

POLITICS

How 'National Developmentalism' Built America

Tariffs, not free trade, led America to industrialize.

Railroad bridge across the Potomac River. (Photo by Buyenlarge/Getty Images)

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Mar 9, 2023 | 12:05 AM



John F. Kennedy once stated: “The great enemy of truth is very often not the lie, deliberate, contrived and dishonest—but the myth—persistent, persuasive and unrealistic.” Nowhere is this perhaps truer than the myth that America’s laissez-faire tradition enabled America to lead the world economically.

The reality is that from the founding of the American republic until the end of the Cold War, economic policy was guided by “national developmentalism,” where leaders used government to achieve economic independence from the British, then to become the leading industrial nation in the early 1900s, and later to crush the Soviet Union technologically. This tradition, not the embrace of laissez-faire, is why America became the richest nation on earth. Once again embracing national developmentalism will be critical to enabling America to meet the existential challenge that is China.

Despite a prevailing narrative to the contrary, the Founders were not followers of Adam Smith. In his history of early American economic policy, Frank Bourgin writes, “the doctrine of laissez-faire was hardly known to the framers of our Constitution.” Rather they understood that absent developmental policy, the republic was likely to remain a natural resources colony for Britain. For example, the Continental Congress passed a resolution urging every colony to establish “a society for the improvement of agriculture, arts, manufacturers, and commerce.”

Alexander Hamilton, per Bourgin, “believed that in industry lay our great national destiny.” He did not want America to remain a “hewer of wood and drawer of water.” Indeed, he argued that government should “cultivate particular branches of trade... and to discourage others.” That’s why America’s first successful manufacturing firm, the Society of Useful Manufacturers, was funded by the state of New Jersey and leading American financiers Hamilton convinced to fund it.

Even Thomas Jefferson embraced national developmentalism, including protective tariffs. As president, his goal was to repay the national debt and then use the revenues to fund “rivers, canals, roads, arts, manufacturers, education and other great objects.” He “encouraged new branches of industry that may be advantageous to the public, either by offering premiums for discoveries, or by purchasing from their proprietors such inventions as shall appear to be of immediate and general utility, and rendering them free to the citizens at large,” according to [Joel Barlow](#).

After the War of 1812, Jefferson wrote:

You tell me I am quoted by those who wish to continue our dependence on England for manufactures. There was a time when I might have been so quoted with more candor, but within the 30 years, which have since elapsed, how are circumstances changed!

Indeed, the war heightened calls for greater efforts to develop American industry. Henry Clay and other Whigs devised “the American System,” consisting of tariffs to protect and promote industry; a national bank to foster commerce; and federal subsidies for roads, canals, and other domestic improvements. The latter also involved subsidies to targeted industries. When running in 1832 as a Whig, Abraham Lincoln stated “my politics are short and sweet, like the old woman’s dance. I am in favor of a national bank...in favor of the internal improvements system, and a high protective tariff.”

In fact, tariffs, not free trade, are a key reason the United States industrialized. The Tariff Act of 1816 was the first tariff passed by Congress with the explicit purpose of protecting U.S. manufactured items from foreign competition. As late as the McKinley administration, the tariff rate on dutiable imports was around 50 percent. This was hardly free trade and open markets.



One reason why the laissez-faire myth perpetuates is that most look to the federal civilian government for evidence of industrial policies. To be sure, these existed. The federal government supported the development of Robert Fulton’s steamship, Samuel Morse’s telegraph line from Washington, D.C., to Baltimore, and research into steamboat explosions.

But until the Civil War, state governments were the major practitioners of national developmentalism. This should be a surprise, because overall, the federal government was small. As Harry N. Scheiber writes, “positive intervention by states has been present continuously. At no time since 1787 does one find that laissez faire ideology pervasively stood in the way of either promotional or regulatory intervention by the states.”

Take New York for example. In 1790, as Scheiber reports, the New York legislature granted a manufacturer of earthenware a loan, because “the establishment of useful manufacturers is closely connected with the public weal.” Between 1812 and 1816, the legislature authorized 28 loans to manufacturers. In addition, the state funded “the Society for the Promotion of the Useful Arts to improve agricultural production.”

It used the financial surpluses from the Erie Canal to provide capital to banks to lend to manufacturers. The banks extended credit to “millers in Buffalo and Rochester, salt manufacturers in the Syracuse region, and urban commercial interests in Albany and other transshipment cities.” In the first half of the 19th century, New York state “granted bounties to stimulate manufacturers, regulated weights and measures, and levied discriminatory duties on imports entering the port of New York in British ships.” Many other states, especially outside the plantation South, enacted similar industrial policies.

From 1865 to the 1890s, states subsidized railroads through bond-supported aid, direct subscriptions, and land grants. Some states also extended direct cash aid or other benefits, on the model of modern “industrial development commissions,” to favored forms of industrial or commercial enterprise.

Perpetuators of the laissez-faire myth also discount the critical role of the military in economic development. As Merritt Roe Smith writes:

Whether one looks at the origins of mechanized production or the latest version of the automatic factory, one finds the imprint of military influence. Computers, sonar, radar, jet engines, swept wing aircraft, insecticides, transistors, fire- and weather-resistance clothing, antibacterial drugs, numerically-controlled machine tools, high-speed integrated circuits, nuclear power—these are but some of the best-known industrial products of military enterprises since WWII. And the list can be greatly extended.

Scholars William Adler and Andrew Polsky write that in the pre-Civil War period, “The Army did more to shape the pattern and direction of economic development than did any other federal agency, any state government, or any private institution.” For example, in the first half of the 1800s, at a time when trained engineers were extremely scarce, the Army supplied them to the private economy.

Moreover, the federal armory system was central to the development of interchangeable parts. As industrial historian David Hounshell writes:

by specifying interchangeability in its contracts and by giving contractors access to technicians used in the national armories, the [Army] Ordnance Department contributed significantly to the growing sophistication of metalworking and woodworking... in the United States by the 1850s. British observers found these techniques sufficient different from their own as to alluded to them as the “American system.”

Charles Morris writes, “The American military started working on the basic technologies for some four decades before it finally burst into commercial prominence. In the same way, armory practice in machining laid down a substrate of technologies—including gauging, pattern making, profiling and milling—that were seized on later and taken in many different directions by private contractors,” including the sewing machine, bicycle and auto industries. The Armories were also talent incubators. Henry Leland worked at the Springfield Armory and carried his knowledge with him to Browne and Sharpe Manufacturing Company and then later he created the Cadillac and Lincoln Motor Car Companies.

But it didn’t stop there. As Smith writes, “During the 1870s and 1880s...the Naval Ordnance Bureau, with its intense interest in adopting all-steel breechloading guns and armored vessels played an instrumental role in getting firms such as the Midvale Steel Company and Bethlehem Steel company to acquire the latest open-hearth methods and scale up their plants.” Indeed, the Navy’s role was a major factor in propelling the U.S. steel industry to global leadership.

The Navy played the key role in creating the Radio Corporation of America, including threatening British Marconi will export controls of key technologies unless it sold Marconi of America to General Electric and created RCA. As academic Susan J. Douglas writes, “Not only did Navy technicians contribute to the development of the art, but private inventors and private manufacturers with their research departments found in Navy patronage the encouragement and inspiration that led them to persevere in their endeavors.” The Navy Air Corp also funded General Electric to develop what would become GE’s jet engine business.

Later the Army Signal Corps played a key role in the development of early transistor, with its subsidies research, engineering development and plant construction, as well as forcing standardization. Indeed, the Department of Defense’s Electronics Production Resource Agency assigned the Corps the task of developing the new technology for military purposes. Military support for the transistor at Bell Labs accounted to 50 percent of Bell funding from 1953 to 1955. It also funded plants directly, including by Western Electric, General Electric, Raytheon, RCA, and Sylvania.

In the 1950s and early 1960s, the Navy also played a key role in the development of containerization, while the Air Force played the same role in numerically controlled machine tools in the 1950s when it created a market for these initially more expensive machines.



While states and the military played key national developmentalism roles, the federal role grew over time. It was no accident that the Civil War years—when the Democratic agrarian South had no members in Congress—were the most productive in American history for national development policy. Congress passed the Pacific Railway Act, the Homestead Act, the National Banking Act, the Morrill Land Grant Act, the Department of Agriculture Act, and the Morrill Tariff.

Starting in World War II, the federal government dramatically ramped up its support for advanced industry. By the early 1960s, the federal government spent more on research and development than the rest of the world combined. That fueled an enormous array of breakthroughs, including computers, semiconductors, jet aviation, lasers, numerically controlled machine tools, satellites, relational data bases, and of course, the internet.

In the 1980s, President Ronald Reagan supported the creation of the R&D tax credit, and the establishment of a government-industry R&D partnership called Sematech that helped restore U.S. leadership in semiconductors. The National Science Foundation launched a series of programs to link university and industry research. And his trade representative threatened the Japanese with tariffs if they did not open up the computer chip market.

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None of this is to say that government alone drove U.S. leadership. America's vast market enabled mass production industries to take off. Our risk-taking culture, enabled in part by immigrants who wanted new lives and opportunities, was critical. And the fact that, as Calvin Coolidge said, "The business of America is business" meant there were fewer restrictions on U.S. business than European. But still, without an active developmental state, America's progress would have been much more limited.

America's long and proud tradition is developmentalist. The sooner Washington jettisons the laissez-faire myth, the better the chances America will be able to effectively compete with China.

This article is part of the American System series edited by David A. Cowan and supported by the Common Good Economics Grant Program. The contents of this publication are solely the responsibility of the authors.

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