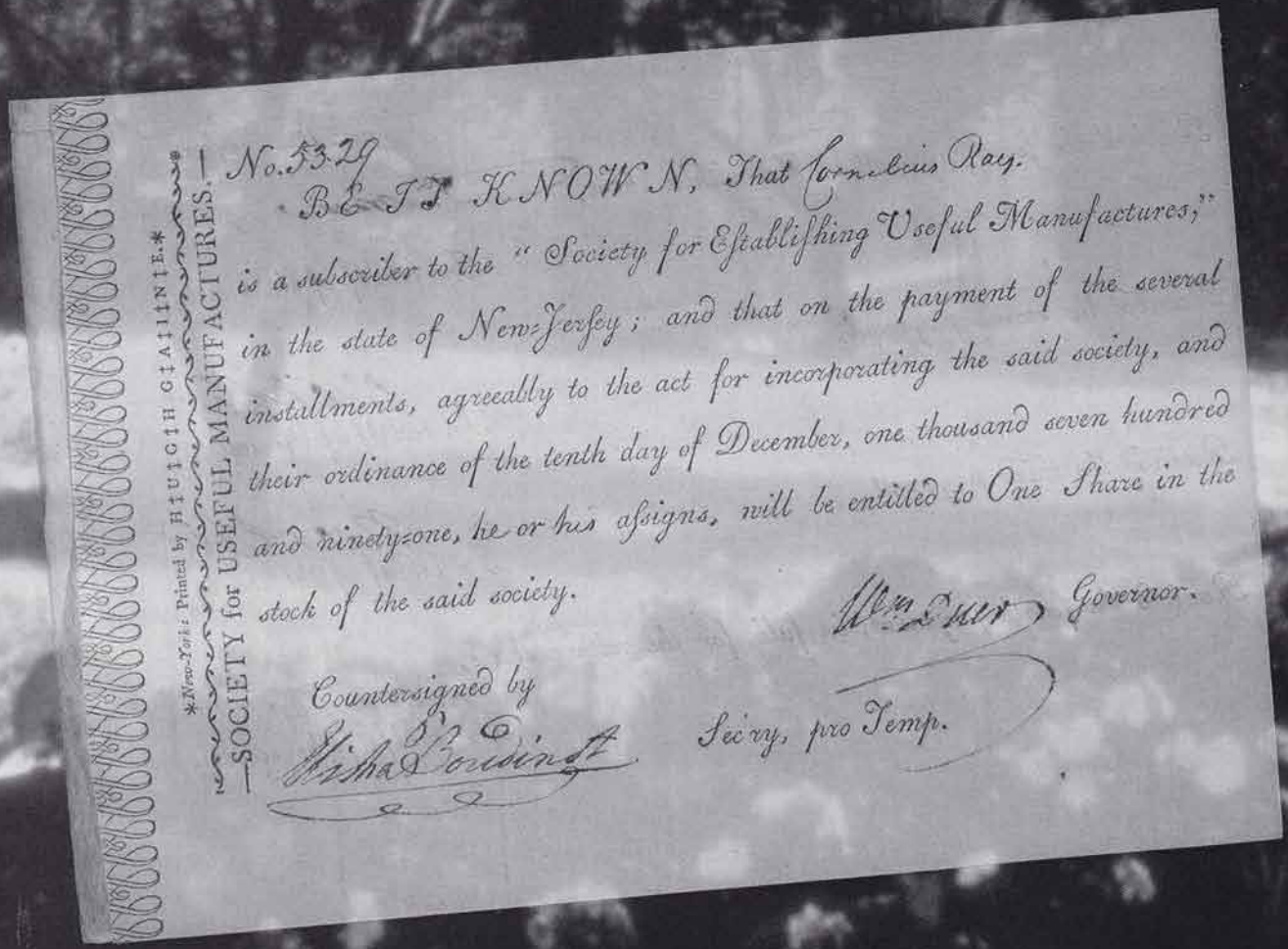
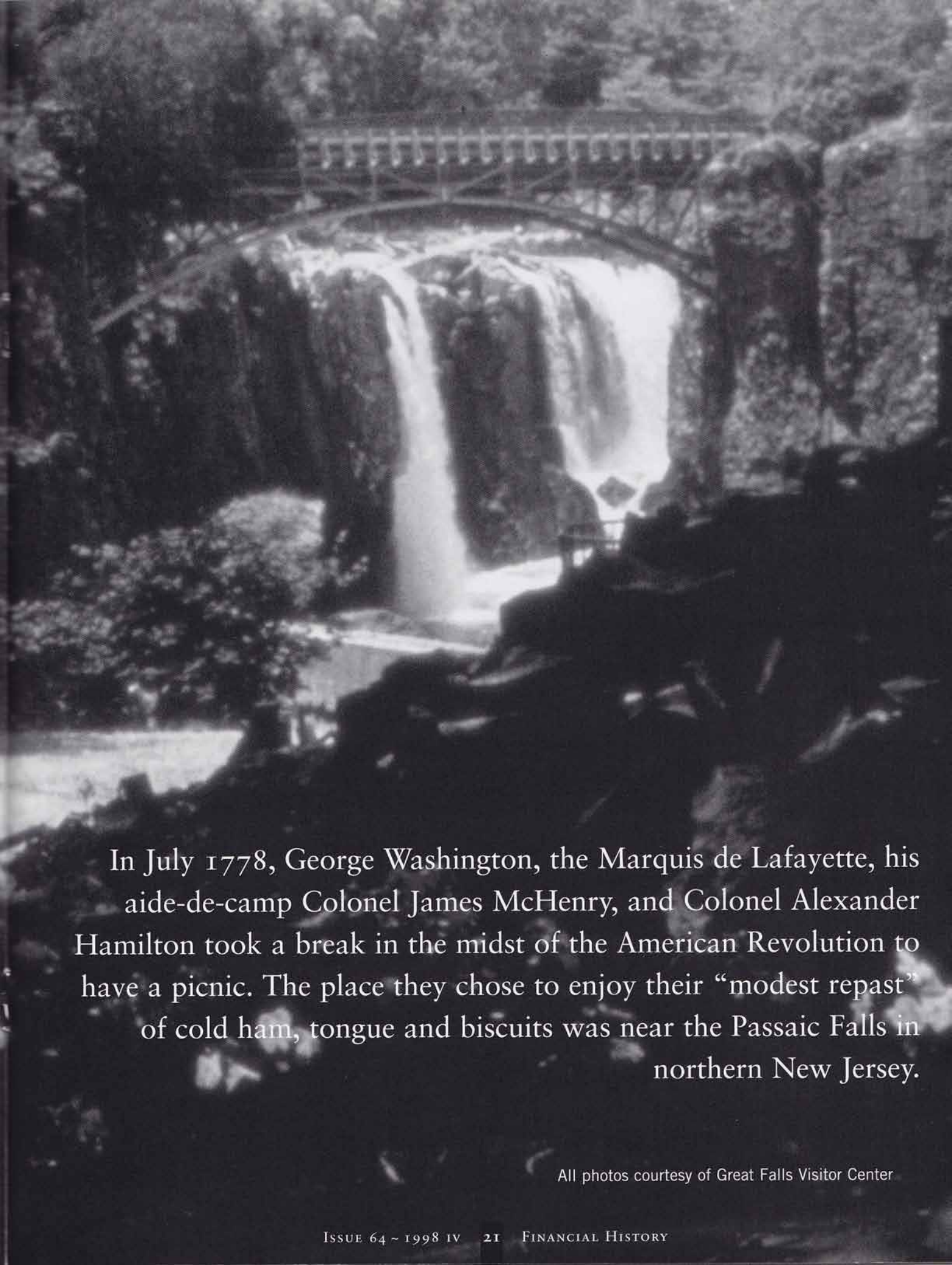
The Society *for* Establishing Useful Manufactures

By Russell Roberts



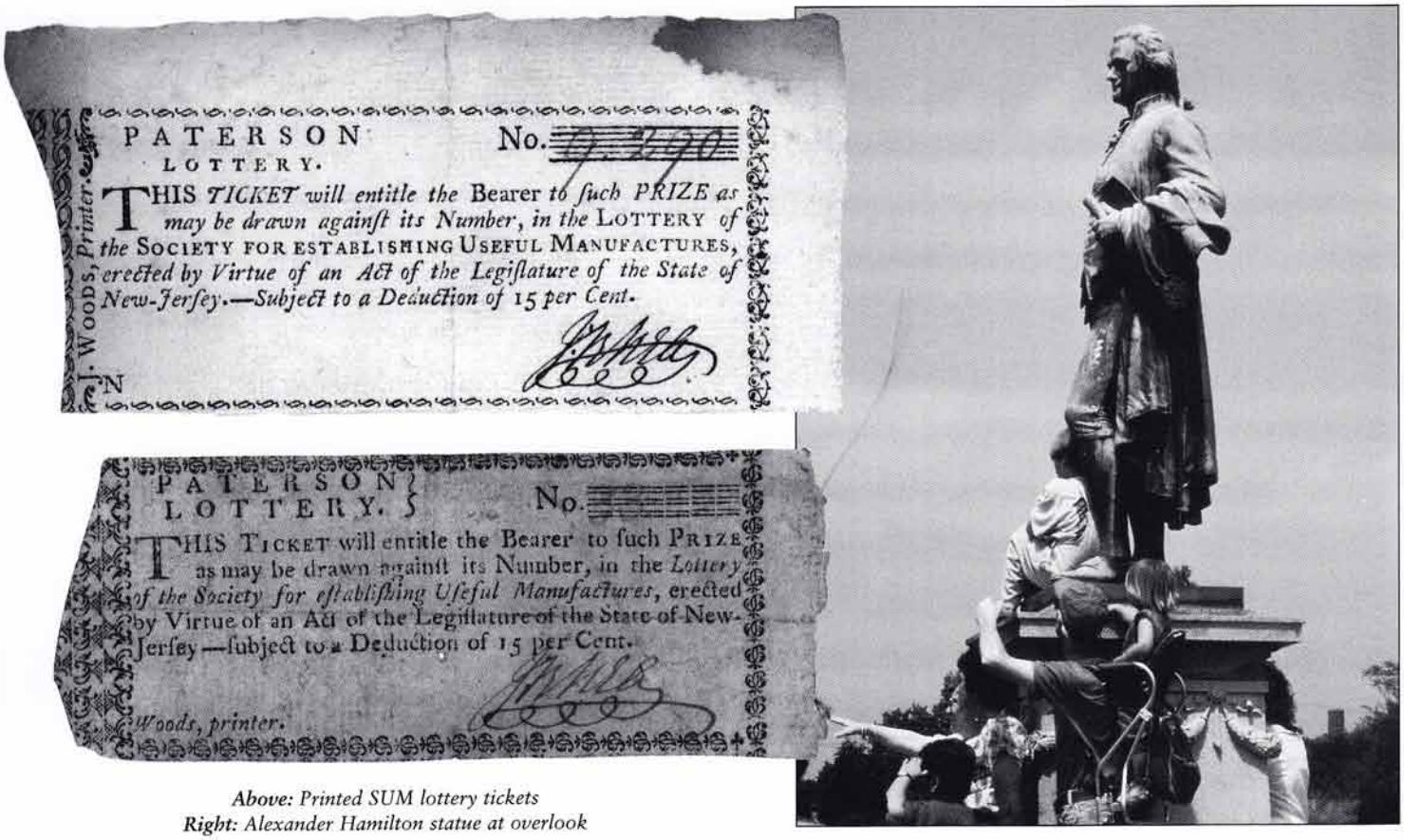
Above: *1792 subscription agreement for 1 share.*

Background: *The Great Falls seen from Harry B. Haines Overlook Park*



In July 1778, George Washington, the Marquis de Lafayette, his aide-de-camp Colonel James McHenry, and Colonel Alexander Hamilton took a break in the midst of the American Revolution to have a picnic. The place they chose to enjoy their "modest repast" of cold ham, tongue and biscuits was near the Passaic Falls in northern New Jersey.

All photos courtesy of Great Falls Visitor Center


PATERSON
LOTTERY.
No.
THIS TICKET will entitle the Bearer to such PRIZE as may be drawn againſt its Number, in the LOTTERY of the SOCIETY FOR ESTABLISHING USEFUL MANUFACTURES, erected by Virtue of an Act of the Legiſlature of the State of New-Jerſey.—Subject to a Deduction of 15 per Cent.
Woods, Printer.
PATERSON'S
LOTTERY.
No.
THIS TICKET will entitle the Bearer to ſuch PRIZE as may be drawn againſt its Number, in the Lottery of the Society for eſtabliſhing Uſeful Manufactures, erected by Virtue of an Act of the Legiſlature of the State of New-Jerſey—ſubject to a Deduction of 15 per Cent.
Woods, printer.

Above: Printed SUM lottery tickets
Right: Alexander Hamilton statue at overlook

THE SOLDIERS could hardly have picked a more bucolic spot to get away from the worries of the war. The only sign of civilization was a small town nestled at the foot of the falls, consisting of just 10 homes, a tavern, and a main street called "Peace and Plenty Lane." It was, wrote McHenry, a "cheerful" time.

The next time Hamilton visited the Passaic Falls, the economic future of the United States would be at stake.

Man Versus Machine

Eleven years later, having won the war, President Washington and Secretary of the Treasury Hamilton were trying to secure peace by placing their young nation on a firm footing within the international community. Both realized that the United States had to develop more industrial capability, so that it wouldn't be dependent on foreign sources for manufactured goods. As Washington wrote in 1789, "the greatest and most important object of internal concern ... are manufactures and inland navigation."

Accordingly, on Jan. 15, 1790, the House of Representatives directed Hamilton to prepare a report on manufactures, "particularly the means of promoting such as will tend to render the United States independent of foreign nations for military and other supplies."

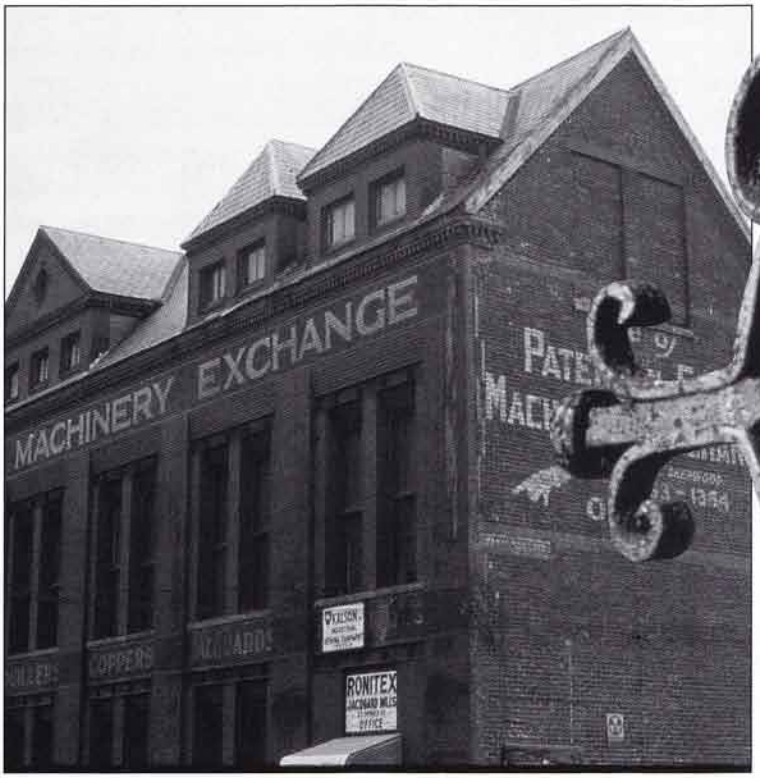
Hamilton was certainly the right man for the job. He fervently believed in using the federal government's power to build a strong national economy based on business and industry.

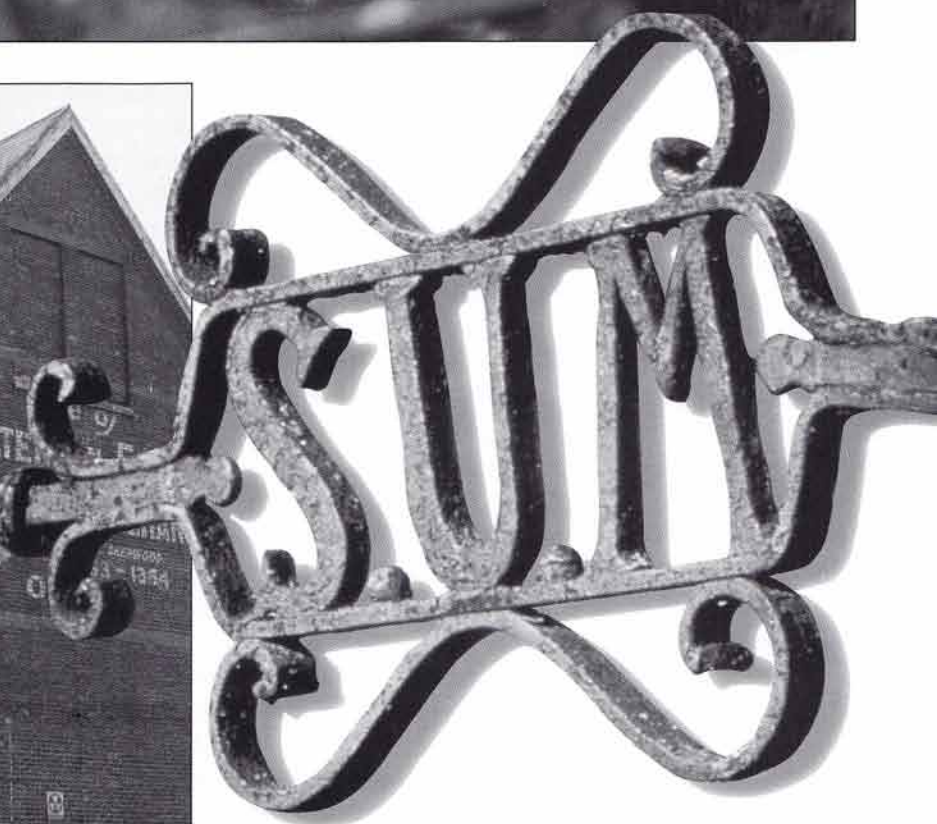
This view was the opposite of that held by Thomas Jefferson and others, who favored an agrarian economy. "Cultivators of the earth are the most valuable citizens, the most independent, the most virtuous," Jefferson said.

To Hamilton, the idea that a nation of farmers could compete against the economic might of industrialized Europe was hopelessly naive. In the *Report on Manufactures* he submitted to Congress, Hamilton pleaded for government intervention in manufacturing. "In what can it [the public purse] be so useful, as in prompting and improving the efforts of industry?" he wrote. Hamilton proposed that the federal government spend $1 million, two percent of the national debt, to build a "national manufactory."

Although this idea was rejected by Congress, Hamilton had no intention of abandoning it. If public financing would not work, Hamilton would

Opposite page top: SUM hydroelectric plant at the foot of the falls, 1913
Bottom left: The 1879 Rogers Locomotive administration building on Spruce Street
Bottom right: SUM wrought iron sign near the falls


MACHINERY EXCHANGE


S.U.M.

build his national manufactory with private funds. Thus, the Society for Establishing Useful Manufactures (SUM) was born.

The SUM

In August 1791, Hamilton, his friend and financial speculator William Duer, and four others met in New Brunswick, NJ to draft the SUM prospectus. It called for an initial capitalization of $500,000, raised by selling corporate stock, that would be used as seed money to build factories, buy machines, and hire workers.

The SUM was to have 13 directors, including a governor and deputy governor. The number of votes for each stockholder was in proportion to the number of shares held. However, neither the United States nor any state that held stock would have more than 100 votes. By stipulating that the SUM's capital stock consist largely of government bonds and shares in the Bank of the United States, Hamilton was tying together manufacturing, the federal government and SUM stockholders.

The SUM got off to a rousing start. Thanks to Duer's connections, $600,000 worth of stock was sold, including $25,000 to a group of Dutch bankers. The SUM charter, shepherded by New Jersey Governor (and SUM stockholder) William Paterson through the state legislature, was the sweetheart deal of the century. It granted tax-exempt status to the SUM and its property. State taxes, however, would have to be paid after the first 10 years. The SUM could govern its own lands, condemn other property for its use, and hold lotteries to raise revenue. The corporation also had exclusive domain over the Passaic River, meaning that it controlled a critical water supply for much of northern New Jersey. The SUM chose a site near the Passaic Falls for the venture, so they could harness the falls' tremendous waterpower. They named the site Paterson, after New Jersey's governor.

Disaster

Unfortunately, this good beginning was no guarantee of success. Things began to go wrong for the SUM when William Duer was named governor. This critical lack of judgment came back to haunt the corporation when Duer's shady financial schemes shattered early in 1792, landing him in jail, tarnishing the SUM, and igniting a national economic collapse. With Duer went at least $10,000 of SUM money earmarked for machinery and workers, as well as an undisclosed amount of corporate funds he had "borrowed" to finance his speculations. Other SUM directors who had given money to Duer also found themselves suddenly bankrupt.

Without government aid, and with private investment drying up, the SUM teetered on the brink of insolvency. Into the breach leaped Hamilton, not willing to let his dream die. He personally inspected factory sites, arranged loans, lent money out of his own pocket to buy machinery, and hired Pierre L'Enfant, the architect of Washington, DC, to design Paterson.

But Hamilton's herculean efforts were not enough. The SUM was constantly under-capitalized, L'Enfant proved a disaster and was fired, and skilled workers were few and far between in agrarian America. Although a few factories were built, Paterson was hardly the vibrant industrial complex that Hamilton had envisioned. In 1796, the factories were abandoned and Paterson became a virtual ghost town.

Aftermath

Hamilton's great dream had ended in failure ... or had it?

The SUM lay moribund until 1809, five years after Hamilton's death, when Roswell Colt became governor and again began building factories. When the War of 1812 cut off European manufactures to the U.S., goods from Paterson factories filled the void. Hamilton had been proven correct; America needed an industrial-based economy to protect itself from Europe's volatility. As Paterson flourished to become an industrial giant, it led the way toward a reordering of American economic priorities.

Because of to its vast manufacturing capabilities, Paterson attracted not just industrialists, but dreamers; the repeating revolver, the submarine, the locomotive, and the engine for Charles Lindbergh's airplane "Spirit of St. Louis" all came from Paterson.

Through it all, the SUM remained lord and master of Paterson, thanks to its ironclad charter and political influence on the local and state levels. Unfortunately, abuses of power—such as charging Paterson residents exorbitant rates for water while not paying taxes on its lands—and corruption permeated the corporation, leading to public revulsion and resentment of its vast power.

Finally, public pressure and a reformist political climate caught up to the SUM, and it dissolved in 1846. Today, only members left of this singular entity in American economic history. FH

Russell Roberts is a full-time freelance writer whose work has appeared in more than 150 national and regional publications. He is also the author of seven non-fiction books, and he resides in Bordentown, New Jersey.