

# Adam Smith on the Mercantile System: The Unnecessary Loss of America?

## I

### Introduction

I had the pleasure of meeting J K Galbraith on a number of occasions, all of which belonged to a single event – the Symposium on Adam Smith which was organised by Kirkcaldy Town Council in 1973. The transactions were published by the Council in the following year, in the form of a complete transcript, which makes the volume something of an historical curiosity.

Having been advised to become an ambassador in the interest of the furtherance of one's academic career, members of that audience will no doubt also recall the incredible multiplication of lecterns which were necessary to accommodate the 'full size' man.

Professor Galbraith's lecture also contained some interesting thoughts on the American situation in the eighteenth century, recording as he did, that Smith unlike Hume deplored separation and in fact wanted 'full union, full and equal representation of the erstwhile colonies in Parliament, free trade within the Union, equal taxation along with...equal representation and the prospect that...the capital would be removed from London to some new Constantinople in the West" (1974, p 69).

Smith's dramatic hopes were dashed, although that did not cause him any real despair. Writing in the aftermath of Saratoga, Sir John Sinclair of Ulbster complained that, "If we go on at this rate the nation **must be ruined**". Smith replied: "Be assured, my young friend, that there is a great deal of **ruin** in a nation" (Galbraith, 1974, p 71; Corr, p 262n).

In a sense, the following argument is a commentary on these two positions. While it builds upon Skinner (1996) this version has a quite different focus. The earlier analysis was largely

concerned with an attempt to understand the **structure** of Smith's critique of the colonial relationship with America and to explore the extent to which the whole treatment can be regarded as an "essay in persuasion" (cf Koebner, 1961). To an extent, this interpretation is supported by a passage which Smith added to the third edition of WN (in 1783, the year of peace), where he noted that: "It is unnecessary, I apprehend, to say anything further, in order to expose the folly of a system which fatal experience has now sufficiently exposed" (WN IV.viii.15). But the events of 1783 certainly had not exposed the faults of the mercantile system.

The present argument is more straightforward. The first major section reviews the range of debate with which Smith would have been familiar during his residence in London. The second section deals with Smith's review of the colonial relationship and suggests that his solution to the long run problems presented by the restrictions imposed upon colonial manufactures, namely Union, would also solve the more immediate difficulties which were of a more political nature. The next section outlines Smith's position as of 1778 and his bleak review of the options open to the British Government. The concluding part of the argument contrasts the positions adopted by Smith and Sir James Steuart, and confirms that some American opinion was more favourable to the latter, than to the former.

## II

### **The Immediate Issues**

Smith left Edinburgh for London on 16 April 1773 and the delay in publication of WN was attributed by some, notably David Hume, to his growing pre-occupation with the unfolding crisis with the colonies (Corr, p 185). There were two sides to the problem as they might have been seen by Smith. The first is represented by the terms of the quarrel, and this Smith largely ignored in a formal sense – perhaps because had he addressed such issues in WN his work would appear as "too much like a publication for the present moment" (Hugh

Blair, in Corr, p 188). The second area, which Smith addressed at length in WN, Book IV, chapter 7, is concerned with the nature of the colonial relationship as defined by the Acts of Trade and Navigation; an analysis which suggested that **in the long-run** the relationship between the colonies and the mother country must change, thus exposing the fundamental contradictions of the mercantile system. There may indeed be a rhetorical dimension here, but there is also a closely reasoned case in one of Smith's great set-piece debates. But for the student of Smith as an institutionalist, the two sides of the debate are not unconnected.

Smith must have been well informed about American Affairs. He had been consulted by Shelburne on his return from France in 1766 and also by Charles Townshend, who had been responsible for Smith's appointment as tutor to the young Duke of Buccleugh (1764-66).

Townshend died six years before Smith's return to London in 1773, but no doubt knowledge of the problems which he confronted, and to which he had contributed, would be familiar to Smith. In the period 1773-6 Smith was also in contact with Alexander Wedderburn, Solicitor-General, and a friend of thirty years standing; the man responsible for the hostile examination of Benjamin Franklin before the Privy Council in 1766. Hume was moved to remark that Wedderburn's treatment of the distinguished colonist had been "most cruel" (Corr, p 171). Morris (1955, p 36) has suggested that the experience turned Britain's "foremost imperial statesman into an implacable enemy".

Franklin himself was in London for the last two years of Smith's sojourn in the city. Smith met him frequently, and would be familiar with the needs of the British government, the current legislative programme, and of the Colonial reaction to that programme. Smith would have understood the **economic** logic behind such contentious legislation as the Sugar Act (1764), the Stamp Act (1766) and the Townshend Revenue Acts (1767). But three features of the general strategy are likely to have attracted his attention.

First, there was the question of taxation and **consent**. The point was aptly illustrated by Franklin's evidence before the House of Commons in 1766 when he stated the view of his colleagues in these terms:

"They understood it thus; by the same charter and otherwise, they are entitled to all the privileges and liberties of Englishmen...that one of the privileges of English subjects is, that they are not to be taxed without their common consent" (Morris, 1970, p 85).

The point was repeated in John Dickinson's **Letters from a Farmer in Pennsylvania to the Inhabitants of the British Colonies**. The argument was further supported in the **Declaration of Colonial Rights and Grievances** (1774), which followed upon the Boston Tea Party of 16 December 1773, and which rejected "every idea of taxation, internal or external, for raising a revenue on the subjects of America, without their consent" (Morris, 1970, p 132).

The point was accepted by William Pitt, and by Adam Smith.

Secondly, the critic of the mercantile system would note that the regulating acts which were so marked a feature of mercantile policy and which were regarded by Smith as unjust violations of natural liberty, were not at the time seen in this light by the colonists themselves. As Franklin pointed out in his examination before the House of Commons:

"The authority of Parliament was allowed to be valid in all laws, except such as should lay internal taxes. It was never disputed in laying duties to regulate commerce."

As David Stevens has noted:

"Even when the First Continental Congress convened in 1774, the delegates, whom Dr Johnson was to call 'croakers of calamity' and 'demigods of independence', showed little opposition to the old system."

In Resolve No 4 of the Suffolk Resolves, Stevens continued, it was stated, that:

"We cheerfully consent to the operation of such acts of the British parliament as are bona fide, restrained to the regulation of our external commerce, for the purpose of securing the commercial advantage of the whole empire to the mother country, and the commercial benefits of its respective members, excluding every idea of taxation internal or external, for raising a revenue on the subjects without their consent" (1975, p 213).

It is interesting to observe in this connection that neither the Declaration of Colonial Rights and Grievances nor the Declaration of Independence, which included a comprehensive indictment of British policy, contained any critical reference to the acts of trade and navigation. As Oliver Dickinson has pointed out, colonial objections to British policy after 1763 were "not because they were trade regulations but because there were not laws of that kind" (1951, p 295).

This brings us to the third aspect of the current situation which may have attracted Smith's attention. "Imperialism not mercantilism...was the first cause of the eventual rupture" (Andrews, 1924, pp 122, 128-9). These assessments reflect contemporary American opinion, as illustrated by the text of the Continental Association of 1774 whose members found that:

"the present unhappy situation of our affairs is occasioned by the ruinous system of colony administration, adopted by the British ministry about the year 1763, evidently calculated for enslaving these colonies, and with them the British Empire" (Morris, 1970, p 135).

The Olive Branch Petition of 5 July 1775 made the same point. The colonists were:

"alarmed by a new system of statutes and regulations adopted for the administration of the colonies, that filled their minds with the most painful fears and jealousies, and, to their inexpressible astonishment, perceived the dangers of a foreign quarrel succeeded by domestic dangers, in their judgment, of a more dreadful kind" (Morris, 1970, p 164).

It is noteworthy that the appeal was made to the King (Livingston, p 144). From a **Parliamentary** point of the view, the problem is aptly demonstrated by the terms of the Declaratory Act of 1766. This Act accompanied the repeal of the Stamp Act but took the opportunity to state, despite the repeal, that the King in Parliament:

"had, hath, and of right ought to have, full power and authority to make laws and statutes of sufficient force and validity to bind the colonies and people of America, subjects of the Crown of Great Britain, in all cases whatsoever" (Morris, 1970, p 87).

It can be suggested that the state of conflict with America confirmed a contradiction inherent in the dogma of parliamentary sovereignty which was to Britain affirmation of her freedom from arbitrary power and to America, confirmation of her subjection to it.

Smith might not have been dismayed by the discovery that the colonists did not **currently** object to mercantile regulations. He quite evidently believed that the contradictions in the system as applied to the Colonies would manifest themselves not immediately but **over time**. But he may well have realised that his proposed solution to a **future** problem, namely union, could also solve the **immediate** difficulties which both the colonies and the mother country confronted. Nor was the solution of union fanciful at the time of writing. The first continental Congress (1774) debated and narrowly defeated Joseph Galloway's plan for a

maritime union and this was essentially a modification of Franklin's Albany Plan of 1754 – a plan which gave a good deal of authority to the Colonies and to the **Crown**. Franklin himself proposed a plan of confederation at the Second Congress (1775) while the British tried, too late, to revive a version of the original Albany Plan, after Bourgoyne's surrender at Saratoga in 1777.

### III

#### **The Long-Run Economic Problem**

This brings us to the core of Smith's published commentary in WN, Book IV, chapter 7, where he attacked the mercantile system at what he believed to be its strongest point: the colonial relationship with the thirteen colonies. It was Smith's belief that the link with America, had brought the mercantile system a degree of "splendour and glory which it could never otherwise have attained to" (WN, IV.vii.c.81).

The true purpose of Smith's argument taken as a whole, was to demonstrate the dangers of **regulation** in so far as it involved **distortion** in the use of resources, while also affecting the rate of economic growth:

"No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a 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" (IV,ii.3).

In Smith's eyes, regulation is liable to "the 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" (IV.v.a.24).

It was his emphatic belief that, "All the different regulations of the mercantile system, necessarily derange more or less this natural and most advantageous distribution of stock" (IV.vii.c.89). The language recalls that of the **Lectures on Jurisprudence**, where Smith drew attention to the point that intervention with the economic system must disturb the "natural balance of industry" and the "natural connection of all trades in the stock" (LJ B, pp 233-4).

**But** in WN, the critique of regulation is now supported by a distinctive (and questionable) argument. As Leo Rogin pointed out:

"Smith provides us with a theory of natural economic development which he imposes as a norm on the historical career of nations since the emergence from the feudal era. This theory of a natural economic development is implicitly invoked in the entire range of the discussion of economic history and policy, and in the criticism of economic doctrines to which the bulk of **The Wealth of Nations** is devoted" (1958, p 76).

There are, in fact, two sides to the argument. In Book III of WN Smith chose to provide an historical analysis of the origins of the exchange economy but also a statement of the thesis regarding the natural progress of opulence which illustrates one aspect of the critique of the mercantile system which was to follow.

A second thesis had already been advanced in Book II (chapter 5) where Smith contended that the four main fields of investment which were mentioned in his macro-economic model of "conceptualised reality" (Jensen, 1984) would support, directly or indirectly, different quantities of productive labour. It was in this context that Smith emphasised the superior



productivity of agriculture. This was to become a key feature of his treatment of the colonies and their economic prospects.

Both theses were employed by Smith in his critique of the mercantile links with America, and soon attracted critical attention: Thomas Pownall, former Governor of Massachusetts, made a perceptive point in noting that Smith gave prominence to theses or "propositions" regarding the productivities of areas of investment (established in Books 2 and 3) in advancing his analysis as contained in Book 4: "I will beg to arrest your steps for a moment, while we examine the ground whereon we trade: and the more so, as I find these propositions used in the second part of your work as data; when you endeavour to prove, that the monopoly of the colony trade is a disadvantageous institution" (1776, p 23; Corr, p 354).

### **The Regulating Acts**

In describing the objectives of colonial policy, Smith concentrated mainly on its economic aspects and duly reported on the extensive range of restrictions which Britain had imposed on trade and manufactures, domestic as well as American. To begin with, the regulating acts of navigation required that trade between the colonies and Great Britain had to be carried on in British ships, and that certain classes of commodities were to be confined initially to the market of the mother country. These, so-called "enumerated" goods were of two types: those which were either the peculiar produce of America or were not produced in Britain, and those goods which were produced in Britain but in insufficient quantities to meet domestic demand. Examples of the first type were molasses, coffee, and tobacco; of the second, naval stores, masts, pig-iron, and copper. The first broad category of goods was not of a kind which could harm British industry, and here the object of policy, as reported by Smith, was to ensure that British merchants could buy cheaper in the colonies with a view to

supplying other countries at higher prices, and at the same time establish a useful carrying trade.

In the second case, the objective was to ensure essential supplies and, through the careful use of duties, to discourage imports from other countries "with whom the balance of trade was supposed to be unfavourable". Smith also took notice of another feature of British policy, namely, that the production of the more "advanced or more refined manufactures" was discouraged in the colonies (WN, IV.vii.v.40). Thus woollen manufactures were forbidden, and although they were encouraged to export pig-iron, the colonists were prevented from erecting slitt-mills which might have led ultimately to the development of manufactures competitive with those of Great Britain.

There was a certain ingenuity in these arrangements in that the colonial relationship could be seen to benefit **both** parties at least in the short run. For example, the relationship with the colonies, as defined by the regulating acts, had the effect of creating a self-supporting economic unit whose main components provided complementary markets for each others' products, and in addition helped to minimise gold flows abroad (WN, IV.vii.15). By the same token, the colonial relationship gave Britain access to **strategic** materials, and also contributed to national defence, through the encouragement give to her mercantile marine.

Smith also argued that there were considerable opportunities for economic growth within the framework of the colonial relationship. In this connection, he placed most emphasis on American experience, and drew attention to three factors which contributed to explain her rapid rate of expansion. First, Smith isolated what may be described as "institutional" forces in pointing out that the colonies possessed political institutions derived from the British model, which encouraged economic activity by guaranteeing the security of the individual (WN, IV.vii.b.51).

In the same way he pointed out that the colonists had brought to an underdeveloped territory the habit of subordination and a "knowledge of agriculture and of other useful arts" (WN, IV.vii.b.2); the legacy of the more developed economies from which they had often come. Smith also emphasised that certain features were absent from the colonies, of a kind which contributed to slow up the rate of growth in Europe: for example, high rents, tithes, and taxes, together with legal arrangements such as laws of entail which hindered the sale of lands to those whose object was to improve them.

Secondly, he drew attention to the economic situation of the colonial territories in pointing out that "A new colony must always for some time be more under-stocked in proportion to the extent of territory, and more under-peopled in proportion to the extent of its stock, than the greater part of other countries" (WN, I.ix.11). This meant that the rates of both wages and profits were likely to be high, thus contributing to a level of activity which explained the "continual complaint of the scarcity of hands in North America. The demand of labourers, the funds destined for maintaining them, increase, it seems, still faster than they can find labourers to employ" (WN, I.vii.23).

Thirdly, Smith argued that the legislative arrangements governing trade with the mother country had contributed most materially to colonial development even though this had not always been the motive behind them. In this connection he drew attention to the fact that "the most perfect freedom of trade is permitted between the British colonies of America and the West Indies", thus providing a "great internal market" for their products (WN, IV.vii.b.39). In addition, the relative freedom of trade in non-enumerated commodities provided a further market for the primary products involved, while Britain also gave preferential treatment to American products which were confined to her own domestic market. Again, Britain provided a large European market (albeit indirectly) for the enumerated items – for example, goods like tobacco which were largely re-exported.

Taken as a whole, the colonial policy had the effect of encouraging what Smith described as "Agriculture...the proper business of all new colonies; a business which the cheapness of land renders more advantageous than any other" (WN, IV.vii.c.51). This point is of great importance, since on Smith's argument agriculture was the most productive of all forms of investment, capable of generating large surpluses which could sustain further growth. He even argued that the restrictions imposed on the introduction of manufactures had benefited the colonies by ensuring that they bought from the cheaper European markets and therefore avoided diverting any part of the available capital into less productive employments. He concluded:

"Unjust, however, as such prohibitions may be, they have not hitherto been very hurtful to the colonies. Land is still so cheap, and, consequently, labour so dear among them, that they can import from the mother country, almost all the more refined or more advanced manufactures cheaper than they could make them for themselves. Though they had not, therefore, been prohibited from establishing such manufactures, yet in their present state of improvement, a regard to their own interest would, probably, have prevented them from doing so" (WN, IV.vii.44). As Donald Winch has pointed out, the experience of America is one of the rare examples where the actual and the "natural" progress of opulence actually coincide (1978).

There is no doubt as to the buoyancy of Smith's tone in describing the growth rate of North America: a country where the benefits available, natural, artificial, and accidental, were such as to prompt the conclusion that "though North America is not yet so rich as England, it is much more thriving, and advancing with much greater rapidity to the further acquisition of riches" (WN, I.viii.23).

At the same time, it cannot be said that Smith minimised the benefits to Britain from the standpoint of economic growth. In this connection he pointed out that Britain (together with

her neighbours) had as a matter of fact acquired, through the control of the colonies, a "new and inexhaustible market" which had given occasion to "new divisions of labour and improvements of art". Indeed, it can be said that Smith's assertion of benefit accruing to Great Britain as a result of the colonial relationship simply reflects his own grasp of the gains from trade (WN, IV.i.31).

Smith's argument seems designed to suggest that the colonial relationship had both contributed to, and proved compatible with, a relatively high rate of growth in both the colonies and the mother country.

#### IV

#### Contradictions and Solutions

The relationship between the mother country and the colonies is thus represented as beneficial to the two parties, both as regards the politico-economic objectives of the regulating acts and the stimulus given to economic growth. But at the same time Smith evidently believed that there were contradictions inherent in the colonial relationship which must begin to manifest themselves over time. For example, while Smith took pains to emphasise the great stimulus given to the growth of the colonies, he also pointed out that the high and rapid rate of growth which they had attained must ultimately come in conflict with the restrictions imposed on colonial trade and manufactures; restrictions which could be regarded as the "principal badge of their dependency" (WN, IV.vii.c.64) and as a "manifest violation of one of the most sacred rights of mankind". He also pointed out that: "In their present state of improvement, those prohibitions, perhaps, without cramping their industry, or restraining it from any employment to which it would have gone of its own accord, are only impertinent badges of slavery... In a more advanced state they might be really oppressive and insupportable" (WN, iv.vii.b.44). Smith quite clearly considered that **in the long run** some change must come in the colonial relationship for the reasons just stated, although he

did place most emphasis on the more immediate problems faced by Britain herself, as providing the stimulus for change.

As far as Great Britain was concerned Smith contended that although the colony trade was "upon the whole beneficial, and greatly beneficial" (WN, IV.vii.c.47), still the rate of growth was necessarily lower than it would have been in the absence of the regulating acts. He quite clearly believed that, "If the manufactures of Great Britain...have been advanced, as they certainly have, by the colony trade, it has not been by means of the monopoly of that trade, but in spite of the monopoly" (WN, IV.vii.c.55). Smith advanced a number of points in support of this contention. First, he suggested that the monopoly of the colony trade had inevitably increased the volume of business to be done by a relatively limited amount of British capital and, therefore, the prevailing rate of profit. In this connection he argued that high rates of profit would affect the improvement of land (WN, IV.vii.c.578) and the frugality of the merchant classes (WN, IV.vii.c.61), while ensuring that available capital would be partly drawn, and partly driven, from those trades where Britain lacked the monopoly (that is, drawn by the higher profits available in the colony trade, and driven from them by a poorer competitive position).

But Smith especially emphasised that the pattern of British **trade** had been altered in such a way that her manufactures, "instead of being suited, as before the act of navigation, to the neighbouring market of Europe, or to the more distant one of the countries which lie round the Mediterranean sea, have, the greater part of them, been accommodated to the still more distant one of the colonies" (WN, IV.vii.c.22). Smith's point was that the existing legislation had drawn capital from trades carried on with a near market (Europe), and diverted it to trade carried on with a distant market (America), while forcing a certain amount of capital from a direct to an indirect foreign trade: with the consequent effects, he alleged, on the rate of return, the employment of productive labour, and, therefore, the rate of economic growth.

Smith added that the pattern of British trade had been altered in such a way as to make her unduly dependent on a single (though large) market:

"Her commerce, instead of running in a great number of small channels, has been taught to run principally in one great channel. But the whole system of her industry and commerce has thereby been rendered less secure; the whole state of her body politick less healthful, than it otherwise would have been. In her present condition, Great Britain resembles one of those unwholesome bodies in which some of the vital parts are overgrown, and which, upon that account, are liable to many dangerous disorders scarce incident to those in which all the parts are more properly proportioned" (WN, IV.vii.c.43).

But Smith's account of the problem facing Great Britain is largely dominated by that of fiscal need. In Smith's opinion Britain's needs seemed to be growing more rapidly than her resources, and he noted in this connection that by January 1775 the national debt had reached the then astronomical figure of £130 million (absorbing 4.5 millions in interest charges), much of which was due to the acquisition of the colonial territories.

This was a matter of some moment since it meant that a country whose rate of growth had been adversely affected by the colonial relationship had to face a large and probably growing tax burden which would itself affect the rate of economic expansion, and thus compound the problem.

Smith thus concluded that Great Britain must in the course of time either solve the fiscal problem or abandon it, in the latter case accommodating "her future views and designs to the real mediocrity of her circumstances" (WN, V.iii.92). But Smith believed that Great Britain both could and should tax the colonies, partly as a means of relief from the growing burden of the national debt and partly as a means of making the colonies pay for benefits received from the imperial connection.

"It is not contrary to justice that both Ireland and America should contribute towards the discharge of the publick debt of Great Britain. That debt has been contracted in support of the government established by the Revolution, a government to which the protestants of Ireland owe, not only the whole authority which they at present enjoy in their own country, but every security which they possess for their liberty, their property, and their religion; a government to which several of the colonies of America owe their present charters, and consequently their present constitutions, and to which all the colonies of America owe the liberty, security, and property which they have ever since enjoyed. That publick debt has been contracted in the defence, not of Great Britain alone, but of all the different provinces of the empire; the immense debt contracted in the late war in particular, and a great part of that contracted in the war before, were both properly contracted in defence of America" (WN, V.iii.88).

Smith concluded that the British government should retain the right of assessment but extend the British system of taxation to all the colonies. He added that such a change of policy would require a form of union which would give the colonies representation in the British parliament and in effect create a single state:

"This, however, could scarce, perhaps, be done, consistently with the principles of the British constitution, without admitting into the British Parliament, or if you will into the states-general of the British empire, a fair and equal representation of all those different provinces, that of each province bearing the same proportion to the produce of its taxes, as the representation of Great Britain might bear to the produce of the taxes levied upon Great Britain" (WN, V.iii.68).

Indeed Smith believed that:



"there is not the least probability that the British constitution would be hurt by the union in Great Britain with her colonies. That constitution, on the contrary, would be completed by it, and seems to be imperfect without it. The assembly which deliberates and decides concerning the affairs of every part of the empire, in order to be properly informed, ought certainly to have representatives from every part of it" (WN, IV.vii.c.77).

As to the colonists:

"Instead of piddling for the little prizes which are to be found in what may be called the paltry raffle of colony factions; they might then hope, from the presumption which men naturally have in their own ability and good fortune, to draw some of the great prizes which sometimes come from the wheel of the great state lottery of British politicks" (WN, IV.vii.c.75).

Scarcely an endearing assessment in the eyes of the American readers.

What Smith had in mind was an incorporating union of the kind introduced by the Act of 1707 and which was later extended to Ireland. But the union which Smith envisaged was distinctive in that he foresaw the eventual transfer of power from Westminster to the former colonies. It was Smith's view that America's progress "in wealth, population and improvement" had been, and would continue to be, so rapid that "in the course of little more than a century, perhaps, the produce of American might exceed that of British taxation. The seat of empire would then naturally remove itself to that part of the empire which contributed most to the general defence and support of the whole" (WN, IV.vii.c.79).

The belief that America would in the long run prove to be the dominant influence also attracted a good deal of support. Thomas Pownall, for example had already noted that America would become the major partner in his proposed "grand marine dominion" and so

too had his friend Benjamin Franklin, both in his **Observations** and in correspondence with Lord Kames:

"Scotland and Ireland are differently circumstanced. Confined by the sea, they can scarcely increase in numbers, wealth and strength, so as to overbalance England. But America, an immense territory, favoured by Nature with all advantages of climate, soil, great navigable rivers, and lakes, etc must become a great country, populous and mighty; and will, in less time than is generally conceived, be able to shake off any shackles that may be imposed on her, and perhaps place them on the imposers" (Ross, 1972, pp 340-1).

## V

### The State of the Contest with America

The **Memorandum**, dated February 1778, was written by Smith for the benefit of Alexander Wedderburn who sought advice as to the options open to the British Government in the aftermath of Saratoga (Stevens, 1977).

One of the options which Smith discussed in this document was an incorporating Union but he recognised that an opportunity had been lost long before the military setback:

"We, on this side of the water, are afraid lest the multitude of American representatives should overturn the balance of the constitution", he wrote, while those "on the other side of the water are afraid lest their distance from the seat of government might expose them to many oppressions" (WN, IV.vii.c.78). His tone had hardened further in the **Memorandum** "[I]n their present elevation of spirits", he advised Wedderburn, "the ulcerated minds of the Americans are not likely to consent to any union even upon terms the most advantageous to themselves" (Corr, p 381). In Britain, he wrote, the plan of union "seems not to be agreeable to any considerable party of men". He concluded, with regret that:

"The plan which, if it could be executed, would certainly tend most to the prosperity, to the splendour, and to the duration of the empire, if you except here and there a solitary philosopher like myself, seems scarce to have a single advocate" (Corr, p 382).

The outcome had been in doubt from an early date. David Hume, who had supported American independence as early as 1768, felt that the link with America "cannot long subsist" (Greig, 2.237). Thomas Pownall, addressing the Commons prior to the surrender at Saratoga advised his colleagues that:

"Until you shall be convinced that you are no longer sovereigns over America, but that the United States are an independent sovereign people – until you are prepared to treat with them as such – it is of no consequence at all, what schemes or plans of conciliation on this side the House...may adopt" (Stevens, 1977, pp 379-80).

The terms offered by the Carlisle Commission on 13 June 1778 and which were rejected by Congress, further illustrate the difficulties confronting the British Government. The Commissioners offered to "consent to a cessation of hostilities, both by sea and land. To restore free intercourse, to revive mutual affection, and restore the common benefits of free naturalisation through the several parts of this empire. To extend every freedom of trade that our respective intercourse can require. To agree that no military force shall be kept up in the different states of North America, without the consent of the general congress, or particular assemblies... To perpetuate our union..." (Morris, 1970, pp 272-3). The offer was too late.

The terminology used by Smith is surely striking – his **preference** was for a strategy which would support the **prosperity, splendour** and "**duration of the empire**". What he had in mind, as a preferred solution, was a kind of Atlantic Economic Community which unlike other

"communities" of a later date would have the advantage of a common language and culture. Smith was in effect advocating an Anglo-American Empire of enormous power and potential.

Writing in 1973, Galbraith observed:

"In Europe, the nation states have created the ultimate monument to Adam Smith, the European Economic Community" (op cit, p 76). Smith might well have preferred a rather different, and a more congenial, solution. Given that union with America was no longer likely, Smith turned his attention to other, more practicable possibilities.

One possible solution to current difficulties was military victory; an outcome which was supported by Hugh Blair, William Robertson and Adam Ferguson (Livingston, p 143) – but not by Hume. As Smith wryly observed, the problem with this "solution" arises altogether from the resistance of America (Corr, p 281). He also observed that:

"Should the war in America drag out through another campaign, the American militia may become in every respect a match for that standing army, of which the valour appeared, in the last war, at least not inferior to that the hardiest veterans of France and Spain" (WN, V.i.a.27).

Yet even if victory were possible, the outcome, he advised, would still be unworkable. A military government, he wrote, "is what of all others, the Americans hate and dread the most. While they are able to keep the field, they will never submit to it; and if, in spite of their utmost resistance, it should be established, they will, for more than a century to come, be at all times ready to take arms in order to overturn it". He went on:

"After so complete a victory...after having, not only felt their own strength, but made us feel it, they would be ten times more ungovernable than ever; factious, mutinous and

discontented subjects in time of peace; at all times, upon the slightest disobligation, disposed to rebel; and, in the case of a French or Spanish war, certainly rebelling" (Corr, p 383).

Besides, he concluded:

"By our dominion over a country, which submitted so unwillingly to our authority, we could gain scarce anything but the disgrace of being supposed to oppress a people whom we have long talked of, not only as our fellow subjects, but as of our brethren and even as of our children" (Corr, p 381).

A third option open to the British government was simplicity itself – voluntary withdrawal from the conflict and recognition of America as a separate state. The advantages of such a bold course were, in Smith's opinion, immense. At one stroke, Britain would be free of the crushing burden of expenditure needed to defend the colonies and could avoid further conflict with France and Spain, at least in the New World. As Smith wrote in the **Wealth of Nations**:

"By thus parting good friends, the natural affection of the colonies to the mother country, which, perhaps, our late dissensions have well night extinguished, would quickly revive" (WN, IV.vii.c.66). Hume had already advocated such a policy in a letter addressed to William Strahan, dated 26 October 1775 (Greig, 2.300-301):

"Let us...lay aside all anger, shake hands, and part friends. Or, if we retain any anger, let it be only against ourselves for our past folly: and against that wicked Madman Pitt, who has reduced us to our present condition".

Even if the two countries were to part with some evidence of ill-feeling, Smith advised Wedderburn that the "similarity of language and manners would in most cases dispose the Americans to prefer our alliance to that of any other nation" (Corr, p 333).

Yet withdrawal from the conflict was unlikely:

"[T]ho' this termination of the war might be really advantageous, it would not, in the eyes of Europe, appear honourable to Great Britain; and when her empire was so much curtailed, her power and dignity would be supposed to be proportionably diminished. What is of still greater importance, it could scarce fail to discredit the government in the eyes of our own people, who would probably impute to mal-administration what might, perhaps, be no more than the unavoidable effect of the natural and necessary course of things" (Corr, p 383).

He continued:

"A government which, in times of the most profound peace, of the highest public prosperity, when the people had scarce even the pretext of a single grievance to complain of, has not always been able to make itself respected by them, would have everything to fear from their rage and indignation at the public disgrace and calamity, for such they would suppose it to be, of thus dismembering the empire" (Corr, p 383).

Smith was not above an exercise in the politics of the cabinet in suggesting that Great Britain might restore Canada to France and Florida to Spain thus rendering "our colonies the natural enemies of these two monarchies and consequently the natural allies of Great Britain". As he noted:

"Those splendid, but unprofitable acquisitions of the late war, left our colonies no other enemies to quarrel with but their own mother country. By restoring those acquisitions to the

(ancient) masters, we should perhaps revive old enmities, and probably old friendships" (Corr, p 383).

But Smith saw no alternative to defeat – and the loss of most if not all the thirteen colonies accompanied by the successful defence of Canada: the worst possible outcome from an **economic** point of view.

## VI

### Postscriptum

If we strip out those aspects of the **Memorandum** which illustrate the "politics of the cabinet", there is a remarkable degree of realism as to Britain's options. The dilemma posed by the distinction between a rational course of action and the force of domestic and world opinion has haunted many governments since.

There were also many commentators who doubted the wisdom of military intervention. But perhaps Sir James Steuart (1713-1780; **Principles**, 1767) offers an interesting set of parallel arguments to those advanced by his "rival in fame". Steuart's views as to the options open to the British Government are set out in nine letters on the "American Conflict" and were first published as recently as 1994 (Raynor and Skinner). The letters were addressed to Archibald Hamilton of Westburn, a property near Steuart's ancestral home in Lanarkshire which is close to the city of Glasgow. The letters were intended to be transmitted, probably to George Germain, Secretary of State for the American Department (1775-1782: Raynor and Skinner, p 758). Germain is unlikely to have been pleased with Steuart's bleak assessment of the situation. Like Smith, he noted that whereas force may give subjects to a state...it will not give citizens, before going on to point out that "it is hardly possible by any force we can send against the colonies, to overcome the general spirit of the people which pushes them to resistance" (op cit, p 759).

In the manner of his close friend, Lord Barrington, Steuart argued in favour of a naval blockade which would enforce the colonial non-importation and non-exportation agreement: "I confess that on the whole I still believe the cutting off all their trade will be a readier means of bringing them to obedience than the force of arms" (op cit, p 760).

The views stated above were based upon an appreciation of British naval power and supported by the belief that the effects of a total blockade would be offset by the fact that British trade could probably find "a new channel"; a view which Steuart shared with Hume and Smith. But while economic sanctions were seen by Steuart as the most effective instrument of policy, he nonetheless concluded that if success came by this route "I would open to America the trade of the whole world as much as to GB" (op cit, p 760). The concluding paragraph of one letter (letter 6) offers recommendations for the harmonisation of British and colonial taxes in order to maximise the benefits of reciprocal trade; an argument which Smith himself was to develop in the final passages of WN, Book 5.

The similarities in approach are quite striking, even if the two men adopted approaches to political economy which were very different. Steuart was essentially European in his perspective and his work is informed throughout by a close knowledge of backward conditions in Scotland and on the Continent (Skinner, 1996, chapter 11). The whole approach was dominated by an interest in economic policy, although as Rogin noted "Steuart's distinguished recipe for a New Deal was completely overshadowed by Smith's treatise" (op cit, p 106). But Schumpeter's description of the work done by Ferdinando Galiani (cf Hutchison, 1988, chapter 15) applies equally to David Hume and to Sir James Steuart. Schumpeter wrote of Galiani that he was an economist:

"who always insisted on the variability of man and of the relativity to time and place, of all policies;...one who was completely free from the paralysing belief, that crept over the



intellectual life of Europe, in practical principles which claim universal validity; who saw that a policy which was rational in France at a given time, might be quite irrational, at the same time in Naples..." (1954, p 293-4).

This was Steuart's position. He was interested in practical matters of policy and deeply aware of the great variety of economic conditions to be confronted in Scotland, France, Germany, Italy and Spain. He was interested in the problems confronting economies as they emerged, at varying rates, from the feudal state; in the areas of regional imbalance and structural unemployment, not to mention the problems confronted by economies engaged in trade with different factor endowments and rates of growth. An advocate of economic management, he was aware that there were circumstances under which freedom of trade was a sound policy – and of others where a strategy of protection was to be preferred.

It was this broad, practical approach which helps to explain Keith Tribe's point that at least on the Continent of Europe, and until the end of the century, Steuart's "Inquiry was better known and more frequently cited than Smith's **The Wealth of Nations**" (1998, p 133).

But in view of Smith's later reputation in the former Colonies, the most intriguing link is with the United States. The Dublin edition of 1770 circulated widely in the Colonies. The **Principles** attracted the attention of Alexander Hamilton, whose protectionist position was adopted with a view to counterbalancing the advantages of the British economy after 1783. Hamilton considered Steuart's work to be a safer guide than that of Smith (Skinner, 1988, i.lxiv; Stevens, 1975, pp 215, 217).

In this connection, Galbraith recorded that: "In the funeral elegy for Alexander Hamilton in 1804, James Kent complemented his deceased friend on having resisted the "fuzzy philosophy of Smith" (1958, p 14).

The city of Glasgow, whose street names still recall a colonial age (Jamaica, Tobago, Glassford, Cochrane and Buchanan, to name but a few) and which was heavily committed to American commerce, might also have benefited from the advice of the late jacobite/economist. To quote from "Senex":

"Well do I remember the melancholy and dejected countenance of every person in our city at the sad news of the loss of America; and the circumstance is still fresh in my memory, of my father, almost with tears in his eyes, reading to us the first number of the Glasgow Advertiser published by Mennons in which at full length were recorded the preliminaries of peace between Great Britain and the United States. There was no rejoicing here at this peace, no illuminations, no bonfires, no squibs or crackers, no firing of guns or ringing of bells – all was silence and sorrow" (Phillips, 1983, pp 11-12).

But in the event the sorrow did not last. It was the French, whose alliance with American in 1778 played so crucial a role, who failed to acquire the level of access to the markets of the United States for which they had (very reasonably) hoped. Claude Fohlin, in offering a "French view" of the Peace of Paris, noted that:

"The Franco-American treaty of commerce was still valid, but it had little effect for either side once the war was over. For almost two centuries, Americans had relied on the British market... The French proved unable to unseat them as British goods inundated the American market" (Gifford, 1984, p 137).

The point had already been established by T M Devine in his major analysis of the "Aftermath of the American War" (1975, pp 153-173), as it affected Scottish (and British) trade. In the years following 1783 there was a major change in the tobacco trade, but as Professor Devine has noted:

"Significantly, tobacco ships delivering cargoes to Europe loaded up with manufactured goods for the return voyage in British ports and not continental centres" (op cit, pp 163-5).

As usual, Hume was correct in his assessment:

"the worst effect of the loss of America will not be in the Detriment of our Manufactures, which will be a mere trifle, but to the Credit and Reputation of Government" (Greig, 2.304-5).

But in Smith's view it was an unnecessary loss; a source of regret; a lost opportunity? It was perhaps for this reason that Smith mounted what he himself called "the very violent attack I had made upon the whole commercial system of Great Britain" (Corr, Letter 208, October 1780). Smith consistently drew attention to the pernicious influence of the mercantile interest and to its undue power over the Legislature (cf Samuels, 1973; West, 1976).

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