> *Annals of Congress*, Vol. 2, pp. 1875–1960.

<sup>43</sup> The formal name of this act is long. In sum, it is the act with regard to the revision of the tariff act and the introduction of excise taxes on distilled spirits.

<sup>44</sup> *Ibid.*, pp. 1751–57, 1828–84.

<sup>45</sup> *The Papers of Alexander Hamilton*, Vol. 6, pp. 502–06.

<sup>46</sup> *Ibid.*, pp. 462–607.

<sup>47</sup> *Annals of Congress*, Vol. 2, pp. 1754–82, 1885ff; 2nd Congress, pp. 20ff, 483ff, 1351–56.

<sup>48</sup> John T. Holdsworth and Davis R. Dewey, "First and Second Banks of the United States," (*Senate Document*, no. 571, 61 Cong. 2d. Sess., Washington, D. C., 1910); James O. Wettereau, "New Light on the First Bank of the United States," *The Pennsylvania Magazine of History and Biography*, Vol. 6 (1937), pp. 263–85; Tajima, "Hamiruton kinyū seisaku no shi-teki bunseki," *loc. cit.*

a short while after he had completed his policies to restore and sustain public credit. On the basis of the evidence examined so far, this writer suggests that the characteristic of the Hamiltonian System lies in the fact that the concern over public credit formed the central basis of his system. By the same token, he would argue that Hamilton's protectionism, which characterized his industrial policy, comprised an integral part of the Hamiltonian System, but should not be equated with it.

If that is the case, the next question will be what relationship protectionism in Hamilton's industrial policy had with public credit. To answer this requires clarification of the historical characteristics of "Hamilton's protectionism." The next section will discuss the way in which Hamilton's industrial policy evolved.

### III

#### THE EVOLUTION OF HAMILTON'S INDUSTRIAL POLICY

The "Critical Period" of the 1780s was the direct historical precondition that led to the new Constitution and the full-fledged federal government. Equally, the economic measures employed to fight the "postwar depression" were, in fact, the historical environment in which Hamilton's industrial policy evolved. It would appear, therefore, that an examination of the "Critical Period" ought to be one's starting point for any analysis of Hamilton's industrial policy.

After peace was restored between Britain and the United States in 1783, British goods were imported to America in large quantities, resulting in a deficit in America's balance of trade. In addition, Britain applied her mercantilist policy to the new, independent United States, shutting American traders out of West Indian markets. Moreover, as Spain also prohibited the Americans from using the Mississippi River, America's balance of trade further deteriorated. It is said that the outflow of specie from America amounted to approximately 1,260,000 pounds sterling from 1784 to 1786.<sup>49</sup> As a result, the American economy fell into a postwar depression, causing decline of overseas and coastal trade,<sup>50</sup> bankruptcies of traders, stagnation of manufacturing and other productive ac-

<sup>49</sup> Nettels, *op. cit.*, p. 49; Hiroji Nakanishi, "'Kiki no jidai' no Amerika niokeru bōeki mondai ni tsuite" [On the Trade Problem in America during the 'Critical Period'] (1) (2), *Aichi daigaku hōkei ron-shū*, No. 40, pp. 40-41; No. 41, pp. 41-87.

<sup>50</sup> Emory R. Johnson, *History of Domestic and Foreign Commerce of the United States* (Washington D. C., 1915), Vol. 1, p. 172.

tivities, and a fall in the price of land. Furthermore, the money market became stringent, bringing about deflation of currency and delays in the payment of debts. Such conditions gave additional fuel to those who had been previously demanding emission of government paper money. It appeared very likely that their demands would be met. It was feared, however, that issuing paper money would impair the interest of creditors including the holders of public securities of indebtedness, because that would accelerate inflation.<sup>51</sup>

In order to overcome severe economic difficulties, a drive was started to promote the growth of domestic manufacturing. The major sponsors of this activity were manufacturers and merchants of Eastern seaport-cities, many of whom were also creditors. They hoped that if they should succeed in developing new industries through their policy of encouraging manufacturing, several pleasant results might take place. First, new areas for profitable investment could be found. Second, the outflow of specie from the United States could be scaled down by decreasing the volume of foreign manufactured goods imported to the country. Third, the production of agricultural products at home would help relieve the United States from being dependent on foreign markets and it would bring about a stable home market, the development of agriculture, and a rise in the price of land. Fourth, specie would be brought into America by exporting home-made manufactured goods.

Thus, new factories were built in many places throughout the United States, while local governments carried out the policy of promoting manufactures. For instance, a cotton factory in Beverley, a sailcloth factory in Boston, and a woolen factory in Hartford were established one after another from 1787 to 1788.<sup>52</sup> But the managers of those factories were soon made to realize that their products were inferior to British goods in competitive power and they felt a strong need to protect their trade by governmental action or by alternative means. The first protectionist movement in postwar American history arose on a broad scale in response to that need,<sup>53</sup> while promotional organizations were formed one after another. *The American Museum*, the organ of the protec-

<sup>51</sup> Nettels, *op. cit.*, pp. 60–65, 125.

<sup>52</sup> *Ibid.*, pp. 104–05; Hamilton attached great importance to these factories as a regular trade and mentioned their names in his *Report on Manufactures (The Papers of Alexander Hamilton)*, Vol. 10, pp. 330–31.).

<sup>53</sup> Samuel Rezneck, "The Rise and Early Development of Industrial Consciousness in the United States, 1760-1830," *The Journal of Economic and Business History*, Vol. 4 (1932), pp. 781–811.

tionists, was published in Philadelphia in 1787.<sup>54</sup> Tench Coxe was the most influential proponent of protectionism who advocated in this journal the need to establish a powerful central government in order to carry out the policy of encouraging manufactures. It should be borne in mind that Coxe's commitment to protectionism was one of the reasons why he later became assistant to Hamilton to help execute the Secretary's industrial policy.

As soon as the federal government was formed, President Washington, aware of the necessity of national defense and of the existence of the protectionist movement, started carrying out a policy of encouraging manufactures. At the outset of the second session of Congress in January 1790, the President requested that the both houses of Congress draft a bill which was designed to "establish and encourage manufactures necessary to render the United States independent of foreign nations for military and other supplies" in light of the nation's need to become self-supporting and the necessity of strengthening defense capabilities.<sup>55</sup> Congress immediately directed Hamilton to draft a report in line with the spirit of Washington's request. It was on January 15, immediately after Hamilton had submitted his *Report on Public Credit* to Congress, that his industrial policy began to evolve.<sup>56</sup> Then, how fast was Hamilton's industrial policy carried out?

The first point to be noted is that, contrary to his usual practice, Hamilton did not devote himself to drawing up the *Report on Manufactures* immediately after he received the House order. For instance, this is shown by the fact that he suspended a general inquiry pertaining to manufacturing until May 20.<sup>57</sup> The inquiry, which had been presumably started around January 25, was necessary to draft his report.

The next notable point is that Tench Coxe, who was considered the most eloquent spokesman of the protectionists, was appointed as Hamilton's assistant in the Treasury on May 15.<sup>58</sup> No doubt Coxe assisted Hamilton in conducting various affairs of the Treasury Department. In

<sup>54</sup> *Ibid.*, pp. 789–91; Keiji Tajima, "Amerikan myūjamu shi' to Amerika hogo-shugi shisō" ['The American Museum' and American Protectionist Thought], *Aoyama Keizai ron-shū*, Vol. 20, no. 3.

<sup>55</sup> *Annals of Congress*, Vol. 1, p. 969.

<sup>56</sup> *Ibid.*, pp. 1094–95.

<sup>57</sup> *The Papers of Alexander Hamilton*, Vol. 6, pp. 207–09. In fact, this inquiry on manufactures was not carried out until approximately one year later.

<sup>58</sup> *Ibid.*, p. 411. Coxe's main essays on protectionism can be found in Tench Coxe, *A View of the United States of America* (Philadelphia, 1794).



fact, he was assigned for an important task at the early stage of the evolution of Hamilton's industrial policy. The assignment was to draft a report on manufactures, and he drew up the first draft some time in the fall of 1790.

Historians have long debated over the authorship of the *Report on Manufactures*.<sup>59</sup> The dispute was resolved, however, when a part of Tench Coxe's draft was published for the first time in Volume 10 of *The Papers of Alexander Hamilton*, edited by Harold C. Syrett.<sup>60</sup> Then the Coxe family donated the papers of Tench Coxe to the Historical Society of Pennsylvania in 1964<sup>61</sup> and Jacob E. Cooke discovered a part of the remaining draft when researching on the Coxe Papers.<sup>62</sup> Lastly, the present writer found a large part of the remaining draft in the papers of Tench Coxe.<sup>63</sup> As a result, it is generally accepted today that the first draft of

<sup>59</sup> Harold Hutcheson, *Tench Coxe; A Study in American Economic Development* (Baltimore, 1938), pp. 98–112. As Hutcheson predicted that the problem would be resolved when the papers of Tench Coxe were made public in the future, his prediction proved to be right.

<sup>60</sup> *The Papers of Alexander Hamilton*, Vol. 10, pp. 15–23.

<sup>61</sup> Lucy Fischer West, *Guide to Microfilm of the Papers of Tench Coxe* (The Historical Society of Pennsylvania, Philadelphia, 1977), p. 21.

<sup>62</sup> J. E. Cooke, *op. cit.*, pp. 372–73n. 5, 374n. 12.

<sup>63</sup> Keiji Tajima, "Tench Coxe's Drafts of the *Report of the Subject of Manufactures*," *Aoyama keizai ron-shū*, Vol. 27, no. 4 (1976), pp. 101–13; Tajima, "Zoku Hamiruton to Kokkusu" [Hamilton and Coxe: A Sequel], *Aoyama keizai ron-shū*, Vol. 27, no. 3 (1975), pp. 85–104. Perhaps a brief explanation is in order on the part of Tench Coxe's draft that this writer discovered. For that purpose, it is appropriate to start with explaining what Tench Coxe's draft is. Volume 10 of *The Papers of Alexander Hamilton* contains the four drafts and the final version of Hamilton's *Report on Manufactures*. The first draft consists of the copy of another document which a clerk made and what Hamilton wrote by revising and correcting the copy. The document from which the clerk made a copy was Coxe's draft. In other words, the first draft was made in the following manner. First, Tench Coxe drew up his draft and handed it to the clerk. Then the clerk elaborately made a copy from it and handed over the copy to Hamilton. Hamilton revised the copy, and this became the first draft.

To put it roughly, *Report on Manufactures* consists of three parts. They are the sections of "theory," "policy," and "policy proposal." Such a three-part composition can be seen in Tench Coxe's draft. With that in mind, the content of Tench Coxe's draft, that was discovered piecemeal at three different times, can be explained as follows: First of all, Tench Coxe's draft which appears in Volume 10 of *The Papers of Alexander Hamilton* comprises about one third of Tench Coxe's entire draft. As far as the content is concerned, it covers the opening of the theory section and the entirety of the policy section. Next, what J. E. Cooke discovered comprises one fourth, covering the whole of the policy proposal section. Finally, what this writer discovered comprises about two fifths, covering almost all the theory section. It was in July 1975 when he discovered it in the Papers of Tench Coxe at the Historical Society of Pennsylvania. Afterwards, L. C. West discovered the remaining fragmentary material, in the process of microfilm-

the *Report on Manufactures* was written by Coxe himself.<sup>64</sup>

As mentioned earlier, Hamilton himself spent little time drawing up the report even after he received the House order. Therefore, the making of his industrial policy moved very slowly, and the year of 1790 elapsed without showing any sign of progress. But his industrial policy began to be shaped gradually in the following year. In other words, in either January or February 1791, Hamilton finally wrote his first draft. It was based on Tench Coxe's draft.<sup>65</sup> It can be said, however, that the speed of Hamilton's writing of the report was hardly fast.

Some time in the spring of 1791, Hamilton drew up the second draft, but the state was far from being complete, because it covered only a part of the whole scheme.<sup>66</sup> Then, assisted by Coxe, he conducted a general survey on manufactures, which he had presumably left untouched until that time. The result of the survey gradually came to be known by the summer of 1791. It was after that summer when Hamilton devised the third draft.<sup>67</sup> In the fall, the Secretary drew up the fourth draft in which the result of the inquiry was incorporated.<sup>68</sup> And then he wrote the final version<sup>69</sup> of the Report which was finally submitted to Congress on December 5.<sup>70</sup> The *Report on Manufactures* turned out to be a very different document both in quality and quantity from Tench Coxe's first draft as Hamilton revised his draft several times.

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ing the Papers of Tench Coxe. Thus it became an established fact that the first draft of *Report on Manufactures*, namely the part copied by a clerk in Hamilton's first draft, was written by Tench Coxe.

In addition to the material mentioned above, this writer also discovered in 1975 a fragment of the draft which Tench Coxe had presumably drawn up earlier (the author calls it the preliminary draft); what is especially interesting is the opening part of the draft which is dated September 1790. This piece of evidence confirmed the fact that Tench Coxe had already started drawing up his draft at that point. Therefore, this writer disagrees with J. E. Cooke, who argues that Coxe drew up his draft at once, spending one day or two (cf. Cooke, *op. cit.*, p. 371.)

<sup>64</sup> West, *op. cit.*, p. 100.

<sup>65</sup> Hamilton made about twelve revisions, ten of which were in "the theory section." This shows where his interest was. In the final analysis, in "the theory section" he developed his criticism of physiocracy that could not be found in Coxe's draft.

<sup>66</sup> *The Papers of Alexander Hamilton*, Vol. 10, pp. 49-63.

<sup>67</sup> *Ibid.*, pp. 64-124. The third draft was by far richer both in quality and in quantity than any other previous draft. It is argued that the content of 'the theory section' and 'the policy section' of the *Report on Manufactures* became almost definite at that point.

<sup>68</sup> *Ibid.*, pp. 124-229.

<sup>69</sup> *Ibid.*, pp. 230-340.

<sup>70</sup> *Annals of Congress*, Second Congress, p. 227.

What then are the differences between the two documents? The first major difference is that Hamilton added to Coxe's draft a critique of physiocracy to "the theory section" of the Report. That criticism was so important as to occupy more than half the space of the whole section of theory. Moreover, Hamilton's criticism of physiocracy, though basing its argument on Smith's *Wealth of Nations*, went deeper than that of Adam Smith's.<sup>71</sup> This illustrates that Hamilton sought to refute physiocracy completely, for he fully realized that the southern planters, who were then a major group in America who opposed the promotion of manufactures, based their opposition on that economic theory. Moreover, Hamilton recognized that it was the Southern monocultural economy that was most detrimental to America's economic independence. This shows that Hamilton was more inclined to favor manufacturing than Coxe, while the latter attached greater importance to agricultural interests than the former did.

The second difference is that Hamilton expressed his affirmative view on the public credit in the same section of theory and emphasized the importance of forming capital by way of the public debt. This indicates the fact that Hamilton's industrial policy was connected with public credit. As will be discussed in the following chapter, that part of the section of theory was the heart of his industrial policy. It may be said that Coxe was strong, more or less, on the theory of industrial structure, as his view on the balanced national economy<sup>72</sup> shows, while Hamilton's forte was the theory of industrialization.

The third difference is that the Report greatly enriched the content of the "section of policy proposal." It was because Hamilton incorporated the result of the inquiry of manufactures in his fourth draft. What Hamilton proposed strongly in this section was not high protective tariffs, as is often assumed, but moderate tariffs<sup>73</sup> necessary to secure a source of revenue and also the utilization of bounties. Hamilton and Coxe disagreed with each other on the latter point.<sup>74</sup>

<sup>71</sup> Robert James Parks, *European Origins of the Economic Ideas of Alexander Hamilton* (M. A. Thesis, Michigan State University, 1963), (Arno Press, Reprint edition, 1977).

<sup>72</sup> Hutcheson, *op. cit.*, p. 190; Keiji Miyano, "T. Kokkusu no 'balanced national economy' ron" in his *Amerika kokumin keizai keisei* [The Formation of American National Economy.] (Tokyo, Ochanomizu Shobo, 1971).

<sup>73</sup> Ugo Rabbeno, *The American Commercial Policy: Three Historical Essays* (London, 1895), pp. 303-04.

<sup>74</sup> Nelson, *op. cit.*, pp. 991-92.

Those differences notwithstanding, it must be pointed out that it took Hamilton nearly ten months to submit the *Report on Manufactures* to Congress after he had received Tench Coxe's draft. In other words, a little more than a year and ten months had passed since he had received the House order. Since it does not appear that the delay was due to accidental conditions, there must have been some practical reasons why Hamilton put it off that long. To present a conclusion in advance, the report to the House was delayed because Hamilton gave top priority to the maintenance of public credit by funding the war debts and also because he considered his industrial policy a part of the grand scheme of his policy-system, the basic foundation of which was based on public credit. In Hamilton's opinion, therefore, the industrial policy should be carried out in concert with the policy of public credit. That seems to explain the reason why Hamilton postponed the preparation of his industrial policy so long. The next section will verify the point by examining the process of the evolution of the Hamiltonian System.

## IV

## HAMILTON'S INDUSTRIAL POLICY AND PUBLIC CREDIT

As has already been stated, the House ordered Hamilton to report on manufactures on January 15, 1790. That was approximately the time when Congress was on the point of discussing the Secretary's *Report on Public Credit*. As Congress deliberated upon the Funding bill, Hamilton naturally worked hard on its members in both direct and indirect ways to assure an early passage of the Funding bill. Senator William Maclay vividly penned in his journal how hard Hamilton worked behind the scenes.<sup>75</sup> But the House deliberation lasted longer than Hamilton had anticipated. It was not only because the House opposition to the bill was extremely intense, but also because, perhaps to Hamilton's surprise, the organizer and leading spirit of the resistance was James Madison, the very man with whom he had worked as a political comrade for the making of the Constitution and the establishment of the powerful central government. The reasons for Madison's opposition are well known. He opposed to treating the original holders and the real holders of government securities without discrimination in funding the

<sup>75</sup> Edgar S. Maclay, ed., *Journal of William Maclay* (New York, 1890).

war debts. He was also objected to the assumption of state debts by the federal government.<sup>76</sup>

Encouraged by Madison's resistance, the opposition group stepped up the offensive and succeeded in voting down the proposition to assume state debts on April 12.<sup>77</sup> The proposition was only a part of Hamilton's funding measure, but the Secretary could not tolerate the House's rejection for the following reason. If state debts, which were then extremely depreciated on the market, were funded in exchange for new federal government securities at face value, it would mean that the measure would bring to the holders of those securities speculative profits for the short run and interest in the long run. Should the federal government assume state debts, it was expected that merchants who held state securities in large quantities could reap handsome profits from that governmental action. In return, the federal government could expect those people to pay dutifully custom duties. To Hamilton's way of thinking, the assumption measure was a way to promote public interest by skillfully appealing to private interest and, at the same time, the restoration of public credit would substantially contribute to solidifying the federal government. He hoped that public credit would play an important role as "a cement of union."

Needless to say, it was not easy to reverse the House decision once made on the bill. But Hamilton persistently maneuvered for the attainment of the objective in and out of Congress. At last, the Secretary managed to obtain House approval of the assumption measure as the result of the dinner table bargain.<sup>78</sup> Two of the opposing Congressmen presumably promised to change their votes in return for the pledge to establish the permanent federal capital on the banks of the Potomac. It was already June or July when the deal was finally consummated and the Funding Act finally became law on August 4 after experiencing twists and turns.<sup>79</sup> Because Congress was adjourned immediately after that, the bill to levy duties upon distilled spirits<sup>80</sup> was tabled, although Hamilton wanted early Congressional approval of it. The Secretary

<sup>76</sup> *Annals of Congress*, Vol. 2, pp. 1192-95.

<sup>77</sup> *Ibid.*, p. 1524.

<sup>78</sup> McDonald, *op. cit.*, pp. 184-85 n. 43; Norman K. Risjord, "The Compromise of 1790: New Evidence on the Dinner Table Bargain," *The William and Mary Quarterly*, Third Series, Vol. 33, no. 2 (April, 1976), pp. 300-15.

<sup>79</sup> *Annals of Congress*, Vol. 2, p. 2251.

<sup>80</sup> *The Papers of Alexander Hamilton*, Vol. 6, pp. 103-04, 138-68.

wanted the bill to be enacted so much that he attached the original draft of it to the last part of his *Report on Public Credit*.

In the fall of 1790 when the second session of the first Congress went into recess, Hamilton devoted himself to drawing up two reports: one on the bill to levy duties on distilled spirits, and the other on the bill to incorporate the subscribers to the Bank of the United States, which he had also proposed in the last part of his *Report on Public Credit*.<sup>81</sup> As has been already mentioned, this was the time when Coxe was drawing up a draft of the *Report on Manufactures*.

Hamilton submitted those two reports at the outset of the third session of the first Congress. Perhaps to speed up the Congressional deliberation of the bills,<sup>82</sup> the Senate discussed the Bank bill, while the House considered the tax bill.<sup>83</sup> It did not take for these bills as long to go through Congress as it had done in the case of the Funding Act. But since President Washington raised the issue of the constitutionality of the Bank bill after Congress approved it, the President did not sign his name to the bill until February 25, which was eighteen days after the date of the House approval.<sup>84</sup> On the other hand, the tax bill became law on March 3.<sup>85</sup> Thus, Congress enacted the two bills that were necessary to sustain and solidify public credit, the heart of the Hamiltonian System. Especially the Bank Act contributed much to the maintenance and strengthening of public credit.<sup>86</sup> It did so because the First Bank of the United States, which was created under the Act, played a crucial role as a supportive institution in strengthening the fiscal basis of the federal government and the funding system. The tax act, on the other hand, could not entirely fulfill its expected function, because some citizens and farmers expressed bitter opposition to the act from the first day of its execution, as the Whiskey Rebellion of 1794 demonstrated.<sup>87</sup> Although the tax policy was

<sup>81</sup> *Ibid.*, p. 108.

<sup>82</sup> C. A. Beard argues that the bill to incorporate the subscribers of the Bank of the United States was sent to the Senate first with an aim to facilitate winning a Congressional approval of the measure; C. A. Beard, *Economic Origins of Jeffersonian Democracy* (New York, 1915), p. 152.

<sup>83</sup> *Annals of Congress*, Vol. 2. pp. 1738, 1842. But it was in January 1792 when the House started the discussion of the bill to levy duties on distilled spirits. Until then it had deliberated over the problems of the militia, the public land, and other matters.

<sup>84</sup> *Ibid.*, p. 2318.

<sup>85</sup> *Ibid.*, p. 2340.

<sup>86</sup> On this point, see the reference books listed in footnote 43.

<sup>87</sup> L. Baldwin's study should be consulted as to the result of the execution of the act to levy excise taxes on distilled spirits and for a conventional view of the "Whiskey

not successful, it did not have such an impact as to shake the foundation of the Hamiltonian System, because 80 to 90 per cent of the revenue of the federal government came from custom duties.<sup>88</sup> It can be argued, therefore, that the Hamiltonian System, the objective of which was the establishment of public credit, was largely successful up to this point.

In March 1791, Hamilton finally started drawing up his second draft of the *Report on Manufactures*. But his pace was still slow. An important reason for his slowness was the fact that, even though the Bank Act had become effective, a certain length of time was needed before the First Bank of the United States was ready to start its business. Many steps had to be taken, first of all, such as offering stocks for subscription, holding a general meeting of stockholders, appointing the officers of the Bank, and creating and filling the subordinate posts. In fact, the First Bank of the United States started to operate on December 12, 1791.<sup>89</sup> It was nearly ten months since the Bank Act had passed. It took approximately three months longer than Hamilton had originally anticipated. The reason for the delay is that, while the Bank Act stipulated that stocks be offered for subscription on the first Monday of April 1791,<sup>90</sup> the offering day was postponed until July 4, since it was held that subscribers living close to Philadelphia would have an unfair advantage over those in more remote areas if stocks were offered for sale under the original conditions.<sup>91</sup> It is said that all the stocks offered on that day were subscribed in a few hours.<sup>92</sup> Because the offering of stocks for subscription was such a success, Hamilton was able to look forward with optimism to an early opening of the business of the Bank. It was about that time that Hamilton's industrial policy began to evolve at full speed.

As was discussed earlier, Hamilton accelerated the speed of revising the draft of his *Report on Manufactures* around the summer of 1791 and finally submitted the *Report* to the House on December 5, only one

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Rebellion," while the works of J. E. Cooke and of R. M. Baumann should be referred to for a re-evaluation of the uprising. Leland Baldwin, *Whiskey Rebels* (Pittsburgh, Pa., 1939); Jacob E. Cooke, "The Whiskey Insurrection: A Re-evaluation," *Pennsylvania History*, Vol. 30, no. 3 (1963), pp. 316-46; Roland M. Baumann, "Philadelphia's Manufacturers and the Excise Taxes of 1794: The Forging of Jeffersonian Coalition," *The Pennsylvania Magazine of History and Biography*, Vol. 106, no. 1 (1982), pp. 3-40.

<sup>88</sup> Davis R. Dewey, *Financial History of the United States* (New York, 1912), p. 110.

<sup>89</sup> Holdsworth and Dewey, *op. cit.*, p. 29.

<sup>90</sup> Article 1 of the Act to Incorporate the Subscribers to the Bank of the United States.

<sup>91</sup> Article 1 of the Supplementary Provision of the Act to Incorporate the Subscribers to the Bank of the United States (cf. *Annals of Congress*, Vol. 2, p. 2318).

<sup>92</sup> Wettereau, *op. cit.*, p. 274.

week before the First Bank of the United States started to operate. Moreover, the S.U.M. (the Society for Establishing Useful Manufactures) scheme, a concrete practice of Hamilton's industrial policy, which he had been contemplating since the spring of 1791, was put into operation about that time. The S.U.M. obtained a charter from the State of New Jersey on November 22, 1791 and started its activity in earnest.<sup>93</sup> It was about twelve days before Hamilton submitted his *Report on Manufactures* to the House. As the prospect of the creation of the First Bank of the United States appeared more than likely, Hamilton's industrial policy neared its completion at full speed. It is possible to think of several reasons why Hamilton gave a top priority to the agenda of establishing the First Bank of the United States rather than to that of his industrial policy. Perhaps one reason could be that he might have thought of the Bank as the financial organ for manufacturing. But the more important reason seems to be that the Secretary must have thought of his industrial policy in close connection with the problems of public credit.

The First Bank of the United States started as a national bank with a capital stock of ten million dollars—an extremely huge sum by the standard of those days. But the United States had an insufficient accumulation of specie at that time and her specie drained abroad due to the unfavorable balance of trade. Under such circumstances, it was thought impossible to form a capital of ten million dollars entirely out of the specie. Learning from the precedent of the Bank of England, John Law's formula of transforming government securities into capital, and James Steuart's affirmative theory of government securities, Hamilton came up with the idea of creating the huge capital of the Bank at once by substituting government securities for specie.<sup>94</sup> In order to materialize his scheme, he drew up the charter of the Bank in such a way that six million dollars of the whole Bank capital of ten million dollars could be paid up in government securities.<sup>95</sup> Since, under the Funding Act, a little more than thirty million dollars had already been created by issuing new federal government securities, Hamilton's Bank scheme was smoothly put into practice, producing more satisfactory results than he

<sup>93</sup> Cooke, *op. cit.*, pp. 380–83; Keiji Tajima, “Hamilton keizai seisaku no shi-teki bunseki,” pp. 43–55.

<sup>94</sup> Tajima, “Hamilton kinyū seisaku no shi-teki bunseki—Dai-ichi gasshūkoku ginkō no sōsetsu o chūshin to shite” (1) (2), *loc. cit.*

<sup>95</sup> Holdsworth and Dewey, *op. cit.*, p. 126.



had originally anticipated. Thus, government securities were transformed into monetary capital. That method of forming capital proved effective for America, a late-developing nation which had little accumulation of capital and was short of specie. In other words, Hamilton's policy fulfilled an important prerequisite for industrial development, since this monetary capital could be utilized by manufacturing enterprises. As is already stated, Hamilton discussed ways of forming capital by means of government securities in "the section of theory" in his *Report on Manufactures*. By following such steps, Hamilton's idea of forming capital came to be realized. Incidentally, the method of forming capital by substituting government securities for specie had already been put into practice in eighteenth-century England.<sup>96</sup> And John Law's "Mississippi plan" followed the same formula.<sup>97</sup> Hamilton adopted this formula from these precedents and applied it to industrial capital formation. Its application, it should be emphasized, was his original idea.

Why then did Hamilton come up with such an idea? It is because he had acute historical insight and understood the requirements necessary to industrialize a late-developing America. Hamilton saw England as already well advanced in the industrial revolution, pressing to become "the workshop of the world."<sup>98</sup> Given that fact, it was difficult for America, a late-starter, to survive international competition and industrialize herself in a short time as long as she waited for native petty capitalists to accumulate capital. Therefore, Hamilton thought it necessary to establish immediately large-scale industrial enterprises equipped with a huge capital from the beginning and with a high standard of technology that would make them internationally competitive. To him, it seemed necessary and indispensable to use government securities as a substitute for specie if the United States were to industrialize herself without suf-

<sup>96</sup> William Scott, *The Constitution of English, Scottish and Irish Joint-Stock Companies to 1720* (2 vols., Cambridge, Mass. 1912, Reprint edition, 1951), Vol. 1, pp. 396-400. Hisao Otsuka, *Kabushiki-gaisha hassei-shi-ron* [A Treatise on the History of The Evolution of the Joint-Stock Company], Vol. 1 of *Otsuka Hisao Chosakushū* [The Collected Works of Hisao Otsuka], (Tokyo, Iwanami Shoten, 1969), pp. 514-15.

<sup>97</sup> Hiroshi Akabane, "'Jyon Ro no shisutemu' (1716-20) to sono shiso-teki kiban" ['John Law's System' (1716-20) and Its Philosophical Basis] in his *Anshan regimu-ron josetsu* [An Introductory Treatise on the Ancient Regime], (Tokyo, Misuzu Shobo, 1978). By the 1780s Hamilton had already formed a high opinion of John Law (see H. C. Syrett, *The Papers of Alexander Hamilton*, Vol. 2, pp. 236-51).

<sup>98</sup> In his *Report on Manufactures*, Hamilton touched on Richard Arkwright's water frame. This fact shows how aware he was of the English Industrial Revolution (H. C. Syrett, *The Papers of Alexander Hamilton*, Vol. 10, p. 330).

ficient accumulated capital and specie. This appears to be how the Secretary came to conceive the idea of transforming government securities into industrial capital.<sup>99</sup> Therefore, Hamilton was not inclined to develop his industrial policy on a full scale until the policy of funding public debts had been established, until duties on distilled spirits were passed, and especially until the First Bank of the United States was established.

The New Jersey Society for Establishing Useful Manufactures (the "S.U.M.") was nothing but an embodiment of Hamilton's idea in his *Report on Manufactures*.<sup>100</sup> It is true that the "S.U.M." plan was carried into execution by the state government, not by the federal government. Hamilton did not think the promotion of such an enterprise by the federal government politically feasible, because it would certainly raise the issue of constitutionality and provoke strong opposition to the government. That does not alter the fact that the plan was an embodiment of Hamilton's industrial policy. It is precisely here that one finds the historical characteristics of Hamilton's protectionism in its most concrete form.

The "S.U.M." plan had a grand design to establish a large-scale industrial company with a capital ranging from a half million to one million dollars. This was a very huge sum by the standard of those days. Moreover, introducing the highest technology and skilled artisans from abroad, the company was to operate cotton mills and eleven other different branches of industry through an integrated management.<sup>101</sup> That was not all. The plan further called for creating in an uncultivated land an industrial town similar to Lancaster, Pennsylvania, which was then growing as a typical interior industrial town, and contemplated developing such a town into as large an industrial city as Manchester in England in a very short time.<sup>102</sup> Obviously, such a plan required huge capital at its inception. Thus, Hamilton employed the method of utilizing government securities in order to form such a huge capital. Section VI of the Charter of the "S.U.M." provided, for instance, that the stocks of the

<sup>99</sup> Hamilton's scheme of industrialization is considered as the forerunner of the model of industrialization of underdeveloped countries which Alexander Gerschenkron has recently presented. Alexander Gerschenkron, *Economic Backwardness in Historical Perspectives* (Cambridge, Mass., 1962).

<sup>100</sup> John S. Davis, *Essays in the Earlier History of American Corporations*, (2 vols., Cambridge, Mass., 1917), Vol. 1, Essay 3.

<sup>101</sup> *Prospectus of the "S.U.M."*, in *The Papers of Alexander Hamilton*, Vol. 9, pp. 144-53.

<sup>102</sup> Keiji Miyano, "Kyokuchi-teki shijō ken no keisei," *loc. cit.*

company could be paid up in full in either specie or government securities.<sup>103</sup> In this way, government securities were transformed into the capital of the company and then industrial capital. It is precisely in this point that one discerns a close relationship between Hamilton's industrial policy and his policy to establish public credit.

In addition, there was another reason why Hamilton utilized government securities for forming capital. By adopting such a method, the Secretary sought not only to reduce supplies of government securities on the market, but also to bring about easy convertibility of government securities, hoping that it would raise the market value of government securities. A high price of government securities on the market, Hamilton thought, could very well be proof of the maintenance of the federal government's public credit.<sup>104</sup> It is precisely on these points that one can perceive the historical characteristics of Hamilton's protectionism.

A close relationship between Hamilton's industrial policy and public credit, however, proved to be a stumbling block to the development of his policy. Many of the promoters of the "S.U.M.," including William Duer, Governor of the "S.U.M.," were New York merchants who were also speculators. Soon after the "S.U.M." plan was put into practice in 1792, financial panic hit New York City, bringing the plan to a standstill. This led the ambitious plan to be short-lived.<sup>105</sup> But even if things had turned out otherwise, this project would have been able to achieve only a temporary success at the most. The "S.U.M." plan could not, after all, have become a driving force in developing a great industrial capacity America would actually develop in later years. It was because the plan, which was carried into execution in the midst of strong opposition from manufacturers at home, was an enterprise entirely isolated from the national productive force which had already grown enough to win independence in the Revolutionary War.

Hamilton's attempt to execute his industrial policy thus ended in dismal failure, but his *Report on Manufactures* was left for posterity as a significant document. As a result, nineteenth-century protectionists, who were the ideologues of industrial capital, gave the report a new meaning to suit them. Thus, the report came to be interpreted out of its historical context as a document to defend high protective tariffs. By the same token, the image of Hamilton changed accordingly from the administrator

<sup>103</sup> *The Charter of the "S.U.M.,"* Section 6.

<sup>104</sup> Keiji Tajima, "Iwayuru 'S.U.M.' ni kansuru ichi-kōsatsu," *loc. cit.*, p. 226.

<sup>105</sup> *Ibid.*, pp. 235-38.

of the Hamiltonian System, the basis of which was laid on public credit, to the strong advocate of protectionism. But now the time has come to revise that conventional interpretation and to bring our historical image of Hamilton's protectionism nearer to the truth.

Be that as it may, the Napoleonic Wars broke out in Europe just at the time when the "S.U.M." plan failed. The wars in Europe helped recovery of American trade, bringing prosperity to the United States. This diminished public demand for promoting manufactures.<sup>106</sup> But the failure of Hamilton's industrial policy, which was a part of the Hamiltonian System, did not shake the Hamiltonian System *per se*, and public credit came to be firmly established. That was, after all, the objective of the Hamiltonian System. As a result, the federal government became firmly established as a nation-state. Under such circumstances, late-starting American capitalism could, for the first time, go through the process of the primitive accumulation of capital on a large scale.

#### CONCLUSION

Prior to his resignation as Treasury Secretary, Hamilton voluntarily submitted a report to Congress in January 1795. Of course, it was not a report regarding protectionism. It was *Report on a Plan for the Further Support of Public Credit*.<sup>107</sup> This long report is generally called his *Valedictory Report*. In it, the Secretary first surveyed the brief history of the financial policy of the federal government, then made ten proposals regarding the redemption of government securities and the payment of interest, and finally made an argument once again in support of public credit by emphasizing its importance. Public credit was Hamilton's basic theme even in the *Valedictory Report* which may be regarded as putting the finishing touch on all the earlier reports that he had made. In this sense, the Hamiltonian System started with the problem of public credit and ended with it. Hamilton's industrial policy was executed in concert with the policy of public credit, and failed because of it. It is here that one clearly sees the historical characteristics of "Hamilton's protectionism."

This writer is not the only one who considers that public credit was the basis of the Hamiltonian System. In recent years, for instance, J.

<sup>106</sup> Nettels, *op. cit.*, pp. 125-26.

<sup>107</sup> *The Papers of Alexander Hamilton*, Vol. 18, pp. 46-148.

E. Ferguson<sup>108</sup> and D. F. Swanson<sup>109</sup> have presented a similar view. The origin of this view can be traced back to the works of Ugo Rabbeno<sup>110</sup> and Charles Dunbar,<sup>111</sup> published toward the end of the nineteenth century. In later years, this view could be found in the work of W. S. Culbertson,<sup>112</sup> but there is little evidence to show that scholars after him took much interest in such an interpretation. The reason appears to be that, as the United States became a powerful nation from the beginning of the present century, it became increasingly difficult for Americans to imagine that the United States was so feeble at the early years after the founding of the nation that it would not have been able to maintain its political and economic independence unless it adopted a policy of public credit—an economic policy which gave finance a top priority, to put it in present-day terms.

To be sure, Charles A. Beard provoked his colleagues in the second decade of this century by presenting his novel “economic interpretation” of the Constitution of the United States. In his analysis of government debts, Beard illuminated relations between the holders of movable property and the making of the American Constitution.<sup>113</sup> What Beard took up as a subject of analysis, however, was not the problem of public credit but literally the problem of public debts. Therefore, his work did not go as far as to reevaluate the previous works which had emphasized the importance of public credit in Hamilton’s program. As was stated in the preface of this paper, new source materials have opened up new theoretical vistas for Hamiltonian studies since the end of World War II. As conditions improved for historical inquiries, it became possible to reexamine the “public credit interpretation” of the early years of the present century in a new perspective. By reevaluating the importance of public credit in Hamilton’s mind, this writer hopes that he has been able to reach a more accurate interpretation of the Hamiltonian System.<sup>114</sup>

<sup>108</sup> E. James Ferguson, *The Power of the Purse, A History of American Public Finance, 1776-1790* (Chapel Hill, N. C., 1961).

<sup>109</sup> Swanson, *Hamilton’s Fiscal Policies*.

<sup>110</sup> Rabbeno, *The American Commercial Policies*.

<sup>111</sup> Charles F. Dunbar, “Some Precedents Followed by Alexander Hamilton,” *Quarterly Journal of Economics*, Vol. 3 (1889), pp. 32-59.

<sup>112</sup> William S. Culbertson, *Alexander Hamilton: An Essay* (New Haven, Conn., 1916).

<sup>113</sup> Charles A. Beard, *An Economic Interpretation of the Constitution of the United States* (New York, 1913).

<sup>114</sup>The author has also expressed this view in his *Hamiruton taisei kenkyū josetsu* [An Introduction to the Study of the Hamiltonian System] (Tokyo, Keiso Shobo, 1984).  
(Translated by Takeshi Matsuda)