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Trade Policy for the New Nation, 1789–1815

One of the first goals of the new federal government was to put the nation's fiscal and trade policies in order. Using the powers granted to it by the new Constitution, Congress began to impose duties on imports and regulate foreign commerce. The need to raise revenue through duties on imports was undisputed, although some members of Congress also thought it was necessary to protect manufacturing industries from foreign competition. The most controversial trade issue involved commercial relations with Britain, particularly after American shipping became entangled in the war between Britain and France in 1793. The debate over the appropriate American response divided the nation's leadership. While the Federalist administrations of George Washington and John Adams pursued a policy of commercial peace in the 1790s, the Republican administrations of Thomas Jefferson and James Madison engaged in protracted commercial conflict in the 1800s. These disputes culminated in the War of 1812, which dramatically reshaped the American economy and soon gave rise to protective tariffs.

THE TRADE-POLICY PHILOSOPHY OF THE FOUNDING FATHERS

Under the new constitution, the nation's political leaders had the opportunity to shape US trade policy for the first time. What general principles informed their policy views and guided their thinking? As students of the Enlightenment and opponents of British mercantilism, the Founding Fathers favored free and open commerce among nations and the abolition of all restraints and preferences that inhibited trade.¹ "It is perhaps an erroneous opinion," Benjamin Franklin wrote in 1781, "but I find myself

rather inclined to adopt that modern one, which supposes it is best for every country to leave its trade entirely free from all encumbrances."² Thomas Jefferson also extolled the benefits of free commerce. "I think all the world would gain by setting commerce at perfect liberty," he wrote in 1785. In his *Notes on the State of Virginia*, Jefferson argued that "our interest will be to throw open the doors of commerce, and to knock off all its shackles, giving perfect freedom to all persons for the vent of whatever they may choose to bring into our ports, and asking the same in theirs."³ They also believed that trade restrictions were imposed at the behest of private interests, not the public interest. As Franklin wrote, "Most of the restraints put upon it in different countries seem to have been the projects of particulars for their private interest, under the pretense of public good."⁴

During this period, the term *free trade* did not mean zero tariffs and the absence of any government restrictions on trade. It was generally understood that governments would need to tax trade for revenue purposes. Instead, free trade meant the freedom of a country's merchants to trade anywhere they wanted without encountering discriminatory prohibitions or colonial preferences as long as they paid the required duties. Free trade could be more accurately characterized as open trade in which countries could impose import duties and regulate shipping but did so in a non-discriminatory manner.

The Founding Fathers were acquainted with Adam Smith's *The Wealth of Nations* (1776), one of the most influential books of the period.⁵ Smith attacked British mercantilist policies and advocated the "obvious and simple system of natural liberty," in which individuals would be free to pursue their own economic interests within the legal framework established by government. In this system of economic liberty, trade between countries was not a zero-sum game in which one country gained at the expense of another, as mercantilist doctrine seemed to suggest. Rather, Smith contended, trade should be left free and open because all countries could benefit from imports of goods that were relatively abundant elsewhere in exchange for exporting goods that were relatively abundant at home. As Smith (1976, 457) put it,

What is prudence in the conduct of every family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country . . . will not thereby be diminished . . . but only left to find out the

way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage, when it is thus directed towards an object which it can buy cheaper than it can make.

Most Americans embraced the view that commerce was naturally beneficial and required no central direction, in part because they did not want to create an overly powerful national government that might play favorites with certain producers. For example, in one of the first Congressional debates over import tariffs in 1789, James Madison echoed Smith in stating that

I own myself the friend to a very free system of commerce, and hold it as a truth, that commercial shackles are generally unjust, oppressive and impolitic—it is also a truth, that if industry and labor are left to take their own course, they will generally be directed to those objects which are the most productive, and this in a more certain and direct manner than the wisdom of the most enlightened legislature could point out. Nor do I think that the national interest is more promoted by such restrictions, than that the interest of individuals would be promoted by legislative interference directing the particular application of its industry.⁶

Most of the founding fathers would have agreed with this sentiment, although some, notably Alexander Hamilton, envisioned a more active role for the government in trade. Writing in 1782, Hamilton considered the idea that trade could be left to itself without government encouragements or restraints as “one of those wild speculative paradoxes, which have grown into credit among us, contrary to the uniform practice and sense of the most enlightened nations.” In Hamilton’s view, since this particular maxim was “contradicted by the numerous institutions and laws that exist everywhere for the benefit of trade, by the pains taken to cultivate particular branches and to discourage others, by the known advantages derived from those measures, and by the palpable evils that would attend their discontinuance, it must be rejected by every man acquainted with commercial history.”⁷

However, Adam Smith also discussed several exceptions to the general principle of free trade, and America’s leaders found these exceptions to be particularly relevant to the nation’s circumstances. For example, Smith (1976, 463–65) argued that it might be necessary to protect domestic industries essential for national defense; in fact he defended the Naviga-

tion Laws on the grounds that defense “is of much more importance than opulence.” Smith also held that “it may sometimes be a matter of deliberation how far it is proper to continue the free importation of certain foreign goods. . . . when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into their country” (467). In such a case, a policy of reciprocity, or retaliating against foreign trade barriers by restricting imports from that country, might be appropriate, depending on the probability of the retaliation successfully removing the foreign barriers. Although Smith questioned whether nations should respond this way in every case, he clearly believed that retaliation could play a constructive role in keeping trade open.⁸

While supporting the goal of free and open trade, America’s political leaders knew that both of Smith’s qualifications—defense and reciprocity—were highly relevant to their situation. The problems caused by the country’s dependence on crucial imported supplies during the Revolution, such as gunpowder and clothing, were still firmly etched in memory. And the inability of the states to coordinate a collective response to Britain’s commercial restrictions in the 1780s had been an important reason for the establishment of the new constitution. Hence, the nation’s policymakers faced two critical questions: Should the United States enact its own navigation laws to favor American shipping over foreign carriers? And should the United States respond in kind to foreign trade barriers and discriminatory policies that adversely affected its own exports and shipping? Most believed the answer to both questions was an unqualified yes, although there was a spirited debate about how such policies should be designed. Thus, while the founding fathers favored free and open trade in principle, they were also deeply concerned about national defense and foreign discrimination against American commerce.

With respect to shipping, nearly everyone agreed that the United States should have its own navigation laws in the form of preferences for American shipping. As Jefferson wrote, “As a branch of industry, it is valuable, but as a resource of defense, essential.”⁹ More controversial was the American response to foreign prohibitions, duties, and regulations, regardless of whether they were specifically aimed at the United States. In fact, the most important qualification to the founding fathers’ support for free trade was the question of whether it had to be reciprocated by other countries for the United States to adopt it as well. If other countries protected their markets, the United States might be forced to do the same. In 1785, Thomas Jefferson wanted to start by “throwing open all the doors of commerce and knocking off all its shackles. But as this cannot be done for

others, unless they do it for us, and there is no probability that Europe will do this, I suppose we may be obliged to adopt a system which may shackle them in our ports, as they do us in theirs"¹⁰ And Madison wrote, "Much indeed is it to be wished, as I conceive, that no regulations of trade—that is to say, no restriction or imposts whatever—were necessary." "A perfect freedom is the System which would be my choice." But, he continued, "before such a system will be eligible perhaps for the U.S., they must be out of debt; before it will be attainable, all other nations must concur in it."¹¹

Much of the early debate over government's role in foreign trade also reflected different views of the nation's economic future. Alexander Hamilton and the Federalists saw the United States as emulating Britain and becoming a commercial power with large cities, a strong financial system, and a flourishing foreign commerce. The economy would be balanced, with manufacturing industries operating alongside agricultural production, and would continue to have close ties to Britain. By contrast, Jefferson and James Madison saw the United States as remaining a largely rural country, primarily devoted to agriculture. Jefferson famously held that "those who labour the earth are the chosen people of God" and were the most virtuous, the most wedded to liberty, and the one's whose interests were most bound to that of their country. They were suspicious of merchants, who lacked loyalty and virtue, and wanted to avoid manufacturing, which gave rise to workers living in impoverished urban slums where republican virtues would fail to take hold.

As a result, Jefferson and Madison were pro-French and anti-British, pro-agriculture and pro-farmer, and anti-finance and anti-large-scale manufacturing. They viewed the great commercial and manufacturing powers of the Old World, with Britain at the head, as corrupt and degenerate. To maintain its republican virtue, America would have to avoid this path of development. Jefferson wanted the United States to remain an agrarian nation, exchanging its surplus produce for the manufactures produced far away: "While we have land to labour then, let us never wish to see our citizens occupied at a work-bench, or twirling a distaff. Carpenters, masons, smiths, are wanting in husbandry: but, for the general operations of manufacture, let our work-shops remain in Europe."¹² At times, Jefferson and his compatriots even seemed to want Americans to withdraw from world trade completely.¹³ Their ambivalence about trade reflected the era's undercurrent of disgust (at least among some elites) with the corrupting effects of commerce, with its unseemly focus on the consumption of trifles and luxuries. This attitude had to be weighed against their reluctance to impose government restraints upon individual freedom.

In the end, however, such philosophical debates had little relevance for the policy choices faced by the nation's political leaders. The decisions they made were based on a pragmatic assessment of the country's circumstances. As George Washington stated, "It has long been a speculative question among Philosophers and wise men whether foreign Commerce is of real advantage to any Country—that is, whether the luxury, effeminacy, & corruption which are introduced by it, are counterbalanced by the conveniences and wealth of which it is productive." But, Washington added, the answer is of "very little importance to us" because "the spirit for Trade which pervades these States is not to be restrained."¹⁴ This reality forced Jefferson, with some reluctance, to conclude that "our people have a decided taste for navigation and commerce. They take this from their mother country, and their servants are in duty bound to calculate all their measures on this datum."¹⁵

THE FIRST TARIFF ACT

The first order of business for the new Congress was raising revenue to finance the federal government's operations and service the public debt.¹⁶ The wisdom of imposing duties on imports to generate revenue for the government was uncontested: import tariffs were convenient to administer, and direct taxes were highly unpopular.

On April 8, 1789, two days after Congress first achieved a quorum, James Madison introduced a bill in the House of Representatives to levy duties on imports. Citing the government's urgent revenue requirements, Madison argued that a tariff should be imposed without delay so that the spring importations from Europe could be taxed. As a temporary expedient, he recommended adopting the tariff structure approved by the Continental Congress in 1783, which called for a 5 percent ad valorem tax on all imports and higher specific duties on such commodities as alcohol, tea, and coffee. Madison stated that a more permanent tariff schedule could be crafted at a later date, but that Congress should act quickly to avoid missing the spring imports and to get revenue flowing into the Treasury's coffers as soon as possible: "The deficiency in our Treasury has been too notorious to make it necessary for me to animadvert upon that subject. . . . Let us content ourselves with endeavoring to remedy the evil. To do this a national revenue must be obtained; but the system must be such a one that, while it secures the object of revenue, it shall not be oppressive to our constituents."¹⁷

Madison's proposal sparked a debate as to whether revenue should be

the sole objective of the import duties. Several members argued that, in addition to raising revenue, tariffs should be levied to promote domestic manufactures. As Thomas Hartley of Pennsylvania put it, "No argument . . . can operate to discourage the committee from taking such measures as will tend to protect and promote our domestic manufactures . . . I think it both politic and just that the fostering hand of the General Government should extend to all those manufactures which will tend to national utility."¹⁸

This was just the sort of debate that Madison wanted postponed to a later date. "From what has been suggested by the gentleman who have spoken on the subject before us, I am led to apprehend that we shall be under the necessity of traveling further into an investigation of principles than what I supposed necessary," he replied. "It was my view to restrain the first essay on this subject principally to the object of revenue, and make this rather a temporary expedient than anything permanent." Any delay in imposing duties to investigate the conditions of manufacturing or to debate the proper degree of protection for manufacturers would only mean foregoing valuable revenue, jeopardizing the nation's finances: "If the committee [were to] delay levying and collecting an impost, until a system of protecting duties shall be perfected, there will be no importations of any consequence, on which the law is to operate, because, by that time all the spring vessels will have arrived." Madison reiterated his view that Congress should impose a tariff immediately and then consider government policy toward manufacturing at a later date: "However much we may be disposed to promote domestic manufactures, we ought to pay some regard to the present policy of obtaining revenue."¹⁹

Yet, forced into a debate over principles, Madison decided to make his own clear. He was a "friend to a very free system of commerce" and regarded "commercial shackles as unjust, oppressive, and impolitic." At the same time, he was not a dogmatic advocate of commercial freedom, because he recognized "that exceptions exist to this general rule, important in themselves, and claiming the particular attention of this committee." Madison identified three such exceptions. The first was revenue, which could be "more conveniently and certainly raised by [tariffs] than any other method without injury to the community." On this point, there was no dissent.²⁰

The second exception concerned navigation. "If America were to leave her ports perfectly free, and to make no discrimination between vessels owned by citizens and those owned by foreigners, while other nations make such discrimination, such a policy would go to exclude American

shipping from foreign ports, and we should be materially affected in one of our most important interests." Because this outcome would be detrimental to American interests, Madison believed that the United States should impose higher tonnage charges on foreign ships entering US ports than on American ships.²¹

The third exception concerned national defense. Madison agreed in principle with the long-standing argument that "each nation should have within itself, the means of defense independent of foreign supplies." Yet he was skeptical of the principle's applicability: "There is good reason to believe that when it becomes necessary, we may obtain supplies from abroad as readily as any other nation whatsoever," particularly now that the nation had achieved independence. However, Madison was open to the idea of helping infant industries.²²

As this exchange demonstrates, within just a few days of the opening of Congress, the great debate over trade policy was joined. That perennial debate revolves around the proper objective of import duties: to raise revenue, to restrict imports in order to protect domestic manufacturers, or to achieve reciprocity—or some combination of the three.

Despite his hope that Congress would expedite the tariff bill to start raising revenue as quickly as possible, Madison could not prevent members from arguing about the appropriate duty on various goods, often requesting special treatment for particular items. A representative from Massachusetts supported placing a specific duty on imported nails; another from Pennsylvania urged protection for iron goods, paper, and glass; and another from Virginia advocated duties on hemp and coal. Representatives from New England objected to hemp duties as detrimental to manufacturers of rope needed for ships, while those from the South objected to a duty on nails as unfair to consumers in the region. New England argued for high duties on rum and low duties on molasses to protect distilleries at the expense of sugarcane producers and refiners, while the South sought the opposite.

These clashing members rarely appealed to general principles. More often, "the arguments were based largely on local interests rather than doctrinal conviction regarding free trade or protection," Elkins and McKittrick (1993, 66–67) note. "Although the principle of protection was certainly discernible in the act which finally emerged, it was balanced throughout by the primary consideration of revenue and of what the government in any given case might reasonably hope to collect" (*ibid.*). Still, by the standards of later experience, the debate over the first tariff bill was not very divisive. The bill included some protective duties but consisted

mainly of a low 5 percent tax on most manufactured imports. Although no final vote on the bill was recorded, the measure passed the House on June 1, 1789.

The Senate debate provided a preview of the sectional tariff debate that would continue for the next half century. South Carolina's Pierce Butler railed against the tariff as an unfair exaction on his region, which was heavily dependent on exports. As Senator William Maclay (1988, 73) of Pennsylvania noted in his diary, "Butler flamed away and threatened a dissolution of the Union with regard to his State—as sure as God was in the firmament. He scattered his remarks over the whole Impost bill, calling it partial, oppressive, &ca. and solely calculated to oppress S. Carolina and Yet ever and anon declaring how clear of local Views how candid and dispassionate he was. He degenerated into one declamation His State would live and die glorious &ca. &ca."

South Carolina would have violent objections to the tariff for many decades to come, but Butler's inflamed rhetoric was not just ineffective in persuading his Senate colleagues, but downright offensive. As Maclay (1988, 72) noted, "Butler's party had conducted themselves with so little decorum, that any effect their Arguments might have had, was lost by their Manner." Maclay observed that other states took a more productive stance, but the whole issue was fraught with controversy: "The Senators from Jersey Pennsylvania Delaware and Maryland, in every Act seemed desirous of making the impost productive, both as to revenue, and effective for the encouragement of Manufactures. . . . But the Members both from the north and more particularly from the South, were ever in a flame, When any Articles were brought forward that were in any considerable Use among them" (74).

By mid-June, the Senate passed an amended House bill. The House rejected nearly all the Senate amendments, but the Senate refused to agree to the House version. Maclay (1988, 84) thought that "this really seems like playing at cross purposes—or differing for the sake of Sport." Within its first three months, and not for the last time, Congress appeared deadlocked. Beyond the usual sectional divisions, many suspected that mercantile interests were responsible for the delay, so that goods could be imported before the new duties took effect. As Maclay (1988, 69) noted, "It now seems evident, that a merchantile influence is exerted to delay the impost, untill they get-in all their Summer goods—this is a detestable . . . but I have not a name for it. I wish we were out of this base, bad place." By the end of June, however, the House finally accepted most of the Senate amendments, and the bill cleared Congress. President George Washington

signed the tariff bill on July 4, 1789, making it the second law enacted by the new federal government. The duties went into effect on August 1, 1789. By later standards, Congress had acted quickly, but not as fast as Madison had wanted to get revenue from the spring importation.

The preamble of the new law stated that import duties were necessary "for the support of government, for the discharge of the debts of the United States, and the encouragement and protection of manufactures." The first tariff schedule of the United States consisted of three parts: specific duties on select products, *ad valorem* duties on most other goods, and duty-free treatment for a small number of items. Specific duties were imposed on thirty-six commodities, such as molasses and coffee (two and a half cents per gallon and per pound, respectively), distilled spirits (ten cents per gallon), salt (six cents per bushel), and nails (one cent per pound). Most of these specific duties were designed as revenue taxes on alcohol or luxury taxes on goods consumed mainly by the wealthy. At the same time, some of these duties provided incidental protection for some producers; although domestic spirits were subject to an excise tax, for example, the rate was much lower than the import tax. Other specific duties were imposed explicitly for the benefit of domestic producers, such as those on boots and shoes, nails and spikes, fish, and hemp.

Most imports were subject to *ad valorem* duties at one of four levels: 15 percent on carriages and parts, 10 percent on china, stone, and glassware, among other goods, 7.5 percent on cotton and woolen clothing, hats, hammered or rolled iron and other metal manufactures, and leather manufactures, among others, and 5 percent on all other articles not specified. Seventeen goods were placed on the duty-free list, including saltpetre, brass, tinplates, iron and brass wire, cotton and wool, hides, furs, and skins. Finally, the law established drawbacks, a provision for the rebate of import duties paid on goods that were subsequently reexported to another destination.

As the first Treasury secretary, Alexander Hamilton performed the vital task of setting up the customs service at the major US ports and overseeing its administration. By all accounts, he managed the customs service with efficiency and great attention to detail, ensuring that it operated smoothly and free of corruption. In fact, the revenue collected from customs duties increased sharply after the federal government took over responsibility for the customs service. The revenue from the ports of New York, Philadelphia, Baltimore, and Charleston jumped from almost \$2 million in 1785–88 to nearly \$12 million in 1792–95. The greater revenue was mostly due to the revival of foreign trade that occurred after the

adoption of the Constitution, but also to an increase in the rates of duty and an improvement in the efficiency of the customs service in collecting them.²³ This was a significant achievement, given the almost complete dependence of the federal government on customs for its revenue. In 1792, for example, customs duties (both on imported merchandise and shipping tonnage) accounted for \$3.4 million of the \$3.7 million of total government receipts. In that year government spending, including debt service, amounted to about \$5.1 million, meaning that there was still a substantial budget deficit.

Levying taxes on imports proved to be an economically and politically efficient method of raising revenue. They were economically efficient because foreign goods arrived at just a few large seaports, and therefore very few government employees were needed to collect the taxes on them. The administrative cost of enforcing import duties was just 4 percent of the gross revenue collected, while the cost of collecting domestic excise taxes involved many more tax collectors scattered around the country and cost 20 percent of gross revenue.²⁴

Equally important, import duties were a politically efficient way of raising revenue. Tariffs were automatically built into the domestic price of imported goods and avoided the “political minefield” of domestic taxes.²⁵ Hamilton’s fiscal program brought about a welcome shift in the nation’s tax system away from direct taxes (poll and land) imposed by states toward customs duties imposed by the federal government. By assuming state debts, Hamilton’s program enabled states to reduce direct taxes by as much as 75 percent in some cases.²⁶ In shifting the nation’s revenue system from direct taxes to import taxes, the tax burden as perceived by most people fell sharply. The frequent protests over state taxes in the 1780s largely disappeared in the 1790s. And since customs duties were less intrusive than other forms of taxation, the federal government avoided sparking a debate about its legitimacy.

At the same time, Hamilton sought to supplement and diversify the government’s revenue sources away from customs duties, which fluctuated depending on the level of imports, to more dependable forms of internal revenue, such as excise taxes. Hamilton worried that complete dependence on tariff revenue would be risky in time of war and might put the nation’s finances in jeopardy at just the wrong time. Yet domestic taxes were highly unpopular, and Congress was reluctant to enact them. In the aftermath of the fight over the Constitution and the uncertain public support for the new federal government, Hamilton was cautious about proposing new domestic taxes, for fear that they might trigger a domestic politi-

cal backlash, as they did with the Whiskey Rebellion in 1794. As a result, Hamilton managed to diversify the source of government revenue only to a minor extent.

Despite the growth in customs revenues that came with expanding trade, the fiscal position of the federal government remained precarious in the early 1790s. In 1792, the interest alone on US debt soaked up 87 percent of total revenue. The United States covered its deficit only through a large loan from the Netherlands, which helped pay off previous foreign loans and allowed for the redemption of significant amounts of domestic debt.²⁷ Still, this refinancing meant that the nominal value of the national debt did not fall during the 1790. (It was not until 1796 that the government's tax revenue would cover its current expenditures and interest on the debt.) This left Hamilton open to charges that he was not serious about paying down the debt, but political constraints prevented further increases in either import duties or excise taxes. As Edling (2007, 306) points out, "Faced with a choice between raising taxes to pay off the debt rapidly or accepting indebtedness for at least the foreseeable future, Hamilton opted for the latter alternative."

These revenue constraints made Hamilton extremely sensitive to the government's fiscal position. He worked to husband the government's meager financial resources and maintain the country's creditworthiness. As we will see, he desperately wanted the United States to remain neutral in any European military conflict, fearing that American involvement would ruin the nation's finances. Becoming entangled in a war for which it was unprepared would cause government expenditures to soar and its revenues to collapse. As we will see, this fear of fiscal dislocation deeply colored Hamilton's approach to the issue of trade reciprocity.

Recognizing the government's fragile fiscal position, Hamilton sought to generate additional revenue by boosting the specific duties in the tariff schedule. In January 1790, in his first report to Congress as Treasury secretary, Hamilton proposed increasing the duty on Madeira wine from 18 cents to 20 cents, on Hyson tea from 20 cents to 40 cents per pound, on coffee from 2.5 cents to 5 cents per pound, and on chinaware from 10 percent to 12.5 percent, among many other adjustments. Congress enacted most of these recommendations in August 1790. Still more increases followed. Acting again on Hamilton's advice, Congress increased the duties on spirits in March 1791. At this point, Hamilton believed that "the duties on the great mass of imported articles have reached a point, which it would not be expedient to exceed" for fear of discouraging trade.²⁸

And yet the government's revenue requirements continued to grow. In

1792, in order to finance new expenditures to protect the western frontier, Congress raised ad valorem duties by 2.5 percentage points, pushing the base rate from 5 percent to 7.5 percent. The schedule was hiked another 2.5 percentage points in 1794, bringing the base rate to 10 percent, while duties on sugar and wine were also increased to retire the public debt at a faster pace. In 1797, Congress increased the base rate yet again, to 12.5 percent, and imposed higher specific duties on sugar, molasses, tea, cocoa, and other products. In each of these cases, the primary purpose of the adjustment was to raise revenue to finance government operations and service the national debt. Thus, although the average tariff was initially around 12 percent in 1790 and 1791, subsequent revisions quickly brought it up to about 20 percent by the mid-1790s, as Figure I.1 showed.²⁹

HAMILTON'S REPORT ON MANUFACTURES

In constructing the first tariff, Congress largely sidestepped the issue of protecting fledgling manufactures from foreign competition, but it could not avoid such a discussion for long. In his first annual message to Congress in January 1790, President Washington noted that the safety and interest of a free people "require that they should promote such manufactories as tend to render them independent of others for essential, particularly military, supplies." Seven days later, the House of Representatives requested that the secretary of the Treasury "prepare and report to the House, a proper plan or plans, conformable to the recommendations of the President . . . for the encouragement and promotion of such manufactories as will tend to render the United States independent of other nations for essential, especially military, supplies."³⁰ Nearly two years after this request, in December 1791, Hamilton delivered his famous *Report on the Subject of Manufactures*.

This brilliant report ranks among the most important and influential policy documents in US history.³¹ Hamilton made a broad-ranging and powerful case for government promotion of domestic manufacturing, providing not only theoretical justifications for such a policy but specific proposals for government action as well. In a clear reference to Adam Smith, Hamilton conceded that "if the system of perfect liberty to industry and commerce were the prevailing system of nations, the arguments which dissuade a country in the predicament of the United States from the zealous pursuits of manufactures would doubtless have great force." In such a case, the United States could freely exports its staples in exchange for imports of manufactures produced in Europe. But that system "is far

from characterizing the general policy of nations," and the United States was precluded from engaging in such unobstructed exchange. While it could easily import manufactured goods, the United States could not "exchange with Europe on equal terms" because it faced "numerous and very injurious impediments to the emission and vent of their own commodities."³² To Hamilton, this meant that the country should consider developing its own domestic supply of manufactures, particularly those needed for national defense.

Hamilton next turned to the contention, also associated with Adam Smith, that such government support was unnecessary because "industry if left to itself, will naturally find its way to the most useful and profitable employment: whence it is inferred, that manufactures without the aid of government will grow up as soon and as fast, as the natural state of things and the interest of the community may require."³³ Hamilton had long dissented from this view, which he thought ignored the lessons of history and experience that governments almost invariably seek to regulate trade for the benefit of their own merchants and producers.³⁴

Thus, Hamilton argued that the United States had a national interest in fostering domestic manufacturing and maintained that "the incitement and patronage of government" was required to overcome the inhibitions that prevented them from becoming established. These impediments included "the strong influence of habit and the spirit of imitation—the fear of want of success in untried enterprises—the intrinsic difficulties incident to first essays toward a competition with those who have previously attained to perfection in the business to be attempted—the bounties, premiums and other artificial encouragements, with which foreign nations second the exertions of their own Citizens in the branches, in which they are to be rivaled."³⁵

In Hamilton's view, this last factor—the artificial encouragements in other countries—constituted the greatest obstacle. This meant that domestic manufacturers not only had to contend with the "natural disadvantages of a new undertaking" but also "the gratuities and remunerations which other governments bestow" on their own producers. "To maintain between the recent establishments of one country and the long matured establishments of another country, a competition upon equal terms, both as to quality and price, is in most cases impracticable," he declared. "The disparity in the one, or in the other, or in both, must necessarily be so considerable as to forbid a successful rivalship, without the extraordinary aid and protection of government."³⁶

After discussing other difficulties in establishing manufacturing in

the United States, such as the high price of labor and the scarcity of capital, Hamilton examined the means by which government could promote domestic manufacturers. These included import duties, pecuniary bounties (subsidies), patents, and other measures. Hamilton rated bounties as "one of the most efficacious means of encouraging manufactures, and it is in some views, the best. . . . though it is less favored by public opinion than other modes." He gave three reasons for preferring subsidies over tariffs as a means of promoting manufacturers. First, subsidies have a "more immediate tendency to stimulate and uphold new enterprises, increasing the chances of profit, and diminishing the risks of loss, in the first attempts." Second, "bounties have not, like high protecting duties, a tendency to produce scarcity." Third, bounties promote exports and enlarge the size of the potential market for domestic producers.³⁷

In essence, subsidies were a more direct and positive encouragement that, unlike import tariffs, did not create scarcity and artificially raise domestic prices. For this reason, Hamilton believed that subsidies could conciliate the agricultural and manufacturing interests of the country, which might otherwise clash over tariff restrictions. Of course, Hamilton was also well aware of the public's strong prejudice against bounties, candidly admitting that "there is a degree of prejudice against bounties from an appearance of giving away the public money."³⁸

Although Hamilton favored direct, targeted subsidies as the best way to promote manufacturing, he was less enthusiastic about, but not opposed to, moderate duties that gave domestic producers a competitive advantage over foreign producers, provided that those duties did not compromise revenue and efficiency. Hamilton was skeptical of protective tariffs because they sheltered efficient and inefficient producers alike, resulting in higher prices for consumers, at least temporarily, and encouraged tariff-evasion and smuggling, which cut into government revenue.

Hamilton concluded his report by making specific policy recommendations with respect to a long list of itemized products. He proposed an increase in tariff rates on twenty-one products, a reduction in tariff rates on five raw materials used in manufacturing, and government subsidies to five industries. Most of the proposed tariff increases would raise the existing duties by a very small amount, from 5 to 10 percent. The tariff reductions on raw materials—raw wood, raw copper, raw cotton, raw silk, and sulfur (for gunpowder)—entailed the elimination of a 5 percent duty. Despite the stress placed on subsidies in the report, Hamilton proposed them only for domestic producers of coal, raw wool, sail cloth, cotton manufactures, and glass (window and bottles). Perhaps this list was short

because Hamilton recognized the political reality that funds for bounties were scarce, and Congressional support for them was weak.

After receiving Hamilton's report in December 1791, Congress apparently tabled it with no clear indication of when it would be taken up for debate. Whenever that debate was to take place, however, Madison (in the House) and Jefferson (as Secretary of State) were prepared to fight it. They believed that bounties were unconstitutional and, if enacted, would set a dangerous precedent. Less than a month after Hamilton's report was issued, Madison complained that it "broaches a new constitutional doctrine of vast consequence . . . I consider it myself as subverting the fundamental and characteristic principle of the Government, as contrary to the true & fair, as well as the received construction, and as bidding defiance to the sense in which the Constitution is known to have been proposed, advocated and adopted. If Congress can do whatever in their *discretion* can be *done by money*, and will promote the *general welfare*, the Government is no longer a limited one possessing enumerated powers, but an indefinite one subject to particular exceptions."³⁹ Hamilton anticipated this particular objection in his report, noting that Congress had the express authority under the Constitution to impose taxes "to pay the debts and provide for the common defence and general welfare." In his view, the phrase "general welfare" was "as comprehensive as any that could have been used" and "necessarily embraces a vast variety of particulars."⁴⁰

Jefferson also plotted against the report using a similar line of constitutional argument. Jefferson noted that import duties were the traditional means of promoting manufactures and that the use of bounties "has been found almost inseparable from abuse."⁴¹ Later that month, in a meeting with President Washington, Jefferson attacked "the Report on manufactures which, under colour of giving *bounties* for the encouragement of particular manufactures, meant to establish the doctrine that the power given by the Constitution to collect taxes to provide for the *general welfare* of the US permitted Congress to take every thing under their management which *they* should deem for the *public welfare*, and which is susceptible of the application of money." The conversation ended there, without any apparent reaction from Washington, according to Jefferson's notes.⁴² In July 1792, Jefferson reminded himself to "condemn [the] report on manufactures." He did so in a letter to Washington in September 1792, writing that Hamilton's system "flowed from principles adverse to liberty, and was calculated to undermine and demolish the republic." The system was a threat to the Constitution because "in a Report on the subject of manufactures, (still to be acted upon) it was expressly assumed that the

general government has a right to exercise all powers which may be for the *general welfare*."⁴³

Although the *Report on Manufactures* was never presented as a single legislative package, and hence there was no opportunity for a congressional debate on its proposals, it probably would have faced a firestorm of opposition from Madison and his allies from the South. Congress's resistance to appropriating public funds to help particular industries became evident in a divisive debate over compensation to cod fisheries in New England for the duty on imported salt used to cure fish. In the course of that debate, so much hostility was directed at the term "bounties" that any attempt to get Congress to approve a general program of subsidies was sure to be met with strong resistance.⁴⁴

Although bounties were a political nonstarter, Hamilton succeeded in persuading Congress to enact the tariff proposals in the *Report on Manufactures* within six months of its publication. Hamilton was handed an opportunity to shape new tariff legislation shortly after the humiliating defeat of American military forces by western Indians in November 1791. In March 1792, Congress asked for the Treasury's advice on how to raise additional revenues in order to finance increased expenditures for the protection of the frontier.⁴⁵ Hamilton wasted no time in taking advantage of this request, forwarding his recommendations just ten days later. Hamilton's brief report presented three methods of raising the \$526,000 required to finance the additional military expenditures: selling the government's stake in the Bank of the United States, borrowing the funds from creditors, or raising taxes. Hamilton ruled out the first two options as imprudent and recommended higher import duties, even though he recognized that "taxes are never welcome to a community." One advantage of the tariffs, he argued, was that because "a spirit of manufactures prevails at this time, in a greater degree, than it has done at any antecedent period; and, as far as an increase of duties shall tend to second and aid this spirit, they will serve to promote essentially the industry, the wealth, the strength, the independence, and the substantial prosperity of the country."⁴⁶

With this, Hamilton proposed a temporary increase in the base rate on imports from 5 percent to 7.5 percent, in addition to permanent changes in the specific and ad valorem duties on a host of specified goods. Most of the recommended changes in ad valorem duties were taken straight from the *Report on Manufactures*. Few specific duties were mentioned in the report, because few manufactured goods were subject to them, and Hamilton did not propose any bounties, because he had been asked by Congress to suggest ways of raising money, not spending it.

Congress's debate over the revenue bill was brief, but several representatives objected to what they considered to be its false pretext. For example, John Page of Virginia announced his intention of voting against the measure, arguing that "it is not a bill for the protection of the frontiers, but for the encouragement of certain manufactures. . . . It is a bill very different from what it ought to be." John Mercer of Maryland asked whether "the submission of a provision to defend the frontier authorize [*sic*] a system for the encouragement of manufactures? . . . Independent of the constitutional question of the right of Congress, why should we be compelled to consider the extensive range and delicate refinement of encouraging manufactures by extensive duties operating as indirect bounties, under the pressure of providing for an Indian war?"⁴⁷

When the votes were cast, the tariff passed by the comfortable margin of 37–20. This was one of the first recorded votes on tariffs in the House and revealed a sharp division between the North and the South, one that would persist for almost two centuries. Representatives from New England and the Mid-Atlantic states voted 20–7 in favor of the bill, while those from the South voted 13–7 against. The vote suggested that the tariff increase did not have overwhelming political support and passed only because it was tied to increased military expenditures to protect the frontier. "Had circumstances been different, it is extremely doubtful that this tariff proposal would have stood much chance in Congress," Clarfield (1975, 459) concludes. "By linking military appropriations to the impost, however, Hamilton managed to neutralize a good deal of the opposition."

Therefore, Hamilton's tariff proposals in the *Report on Manufactures* in December 1791 formed the basis for his recommendations to the House in March 1792 and were largely accepted by the Congress in May 1792. In the report, Hamilton proposed twenty-one tariff increases and five decreases, most of which were repeated in the 1792 report. In the end, Congress enacted eighteen of the increases and three of the reductions.⁴⁸ Thus, Congress adopted almost all of Hamilton's proposals for higher tariffs on manufactured goods, although a program of bounties was never proposed or seriously entertained. For this reason, nine months after the *Report* had been issued and four months after the tariff vote, Jefferson believed the report was "still to be acted upon." And yet Congress had done all it was going to do with the report—namely, implement its tariff proposals without touching the bounty or other recommendations.

The *Report on Manufactures* would influence the public debate over trade policy and government's role in promoting manufactures for many decades to come. The report was frequently cited to justify high tariffs to

protect domestic manufacturers from foreign competition. Yet Hamilton was much less of an advocate of "protectionism" than he was later made out to be.⁴⁹ Because revenue considerations were absolutely paramount to him, Hamilton preferred modest duties on imports, not excessively high duties. Moderate duties would keep imports flowing into the country, providing the essential tax base that would produce a reliable stream of revenue to fund government expenditures and establish the public credit. "Experience has shown that moderate duties are more productive [of revenue] than high ones," Hamilton observed in 1782.⁵⁰

Indeed, Hamilton was skeptical of high protective tariffs because they sheltered both inefficient and efficient producers, led to higher prices for consumers, and gave rise to smuggling, which cut into government revenue. In *Federalist* 35, Hamilton noted,

There are persons who imagine that [high import duties] can never be carried to too great a length; since the higher they are, the more it is alleged they will tend to discourage an extravagant consumption, to produce a favourable balance of trade, and to promote domestic manufactures. But all extremes are pernicious in various ways. Exorbitant duties on imported articles would beget a general spirit of smuggling; which is always prejudicial to the fair trader, and eventually to the revenue itself: They tend to render other classes of the community tributary in an improper degree to the manufacturing classes to whom they give a premature monopoly of the markets: They sometimes force industry out of its more natural channels into others in which it flows with less advantage. And in the last place they oppress the merchant, who is often obliged to pay them himself without any retribution from the consumer.⁵¹

Partly for these reasons, Hamilton preferred bounties to tariffs. Yet even here, Hamilton cautioned that "the continuance of bounties on manufacturers long established must always be of questionable policy. . . . But in new undertakings, they are as justifiable, as they are oftentimes necessary."⁵² Thus, Hamilton might well have opposed the high import duties for established industries that were imposed after the Civil War, because his primary concern was with launching and establishing new industries, not supporting existing ones. As Clarfield (1975, 459) has noted, "The key word in Hamilton's conception was *encouragement*, not *protection*" for manufacturers.

In his own day, manufacturing interests were not wholly aligned behind Hamilton. His proposed tariff levels were quite modest compared to what domestic manufacturers would have liked and were later imposed, although at the time domestic producers were protected by relatively high transportation costs. Moderate duties served the interests of merchants engaged in commerce, such as those in New York and Massachusetts, but fell short of meeting the demands of manufacturers who preferred shutting out most imports of foreign goods. Hamilton's reluctance to endorse protectionist duties disappointed these manufacturers, who had hoped for greater government support but discovered that their petitions for higher tariffs went unanswered. His failure to back protective duties eventually had political repercussions. "By the end of 1793, Hamilton's pro-importer political economy was driving manufacturers from Boston to Charleston into opposition to the Federalists," Nelson (1979, 977) observes.⁵³ "In 1794 New York's General Society of Mechanics and Tradesmen shifted their support from the Federalists to nascent Republican organizations. It was becoming apparent to many American manufacturers that Hamilton's policies contravened their interests" (977).

At first, it seems puzzling that import-competing manufacturers would seek political refuge with the Jeffersonian Republicans. Jefferson and Madison had long been on record as praising the virtues of an agrarian-based economy, fearing the consequences of large-scale manufacturing, and opposing most government interference in the economy. But even as they resisted the more activist government policies that Hamilton envisioned, Jefferson and Madison were willing to consider much more draconian restrictions on trade than Hamilton's revenue-based policy would ever allow. Their hostility to Britain's policies led them to call for a policy of aggressive reciprocity and trade sanctions to punish Britain for its restrictions on American commerce.

Hamilton vigorously opposed these efforts for fear that they would start a trade war that would reduce imports from Britain, thereby shrinking the tax base on which his plans to fund the public debt hinged. This would ruin America's standing on credit markets. As a result, when the Washington administration under Hamilton's guidance sought political accommodation with Britain, Tench Coxe, a Treasury official who penned a first draft of the *Report on Manufactures* for Hamilton, shifted his allegiance to the Jeffersonian Republicans in the belief that their trade policies were better suited to promoting domestic industries.

THE RECIPROCITY DEBATE

Although the first tariff act had been passed with minimal rancor, and a divisive debate over the *Report on Manufactures* had been avoided, a sharp conflict was brewing deep within the Washington administration over trade policy. Already on such issues as the public debt and a national bank, a rift had developed that pitted Hamilton against Jefferson and Madison. This divergence of views led to the emergence of two opposing political factions, the Federalists, led by Washington and Hamilton, and the Republicans, led by Jefferson and Madison. (In the 1830s, the Jeffersonian Republicans became known as the Democrats and the Federalists had become the Whigs and then the Republicans in the 1850s.)

The chief dispute between the Federalists and Republicans on trade related to America's ties to Britain and France. The Federalists, drawing their support from the commercial states of New York and New England, wanted to maintain friendly commercial relations with Britain. While frustrated about the restrictions on American access to its domestic and colonial markets, they still believed that Britain was the best source of supply and the best foreign market for US goods. The Federalists did not want to disrupt that commercial relationship and opposed discriminatory trade and shipping policies that might offend Britain and spark retaliatory action against the United States.

As already noted, Hamilton put a priority on the fiscal solvency of the federal government and on ensuring a large and steady stream of customs revenue to finance its operations, pay down its debts, and establish the nation's creditworthiness. Any trade war with Britain would disrupt imports and the flow of revenue from import duties, undermining the country's finances and ability to borrow on credit markets. Given the fragility of the nation's finances, Hamilton's overriding goal was to ensure that the government could finance the public debt: "Nothing can more interest the National Credit and prosperity, than a constant and systematic attention to husband all means previously possessed for extinguishing the present debt, and to avoid, as much as possible, the incurring of any new debt."⁵⁴

Given this fragility, Hamilton believed that the United States had to avoid any significant drop in imports and loss of the customs revenues they generated, while also avoiding any sudden, unexpected rise in spending. Becoming embroiled in a war was the quickest way to bring about a collapse in revenue and a surge in expenditures. Nothing, in his view, could more quickly destroy the nation's finances and ruin its creditworthiness. Therefore, despite the public resentment against Britain, Hamil-

ton vigorously opposed discriminating against the country out of fear that a trade war would jeopardize his entire fiscal program. Hamilton thought that America was in a much weaker position than Britain and had much more to lose as a result of a conflict.

By contrast, the Jeffersonian Republicans despised Britain for its mercantilist policies, especially the exclusion of American ships and goods from the British West Indies. Those policies harmed southern exporters and interfered with the natural course of the country's commerce. Republicans believed that the nation's political independence could not be fully realized unless the country had its economic independence as well. Madison complained that Britain "has bound us in commercial manacles, and very nearly defeated the object of our independence."⁵⁵ In Jefferson's view, "dependence begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition." Jefferson and Madison demanded that strong action be taken. In particular, they wanted to give trade preferences to France as a way of cultivating an alternative to the British market and putting pressure on Britain to change its policies.⁵⁶ Of course, there was an inconsistency in the Jeffersonian argument: If discrimination succeeded in changing Britain's policy, which they anticipated happening, it would expand trade between the two countries and reinforce US "commercial dependence" on Britain.

In April 1789, as Madison unveiled his plan to impose tariffs on merchandise imports, he also proposed to levy duties on the tonnage of ships entering American ports. Under Madison's scheme, the tonnage duties would have three categories: one rate for American vessels, a higher rate for foreign vessels from countries that had a treaty of commerce with the United States, and the highest rate for foreign vessels from countries without such a treaty. Establishing tonnage duties that favored American ships was not controversial: there was broad support for giving some preference to domestic shipping in the handling of US foreign trade to encourage the development of the merchant marine. But Madison's real objective was to discriminate against Britain in favor of France, because the United States had a commercial treaty with France but not with Britain. Madison believed that it was unacceptable for the United States to impose relatively light duties on British manufactures, while major US exports, such as flour and wheat, fish and salted provisions, were highly restricted, if not banned, in British markets. The discriminatory tonnage duties would reduce America's commercial dependence on Britain and shift trade toward France, its wartime ally.

Madison was even confident that the United States possessed the eco-

nomic power to force Britain to relax its commercial restrictions. Speaking in the House, Madison contended that the country was in a position "to wage a commercial warfare," because it exported foodstuffs and raw materials that were essential to Britain, while it imported manufactured goods and other trifles that it could do without. In a trade war, Britain's commercial interests would be "wounded almost mortally, while ours are invulnerable." "If we were disposed to hazard the experiment of interdicting the intercourse between us and the powers not in alliance, we should have overtures of the most advantageous kind tendered by those nations," Madison contended. "We possess natural advantages which no other nation does; we can, therefore, with justice, stipulate for a reciprocity in commerce." "We must make the other nation feel our power to induce her to grant us reciprocal advantages," he concluded. "I have, therefore, no fears of entering into a commercial warfare with that nation; if fears are to be entertained, they lie on the other side."⁵⁷

In May 1789, the House passed Madison's bill to impose duties on ships entering American ports. The schedule was six cents per ton on American ships, thirty cents per ton on those from nations "in alliance" with the United States, and fifty cents per ton on all other foreign ships. But a month later, the Senate rejected this measure in favor of a uniform fifty-cent duty on all foreign tonnage. Opposition to Madison's discrimination scheme was spearheaded by the mercantile community in New York and New England.

President Washington regretted the Senate's action as "adverse to my ideas of justice and policy."⁵⁸ He was apparently unaware that Hamilton (not yet his Treasury secretary) had worked with senators to defeat tonnage discrimination against Britain. Hamilton later revealed that he had been "decidedly opposed to those discriminating clauses" in Madison's bill on the grounds that a provocation could start a trade war and jeopardize his planned fiscal program.⁵⁹ Madison and the House initially rejected the Senate version, but finally accepted it to avoid further delays in collecting revenue.

Madison reintroduced tonnage discrimination in the spring of 1790, but this time the proposal died in the House. The issue returned again in early 1791 when France insisted that it should be exempt from the higher foreign tonnage duty because of the 1778 commercial treaty. Although Jefferson disagreed with the French interpretation of the treaty, he wanted to give France the preference as a gesture of good will. Hamilton opposed this idea because there was "a want of reciprocity in the thing itself"; that is, French ships would be treated as American ships were in US ports,

but US ships would only get equal treatment with other foreign ships in French ports. Hamilton also believed that granting a unilateral concession would set a bad precedent; instead, he recommended negotiating a new treaty of commerce with France which "would perhaps be less likely than apparently gratuitous and voluntary exemptions to beget discontents elsewhere."

Hamilton then summarized his position for Jefferson: "My commercial system turns very much on giving a free course to Trade and cultivating good humour with all the world. And I feel a particular reluctance to hazard anything in the present state of our affairs which may lead to commercial warfare with any power."⁶⁰ As a final point, Hamilton noted that the revenues from the tonnage duties were earmarked for paying down the public debt: "I do not mention this as an insuperable objection but it would be essential that the same act which should destroy this source of revenue should provide an equivalent. This I consider as a rule which ought to be sacred, as it affects public credit."⁶¹

Hamilton's response dismayed Jefferson, who wrote that "our treasury still thinks that these new encroachments of Gt. Brit. on our carrying trade must be met with passive obedience and non-resistance, lest any misunderstanding with them should *affect our credit, or the prices of our public paper.*" Jefferson later took his complaint to the president. "My system was to give some satisfactory distinctions to the French, of little cost to us, in return for the solid advantages yielded us by them; and to have met the English with some restrictions, which might induce them to abate their severities against our commerce," he explained. "I have always supposed this coincided with your sentiments; yet the Secretary of the Treasury, by his cabals with members of the legislature and by high-toned declamations on other occasions, has forced his own system, which was exactly the reverse."⁶² Washington listened to Jefferson but did not overrule Hamilton.

American policy received another jolt when France declared war on Britain in February 1793. The European war represented both an opportunity and a threat to the new nation. America's shipping exports received a tremendous boost from the conflict, but the expansion of the reexport or carrying trade to Europe also put the United States in a hazardous situation of navigating between the two belligerents.

The economic impact of the conflict on the United States was generally favorable. As British and French merchant shipping was diverted into military service, American merchants stood ready to take over the lucrative commercial routes. US reexports—foreign-produced goods that

landed in the United States before being shipped to other destinations—soared in the early 1790s. In almost every year between 1797 and 1807, exports of foreign products exceeded exports of domestic products. Shipping earnings surged as well. The European war rendered moot the Congressional debate over tonnage discrimination. When Madison first proposed the discriminatory duties, the tonnage of domestic and foreign ships engaged in US foreign trade was roughly equal; by the mid-1790s, American ships carried more than 90 percent of US foreign commerce.

The reexport boom of the 1790s had a modest but positive impact on the economy and perhaps contributed 2–3 percent to national income.⁶³ Of course, the prosperity of the period was also artificial in that it depended upon continued conflict between Britain and France. The benefits of the expansion in the foreign trade sector were felt mainly in commercial shipping, which was concentrated in the port cities of New York, Boston, Philadelphia, and Baltimore. After having languished since the mid-1770s, American shipbuilding also experienced a sharp expansion during the 1790s.⁶⁴

Other parts of the economy did not necessarily share in the prosperity. Although the war kept prices for wheat and flour high, other exports suffered because of the conflict. The rise in shipping earnings was largely the result of an increase in freight rates, which raised the cost of exporting other domestic goods. Indeed, exports of domestic merchandise were crowded out by the reexport boom and grew only slightly in volume during the 1790s. Southern states, such as Virginia and South Carolina, not only failed to benefit from the growth in reexports, but their commodity exports were impeded by the higher shipping costs. The share of total exports from the South fell during the decade, causing much local resentment. John Randolph of Virginia disparaged the reexport trade as “this mushroom, this fungus of war” that harmed the South’s economy.⁶⁵ Thus, the benefits of the reexport trade must be set against the loss of domestic exports and the direct and indirect costs of undertaking commerce during a period of war.⁶⁶

The European war reignited the policy debate in the Washington administration about how to approach the situation. Jefferson and Madison favored supporting France, while Hamilton wanted to avoid becoming embroiled in the conflict. In April 1793, President Washington issued the “Neutrality Proclamation” that declared the United States would not take sides and would continue to engage in shipping and commerce wherever it could.

Despite this declaration, navigating an even course between the two

European belligerents proved to be the nation's major foreign policy challenge over the next twenty years. The British government began to crack down on US trade with France after issuing Orders in Council in June 1793 that allowed its navy to seize all foodstuffs being shipped to any port controlled by France or its colonies. The government rejected US claims that "free ships mean free goods." Under this doctrine, if American merchants possessed the right to navigate in an area, they also had a right to ship goods free from confiscation or outside interference. However, Britain was serious about enforcing the Orders and disrupted America's trade and shipping in the West Indies, quickly seizing three hundred US ships and either jailing the crews or impressing them into the British navy.

This gave Jefferson the opportunity to release his long-anticipated report to Congress on "privileges and restrictions on the commerce of the United States in foreign countries."⁶⁷ Issued in December 1793, Jefferson's *Report on Commercial Restrictions* began by extolling the benefits of free trade: "Instead of embarrassing commerce under piles of regulating laws, duties and prohibitions, could it be relieved from all its shackles in all parts of the world, could every country be employed in producing that which nature has best fitted it to produce, and each be free to exchange with others mutual surpluses for mutual wants, the greatest mass possible would then be produced of those things which contribute to human life and human happiness; the numbers of mankind would be increased and their condition bettered."⁶⁸ However, Jefferson's report documented the numerous barriers placed on American goods and ships in foreign markets, such as Britain's near prohibitory duties on foodstuffs and the navigation policy of many European countries that prevented American ships from carrying foreign goods to their market.

Jefferson's preferred course of action was "friendly arrangements" with other countries to remove such barriers to trade. "Would even a single nation begin with the United States this system of free commerce, it would be advisable to begin it with that nation," Jefferson wrote. "Some nations, not yet ripe for free commerce in all its extent, might still be willing to mollify its restrictions and regulations for us, in proportion to the advantages which an intercourse with us might offer." But, he insisted, trade had to be free on both sides. Jefferson argued that "should any nation, contrary to our wishes, suppose it may better find its advantage by continuing its system of prohibitions, duties, and regulations, it behooves us to protect our citizens, their commerce, and navigation, by counter prohibitions, duties, and regulations, also. Free commerce and navigation are not to be given in exchange for restrictions and vexations, nor are they likely to pro-

duce a relaxation of them."⁶⁹ Thus, what Jefferson had called "my system" involved a far-reaching policy of reciprocity: high duties and prohibitions abroad would be met with high duties and prohibitions at home, all with the objective of freeing trade from such barriers. "Where a nation imposed high duties on our productions, or prohibits them altogether, it may be proper for us to do the same by theirs."

Jefferson conceded that such a policy might prove costly, but if the United States did nothing, while others imposed duties and prohibitions on its commerce and navigation, he thought that would simply encourage the adoption of similarly illiberal policies elsewhere:

It is true, we must expect some inconvenience in practice from the establishment of discriminating duties. But in this, as in so many other cases, we are left to choose between two evils. These inconveniences are nothing, when weighted against the loss of wealth and loss of force, which will follow our perseverance in the plan of indiscrimination. When once it shall be perceived that we are either in the system or in the habit of giving equal advantages to those who extinguish our commerce and navigation by duties or prohibitions, as to those who treat both with liberality and justice, liberality and justice will be converted by all, into duties and prohibitions. It is not to the moderation and justice of others we are to trust for fair and equal access to market with our productions, or for our due share in the transportation of them; but to our own means of independence, and the firm will to use them.⁷⁰

To implement a policy of reciprocity, Jefferson suggested adopting a two-column tariff schedule, one set of duties for goods from preferred countries and another set of higher duties for goods from nonpreferred countries. Somewhat surprisingly, given his previous views, Jefferson mentioned that such discriminatory duties would provide "indirect encouragement to domestic manufactures of the same kind, may induce the [foreign] manufacturer to come himself into these States, where cheaper subsistence, equal laws, and a vent of his wares, free of duty, may ensure him the highest profits from his skill and industry."⁷¹

The publication of Jefferson's report prompted Madison to move that Congress take immediate action to implement a policy of reciprocity. In January 1794, Madison proposed that countries without a commercial treaty with the United States (meaning Britain) should face higher tariffs on merchandise and duties on shipping. Hamilton worked feverishly to defeat these proposals and head off a confrontation with Britain.⁷² Ham-

ilton argued that it was completely unrealistic to expect British policy to change as a result of such actions and that setting up new trade barriers would hurt the United States more than Britain. "The folly is too great to be seriously entertained by the discerning part of those who affect to believe the position—that Great Britain . . . will submit to our demands urged with the face of coercion and preceded by acts of reprisal. . . . It is morally certain that she will not do it." His allies in Congress spoke out strongly against any reciprocity measure that involved discriminating against Britain.⁷³ In a speech largely written by Hamilton, William Loughton Smith of South Carolina condemned the report as promoting "a false estimate of the comparative condition of our commerce" with France and Britain. Smith urged the country to temper its resentment and warned of

the impracticability and Quixotism of an attempt by violence, on the part of this young country, to break through the fetters which the universal policy of nations imposes on their intercourse with each other. . . . The main argument for the chance of success, is, that our supplies to Great Britain are more important to her than hers to us. But this is a position which our self-love gives more credit to than facts will altogether authorize; . . . while a commercial warfare with Great Britain would disturb the course of about one-sixth of her trade, it would disturb the course of more than one-half ours.

Smith concluded by asking, "Why should this young country throw down the gauntlet in favor of free trade against the world? There may be spirit in it, but there would certainly not be prudence."⁷⁴

A heated House debate over Madison's reciprocity proposal consumed much of January 1794, but Madison repeatedly postponed a vote on it, recognizing that it probably would be defeated. With the American economy enjoying a revival after 1789, few wanted to jeopardize the recent gains in an attempt to inflict wounds on Britain. Then, in March, news arrived of strict new Orders in Council which instructed the British navy to blockade the entire French West Indies to all foreign commerce. Americans were outraged that Britain, after having excluded US ships from the British West Indies, was now seizing more ships and telling the United States that it could not trade with the French West Indies either. This deepened the crisis in Anglo-American relations and put the two countries on a collision course. After President Washington reported on the hardships faced by the detained American crews, a defiant Congress declared a thirty-day embargo (later extended for another thirty days) on all shipping to foreign

ports. For this, France retaliated by intercepting American ships bound for Britain, harassing the crews, and seizing their cargo. The situation was quickly unraveling and putting the nation on the brink of war with both powers.

Hamilton urgently warned Washington against declaring war or taking commercial reprisals against Britain. He rejected Madison's claim that the United States possessed great commercial strength: "Tis as great an error for a nation to overrate as to underrate itself. . . . Tis our error to overrate ourselves and to underrate Great Britain. We forget how little we can annoy [and] how much we may be annoyed. . . . To precipitate a great conflict of any sort is utterly unsuited to our condition to our strength or to our resources." He argued that a trade war would inflict more harm on the United States than it would on Britain. If the United States cut off bilateral commerce, Britain would simply divert its purchases of food and materials to other suppliers, whereas such an action "deprives us of a supply for which no substitute can be found elsewhere—a supply, necessary to us in peace, and more necessary to us if we are to go to war."⁷⁵

Which faction had a more accurate appraisal of the situation? In terms of economic leverage, the figures on bilateral trade seem to confirm Hamilton's view. While Britain sent nearly 20 percent of its exports to the United States, only 6 percent of its imports came from the United States. On the other hand, about 90 percent of US imports and 25 percent of exports were with Britain.⁷⁶ Madison would argue that these percentages were misleading: the United States exported essential food and materials to Britain, whereas it imported trifles. Yet Britain also had alternative sources of supply for most of the goods that it purchased from the United States.

In April, Congress considered sequestering payments to British creditors and prohibiting trade. Hamilton wrote to Washington that these actions "cannot but have a malignant influence upon our public and mercantile credit. . . . Every gust that arises in the political sky is the signal for measures tending to destroy [our] ability to pay or to obstruct the course of payment." In particular, continuing the embargo would lead to the "derangement of our revenue and credit." Such a precipitous act would "give a sudden and violent blow to our revenue which cannot easily if at all be repaired from other sources. It will give so great an interruption to commerce as may very possibly interfere with the payment of the duties which have heretofore accrued and bring the Treasury to an absolute stoppage of payment—an event which would cut up credit by the roots."⁷⁷

Meanwhile, Madison proposed ending all commerce with Britain in six months. This measure was far too extreme for southern planters, who were dependent upon exports, and so instead it was decided to suspend all importations from Britain. In late April 1794, the House passed this revised proposal by a vote of 58–38, but the Senate vote was tied, and Vice President John Adams cast the deciding vote to defeat it.

Having avoided retaliation, Washington accepted Hamilton's advice to seek a negotiated settlement. The president sent Chief Justice John Jay to Britain to reach a diplomatic understanding about the treatment of neutral commerce. Jay recognized that "no man could frame a treaty with Great Britain without making himself unpopular and odious."⁷⁸ Nonetheless, in late 1794 Jay concluded an agreement in which Britain agreed to evacuate the North American frontier posts that it had agreed but failed to vacate after the revolution, to pay for damages caused by the Orders in Council, and to open the British West Indies to small US ships. In exchange, Jay was forced to make many concessions that affected the United States as a neutral carrier of merchandise. The United States gave up the "free ships make free goods" doctrine and accepted Britain's right to seize enemy goods from neutral ships, thus failing to protect American sailors from possible impressment. In addition, under the terms of the Jay treaty, the United States agreed to give Britain most-favored-nation status and not discriminate against it in terms of duties on goods and tonnage.

The terms of the treaty were so embarrassing that Washington delayed forwarding it to the Senate and sought to keep its provisions secret. When the treaty was leaked, it created an uproar. Jefferson thought it "execrable," Madison declared it "a ruinous bargain," and their fellow Republicans branded Jay a traitor for having sold out American interests.⁷⁹ One of the most controversial foreign-policy agreements in American history, the Jay treaty set up a major political battle between the Federalists and the Republicans. The debate revealed a sharp political division over whether America possessed enough economic power so that commercial pressure on Britain would liberalize its trade and shipping policies. Eventually, in June 1795, the Senate approved the agreement by the closest possible vote of 20–10, exactly the two-thirds majority required, and Washington signed it the next month.

The Jay treaty put the issue of commercial discrimination to rest for a decade. Hamilton won the policy battle and secured his fiscal system for an extended period. Indeed, in his Farewell Address, drafted by Hamilton, President Washington stated that the United States should avoid perma-

nent alliances with any portion of the world: "The great rule of conduct for us in regard to foreign nations is in extending our commercial relations, to have with them as little political connection as possible." Washington argued for commercial neutrality and nondiscrimination:

Harmony, liberal intercourse with all nations are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand; neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying by gentle means the streams of commerce, but forcing nothing, . . . [while] constantly keeping in view that it is folly in one nation to look for disinterested favors from another; that it must pay with a portion of its independence for whatever it may accept under that character; that, by such acceptance, it may place itself in the condition of having given equivalents for nominal favors, and yet of being reproached with ingratitude for not giving more.⁸⁰

Although the Jay treaty succeeded in reducing tensions with Britain, commercial relations with France deteriorated sharply. France accused the United States of abandoning its previous pledge of neutrality by signing the treaty. In retaliation, the French navy and privateers declared open season on American shipping, patrolling the Caribbean and even the eastern seaboard and harassing American merchants. The French government issued a series of decrees closing its ports to neutral ships and allowing it to confiscate any neutral vessel that had visited a British port or carried British goods. In the year after June 1786, France seized 316 American ships and, over the next three years, inflicted \$20 million in shipping losses on merchants.⁸¹ The small US navy tried to protect American shipping in the Caribbean to little avail. In June 1798, Congress banned all commerce with France and its colonies in a "quasi-war" that lasted more than two years.

Just as Washington had resisted Republican calls for war against Britain in 1794, President John Adams now resisted Federalist calls for war against France. Like Washington, Adams sent an envoy to reach a negotiated settlement. In an agreement concluded in September 1800, the United States agreed to drop its claim over shipping losses in exchange for an end to the hostilities. Like the Jay treaty, the agreement fell far short of meeting all US objectives, but it resolved a conflict that had put the country precariously close to war. Thus, the incoming Jefferson administration would inherit commercial peace with both Britain and France.

JEFFERSON'S TRADE EMBARGO

The historic election of 1800 shifted political power from the Federalists to the Republicans as Thomas Jefferson became president and his Republican party gained control of Congress. In his inaugural address, Jefferson stated that "we are all Republicans, we are all Federalists," but soothing rhetoric would not suppress the fierce partisan divisions that arose over the next fifteen years, particularly over trade policy.⁸²

Despite the Republican criticisms of Hamilton's fiscal program, the Jefferson administration made few changes to the system in place. Jefferson abolished internal excises to reduce the tax burden, but this made the federal government entirely dependent upon import duties, a revenue source that was liable to disruption during times of conflict. Although they wanted to take a more aggressive stance against Britain's commercial policies, the Republicans also reduced defense spending that could have protected the nation's shipping industry. These economies in the nation's finances permitted a more rapid reduction in government debt, which had grown after the Louisiana Purchase in 1803. The acquisition of Louisiana roughly doubled the size of the United States and secured the use of New Orleans as a port for western products.

The international scene was relatively quiet when Jefferson began his presidency. The Jay treaty of 1796 and the Franco-American convention of 1800 established orderly commercial relations with Britain and France and largely ended the harassment of American shipping. A temporary truce between Britain and France in 1801 also contributed to more peaceful conditions as the new century began. When the European conflict abated between 1801 and 1803, reexports collapsed as American shipping had to compete once again with the British and the French merchant marine for the carrying trade. Jefferson was also forced to defend America's trade interests in the Mediterranean when the Barbary Coast states of North Africa demanded tributes be paid to them to stop acts of piracy against American shipping. To finance this action, Congress increased the ad valorem tariff schedule another 2.5 percentage points in 1804, bringing the base rate on imports to 15 percent and the top rate to 22.5 percent.⁸³

In May 1803, however, France resumed its military campaign against Britain. This time the conflict lasted for twelve years and was carried out with even greater ferocity than before, making it difficult for the United States to avoid getting tangled in the struggle. As before, the war created huge demands for American shipping services, and reexports surged again, more than quadrupling between 1803 and 1806. Under international

law, Britain and France were supposed to respect neutral ships as carrying neutral goods. Initially, Britain and France did not intercept American shipping, but as the conflict intensified, each side was driven to take extreme measures to defeat the enemy. The belligerents sought to strangle each other's economy by destroying its foreign trade and depriving it of essential foodstuffs and raw materials. Britain gained control of the seas in 1805 with the Battle of Trafalgar and declared a blockade of the entire coast of Europe in 1806. France countered with the Continental System that aimed to squeeze Britain's exports to Western Europe and eliminate an important source of its specie earnings.⁸⁴ The United States was caught in the middle of this potentially explosive situation: if it obeyed Britain, it would run afoul of France; if it followed France, it would alienate Britain.

Once again, Britain and France began harassing American shipping across the Atlantic, but Britain bore the brunt of America's complaints because of the greater reach of its navy and its draconian impressment policies. Various Orders in Council instructed the Royal Navy to intercept neutral shipping to prevent contraband from reaching France or any port that France controlled. To enforce the order, British naval vessels began patrolling the east coast of the United States, conducting searches of American vessels to determine a ship's cargo and destination, and to check on the nationality of its crew members. Ships suspected of aiding France were detained and sent to Halifax, Nova Scotia, to face prosecution under British law. Even if a ship's goods were not confiscated, the resulting delays could be very costly. But what most upset Americans was the impressment of as many as ten thousand US citizens into the British navy because of the arbitrary rules for determining a person's nationality on the high seas.

Jefferson objected to the British and French attacks on American shipping, but beyond issuing diplomatic protests it was not clear what could be done about the situation. The United States continued to insist that "free ships make free goods" and that, as a neutral party, the United States was free to trade wherever it wanted without interference. But these claims were simply ignored in the brutal struggle between the European powers.

In 1805, the Republican Congress responded to the attacks on American shipping and the impressment of sailors by passing a partial non-importation measure, which banned the importation of selected manufactured goods from Britain and its dependencies. Congress postponed implementing this measure when Jefferson dispatched James Monroe and William Pinkney to London to seek a diplomatic solution. Although British officials refused to give a formal commitment to end impressment, in-

formally they pledged to avoid holding American citizens and made some concessions with respect to the West Indies trade. In return, the United States would be barred from enacting retaliatory commercial legislation against Britain for a decade.

Like the Jay treaty, the Monroe-Pinkney agreement fell far short of US negotiating objectives, although in some respects it was more generous than its predecessor. It would have given greater security to merchant shipping in the West Indies, provided clearer definitions of contraband, and stopped impressments and seizures within five miles of the US coast. The United States would have had to concede little in return except the promise to remain neutral and not impose any discriminatory measures against Britain.⁸⁵ But unlike Washington, who accepted the imperfect Jay treaty, Jefferson was unsatisfied with the British concessions in the Monroe-Pinkney agreement. Jefferson insisted that any deal should explicitly end impressment and impose no constraint on American policy: "We will never tie our hands by treaty from the right of passing a non-importation or non-intercourse act," he insisted, because the United States needed to have the power "to make it in [Britain's] interest to become just."⁸⁶ Jefferson refused to submit the agreement for Senate ratification for fear it might pass, according to some. "To tell you the truth," he reportedly said, "I do not wish any treaty with Great Britain."⁸⁷

Thus, by allowing the Jay treaty to expire in 1803 and rejecting the Monroe-Pinkney agreement as its successor, the United States was left without a framework for commercial relations with Britain. More importantly, by rejecting the compromise, Jefferson took the middle road of accommodation off the table. The remaining options—acquiescing to British policy, imposing trade sanctions, or declaring war to defend the country's commercial rights—were either unacceptable or dangerous. As Hickey (1989, 16) concludes, "By rejecting this treaty, the United States missed an opportunity to reforge the Anglo-American accord of the 1790s and to substitute peace and prosperity for commercial restrictions and war."

Without an agreement in place, a clash between the two sides was almost inevitable. In June 1807, the British navy fired on the US warship *Chesapeake* off the coast of Norfolk, Virginia, killing several American sailors. The British boarded the vessel and captured four men alleged to be deserters from the Royal Navy. The public was outraged, and Republicans demanded retaliation. Jefferson insisted that Britain take responsibility for the incident and make amends, but Britain was unrepentant and tightened its impressment policies even further.

Determined to avoid a military conflict, Jefferson settled upon a trade

embargo as a form of “peaceable coercion.” An embargo would avoid the bloodshed of war and would force British concessions, it was hoped, by depriving the country of essential supplies. Secretary of State James Madison had long advocated an embargo, writing to Jefferson in 1805 that “the efficacy of an embargo also cannot be doubted. Indeed, if a commercial weapon can be properly shaped for the Executive hand, it is more and more apparent to me that it can force all the nations having colonies in this quarter of the globe to respect our rights.”⁸⁸ By contrast, Treasury Secretary Albert Gallatin (1879, 1: 368) thought that it was “entirely groundless” to hope that trade sanctions would win concessions from Britain: “In every point of view, privations, sufferings, revenue, effect on enemy, politics at home, &c., I prefer war to a permanent embargo. Governmental prohibitions do always more mischief than had been calculated and it is not without much hesitation that a statesman should hazard to regulate the concerns of individuals as if he could do it better than themselves.”

In the end, Jefferson believed that he had little choice but to opt for an embargo. “The alternative was between [the embargo] and war, and, in fact, it is the last card we have to play, short of war.”⁸⁹ On December 18, 1807, Jefferson called on Congress to ban all American ships from departing to foreign ports.⁹⁰ In effect, the president was calling for a stop to all foreign trade. The ostensible reason for doing so was to protect the country’s ships and sailors from British and French encroachments and deprive the belligerents of American goods, forcing them to change their policies. The decision to impose a trade embargo had its roots in the belief—which, as we saw in chapter 1, was only partially true—that the non-importation movement in the 1760s and 1770s had succeeded in changing British policy toward America. As they had in the early 1790s, Jefferson and Madison continued to believe that the United States possessed sufficient economic leverage to influence British policies.

The Senate acted immediately, passing the shipping ban by a 22–6 vote on the same day it received the president’s message. Three days later, without recorded debate, the House approved the measure by 82–45, as table 2.1A shows. The vote was highly partisan: Republicans supported the measure by 82–19, while Federalists opposed it 26–0. Although strenuously opposed, Federalists could not really claim that the embargo was unconstitutional, because they themselves had enacted one for a brief period in 1794. Jefferson signed the measure on December 22, and the shipping ban took effect at the end of the month.

The embargo was the most dramatic, self-imposed shock to US trade in its history.⁹¹ The legislation prohibited all American ships from sailing

TABLE 2.1. Voting in the House of Representatives on the embargo

| A. The imposition of the embargo, December 21, 1807 | | | | | | |
|---|-------------|-----|-------------|-----|-------|-----|
| Region ^a | Republicans | | Federalists | | Total | |
| | Yea | Nay | Yea | Nay | Yea | Nay |
| New England | 19 | 0 | 0 | 15 | 19 | 15 |
| Mid-Atlantic | 27 | 7 | 0 | 9 | 27 | 16 |
| South | 28 | 10 | 0 | 2 | 28 | 12 |
| West | 8 | 2 | 0 | 0 | 8 | 2 |
| Total | 82 | 19 | 0 | 26 | 82 | 45 |

| B. The retention of the embargo, February 24, 1809 | | | | | | |
|--|-------------|-----|-------------|-----|-------|-----|
| Region ^a | Republicans | | Federalists | | Total | |
| | Yea | Nay | Yea | Nay | Yea | Nay |
| New England | 1 | 13 | 0 | 15 | 1 | 28 |
| Mid-Atlantic | 10 | 27 | 0 | 6 | 10 | 33 |
| South | 18 | 16 | 0 | 2 | 18 | 18 |
| West | 4 | 3 | 0 | 0 | 4 | 3 |
| Total | 33 | 59 | 0 | 23 | 33 | 82 |

Source: <https://www.govtrack.us/congress/votes/10-1/h30> and <https://www.govtrack.us/congress/votes/10-2/h199>.

Note: This vote is on an amendment to eliminate all passages from a bill that would repeal the embargo. A vote in favor is thus a vote to retain the embargo. The final bill that actually repealed the embargo replaced it with non-intercourse restrictions on trade and was passed in a partisan vote, with Federalists opposing the continuation of any restrictions on trade.

^a Classification: New England includes Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut. Mid-Atlantic includes New York, Pennsylvania, New Jersey, Delaware, and Maryland. South includes Virginia, North Carolina, South Carolina, and Georgia. West includes Ohio, Kentucky, and Tennessee.

to foreign ports and all foreign ships from taking on cargo in the United States. Although foreign ships were permitted to bring goods to the United States, few did so, because they would have had to return empty.

The embargo brought America's foreign commerce to a grinding halt in the spring and summer of 1808. The embargo's impact can be seen in figure 2.1. The timing of the embargo meant that exports fell more than imports in 1808. After December 1807, no American ship was allowed to leave the United States for a foreign destination. As a result, exports fell immediately upon the imposition of the embargo (there could be no spring exports) and remained low throughout the year. Very few American

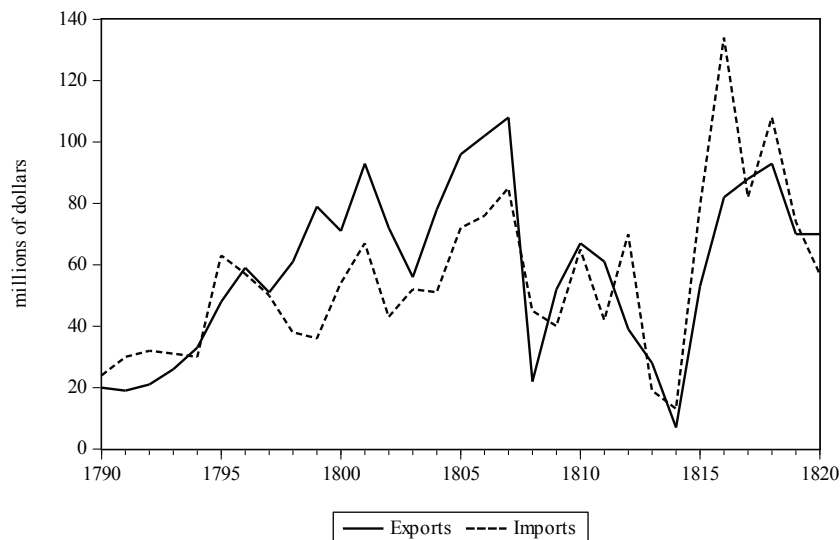


Figure 2.1. US merchandise trade, 1790–1820. (US Bureau of the Census 1975, series U-190, 194.)

vessels appeared in European ports in 1808. Exports of domestic produce fell more than 80 percent in 1808 from the previous year, and reexports dropped almost as much. These figures understate the impact of the embargo, however, because the government's statistics were collected for the fiscal year, not the calendar year. Therefore, the figures for 1808 refer to the period from October 1, 1807 to September 30, 1808, and thus include three months in which the embargo was not in effect.⁹²

Meanwhile, Congress wanted to encourage the many American vessels that spent the winter months in European ports to return home. Therefore, US ships returning from Europe in the spring and summer of 1808 were permitted to unload their cargoes, after which they had to remain in port and not return to sea. As a result, imports for domestic consumption declined only 50 percent in fiscal year 1808. Of course, by mid-summer, the number of American ships with foreign cargo arriving into port had slowed to a trickle.

The embargo had a dramatic impact on prices in the United States, driving down the prices of exported goods and driving up the prices of imported goods. Figure 2.2A presents the monthly domestic prices of the four leading commodity exports—cotton, flour, tobacco, and rice—that accounted for about two-thirds of domestic exports in 1807. Export prices

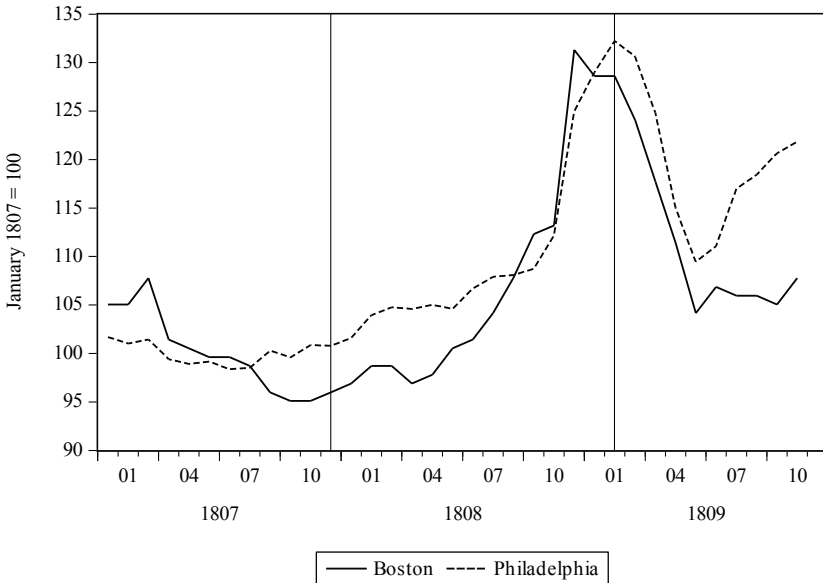
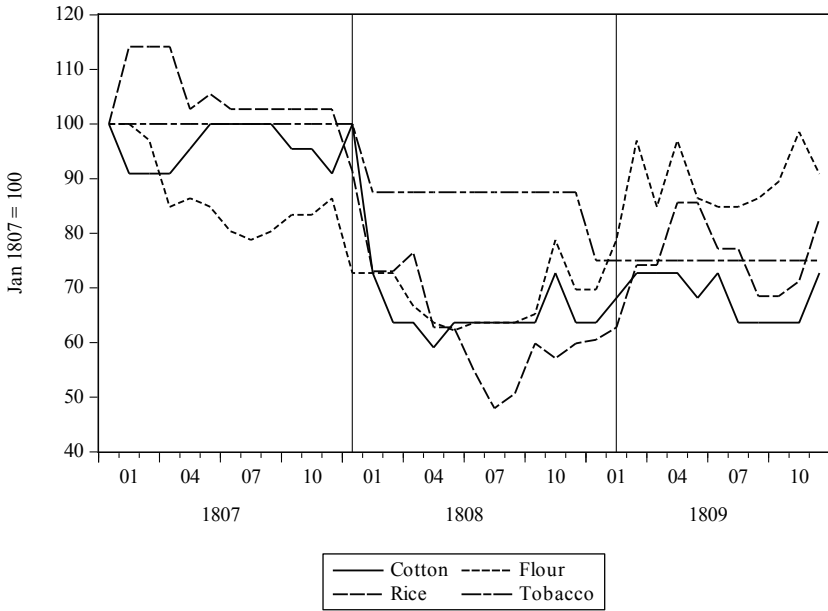


Figure 2.2. Domestic wholesale prices of (A) exported and (B) imported commodities, monthly, 1807–1809. (For exported goods: Cole 1938. Prices are of Georgia upland cotton at New York, superfine flour at New York, tobacco at New York, and rice at Philadelphia. For imported goods: Smith and Cole 1935, 147, and Bezanson, Gray, and Hussey 1936, 353. The Boston index is a weighted average of prices on eighteen imported commodities. The Philadelphia index is a weighted average of prices of fifty-nine imported commodities.)

dropped sharply in early 1808, demonstrating the embargo's immediate impact once it was known that farmers would be denied access to foreign markets. The export-weighted average of the prices fell 27 percent between December 1807 and June 1808.⁹³ Prices bottomed out in the summer of 1808 but began to recover toward the end of the year, evidence that merchants were willing to violate the embargo as time went on and the fall harvest began to appear. According to Heaton (1941, 189), there was "little effort to indulge in large-scale defiance of the Embargo, at least until the end of 1808, when patience was becoming exhausted and repeal seemed inevitable." Indeed, by late 1808, the embargo was increasingly disregarded and some ships left port in violation of the law, although the precise number is unknown.

Unlike exports, which were concentrated in a few key commodities, imports were a highly diversified set of goods. Figure 2.2*B* presents monthly price indexes for imported commodities in Boston and Philadelphia. Both series indicate that prices of imported goods did not rise immediately in the spring of 1808 because imports continued to arrive in the port cities. However, prices escalated quickly by the fall of 1808 as the number of returning ships dwindled, and imports became increasingly scarce. The wholesale prices of imported commodities rose about 33 percent in both cities during the embargo, but fell sharply once the embargo was lifted in March 1809.

The embargo had an immense impact on the US economy. Exports of domestic merchandise were about 8 percent of GDP in 1807, and the dramatic changes in export and import prices and volumes rippled through the entire economy. Irwin (2005b) suggests that the welfare loss associated with the reduction of trade was about 5 percent of GDP. The year has been called a "depression" by Thorp (1926, 116), who gives it the following description based on contemporary newspaper accounts: "Rigid embargo causes paralysis on coast, gradually spreading inland; severe distress in New England; further sharp decline in commodity prices to low point, third quarter; foreign trade completely checked."

The embargo generated heated opposition in the commercial states of New England and New York. Massachusetts, which handled a third of the nation's tonnage in foreign trade, saw large protests against the measure, and even grumbles about secession. The harbors that usually bustled with activity fell silent with the absence of commerce, and seafaring communities suffered from high unemployment due to the loss of trade. A New Hampshire Federalist penned this verse:

Our ships all in motion, once whiten'd the ocean;
They sail'd and return'd with a Cargo;
Now doom'd to decay, they are fallen a prey,
To Jefferson, worms, and EMBARGO.⁹⁴

With imports of British manufactures no longer coming into the country, however, small textile mills began sprouting up in Rhode Island and Massachusetts.⁹⁵ While nascent manufacturers benefited from the elimination of imports, Strum (1994, 59) reports that "this industrial growth did not compensate for the considerable distress that the embargo caused," not just in coastal cities but among farmers who marketed their crops.

The South also suffered enormously from the loss of commodity exports, although many of its staples could be stored, and cultivators held out hopes that their goods could be exported later in the year or in 1809. Despite the hardship, the South supported the embargo as a necessary burden. One South Carolinian noted that it is "difficult to imagine the pecuniary effect and the individual distress, occasioned by the embargo. . . . Yet, notwithstanding this distress, . . . there is everywhere an acquiescence in the measure proceeding from a confidence in the government."⁹⁶ The South still deeply resented Britain and remained loyal to Jefferson and the Republicans. Unlike New England, there were virtually no anti-embargo meetings or protests from Virginia to Georgia, although planters hoped the embargo would work and be lifted quickly.

There was also strong support for the embargo in Kentucky, Tennessee, and the Mississippi Valley. While farmers from this region did not care much about the impressment of sailors, they attributed declining commodity prices (tobacco, hemp, and cotton) to the loss of markets in the West Indies, not the embargo. Even Jefferson conceded that the lower price of staples was due to the embargo, but popular opinion west of the Appalachians chose to blame Britain instead.

The Philadelphia region was one part of the country that apparently did not suffer greatly from the embargo.⁹⁷ The scarcity of imported manufactured goods gave rise to domestic production of substitute products, such as iron works. Yet even in the Mid-Atlantic, the losses to merchants and the farming community, in terms of foregone income due to lower commodity prices, vastly exceeded the gains accruing to newly established manufacturing firms.

In cutting off the nation's trade, the Jefferson administration also deprived the government of customs revenue to fund its operations. Although

a revenue shortfall was not felt in 1808 because of the American vessels that returned to ports in the spring, customs revenue fell more than half in 1809. Treasury Secretary Gallatin confronted a fiscal deficit for the first time, but the Treasury could absorb the shortfall, because it had built up large balances from previous fiscal surpluses, and the price of government debt was surprisingly unaffected by the embargo.⁹⁸

Given the enormous incentives for merchants to evade the embargo, enforcement was a critical issue from the start. The longer the embargo was in place, the less the public was willing to tolerate it, and the more merchants were willing to violate it. In March 1808, Congress tightened the embargo by forbidding any exports over land to prevent American goods from reaching Britain via Canada. Federalists protested that this was not something that could be justified as protecting shipping and sailors. Congress soon passed additional legislation to strengthen the embargo's enforcement. All ships engaged in the coastal trade had to post a bond worth twice the value of the ship and cargo as security that it would not depart to a foreign destination; fishing vessels were prohibited from taking on any cargo and had to post a bond four times the value of the ship. Those found violating the embargo were subject to fines, forfeitures, and seizures.

These supplementary measures were necessary because violations of the embargo became a growing problem in 1808. Reports of smuggling across the Canadian border in upstate Vermont and New York were common, and customs agents were occasionally attacked for trying to interfere. There were also many illicit exchanges of goods with British ships anchored off the Atlantic coast. Therefore, customs officials began inspecting and detaining ships engaged in the domestic coastal trade on suspicion of exporting goods to Newfoundland or to British ships patrolling along the coast.

To ensure the embargo's success, Jefferson strongly supported these enforcement measures: "It is important to crush every example of forcible opposition to the law," he instructed Gallatin.⁹⁹ In May 1808, Jefferson wrote to Gallatin:

The numerous and bold evasions of the several embargo laws threatened altogether to defeat the great and interesting objects for which they were adopted, and principally under cover of the coasting trade. Congress, therefore, finding insufficient all attempts to bind unprincipled adventurers by general rules, at length gave a discretionary power to detain absolutely all vessels suspected of intentions to evade

the embargo laws, wheresoever found. In order to give to this law the effect it intended, we find it necessary to consider every vessel suspicious which has on board any articles of domestic produce in demand in foreign markets, and most especially provisions.¹⁰⁰

The innumerable enforcement problems were left to Gallatin to solve, as the president remained aloof from the administration of the embargo.¹⁰¹

As the nation's economic distress increased through 1808, so did the political opposition to the embargo, and pressures mounted for its abolition. Federalists attacked it for destroying the nation's prosperity and debilitating the government's finances, arguing that the measure was futile and would ultimately fail to coerce Britain into changing its policies. Because of the embargo's adverse impact on numerous interests—New England shipping, southern planters, and government revenue—the Jefferson administration did not have much time to prove its efficacy before domestic political pressures would succeed in terminating it.

By the summer of 1808, Gallatin (1879, 1:401) informed Jefferson that even more "odious and arbitrary" enforcement policies would be needed to make the embargo work. The Treasury secretary declined to endorse the draconian measures that would be required to make it effective, and he was dismayed at having to enforce a policy that he did not fully support. Furthermore, Gallatin was upset with the president's detached view of the problems the embargo had created and hinted that it could not continue indefinitely without a growing number of people beginning to ignore it.

In frustration, Galatin (1879, 1:398) wrote to Jefferson:

If the embargo must be persisted in any longer, two principles must necessarily be adopted in order to make it sufficient: 1st, that not a single vessel shall be permitted to move without the special permission of the Executive; 2d, that the collectors be invested with a general power of seizing property anywhere, and taking the rudders or otherwise effectually preventing the departure of all vessels in harbor; . . . I am sensible that such arbitrary powers are equally dangerous and odious. But a restrictive measure of the nature of the embargo applied to a nation under such circumstances as the United States cannot be enforced without the assistance of means as strong as the measure itself. I mean generally to express an opinion founded on the experience of this summer, that Congress must either invest the Executive with the most arbitrary powers and sufficient force to carry the embargo into effect, or give it up altogether.

In late summer, Gallatin (1879, 1:401) reported that “the embargo is now defeated . . . by open violations, by vessels sailing without any clearances whatever, an evil which, under the existing law, we cannot oppose in any way but by cruisers.” He also warned Jefferson that the embargo was having an “inconsiderable effect” on Britain but was a growing political disaster for the Republicans, who had an eye to the upcoming presidential election.

The harsh enforcement of the embargo might be considered unusual for a president who championed limited government and civil liberties. But Jefferson did not refrain from seeking even greater executive powers to strengthen the embargo, and he blamed merchants for making such measures necessary. Jefferson could not understand why Americans would violate the law and was dumbfounded that some could put their own private interests above what he believed to be the national interest. He concluded that merchants were simply treasonous and therefore even stricter enforcement was required. He replied to Gallatin: “This embargo law is certainly the most embarrassing one we have ever had to execute. I did not expect a crop of so sudden & rank growth of fraud & open opposition by force could have grown up in the U.S. I am satisfied with you that if orders & decrees are not repealed, and a continuation of the embargo is preferred to war, (which sentiment is universal here), Congress must legalize all *means* which may be necessary to obtain its *end*.”¹⁰²

He continued to believe the embargo was a useful test of the effectiveness of trade coercion: “I place immense value in the experiment being fully made, how far an embargo may be an effectual weapon in future as well as on this occasion.” Jefferson was prepared to call out the militia for the purpose of “preventing or suppressing armed or riotous assemblages of persons resisting the custom-house officers in the exercise of their duties, or opposing or violating the embargo laws.”¹⁰³ Army regulars were called out to enforce routine laws as the Jefferson administration declared war against smugglers.¹⁰⁴

The embargo was certainly felt in Britain and drew some complaints, but it failed to inflict much harm. It was imposed when the British economy was relatively strong, and Britain withstood the loss of US trade without much disruption.¹⁰⁵ Britain’s manufacturers softened the embargo’s impact by shifting their exports to Latin America and began to purchase many of the goods previously imported from the United States from Spain and other countries. As a result, Britain rejected an American offer to terminate the embargo in exchange for repealing the Orders. Thus, by the late summer of 1808, Jefferson’s experiment with “peaceful coercion” was

widely considered to be unsuccessful. As the US envoy to France reported to Madison, "We have somewhat overrated our means of coercing the two great belligerents to a course of justice. The embargo is a measure calculated above any other, to keep us whole and keep us in peace; but, beyond this, you must not count upon it. Here it is not felt and in England . . . it is forgotten" ¹⁰⁶

With the November election approaching, Gallatin warned Jefferson that the Republicans would suffer losses if the embargo was not lifted. Gallatin suggested that only Virginia, South Carolina, and Georgia were firmly behind the administration, while the Federalists had gained strength in New England. Despite the controversy over the embargo, the Federalist party was still weak, however, and the Republicans emerged relatively unscathed in the election. The Republican majority in the House was cut in half, but they remained firmly in control of Congress, and Madison easily defeated his Federalist rival to become president.

The election outcome strengthened Jefferson's resolve to continue with the policy. He viewed the embargo as "a temporary evil, and a necessary one to save us from greater and more permanent evils—the loss of property and the surrender of rights."¹⁰⁷ When Congress reconvened in November 1808 after a six-month summer recess, the debate about the wisdom of the embargo and its future began. While Federalists demanded an immediate end to the embargo, Jefferson indicated that he was committed to seeing it through, because the alternatives, submission or war, were worse.

By this point, the embargo had been in effect for almost a year with no clear sense of when it might end. With Jefferson's term in office coming to a close, Madison and Gallatin implored him for guidance about future policy, but he declined to advise them, allowing the new administration to decide for itself the proper course of action. Thus, Madison and Gallatin began discussions with the outgoing Congress about policy during the transition period from November 1808 to March 1809.¹⁰⁸ If the outgoing Congress did not act, the embargo would remain in effect at least until the fall of 1809, when the new Congress was scheduled to convene.

Madison himself favored "an invigoration of the embargo, a prohibition of imports, *permanent* duties for encouraging manufactures, and a *permanent* navigation act: with an extension of preparations and arrangements for the event of war," as well as non-intercourse with France.¹⁰⁹ In January 1809, Congress enacted yet another enforcement act, which gave the authorities sweeping power to seize cargoes and ships suspected of violating the embargo. Merchants were required to post large bonds for domestic coastal voyages, and the loading or departure of any ship for do-

mestic destinations now required official clearance. The authorities could even seize goods in a wagon or cart heading toward the seacoast and hold it until bond had been posted in order to guarantee that the goods would not be taken out of the country. Stiff penalties and even confiscations were imposed for violations, and state militias were put at the disposal of federal officials in enforcing the law.

The Republicans succeeded in passing the enforcement law, but only after an acrimonious debate. Outraged Federalists complained that the enforcement bill amounted to military despotism at a time of peace and denounced it as unjust, oppressive, and unconstitutional. (Some of the provisions may have violated the search-and-seizure provisions of the Fourth Amendment of the Constitution.) The draconian enforcement of the embargo, with no indication of when it might end, pushed Federalist New England into greater opposition. In response to a remark in Congress that the economy was not really suffering from the embargo, Josiah Quincy of Massachusetts was dumbfounded: "But has my honorable colleague traveled on the seaboard? Has he witnessed the state of our cities? Has he seen our ships rotting at our wharves; our wharves deserted, our stores tenantless, our streets bereft of active business; industry forsaking her beloved haunts, and hope fled from places where she had from earliest time been accustomed to make and fulfill her most precious promises?" He warned that New England could not tolerate the embargo much longer: "You cannot lay a man upon the rack and crack his muscles by slow torment, and call patriotism to soothe the sufferer."¹¹⁰ Even before the new enforcement act had passed, the Massachusetts and Connecticut legislatures called existing compliance measures "unconstitutional" and protested against the destruction of commerce, implicitly threatening to no longer enforce the embargo.

New England's hostility toward the embargo and revulsion at its enforcement began to erode political support for the embargo; even Republicans from New England began to question the wisdom of continuing it. Violations began to escalate, and an increasing number of ships left port illegally. The first crack in the Republican political support for the embargo appeared shortly after Congress had strengthened its enforcement. A Virginia Republican offered a resolution that would terminate the embargo at an unspecified future date, initially suggested to be June 1. Jefferson later wrote that this unleashed a "sudden and unaccountable revolution of opinion" that "resembled a kind of panic" among New England and New York Republicans in favor of an early lifting of the embargo.¹¹¹ Orchard

Cook, a Massachusetts Republican, remarked that "The South say[s] embargo or war, and the North and East say, no embargo, no war. . . . I lament that this difference of opinion exists; yet, as it does exist, we must take things as they are, and legislate accordingly. The genius and duty of Republican government is to make laws to suit the people, and not attempt to make the people suit the laws."¹¹² Even Madison came to see that "the Eastern seaboard is become so impatient under privations of activity and gain . . . that it becomes necessary for the sake of the Union that the spirit not be too much opposed."¹¹³

Republican unity on the embargo collapsed, and the date for its termination was moved up to March 4, when Madison would be inaugurated. As a compromise with the hardliners, the lifting of the embargo was coupled with continued non-importation measures against Britain and France. This compromise won the support of the House on February 27, the Senate the next day, and was reluctantly signed by Jefferson on March 1. Table 2.1B shows the House vote on whether to retain the embargo. Federalists who unanimously opposed the embargo were now joined by many Republicans, particularly from New England and the Mid-Atlantic states. Surprisingly, although the South continued to have an economic interest in lifting the embargo, the region still showed strong support for maintaining it.

Why did Republican support for the embargo dissolve so quickly in January-February 1809? Jefferson blamed two House Republicans from Massachusetts, Joseph Story and Ezekiel Bacon, and especially Story, whom he called a "pseudo-Republican," for fomenting panic about the strength of the New England opposition to the embargo.¹¹⁴ While admitting that "considerable discontent was certainly excited in Massachusetts, . . . its extent was magnified infinitely beyond its reality, an intrigue (I believe) not more than two or three members, reputed republicans, excited in Congress a belief that we were under the alternative of civil war, or a repeal of the embargo," Jefferson wrote with dismay. "Thus were we driven by treason among ourselves from the high & wise ground we had taken, and which, had it been held, would have either restored us our free trade, or have established manufactures among us."¹¹⁵

Many years later, Jefferson suggested that he voluntarily decided to end the embargo to preserve national unity.¹¹⁶ However, Joseph Story insisted that Jefferson fought stubbornly to keep it in place. Story said that he always thought the embargo was "a doubtful policy" but initially supported it as a "fair experiment." As Story (1852, 184–85) recalled:

A year passed away, and the evils, which it inflicted upon ourselves, were daily increasing in magnitude and extent. . . . Alive to the sufferings of my fellow-citizens, and perceiving that their necessities were driving them on to the most violent resistance of the measure—and, indeed, to a degree which threatened the very existence of the Union—I became convinced of the necessity of abandoning it, and as soon as I arrived at Washington I held free conversations with many distinguished members of the Republican party on the subject, which were soon followed up by consultations of a more public nature. I found that as a measure of retaliation the system had not only failed, but that Mr. Jefferson from pride of opinion, as well as from that visionary course of speculation, which often misled his judgment, was resolutely bent upon maintaining it at all hazards. He professed a firm belief that Great Britain would abandon her orders in council, if we persisted in the embargo; and having no other scheme to offer in case of the failure of this, he maintained in private conversation the indispensable necessity of closing the session of Congress without any attempt to limit the duration of the system. The consequence of this would be an aggravation for another year of all the evils which then were breaking down New England. I felt that my duty to my country called on me for a strenuous effort to prevent such calamities.

Story knew the embargo would collapse if it was continued through 1809, and he sought to impress upon fellow Republicans the necessity of abandoning it. According to Story, the Jefferson administration attempted to persuade him to end his opposition to the embargo. "The whole influence of the Administration was directly brought to bear upon Mr. Ezekiel Bacon and myself, to seduce us from what we considered a great duty to our country, and especially New England. We were scolded, privately consulted, and argued with, by the Administration and its friends, on that occasion" (Story 1852, 187). These discussions led Story to believe that Jefferson

was determined on protracting the embargo for an indefinite period, even for years. I was well satisfied, that such a course would not and could not be borne by New England, and would bring on a direct rebellion. It would be ruin to the whole country. Yet Mr. Jefferson, with his usual visionary obstinacy, was determined to maintain it; and the New England Republicans were to be made the instruments. Mr. Bacon and myself resisted, and measures were concerted by us, with the

aid of Pennsylvania, to compel him to abandon his mad scheme. For this he never forgave me. (187)¹¹⁷

Story explicitly rejected Jefferson's version of events: "It is not a little remarkable, that many years afterwards, Mr. Jefferson took great credit to himself for yielding up, *suâ sponte*, this favorite measure, to preserve, as he intimates, New England from open rebellion. What to me was almost a crime, became, it seems in him an extraordinary virtue. The truth is, that if the measure had not been abandoned when it was, it would have overturned the Administration itself, and the Republican party would have been driven from power by the indignation of the people, goaded on to madness by their suffering" (1852, 185).

Jefferson's embargo led to a virtual shutdown of foreign commerce and was therefore one of the most dramatic trade policy experiments in history. What are we to make of this attempt at "peaceable coercion"? The embargo must be considered a failure: it imposed large costs on the economy but failed to achieve any of its objectives. Although the United States managed to avoid a war and save ships and sailors from further encroachments, the embargo severely disrupted commerce and inflicted large economic losses on farmers, fishermen, merchants, and ship owners, all of which greatly aggravated sectional tensions. Had the administration persisted with the embargo, its enforcement would have led to a national crisis.

Yet Jefferson steadfastly maintained that economic pressure on Britain could have succeeded if it had been given more time. Shortly after leaving office, Jefferson held that the embargo "would have saved us had it been honestly executed a few weeks longer." In 1815, Jefferson insisted that "a continuance of the embargo for two months longer would have prevented our war" of 1812. And just months before his death, Jefferson referred to the embargo as "a measure which persevered in a little longer . . . would have effected its object completely." Yet there is no evidence to support these views.¹¹⁸

Alexander Hamilton, although no longer alive, was one person who almost perfectly anticipated the trade and revenue effects of the embargo, and even its domestic political repercussions. In 1794, Hamilton argued against any embargo against Britain and predicted: "The consequences of so great and so sudden a disturbance of our Trade which must affect our exports as well as our Imports are not to be calculated. An excessive rise in the price of foreign commodities—a proportional decrease of price and demand for our own commodities—the derangement of our revenue and

credit—these circumstances united may occasion the most dangerous dissatisfaction & disorders in the community and may drive the government to a disgraceful retreat—independent of foreign causes.”¹¹⁹ With the exception for the derangement of credit, which was more firmly established in 1808 than it had been in 1794, each one of Hamilton’s predictions came true.

TRADE DISRUPTIONS AND THE WAR OF 1812

Although Congress repealed the embargo in March 1809, trade remained depressed over the next six years, first because of a series of legislative measures that restricted imports from Britain and France, and then because of the War of 1812. With the lifting of the embargo, exports and imports jumped immediately as hundreds of American ships took to the seas once again (see figure 2.1). But trade did not return to its previous levels, because the non-intercourse law banned all trade with Britain, France, and their colonies. At least officially, American ships could sail anywhere except to ports controlled by the British and French, and US ports were closed to British and French ships and goods. However, the impact of this measure was diminished by a presidential error. Believing that an agreement had been reached with a British representative in Washington to lift the non-intercourse measure in exchange for a change in British policy, President Madison opened trade with Britain in April 1809 on the assumption that the deal would be approved in London. It turned out that the diplomat had exceeded his official instructions; the British government did not approve the agreement, and Madison was forced to reimpose non-intercourse four months later.

The non-intercourse measure was due to expire in early 1810. Madison deferred to Congress, but he wanted to reimpose an embargo, something legislators were unwilling to consider. Frustrated that Congress was unwilling to take a hard line, Madison complained that the Federalist party “prefers submission of our trade to British regulation” while the Republican party “confesses the impossibility of resisting it.”¹²⁰ In May 1810, after an extensive debate, Congress passed Macon’s Bill No. 2 that restored open trade with both Britain and France, but with an unusual provision: If either Britain or France repudiated its policy of harassing American shipping, the United States would resume non-importation against the other country. This led to another diplomatic stumble by Madison. When France hinted that a change in policy might be forthcoming, he reinstated non-importation against Britain in March 1811. However, the president soon learned that France had actually not decided to change its policy toward

American shipping. Yet Madison kept non-importation against Britain in effect, whereby American goods could be exported to Britain but imports of British merchandise were prohibited.

The Republican policy of allowing exports but banning imports had practical and political problems. The practical issue was that an export restriction actually might have exerted more influence over British policy than non-importation. Due to a poor European harvest and trade disruptions elsewhere, the British army in Spain was now heavily dependent upon imports of American grain. Some observers believed that the Orders in Council would be repealed if the United States now imposed an export embargo, but opposition from grain producers in the Mid-Atlantic region prevented Madison from exploiting this new British vulnerability.¹²¹

The unequal treatment of exports and imports also created a political problem in exacerbating sectional tensions. Non-importation was detrimental to the New England shipping industry and New York merchants in the Federalist Northeast. Permitting exports served the interests of Mid-Atlantic grain and flour producers and southern staples producers and enabled them to be relatively unaffected by the trade sanctions. Republicans from the South and Mid-Atlantic generally supported the trade measures, but a minority joined with Federalists in opposing them. One Republican opponent, John Randolph of Virginia, called the restrictive system "a series of the most impolitic and ruinous measures, utterly incomprehensible to every rational, sober-minded man."¹²² The Federalists, drawing their support mainly from New England and New York, voted almost unanimously against every proposed restriction of commerce between 1806 and 1812. Federalists complained that such measures did more damage to the United States than it inflicted on other countries in depriving them of American goods. The trade restrictions hit particularly hard in New England, where secessionist sentiments reappeared.¹²³

If Madison privately complained that Congress was unwilling to strike back against Britain, he could have no such complaints about the Twelfth Congress that opened in December 1811. The new Congress was filled with a new generation of younger Republicans, including Henry Clay of Kentucky and John Calhoun of South Carolina. Led by Clay, these "War Hawks" were fed up with the economic stalemate and wanted to take decisive military action against Britain. Their speeches were filled with fervent patriotic rhetoric about redeeming the nation's honor, asserting the country's independence, and regaining national respectability. "The outrages in impressing American seamen exceed all manner of description," a Virginia writer explained in April 1812. "Indeed the whole system

of aggression now is such that the real question between G. Britain and the U. States has ceased to be a question merely relating to certain rights of commerce. . . . it is now clearly, positively, and decidedly a *question of independence*, that is to say, whether the U. States are really an independent nation."¹²⁴

The United States had to fight for "free trade and sailors' rights" because the country's honor was at stake, the War Hawks believed.¹²⁵ But as Clay noted, even "if pecuniary considerations alone are to govern, there is sufficient motive for the war."¹²⁶ The War Hawks were less upset about the interference with shipping, which was New England's problem, than with the low price of southern staples. This was blamed on the obstructions that Britain placed on American commerce. Felix Grundy of Tennessee argued that "It is not the carrying trade, properly so called, about which this nation and Great Britain are at present contending. Were this the only question now under consideration, I should feel great unwillingness . . . to involve the nation in war. . . . The true question in controversy, is of a very different character; it involves the interest of the whole nation. It is the right of exporting productions of our own soil and industry to foreign markets."¹²⁷ "We were but yesterday contending for the indirect trade—the right to export to Europe the coffee and sugar of the West Indies," Clay explained. "Today we are asserting our claim to the direct trade—the right to export our cotton, tobacco, and other domestic produce to market." Calhoun saw "the hand of foreign injustice" as the explanation for the low prices of southern staples.¹²⁸

A deeper source of the confrontational attitude was the growing nationalism in the United States, especially in the frontier states and deep South. British support for Indians on the frontier was one source of anti-British feeling. Another was the growing interest in territorial expansion. The expansionist impulse put attention on Canada and Florida. The South wanted to wrest Florida from Spanish control, while many constituencies wanted to absorb Canada, which seemed ripe for the taking, since Britain was engaged in fighting France. Conquering Canada would push Britain out of North America once and for all and solve multiple problems: it would stop British support for Indians on the frontier, end their control of fishing off the coast of Newfoundland, and impede their ability to interfere with the West Indies trade. Henry Clay claimed that "Canada was not the end but the means, the object of the war being the redress of injuries, and Canada being the instrument by which that redress was to be obtained."¹²⁹ But John Randolph, one of the few Republicans from Virginia who opposed this aggressive stance, argued that the War Hawks wanted a

land grab, "a scuffle and scramble for plunder."¹³⁰ Federalists and antiwar Republicans repeatedly argued that starting a war would not improve the prices of hemp, tobacco, or cotton, but simply make matters worse. However, they were a minority in Congress.

Thus, a variety of motives led to the War of 1812. As Hickey (1989, 28) explains, "Many Republicans had concluded that there were compelling diplomatic, ideological, and political reason for going to war against England. If all went well, the Republicans could expect to win concessions from the British, vindicate American independence, preserve republican institutions, maintain power, unify their party, and silence the Federalists." In April 1812, in preparation for war, Congress enacted a ninety-day total embargo on trade as a defensive measure to get American ships out of harm's way.

As the United States moved toward war, Britain was showing the first signs of weakening. Unlike Jefferson's embargo three years earlier, the non-importation policy starting in March 1811 coincided with an economic slump in Britain. Although the extent to which the ban on imports exacerbated the recession is uncertain, British manufacturers believed that ending non-importation would increase demand for their goods. Unemployed workers in Manchester, Liverpool, Birmingham, and other industrial cities sent dozens of petitions to Parliament demanding repeal of the Orders in Council so that the United States would end its non-importation policy.¹³¹ Already suffering under heavy taxes due to the war against France, Britain did not welcome the prospect of another war in North America. The weak economy and pressure from labor and industry helped persuade the British government to relax its policy toward neutral shipping. On June 23, 1812, Foreign Secretary Lord Castlereagh announced the suspension of the Orders in Council that had been an irritant to Anglo-American relations for so long. As Castlereagh conceded in his diary, "One does not like to own that we are forced to give way to our manufacturers."¹³² The apparent vindication of the Republican policy of commercial pressure was an illusion, to some extent, because the policy worked only when it coincided with a recession in Britain that was not itself the result of US trade policies.¹³³

Unfortunately, word of this suspension did not reach the United States until August, well after political developments in Washington had pushed the country toward military action. In June 1812, Madison asked Congress to declare war against Britain. In his message, the president cited several grievances: the continued impressment of sailors, the unlawful seizures of ships and cargo, the Orders in Council, and the arming of Indians in the West. Federalists were dumbfounded that the country was rashly start-

ing a war for which it was ill-prepared. And they were incredulous that the country would take the side of a French despot bent on military conquest (Napoleon) against a country with constitutional government that happened to be an important customer for American goods. Even in the South, some questioned whether John Calhoun's aggressive stance was not a "delusive hope" that some good would come from a military conflict.¹³⁴ A divided House quickly voted to declare war on Britain. The decision was highly sectional: most of the support for the war came from the South and West, while Republicans in seaport towns and Federalists from northern commercial states were strongly opposed. The Senate soon followed in a similarly divided vote.

Thus, on June 19, 1812, just two days after the British government announced that it was suspending the Orders in Council, the United States formally declared war on Britain. Later that month, somewhere in the north Atlantic, the ship from Britain bringing news of the Orders in Council suspension passed the ship from the United States bringing news of the declaration of war. Had there been more rapid means of communication, the conflict might have been averted. "Madison later indicated that the declaration of war 'would have been stayed' if he had known about the repeal of the Orders," Hickey (1989, 42) writes. "But without a [transatlantic] cable, it took weeks for the news to reach America, and by then the die was cast."

The war went poorly for the United States. Plans for a quick seizure of Canada went awry, and by the end of the year, Congress was already showing an interest in ending the conflict. Britain proved strong enough to fight France in Europe and the United States in North America simultaneously. As a result, the war dragged on for more than two years.

In terms of trade policy, the war prompted Congress in July 1812 to double all import duties until one year after hostilities ceased. In addition, a 10 percent surcharge was imposed on goods arriving on foreign ships, and the tonnage duties on foreign ships were quadrupled. Non-importation of British goods continued and was reinforced by restrictions on exports to Canada to prevent supplies from reaching the enemy. Later, in December 1813, a complete embargo on foreign trade required that all American ships remain in port, thereby bringing exports to any foreign destination to a halt. Meanwhile, the Royal Navy blockaded the East Coast to interfere with trade, except the smuggling of contraband to its forces. The blockade stretched from Long Island to New Orleans and deliberately exempted New England in the hopes that sympathetic merchants would provide them with supplies in violation of US law.¹³⁵

The combination of war, non-importation, and blockade squeezed US trade to the lowest levels in recorded history, with the possible exception of the Revolutionary war, a period for which good statistical data do not exist. Figure 2.1 shows that exports dropped almost 90 percent, while imports shrank more than 80 percent between 1811 and 1814. As a result, customs revenue shriveled up, and the federal debt tripled between 1812 and 1816.

The wartime embargo proved to be very short-lived. In April 1814, following the initial British victory against Napoleon, European ports were reopened to US shipping. A large majority in Congress voted to repeal both the embargo and non-importation, but this made little difference to trade. With Napoleon no longer a threat, Britain shifted its military forces across the Atlantic to confront the United States. The Royal Navy tightened its blockade, extended it to New England ports as well, and managed to sail up the Potomac River and burn the White House and Capitol building.

By this time, neither side had an interest in prolonging the conflict. From the American standpoint, the war was a disaster and failed to achieve any of its objectives. The economy suffered grievously from the war and loss of trade. "Unlike most American wars," Hickey (1989, 305) notes, "this one did not generate a general economic boom. . . . Although people in the middle and western states prospered, those in New England and the South did not. Manufacturing thrived because of the absence of British competition, but whatever gains were made in this sector of the economy were dwarfed by heavy losses in fishing and commerce."

In December 1814, the United States and Britain concluded a formal peace agreement with the Treaty of Ghent. The peace treaty restored the *status quo ante bellum* and did not mention impressment or neutral shipping rights, the ostensible reasons for the war. The Senate approved the treaty in February 1815, paving the way for the resumption of normal peacetime trade for the first time in many years.

THE BIRTH OF INFANT INDUSTRIES

In 1796, after touring the country, the French diplomat Talleyrand observed that America "is but in her infancy with regard to manufactures: a few iron works, several glass houses, some tan yards, a considerable number of trifling and imperfect manufactories of kerseymere [a course kind of knitting] and, in some places, of cotton . . . point out the feeble efforts that have hitherto been made [to] furnish the country with manufactured articles of daily consumption."¹³⁶

The seven-year disruption of America's imports, from 1808 through 1814 due to embargoes, non-importation, blockades, and war, dramatically changed this situation. The suppression of imports gave rise to domestic production of manufactured goods and began a structural shift in the economy. While the promotion of domestic manufacturing was not the primary intention of Jefferson and Madison, their trade policies restricted imports so severely that enterprising entrepreneurs started producing manufactured goods to replace those formerly imported. Although he had no desire to see large-scale factories appear on America's shores, Jefferson anticipated that the embargo would provide "indirect encouragement" to small domestic manufacturers. In contrast to his earlier views, he welcomed this development as a way of achieving economic independence. "Our embargo, which has been a very trying measure, has produced one very happy & permanent effect," Jefferson wrote after leaving office in 1809. "It has set us all on domestic manufacture, & will I verily believe reduce our future demands on England fully one half."¹³⁷

Similarly, in his November 1809 message to Congress, Madison praised non-importation for promoting the growth of domestic manufacturing: "In the midst of the wrongs and vexations experienced from external causes there is much room for congratulation on the prosperity and happiness flowing from our situation at home. . . . The face of our country everywhere presents evidence of laudable enterprise, of extensive capital, and of durable improvement. In a cultivation of the materials and the extension of useful manufactures, more especially in the general application to household fabrics, we behold a rapid diminution of our dependence on foreign supplies."¹³⁸

This marked a distinct change from the attitude of Republicans in the early 1790s, when they opposed Hamilton's efforts to promote manufacturing and encourage industrialization. By the time of Jefferson's embargo, "the Republican press was without a doubt far more open to a new manufacturing economy than the Federalists," who remained wedded to commerce, Peskin (2002, 251) notes. Indeed, the Republican policy of commercial warfare promoted the growth of domestic manufacturing much more than the Federalist policy of keeping the channels of trade relatively open and free. As Merrill Peterson (1970, 515) observed, "Ironically, the factories and workshops [Jefferson] had preferred to keep in Europe would the more likely result from his commercial system than from Hamilton's fiscal system."

As a result, manufacturing interests swung behind the Republicans. "By the first decade of the nineteenth century, manufacturing support-

ers were at least as likely to be Republicans as Federalists," Peskin (2002, 242–43, 235) notes. The "parties appeared almost to switch positions on the issue of manufacturing and the role of the federal government in the economy. . . . A British traveler to Philadelphia at this time observed that the Federalist and Republican parties were respectively 'merely other terms for importers and manufacturers.'" A June 1809 vote in the House of Representatives illustrates this remarkable political change. A Republican congressman from Massachusetts introduced a resolution asking the secretary of the Treasury to prepare a report on the status of manufacturing in the country and to recommend measures "for the purpose of protecting and fostering the manufactures of the United States." More than 80 percent of Republicans favored this request, while Federalists were divided.

This resolution led to Treasury Secretary Gallatin's *Report on Manufactures* in April 1810. Because data on the state of manufacturing were incomplete, Gallatin concluded that he did not have enough information to recommend a plan "best calculated to protect and promote American manufactures," but he noted three ways of doing so: bounties, import duties, and government loans. Gallatin argued that bounties were most appropriate for exported goods and that high tariffs were "liable to the treble objection of destroying competition, of taxing the consumer, and of diverting capital and industry into channels generally less profitable to the nation." Therefore, since "the comparative want of capital, is the principal obstacle to the introduction and advancement of manufactures in America, it seems that the most efficient, and most obvious remedy would consist in supplying that capital." Arguing that the nation's banks would be too short-sighted to fund such new ventures, Gallatin proposed that the government create a circulating stock of between \$5 million and \$20 million that could be used for loans for new manufactures.¹³⁹ This proposal for government-sponsored venture capital loans went nowhere in Congress, but it is ironic that less than twenty years after Madison sought to scuttle Hamilton's *Report on Manufactures*, his own Treasury secretary issued one with strikingly similar conclusions.

Although Gallatin did not recommend higher tariffs, Madison proposed them as the means of supporting new industries. In his annual message to Congress in December 1810, he applauded the growth of manufacturing that was occurring because of disrupted trade with Britain: "Such indeed is the experience of economy as well as of policy in these substitutes for supplies heretofore obtained by foreign commerce that in a national view the change is justly regarded as of itself more than a recompense for those privations and losses resulting from foreign injustice

which furnished the general impulse required for its accomplishment. How far it may be expedient to guard the infancy of this improvement in the distribution of labor by regulations of the commercial tariff is a subject which cannot fail to suggest itself to your patriotic reflections."¹⁴⁰

Of course, the trade disruptions were a mixed blessing for American industry. Production by import-substituting manufacturers increased, but export-oriented manufacturing, most importantly shipbuilding, suffered. Production by commercial industries collapsed in 1808 due to the embargo and contracted even more during the War of 1812. For import-competing manufacturers, production spiked during the war, but the gain in output was largely reversed after trade resumed in 1815.¹⁴¹

Thus, the tumultuous experience of dealing with British trade policies after independence had transformed Thomas Jefferson and his fellow Republicans. In 1785, Jefferson lauded farmers as the chosen people of God and pleaded, "Let our workshops remain in Europe." In 1813, Jefferson now wrote that "out of the evils of impressment and of the orders in council, a great blessing for us will grow. I have not formerly been an advocate for great manufactories. I doubted whether our labor, employed in agriculture, and aided by the spontaneous energies of the earth, would not procure us more than we could make ourselves of other necessaries. But other considerations entering into the question, have settled my doubts."¹⁴² Three years later, Jefferson was even more enthusiastic: "Within the thirty years that have elapsed [since the publication of *Notes on Virginia*], how are circumstances changed! To be independent for the comforts of life we must fabricate them ourselves. We must now place the manufacturer by the side of a agriculturalist. . . . Experience has taught me that manufactures are now as necessary to our independence as to our comfort."¹⁴³

The manufacturers that had arisen during the period of disrupted trade marked the beginning of a new era in US trade policy. Now commerce and agriculture were joined by a third economic interest, manufacturing, as the key sectors that would shape the politics of trade policy. Madison and the Republican Congress did not want the new industries to disappear as a result of renewed competition from Britain. Therefore, as we shall see in chapter 3, the Madison administration helped give rise to the first truly protective tariff in US history, leading to many trade-policy battles in the decades to come.