Chapter Two

THE ENGLISH MERCANTILIST LITERATURE

AT THE SAME TIME that the natural law philosophers were composing their weighty tracts, a pamphlet literature on commercial topics was blossoming in England. Though offering a multitude of perspectives on trade and trade policy, these writings have acquired the label "mercantilist" because certain themes characterize this enormous and wide-ranging literature. Most authors encouraged state regulation of trade with any of several objectives in mind, such as "the accumulation of treasure or bullion; the promotion of national wealth or economic growth; the achievement of a favourable balance of trade; the maximization of employment; the protection of home industry; and the increase of state power."[1] In many respects, the conclusion that the state should oversee if not restrict international trade was not fundamentally different from that of earlier traditions. But the mercantilists' method of reasoning and their justifications for this conclusion were distinctive, and certainly more elaborate and refined than had previously been the case. Furthermore, mercantilist doctrines not only constitute a major epoch in economic thought, but provide the immediate backdrop for the emergence of free trade thought.

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The seventeenth century saw the publication of numerous tracts on a range of economic subjects, particularly international trade, by English merchants, government officials, and other pamphleteers. The tremendous expansion of trade and overseas exploration during this period prompted many attempts, however incomplete and unsophisticated, to persuade the government to undertake a particular economic policy or simply to understand and explain the essential nature of trade and its relationship to such issues as employment, money and credit, immigration, shipping, and colonies. The exclusive focus here will be on how trade was described in general by seventeenth- and eighteenth-century writers and how this description influenced their conclusions about commercial policy, particularly import duties.[2] The focus will also be confined to the English litera-

[1] See A. W. Coats (1992, 46), who helps sort out the stereotypes and confusions that frequently afflict assessments of mercantilist thought.

[2] The seventeenth-century English economics literature on international trade is so vast that the brief discussion here cannot do it full justice. For general surveys on mercantilism, see

ture, although quite similar ideas were expressed elsewhere in Europe at this time.[3]

The stage was set for the early mercantilist writings in the emerging economics literature of sixteenth-century England. These pamphlets and tracts were penned by individuals interested in public affairs, not by theologians or legal philosophers, and consequently were amoral and practical, not ethical or legalistic, in their discussion of economic issues. For the first time, economic phenomena (and their implications for state policy) were considered worthy of study in themselves and not simply as a by-product of ethical, moral, and legal concerns. What few writings there were on economic issues in the sixteenth century focused primarily on such questions as usury, inflation, land allocation and enclosures, but commercial policy became increasingly important toward the end of the century.

The first notable tract of the period is *A Discourse of the Commonweal of this Realm of England*, attributed to Sir Thomas Smith, which was written around 1549 but originally published in 1581 and reprinted several times in the seventeenth century. Like others before him, Smith ([1581] 1969, 62ff) recognized that trade between nations was indispensable: "For although God is bountiful unto us and sends us many great commodities, yet we could not live without the commodities of others." The universal economy doctrine was reinterpreted as the hand of providence creating the conditions for trade to take place, not just to enable the consumption of a greater variety of commodities, but also to encourage trade in similar goods as a means of sharing risk: "God has ordained that no country should have all commodities, but that that one lacks, another brings forth, and that that one country lacks this year, another has plenty thereof commonly that same year, to the intent men may know that they have need one of another's help." Although Smith argued for a favorable balance of trade ("we must always take heed that we buy no more of strangers than we do sell them; for so we should impoverish ourselves and enrich them"), he also clearly recognized the interdependence of exports and imports: "If we keep within us much of our commodities, we must spare many other things that we have now from beyond the seas." There is also acknowledgment that world prices (at which international trade is conducted) constitute the relevant opportunity cost for a country: "But since we must have need of other[s] and they of us, we must frame our things not after our own fantasies but to follow the common market of all the world, and we may not set the price

Joyce Appleby (1978), Terence Hutchison (1988), and Lars Magnusson (1994). For particular surveys on trade, see Jacob Viner (1937, 1–118), Chi-Yuen Wu (1939, 13–74), and Joseph Schumpeter (1954, 335–76).

[3] On various aspects of European mercantilist thought, see Charles W. Cole (1931) on France, Lars Magnusson (1987) on Sweden, and Marjorie Grice-Hutchinson (1978) on Spain.

of things at our pleasure but follow the price of the universal market of the world."

Despite these benefits of trade, Smith advocated protecting domestic producers and taxing luxury imports. Smith particularly objected to exporting goods that would be processed abroad and imported once again: "They make of our own commodities and send it us again, whereby they set their people awork and do exhaust much treasure out of the realm." Smith thought it "better for us to pay more to our own people for these wares than less to strangers" and would either forbid imports or raise duties on them until domestic goods became cheaper. As a result, "our own men should be set awork at the charges of strangers; the customs should be borne all by strangers to the King, and the clear gains remain all within the realm." Smith also complained about "trifles . . . for which we either pay inestimable treasure every year or else exchange substantial wares and necessary for them, for the which we might receive great treasure." Such unnecessary imports "that come hither from beyond the seas that we might either clean spare or else make them within our realm."

Like the Smith of 1776 fame, the themes discussed and the conclusions reached by this Smith set the tone for the subsequent two centuries of economic literature. Maintaining a favorable balance of trade and manufacturing raw materials at home represented two key planks in the mercantilist platform. The criticism of imported luxury goods and the focus on employment in import competing sectors were also hallmarks of the mercantilist perspective. In some sense, the subsequent two centuries of mercantilist literature simply reiterates and elaborates on these themes expounded, though not necessarily originated, by Thomas Smith in the mid-sixteenth century.[4]

By the dawn of the seventeenth century, English writers were developing a broad perspective on trade that departed in several fundamental ways from the ideas of scholastics and natural law thinkers.[5] Two features of the contemporary international economic environment shaped mercantilist thought on trade: the vast expansion of world trade and overseas exploration, and the rise of nation-states as political entities. The first opened up tremendous opportunities that merchants as a class were positioned to exploit for themselves and their country. As a result, instead of viewing merchants with suspicion and commercial activity as disreputable, their role in society was no longer denigrated and their contribution to national wealth was no longer disparaged. The mercantilists praised traders for serving the well-being of the nation and lauded foreign trade as a means by which the

[4] W. H. Price (1906), for example, traces English concerns about the balance of trade back to the fourteenth century.

[5] For a comparison of scholastic and mercantilist thought, see Raymond de Roover (1955).

nation could achieve wealth and riches. The merchant was often glorified as a vanguard of the nation's prosperity and security. Thomas Mun (1664, 3) spoke of the "nobleness of this profession" in referring to merchants, and Thomas Milles (1599, [19]) wrote that "the merchant of all men is to be favored, cherished, and encouraged in all Commonwealths."

This more favorable attitude toward merchants arose not just because the authors themselves were often merchants arguing on self-interested grounds, but because the expansion of world trade and exploration promised to secure greater domestic wealth and prosperity.[6] Attention to wealth and prosperity was perhaps not the most laudable objective in the minds of clerics and other philosophers, but it naturally proved appealing to lay writers. Unlike earlier thinkers who wished to discourage participation in trade, mercantilists expressed enthusiasm for policies that would promote merchants and expand trade (or conversely prevent the decay of trade) in a direction shaped by the government. Early mercantilists were often so effusive in expressing their desire to see trade flourish that they seemed to exaggerate its importance for the country's well-being. International trade was believed to be "the only mean to enrich this kingdom," and "the very touchstone of a kingdom's prosperity."[7] "[T]he greatness of this kingdom depends on foreign trade," it was said, and exports were "the touchstone whereby the wealth of England is tried, and the pulse whereby the health of the kingdom may be discerned."[8]

By contrast, mercantilists often dismissed the contribution of domestic commerce to the country's prosperity. "If [we exchange] amongst ourselves, the commonwealth cannot be enriched thereby; for the gain of one subject is the loss of another," Mun (1664, 127) maintained. "And if we exchange with strangers, then our profit is the gain of the commonwealth." Josiah Child (1693, 29) agreed, stating that those involved in foreign trade (merchants, fishermen, and cattle breeders) "do principally, if not only, bring in wealth to a nation from abroad," whereas domestic traders (nobility, lawyers, physicians, and shopkeepers) "do only hand it from one to another at home." John Pollexfen (1697*a*, 40) argued similarly: "Buying, selling, and trading amongst ourselves, may occasion that one man may grow richer than the other, but hath no immediate influence upon the enriching or impoverishing of the nation." In addition, domestic commerce hinged on the course of foreign trade; according to William Petyt (1680, 11), "The home trade in every nation hath dependence on the foreign

[6] Of course, Jacob Viner (1937, 59) points out that "the great bulk of the mercantilist literature consisted of tracts which were partly or wholly, frankly or disguisedly, special pleas for special economic interests," but clearly such tracts should not be disqualified from reasoned consideration for analytical merit.

[7] See Roger Coke (1670, 4) and Thomas Mun (1621, 1).

[8] See Josiah Child (1693, 135) and William Petty (1690, 51).

trade." "For when trade flourishes, the King's revenue is augmented, lands and rents improved, navigation is increased, the poor employed," Edward Misselden (1622, 4) put it. "But if trade decay[s], all these decline with it." This belief persisted among mercantilists throughout the century and only a few writers held that the home trade was equivalent to or more advantageous than international trade.[9]

Mercantilists sometimes justified their zeal for foreign trade by invoking the doctrine of universal economy. The doctrine was employed to vindicate the activities of merchants and to emphasize the distinctive role of international trade among the various commercial occupations. Misselden (1622, 25) stated the doctrine in these words:

> And to the end there should be a commerce amongst men, it hath been pleased God to invite as it were, one country to traffic with another, by the variety of things which the one hath, and the other hath not: that so that which is wanting to the one, might be supplied by the other, that all might have sufficient. Which thing the very winds and seas proclaim, in guiding passage to all nations: the winds blowing sometimes toward one country, sometimes toward another; that so by this divine justice, every one might be supplied in things necessary for life and maintenance.[10]

Thus, the cosmopolitanism of the universal economy doctrine and the early natural law approach, which stressed the benefits to the world from international exchange, was not absent from mercantilist thought. It is surprising how frequent this glowing description of trade was invoked, but it is in keeping with their enthusiasm for commerce.

Still, the mercantilists never used this approach to advocate free and unrestricted trade for reasons that will be made clear below. Imaginative authors twisted the doctrine to reach the opposite conclusion. Viner (1937, 100–101) has noted how mercantilists "managed ingeniously to adapt the intent of Providence to their own particular views . . . [they] used the doctrine either to justify the restriction of certain products to Englishmen, on the ground that Providence had assigned them to this country, or appealed to the doctrine in support of that branch or type of trade which they wished to have fostered, while conveniently forgetting the doctrine when attacking other branches or types of trades." A classic example is the statement from the 1690s by Daniel Defoe (1895, 40) that Henry VII "justly inferred that Heaven having been so bountiful to England as to give them the wool, as it were, in a peculiar grant, exclusive of the whole world, it was a mere rebellion against His providence and particularly ungrateful to His bounty that the English nation should reject the offer, give away the blessing, and

[9] See, for example, [Carew Reynell] (1685, 7–8).

[10] For another early example, see Gerard Malynes (1601, 6).

by an unaccountable neglect send their wool abroad to be manufactured, and even buy their own clothing of the Flemings with ready money."

The second feature of the international economic environment, the emergence of the nation-state as the primary political entity on the world stage, set clear political boundaries to trade policies. Writing during a period fraught with political and religious conflict between states, early mercantilists took a strictly national economic perspective wherein the only relevant gains from trade were those that accrued to one's own country. The political and economic rivalries between states gave rise to the view, if not that the amount of trade in the world was fixed at any point in time, that an increase in one country's trade (and the gains from that trade) must come at the expense of other countries. John Graunt's (1676, 29) notion that "there is but a certain proportion of trade in the world" led easily to William Petty's (1690, 82) conclusion that "the wealth of every nation, consisting chiefly, in the share which they have in the foreign trade with the whole commercial world, rather than in the domestic trade." According to Josiah Child (1693, 160), trade should be managed to ensure "that other nations who are in competition with us for the same, may not wrest it from us, but that ours may continue and increase, to the diminution of theirs."

The proposition that the overall volume of trade is fixed, however, is quite distinct from a belief that such trade is a zero-sum game, wherein one country benefits and the other loses from an exchange. With qualification, mercantilists generally accepted the idea that trade was mutually beneficial, particularly as indicated by their broad acceptance of the universal economy doctrine. It was the amount of trade, or the gains to be had by trade, that some mercantilists perceived to be fixed and wanted to accrue to their own country. This perspective is one aspect of the seventeenth-century mercantilist literature, but not a dominant one. This aspect of mercantilist thought could still be found in the eighteenth century, though it had faded as a part of mercantilist doctrine by the end of the seventeenth century. Others even denied the argument, as when William Petyt (1680, 280) maintained that "it does not follow that everything which will prejudice the trade of one nation, shall better the trade of another."

The generic praise of merchants and trade was tempered by the proviso that merchants might pursue profitable commercial activities that could prove detrimental to the nation as a whole. Therefore, not all branches of trade equally served the national advantage. Malynes (1622, 3–4) complained that trade yields "benefit[s] to be procured for the general welfare, or for the particular profit of some few persons . . . yet it may fall out, that the general shall receive an intolerable prejudice and loss, by the particular and private benefit of some" because merchants trade in "that which yields them the most gain: and commonly without consideration had of the good of the Commonwealth." Similarly, Petyt (1680, 11ff) wrote that "private trade hath regard to the particular wealth of the trader, and doth so far differ in the scope and design of it from the national, that a private trade may be very beneficial to the private trader, but of hurtful, nay of very ruinous consequences to the whole nation . . . particular men may grow rich by a trade, whereby the nation is impoverished."[11] These beliefs were stated repeatedly in the seventeenth century and can be found well into the eighteenth century. Theodore Janssen (1713, 5) set down the maxim that "a trade may be of benefit to the merchant and injurious to the body of the nation."[12] The *British Merchant*, a set of anti-free trade essays written in 1713–14, followed Janssen by adopting this as the first of its "general maxims in trade which are assented to by everybody."[13]

The divergence between the private interests of the merchant and the broader interests of the nation formed the fundamental basis for the mercantilist advocacy of state regulation of trade. State oversight, guidance, and intervention was necessary to align the activities of merchants with the national interest, ensuring that trade was carried on for the enrichment of the country rather than for the merchants alone.[14] Many thought that national leaders were situated to see beyond the narrow interests of particular merchants and design such regulations. Because "private advantages are often impediments of public profit," Samuel Fortrey (1663, 3–4) argued, "how necessary it is that the public profits should be in a single power to direct, whose interest is only the benefit of the whole." Malynes (1622, 3–4) maintained that merchants commonly deal "without consideration had of the good of the Commonwealth, which is the cause that Princes and Governors are fit at the stern of the course of trade and commerce."

Because "not all trading advantages a nation," as Reynell (1685, 12) put it, the mercantilists developed criteria for determining the "good" and "bad" channels of trade, depending on how the trade contributed to the specific objectives of the author. The purpose of state policy, of course, was to regulate trade to the country's advantage by promoting the good channels and discouraging the bad channels. The most obvious distinction between good and bad channels of trade, indeed a central tenant of mer-

[11] John Pollexfen (1697*b*, 15ff) warned that "measures taken of trades by the gains made by traders will always prove erroneous . . . some traders for their private gain may be tempted to carry on, who may get by trade, and yet the nation may lose at the same time by such trades."

[12] Simon Smith (1736, 12) concurred: "There are many commodities advantageous to the importer, that at the same time bring poverty and ruin to a nation."

[13] See Charles King (1721, 1: 1).

[14] "Nothing can so effectually and certainly secure the peace of the nation, as the regulating of our trade," wrote Petyt (1680, 15–16). "A foreign trade managed to the best advantage, will make a nation vastly stronger than naturally it was." Carew Reynell (1685, 16) suggested forming a committee on trade composed of merchants to propose legislation "so should we have trade brought more to a general benefit."

cantilism that persisted up to the time of Adam Smith and is still not extinguished today, is that the principal benefit of trade arises from exports and not imports. A few statements amply illustrate this point. “Gain procured by our commodities outward, more than by foreign commodities inward.”[15] “The national gain, by foreign trade, consisting either in vending home commodities to foreigners, or in trading from port to port.”[16] “[T]hat trade is advantageous to the kingdom which exports our product and manufactures.”[17] “Exportation is gain, but all commodities imported is loss.”[18]

The appropriate policy regarding most exports was abundantly clear: remove all possible impediments. Mercantilists endorsed almost any measure that would encourage exports, from ensuring greater safety for merchants abroad to building trade-related domestic public works (such as navigable rivers, etc.). Mercantilists clearly favored reducing, if not abolishing, most export taxes and other “clogs” on exports: the “means to increase and nourish this country’s trade is that whatever is fabricated in this nation, and exported to any foreign parts, may pay no custom, or if any a very little,” argued John Bland (1659, 9).[19] Only in the case of grain and certain raw materials, as we shall see, were mercantilists more cautious about the benefits of an unrestricted export policy.

There were also calls for the establishment of free ports to allow the duty-free transshipment of goods for reexport and thereby promote the entrepôt trade. Although few writers actually advocated general export subsidies (bounties), their positive effects on exports did not pass unnoticed. Lewes Roberts (1641, 53) noted that “for the furtherance of the traffic of some kingdoms, it hath been observed, that great sums of monies have been lent *gratis*, or upon easy rates and security, to skilful merchants, out of the sovereign, or common treasury, which hath also found such good success, as that the customs of that Prince have been thereby much increased, the kingdom enriched, the poor set on work, and the native commodities thereof, vented to all parts of the world thereby.”

Regarding imports, mercantilists frequently complained that they were predominantly luxury consumption goods (such as silks, jewelry, wines, etc.) and advocated restraint of these “superfluous and unnecessary” goods, particularly those that could be produced at home.[20] Misselden (1622, 12–13, 131) advocated shifting the tax burden from domestically produced goods to such unnecessary imported goods as wines, raisins, silk, sugar, and tobacco, precisely the types of consumption imports that Janssen (1713, 8) argued should be “very prudently charged with excessive

[15] Malynes (1623, 54).
[16] [Petyt] (1680, 23).
[17] Cary (1695, 48).
[18] [Reynell] (1685, 10).
[19] “The chiefest way of enriching a kingdom is the expence of its nature or home commodities (that can well be spared) in foreign parts” [Battie] (1644, 3).
[20] Misselden (1623, 134).

duties."[21] Such calls echoed the early Christian and scholastic view that spending on luxuries was essentially corrupting and wasteful, and that greater frugality was in order.

But the mercantilist concern was less a moral judgment than an argument that such goods were unproductive, that they would not increase the wealth and production of the nation. "A consumptive trade must render a nation weaker and weaker . . . because it must still exhaust more and more of the national riches, and sink the value of men's estates," argued Petyt (1680, 137). As Bruno Suviranta (1923, 147) observed: "Instead of expressly stating 'We do not want foreign commodities except those of real benefit for the progress of economic life,' they argued, 'We do not want foreign commodities' and the unstated reason was, 'Because they mostly consist of luxuries and such consumable commodities which tend to increase consumption without increasing production.'" Concerns about luxury imports and insufficient frugality abounded among seventeenth-century writers, and persisted in a less prevalent way among eighteenth-century writers. William Wood (1718, 225) concluded that "it is our business to keep out as much as conveniently we can . . . all sorts of goods for consumption and luxury: and that there is no other way of doing it, but high duties and impositions."[22] Even Adam Smith made disparaging remarks about certain imports for consumption, although he did not recommend taking action against them.[23]

This general view of exports (as productive) and imports (as wasteful) encompassed two specific criteria by which the profitability or advantage of a trade could be determined: first, a favorable balance of trade (to generate an inflow of specie); second, a favorable commodity composition of trade (to promote economic development and employment in manufacturing).

A Favorable Balance of Trade

For much of the seventeenth century, mercantilists argued that a key objective of trade should be to achieve or maintain a favorable balance of trade. Trade with a given country or region was judged profitable by the extent to

[21] Petyt (1680, 184) used vivid language to illustrate his complaint about the loss of specie due to what he felt were excessive imports of wine from France: "Everyone is an ambitious pretender to a critical palate in wine. . . . Thus do we swallow and piss out inestimable treasures."

[22] "'Tis certain, a disadvantageous trade can't be too much cramped, but to erect select companies is not the most effectual way; this is to be done by the legislature's laying great duties and impositions upon goods imported, or prohibiting the importation of them" (Wood [1718, 270]).

[23] Adam Smith wrote that "purchase such goods as are likely to be consumed by idle people who produce nothing, such as foreign wines, foreign silks, &c., . . . So far as it is employed

which the value of exports exceeded the value of imports, thereby resulting in a balance of trade surplus which added precious metals and treasure to the country's stock. In the classic statement of the period, Mun (1664, 11) wrote: "The ordinary means therefore to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value." In these early debates, a favorable balance of trade was considered desirable on several grounds, some political (an accumulated stockpile of specie could be used as security in times of national emergency, such as war) and others economic (the inflow of specie and precious metals would increase domestic liquidity and relieve credit shortages).[24] This stress on the monetary aspects of the balance of payments was most pronounced in the early and mid-seventeenth century, but the notion of the favorable balance as a criterion for judging trade survived in general terms up to the time of Adam Smith.

There has been extensive debate in the secondary literature on mercantilism about whether economic conditions in the seventeenth century provided an economic justification for concerns over the balance of trade.[25] For our purposes, the relevant question is: did mercantilist writers advocate using commercial policy to achieve a favorable balance of trade? The answer is: not very much. There was actually little direct discussion of commercial policy during this early period of mercantilist thought. Indeed, most early seventeenth-century writings on commerce were dominated by controversies over monetary issues, such as the international flow of specie, the balance of trade, and exchange rates and foreign exchange markets. Because the early balance of trade controversies tended to have a monetary focus, the proposed solutions were also monetary in nature, as in the exchange-rate adjustment debate between Malynes and Misselden in the 1620s. But as a balance of trade surplus was almost universally acknowledged to be a desirable objective, mercantilists like Mun (1664, 14) did pay some attention to trade policy as one of "those ways and means which will increase our exportation and diminish our importation of wares." At this point, however, they ran into some difficulties.

Increasing a country's exports did not lend itself to easy and obvious

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in the first way, it promotes prodigality, increases expence and consumption without increasing production, . . . and is in every respect hurtful to the society" *WN*, II.ii.33–34.

[24] This monetary mechanism would reduce interest rates, allow merchants to borrow and finance projects at more profitable rates, and thereby stimulate economic growth and produce greater employment. Viner (1937, 15–51) describes other reasons stated for favoring an inflow of bullion.

[25] In the early seventeenth century, specie was an important means of international payment and was used to settle external account balances. Later in the century increasing use of bills of exchange gave rise to a multilateral payments mechanism which obviated the need to have specie to conduct international transactions. See J. Sperling (1962).

legislative remedies, aside from the removal of existing impediments to exports. Therefore, trade policy–related methods to improve the balance of trade turned to commercial policies toward imports, such as prohibitions or high duties. Mercantilists generally preferred import duties to prohibitions, which either restricted trade too harshly or would be evaded by smuggling. Roger Coke (1675, 48) opined that "if my opinion were worthy to be admitted, no goods of any sort should be prohibited: but if any be imported which are luxuriously consumed, with little or no employment of the people, . . . they should pay the King the full value" of import duties. Francis Brewster (1695, 41) argued that prohibitions should never be employed except under "extraordinary circumstances" and undesirable or excessive imports should instead be charged with high duties.

Did this mean that import duties could improve the balance of trade? In one passage, Mun (1664, 30) considered higher import duties potentially useful: "The consumption of such foreign wares in the realm may be the more charged [with customs duties], which will turn to the profit of the kingdom in the balance of trade." But he did not discuss tariffs at length and other writers did not elaborate on this particular mechanism, concentrating instead on monetary determinants of the trade balance. Most recommendations to improve the balance took the form of improving the quality of coinage, encouraging greater domestic production for export, and fostering improvement in quality of those goods, not the use of trade barriers.

Indeed, concern about the balance of trade did not automatically imply support for import restrictions, and mercantilists did not always believe that higher import duties could improve the trade balance. Several mercantilists recognized the barter nature of trade, that trade was a two-way process of exchanging exports for imports. With this interdependence of exports and imports in mind, many mercantilists found it difficult to believe that import restrictions could lead to a favorable balance of trade. In advocating a shift in the burden of taxation from exports to imports, Henry Robinson (1641, 8) cautioned that "here is it worth remembrance that a great part of foreign commodities brought for England are taken in barter of ours, and we should not have vented ours in so great quantity without taking them." Petyt (1680, 61–62) took this point to its logical conclusion: "For the opening of a sufficient foreign vent and market for our home commodities, it is not only necessary to remove all unequal clogs on mere exportation, but also those on imported goods; because . . . the value of our English exportation must be in a manner confined to the value of the goods imported. . . . Whereas were the clogs on our imported goods taken off, we might yearly vend of our own home commodities to the value of all foreign goods we should then import and re-export . . . whereby our exported home commodities would then amount to much more." Thomas Tryon (1698, 23) made this uncommon point: "It is most clear that the consumption of [imported] things at home is as profitable to the nation, as those that are exported again: for if we can neither consume them at home nor export them abroad, how should our neighbors be able to pay for our manufactures, for which we have those commodities in exchange." Paxton (1704, 61ff) concurred, arguing that high duties are "only an expedient, but no cure" to the problem of excessive imports, and that "duties are a violence upon trade" which "must, in the course of trade, lessen our own exportations."

Recognition of the interdependence of exports and imports put mercantilists in a bind because import tariffs appeared to be the obvious instrument for improving the balance of trade. Deeming that ineffective, mercantilists exhorted their readers to reduce the import bill through greater frugality and restraint, thereby moderating the demand for luxuries and other superfluous trifles.[26] Mun (1621, 56) cautioned that "we ought not to avoid the importation of foreign wares, but rather willingly to bridle our own affections, to the moderate consuming of the same." According to Mun (1664, 16), England should simply "soberly refrain from excessive consumption of foreign wares in our diet and rayment." Pollexfen (1697*a*, 58) argued for duties and prohibitions only if moral suasion failed: "When the balance of trade is against us, if we cannot alter it by increasing the expense of our goods there, or by spending in the room of theirs the like goods taken from another country, from when we may have them on better terms, then the safest way (if we can be without such goods) is to discourage the use and expense of them by example: if that be not likely to have any effect, then high customs or prohibitions may be used; but prohibitions should always be the last remedy, when no other way can be found out." Yet, just like import duties, moral suasion could not be taken to extremes. Mun (1664, 148–49) cautioned that "all kinds of bounty and pomp is not to be availed, for if we should become so frugal, that we would use few or no foreign wares, how shall we then vent our own commodities? . . . do we hope that other countries will afford no money for all our wares, without buying or bartering for some of theirs?" Thus, voluntary efforts to reduce expenditures on imports would reduce exports just like an import tariff.

Toward the end of the seventeenth century, doubts arose about whether the trade balance was a useful indicator of a winning or losing trade. Although the balance continued to be used as a short-hand guide of a gainful trade, either less emphasis was put upon it or that emphasis was subject to greater qualification. Instead, mercantilists increasingly considered trade as an effectual means of promoting the economic development of the country

[26] Samuel Fortrey (1663, 26ff), among others, believed that the nobility should set a proper example for society by consuming only English clothing, thereby reducing imports that would otherwise "impoverish" the country.

and creating greater employment opportunities by expanding the manufacturing sector. In this context, the issue of commercial policy, in the sense of free trade versus protection, finally came to the forefront of economic discussion.

Employment and the Commodity Composition of Trade

The general praise of exports and disparagement of imports was consistent with a host of objectives, and did not merely reflect anxiety about the balance of trade. By the end of the seventeenth century, the commodity composition of a country's trade had come to dominate the balance of trade doctrine as the method of determining the good and bad channels of trade. Pollexfen (1697*b*, 15) proposed that "from a due consideration of what sorts of commodities are exported, and imported, a true judgment can only be made, whether the trade to any country be good or bad." Virtually all mercantilists would agree with the following proposition: exports of manufactured goods were beneficial and exports of raw materials (for use by foreign manufacturers abroad) were harmful; imports of raw materials were advantageous and imports of manufactured goods were damaging. According to Cary (1695, 129–30), "'Tis a certain rule that so far as any nation furnishes us with things already manufactured, or only to be spent among ourselves, so much less is our advantage by the trade . . . especially if those manufactures interfere with our own." Other trades are "very advantageous, as they vend great quantities of our product and manufactures, and furnish us with materials to be wrought up here."

The underlying rationale was described by Petyt (1680, 24) as follows:

> If any nation hath naturally any materials of manufacture, it is far more advantageous to export them in manufacture, rather than the raw materials, because the manufacture is so much more valuable, and will make a return of five, ten, or twenty times more treasure to the nation than the raw materials. Besides, it is most dangerous to export the materials of manufacture, since it may transfer the manufacture itself into some neighboring nation. . . . But if foreigners will vend their raw materials of manufacture, it is necessary, or highly convenient, for a nation to import them, and put them into manufacture at home.

In essence, mercantilists argued that economic activities generating high value-added or involving extensive processing and manufacturing should be produced in the home market. Because processing activities generated more value and employment than other sectors, the economy should be oriented toward importing raw materials and exporting finished goods.

This objective, rather than the balance of trade doctrine (though they are not incompatible as Petyt's statement makes clear), should be more closely associated with mercantilist views on trade because the implication for commercial policy was clear: low import duties on inputs and raw materials, high import duties on processed goods. Fortrey (1663, 28–29) described his position this way: "All foreign commodities that are useful, to improve our own manufactures and trade abroad, and cannot be raised here, should be brought into us under easy customs," whereas foreign goods, especially luxury and consumption items, "should pay extraordinary customs, but should not be forbidden to be brought in." This line of reasoning also supported export taxes on raw materials to ensure a cheap and plentiful domestic supply for further processing, and to prevent foreign manufacturers from acquiring those supplies.

Repeated stress was put on the importance of domestic manufacturing and the dangers posed by importing such goods from abroad. A few quotations will illustrate this point. Child (1693, [xii]) argued that "the expense of foreign commodities, especially foreign manufactures, is the worst expense a nation can be inclinable to, and ought to be prevented as much as possible." "A trade that takes of little from us in commodities, and furnishes us with little or no goods for our foreign vent in other places [i.e., reexports], but with abundance of either unnecessary and superfluous things to feed our vain humours and fancies, or with such, though useful, as hinder the consumption of our own manufactures, can never be profitable but destructive," concluded Thomas Papillon (1680, 2). "That trade is advantageous to the kingdom of England which exports our product and manufactures [and] which imports to us such commodities as may be manufactured here, or be used in making our manufactures," stated Cary (1695, 48–49), and "it would be great wisdom of our government to regulate all foreign trades by such methods as may best make them useful in the promoting our manufactures."

This view continues to be expressed in the eighteenth century as well. Joshua Gee (1729, 111) stated that "it will be a maxim to be observed by all prudent governments who are capable of manufactures within themselves, to lay such duties on the foreign as they may favor their own and discourage the importation of any of the like sort from abroad." David Clayton (1719, 18) argued that "whatever trade, or branches of trade, bring in any manufactured goods that interfere with what is being made among our selves, is in its direct tendency and consequences injurious to the nation." "That trade is eminently bad, which supplies us with the same goods as we manufacture ourselves, especially if we can make enough for our consumption," the *British Merchant* (King 1714, 1: 4–5) pronounced. "The importation upon easy terms of such manufactures as are already introduced into a country must be of bad consequence, and check their progress . . . if those commodities were suffered to be brought in without paying very high duties." Postlethwayt (1757, 2: 371) concluded that "the importation of foreign commodities, whereby the consumption of national commodities is hurt, or the progress of a nation's manufactures and the culture of its lands prejudiced, must necessarily bring on the ruin of that nation."

To mercantilists, the advantage of manufacturing was not simply the gain from exchanging more valuable processed goods for less valuable unprocessed goods, but that industry was capable of generating greater employment. And the wages of those employed in export-oriented industries were believed to be "foreign paid incomes."[27] "The profit of trade consists in employing our hands, or selling the goods made by those hands abroad to our advantage," as Clayton (1719, 22) put it. King (1714, 1: 22) noted that "the trade of that country which contributes most to the employment and subsistence of our people, and to the improvement of our lands, is the most valuable." Richard Cantillon, an acute economic thinker of the period, was relatively undistinguished in his views on trade policy. As "by examining the results of each branch of commerce singly that foreign trade can be usefully regulated," Cantillon ([1755] 1931, 233–35) argued that "it will always be found . . . that the exportation of all manufactured articles is advantageous to the state, because in this case the foreigner always pays and supports workmen useful to the state. . . . It would not be profitable to put the state into the annual custom of sending abroad large quantities of its raw produce in return for foreign manufactures." Paxton (1704, 10) stated that "the great business of trade is the employing of our people, and the great advantage of it is the enriching them." Petty (1690, 37) even argued that a tariff could remedy unemployment: "If the people of any country, who have not already a full employment, should be enjoyned or taxed to work upon such commodities as are imported from abroad; I say, that such a tax, also doth improve the commonwealth."[28]

Thus, the underlying purpose of the mercantilists' focus on the commodity composition of trade was to promote economic development by encouraging the expansion of manufacturing and thereby creating greater employment.[29] Commercial policy was an important mechanism for manipulating economic incentives in such a way as to spur this development. John Asgill (1719, 10) wrote of using government policies for the "protection and encouragement" of domestic industry, thus introducing the term "protection" to the discourse over trade policy. That protection could secure greater employment and output in manufacturing became the standard argument

[27] E.A.J. Johnson (1932) elaborates on this point.

[28] Chapter 13 considers John Maynard Keynes's argument for protection in the face of severe unemployment.

[29] As Richard Wilkes (1987, 155) points out: "A review of the literature reveals scarcely a tract or work of the time that does not contain in its title or contents the ideal of the possibility of an 'increase,' 'improvement,' or 'advancement' of trade in general or of certain sectors of the economic system in particular. Or as a corollary, the work will attempt an explanation of the reason or reasons for the decay, decline, or stagnation of trade."

that free trade theories had to overcome after the mid-seventeenth century.[30] The particular obstacle for free trade ideas was that protectionist tariff policies were likely to be effective in achieving this objective, or at least give some appearance of success in terms of enhancing the production of import-competing industries. Under the balance of trade doctrine, mercantilists were quite uncertain whether an unfavorable balance could be reversed by import duties, or at least conceded that tariffs were not always the most efficient instrument for achieving a favorable balance of trade. But tariffs that reduced import penetration were almost assured of increasing domestic production and employment in the favored sectors.[31]

Promotion of economic development through the use of trade interventions (such as import tariffs and export subsidies) reached an exaggerate form in the work of James Steuart, whose *An Inquiry into the Principles of Political Oeconomy* was published in 1767, just nine years before Adam Smith's *Wealth of Nations*. In a sense, Steuart's *Principles* was an example of a mercantilist trade doctrine taken to extremes. Steuart started with the presumption that a wise and benevolent statesmen served as a caretaker and guardian of the economy. The statesman, through judicious administration and with various economic policies, could manipulate the economy at will, promoting certain activities here and discouraging others there.

Steuart's ([1767] 1966, 1: 291) criteria for assessing trade was not fundamentally different from those who had written before him:

> If the value of the matter imported be greater than the value of what is exported, the country gains. If a greater value of labour be imported than exported, the country loses. Why? Because in the first case, strangers must have paid, *in matter*, the surplus of the labour exported; and in the second case, because the country must have paid to strangers, *in matter*, the surplus of labour imported. It is therefore a general maxim, to discourage the importation of work, and to encourage the exportation of it.

If imports of a certain commodity began to increase, the statesman must respond by laying duties on those imports. "If these do not prove sufficient," Steuart said, "[the duties] will be increased; and if the augmentation produces frauds, difficult to be prevented, the articles will be prohibited altogether" (292). Any violent or sharp changes in policy would be unwise, Stuart counseled, but pernicious branches of trade must be regulated in a manner that led to a more desirable commodity composition of trade.

[30] At one level, there is little novelty to the idea. Sir Thomas Smith in the sixteenth century (and even earlier writers) had already described the employment rationale for import duties and even earlier writers can be found on this point.

[31] As Viner (1937, 52) notes, "Of all the mercantilist reasoning, [the employment argument] withstood criticism most successfully, and persisted into the nineteenth and twentieth centuries as an important element in the protectionist doctrine."

Because "the most profitable branches of exportation are those of work, the less profitable those of pure natural produce," it is an "object of the statesman's care" when a rich nation begins exporting natural produce "to prohibit the importation of all work, and even the natural produce of any other country conducive to luxury" (295).

In the field of agriculture, the statesman "must cut off all foreign competition . . . for that quantity of subsistence which is necessary for home consumption; and, by premiums upon exportation, he must discharge the farmers of any superfluous load, which may remain upon their hands when prices fall too low." Indeed, Steuart advocated a much more extensive program of export subsidies than earlier mercantilists probably would have accepted. One passage is worth quoting at length:

> Let me suppose a nation which is accustomed to export the value of a million sterling of fish every year, to be undersold in this article by another which has found a fishery on its own coasts, so abundant as to enable it to undersell the first by 20 *per cent*. In this case, let the statesman buy up all the fish of his subjects, and undersell his competitors at every foreign market, at the loss to himself of perhaps 250,000l. What is the consequence? That the million he paid for the fish remains at home, and that 750,000l. comes in from abroad for the prices of them. How is the 250,000l to be made up? By a general imposition upon all the inhabitants. This returns into the public coffers, and all stands as it was. If this expedient is not to be followed, what will be the consequence? That those employed in the fishery will starve; that the fish taken will either remain upon hand, or be sold by the proprietors at a great loss; they will be undone, and the nation for the future will lose the acquisition of 750,000l. a year. (256–57)

This statement implies that export subsides (financed through general taxation) should be dispensed as an insurance program to insulate domestic producers from any adjustments that might result from other countries acquiring a cost advantage in trade.

Steuart even ruled out the desirability of worldwide free trade so long as "there are different [nation] states, [because then] there must be separate interests; and when no one statesman is found at the head of these interests, there can be no such thing as a common good; and when there is no common good, every interest must be considered separately." A world government "governed by the same laws, and administered according to one plan well concerted, can be compatible with an universally open trade." But with different governments, "any nation who would open its ports to all manner of foreign importation, without being assured of a reciprocal permission from all its neighbors, would, I think, very soon be ruined. . . . Laying, therefore, trade quite open would have this effect; it would destroy, at first at least, all the luxurious arts; consequently, it would diminish consumption; consequently, diminish the quantity of circulating cash; consequently, it would promote hoarding; and consequently, would bring on poverty in all the *states* of Europe" (364–65).

Steuart's *Principles* can be viewed as an extreme culmination of mercantilist foreign trade doctrines, one that went to much greater lengths than other tracts in outlining the necessity for a highly interventionist trade policy.[32] But the type of analysis embodied in Steuart's work was not suited to persuade the minds of his contemporaries, let alone minds of the future. Even before the publication of Smith's *Wealth of Nations*, Steuart's treatise was not well received. "When the *Principles* appeared in 1767," Andrew Skinner (1981, 36) notes, "the *Critical* and *Monthly* reviews were unanimous in their rejection of the role ascribed to the statesman." The next chapter documents the growing skepticism, even at the turn of the eighteenth century, among economic writers about whether trade restrictions, however well designed, serve a worthwhile economic purpose. Steuart's embrace of an omnipotent and wise statesman judiciously intervening in trade for the national interest seemed quaintly antiquated even in 1767.

. . .

In concluding this synopsis of the mercantilist trade literature, one is struck by how little ideas about commercial policy changed between Sir Thomas Smith's *Discourse* of the mid-1500s and, say, Charles King's *The British Merchant* of the early 1700s or even Steuart's *Principles* in 1767. The short pamphlets on trade grew into tracts and then into full-blown folios where trade was discussed at great length, but the space devoted to genuine analysis of trade, as opposed to describing the minute factual details of England's trade with various regions of the world, was sparse. In fact, although one can detect a greater sophistication in the economic tracts as the seventeenth century progresses, there is a marked decline in the quality of reasoning in most tracts on trade in the early eighteenth century. There is a return to the simple balance-of-trade-type reasoning, with little analysis or criticism, and one senses a complacency creeping in among economic writers, which made stereotyping and criticism by Adam Smith and the classical school that much easier.

In Joseph Schumpeter's (1954, 348) view, "Though pieces of genuine analytic work can be found occasionally and attempts at analysis more frequently, the bulk of the [mercantilist] literature is still essentially preanalytic; and not only that, it is crude." Perhaps expecting greater sophistication from the outpouring of works on trade would be unreasonable, for as

[32] Adam Smith (1987, 167) wrote just before publication of the *Wealth of Nations* that "without mentioning [Steuart's book] once, I flatter myself, that every false principle in it, will meet with a clear and distinct confutation in mine." See also Gary Anderson and Robert Tollison (1984).

D. C. Coleman (1980, 787) observes, “Much of the content of mercantilist writings is a compound of popular maxims and vague expositions held together by a cement in which logic, and what classical economics and its modern derivatives regard as rationality were very variable ingredients.” This chapter, in fact, may convey a misleading impression of the coherence of the literature as there is more logic to this synthesis than was in any one particular work.

The mercantilist eulogy of international trade clearly makes it a mistake to interpret them as being crude protectionists whose program was akin to autarky. The mercantilists were sharply critical of restrictions on merchants’s activities and commercial policies that hindered export growth. They held no anti-trade bias, indeed the opposite was true, and their anti-import bias was tempered by the recognition that trade was essentially barter between countries and that goods could not be sold abroad without the purchase of foreign goods in return. In terms of commercial policy, what we have in the end from the mercantilist literature is the simple employment argument for protection combined with the promotion of economic development through manufacturing, similar to the import-substitution policies proposed for developing countries in the 1950s.

But the mercantilist consensus that governments should use tariff policy to protect manufacturing and discourage raw material exports belies the emergence of other writers who questioned this received wisdom. Both of the reasons mercantilist writers set down for regulating trade, to promote a favorable balance of trade and to secure greater manufacturing production, were derivative of a more general view of trade where a disharmony between private and public interests led to a misallocation of economic resources, a misallocation that could be remedied by proper government intervention. Free trade thought emerged not only to question the particular goals and the particular concerns of mercantilists, but also confronted this more general question of the role of the state in directing the country’s economic affairs and its international commerce in particular.

Chapter Three

THE EMERGENCE OF FREE TRADE THOUGHT

THE IDEAS and themes described in the previous chapter dominated the discussion of commercial policy in the English economics literature from the late sixteenth century until well into the eighteenth century. By the end of the seventeenth century, however, skepticism of state regulation of trade was increasingly evident and the benefits of free trade came to be recognized, at least by a few writers.

. . .

Over the course of the seventeenth century, some individuals may have believed in free trade, but this position is not represented in the economic literature of the period. Thomas Violet (1651, 24) attests to how such beliefs remained obscure: "And whereas some men are of an opinion, that they would have trade free, to import all commodities, and export all without restraint. . . . I would not write it, but I have it affirmed by men of great quality, that this is the opinion of some men in place and power." But then he quickly added: "Truly I humbly conceive, there cannot be a more destructive thing to this Commonwealth, than that those men's principles should be followed."

The pro-commercial stance of mercantilists often led them to make statements on trade that have a decidedly liberal flavor. They pressed for many reforms of government policy, particularly those needlessly inhibiting exports, and sought to liberate commerce from the remnants of feudal and medieval restrictions. They often commented on the importance of a free and stable domestic environment for merchants and of establishing the security of property rights under the rule of law. Mercantilists frequently noted how trade thrived in countries where political liberties were respected and spoke of how this freedom was conducive to commerce. They also tended to take liberal stances on questions of immigration and religious tolerance because these too promoted commerce.

Just because there was much discussion about how trade flourished when free did not mean that "free trade" was advanced as the best policy of the state. Edward Misselden (1623, 112), for example, wrote that "trade hath in it such a kind of natural liberty in the course and use thereof, as it will not endure to be forced by any." Read in its context, however, he is simply putting forth the notion that sellers cannot force buyers to buy and buyers cannot force sellers to sell, not that regulatory burdens that force trade in certain directions are unwise or unnecessary, or that these burdens violate an individual's natural liberty.

The term "free trade" apparently originated at the end of the sixteenth century in parliamentary debates over foreign trade monopolies. In England, royal grants giving select merchants the exclusive privilege to engage in trade with a particular region of the world dated back to the thirteenth century. Although well established in the vocabulary of those writing on economic issues by the dawn of the seventeenth century, the term free trade initially carried a different meaning than what we now attach to it. "A free trade" was a commercial activity in which entry was unrestricted, where the liberty of the merchant to participate in trade was unhindered by exclusionary guild regulations or government grants of monopoly rights and privileges. Calls for "a free trade"—or, more precisely, "freedom to trade"—arose in an antimonopoly movement that opposed such government restraints on either domestic or foreign commerce. This movement was geared exclusively toward freeing trade from medieval controls and establishing the right to carry on trade without official permission or approval, and decidedly *not* with the abolition of import tariffs and the like.

English notions of individual liberty and natural rights under common law to employ one's labor in any activity that one saw fit underpinned the case against monopolies. The scholastic hostility to monopolies of all sorts was also deeply entrenched in the economic thought of the day, as Raymond de Roover (1951) points out, and there was little rhetorically or analytically new about these calls for freedom to trade. Indeed, monopoly trading companies provoked such ill feeling that those defending them either denied that they were really monopolies or justified the exclusive grants on other grounds. Misselden (1622, 63), for example, agreed that such grants reduced the liberty of subjects to engage in any trade they wished, but argued that the resulting security against competitors would increase traffic above what it otherwise would have been, and therefore concluded that "the utility that hereby arose to the commonwealth, did far exceed the restraint of the public liberty." A common defense of foreign trade monopolies was that long-distance trade required expenditures on certain public goods, such as navigational guides or defense establishments to protect person and property abroad, and government entry restrictions were required to prevent free riders from undermining the financing of such goods. An exclusive company, for example, could raise the requisite capital to pay for these required expenditures or use their trading profits to ensure the safety of cargo, whereas interlopers who did not contribute to the fund might reduce profits and could ultimately subvert the basis for all such trade.

Samuel Fortrey (1673, 41) objected to freedom to trade on the advanced grounds that it would turn the terms of trade, the price of exports relative to the price of imports, or the ratio at which goods are exchanged on world markets, against England. With trading companies, "our own commodities are sold the dearer to strangers, and foreign commodities bought much the cheaper; when both would happen contrary in a free trade; where each will undersell the other, to vent most; and also purchase at any rates, to prevent the rest." Others fell back on claims that the companies brought skill and experience to the trade which newcomers lacked; order and stability was good for a company's trade and was therefore good for country. An "ill-governed and disorderly trade" is "the bane of good government, . . . For want of government in trade, opens a gap and lets in all sorts of unskillful and disorderly persons," wrote John Wheeler (1601, 26), a prominent defender of the corporations. "I think no man doubteth . . . that the state and commonwealth reapeth more profit, then if men were suffered to run a loose and irregular course without order, command, and oversight of any."

Despite these arguments, the case for freedom to trade gradually achieved greater success in the English political arena. Wealthy merchants excluded from trade could also influence government policy, and in arguing for freedom to trade pointed to the mismanagement of the monopoly companies, the greater shipping that would result from an open trade, and the violation of their personal liberty that resulted from commercial restrictions. Yet advocates of "a free trade" or "freedom to trade" usually did not support the distinct notion of "free trade," that is, the absence of import barriers or export subsidies. Eli Heckscher (1935, 1: 296) put it this way: "The 'freedom of trade' had precisely this idea among the mercantilists: one was free to do what one wished without prevention or compulsion by governmental regulation, but the activity of the individual was to be directed along the right lines through economic rewards and penalties, the weapons of a wise government." These economic rewards and penalties included, obviously, commercial policies such as tariffs, subsidies, and even prohibitions. Regardless of one's position on freedom to trade, the central premise of mercantilist trade policy remained that government regulation of trade through such instruments was essential both to promote the expansion and prevent the decay of trade in general and to ensure that such trade was profitable or gainful to the country as a whole. R. Kayll (1615, 51) offered "a freedom of traffic for all his Majesty's subjects to all places" to stimulate trade, but insisted that "my proposition [of a free trade] is not any way so tumultuous as that thereby I would exclude all order and form from government in trades." Violet (1653, 16ff) similarly predicted that "a free trade will treble the importation and exportation of goods into all the sea-ports of this nation," but still advocated duties on "unnecessary" imports and prohibitions on certain manufactures to establish their production in England.

Support for free trade, defined as the absence of protectionist trade policies that discriminated against foreign goods, emerged in several ways in reaction to mercantilist doctrine. Mercantilist regulations could be unnecessary because there was no divergence in the economic interests of merchants and the general interests of society. A number of writers argued along with Henry Parker (1648, 13) that the actions of merchants always benefited the nation and society at large. Lewes Roberts (1641, 2) praised "the judicious merchant, whose labour is to profit himself, yet in all his actions doth therewith benefit his King, Country, and fellow subjects." Josiah Child (1693, 148–49, 154) maintained that "if our trade and shipping increase, how small or low soever the profits are to private men, it is an infallible indication that the nation in general thrives . . . if trade be great, and much English shipping employed, it will be good for the nation in general, whatever it may be for the private merchant." These scattered statements, left undeveloped in any length or detail at all, fell far short of establishing even the preconditions for a case for free trade. Most such statements were probably *obiter dicta* because not only did these same authors frequently contradict themselves, they certainly did not feel constrained from also arguing that import restrictions would be beneficial. This scattered discussion about the harmony of public and private interests in the economic realm was later taken up at length by moral philosophers in the eighteenth century and harnessed by Adam Smith in his case for free trade.

Initially, the strongest objections to mercantilism were not so ambitious as to attack its intellectual underpinnings, but instead eroded its credibility by questioning the twin objectives of a favorable balance of trade and a particular commodity composition of trade. A common concern by the end of the seventeenth century was whether the balance of trade really indicated the profitability of trade. A growing number of writers noted that numerous problems plagued the gathering of accurate data on the balance and misinformation about either exports or imports could lead to false conclusions about the state of trade. Child (1693, 137), for example, granted the basic truth of the balance of trade doctrine, but remained skeptical owing to difficulties in practice: "It will appear too doubtful and uncertain as to our general trade, and in reference to particular trades fallible and erroneous." Even if something approaching certainty about the balance of trade could be established, critics began to question whether an "unfavorable" balance implied anything about the well-being of the country. Roger Coke (1670, [x]) observed the following contradiction: "The Dutch we see import all, yet thrive upon trade, and the Irish export eight times more than they import, yet grow poorer."

Serious doubts about the reliability of the balance of trade doctrine preceded by many decades the mid-eighteenth-century theory that the price-specie flow mechanism would ensure the automatic self-correction of trade imbalances. According to this theory, any country with an initial cost advantage in trade might achieve a trade surplus, but the resulting inflow of precious metals would inflate prices in that country, erode the cost advantage, and ultimately eliminate the surplus. Jacob Vanderlint anticipated David Hume's famous description of this mechanism and helped undermine the theoretical basis for the mercantilists' pursuit of a protracted balance of trade surplus. Vanderlint (1734, 46) argued that free trade with France and its low cost manufactured goods would be beneficial to England: "Therefore if we were to open up trade with them, they would bring us all sorts of goods so cheap, that our manufactures would be at an end, till the money they would by this means get of us raised the prices of their things so much, and our want of money should fall ours to such a degree, that we could go on with our manufactures as cheap as they; and then trade would stand between that nation and us, as it does both between us and other nations who mutually take goods of each other; and I think this would enlarge the maritime trade of both nations, together with all the trades relating thereto (i.e., would furnish still further means of employing abundance of people of both nations this way); and at last, this will terminate in the particular advantages each nation hath in the produce of their respective countries."

Hume receives most of the credit for this idea in his justly famous essay, "Of the Balance of Trade." Here Hume (1752, 80) noted that "there still prevails, even in nations well acquainted with commerce, a strong jealousy with regard to the balance of trade, and a fear, that all their gold and silver may be leaving them. This seems to me, almost in every case, a groundless apprehension." As long as "we preserve our people and our industry," England (or any other country) need not fear this loss of specie. Hume (1955, 188–89) succinctly stated the reason why in a letter to Montesquieu in 1749:

> If half the money in England were suddenly destroyed, labour and goods would suddenly become so cheap that there would suddenly follow a great quantity of exports which would attract to us the money of all our neighbors. If half the money which is in England were suddenly to double, goods would suddenly become more expensive, imports would rise to the disadvantage of exports and our money would be spread among all our neighbors. It does not seem that money, any more than water, can be raised or lowered anywhere much beyond the level it has in places where communication is open, but that it must rise and fall in proportion to the goods and labour contained in each state.

In his published essay, Hume (1752, 84) elaborated on this idea and used the example of Spain, which could not contrive a way of keeping at home the massive inflow of precious metals from the New World: "Can one imagine, that it had ever been possible, by any laws, or even by any art or industry, to have kept all the money in Spain, which the galleons have brought from the Indies?"

Yet demolishing the conceptual basis of the balance of trade rationale for mercantilist policies did nothing to undercut the argument that import barriers were necessary to protect domestic industries from foreign competition. (As discussed in the previous chapter, mercantilists had little faith that import duties alone could bring about a balance of trade surplus anyway.) Therefore, important though those developments were to the monetary aspects of mercantilist doctrine, the price specie-flow mechanism did little to resolve controversies about free trade itself. There was still almost unequivocal support for the proposition that imported goods, especially manufactures but possibly excepting raw materials, should be subject to special duties. This idea was not threatened by the new monetary theories.

Another reaction to the mercantilist orthodoxy was to cast doubt on the ability of government to administer regulations in a way that would improve national welfare. They did not question the idea that government should take a leading role in trade, but argued that government should simply do a better job, sometimes nominating themselves, as merchants, as the class which should regulate trade. Roberts (1641, 64, 67) denied that statesmen knew trade well enough to regulate it in promotion of the national interest: "Our ordinary statesmen do neither seriously consider, nor truly weight the real benefits that arise to a kingdom and people by the hand of traffic . . . a mere statesmen conceives not what commodities are fittest to be eased, and which are to be raised for the common good, and profit of the trade of that country." He proposed that a council of merchants should determine commercial policy because of their superior knowledge about such matters. John Cary (1695, 139–40) added, "Yet our Parliaments generally handle [trade policy] very coarsely, and usually do more hurt than good when they meddle with it, for foreseeing the ill consequences of what they do . . . the reason whereof is because the conceptions they have of it are too gross for a thing so full of spirit as trade is." He recommended creating a committee on trade consisting of "honest and discrete men" whose only business would be to consider the nation's best commercial interests.

By contrast, Francis Brewster (1695, 38–39) had no problem with a governmental committee on trade, but objected to putting merchants on it because they would be "judges of their own complaints . . . no man in the actual part and course of trade can be equal and different in the determination of controverted matters in traffic." Others were still less optimistic about the government's ability to act wisely under any circumstances. Thomas Johnson (1646, i) scorned all public magistrates because of their "specious pretense of common good."

Yet those attacking government ineptness did not dispute the validity of the mercantilist framework, but merely objected to the current management of that framework. Even the occasional writer who recommended reducing the burden of import duties, such as John Bland (1659, 60), did not so much have free trade in mind as a practical desire to raise tax revenue by undercutting the incentive to smuggle goods. Such proposals were often to be selectively applied and were counterbalanced by calls for retaining or strengthening restrictions on trade in other goods or with other countries. In other words, almost all statements for freer trade during this period resulted from practical considerations in isolated cases, narrow in scope and applicability, with any general principles stated abruptly (if at all) without much reasoning or justification.

Still, the mercantilists were well aware of the gains from trade and there were several expressions of a different perspective on trade that later became part of the free trade case, even if the early statements fell short of arguing for free trade in the sense of eliminating all protective trade barriers. Consider the following statement by Samuel Fortrey (1673, 14), which comes fairly close to grasping the main insight of the classical theory of comparative advantage:

> Our care should therefore be to increase chiefly those things which are of least charge at home, and greatest value abroad; and cattle may be of far greater advantage to us, than corn can be, if we might make the best profit of them: for that the profit be can make of any corn by exportation, is much hindered by the plenty that neighbor country affords of that commodity, as good or better than we have any. Wherefore, we could employ our lands to anything of more worth, we could not want plenty of corn, though we had none of our own; for what we should increase in the room of it, of greater value by exportation, would not only bring us home as much corn as that land would have yielded, but plenty of money to boot.

A tract of remarkably liberal tone by Nicholas Barbon (1690) chided the inconsistency of pamphleteers who extolled the benefits of freer trade, but then supported other restrictions on trade that would serve their own financial interests. Barbon argued that men employed themselves to their own benefit, that this improved the wealth of the country, and that prodigality, though bad for men, was good for trade.

He agreed with contemporaries in that the impact of imports on total employment determined whether or not they are beneficial. But Barbon (1690, 71ff) understood the barter nature of trade—"for all foreign wares are brought in by the exchange of the native: so that the prohibiting of any foreign commodity, doth hinder the making and exportation of so much of the native." He also criticized protectionist measures: "If the suppressing or prohibiting of some sorts of goods, should prove an advantage to the trader, and increase the consumption of the same sort of native commodity: yet it may prove a loss to the nation," the loss arising from foregone customs revenue and lost employment overall.

Yet Barbon's views on trade and commercial policy turned out to be fairly conventional. He notes that all nations understand the advantage of exchanging wrought for unwrought goods, but argued that if all followed this policy, trade would dry up to the ruin of every trading nation. However, Barbon speaks here of prohibitions, and when he moved on to discuss tariffs he states something quite different: "If the bringing in of foreign goods, should hinder the making and consuming of the native, which will very seldom happen; this disadvantage is not to be remedied by a prohibition of those goods; but by laying on so great duties upon them, that they may always be dearer than those of our country make: the dearness will hinder the consumption of them" (78). Such a statement, of course, is incompatible with the free trade position.

In his *Discourses Upon Trade* (1691), Dudley North agreed with Barbon that too many writers extolled the general interest in an open, free, and growing trade but came down in favor of restrictions for particular projects. Like Barbon's, North's tract is clearly remarkable for its time, but is also overrated as an early statement of free trade views. North devoted his short pamphlet mainly to a critique of usury and restrictions on the export of specie, which he viewed as a commodity like any other. Commercial policy is discussed with the utmost brevity and free trade conclusions are stated abruptly, without any accompanying reasoning to justify the conclusions. North (1691, 2, [28]) views trade as "a commutation of superfluities" among nations and uses the analogy that a nation in world trade is like a city in a kingdom's trade or a family in a city's trade. He concludes that "laws to hamper trade, whether foreign, or domestic, relating to money, or other merchandises, are not ingredients to make a people rich . . . for no people ever yet grew rich by policies, but it is peace, industry, and freedom that brings trade and wealth." The irony is that most mercantilists would probably agree with this proposition in general, but still see a role for tariffs in ensuring trade was brought to an even greater advantage. In the end, North's treatment is much too cursory and too short on analysis to grant him much of a role in the history of free trade analysis.[1]

[1] The preface of the *Discourses*, apparently written by North's brother, according to William Letwin (1951), contains a more concise statement of the tract's free-trade point of view. "Now it may appear strange to hear it said, that the whole world as to trade, is but one nation or people, and therein nations are as persons. That the loss of a trade with one nation, is not that only, separately considered, but so much of the trade of the world rescinded and

The Barbon and North contributions, however, were quickly followed up by a number of important writings. The immediate impetus for the new debate on commercial policy, which paved the way for a clearer analysis of the benefits of free trade, came in the mid-1690s when the East India Company began shipping vast amounts of cotton calicoes from India to England. These imports adversely affected domestic production of cotton goods, sparked a clamor for restrictions on the East Indian imports, and triggered the first real debate in England, not over whether there should be "a free trade" in the sense of monopoly trading companies, but whether there should be "free trade" in allowing imports of these manufactured goods to continue unimpeded.[2]

Proponents of protection argued that imports were destroying domestic manufacturers and impoverishing the nation. Pollexfen (1697, 18) envisioned ruin should the imports go unchecked: "Those [goods] from India must otherwise be cheapest, and all people will go to the cheapest markets, which will affect the rents of land, and bring our working people to poverty, and force them either to fly to foreign ports, or to be maintained by the parishes." This was the essence of the anti-import position, a position that focused primarily on how cheap imports reduced domestic output and displaced domestic workers. Pollexfen made one concession in that "so long as the nation keeps to frugality and industry laws may not be absolutely necessary to limit the consumption of any foreign commodities, nor to increase or promote our own manufacturing" (47). Still, under pressing circumstances a tariff could raise the price of competing imports and allow domestic firms to sell more in the home market, thereby preventing a decline in employment in that manufacturing industry.

One anonymous author feared that the result of imports "would very [be] to extinguish [our] manufactures" and warned that "this sending out of our treasure to bring in this abundance of wrought goods, is like the drawing out the pure and spirituous blood of a man's veins, and filling them with hydropick humours."[3] The conventional view that continued import penetration would cause a loss of employment and impoverish the nation was later exquisitely summed up by David Clayton (1719, 9), who wrote, "You may as soon convince me that black is white, and that darkness is light, as to convince me that the making our hands idle is the way to make us thrive, and the carrying our cash abroad is the way to enrich us."

Novel arguments, however, arose in defense of the imports. Gardner

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lost, for all is combined together. That there can be no trade unprofitable to the public; for if any prove so, men leave it off; and wherever the traders thrive, the public, of which they are a part, thrives also." This anticipates a number of points that free-trade advocates would make later on.

[2] This debate is reviewed by P. J. Thomas (1926).

[3] *The Great Necessity and Advantage of Preserving Our Own Manufactures* (1697, 9).

(1697, 3–4, 9) succinctly stated two key points of the emerging free trade doctrine. First, "If the proposed prohibition passes it will only enrich a few master silk weavers, and their factors, and at the same time take away the means of increasing the stock of the nation." Second, "The bringing in of foreign wares at half the price we can make them here at home, whilst at the same time we can find employment for our people, we by that means save so much money." Thus, Gardner makes the point that few stand to benefit directly from the import restriction, and that others who have to pay more for those goods will have less for other expenditures. Furthermore, workers displaced by imports could find employment in other industries, and the country would have saved resources because it would have acquired the imported goods at a cheaper price than would otherwise be the case.

In his celebrated *Essay on the East-India Trade* (1696), Charles Davenant addressed the charge that imported cotton goods interfered with domestic production of woolens and silks. Davenant (1696, 22) began by arguing that special trade policies for individual industries were unwise because one trade is interdependent with all others: "All trades have a mutual dependance one upon the other, and one begets another, and the loss of one frequently loses half the rest." In discussing the adverse impact on wool producers, Davenant opened with a sweeping statement:

> Trade is the general concern of this nation, but every distinct trade has a distinct interest. The wisdom of the legislative power consists, in keeping an even hand to promote all, and chiefly to encourage such trades, as increase the public stock, and add to the kingdom's wealth, considered as a collective body. Trade is in its nature free, finds its own channel, and best directs its own course: and all laws to give it rules and directions, and to limit and circumscribe it, may serve the particular ends private men, but are seldom advantageous to the public. Governments, in relation to it, are to take a providential care of the whole, but generally to let second causes work their own way; and considering all the links and chains, by which they hang together, . . . in the main, all traffics whatsoever are beneficial to a country. . . . Laws to compel the consumption of some commodities, and prohibit the use of others, may do well enough, where trade is forced, and only artificial. . . . But in countries inclin'd by genius, and adapted to it by situation, such laws are needless, unnatural, and can have no effect conducive to the public good. (25ff)

The best way to promote the wool industry, Davenant insisted, was not to contrive its production artificially by using laws and import duties that raise domestic prices, but to encourage inexpensive domestic production that would lead to lower prices. Cheap production would enable domestic producers to undersell competitors and would discourage entry by other foreign firms, "but this can never be if . . . we endeavour to give wool an unnatural price here at home." He concluded that "the East-India goods do sometimes interfere with the woollen manufacture must undoubtedly be granted; but the principal matter to be considered is, which way that nation in general is more cheaply supplied" (32ff).

Regarding silk, Davenant again made a sweeping statement:

> Wisdom is most commonly in the wrong, when it pretends to direct nature. The various products of different soils and countries is an indication, that providence intended they should be helpful to each other, and mutually supply the necessities of one another. And as it is a great folly to compel a youth to that sort of study, to which he is not adopted by genius, and inclination: so it can never be wise, to endeavour the introducing into a country, either the growth of any commodity, or any manufacture, for which, nor the soil, nor the general bent of the people is proper. (34ff)

Trying to cultivate an industry where it would not naturally arise or was not well suited was ultimately harmful; "a trade forced in this manner, brings no natural profit, but is prejudicial to the public." Davenant argued that domestic production of silk was artificially contrived and unsuited to England—"whatever encouragement it meets with, it cannot thrive with us"—and thus detracted from more profitable employments. The dislocation caused by import competition was not consequential because labor could move between occupations; "In a time of peace, and full employment, these hands can shift from one work to another, without any great prejudice to themselves or the public." The fact that silk could be produced much cheaper abroad indicated that those in the domestic silk industry would be better employed elsewhere. Even if silk could be suited to England, Davenant was skeptical about (but did not elaborate on) such an infant industry policy: "But though with forcing nature, and by art and industry, we could bring it to greater perfection, yet upon other accounts it is perhaps not advisable, nor for the nation's interest, to promote it." Furthermore, restricting cotton imports from East India would merely enrich other competitors because England would be forced to buy similar goods elsewhere at a higher price.

This is as far as Davenant carries the case for free trade in terms of providing an underlying economic reasoning. His statement was as much a critique of protection as a positive case for free trade. Although he eloquently put forth the view that there is a natural course to commerce that government cannot improve upon but only detract from, Davenant (1696, 37–38) never went so far as to advocate *laissez-faire*: "An unforced and natural improvement may be made in our wealth and substance, and it is here the legislative power may, to good effect, interpose with its care and wisdom . . . it is the prudence of a state to see that this industry [of traders and manufacturers], and stock, be not diverted from things profitable to the whole, and turned upon objects unprofitable, and perhaps dangerous to the public." In other places, Davenant (1698, 128) reveals proclivities toward intervention: "If the trade of England, which is the common concern of all, was made the particular business of some one council of men experienced and knowing therein; and if that council were armed with sufficient powers from the law, our traffic might perhaps be managed more to the general interest and welfare of the kingdom" (133). Such management might include sumptuary laws "such as might prohibit the use of commodities from those countries where we lose in the balance, and where trade is hurtful to us."[4] Yet he (1698, 139) also mentions that "a nation that visibly loses in the balance of trade with any country, will find very little help by laying high duties at home" to block imports or in undertaking measures to encourage exports.[5]

It is one thing to make such free-trade statements and another to provide solid analytical reasoning that supports them. Davenant advances the free trade argument further than anyone thus far in this particular debate, and both he and Gardner had briefly mentioned (but did not elaborate upon) a key point: rather than viewing imports as a loss or a cost to the nation for sustaining exports, imports were viewed as being a cheap way of acquiring certain goods indirectly via exports. But what has yet to be encountered is a tract that employs this idea to develop sound analytical reasoning in favor of free trade. The first such performance, and what a tremendous achievement it was, is Henry Martyn's *Considerations upon the East India Trade*, first published in 1701.[6] Martyn's work is highly unusual for the period in which it appeared. His treatment is thorough, systematic, and—most unusually—acutely analytical, with his subject discussed with great clarity

[4] On the other hand, Davenant (1696, 49) wrote that "there is no country without a multitude of sumptuary laws, but hardly a place can be instanced, where they are observed, or produce any public good."

[5] Waddell (1958, 281) and others have insisted that Davenant was a mercantilist because of his concern over the general balance of trade. For our purposes, the real question is not whether a writer expresses concern over the balance of payments under certain circumstances, but whether they entertain recourse to import restrictions. For this reason, Davenant was by and large a free trader in his day, or at least an antiprotectionist—even if he operated in the context of somewhat conventional balance of trade reasoning and even though he was against freedom to trade in the sense of abolishing exclusive companies. What gives particular force to this interpretation is that Davenant promulgated a fiscal proposal that called for customs duties to be replaced by consumption taxes, a key feature of any free trade proposal in the days when tariffs raised a significant amount of government revenue. Davenant (1695, 30–31) first mentions such a scheme, which he (1698, 230) later elaborated on in arguing "to contrive some way of easing the customs, and to give an equal encouragement, by laying duties that may be tantamount upon the commodities when they come into the retailers hands; and so to charge the consumption, instead of the importation." However, in this tract he also contradicts this position, arguing for "moderate duties, such as may not discourage other countries from dealing with us, and encourage our own people to place their efforts in trade where their wealth best operates to the public good." This brief retraction, however, does not reflect the overall tenor of his other statements.

[6] Martyn's authorship of the book has long been suspected and is now firmly established by Christine Macleod (1983). It should be noted that Viner (1937, 104–5) and Schumpeter (1954, 373–74) devote only ten sentences between them to Martyn's impressive reasoning.

and tenacity. Martyn's crisp economic reasoning is well in advance of his contemporaries, and it would not be unreasonable to suggest that he surpasses even Adam Smith in his analytical contribution to the case for free trade. Like Smith, Martyn also had a keen eye for the beneficial economic effects of rivalry and competition.

In the preface, Martyn alerts the reader that "most of the things in these papers are directly contrary to the received opinions." In this tract Martyn supports free trade in both the contemporary and the current sense of the word: he opposed both monopoly restraints on the East India trade and restrictions on manufactured imports from India. Martyn wanted to open the East India trade to all merchants, objecting to restricting trade to just those licensed by the government because this diminished competition: "In an open trade, every merchant is upon his good behaviour, always afraid of being undersold at home, always seeking out for new markets in foreign countries; in the meantime, trade is carried on with less expense: This is the effect of necessity and emulation, things unknown to a single company" (21). Martyn clearly explained how such freedom will make the East India trade less profitable for existing merchants, because open trade will drive the rate of profit down to that of other comparable lines of commerce, but more advantageous for the nation as the volume of trade expands. To the objection that exclusive companies were needed to generate monopoly profits that would finance the protection of trade, Martyn proposed that government provision of such goods would permit an open trade: "The necessary forts and castles may be as well maintained at the public charge; and this may be better paid by the greater gain of an open trade" (28).

The most compelling and original feature of Martyn's work was applying the principle of the division of labor to international trade. The gains arising from the division of labor, of course, had been noted by Plato and Xenephon and in Martyn's time by William Petty in a few scant paragraphs, but not directly in the context of international exchange. Martyn likened England's importation of cheap Indian cotton goods to a labor-saving invention, or to a new technology for producing manufactured goods, wherein more cotton goods could be obtained through less labor than before by exporting other products. "Things may be imported from India by fewer hands than as good would be made in England, so that to permit the consumption of Indian manufactures is to permit the loss of few men's labour . . . a law to restrain us to use only English manufactures, is to oblige us to make them first, is to oblige us to provide for our consumption by the labor of many, what might as well be done by that of few, is to oblige us to consume the labour of many when that of few might be sufficient" (47–48). Martyn's analogy was this: "If the same work is done by one, which was done before by three; if the other two are forced to sit still, the Kingdom got nothing before by the labour of the two, and therefore loses nothing by their sitting still" (24).

In the context of international trade: "If nine cannot produce above three bushels of wheat in England, if by equal labour they might procure nine bushels from another country, to employ these in agriculture at home, is to employ nine to do no more work than might be done as well by three" (55). Protection was wasteful and tantamount to throwing away useful labor; "It is to oblige the things to be provided by the labour of many, which might as well be done by few; tis to oblige many to labor to no purpose, to no profit of the kingdom, nay, to throw away their labour, which otherwise might be profitable" (57). "To employ to make manufactures here, more hands than are necessary to procure the like things from the East Indies, is not only to employ so many to no profit, it is also to lose the labor of so many hands which might be employed [elsewhere] to the profit of the Kingdom" (54).

Like Davenant but wholly out of the temper of the period, Martyn was unconcerned about the displacement of labor from import competition: "Manufactures are procured from the East Indies by the labour of fewer hands than the like can be made in England; if by this means any number of people are disabled to follow their former business, the East India trade has only disabled so many to work to no profit of the kingdom; by the loss of such manufactures, of such ways of employing the people, the public loses nothing" (59). "The East India trade destroys no profitable English manufacture, it deprives the people of no employment which we should wish to be preserved" (34). Martyn pressed his case by insisting that an open trade "is the most likely way to make work for all the people." Labor could be gainfully employed in other sectors because competition from India would reduce the price of similar English manufactures and thereby improve their ability to export overseas. He forcefully denied that a lower price of English manufactures would reduce the wages of labor, and distinguished sharply between the wage paid to labor and the cost of labor in production, again likening the East India trade to a productivity increase which lowers effective labor costs but not the wage received by labor. Import competition also forces productivity to advance in other industries. "And thus the East India trade by procuring things with less, and consequently cheaper labour, is a very likely way of forcing men upon the invention of arts and engines, by which other things may be also done with less and cheaper labor, and therefore may abate the price of manufactures, though the wages of men should not be abated" (66).

Gains from increasing the productivity of labor were also set out in his particular interpretation and invocation of the doctrine of universal economy: God bestowed his blessings on people by creating the sea so

> that our wants at home might be supplied by our navigation into other countries, the least and easiest labor. By this we taste the spices of Arabia, yet never

> feel the scorching sun which brings them forth; we shine in silks which our hands never wrought; we drink of vineyards which we never planted; the treasures of those mines are ours, in which we have never digged; we only plough the deep, and reap the harvest of every country in the world. (58–59)

Martyn's tract was reprinted in 1720 and therefore could not have been completely ignored by his contemporaries. But his arguments appear not to have generated any discussion or rebuttals in print. By concentrating the reader's attention on the fundamental economic notions of opportunity cost, efficiency, and productivity, Martyn thereby advanced the theory of international trade to a new level. Trade was more than just an exchange of superfluities, as implied by weaker versions of the doctrine of universal economy. Even when imports competed directly with domestic production trade was found to be beneficial in increasing competition and improving economic efficiency. Trade enhanced the productivity of domestic labor in terms of the goods it could ultimately procure and was a means by which more goods could be had from the same domestic resources.

The writings of Gardner, Davenant, and Martyn were the best to emerge in the turn of the century debate over commercial policy in England. As the eighteenth century moved on, more and more contributors were willing to express their sentiment in favor of free trade in goods, even if their level of analysis is not up to Martyn's standards and no one followed up on Martyn's compelling analysis in any significant way. A short tract by Isaac Gervaise has received acclaim for its analysis of the equilibrating mechanism in international payments, and his discussion of commercial policy is perceptive, if less outstanding. Gervaise (1720, 22) employed the notion of opportunity cost (the sacrifice of alternatives) to cast doubt on the ability of government intervention to increase aggregate wealth: "No nation can encourage or enlarge its proportion of any private and natural manufacture, without discouraging the rest; because whether an allowance be given, either to the manufacturer, or transport, that allowance serves, and is employed to attract the workmen from those other manufacture, which have some likeness to the encouraged manufacture."

Applying this to trade policy, Gervaise wrote:

> When the natural proportion of one, or more manufactures, although necessary, is not large enough to answer the entire demand of the inhabitants, the best and safest way is freely to suffer their importation from there of the world; taxes on imports being no more than a degree of prohibition, and prohibition only forcing those manufactures to extend themselves beyond their natural proportions, to the prejudice of those, which are, according to the dispositions of the country, natural beyond the entire demand of the inhabitants; which lessens or hinders their exportation, in proportion to the prejudice they receive by the increase of those manufactures, which are but in part natural, and

> whereof the importation is prohibited. This considered we may conclude, that trade is never in a better condition, than when it's natural and free; the forcing it either by laws, or taxes, being always dangerous: because though the intended benefit or advantage be perceived, it is difficult to perceive its countrecoup; which ever is at least in full proportion to the benefit: Nature not yielding at once, sharpens those countrecoup, and commonly causes a greater evil, than the intended benefit can balance. (22–23)

The implication is that trade promotion in one sector amounts to trade constriction for other sectors, and this cost may be unrecognized but is not unimportant. Once again, like Davenant, an appeal to a seemingly biological concept of balance across economic activities is made in developing the argument that government merely upsets this balance and disturbs these natural interrelationships.

Jacob Vanderlint's (1734, 26) qualified acceptance of the balance of trade criterion for determining beneficial trades did not prevent him from arguing that, "in general, there should never be any restraints of any kind on trade, nor any greater taxes than are unavoidable; for if any trade be restrained in any degree, by taxes or otherwise, many people, who subsisted by the business which now hath restraints laid upon it, will be rendered incapable of pursuing it, and of consequence they must be employed some other way, or drove out of the kingdom, or maintained at the public charge; which last is always a great and unreasonable burden." Vanderlint turned the usual employment argument on its head by stressing the employment loss from trade restrictions rather than the loss from import competition. "All nations of the world, therefore, should be regarded as one body of tradesmen, exercising their various occupations for the mutual benefit and advantage of each other. . . . Now since mankind never complained of having too much trade, but many do really want business sufficient to get a livelihood, prohibitions do in the very nature of things, cut off so much employment from the people, as there would be more, if there were no such prohibitions (42–3). . . . No inconvenience can arise by an unrestrained trade, but very great advantage" (78). This suggested an "invincible argument for a free and unrestrained trade, since if any nation makes goods for us, we must be making others for them or some other nation, and so mutually for each other, provided our goods are made cheap enough to maintain such commerce . . . it is impossible any body should be the poorer, for using any foreign goods at cheaper rates than we can raise them ourselves" (99).[7]

[7] Vanderlint still admitted, "Yet I must own, I am entirely for preventing the importation of all foreign commodities, as much as possible; but not by acts of parliament, which never can do any good to trade; but by raising such goods ourselves, so cheap as to make it impossible for other nations to find their account in bringing them to us" (54).

Vanderlint also envisioned a retaliatory dynamic in which trade restraints in one country beget trade restraints in another, with employment suffering in all countries as a result. "When any branch of commerce lessens the cash of a nation, I expect it will be thought fit by high duties or prohibitions to restrain or suppress it, but this I take the liberty to deny, because it will hence become fit for other nations to lay such restraints or prohibitions, as they never to let us have a gainful trade, if they can help it, it being just so far a losing trade to them as it's gainful to us; and as maritime commerce must be, and certainly is now, very much lessened by these mutual restraints, so many people must have lost their employment in every such nation." By avoiding high duties, "this might demonstrate to others the folly of restraining trade in any degree whatsoever" (79–80). Thus, Vanderlint's important contribution complements Martyn's; the latter focused on how trade strengthened the productiveness of domestic labor, whereas the former pointed out the employment costs of trade restraints.

That such ideas were now intellectually credible is evident in Matthew Decker's (1744, 56) call for Britain to become a free port, "by which I mean, that all sorts of merchandise be imported and exported at all times without paying any customs or fees." Though he made no analytical contribution to the case for free trade, Decker ranks as a prominent reformer who reacted against the high import duties of the day.[8] To gain support for his proposals, Decker (1743, 27–28) argued for something similar to what was later known as the compensation principle: the beneficiaries of free trade could compensate those harmed by free trade, ensuring that everyone was better off.

> Since I would willingly calculate my scheme for the good of the whole community and at the same time not to the prejudice of any individual member, if it could be avoided; I would be very willing that the parliament should consider all those who, by this scheme, would lose their present employment. Let their salary be continued to them upon the same foot they have it now, or during their lives, and this perhaps would induce them to look with a favorable eye on our design.

Several other mid-eighteenth-century writers echoed Decker's call for lower tariffs, although this came more as a reaction to the high level of taxation than from a reasoned analysis. This support for more liberal com-

[8] Yet elsewhere Decker (1743, 29) contradicts himself, suggesting that "I see very clearly that there must be some regulation upon some certain species of goods which may be imported from abroad, and would interfere with our own manufactures." Joseph Massie (1757, 63) castigated Decker with tremendous spirit and venom for this one exception, arguing not only that it undercut everything else he had said, but that it reduced his work to a "downright bare-faced piece of sophistry."

mercial policies also revealed itself in a debate over the merits of establishing free trade between England, Scotland, and Ireland, and in proposals to make the British isles "free ports," the traffic through which would be exempt from duties to spur trade. These reformist views are most often made in reference to specific cases rather than as general propositions, and were often qualified or contradicted by the author elsewhere. Most of these statements of a free trade position are made without supporting analysis and are too brief and skimpy to merit much consideration.[9]

To ask, therefore, whether one early author was or was not a consistent free trader is to overlook the more meaningful question: which authors, regardless of the consistency of their stand on free trade, contributed to the economic analysis and reasoning that buttressed the case for free trade thereafter. By this standard, Martyn stands out as exceptional among the pre-Smith writers. Other economic writers, such as North and Davenant and Decker, may have asserted that free trade is the best policy to be pursued or described how it could be implemented, but all too frequently their analysis ended there. Martyn's analysis was a tremendous advance, even if never followed or cited until the classical economist J. R. McCulloch rescued him from possible oblivion in the early nineteenth century. This does not imply by any means, however, that such ideas were widely accepted: as Arthur Young (1774, 262) argued, "A general free trade, as there has been no example of it in history, so is it contrary to reason."

. . .

While many of the essential elements of the economic analysis behind free trade predate Adam Smith, none of these writers were able to overthrow established notions of trade and commercial policy and create a new presumption that free trade was the most beneficial policy to be pursued. In creating a compelling case for free trade, Smith, perhaps somewhat surprisingly, did not draw much on these dissenting notions that existed within the

[9] As Jacob Viner (1937, 92) once suggested, "there has been great exaggeration of the extent to which free-trade views already prevailed in the English literature before Adam Smith." Many of these authors advocated free trade not as a matter of principle or solely on the basis of economic reasoning, but to achieve some political objective. Henry Martyn, who in many ways expounded the logic of free trade with more profound reasoning than Adam Smith, was also a contributor to the *British Merchant*, a compendium of typical mercantilist doctrine published during the debates over the clauses of the Treaty of Utrecht in 1713–14 that would have liberalized trade with France. Did Martyn contradict himself or merely change his mind between 1701 and 1713? Macleod (1983) suggests that neither is the case: Martyn was politically active and took standard Whig positions in both the East India trade debate at the turn of the century (favoring free imports from India via the East India company) and the French trade debate in 1713–14 (against freer trade with France). That his advocacy was politically driven, of course, takes nothing away from his analytical accomplishments.

mercantilist orthodoxy. Instead, he approached free trade from an entirely different angle, that of the moral philosophy that emerged in the eighteenth-century enlightenment. This approach, married to a more analytical inquiry similar to that of Martyn, ultimately proved successful in establishing a presumption in favor of free trade.

Chapter Four

PHYSIOCRACY AND MORAL PHILOSOPHY

"The antecedents of [Adam] Smith's *laissez-faire* and free trade views," Jacob Viner (1937, 91) once suggested, "are probably rightly to be sought mainly in the philosophic literature, and perhaps also in the writings of the physiocrats, rather than in the earlier English economics literature." This chapter briefly considers French physiocracy and English and Scottish moral philosophy only as they were possible sources for Smith's views on free trade, so as not to stray too far from ideas about commercial policy. Both groups addressed, in different ways, the mercantilist (but really age-old) contention that the state had to direct merchants toward activities that promoted the public good. The physiocrats advocated free trade in the context of a general *laissez-faire* approach that proclaimed the harmony of private actions with the public welfare. The moral philosophers held to a more nuanced position that competition within the framework of natural liberty ensured a broad but imperfect harmony of these interests, with the state creating an institutional framework (a system of justice) that would facilitate this convergence without actually directing the activities of individuals. Although these antecedents provided a philosophical approach to society and the market that Smith found indispensable, the physiocrats and the moral philosophers did not provide much guidance to Smith either in terms of providing an appealing justification for free trade or in improving the quality of economic analysis that could be used to support free trade.

Physiocracy

In the late seventeenth century, critics of mercantilism multiplied in France just as they had in England. Businessmen and merchants demanded that trade be set free from government interferences. "The greatest secret is to leave trade entirely free; men are sufficiently attracted to it by their own interests. . . . Never have [manufacturers] been so depressed, and trade also, since we have taken it into our heads to increase them by way of authority," stated one report of merchants's views in 1685. "Trade can flourish and subsist only when merchants are free to procure the merchandise they need in the places where they are [sold] at the lowest price, and every time we wish to compel them to buy in one place at the exclusion of all others, merchandise will become more expensive and trade will consequently fall into ruin," read another statement from 1686.[1]

In France, perhaps even more than in England, this period saw the emergence of ideas about economic liberty, later summarized in the maxim *laissez-faire et laissez-passer* (implying freedom to produce and freedom to trade). The economic context to this tradition owes much to Pierre de Boisguilbert, whose writings around 1690–1710 reflected a perspective that Adam Smith later developed.[2] According to Boisguilbert, individuals motivated by their own self-interest unintentionally perform a public service by directing their efforts toward activities that have high private rewards, rewards which can arise only when others value those efforts and hence are willing to pay a high price for them. As he put it, "All are occupied night and day with their own particular interests, but, at the same time, although it is what they care about least, they are contributing to the general good, while, nevertheless, attending to their own individual utility." Boisguilbert provided an excellent analysis of how the price system links, coordinates, and ensures competition between buyers and sellers in the market. Markets free of government restrictions will operate naturally to the benefit of both participants: "It is this reciprocal utility which makes for the harmony of the world and the maintenance of the state; each individual cares only for procuring his personal interest to the maximum extent, and with the greatest possible ease; and when he goes four leagues from home to buy a good, it is because it is not for sale three leagues away, or because it is better value and worth the extra distance."[3] Other than preserving justice, Boisguilbert argued, little government intervention is required to maintain this prosperous system.

These philosophically based notions about natural freedom and economic activity were adopted by one of the first "schools" of economics, the physiocrats, led by François Quesnay in the 1750s. The physiocrats joined in fervent calls for free commerce, although their contribution to the actual economic analysis of free trade was minimal. Indeed, the physiocratic school advocated free trade more as a matter of convenience than conviction. This convenience was based on the strongly held view that the natural produce of the earth, mainly agriculture, was the source of all wealth in society and that free trade would lead to a natural distribution of this produce, thereby tending (in their view) to raise grain prices and benefit agriculture in France. Quesnay's *Tableau Économique* ([1758–59] 1972, 4ff), for example, opened by contrasting the "productive" activities of the agri-

[1] Quoted in Lionel Rothkrug (1965, 231–32).

[2] For a fuller discussion of Boisguilbert, see Hazel Roberts (1935) and Terence Hutchison (1988, 107–15).

[3] Quoted in Hutchison (1988, 111).

cultural and raw materials sector with the "sterile" occupations of manufacturing and services. Produce from the land was taken to be the most important of all economic assets and the ultimate source of economic wealth, with all other activities derivative and ultimately dependent upon it. The physiocrats aimed to enact policies that would increase investment in agriculture and draw resources away from other "improper occupations." The agricultural expansion would increase exports and in turn enable greater imports of "sterile" goods for consumption.

In asserting the economic primacy of products from the earth and land, like earlier pro-agrarian, antimercantilist French writers of the seventeenth century, the physiocrats turned the mercantilist view of the ideal commodity composition of trade on its head. For the physiocrats, exporting raw materials and agricultural goods and importing manufactured goods was much more desirable than the reverse. As Quesnay ([1758–59] 1972, 4) put it: "In the mutual trade of the raw produce which is purchased from abroad and the manufactured commodities which are sold abroad, the disadvantage usually lies on the side of the latter commodities, because much more profit is yielded by the sale of raw produce." Indeed, Quesnay ([1757] 1963, 75) believed that countries specializing in manufactures were at risk: "A nation which has little trade in raw produce, and which is reduced to trade in industrial goods in order to subsist, is in a precarious and uncertain position" because new competitors could easily emerge to displace one's export position. Contrary to mercantilist suppositions, any government policy that reduces the price of raw produce in an effort to promote manufactures would led to an extreme chain of events (reminiscent of some of the mercantilist reasoning) whereby "the kingdom's strength is destroyed, its wealth is wiped out, the people are overburdened with taxes, and the sovereign's revenue diminishes."

Quesnay's disciple, the Marquis de Mirabeau (1766, 171–73), also disparaged manufacturing: "Manufactures for home consumption are no better than an object of expence, and by no means a source of income; nor can the exportation of them afford any net profit." Indeed, he urges readers not to confound "the general net produce or income belonging to the nation, with the profits of merchants" because "these profits are to be considered as barren expences, with respect to the nation." Yet he encouraged free trade in manufactures, arguing that a country should export manufactured goods only if it also has the raw materials with which to produce them at home and should expect to gain only to the extent that those manufactures (directly or indirectly) improve the market for produce from the earth.

Because mercantilist policy tended to favor the development of manufacturing relative to agriculture, physiocratic calls for the elimination of all government interference, particularly internal barriers to the grain trade (local policies of provision) and price ceilings on grain, were consistent with their philosophical position and would act to promote agricultural interests. Loath to make an exception to the principle of *laissez-faire*, the physiocrats recognized that consistency dictated that the removal of government restrictions be extended to international trade as well and they concluded that free trade was the best policy. As Quesnay ([1757] 1963, 79) contended, "A state should sacrifice certain of the less important branches of trade in favor of other branches which are more profitable to her and which would increase and assure the revenue of the kingdom's landed property. . . . Nevertheless, all trade ought to be free, because it is in the interests of merchants to devote themselves to those branches of external trade which are the safest and most profitable."[4] This advocacy of free trade was disingenuously convenient because free trade in France suited the physiocrats's objective of promoting greater output of agricultural goods. It is not at all clear that the physiocrats would have been as enthusiastic supporters of free trade had their country been in a different position; one can easily envision them having a more protectionist bent in grain-importing countries.

But aside from the occasional broad, sweeping statements favoring complete liberty in trade, the physiocrats did not devote much attention to international trade or commercial policy, except in the context of removing impediments on the export of grain. They were often unenthusiastic about the role that international trade played in an economy, asserting that internal trade was of greater importance. As Arthur Bloomfield (1938, 731) has noted, "In reaction to the mercantilist stress on foreign trade, the physiocrats were led to belittle its importance and to view it with disdain." Far from "presenting a comprehensive case for free trade on the basis of international specialization," the physiocrats "considered [trade] as a last resort which should be avoided as far as possible." Thus, while the *laissez-faire* views of the physiocrats were adopted to some extent by Smith, their views on free trade did not provide the general conceptual reasoning that Smith would find compelling.[5]

[4] "External trade should always be quite free, cleared of all encumbrances and exempted from all impositions, because it is only by means of the communication between nations which it maintains that we can make sure of always having the best possible price for the territory's products in internal trade, and the highest possible revenue for the sovereign and the state" Quesnay ([1766] 1963, 163).

[5] For more details on the intellectual relationships between the physiocrats and Smith and the physiocrats and the classical economists, see Ian Ross (1984) and Ronald Meek (1951), respectively. A.R.J. Turgot, another well-known free trade advocate in France but not a physiocrat, made few substantial contributions to the economic analysis behind free trade. His principal work in economics, *Reflections on the Formation and Distribution of Wealth* (1766), neglects international trade almost completely. But Turgot wrote policy-oriented letters calling for free trade in grain and a noted letter to L'Abbé Terray on the "Marque des Fers" opposing import duties for iron manufacturers. In this letter, as he had elsewhere, Turgot

Moral Philosophy

The second, and more important, inspiration for Smith's work stemmed from the philosophical literature sparked in part by Thomas Hobbes's *Leviathan* in 1651. Hobbes argued that self-interest ruled the passions of men and was essentially destructive and chaotic. Men, consulting their reason, however, would delegate authority to a powerful state that could rein in these harmful tendencies for the common good. Hobbes's work sparked a wide debate with philosophers and others striving to refute or support his theory about the destructive nature of self-interest.

One opponent, the English theologian Richard Cumberland ([1672] 1727), argued instead that self-interest was tempered by benevolence and a constructive materialism that enabled the voluntary actions of social individuals to promote the public welfare.[6] Other opponents in the early eighteenth century included Lord Bolingbroke, Joseph Butler, and the Earl of Shaftsbury, who envisioned a self-governing order in which the designer of the universe arranged for there to be harmony between the various elements of social interaction. In this debate about the nature of self-interest, these thinkers began to resolve the conundrum of how the economic self-interest of individuals could conform to the best interests of the greater society. In so doing, they provided a key to uncovering the origins of Smith's thought, as well as creating a rich intellectual debate discussed in more detail by Albert Hirschman (1977) and Milton Meyers (1983).

Early eighteenth-century philosophers addressed the motivational psychology of man and asked whether certain passions should be suppressed or given free reign, but did not always relate these questions to economic behavior. This link became more explicit in Bernard Mandeville's controversial *Fable of the Bees*, first published in 1714 with the suggestive subtitle "Private Vices, Publick Benefits." Mandeville argued that the pursuit of luxury and self-love made for an industrious society and a flourishing economy. Though he described the economic benefits of vice and self-interest in what was then a provocative way, Mandeville was not quite an early *laissez-faire* theorist and he made no direct contribution to the free trade doctrine. Mandeville ([1714] 1924, 1: 111–12) eloquently described the exchange nature of trade: "Buying is bartering and no nation can buy goods of others that has not of her own to purchase them with . . . if we

([1773] 1977, 182–88) called for complete liberty in commerce because "this forced increase in price for all buyers necessarily diminishes the sum total of enjoyment, the amount of disposable revenues, the wealth of the proprietors and of the sovereign, and the amount of wages to be distributed to the people." Peter Groenewegen (1969) discusses Turgot's relationship with Adam Smith.

[6] See Linda Kirk (1987) for a discussion of Cumberland's thought.

continue to refuse taking their commodities in payment for our manufactures, they can trade no longer with us, but must content themselves with buying what they want of such nations as are willing to take what we refuse." But his thoughts on commercial policy were entirely conventional:

> Every government ought to be thoroughly acquainted with, and steadfastly to pursue the interests of the country. Good politicians by dexterous management, laying heavy impositions on some goods, or totally prohibiting them, and lowering the duties on others, may always turn and divert the course of trade which way they please, . . . so they will always carefully prevent the traffic with such nations as refuse the goods of others, and will taking nothing but money for their own. (115–16)

Another philosopher who bridged the gap between moral philosophy and economic behavior, and had a direct association with Adam Smith as his teacher, was Francis Hutcheson. Hutcheson drew upon the natural law tradition of Grotius and Pufendorf and provided Smith as a student with a rich intellectual background from which to help build his economic system.[7] Hutcheson disputed the central place of "self-love" in Mandeville's discussion of human motivation, arguing that natural feelings for others provided a moral sense that tempered self-interest. He linked the eighteenth-century notion of "virtue" to commercial activity in this way and embedded it in a natural law framework. According to Hutcheson (1755, 1: 293–94), "As nature has implanted in each man a desire of his own happiness, and many tender affections toward other in some nearer relations of life . . . tis plain each one has a natural right to exert his powers, according to his own judgment and inclination, for these purposes, in all such industry, labour, or amusements, as are not hurtful to others in their persons or goods, while no more public interest necessarily requires this labours, or requires that his actions should be under the direction of others." "This right," he wrote, "was called *natural liberty*" and should not be deprived as "it would generally create more misery to deprive men of it, because of their imprudence, than what is to be feared from their imprudent use of it."

Hutcheson made a very basic but powerful case for economic freedom, but he completely failed to employ this logic in favor of free trade. In part because a country achieving an export surplus "must increase in its wealth and power," Hutcheson (1755, 2: 318–19) argued that "foreign manufactures and products ready for consumption, should be made dear to the consumer by high duties, if we cannot altogether prohibit the consumption." Exports should be free of hindrances, except when the country had market power to exploit in foreign markets: "Where one country alone has certain materials, they may safely impose duties upon them when exported; but

[7] These connections are explored most recently by Richard Teichgraeber (1986).

such moderate ones as shall not prevent the consumption of them abroad." Smith was clearly influenced by Hutcheson's ideas about natural liberty in the economic realm, but was not attracted to his conventional treatment of commercial policy.

Lord Kames (Henry Home) (1774, 1: 496), a jurist and philosopher of the Scottish Enlightenment, also approved of government regulation of trade, warning that "nor ought we ever to rely entirely on our natural advantages [in trade]; for it is not easy to foresee what may occur to overbalance them." After noting that "all nations should benefit by commerce as by sunshine," Kames proposed a system of export bounties and import restraints in part because there "is no cause more cogent for regulating importation, than an unfavorable balance [of trade]" (81, 498). He also welcomed protection for domestic industries: "To favour a new manufacture of our own, it is proper to lay a duty on the same manufacture imported." But Kames warned that "measures of government ought to be sparingly exercised, for fear of retaliation" and that government promotion efforts "ought to be taken with great circumspection, lest it recoil against ourselves" (498–99).

Josiah Tucker, a prolific economic and religious writer, also played an important role in describing the harmony of private and public interests in the economic arena. In one manuscript Tucker (1755, 4ff) described the philosophical precepts of his economic doctrine, "setting forth the natural disposition, or instinctive inclination of mankind towards commerce." Tucker took "self-love" as the "greater mover of human nature" and argued that it was essentially selfish: "Self-Love is narrow and confined in its views, and admits of no *sharers* or *competitors*." Tucker conceded that "the social instinct of *benevolence* is some check upon this selfish *monopolizing* principle; but it is so very feeble, that it would be quite ineffectual to prevent the mischiefs arising from inordinate self-love, were there no stronger curb to rein it in: For the love of self is implanted in mankind much more strongly than the love of benevolence."

But there should be no effort to weaken the power of self-love because it provides the motivation for improvement and exertion. Therefore, "the main point to be aimed at, is neither to extinguish nor enfeeble self-love, but to give it such a direction, that it may promote the public interest by pursuing its own: and then the very spirit of monopoly will operate for the good of the whole." Thus the public wisdom of the state and community can "divert . . . the pursuits of self-love from vicious and improper objects, to those that are commendable and virtuous; grant no privileges to indolence and ignorance; give no assistance to the ingrossing schemes of monopolists; but raise a general emulation among all ranks and professions in things relating to the public good." Then the "country will be blessed by plenty, and abound in commerce." Tucker does not advocate *laissez-faire*;

the proper role of government is neither to repress nor to ignore self-interest, but to harness and channel it into socially desirable directions.[8] This belief, combined with Hutcheson's view that natural liberty should permit all actions that are not harmful to others, very much represents Smith's conceptual approach.

On commercial policy, Tucker was a vitriolic opponent of monopoly trading companies and therefore made a strong case for "a free trade." But when it came to import duties, Tucker adhered to conventional mercantilist thinking, as the following passage illustrates:

> Let him suppose the state to be a living personage, standing on the key of some great seaport and examining goods as loading or unloading. In the former case, if the goods to be exported are completely manufactured, having undergone the full industry and labor of his own people, he ought to lay no embargo whatever upon them, but to show exporters all the favor he can and to protect them in that good work. Whereas, if the goods are only manufactured in part, or, what is worse still, if they are absolutely raw materials, he should lay such taxes upon them to check and discourage their going out of the kingdom in that condition as may be proportionate to their unmanufactured or raw-material state. That is, if they are absolutely raw materials, they ought to have the highest tax laid upon them, and, in some cases, even such as may amount to a prohibition. But if they are partly manufactured and partly otherwise, the tax should be lessened in proportion as they recede from the state of raw materials and approach to complete manufactures. In regard to goods imported, his conduct ought to be just the very reverse of the former; that his, he ought to lay the highest and most discouraging taxes upon foreign complete manufactures, in order to prevent their being worn or used in his kingdom, a less discouraging upon others that are incomplete, and still less upon those that are but little removed from raw-material state. As to raw materials themselves, they ought to be admitted into every port of the kingdom duty-free, unless there are some very peculiar circumstances to create an exception to this general rule. Now, the grounds or foundation of all this reasoning is national industry and labor, because these are the only riches of a kingdom. [Tucker (1758, 58–59)][9]

[8] "The great view of the divinely inspired legislator, Moses, seems to have been, to turn the principle of self-love into such a channel that it should always operate for the public good. And, indeed, this ought to be the sole aim of every government, if either good morals or national prosperity are expected." See Tucker (1753, 37n).

[9] Tucker (1755, 96) also had stated: "But of all taxes, this is the worst and most pernicious in its consequences; for a tax upon the *exportation of our own manufactures*, is a tax upon our own industry and labour; and a tax upon the *importation of raw materials*, is no other than a method of tying men's hands behind them, lest they should do themselves and the country service.—The only tax of this nature that is justifiable is that which our *East India* Company lays upon tea, and such other articles and foreign manufactures as do not promote general industry *at home*."

Tucker (1749, 63–64) opposed as too hazardous Matthew Decker's proposal for free trade: "Were we to abolish all duties on *French* goods, and they to do the same on *English* . . . the consequence would be . . . that *England* would be overrun with *French* silks, laces, wines, brandies, cloths, stuffs, ribbands, fans, toys, &c. And the *French* would take very little or nothing in return."

Thus far, we have briefly considered how the economic implications of the late eighteenth-century debate over self-interest affected conventional views on commercial policy, and the answer is very little. Hutcheson, Tucker, and others described a system of natural liberty in which the public interest would be served by private interests. But they could not see private self-interest operating entirely to the benefit of the public interest in international trade and consequently they never advocated free trade. Yet a coherent intellectual framework is in evidence: the natural liberty view dictating that freedom be given wide reign in the economic realm is supported by the view that commerce, although driven by self-interested participants, can ultimately perform a public service. Adam Smith used this framework to advance the case for free trade and fill the incongruous void that his predecessors had failed to close.

A slightly different intellectual tradition also appeared in mid-eighteenth-century France and Britain that led to pervasive liberal views on trade. The European enlightenment as an intellectual movement was accompanied by a greater cosmopolitan outlook, although it remained more a political doctrine than an economic one.[10] David Hume, the eminent philosopher and Smith's close friend, eloquently set forth this perspective in a series of essays on economic themes. In "Of Commerce," Hume (1752, 15–16) praised foreign trade (as the mercantilists before him had) for "augmenting the power of the state, as well as the riches and happiness of the subject . . . a kingdom, that has a large import and export, must abound with more industry, and that employed upon delicacies and luxuries, than a kingdom which rests contented with its native commodities. It is, therefore, more powerful, as well as richer and happier."[11]

Hume's cosmopolitan outlook came to the fore in the essay "Of the Balance of Trade," a sharp retort against trade restrictions bred by national antagonisms. All this would seem to lead to a free trade conclusion, but Hume (1752, 98) spoke of tariffs as a convenient revenue-raising device and also hedged in this way: "All taxes, however, upon foreign commodi-

[10] The cosmopolitanism of the enlightenment is examined by Thomas Schlereth (1977).

[11] "[P]erhaps . . . the chief advantage which arises from a commerce with strangers," Hume added, is that it "rouses men from their indolence." They "become acquainted with the *pleasures* of luxury and the *profits* of commerce; and their *delicacy* and *industry*, being once awakened, carry them on to farther improvements, in every branch of domestic as well as foreign trade."

ties, are not to be regarded as prejudicial or useless, but those only which are founded on the jealousy above-mentioned. A tax on German linen encourages home manufactures, and thereby multiplies our people and industry. A tax on brandy encreases the sale of rum, and supports our southern colonies." However cosmopolitan in outlook, the Hume who speaks favorably of tariffs to encourage home manufactures is not the Hume that influenced Adam Smith's views on trade policy.

About five years later, however, Hume to some extent withdrew or compensated for these views in an essay "Of the Jealousy of Trade," published around 1758. Here he (1955, 78–82) opposed the "narrow and malignant opinion" that looked upon the economic success of neighbors with jealousy. What if foreign products arose to compete with those produced at home? "I answer, that, when any commodity is denominated the staple of a kingdom, it is supposed that this kingdom has some peculiar and natural advantages for raising the commodity; and if, notwithstanding these advantages, they lose such a manufacture, they ought to blame their own idleness, or bad government, not the industry of their neighbours." If the industry does shrink, opportunities are always available in other sectors: "If the spirit of industry be preserved, it may easily be diverted from one branch to another; and the manufacturers of wool, for instance, be employed in linen, silk, iron, or any other commodities, for which there appears to be a demand." No nation should fear being locked out of the international market: "Nature, by giving a diversity of geniuses, climates, and soils, to different nations, has secured their mutual intercourses and commerce, as long as they all remain industrious and civilized."

This passage is more in tune with Adam Smith's later writings, and in fact may have been written as a result of a controversy with Tucker (described in chapter 10 below). But despite his well-articulated writings in favor of a liberal view of trade, Hume's case for free trade reflects more a moral and philosophical temperament than an acute or novel economic analysis.[12]

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This exceedingly brief synopsis of the physiocratic and moral philosophic contributions bearing on commercial policy illustrates Jacob Viner's (1937, 92) conclusion that "certain elements of doctrine tending to lead to free-trade views were fairly widely prevalent before the publication of the *Wealth of Nations*." Free trade sentiment in the form of calls for greater liberty in commerce flourished among intellectuals in France and Britain.

[12] Hume's development of the automatic price-specie-flow mechanism, as noted in the previous chapter, did much to undermine certain mercantilist predilections about the balance of trade, but as argued previously, these views are conceptually distinct from those relating to free trade.

But this opinion did not have a particularly strong economic basis and was sometimes founded upon a vague cosmopolitanism that had little economic content and therefore could be easily dismissed. Most remarkably, even those who argued that suitably tempered private interests promoted the public welfare failed to reach the conclusion that free trade was warranted. Adam Smith's stupendous accomplishment was in providing a more soundly based economic logic to accompany the philosophically derived compatibility of private interests and public benefits. With this combination in hand, he could speak in a more compelling way on the issue of free trade.

Chapter Five

ADAM SMITH'S CASE FOR FREE TRADE

Any comparison of the economics literature in the decades before and after the publication of Adam Smith's *Wealth of Nations* in 1776 reveals a sharp break in the treatment of commercial policy. Although "all the important elements in Smith's free-trade doctrine had been presented prior to the *Wealth of Nations*," Jacob Viner (1937, 108) rightly notes that "these were often, however, to be found only in isolated passages not wholly consistent with the views expounded in the surrounding text." While drawing upon the work of others, Smith created such a compelling and complete case for free trade that commercial policy could no longer be seriously discussed without contending with his views, and herein lies one of Smith's foremost contributions to economics. That "the *Wealth of Nations* does not contain a single *analytic* idea, principle, or method that was entirely new in 1776," as Joseph Schumpeter (1954, 184) put it, is less important than what Andrew Skinner (1990, 157) has described as "the presence of *system*; the fact that Smith gave political economy a distinctive analytical *shape* which was a dramatic step forward." Smith achieved what others before him had failed to do: present a systematic, coherent framework for thinking about the economics of trade policy.[1]

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Early evidence of Smith's support of free trade comes from compilations of his lectures at Glasgow University in the 1760s. Smith (1978, 391–92) stated that all countries engaged in trade benefited from such exchange and he repeated the cosmopolitan viewpoint prevailing among intellectuals: "All these national jealousy(s) which prompt them to spite and ill-will each other, and refuse to be supplied by them in any convenience of life, must lessen the exchange of commodities, hurt the division of labour, and diminish the opulence of both." Smith unequivocally supported free trade and concluded that "it appears that Britain should by all means be made a free port, that there should be no interruptions of any kind made to foreign trade, that if it were possible to defray the expences of government by any other method, all duties, customs, and excise should be abolished, and that

[1] For an overview of Smith's contribution to trade theory in general, including many topics not covered here, such as the vent-for-surplus description of trade, see Arthur Bloomfield (1975).

free commerce and liberty of exchange should be allowed with all nations and for all things" (268).[2]

But the cursory discussion of trade in these lectures was just a sketch of what was to come. The economic analysis of commercial policy was fundamentally changed with the publication of *An Inquiry into the Nature and Causes of the Wealth of Nations* on March 9, 1776. Smith's discussion of trade policy is concentrated in Book IV, "Of Systems of Political Oeconomy."[3] Smith first described "the great object" of mercantilist policies as "to diminish as much as possible the importation of foreign goods for home consumption, and to increase as much as possible the exportation of the produce of domestic industry. Its two great engines for enriching the country, therefore, were restraints upon importation, and encouragements to exportation" (IV.i.35, 45). Smith then set out to "examine chiefly what are likely to be the effects of [such policies] upon the annual produce of [a country's] industry," because "according as they tend either to increase or diminish the value of this annual produce, they must evidently tend either to increase or diminish the real wealth and revenue of the country." In other words, Smith set up a specific criterion to evaluate the effects of various commercial policies in a consistent way. In assessing such policies, Smith argued that one must examine the economy-wide impact of such a policy on the real value of a country's national income (or output), or what he called the real annual revenue of society (or produce).[4] Simply by stating and then consistently applying this standard, Smith had already established a seminal contribution to the theory of commercial policy: no longer was it sufficient to conclude that an import tariff was beneficial simply because employment and output increased in the sector receiving such protection.

Smith first considered protection of domestic industries from foreign

[2] Smith (1978, 534–35) also argued that export taxes were more pernicious than import tariffs because the "motives to industry are diminished" with the former, a contention he did not repeat in the *Wealth of Nations*.

[3] All references will be to the Glasgow Edition of the Works and Correspondence of Adam Smith, edited by R. H. Campbell and A. S. Skinner. Quotations will be referenced using the Glasgow convention of citing the book, chapter, and paragraph in the *Wealth of Nations*.

[4] Thus, Smith's case for free trade was based on its being in the national economic interest, not on some cosmopolitan ideal as he was later accused by Friedrich List (see chapter 8) and others. As Smith ([1759] 1976, 229) put it in the *Theory of Moral Sentiments*: "The love of our own country seems not to be derived from the love of mankind. . . . France may contain, perhaps, near three times the number of inhabitants which Great Britain contains. In the great society of mankind, therefore, the prosperity of France should appear to be an object of much greater importance than that of Great Britain. The British subject, however, who, upon that account, should prefer upon all occasions the prosperity of the former to that of the latter country, would not be thought a good citizen of Great Britain. We do not love our country merely as part of the great society of mankind: we love it for its own sake, and independently of any such consideration."

competition, or "restraints upon the importation from foreign countries of such goods as can be produced at home." He contends that high duties or prohibitions on imports diminished competition and gave domestic producers a monopoly of the home market, enabling them to charge higher prices and leading to sloth and mismanagement. Agreeing with mercantilists that a tariff would expand domestic output in the import-competing sector, Smith posed a more penetrating consideration rarely raised by earlier writers:

> That this monopoly of the home-market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns toward that employment a greater share of both the labour and stock of the society than would otherwise have gone to it, cannot be doubted. But whether it tends either to increase that general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident. (IV.ii.2)

To evaluate the impact of trade restrictions on real income, one needed a way of thinking about how real income was determined. To address this point, Smith clarified the philosophical underpinnings of his views of commerce and the economic interactions of individuals in the marketplace. Smith started with the proposition that individuals always direct their labor to their best possible advantage; that is, they "endeavour to employ it in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods" (IV.ii.8). "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society" (IV.ii.4). This led to Smith's classic statement:

> As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really

intends to promote it. I have never known much good done by those who affected to trade for the public good. (IV.ii.9)

That self-interested individuals perform a beneficial service to society had, of course, been noted early on by the Greeks and scholastics, who contended that profit-seeking merchants in carrying grain from low to high price regions transported it from abundant to scarce markets to the general benefit, and among his contemporaries, as indicated in the previous chapter. Smith made this point the cornerstone of his economic framework. With clarity and persuasiveness he maintained that the natural liberty of individuals interacting in the economic realm, each seeking their own betterment by providing goods and services to others, would lead to an efficient allocation of resources from the standpoint of society; the wants and desires of individuals would be met, if it was profitable to do so, and the annual revenue of society (real national income) would be raised to its highest level. Both for this reason, and because respect for the natural liberty of citizens dictated it, the competitive market (rather than the government) was the best mechanism for determining profitable lines of activities and allocating resources to those ends.

Although Smith did not envision much of a role for government in directing market processes or in dictating market outcomes, he was far from a full-fledged adherent to the *laissez-faire* doctrine. Smith believed that government did have an important role in supporting the market mechanism as a social institution.[5] He outlined many circumstances in which government policies, such as the provision of certain public goods and the establishment of a system of law and justice, could allow the "invisible hand" of the market to operate more effectively. Thus, unlike what some critics would later charge, Smith's case for free trade did not rest upon the case for *laissez-faire*. At the same time, the existence of circumstances in which there might be a productive role for government policy did not justify or necessitate any departures from free international trade.

In this general context, Smith argued forcefully that the key concept in assessing economic policy is the notion of opportunity costs, or the tradeoffs between alternative activities under resource constraints. Stated simply, because the amount of capital and labor was fixed in an economy at any given point in time, increasing the output in one sector could only come at the cost of using resources already employed elsewhere in the economy. This had clear and immediate implications for policies that aimed to promote certain industries or sectors. "No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain," Smith wrote (IV.ii.3). "It can only divert a part of it into a

[5] The two classic articles on this theme are by Jacob Viner (1927) and Nathan Rosenberg (1960).

direction into which it might not otherwise have gone; and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord." This fundamental principle of Smith's work departed entirely from mercantilist doctrine which implicitly held that government interference could either produce a more desirable mix of output than the free market, or produce a greater volume of total output, or both.

Thus far Smith's reasoning was not based on any particularly new ideas about trade, but rather was derived from a different conception of the economic organization of society and the role of natural liberty in promoting national wealth. Finally, Smith linked these ideas to commercial policy:

> 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. . . . 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. The value of its annual produce is certainly more or less diminished, when it is thus turned away from producing commodities evidently of more value than the commodity which it is directed to produce. According to the supposition, that commodity could be purchased from foreign countries cheaper than it can be made at home. It could, therefore, have been purchased with a part only of the commodities, or, what is the same thing, with a part only of the price of the commodities, which the industry employed by an equal capital, would have produced at home, had it been left to follow its natural course. The industry of the country, therefore, is thus turned away from a more, to a less advantageous employment, and the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation. (IV.ii.12)

This is a powerful and bold conclusion. Employing the concept of opportunity cost in terms of national income, Smith asserted with unwavering confidence that free trade permits the best allocation of society's resources and that protective tariffs interfere with this allocation and consequently reduce national income. (Note, however, that Henry Martyn was more explicit about the efficiency of free trade than Smith is in this paragraph.) Furthermore, the statement is backed up by a systematic framework of economic reasoning which, however flawed or subject to qualification, proved (not surprisingly) to be much more compelling than the exceedingly loose statements that characterized much of the mercantilist literature. This particular conclusion about trade policy actually pushed Smith's logic farther than he previously implied. Earlier he wrote that "it is by no means certain" that government interference "is likely to be more advantageous to the society than that into which it would have gone of its own accord." But in the context of trade policy he wrote that the annual produce "must necessarily be diminished by every such regulation." This certitude perhaps came from the demonstrable fact that certain goods could be acquired more cheaply from imports than through domestic production.

Establishing this static notion of economic efficiency was clearly compelling, but it was by no means the sole or even the principal gain from trade, according to Smith. "Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it." The first is the exchange of superfluities which "satisfy a part of their wants, and increase their enjoyments." The second, and more powerful force, was that "by opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society" (IV.i.31). The division of labor, which Smith emphasized in Book I on "the Causes of Improvement in the Productive Powers of Labour," spurred productivity improvements such that a given amount of capital and labor could produce more output. This force was particularly potent in the context of international trade. Because "the division of labor is limited by the extent of the market," free trade widened the extent of the market and permitted a more refined division of labor. In addition, free trade facilitated the exchange of knowledge about new methods of production and new business practices: "Nothing seems more likely to establish this equality of force than that mutual communication of knowledge and of all sorts of improvements which an extensive commerce from all countries to all countries naturally, or rather necessarily, carries along with it" (IV.viii.c.80). The worldwide division of labor brought about by international trade stimulated additional improvements in production that fueled the productivity of domestic labor and capital and thereby advanced the well-being of individuals.

Smith's exposition of the static gains from free trade and dynamic effects of the division of labor and technology transfer were outstanding for the period in which he was writing. However, critics could argue that tariffs could alter the incentives to accumulate new capital and thus lead to higher output, although they would have to specify precisely the mechanism which would generate this result to make their argument compelling. Smith dismissed the likelihood that growth could increase by pursuing a policy of protection:

> The industry of society can augment only in proportion as its capital augments, and its capital can augment only in proportion to what can be gradually saved out of its revenue. But the immediate effect of every such regulation is to diminish its revenue, and what diminishes its revenue, is certainly not very likely to augment its capital faster than it would have augmented of its own

> accord, had both capital and industry been left to find out their natural employments. (IV.ii.13)

Smith also attacked the balance of trade motive for government interference with trade:

> There is no commercial country in Europe of which the approaching ruin has not frequently been foretold by the pretended doctors of this system, from an unfavourable balance of trade. After all the anxiety, however, which they have excited about this, after all the vain attempts of almost all trading nations to turn that balance in their own favour and against their neighbors, it doest not appear that any one nation in Europe has been in any respect impoverished by this cause. Every town and country, on the contrary, in proportion as they have opened their ports to all nations; instead of being ruined by this free trade, as the principles of the commercial system would lead us to expect, have been enriched by it. (IV.iii.c.14)

Smith conceded two cases in which, to his mind, import duties were justifiable. "The first," he wrote, "is when some particular sort of industry is necessary for the defence of the country" (IV.ii.23). The reason, quite simply, is that "defense . . . is of much more importance than opulence." This statement implicitly recognizes that national security could be purchased only through the material sacrifice of other desirable goods. By accepting this trade-off in principle, Smith believed that protecting defense-related industries justified tariff protection against import competition, although this constituted a noneconomic argument for tariffs rather than one arising from economic analysis.

The second exception concerned cases in which domestic goods were subject to taxes not levied on foreign goods. Imposing equivalent import duties would then equalize the tax treatment of domestic and foreign goods and, according to Smith,

> would not give the monopoly of the home market to domestic industry, nor turn towards a particular employment a greater share of the stock and labour of the country, than what would naturally go to it. It would only hinder any part of what would naturally go to it from being turned away by the tax, into a less natural direction, and would leave the competition between foreign and domestic industry, after the tax, as nearly as possible upon the same footing as before it. (IV.ii.31)

Smith also mentioned two other practical considerations "in which it may sometimes be a matter of deliberation" about how import duties should be eliminated. The first concerned reciprocity, or "when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into their country" (IV.ii.38). "Revenge in this case naturally dictates retaliation, and that we should impose the like duties and prohibitions upon the importation of some or all of their manufactures into our," Smith wrote, adding that "[n]ations, accordingly[,] seldom fail to retaliate in this manner." But Smith's own advice was characteristically practical:

> There may be a good policy in retaliations of this kind, when there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of goods. To judge whether such retaliations are likely to produce such an effect, does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly called the statesman or politician, whose councils are directed by the momentary fluctuations of affairs. When there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people, to do another injury ourselves, not only to those classes, but to almost all the other classes of them. (IV.ii.39)[6]

Smith essentially states that reciprocity (temporary retaliation to reduce foreign trade restrictions) is a noneconomic question. If trade policies are interdependent, in the sense that the policies of one country can affect the policies of another, then a tactical issue is introduced that complicates the basic free trade issue. Economic analysis in itself is of little guidance because it cannot indicate the circumstances under which a given retaliatory action will or will not reduce a foreign trade barrier. Smith clearly viewed retaliation as a question of tactics, not of strategy. The fundamental principle was still clear: free trade should be pursued independently of other countries' policies.

The second "matter of deliberation" concerned the speed of introducing free trade. If lower duties promise to bring about a severe dislocation of domestic labor and capital (which is "much less [a problem] than is commonly imagined"), then "freedom of trade should be restored only by small gradations, with a good deal of reserve and circumspection" (IV.ii.40).

Smith then briefly turned to consider export policies such as bounties or subsidies, scoffing at such artificial efforts to increase exports:

[6] "When our neighbours prohibit some manufacture of ours, we generally prohibit, not only the same, for that alone would seldom affect them considerably, but some other manufacture of theirs. This may no doubt give encouragement to some particular class of workmen among ourselves, and by excluding some of their rivals, may enable them to raise their price in the home-market. Those workmen, however, who suffered by our neighbours' prohibitions will not be benefited by ours."

> We cannot force foreigners to buy their goods, as we have done our own countrymen. The next best expedient it has been thought, therefore, is to pay them for buying. It is in this manner that the mercantile system proposed to enrich the whole country, and to put money into all our pockets . . . if the bounty did not repay to the merchant what he would otherwise lose upon the price of his goods, his own interest would soon oblige him to employ his stock in another way. . . . The effect of bounties, like that of all the other expedients of the mercantile system, can only be to force the trade of a country into a channel much less advantageous than that in which it would naturally run of its own accord. (IV.v.a.1,3)[7]

Smith closed out his discussion of trade policy in Book IV of the *Wealth of Nations* with a broad statement that put his case into perspective. "The laudable motive of all these [mercantilist] regulations," he declared, "is to extend our own manufactures, not by their own improvement, but by the depression of those of all our neighbours, and by putting an end, as much as possible, to the troublesome competition of such odious and disagreeable rivals." The problem with mercantilism was not the laudable motive of encouraging economic progress, but the way in which that end was achieved. That motive became distorted by special business interests to the detriment of the national welfare. Smith held that

> consumption is the sole end and purpose of all production; and the interests of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. . . . But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce. In the restraints upon the importation of all foreign commodities which can come into competition with those of our own growth, or manufacture, the interest of the home-consumer is evidently sacrificed to that of the producer. It is altogether for the benefit of the latter, that the former is obliged to pay that enhancement of price which this monopoly almost always occasions. (IV.viii.48–50)

In a later passage, Smith summed up his case for natural liberty in commerce:

[7] "Bounties upon the exportation of any home-made commodity are liable, first, to that general objection which may be made to all the different expedients of the mercantile system; the objection of forcing some part of the industry of the country into a channel less advantageous than that in which it would run of its own accord; and, secondly, to the particular objection of forcing it, not only into a channel that is less advantageous, but into one that is actually disadvantageous; the trade which cannot be carried on but by means of a bounty being necessarily a losing trade" (IV.v.a.24).

> It is thus that every system which endeavours, either, by extraordinary encouragements, to draw towards a particular species of industry a greater share of the capital of the society than what would naturally go to it; or, by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it; is in reality a great subversion of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labour. All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of society. (IV.ix.50–51)

To understand just how sharp a break Smith's approach was with mercantilist thinking, one also needs to consider what is *not* in his writings. Smith does not exaggerate the role of trade in the domestic economy.[8] He ridiculed barriers to the importation of the luxury goods that mercantilists abhorred.[9] Most strikingly, stark judgments about the desirability of a particular commodity composition of trade are absent. The commodity composition of a country's external trade reflected its stage of economic development and the natural conditions (such as factor endowments) in which it operated.[10] Smith took a more balanced position than either the mercantilists, who magnified the importance of manufacturing, or the physiocrats, who embellished the importance of agriculture. In his discussion of the domestic economic relationship between town and country, which ex-

[8] In several places in the *Wealth of Nations*, Smith ranks domestic trade as being more useful than international trade. But as George Stigler (1976) points out, this is one of Smith's "proper failures."

[9] "It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the oeconomy of private people, and to restrain their expense either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will" (II.iii.36).

[10] In the words of Hla Myint (1977, 240), who considers Smith's views on economic development, free trade in developing countries was, for Smith, "a method of bringing out more fully the longer-run productive potentialities of countries provided by an increasing division of labour, capital accumulation and changing supplies of factors of production."

changed manufactured goods and raw produce with each other, Smith denied that "the gain of the town is the loss of the country."

> The gains of both are mutual and reciprocal, and the division of labour is in this, as in all other cases, advantageous to all the different persons employed in the various occupations into which it is subdivided. . . . The inhabitants of the town and those of the country are mutually the servants of one another. The town is a continual fair or market, to which the inhabitants of the country resort, in order to exchange their rude for manufactured produce. It is this commerce which supplies the inhabitants of the two both with the materials of their work, and the means of their subsistence. The quantity of the finished work which they sell to the inhabitants of the country, necessarily regulates the quantity of the materials and provisions which they buy. Neither their employment nor subsistence, therefore, can augment, but in proportion to the augmentation of the demand from the country for finished work; and this demand can augment only in proportion to the extension of improvement and cultivation. (III.i.1, 4)

Like the town and country, different countries specialize in the export of different goods based on natural advantages that came from their factor endowments and stage of economic development. Countries exporting raw produce did so to their advantage but were not necessarily destined to continue forever in that state as long as stable governance was conducive to freedom and commerce and accumulation, thereby enabling individuals to invest in physical and human capital. This was best achieved not through the artificial contrivance of commercial policy, which merely shuffled resources from one sector to another and which Smith thought distorted incentives and was unlikely to succeed in increasing national wealth. Instead, private individuals seeking to better their condition would naturally engage in the types of activities and improvements that would enrich the economy if only government had the wisdom not to stifle the process.[11]

[11] According to Smith, "The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which publick and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government, and of the greatest errors of administration." England's success was in allowing this process to operate unchecked: "When we compare, therefore, the state of a nation at two different periods, and find, that the annual produce of its land and labour is evidently greater at the latter than at the former, that its lands are better cultivated, its manufactures more numerous and more flourishing, and its trade more extensive, we may be assured that its capital must have increased during the interval between those two periods. . . . In the midst of all the exactions of government, this capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted effort to better their own condition. It is this effort, protected by law and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence and improvement in almost all former times. . . ." (II.iii.31–32, 36)

Smith's policy of free trade, therefore, applied to all countries regardless of their state of economic development.

. . .

Other writers had stated free trade conclusions before Adam Smith, but none (with the possible exception of Henry Martyn) had provided a firm conceptual framework in which to sustain such a conclusion. In so doing, Smith inflicted substantial damage on mercantilist doctrines and irrevocably changed the economic analysis of commercial policy.

Chapter Six

FREE TRADE IN CLASSICAL ECONOMICS

THE FIRST QUARTER of the nineteenth century saw a tremendous outpouring of works on economics, particularly on trade, from a legion of intellectuals who became known as the classical economists. These economists developed Smith's ideas in theoretical detail and consolidated the case for free trade through the theory of comparative advantage. This period established beyond a doubt among theoretically inclined analysts of economic policy the presumption that free trade enabled a country to acquire a much greater quantity of goods than would otherwise be available.

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The reception of the *Wealth of Nations* upon publication was respectable but not overwhelming, although immediate public approval is surely not a useful indicator of a book's importance. Roughly a quarter century elapsed after publication of the *Wealth of Nations* before clear evidence begins to establish it as the authoritative work among leading economic thinkers.[1]

But several works written in the 1780s indicate that Adam Smith's analysis had begun to recast the basic ideas about trade and commercial policy. An anonymously written tract entitled *Considerations on the Effects of Protecting Duties* (1783, 18ff) argued that "wherever a protecting duty has been enacted, an increase in the *particular manufacture* has followed; yet I deny that thereby the wealth of the *whole community* has been increased." Protection forces consumers to purchase the same goods at higher prices or inferior goods at the same price, the author stated, and operates "as if [the consumer] were transported to a climate less friendly, and a soil less fertile than that in which he had lived. . . . It operates as a tax upon every consumer in the country, the amount of which is put into the pockets of a few manufacturers." The implication for commercial policy was unambiguous: "The policy of every legislature should be, to enable its people to obtain the

[1] As Richard Teichgraeber (1987, 365) points out: "We still know astonishingly little about the process by which Smith's book was canonized. In 1793, Dugald Stewart talked of a hope that 'in due time' Smith's example would be followed by other students of political economy. Only ten years later, Francis Horner, a former pupil of Stewart's and a founder of the *Edinburgh Review*, spoke of a 'superstitious worship' that had come to be attached to Smith's name." The *Wealth of Nations* was out of temper with the times when it first appeared, but it did benefit from the growing sentiment in favor of a more liberal trade policy. See Kirk Willis (1979) and Salim Rashid (1982).

greatest possible quantity of every kind of consumable commodity, by the smallest possible exertion of labour"; in other words, by adopting free trade.

In 1788 a short, exceedingly well-argued book (revealingly entitled *New and Old Principles of Trade Compared*) put together a cogent attack on the "monopoly theory of trade," and contained one of the clearest statements yet to appear on the advantages from trade based on a division of labor across countries. Benjamin Vaughan (1788, 2, 25–26) forcefully described how a country could acquire more goods with trade: "The system of FREE TRADE . . . preferring abundance to ostentation, would force nothing but a disposition to industry; concluding, that if one nation raises flax with most success, and another wool, the sum of these commodities must be augmented in the world, when each nation devotes itself to its separate talents; and that, upon exchanging the two commodities, each nation will have a greater share of the two conjunctively, than if each had attempted to raise them both at home." Protection, by contrast, resulted in a net social loss: "Where a restraint is imposed to favor the class of producers, its direct operation is to injure the class of consumers, whereas these two classes ought to flourish conjunctively; and what makes this case still more unfortunate and unequal is, that the class of consumers in each instance is usually the most numerous, and that the loss sustained by the consumers generally *far exceeds* the gain secured to the producers." By reiterating the advantages of the territorial division of labor, the author strongly reinforced the idea that free trade is the most desirable policy.

The political turmoil across Europe in the 1790s was not conducive to calm reflection on matters of trade policy, at least in terms of much published work that built on or challenged Smith's ideas. William Spence stirred up a controversy in 1807 with his tract *Britain Independent of Commerce*, which argued, using physiocratic-type reasoning, that the cutting off of Britain's external trade during wartime would not adversely affect the economy because agriculture and internal trade formed the basis for all wealth. This prompted replies from James Mill (1808, 36–37) and Robert Torrens (1808, 53), both of whom described the productivity and efficiency benefits of trade much in the manner that Henry Martyn had in 1701. Mill (1808, 38–39), for example, reiterated Smith's discussion of the international division of labor:

> The commerce of one country with another, is in fact merely an extension of that division of labour by which so many benefits are conferred upon the human race. As the same country is rendered the richer by the trade of one province with another; as its labour becomes thus infinitely more divided, and more productive than it could otherwise have been; and as the mutual supply to each other of all the accommodations which one province has and another

> wants, multiplies the accommodations of the whole, and the country becomes thus in a wonderful degree more opulent and happy; the same beautiful train of consequences is observable in the world at large, that great empire, of which the different kingdoms and tribes of men may be regarded as the provinces. In this magnificent empire too one province is favourable to the production of one species of accommodation and another province to another, by their mutual intercourse they are enabled to sort and distribute their labour as most peculiarly suits the genius of each particular spot. The labour of the human race thus becomes much more productive, and every species of accommodation is afforded in much greater abundance.

The notion that imported goods could be acquired more cheaply abroad because the absolute cost of production was lower than at home has come to be known as the "eighteenth-century rule," owing to its occasional use during that century. After Adam Smith, however, the eighteenth-century rule became an integral part of the case for free trade, whereas prior to Smith (with the exception of those such as Henry Martyn) it was sometimes employed to show how cheaper imports could not be excluded from the home market except by raising their price through import duties. As Mill's statement above indicates, the division of labor among nations could be a mechanism whereby goods would be produced where their cost of production was lowest.

But Mill and Torrens were on the verge of an even more important insight. The question as they posed it was the choice between acquiring a given quantity of a good, say corn, by using labor and capital to produce the corn at home, or by using that labor and capital to make other products, such as manufactures, that could be exchanged via trade for corn. Both Mill and Torrens pointed out that it was more efficient to allow free trade to determine how a given amount of resources should be used to generate the largest amount of corn for consumption. This manner of thinking about trade, as an indirect way of producing certain goods for consumption, was stated by Mill (1814, 4–5), which is cited for its clarity of expression:

> If we import, we must pay for what we import, with the produce of a portion of our labour exported. But why not employ that labour in raising the same portion at home? The answer is, because it will procure more corn by going in the shape of commodities to purchase corn abroad, than if it had been employed in raising it at home. . . . A law, therefore, to prevent the importation of corn, can have only one effect,—to make a greater portion of the labour of the community necessary for the production of its food.

This indirect way of thinking about trade led to the most important analytical contribution of classical economics relating to the free trade doctrine, the theory of comparative costs, or comparative advantage.[2] This theory stated that certain goods could be advantageously imported from abroad *even if* the home country had an absolute cost advantage in producing the good. Robert Torrens (1815, 263–64) first recognized the essence of the comparative advantage argument when he wrote:

> Let us suppose, that there are, in England, unreclaimed districts, from which corn might be raised at as small an expense of labour and capital, as from the fertile plains of Poland. This being the case, and all other things the same, the person who should cultivate our unreclaimed districts, could afford to sell his produce at as cheap a rate as the cultivator of Poland; and it seems natural to conclude, that if industry were left to take its most profitable direction, capital would be employed in raising corn at home, rather than bringing it in from Poland at an equal prime cost, and at much greater expense of carriage. But this conclusion, however obvious and natural it may, at first sight, appear, might, on closer examination, be found entirely erroneous. If England should have acquired such a degree of skill in manufactures, that, with any given portion of her capital, she could prepare a quantity of cloth, for which the Polish cultivator would give a greater quantity of corn, than she [England] could, with the same portion of capital, raise from her own soil, then, tracts of her territory, though they should be equal, nay, even though they should be superior, to the lands in Poland, will be neglected; and a part of her supply of corn will be imported from that country.

As has been pointed out by Lionel Robbins and others, this formulation lacks only the comparison of the cost ratios in both countries (that is, in Poland as well) whereby the theory is stated in its entirety. David Ricardo ([1817] 1951, 1: 128) provided this finishing touch in his *On the Principles of Political Economy and Taxation* in 1817 and James Mill (1824) in an article on colonies written in 1817 but first published in early 1818.

Why was the theory of comparative costs such an advance over the eighteenth-century rule? The latter illustrated the gains from specialization and trade when countries differed in their ability to produce different goods. But what if one country was superior to another in producing all goods? In other words, why should a country import corn when it could produce that corn with less expense of capital and labor at home than the foreign country could? (Or, conversely, how could a country gain from trade if that country was inferior in the production of all goods?) The theory of comparative costs demonstrated that there would still be mutual gains from specialization and trade even under those circumstances. Countries would specialize in the production of the good in which their opportunity cost (in terms of the implicit sacrifice of other, forgone goods, not in terms of absolute cost) was lowest. Combined with some simple numerical examples, the classical

[2] For an overview of classical thought on trade, see Denis P. O'Brien (1975, 170–205).

economists showed how both countries could potentially consume more of both goods as a result of free trade.

David Ricardo, perhaps the most illustrious member of the classical school, has traditionally received virtually all the credit for expounding the theory of comparative costs. The *Principles* contains the famous chapter 7 example of Portugal and England exchanging wine and cloth, wherein Portugal has an absolute cost advantage in the production of both commodities but comparative cost advantage in wine. Yet Ricardo's mere three-paragraph discussion was poorly expressed, awkwardly placed in the chapter, and failed to bring out the essence of the theory. John Chipman (1965, 480) has even stated that Ricardo's "statement of the law is quite wanting, so much so as to cast some doubt as to whether he truly understood it." William Thweatt (1976) has suggested that James Mill was actually responsible for Ricardo's three-paragraph example, either because he read Torrens's passage and recognized its significance or because he developed the theory in elaborating on the eighteenth-century rule for his article on colonies.[3] Indeed, in his *Elements of Political Economy*, Mill (1821, 87, 89) set out the comparative costs example with tremendous clarity and even conveyed the intuition for the theory in two simple sentences:

> When a country can either import a commodity or produce it at home, it compares the cost of producing at home with the cost of procuring from abroad; if the latter cost is less than the first, it imports. The cost at which a country can import from abroad depends, not upon the cost at which the foreign country produces the commodity, but upon what the commodity costs which it sends in exchange, compared with the cost which it must be at to produce the commodity in question, if it did not import it.

Mill staunchly advocated free trade and firmly stated that "the benefit which is derived from exchanging one commodity for another, arises, in all cases, from the commodity *received*, not from the commodity given." Because a country "gains nothing in parting with its commodities," what is given away in the form of exports is the *cost* of acquiring imports. This conception of international trade, a hallmark of classical thought, is in direct opposition to that of mercantilist doctrine even though that doctrine too recognized that trade was a form of barter.

In arguing for free trade in policy debates, however, most economists

[3] Thweatt's case is plausible because Mill worked closely with Ricardo on the *Principles* and commented extensively on drafts. Inconclusive evidence against his interpretation comes in a letter from Mill to Ricardo in which he states: ". . . that it may be good for a country to import commodities from a country where the production of those same commodities costs more, than it would cost at home: that a change in manufacturing skill in one country, produces a new distribution of the precious metals, are new propositions of the highest importance, and which you fully prove." See David Ricardo (1952, 7: 99). Furthermore, in his article on colonies Mill also credits Ricardo with the theory.

relied not on the abstract theory of comparative advantage, but on the more simple and intuitive efficiency argument associated with absolute advantage (for example, that Poland was the lowest cost source of grain). The theory of comparative advantage, however striking, did not become a leading part of the classical canon until John Stuart Mill (James Mill's brilliant son) gave it prominence in his *Principles of Political Economy*, a book that educated several generations of students. The first edition of Mill's *Principles* appeared in 1848 and contained a concise yet penetrating account of the benefits of trade and the costs of protection. Mill lucidly illustrated the static argument of how total world output and each country's consumption could increase with international specialization and trade. He ([1848] 1909, 581) also considered the "indirect effects [of trade], which must be mentioned as benefits of a high order," and counted chief among these "the tendency of every extension of the market to improve the processes of production." The extension of the market through trade led to greater refinements in production and advances in technology and productivity. These advances spilled over across countries, according to the younger Mill, for "whatever causes a greater quantity of anything to be produced in the same place, tends to the general increase of the productive powers of the world." But Mill went further to assert, in direct opposition to the ancient Greeks and Romans, that

> the economical benefits of commerce are surpassed in importance by those of its effects which are intellectual and moral. It is hardly possible to overrate the value, for the improvement of human beings, of things which bring them into contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar . . . it is indispensable to be perpetually comparing [one's] own notions and customs with the experience and example of persons in different circumstances . . . there is no nation which does not need to borrow from others. (581–82)

John Stuart Mill argued strongly against protection to domestic producers because such policies "render the labour and capital of the country less efficient in production than they would otherwise be; and compel a waste. . . . All is sheer loss, to the country as well as to the consumer." He leveled the employment argument for protection: "The alternative is not between employing our own country-people and foreigners, but between employing one class and another of our own country-people," because "the imported commodity is always paid for, directly or indirectly, with the produce of our own industry."

Despite their unanimity in extolling the virtues of free trade, the classical economists were acutely aware that certain groups were harmed by the policy and they did not entirely overlook those interests. Virtually all of them agreed with Adam Smith that protection should be phased out to allow factors of production to adapt and shift to other employments in anticipation of complete free trade. John Stuart Mill even advocated compensating those adversely affected by tariffs, if need be. Writing on agricultural protection (the Corn Laws, which in the first half of the nineteenth century were a lightening rod for controversy, just as Indian calicoes had been in 1690s), Mill (1825, 399ff) argued that "if there were nothing in the whole process but a transfer; if whatever is lost by the consumer and by the capitalist were gains by the landlord; there might be robbery, but there would not be waste, there might be a worse distribution of the national wealth, but there would be no positive diminution of this aggregate wealth." But protectionist duties "occasion in all cases an absolute loss, greatly exceeding the gain which can be derived from them by the receivers of rent; and for every pound which finds its way into the pockets of the landlords, . . . the community is robbed of several." If landlords demand this public transfer, Mill stated that a direct tax is less costly than an indirect one and that financial compensation be paid to the landlords. "It would be better, however, to have a repeal of the Corn Laws, even clogged by a compensation, than not to have it at all; and if this were our only alternative, no one could complain of a change, by which, though an enormous amount of evil would be prevented, no one would lose."

Yet trade was considered tantamount to an economy-wide productivity improvement, and it was thought that concern for those initially harmed by free trade should never delay or prevent that policy from being enacted. "If we should think it madness to prohibit, or to tax, the use of an improved steam-engine, because it must be injurious to those employed in raising coal, what pretence is there for prohibiting or taxing foreign ribands or velvets because their importation would be injurious to the English silk-weaver?" asked Nassau Senior (1828, 59–60). "[T]o prohibit every change which is accompanied by individual injury would be to prohibit every improvement whatever."

All the leading economists of the first half of the nineteenth century—James Mill, David Ricardo, Robert Torrens, John Stuart Mill, John Ramsay McCulloch, Nassau Senior, to mention but the most eminent—wrote, with varying degrees of sophistication, in favor of free trade and stood in virtual unanimity against protectionist import duties. The classical economists reserved particular hostility for the Corn Laws, which in restricting grain imports into Britain were the primary target of their popular writings that castigated protection. But while Ricardo illustrated the benefits of trade using absolute and (only once) comparative cost reasoning in his book and pamphlets and even in the halls of parliament (where he was briefly a member), his case for free trade in agricultural goods also had a distinctive theoretical twist. The Corn Laws assisted landowners by increasing the price of grain and inducing cultivation on less productive land, thereby driving up the rent of land. By increasing the price of grain, the major consumption good of laborers, Ricardo posited that the Corn Laws also produced an increase in economy-wide wages, which were assumed to be fixed in real terms in the short run. This increase in nominal wages adversely affected manufacturers and drove down the profit rate. Ricardo's case for free trade thus hinged on an inverse relationship between wages and profits. As Ricardo ([1815] 1951, 4: 25) put it:

> There are two ways in which a country may be benefited by trade—one by the increase of the general rate of profits, which, according to my opinion, can never take place but in consequence of cheap food, which is beneficial only to those who derive a revenue from the employment of their capital, either as farmers, manufacturers, merchants, or capitalists, lending their money at interest—the other by the abundance of commodities, and by a fall in their exchangeable value, in which the whole community participates. In the first case, the revenue of the country is augmented—in the second the same revenue becomes efficient in procuring a greater amount of the necessaries and luxuries of life.

To Ricardo, an additional and perhaps more significant benefit of trade beyond the static efficiency gain was that lower food prices increased profits and stimulated accumulation and economic growth. Ricardo ([1822] 1951, 4: 237–38) reiterated this argument and pointed out another problem with the Corn Laws:

> Besides the impolicy of devoting a greater portion of our labour to the production of food than would otherwise be necessary, thereby diminishing the sum of our enjoyments and the power of saving, by lowering profits, we offer an irresistible temptation to capitalists to quit this country, that they may take their capitals to places where wages are low and profits high. If landlords could be sure of the prices of corn remaining steadily high, which happily they cannot be, they would have an interest opposed to every other class in the community . . . to give a moderate advantage to one class, a most oppressive burthen must be laid on all the other classes.

While standing by Ricardo's opposition to the Corn Laws and his appreciation for its effects on income distribution, few economists endorsed this theory explicitly or elaborated upon it. John Ramsay McCulloch, for example, argued principally that free trade in grain would diminish price fluctuations, not that it would increase profits and spur capital accumulation.[4]

The most notable exception to this opposition to the Corn Laws among economists came from the Rev. Thomas Malthus. Already controversial because of his population theories, Malthus entered the debate over the

[4] See O'Brien (1970, 191–203, 217–28, 378–95).

Corn Laws with two pamphlets in 1815, the first merely laying out the advantages and disadvantages of the Corn Laws, the second setting down his case for import restrictions to secure an independent supply of grain in normal years. "It must be allowed that *a free trade in corn* would, in all ordinary cases, not only secure a cheaper, but a more steady, supply of grain," he (1815, 10) initially conceded. But if there were a general crop failure, other grain exporting countries (such as France) would act in their own interests and impose export restrictions. This would prevent Britain from purchasing any significant amount of grain abroad, exacerbate harmful price fluctuations, and jeopardize the food supply of the country since it unwisely depended upon the good behavior of other governments. Thus, if exporting countries were not committed to free exports during times of scarcity, then (to Malthus) grain-importing countries merited a special exception from the general rule of free trade.[5] "To open our ports, under these circumstances, is not to obtain a free trade in corn," Malthus stated. "Such a species of commerce in grain shakes the foundations, and alters entirely the *data* on which the general principles of free trade are established" (15).

Perhaps even more important, by adopting free trade unilaterally without obtaining free trade in corn elsewhere, Britain would inflict a tremendous loss on its agricultural capital and land, bringing about wrenching domestic adjustments ("the transfer of wealth and population [away from agriculture] will be slow, painful, and unfavorable to happiness") and having far-reaching macroeconomic consequences. Free imports would sharply reduce the rent on land that accrues to landlords, of whom, "it may truly be said, that though they do not so actively contribute to the production of wealth, as either of the classes just noticed [labor and capitalists], there is no class in society whose interests are more nearly and intimately connected with the prosperity of the state" (34). The reason is that the incomes and prosperity of the landlords supported the livelihoods of many others. As the income of landlords declined, "there is reason to fear that it may be accompanied with an actual diminution of home demand," in which case "the whole of the internal trade must severely suffer, and the wealth and enjoyments of the country be decidedly diminished" (33). The repecussions would be felt by manufacturers in particular since the consumption of landlords "affords the most steady home demand for the manufactures of the country, the most effective fund for its financial support, and the largest disposable force for its army and navy" (35). Having rejected Say's Law (that supply automatically creates its own demand and the economy would

[5] In fact, Adam Smith had also raised questions of this sort regarding the grain trade because few countries had free trade in corn. Should a large neighboring country have a crop failure, the small neighbor might restrict its exports to prevent domestic shortages. "The very bad policy of one country may thus render it in some measure dangerous and imprudent to establish what would otherwise be the best policy in another" *WN*, IV.v.b.39.

remain at full employment), Malthus envisioned a collapse of aggregate demand that would plunge the economy into a steep depression.[6]

Needless to say, Malthus's tract caused a tremendous controversy among economists. One critical review of his pamphlet believed his argument "insufficient" and maintained that there were "no grounds for apprehension" in the mutual dependence of countries in agricultural trade, calling the idea of dependence on France "chimerical" because Poland and America lay open for agricultural expansion.[7] In 1819, Ricardo (1952, 8: 142) spoke of Malthus's "dangerous heresy on the corn laws." Malthus's reputation suffered considerably, and "after his support of the Corn Bill," his biographer Patricia James (1979, 269) writes, "it was even easier than it had been before to make Mr. Malthus seem like an ogre who wanted large families of little children to be starved into extinction." Malthus's suffering was apparently compounded by the lack of any great conviction that his position was the correct one. Upon Malthus's death, his friend William Empson (1837, 496–97) noted that, in writing against free trade in corn, Malthus "was not on this occasion as sure as usual of the soundness of the judgment which he had pronounced . . . his general principles in favour of freedom of trade were so absolute that, at times, doubts came over him whether any exception ought to be admitted."

Despite his dissenting views on agricultural protection, Malthus generally advocated free trade and never again so openly championed protection for agriculture as he had in 1815. In the fifth (1817) and sixth (1826) editions of his *Essay on the Principle of Population*, Malthus introduced sections discussing import restrictions on corn in which he moderated his views. Here Malthus (1826, 2: 185–86) tried to maintain balance, noting only that "though we may reasonably therefore object to restrictions upon the importation of foreign corn, on the grounds of their tending to prevent the most profitable employment of the national capital and industry, to check population, and to discourage the export of our manufactures; yet we cannot deny their tendency to encourage the growth of corn at home, and to procure and maintain an independent supply." Malthus discussed the special position of agriculture in economy, the "evils" associated with manufacturing, and the problems associated with grain price fluctuations, but seemed to concede that protection was inefficient although possibly desirable on other grounds: "The question is not a question of the efficiency or inefficiency of the measure proposed, but of its policy or impolicy," and "it may not appear impolitic artificially to maintain a more equal balance between the agricultural and commercial classes by restricting the importation of foreign corn, and making agriculture keep pace with manufactures"

[6] Another macroeconomic case for protection, developed by John Maynard Keynes, is discussed in chapter 13.

[7] "Corn Laws" (1815, 498–99).

(191). In his *Principles of Political Economy*, Malthus (1820, 225) reiterated his clear bias toward landlords and agriculture by asserting that, unlike the case with other producers in society, "the interests of the state may not sometimes be the same as that of the landlords."

But his ultimate policy conclusion was uncertain in the *Essay*:

> I certainly think that, in reference to the interests of a particular state, a restriction upon the importation of foreign corn may sometimes be advantageous; but I feel still more certain that in reference to the interests of Europe in general the most perfect freedom of trade in corn, as well as in every other commodity, would be the most advantageous. . . . A perfect freedom of trade . . . should always be considered at the great general rule. And when any deviations from it are proposed, those who propose them are bound clearly to make out the exception. [Malthus (1826), 2: 209–10]

So unenthusiastically did Malthus argue for restrictions on grain imports that there is evidence in his correspondence that he later withdrew his support of the Corn Laws, albeit never explicitly in his published work.[8] At any rate, Malthus's arguments did not hold much sway over the classical economists, although his concern about dependence on foreign supply survived in many later arguments for protection.

. . .

Adam Smith's compelling case for free trade swept up almost all economists in Britain in the first quarter of the nineteenth century, the age of what Karl Marx dubbed "classical economics." The doctrine of free trade became firmly established as orthodoxy among economists in Britain during this period and sustained this position thereafter, despite a gradual weakening toward the end of the century. As Cliffe Leslie (1888, 140) observed, "In the United Kingdom only a single professor of the science—the late Issac Butt, who for a time held the chair of Political Economy in the University of Dublin—has shown any leaning toward protection." (Butt's aim in advocating protection was to redistribute income to the poor.[9]) But this

[8] The evidence is marshalled in Samuel Hollander (1992), but has been disputed. See the exchange between J. M. Pullen (1995) and Hollander (1995).

[9] Butt (1846) based his case for protection on the fact that Ireland exported food yet suffered from poverty and unemployment. By imposing duties on imported manufactures consumed primarily by the rich, Ireland's external trade would contract, domestic food prices would fall, and the poor would be set to work: "Protective duties have, so far as they controlled the expenditure of the rich, been the means of giving our labouring classes a larger share in the revenue of the country than they could have had without them, and that in all relaxations of protective duties . . . we may seriously compromise the rights of the poor" (41). The tariff would not reduce food production because manufacturing could increase output by utilizing unemployed labor. "The effect of using Irish instead of imported manufactures would be, to leave all the present ability of paying for labour undisturbed—to leave, therefore,

minor exception aside, virtually all leading economic theorists of the century agreed with Adam Smith's principal conclusions regarding commercial policy and free trade, though they were far from slavish disciples of Adam Smith—Ricardo dissented from Smith's treatment of bounties and the colonial trade, for example. On top of this wide consensus, the classical economists treated the issue of free trade very seriously. As Senior (1828, 88) put it gravely, "The question of free trade is, next to the Reformation, next to the question of free religion, the most momentous that has ever been submitted to human decision."

But the economic analysis underlying the case for free trade did not go unquestioned even in Britain during this period, as we shall see. And outside Britain this consensus in favor of free trade was by no means as well established, with notable economic writers—Friedrich List in Germany, Augustine Cournot in France, Henry Carey in the United States—raising objections to the free trade doctrine. The intellectual scene in the mid-nineteenth century, however, was fundamentally different than it had been in the mid-eighteenth century. In the latter period, those rejecting free trade could not carry a debate merely by reiterating the mercantilist conventional wisdom. They had to make a new, positive case for protection in specific cases against the general presumption that free trade was beneficial. Some of these cases were even considered successful. As John Stuart Mill ([1848] 1909, 920) put it, "Defeated as a general theory, Protectionist doctrine finds support in some particular cases." To these particular cases, and the questions they raised about the validity and generality of the case for free trade, we now turn.

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the amount of our produce the same, but to turn that produce from exportation to feeding our own people" (43). Butt pointed out that his arguments were "unquestionably much less unfavorable to a system of protection of home industry than is generally expected to be met with in the writings of one professing to be a student of political economy," although "they are not, however, intended as a general defense of protective duties" (14–15).