# The Tradition of Free Trade

 **Lars Magnusson**

Routledge
Taylor & Francis Group

LONDON AND NEW YORK

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First published 2004
by Routledge
2 Park Square, Milton Park, Abingdon, Oxfordshire OX 14 4RN

Simultaneously published in the USA and Canada
by Routledge
29 West 35th Street, New York, NY 10001

*Routledge is an imprint of the Taylor & Francis Group*

© 2004 Lars Magnusson

Typeset in Times by LaserScript Ltd, Mitcham, Surrey

Printed and bound in Great Britain by
TJ International, Padstow, Cornwall

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*British Library Cataloguing in Publication Data*
A catalogue record for this book is available from the British Library

*Library of Congress Cataloging in Publication Data*
A catalog record for this book has been requested

ISBN 0-415-26215-1

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# Acknowledgements

Some books almost write themselves. This book is a collection of essays, which hopefully formulates some interesting ideas and thoughts. The book originated in the 1980s with the work I did for the multinational project on the *Institutionalisation of Political Economy* together with many colleagues, including Istvan Hont and Keith Tribe. Work on this project forced me to re-think my earlier, rather reductionist thoughts about the relationship between economic ideas, the economy and polity. With regard to economics in general and the kind of literature from the seventeenth and eighteenth century, which has been called 'mercantilism' or 'the mercantile system' it became evident that our contemporary picture of Adam Smith and Classical Political Economy relating to free trade differed radically from what the economists of the day thought and wrote. When dealing with mercantilism, I pondered upon the longevity of the controversy and debates concerning the concept of mercantilism since the days of Adam Smith and began to ask questions such as 'which function did the mercantile system play in the invention of a free trade tradition at the end of the eighteenth century?' This book attempts to answer such questions regarding invention of traditions and the historical interpretation of economics. Another important reason for publishing these essays is that I strongly believe there is need for theoretical and methodological progress in the field of the history of economics or doctrinal history. To concentrate more on how economic texts are used now and have been used in the past can only bring more interest into this subject and teach us about the function of modern economics in our own societies.

These essays have been with me for a long time and there are a number of people and institutions that need to be gratefully acknowledged. I would like to thank everyone who reviewed this text, the academic audiences who have listened to me speak about this topic for more than a decade at the *Maison de science de I'homme* in Paris, Max Planck Gesellschaft fur geschichte in Göttingen, Valencia and Manchester, Harvard University,

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 University College London and at seminars held in Lecce, Florence and Gothenburg and I especially thank the members of the *Institutionalisation of Political Economy* project, Bob Coats, Maurice Aymar, Ian Steedman, Philippe Steiner and the late Lars Herlitz. But most of all I would like to thank my family who endured my frequent and sometimes quite long trips to libraries all over the world, especially the British Library in London and the Library of Congress in Washington.

Lars Magnusson
Uppsala May 5, 2004.

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# 1The invention of a tradition of free trade

## An introduction

In an often cited text dealing with the role of cultural symbols in political history the historian Eric Hobsbawm defined the 'broad but not imprecise' term 'invented tradition' as 'a set of practices, normally governed by overtly or tacitly accepted rules and of ritual or symbolic nature, which seek to inculcate certain values and norms of behaviour by repetition, which automatically implies continuity with the past'. By adapting 'old models for new purposes' historical actors find legitimacy, status and acceptance for their ideas and/or vested interests. [1](http://www.questia.com/reader/action/gotoDocId/108269408) Hence, the practice of inventing traditions is of great importance for the pursuit of power in most human societies. In many cases invented traditions serve as both useful and forceful arguments in order to convince actors and legitimise power. We can find examples of such usage everywhere in history as well as in contemporary society. History matters, and very much so. Consequently, to 'fabricate'-in the manner in which cultural historian Peter Burke has used this concept-a grand historical tradition backwards for a certain political or cultural institution no doubt does a great deal for its resistance and continuation. [2](http://www.questia.com/reader/action/gotoDocId/108269408)

Hobsbawm (in collaboration with Terence Ranger) especially emphasised the role of the invention of traditions in broad cultural and political terms. However, this method is also often used-explicitly or more often implicitly-in academic and popular discourse, and thus plays a role in intellectual history defined in its broadest terms. In order to convince sceptical readers, the method of lining up past masters to support one's own viewpoint has been used since the beginning of the history of writing. Hence, it is also used in writing the history of economics. We can cite many examples of how great theorists such as Karl Marx (the labour theory of value tradition back to Petty) or John Manynard Keynes (the heretical tradition of underconsumption) outlined histories for their own purposes. They, together with many others, have created pasts of economic doctrines which served to fit their own arguments and offer intellectual

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 legitimisation for their viewpoints. Another interesting example with far-reaching consequences is the creation of a tradition of free trade stemming back to the father of economics, Adam Smith-the main theme of the present study.

Hobsbawm and Ranger discuss three rather overlapping functions of invented traditions. First, 'those establishing or symbolizing social cohesion or the membership of groups, real or artificial communities', second, 'those establishing or legitimizing institutions, status or relations of authority', and third, 'those whose main purpose was socialisation, the inculcation of beliefs, value systems and conventions of behaviour'. [3](http://www.questia.com/reader/action/gotoDocId/108269408) In all three aspects the invention of traditions has without doubt played a role in the history of economic thinking and discourse. Moreover-and this will be the argument in the following text-the invention of the tradition of free trade has helped to form both the public identity of economics and the subject's self-identity since at least the middle of the nineteenth century.

As will be argued in more detail later on, the dichotomy of free trade versus protection has been an important building block for contemporary economics. During the nineteenth century a highly influential and long-standing proposition was fabricated in which free trade as an overreaching political goal-and as a slogan-was said to have originated with Adam Smith. Moreover, this proposition stated that free international trade, including radical tariff reforms, and so on, was something that inevitably and naturally followed from Adam Smith's famous theory of the market process. In contrast, protectionism was connected with the mercantile system and with such 'mercantilist' writers as Thomas Mun in the seventeenth and James Steuart in the eighteenth century. The historical role of Smith had been, according to this view, to combat and ultimately defeat protectionism and mercantilism. Without doubt this interpretation has since had far-reaching consequences for the subject of economics. First, the dichotomy between free trade and protectionism as more or less absolute categories was important for theoretical reasons; and to argue for free international trade became seen simply as a logical consequence of the free market model of Smith and the Classical School of political economy. Later in the nineteenth century the same could be said of the neo-classical equilibrium synthesis-freedom of international trade became its necessary theoretical corollary. Hence, free trade became a standard illustration of the basic free market principle of classical as well as modern micro-economics: by trusting the free interplay of market forces-the invisible hand-a maximisation of wealth would occur. Thus, for modern welfare theory of the nineteenth century the international free trade and comparative models developed by Torrens and Ricardo had

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 important consequences. Second, before the Keynesian revolution and the controversies over full employment in the 1920s and 1930s, the debate over free trade and protection during the nineteenth century was certainly the most important popular debate in which economists had been involved, hence, the discussion of the pros and cons of free trade-in which the free-traders, at least in principle, won the day due to what seemed to be a superior logical argument-offered an identity for economics and professional economists. Moreover, the issue of free trade gave the political economists of the late nineteenth century a more positive image than had been the case previously, when political economy often was portrayed as the 'dismal science', especially as its Manchester-liberal version went along with an element of radical utopianism. In the popular mind, to argue for free trade became an important part of the public image of the modern professional economist; it became a part of the professionalisation of the craft of economics. To this extent it also affected how economists looked upon themselves. To plea for protection regarding particular branches of industry, or for protectionism in general, became anti-modern; it signified a relapse back to 'old mercantilism' or, alternatively, a reactionary defence of (German) chauvinistic 'Nationalökonomie'.

This thesis, however, is hard to reconcile with a historical reading both of Adam Smith and the classical economists. Before the dichotomy appeared in its stark form-from the 1840s-it was quite common among political economists to believe in the principle of free markets and the market process yet at the same time to argue for protection, at least in some restricted cases. However, after the 1840s this was hardly possible any longer. This shift is clearly visible, for example, in the controversy Robert Torrens stirred up in the 1840s when he seemed to deviate from the gospel of free trade-surely Torrens had been one of the main creators of the relative advantage theory of international trade which would become so cherished. Certainly in the case of Britain, both the great débâcle over the Corn Laws up until their repeal in 1846 and the controversy over fair trade from the 1860s onwards played major roles in hardening the positions. It was also during this dramatic period that two historical sequences occurred in combination: the linking up of free trade to Smithian and/or classical political economy and, at the same time, the triumph of British economics. Hence, from the middle of the nineteenth century the British political economy became the standard for economic development. Until that point there had existed some important competitors. Moreover, in the German states, and in America especially, the Ricardian version of political economy was highly unpopular. Many here, as we will see later on, drew quite different conclusions from Smith's legacy.

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 Moreover, the fact that Adam Smith was *not* a dogmatic advocate of free trade in the late nineteenth-century sense of the expression has been recognised in most modern scholarly works. The same can be said of much of the literature dealing with the Classical School, which included writers who were much less doctrinaire regarding international trade issues than the generation after Richard Cobden. This is certainly true for Torrens, but also for McCulloch and even John Stuart Mill. In fact, it was only from the middle of the nineteenth century that Adam Smith was presented increasingly as a doctrinaire free-trader advocating *laissez-faire* in international trade as the general rule. In the political discussions from the 1840s onwards, Smith was increasingly used by Richard Cobden and other free-traders within or outside the Manchester School to bolster their opposition against a varied group of writers, which they preferred to label 'protectionists'. However, just like the classical economists, the protectionists differed in their attitudes and theoretical approaches. It was only late in the nineteenth century that protectionism became a 'school' of its own with its own distinct nationalistic creed, which could be contrasted to the gospel of a cosmopolitan free trade. This is also clearly visible outside Britain. Thus, protectionism in the United States only became or was recognised as a school after the rise of the Republican Party in the 1850s and 1860s. In other countries too this line of intellectual development can be clearly envisaged.

## A historical reading of the history of economics

Of all the current ways of writing histories, including intellectual history, it seems no longer possible to suggest a narrative which builds on the methodology that has been named the 'Whig interpretation of history'. Most obviously, Whiggism in general denotes the practice of overtly optimistic accounts of the role of progress in the history of science. It postulates that scientific concepts, theories and methods have been improved over time. Moreover, it holds that it is possible-in the end-to arrive at a 'true' understanding of natural, social or human phenomena and processes. However, optimistic 'Whiggism' in its nineteenth- and early twentieth-century versions also included other aspects. As impossible it is today to write a history of (any) science in terms solely of progress, it is also quite infeasible to write history from the point of view of the winners or of the present age. Such an anachronistic approach which undoubtedly was inherent in Whiggism, has rightly been condemned as 'present-day imperialism' or as time-spatial ethno-centrism. Such practices are mostly looked upon today as abuses of history and as heavily criticised forms of a teleologically 'backwards' reading of history. Today, most would agree that

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 all forms of historical writing must include a historical reading of the past. For example, in his study on Adam Smith's politics, Donald Winch was eager to point out that his text was 'an essay in recovery rather than in recruitment'. [4](http://www.questia.com/reader/action/gotoDocId/108269408) This does not necessarily mean that we have to adhere to historicism or argue that the ultimate task of the historian is to get under the skin of the historical actors he or she writes about, or even to believe that it is really possible to 'understand' the intellectual or cultural mores of past civilisations. Hence, as stated by Quentin Skinner:

My aspiration is not of course to enter into the thought-process of long-dead thinkers; it is simply to use the ordinary techniques of historical enquiry to grasp their concepts, to follow their distinctions, to appreciate their beliefs and, so far as possible, to see thing their way. [5](http://www.questia.com/reader/action/gotoDocId/108269408)

Moreover, any historian who does not take into account the differences between the past he is researching and the present, at least in some vital respects, is likely to do a poor job. With reference to 'intellectual history', Annabell Brett has recently written that this species of history 'has come a long way from the isolated study of the great "ideas" of "great thinkers": that is, a history of human thought or thinking as distinct from human actions or doings'. And she contrasts this with older versions of intellectual history: 'This sort of history…generated a history of ideas with a tendency to a teleology of its own'. Moreover '[t]his history had certain grandeur, but it was unclear in what dimensions and in what time these ideas were supposed to exist-unless one were unafraid to posit the timeless present of their Platonic originals.' [6](http://www.questia.com/reader/action/gotoDocId/108269408) According to Skinner, there are two fundamental weaknesses inherent in the project of writing histories of 'unit ideas' as Arthur Lovejoy once defined it. First, 'we cannot simply concentrate *à la* Lovejoy on studying the terms in which they were expressed', as they certainly were used with a number of different intentions and in numerous different contexts. We cannot, therefore, decide once and for all the 'true' or 'essential' meaning of a certain concept. Second, 'in writing such histories, our narratives almost instantly lose contact with statement-making agents'. Hence, Platonism no longer has much to do with the historical Plato, neither does Ricardianism with Ricardo and nor for that matter, Keynesianism with the John Maynard of human flesh and bones. [7](http://www.questia.com/reader/action/gotoDocId/108269408)

In the history of economic thought, or in the course of writing 'doctrinal history', it is still possible to practise 'Whiggism', and even to argue for it as a leading methodological principle. This kind of discourse certainly has a past of some grandeur. Joseph Schumpeter in his seminal

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 *History of Economic Analysis* (1954) argued that the history of economics could be written as the invention and subsequent development of a set of analytical tools-a box of tools or a set of 'unit ideas', as Arthur Lovejoy would have preferred to call them. More correctly, of course, Schumpeter envisaged two different ways of writing the history of economics, which we can largely identify as the two traditions now known as HEA (the 'history of economics approach') and IH (the 'intellectual history' approach). Schumpeter also emphasised the importance of doctrine, which he defined as the ideology or 'vision', and which he felt was also of importance for the development of economics. And although he points out that he mainly followed the first path-to treat the history of economics as a subsequent development and refinement of analysis-his text is full of references to a broader intellectual landscape of political, social, moral and theological ideas and even to the importance of real historical events for analytical achievements and progress. From this background we can surely draw the conclusion that Schumpeter saw the combination of an analytical with a much broader intellectual or even cultural history of economics as his ideal for any proper 'history of economic thinking'.

His emphasis on the role of a broader intellectual and historical context has not always been acknowledged in the 'great tradition' of writing the history of economics. It was certainly easy-and perhaps even inevitable-for modern interpreters of the history of economics to regard the 'historical' method of Edwin Cannan, for example, as utterly dated and impossible to follow: 'It is no part of my plan to recommend any particular method of economic inquiry, or to praise or decry any particular authors'. On the contrary, Cannan emphasised in his *A History of the Theories of Production and Distribution in English Political Economy 1776-1848* (published in three editions 1893, 1903, 1917): 'My object is simply to show what the various theories concerning production and distributions were, and to explain, how and why they grew up, and then either flourished or decayed'. [8](http://www.questia.com/reader/action/gotoDocId/108269408) Such a position would also have drawn severe criticism from 'scientific' historians trained in or influenced by the social sciences, such as E.H. Carr in his highly influential *What is History?* (1961). Against this background the following famous quote from Mark Blaug's path-breaking *Economic Theory in Retrospect* (1968) is quite understandable: 'it must be insisted [that] great chunks of history of economic thought are about mistakes in logic and gaps in analysis, having no connection with contemporary events'. Therefore, Blaug continues 'I have tried to write a history of economic analysis which pictures it as evolving out of previous analysis, propelled forward by the desire to refine, to improve, to perfect, a desire which economists share

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 with all other scientists'. [9](http://www.questia.com/reader/action/gotoDocId/108269408) However, this does not make up its entire history, according to Blaug. In fact, as Roger Bachouse has pointed out, in many of his other writings-and even in *Economic Theory in Retrospect-*Blaug is more 'relativist' and attentive to the historical context than the citation above suggests. [10](http://www.questia.com/reader/action/gotoDocId/108269408)

For the present it is enough to say that this 'absolute' programme has been followed by many writers dealing with the history of economic thought and ideas. Hence, in an often cited work on Adam Smith-a person who we will deal with extensively later on-Edwin G. West argues that his focus mainly is 'on newly-found relationships between Smith's writing and a variety of emerging modern concepts or theories', such as the principal/agent problem, moral hazard, implicit contracts, the monetary approach to the balance of payments, human capital, the theory of non-profit organisations, and so on. [11](http://www.questia.com/reader/action/gotoDocId/108269408) Without doubt, West seems to be an extreme exponent of the HEA tradition but he is certainly not alone in this.

In the present context it is perhaps important to reflect on such tendencies in historical narratives regarding the development of free trade doctrine or analysis. To take some recent examples, Andrea Maneschi in his *Comparative Advantage in International Trade* (1998) takes modern trade theory as his measuring stick for discussing the contributions of past economists in this field. He finds that already by the middle of the eighteenth century the British Josiah Tucker in his 'rich country-poor country' discussion 'anticipated' a more full-fledged theory of comparative advantage later developed by Torrens and Ricardo. [12](http://www.questia.com/reader/action/gotoDocId/108269408) Although this might be accurate in analytical terms it is questionable whether Tucker, from his argument that rich countries could be compensated for their higher wages and prices in international trade through their higher productivity, would draw the conclusion that trade should be free in general. After all, as Robert Schuyler, has emphasised: Tucker is 'to be classified with the mercantilists rather than with the French Physiocrats or the British classical economists'. [13](http://www.questia.com/reader/action/gotoDocId/108269408) However, Tucker was not a conservative mercantilist. Sometimes he almost sounds like a free-trader, as when, for example, he speaks of natural rights as the 'main principal reason for the enlargement of Trade'. Answering the question 'What Trades ought to be free and unrestrained?' he says.

Surely, it is impossible to conceive that any Trades deserve to be discouraged by a wise government; but those only which administer Temptations to Vice and Idleness; For all others are an absolute Benefit to Society and the more free and unconfined they are, the greater and more universal is their Benefit. [14](http://www.questia.com/reader/action/gotoDocId/108269408)

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 Moreover, to argue that Tucker anticipated Torrens and Ricardo just because he mentions briefly among his 'principal arguments' for greater trade brought about by greater competition that 'All goods whatever will be made in as high Perfection, and sold at an low a price, as can be afforded with a living Profit', is surely to interpret too much. His main argument in favour of *freer* trade he based rather on the principle of natural rights, on the 'profits of the Crown' coming from international trade or a more peaceful world which would come from increased intercourse ('Peace and Amity with all Nations'). [15](http://www.questia.com/reader/action/gotoDocId/108269408)

Even more pertinently, Douglas A. Irwin argues for the analytical method in his *Against the Tide: An Intellectual History of Free Trade* (1996). Describing his method as essentially 'Schumpeterian', he nevertheless leaves out the complexities proposed by Schumpeter himself. His approach is the following: 'This book is on intellectual history and attempts to relate how economic analysis have supported or invalidated free trade doctrine; that is, it is on the economic *analysis* that was associated with the free trade *doctrine*'. [16](http://www.questia.com/reader/action/gotoDocId/108269408) Moreover, he argues against the use of a more historical approach:

understanding the political, social and economic background of intellectual thought may enrich ones knowledge of the development and propagation of ideas, but this context is generally not required to assess the quality and durability of economic thought and analysis as logical propositions. [17](http://www.questia.com/reader/action/gotoDocId/108269408)

More than anything else, any such approach must take its point of departure from the anachronistic and 'Whiggish' notion that present theory is the yardstick against which all past theory must be judged. Such a method can perhaps have its advantages, as we will see. However, it is unlikely to lead to increased knowledge regarding what Irwin calls his general aim: 'to describe how free trade came to occupy such a commanding position in economics and how free trade has maintained its intellectual strength as doctrine despite the numerous arguments that have arisen against it over the two past centuries'. [18](http://www.questia.com/reader/action/gotoDocId/108269408) This can surely not be done without a greater understanding of history, of why certain theories or schools emerged and won the day while others faded away. To treat this only as a consequence of the logical superiority of free trade arguments is unlikely to increase our understanding of this or similar episodes in the history of economic thinking and writing.

However, as noted, an 'analytical' version of writing the history of economics can have its advantages. An investigation into the history of the discipline can most certainly lead us to a greater understanding, and even

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 refinement, of modern theory. Reading history without doubt stimulates the mind and enriches the discussion. It can also lead to new ways of approaching recent discussions in order to find new alternative arguments and/or to weed out such ones as have already been proved illogical by past thinkers. It is moreover clear that the subsequent development and refinement of analytical tools in any science occur partly as a result of internal scientific discussions in which gaps and holes in analytical concepts are filled out and logical lapses and mistakes are corrected. Moreover, theories and concepts which are full of flaws-logically or when confronted with something outside the discipline-are sometimes left on the scrapheap of old and absurd ideas. However, it would be equally wrong to say that all intellectual development is caused by such a set of 'internal' forces. To this extent the history of economic thought must be understood, as must any other cultural artefact, in the context of shifts in the general intellectual *milieu.* The process by which it changes is complex and involves a greater understanding of the historical process as such, including societal and intellectual changes.

Consequently, the unit-idea or analytical method also involves a number of problems. First, as a consequence, economic writers may be put in the forefront who were totally unknown and obscure in their own time. Hence, it might be true that such great Frenchmen of the early nineteenth century as Auguste Cournot and Jules Dupuit-or for that matter Hermann Gossen in Germany-played an important role for the marginal revolution in economics later that century. However, during their own time they were hardly known and, even more importantly, they were not known as economists and played no role as such in either scholarly or public discussion. Second, there is a danger that Whiggism leads to a total subjectivism. A good example of this is the late Murray Rothbard who, in his in other ways very impressive *Economic Thought before Adam Smith* (1995), looks upon the history of economics strictly from the viewpoint of Austrian economics of the late nineteenth and twentieth century. Thus, any author's importance-however how historically obscure-is valued and measured to the extent to which he has contributed to the Austrian version of neo-classicism. This leads Rothbard to look upon much of what economic writers dealt with after the Salamanca School and until the downfall of Ricardianism in the middle of the nineteenth century as utter rubbish. Such rhetoric might imply stimulating reading, but it hardly constitutes history. Against this background it is paradoxical that Rothbard, in his preface to the book, condemns 'Whiggism' as something quite unthinkable in a post-Kuhnian world. However, in the sense that he regards Austrian economics as the ultimate (at least so far) version of economics, he is practising this method himself. [19](http://www.questia.com/reader/action/gotoDocId/108269409) Third, there is also a

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 danger that concepts and even theories might be interpreted in a fashion that obscures their original meaning. This makes it impossible for us to understand what past authors wanted to say and why they said what they did. It is, for example, of doubtful value to twist older economists' arguments in order to see them as anticipators of modern concepts and theories (as, for example, Edwin West argued). Such an approach most often means that we find only what we were looking for: 'we merely construct a mirror in which we see our own reflection', according to Donald Winch. [20](http://www.questia.com/reader/action/gotoDocId/108269409) One can surely ask how much really can be learned *from* Smith by treating him from a Whig-Historical perspective within which the main issue or one of deciding in what respects he anticipated or foreshadowed, what later generations of economists regard as important.

By doing so we might fail to see what we really could be learning from the old masters: namely, other ways to reflect problems, alternative methodologies that would enrich our own understanding of economic phenomena and even perhaps help solve current controversies. For these reasons we need a more historical approach to the reading of past economic texts.

As noted, the danger of 'temporal imperialism' and anachronisms is imminent when the historical dimension of ideas and doctrines are left out. Hence, what has been typical for the genre of the history of economic doctrines is that most past economics have been treated and made intelligible from the standpoint of modern economics. This make sense if we are interested in the origin of modern theories or concepts and seek answers to questions such as these: Who construed the first indifference curve?; who used for the first time the marginal calculus or functional mathematics relating to economic issues? However, if we are interested also in why the history of economics occurred in the way it did and also about what past writers wanted to say at their time we must choose another approach. Surely the history economics includes much more than the logical perfection of 'unit ideas'? It deals with how different people, such as rulers, merchants and intellectuals, have tried to understand and get to grips with a complex and an ever-changing economic order. It also has to deal-whether we like it or not-with values and how different actors have judged what is good and bad with the present social and economic order. It must deal too with the choice of literary style and with the noble art of written conversation. In short, it must deal with what Deirdre McCloskey prefer to call the 'rethorics of economics'. [21](http://www.questia.com/reader/action/gotoDocId/108269409) Thus, we must acknowledge that any economist must present his or her ideas in a language that is intelligible for their particular readers. The history of economic ideas must be something more than a mere history of analytical tools. The only logical argument in favour of following such a path would be that economics is

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 different from any other social science. However, this is simply not true. In 1954 the argument that economics was a 'hard' science, such as physics or chemistry, might have helped. However, it is no longer possible to argue that the history of the natural sciences is an 'internal affair'. After Kuhn this position seems forever lost. Hence, a modernist position which promises knowledge free from doubts, metaphysics, morals, personal convictions, 'interests' and ideology is now unimaginable.

After all, even to the extent that Schumpeter and Blaug held on to a version of the history of economic doctrines in which the wider historical context played only a minor or no role at all (at least for the understanding of the development of economic analysis), they nevertheless treated their subject as a species of intellectual history. However, two more-recent interpreters of one of the most famous past school of economic thinking, mercantilism, do not seem to be interested in any kind of history, whether intellectual or 'real'. Robert B. Ekelund Jr and Robert D. Tollison see ideas as mere reflections of economic interests. Stemming from a public choice tradition, they aggressively and in principle attack any historical and cultural interpretations and explanations of intellectual development in the economic field with the slogan: 'in order to have an impact, ideas must find a market'. [22](http://www.questia.com/reader/action/gotoDocId/108269409) However, Ekelund and Tollison are not central to our discussion. Basically, of course, they ridicule attempts to understand the development of free market ideas in seventeenth- and eighteenth-century Britain as a backdrop to new moral and social ways of viewing Man and Society (individualism, natural rights theories or whatever). Hence, following their own interpretative scheme, these new ideas about a self-regulating economic order 'found a market' because they became useful and profitable for economic operators who had been discriminated against by 'old corruption' and the monopolies of a rent-seeking society. Up until the eighteenth century, most merchants and rulers-Ekelund and Tollison use England as a stylised example-had a stake in the rent-seeking society. After that, institutional changes occurred which altered the situation and made the abandonment of the old order profitable, at least for some. What those institutional developments were, exactly, is not made clear. Without doubt the authors overstate the power of English monarchs in the eighteenth century and understate the 'old corruption' character of the post-1688 and parliamentary state. Moreover, it is clear that moral and political arguments against rent-seeking and in favour of freer trade also played a role for the subsequent decline of monopolies. Certainly, such critical opponents as Benjamin Franklin might have had a stake in agitating against the unfair consequence of British imperial rule in America. However, to reduce him to a mouthpiece of certain vested interests is to make of him a caricature and to downplay the role of the (commonsense) philosophy and moral

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 attitudes that made him believe British rule in America to be unjust and against the principle of common welfare. As it would be totally absurd to neglect the role of ideas in this context, Ekelund and Tollison admit that ideas and doctrines, in this instance, might have played some part. [23](http://www.questia.com/reader/action/gotoDocId/108269409) Hence, their view that doctrines of natural rights, the existence of the invisible hand, and so on, may have had *some* (minor) impact in terms of rooting out monopolies and making rent-seeking less likely.

In the case of 'mercantilism' they argue that this 'doctrine' has nothing whatsoever to do with philosophical or ideological thought. Instead, they argue that mercantilism was a mere cloak for rent-seeking. Thus, any attempt to explain mercantilism as a wider phenomena is doomed to fail and the historical 'research programme' from Heckscher onwards 'has yielded no cogent or consistent result if its aim has been a definition of mercantilism or an understanding of the period's events and institutional change'. [24](http://www.questia.com/reader/action/gotoDocId/108269409) Attempts in this direction have lead only to a 'mess' and are examples of futile search for a 'red herring' that does not exist. These are indeed stark words; too vitriolic perhaps to be taken seriously. [25](http://www.questia.com/reader/action/gotoDocId/108269409) In any case, we may safely draw the conclusion that very few people today would be as willing as Ekelund and Tollison to reduce ideas, theories and concepts, as well as debates on economic issues, to mere reflections of economic interests or even economic events. Although their works serve to illustrate the viewpoint that modern (public choice) interpretations of economic history are far superior to any other research programme, they do little to make it easier for us to understand the complexities of history or, at least, the complicated relationship between 'real' historical conjectures and human interpretations of them.

I hope I have shown that simply writing intellectual history backwards leads only to an inability to understand, what past writers 'really' wanted to say. Since the 1960s the so-called 'Cambridge School' of intellectual history, including such scholars as Quentin Skinner and John Pocock [26](http://www.questia.com/reader/action/gotoDocId/108269409) -as well as many followers or friendly fellow travellers, some of whom have also been interested in economic texts, such as Donald Winch, Istvan Hont, Knuud Haakonsen and Anthony Pagden-has tried to develop a more historically oriented intellectual history. [27](http://www.questia.com/reader/action/gotoDocId/108269409) Inspired by such modern linguistic theorists as John Austin and John Searle, they have emphasised the communication aspect of texts. In order to understand what past writers sought to say, we must take as our starting point the premise that every word an author writes is the result of a deliberate choice. Accordingly, we must pay more attention to the performance-level. We must acknowledge that 'the author will be doing something in speaking and writing the words, sentences, arguments and so on', as James Tully

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 states. [28](http://www.questia.com/reader/action/gotoDocId/108269409) To regard texts as 'speech acts' Skinner-following closely in the step of Austin's pathbreaking *How to Do Things with Words* (1980)-implies that: 'I seek to elucidate concepts not by focusing on the supposed "meanings" of the terms we use to express them, but rather by asking what can be done with them'. [29](http://www.questia.com/reader/action/gotoDocId/108269409) Furthermore by building particularly on Searle he emphasises that we should apply a 'illocutionary' and 'perlocutionary' dimensions to the study of past texts. The first of these dimension signifies what a speaker/writer is doing in using certain words and the second what he is doing through or by using specific words. By recapturing the intentions of the author we may then begin to understand 'what the writer may have meant by arguing in the precise way he argued'. [30](http://www.questia.com/reader/action/gotoDocId/108269409) The task of the intellectual historian should be set against this background, according to Skinner:

We need, that is, to be able to give an account of what he was doing in presenting his arguments: what set of conclusions, what course in action, he was supporting or defending in attacking or repudiating. Ridiculing with irony, scorning with polemical silence, and so through the entire gamut of speech-acts embodied in the vastly complex act of intended communication that any work may of discursive reasoning may be said to compromise. [31](http://www.questia.com/reader/action/gotoDocId/108269409)

Expanding upon this original scheme John Pocock has emphasised that in order to understand what a certain author 'is getting at' we must begin by recognising the specific discursive tradition he is involved in. Only if we know the broader historical context can we begin to understand his specific speech act. Hence, Skinner's method impels us, according to Pocock, towards 'the recovery of an author's language no less than of his intentions, towards treating him as inhabiting a universe of *langues* that gives meaning to the *paroles* he performs in them'. [32](http://www.questia.com/reader/action/gotoDocId/108269409) Moreover, it is the historian's task to learn to read and recognise the diverse idioms of discourse 'as they were available in the culture and at the time he is studying'. As any discourse, or language, betokens a specific political, social or historical context within which it is itself situated, language also 'selects and prescribes the context within which it is to be recognized'. Language is self-reflexive; it supplies the categories, grammar and conceptual framework through which experience is articulated. [33](http://www.questia.com/reader/action/gotoDocId/108269409) However, at the same time it is important that this by no means 'has the effect of reducing the author to the mere mouthpiece of his own language'. [34](http://www.questia.com/reader/action/gotoDocId/108269409) This would indeed go against Skinner's method and the methodology of the Cambridge School altogether. Hence, as Skinner for example, emphasises, the Cambridge methodology is hard to reconcile with relativism in a

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 post-modernist sense. [35](http://www.questia.com/reader/action/gotoDocId/108269409) On the contrary, the emphasis on the uses of speech and texts underlines that the relation between language and experience is interactive. By using words and concepts which are familiar to his specific audience, a specific agent performs with a certain intention. He seeks to make an impression on somebody else. He is arguing by means of communication acts. Moreover, when performing exactly this function, language itself changes. As noted by many social theorists, including Anthony Giddens and Marshall Sahlins, no concept can fully cover the complexities of the outer world which it tries to capture and describe. This is even more so since historical change is pervasive and therefore always leads to a necessary friction between *langue* and *paroles*. It is basically this to which Marshall Sahlins refers when he emphasises what happens to cultural codes when they are set out against 'the risk of cultural action':

In action, people put their concepts and categories into ostensive relationships to the world. Such referential users bring into play other determinations of the signs, besides their received sense…. Praxis is, then, a risk to the sense of signs in the culture-as-constituted. [36](http://www.questia.com/reader/action/gotoDocId/108269409)

Hence, there must be not only change in language but also the creation and diffusion of new language. Thus, according to Pocock, languages 'must become available resources for the performance of speech acts other than those by which they were created, conventions themselves subject to innovation and change.' [37](http://www.questia.com/reader/action/gotoDocId/108269409)

## The use and diffusion of economic language

An historical approach to the development of economic thought or doctrine has a number of important implications. First, as already argued, it is hardly satisfactory to write the history of economics from the point of view of the most recent theoretical and analytical achievements, nor to use these achievements as yardsticks. If we do so, we will not only be unable to understand what past economists or writers on economic topics were trying to say at their time; equally importantly we will not understand the impact that reading the history of the subject can have on our own thinking. We will not be able to draw lessons from history but will merely reflect our own thinking on the past, which will be, undoubtedly, as prejudicial and unfinished as all human thinking.

Second, in order to better understand the nature of intellectual change within economics we must pay greater attention to the circumstances in which certain concepts, theories and ideas developed and matured. Hence, we must take an interest in the political discussions current at the time and

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 also in other types of discussion (even those concerning literature and art), as economics and economists have by no means been unaffected by the outer world. This of course also includes developments in other sciences, perhaps particularly the natural sciences but also law, moral philosophy, psychology, political science, and so on. If we are interested in the history of economics before the nineteenth century, we must in particular be aware that economics before this date had hardly emerged as an independent subject. It was only in the 1720s that the first chairs in economic science were inaugurated-and those in general doctrinal history, in such peripheral places as Halle, Frankfurt an der Oder and Rinteln in Prussia (the next to follow were Uppsala and Åbo in Sweden and Napoli in Italy). In order to visit the more distant past of economic thinking one has to read books and pamphlets in a number of other subjects, including theology, moral philosophy and politics. We must glance at agricultural treatises, read through instructions for sea captains and, perhaps even more importantly, seriously study the *Furstenspiegel* literature which, during the sixteenth and seventeenth centuries-especially in continental Europe-covered topics which might today be seen as part of public economics. As has been noted, this does not mean that analytical improvements could not be of great interest to study in their own right. It depends on what we are aiming for and on the focus of our studies. However, it seems untenable for reasons which we already have discussed to increase our knowledge and understanding of analytical achievements if we leave out the historical context in which concepts developed and changed.

Third, we must be more sociological in our approach to the history of economics. We should not be interested only in the great men and the most brilliant minds. We must acknowledge the important role played by perhaps less analytically brilliant but, in their influence during their own period, much more important contributors to the science. Hence, in order to understand how and why changes in doctrine and thinking occur, we must be patient enough to listen also to those middle-range figures who might not even appear in the footnotes of analytical history or who hardly produced any novel ideas at all. In their period these figures might have helped to form the curricula of economics and some of them might even have been extremely powerful because they were widely read and/or often referred to in the public debate. We might even have to be patient enough to pay attention to less-imaginative professors who taught generation after generation of students in economics at the universities and, as such, contributed to the development of the subject as well as to its public image. We must also acknowledge that the kind of economics taught in universities in Germany, Sweden, Finland and Italy during the eighteenth century only slightly resembles what is understood by the term today.

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 Any historical account of the development of economic ideas and doctrines must be built on texts which were written in a certain context and which signify meanings that, to some extent, might be difficult for us to understand. Consequently, if we seek to understand why concepts and theories change-the understanding of economic reality as well as the very definition of what economics is all about-we must certainly widen our horizons. We must acknowledge the importance of historical change in general as well as changes in languages and vocabularies. As shown, not least in modern research on Adam Smith-to which we will return in later chapters-some of the problems of interpreting what Smith 'really wanted to say' (the bewildering discussion on the two Adam Smith's, for example) lay in the changeable meanings of such concepts as 'justice', 'virtue', 'invisible hand', and so on. [38](http://www.questia.com/reader/action/gotoDocId/108269410) We might even ponder the meaning that authors within the Scottish tradition of Enlightenment, including Smith and Ferguson, put on the word 'liberty'-in contrast to Isiah Berlin's modern dichotomy of positive and negative liberties (or, for that matter, what present Chicago-based economists would mean by this concept). [39](http://www.questia.com/reader/action/gotoDocId/108269410) This is certainly also true with regard to older economic texts, including the various interpretations regarding what mercantilism 'really was' or how one should interpret the even older scholastic literature. [40](http://www.questia.com/reader/action/gotoDocId/108269410)

Moreover, as I have been arguing here, economic concepts are not passively received from a particular *langue* but are actively interpreted within a particular discourse which has its roots in specific historical (and institutional) contexts. [41](http://www.questia.com/reader/action/gotoDocId/108269410) Such a process of interpretation-or we might call it a 'translation process'-affects the way core concepts, theories, and so on are interpreted and sensed in different time-spatial or cultural-institutional settings. Hence, it can sometimes be rather misleading when Skinner *et al.* draw a seemingly sharp distinction between the 'usage' and 'meaning' of texts. Without doubt, different uses in different historical and spatial contexts affect how we can meaningfully interpret past texts. Thus, for example, it is clear that the 'true' meaning of the French physiocrats-which spread from France even into such distant lands as Russia, Poland and Sweden-was interpreted in many different fashions. [42](http://www.questia.com/reader/action/gotoDocId/108269410) Further, it is often noted that both Smithian and classical political economy, for example, were differently understood and interpreted outside their own intellectual and discursive contexts, that is, the British discussion of the early nineteenth century. In a late-industrialising country such as Sweden, but also by German and American protectionists (including Friedrich List), Adam Smith was looked upon *mainly* as an exponent of a new political economy which stressed the need to establish modern industry in order to achieve economic process as well as political might. For this

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reason it did not seem contradictory for such interpreters of his work to defend Smith *in principle* and at the same time to speak for infant industry tariffs. [43](http://www.questia.com/reader/action/gotoDocId/108269410) Moreover, to give another example, in France Ricardo was *mainly* looked upon as an exponent of dismal science and, as such, as a dead end, while Alfred Marshall in Britain saw the great potential for Ricardianism in its more modern (marginal utility) form. It can surely be supposed that many of the controversies that have haunted the subject of economics have their roots in such different 'translations' of core concepts and theories. Hence, if economics is a paradigm it is surely a paradigm of many variations.

We will have to come back to the importance of such a change of meanings, which can be attributed to historical and cultural distance. This is without doubt an important issue, as much doctrinal history of economics is permeated not only with anachronisms but also with ethnocentrism. As we will discuss, the development of economic thinking in England in particular is often regarded as the yardstick for economic writing and thinking in general. Thus, writers and scholars of other traditions are often regarded as inferior, less analytical, or are simply described as fools. Such an approach is outmoded not only because such ethnocentristic is unacceptable today but also because it radically neglects the fact that economics is a paradigm of different variations. It does not acknowledge that economics is a social science and that economic and societal processes are open to different interpretations. Last, it neglects the very fact that the British (or English) political economy is imbued with its own national and historical context. Hence, Donald Winch and Patrick O'Brien in a recent collection of texts remind us exactly how much nineteenth-century British economics dealt with peculiarly British institutional and historical situations. In many comparative works dealing with nineteenth-century economic, social, intellectual and political history Germany is often described in terms of a *Sonderweg.* However, Winch and O'Brien remind us of that far from being the stylised example of historical development per se, Britain too had its *Sonderweg.* For example, it is impossible to understand the Ricardian rent theory outside the particular effect of the Napoleon Wars on Great Britain. Moreover, Malthus's population theory or for that matter the wage fund theory is quite unthinkable outside its (British) context. Hence, they draw the following conclusions regarding English political economy between 1688 and 1914:

The English science is focused on and reflected the special problems of the British economy to such an extent that it became vulnerable to foreign charges that its universals were little more than reified

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generalizations based on British interests and hidden institutional assumptions-generalizations that it would be folly for other nations to accept without considerable modification. [44](http://www.questia.com/reader/action/gotoDocId/108269410)

In the first section of this book-Chapters 2 to 4-I will discuss how a tradition linking the late nineteenth-century conception of free trade (the Manchester as well as other versions) with Adam Smith and classical political economy emerged in Great Britain. In Chapter 2 I will be concerned mainly with what Smith and his followers really had to say-as far as possible in their own terms-on international trade and its restrictions. In Chapter 3 I will deal with how it became increasingly useful-from 1800 onwards-to use Smith and the Classical School in order to argue for free trade and *laissez-faire* in its more or less unrestricted form. Such an invention of tradition occurred against the backdrop of two great political débâcles in Britain during the nineteenth century: the campaigning for the repeal of the Corn Laws during the 1840s and the controversy over free versus fair trade after 1870. Without doubt, the result of these political controversies was to construct a specific historical juncture in which Smith and the Classical School were placed firmly in one camps in the battle between free trade and protectionism which raged from the 1840s onward-a dichotomy which perhaps was not so distinct during an earlier period. Last in this section I deal with how the construction of a 'mercantile system' became of utmost importance in order to create a line of inheritance from Adam Smith to the (Manchester) liberal political economists of, especially, the late nineteenth century. Hence, the controversies raging over the 'mercantile system' or 'mercantilism' can be understood only if we acknowledge the function of this historical construct in the process of invention of a tradition of free trade. Why, indeed, otherwise argue about such an issue?

In the second section I discuss the emergence of economic thinking and writing outside Britain with the help of two examples: the United States (Chapter 5) and Sweden (Chapter 6). Here I deal with the importance of a national-cultural and institutional context for the development of economics. Moreover, it also gives me an opportunity to discuss the importance of translation processes in the history of economic ideas and writing. Hence, I show here how concepts-not the least of which were developed by Smith and his followers also with regard to the Physiocratic School of the eighteenth century-were 'translated' into different national and historical contexts. It is not very helpful to describe American or Swedish economic writers of this period as merely inferior to their British colleagues. Certainly, of course, many were lacking in analytical brilliance and rigour (but so were many of their British colleagues). It is more

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 worthwhile to try to understand why they thought the way they did and said what they said. Then we can perhaps learn to historicise our own thinking and understanding of the complex phenomenon which we prefer to call 'the economy'.

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# 2 The heritage from Smith and classical political economy

In a small intervention first published in the *Daily Telegraph* in 1976 Friedrich Hayek hailed Adam Smith as a forerunner, and even an originator, of economic libertarianism. According to Hayek, Smith's greatest achievement had been the invisible hand approach to market processes, and from this he had made a definite proposal regarding distributive justice: '[t]he recognition that a man's effort will benefit more people, and on the whole satisfy greater needs, when he lets himself be guided by the abstract signals of prices rather than by perceived needs'. From this, Hayek, as we know, would draw quite radical policy conclusions: 'The demand for social justice for an assignment of the shares in the material wealth to the different people and groups according to their needs or merits, on which the whole of socialism is based, is thus an atavism.' [1](http://www.questia.com/reader/action/gotoDocId/108269410)

That this presentation, not to mention the policy interpretation, of Smith is highly doubtful is due not only to the fact that Smith in the *Wealth of Nations*-as Salim Rashid and many others have noted-'attacked the landlords, the merchants, the corporations, statesmen-everyone but the worker'. [2](http://www.questia.com/reader/action/gotoDocId/108269410) However, rather than being a proponent of a certain class interest, Smith's political views and moral philosophy made him view positively at least some governmental intervention by an enlightened visible hand in order to establish a more just order of things. [3](http://www.questia.com/reader/action/gotoDocId/108269410) Most recently, Rudi Verburg has pointed out that Smith's concern with distributive justice-contrary to Hayek's opinion-made him view governmental intervention positively under particular circumstances. [4](http://www.questia.com/reader/action/gotoDocId/108269410) That Smith took a partisan view of the interests of workmen-as they were the most oppressed-must surely be recognised by even the most casual reader of Smith's *Wealth of Nations*. So far most regulations have worked against the interest of the workmen, he states. And he continues: 'Whenever the legislature attempts to regulate the differences between masters and their workmen, its counsellors are always the masters'. However sceptical Smith tended to be as to the question of whether regulations ever could master the forces of the market, he

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 nevertheless drew the following conclusion: 'When the regulation, therefore, is in favour of the workmen, it is always just and equitable; but it is sometimes otherwise when in favour of the masters'. [5](http://www.questia.com/reader/action/gotoDocId/108269410)

That it is a mistake to regard Smith as a libertarian in the twentieth-century view is certainly the message of Donald Winch's latest seminal work, *Riches and Poverty* (1996). Presenting Smith as a (moderately) radical Enlightenment thinker, he draws the following conclusion regarding Smith's views on governmental intervention, referring especially to Book V of *Wealth of Nations:*

The purpose of Book V…was to show that in the fields of justice, defence, education, and public works, the legislator had positive duties to perform that could not be undertaken by any other agency. The duties were justified by the need to make good the shortcomings of private provism, and to deal with those undesirable unintended by-products of commercial societies which requested the serious attention of government. In this respect one could say that Smith is an advocate of purposive government. [6](http://www.questia.com/reader/action/gotoDocId/108269410)

Others have also tried to understand Smith-in Richard Teichgraber III's words-as 'a figure whose main intentions and achievements must be understood in terms of a variety of distinctively eighteenth-century ideologies and concerns that he addressed throughout his work'. [7](http://www.questia.com/reader/action/gotoDocId/108269410) Long ago D.D. Raphael was able to show that Smith remained a republican and a Whig, and that the supposition in some older works on Smith that he grew more conservative over the years is false. [8](http://www.questia.com/reader/action/gotoDocId/108269410) More recently, Emma Rothschild has presented a Smith rooted in the discussions of the Enlightenment period. As she convincingly shows in her *Economic Sentiments* (2001), later interpreters have misunderstood Smith's use of the invisible hand metaphor. Rather than providing an intellectual argument for *laissez-faire*-in the nineteenth-century sense of the word-it was used in order to draw attention to a paradox in social science which was later called the problem of unintended consequences. [9](http://www.questia.com/reader/action/gotoDocId/108269410) Smith was, of course, not the first to draw attention to this alleged paradox. We can find references to it in the writings of such seventeenth-century authors as Dudley North and Nicolas Barbon, [10](http://www.questia.com/reader/action/gotoDocId/108269411) as well as during the eighteenth century in texts by Montesquieu and Bernard Mandeville. Mandeville's witty discussion of how 'private vices' could become 'public benefits' was an attempt to deal precisely with the role of unintended consequences in social and economic life.

His focus on the Enlightenment did not preclude Smith from taking a critical stand against the contemporary state, questioning whether it could

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 serve the common good and provide good government. Rather, as any radical eighteenth-century (especially Scottish) person would do, he looked around him and observed a state close to the ideal type of 'old corruption'. He saw that in these circumstances most governmental intervention would likely lead to the enrichment of the already rich and powerful while the poor would suffer even more. Thus, his conclusion was that government intervention should be kept to a minimum. However, the point is that Smith was not-as was Hayek, for example-in principle against interventions that, could, say, increase distributive justice in order to provide better education for the poor, and so on. Quite on the contrary, as we have seen. Moreover, he was certainly aware that the market principle did not automatically produce distributive or social justice, and indeed could not in any sense be equated with it. After all, he defined political economy as a branch of the science of the legislator, which implied that politics and statesmanship lay at the forefront of his interest. He did not seek to abolish it-but to elevate it. Donald Winch, in *Adam Smith's Politics* (1978), has probably provided us with the closest interpretation of Smith's 'careful balance between order and innovation'. [11](http://www.questia.com/reader/action/gotoDocId/108269411) It is not easy to grasp, he says:

the full complexity of Smith's treatment of the relationship between commerce and liberty, between economic progress and its moral and political consequences for society. For not only does Smith's account of the emergence of commercial society have a strong flavour of Mandevillian cynism about it, with its stress on the unintended public benefits derived from blind selfishness, but the new form of society is marked by several major defects of moral and civic character. The revolution associated with commerce and manufacturing eliminates certain gross forms of dependency and domination, but it does not abolish oppression and social conflict. On the contrary, in some crucial respects it widens the scope for contest and envy, and creates new arenas and forms of conflict between individuals, between the different orders of society, and between private and public interests. [12](http://www.questia.com/reader/action/gotoDocId/108269411)

The attempt by Hayek and others to interpret Smith as a libertarian has surely backfired. However, the opposite position also seems unfruitful as a point of departure. Thus, when, for example, Jerry Z. Muller adheres a social science 'programme' to Smith, emphasising 'piecemeal social engineering' as his ideal, this is without doubt going too far. [13](http://www.questia.com/reader/action/gotoDocId/108269411) Not only did 'social science' not even exist at the time of Smith's writing, which in itself presents problems for any attempt to construct a social science programme on the basis of Smith's work (including a definitive view

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 regarding the intersection between polity and economy), but moreover, Muller also tends to downplay Smith's radical critique of contemporary eighteenth-century government. Instead, as Emma Rothschild has pointed out, Smith was, in the first place, an Enlightenment thinker full of scorn for the 'unjust' practices of 'the old regime'. In this sense he was really in favour of minimalist government.

We can then draw the conclusion that Smith was neither a libertarian nor a'social engineer'. Most of all he was an Enlightenment thinker who believed in progress, including increasing economic prosperity. However, to an even greater extent he was a sceptic. Drawing on his stoic intellectual background he detected a gulf between an ideal situation and what could be achieved in historical society given the nature of men and the human construction of society. [14](http://www.questia.com/reader/action/gotoDocId/108269411) This makes him even less likely to have been a libertarian in the mold of Hayek. Thus, as A.W. Coats pointed out many years ago, Smith's strongest belief was that 'perfect freedom' and the principle that 'things were left to follow their own course' was 'an unattainable ideal'. From this also followed, according to Coats, that 'civil government was a necessary evil, an imperfect remedy for the deficiencies of human wisdom and virtue, and its imperfectability stemmed directly from its failure to sufficiently guard against the mischief's which human wickedness gives occasion to'. [15](http://www.questia.com/reader/action/gotoDocId/108269411) Hence, because of Man's natural instincts and passions Smith was highly sceptical about governmental intervention, as it would most probably only increase monopoly-which Smith disliked and which, to his mind was the very incarnation of injustice. As the 'old regime' was by no means a neutral institution, its interventions would only serve to strengthen the ruling class(es). However, at the same time he acknowledged the usefulness of good rules and institutions and admitted that in specific cases the individual pursuit of profit-in an order of free competition-could go against the 'general' or indeed the state interest. It could hurt the poor, and this would be unjust in a civilized state, he thought.

Not only Hayek and Muller but also many others have tried to create an Adam Smith for their own purposes-a straw man they can use as a source of intellectual support for their own battles. To some extent this flexibility has its origin in Smith himself. Many before and after Hayek have had difficulties in understanding and presenting Smith as a thinker and writer, [16](http://www.questia.com/reader/action/gotoDocId/108269411) since he is often not very precise in his statements and can surely be interpreted in various ways. However, more importantly, he can be regarded as a victim of his own fame and success. As Salim Rashid has pointed out, Adam Smith had by no means risen to a superior position before 1800. However, there might be a grain of truth in the proposition

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 that before this time 'the age of Smithian economics was still in its infancy' [17](http://www.questia.com/reader/action/gotoDocId/108269411) and that what later would became known as Adam Smith's economics was highly variable. This might be true, but we must then immediately add that it has never been particularly clear what Smithian economics is all about; it is still a contested territory. Moreover, we must also acknowledge that already in 1800-ten years after his death-Adam Smith was a famous man and one of whom politicians, social commentators as well as philosophers and economists loved to refer when presenting their own viewpoints. [18](http://www.questia.com/reader/action/gotoDocId/108269411) Hence, when Smith was referred to positively in political discussions as early as the 1780s, this was mainly by such radical Whigs as Charles James Fox, for example. [19](http://www.questia.com/reader/action/gotoDocId/108269411)

As Rothschild illustrates, the race to invent the 'real' Smith got under way in earnest in the 1790s. [20](http://www.questia.com/reader/action/gotoDocId/108269411) Even though the tide of Smith's reputation was beginning to turn, he was still mainly portrayed as a (mild) radical. Thus, during this decade such well-known radicals as William Goodwin and Thomas Pain together with such devotees of the French Revolution as Thomas Archard and the Unitarian minister Jerimiah Joyce referred to Smith favourably. [21](http://www.questia.com/reader/action/gotoDocId/108269411) Joyce had also published an abridged version of Smith's *Wealth of Nations,* with the title *A Complete Analysis and Abridgement of Dr Smith's Inquiry into the Nature and Causes of the Wealth of Nations* (1797), in which special attention was drawn to passages where Smith was critical of the British state's policies, especially its war-mongering. Moreover, Richard Teichgraber III mentions a number of other writers during the 1790s-including Joseph Priestly-who tended to describe Smith as not altogether hostile to the French Revolution and as basically in support of radical democratic politics in general. [22](http://www.questia.com/reader/action/gotoDocId/108269411) It is also generally acknowledged that in 1793 the Marquis of Landsdowne claimed that the ideas of the French Revolution had been propounded earlier by people like Smith and that this was evidenced particularly by Smith's admiration for Voltaire and Rosseau. [23](http://www.questia.com/reader/action/gotoDocId/108269411) In fact, Smith was also regarded as a radical Enlightenment man by Edmund Burke and other enemies of the Enlightenment and of the French Revolution in particular. Thus, during the 1790s Smith's main support came from the political radicals. [24](http://www.questia.com/reader/action/gotoDocId/108269411)

However, the transformation of Smith was already in full swing during this decade. In the 1790s Smith was quoted in political debates concerning such matters as corn policy, taxes and minimum wage legislation. As is well known, the Prime Minister, William Pitt, frequently cited Smith's authority in order to plea for certain policy reforms. In some senses Pitt was a friend of reform (especially regarding trade matters), but he was certainly no radical. It is interesting to note how Pitt, during the 1790s, used Smith's critique against forestalling and his arguments for a free market of

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 corn even under periods of scarcity. Smith's plea for a general liberalisation of the corn trade on the grounds that forestalling and monopoly trading worked directly against the interests of the poor was used by Pitt in the depression years of 1795-1796 and again in 1800-1801. There is no doubt that Smith's argument for a free corn market and the popularising efforts of Pitt as well as other politicians did much in the long term for Smith's image as a free-trader. It is also highly instructive to note how Smith was used in the middle of the 1790s in the parliamentary debate between Samuel Whitbread and William Pitt, the former arguing for minimum wage legislation and the latter against such intervention in the labour market on the grounds that it disturbed the free interplay of supply and demand. During this time, as we have seen, Smith was still considered by the general public to be in much the same vein as Whitbread-a friend of the poor. However, by using Smith's growing reputation as a proponent of the free market, Pitt could argue that he himself was on the side of the poor workers while the so-called 'friends of the poor' were not. We cannot of course, know how Smith himself would have reacted to a minimum wage legislation, although passages from Chapter X in Book I of *Wealth of Nations,* where he speaks of the class character of the present legislation, make us wonder whether he would not have embraced such a reform. [25](http://www.questia.com/reader/action/gotoDocId/108269411) At least he seems to have been for 'combinations' (similar to workers' guides) among workers in order for them to escape the naked rules of supply and demand: 'Were the workmen to enter into a contrary combination…not to accept a certain wage under a certain penalty the law would punish them severely'. Hence, he concludes: 'The complaint of other workmen, that it puts the ablest and most industrious upon the same footing with an ordinary workman, seems perfectly founded'. [26](http://www.questia.com/reader/action/gotoDocId/108269411) Consequently, as noted by Winch, it is unlikely that, had Smith lived in the 1790s and taken part in the debate, he, in contrast to Edmund Burke, would have taken into account the existing combinations among the masters to keep down wages. Smith might very well have argued that a minimum wages bill could be a means to create greater reciprocity between masters and men. On the other hand, he could also have argued for an abolishment of combinations on both sides. This might have been his general principle, at least, although he would probably immediately have noted that reciprocity in the existing state of affairs was an impossible ideal given the actual relations of power between masters and men. Be that as it may, we can observe how Pitt used all his rhetorical ability to defend the general 'principle' of free wage setting on a free labour market proposed, as he emphasised, by 'the most celebrated writers upon political economy'. Thus, according to Pitt, Smith had stated that free market operations were best in principle and thus that it was best to abstain from introducing a minimum wage.

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 Smith's image as a radical gradually waned and the virtues of his economics became more and more appreciated by forces who were willing to use his free market argument in almost any kind of situation. In the long run, and as a consequence of political processes in which the name of Smith was used, he was transformed from an Enlightenment figure and indeed a social reformer into a political economist defending the 'naked laws of supply and demand'. According to Rothschild this transformation had already occurred by 1800. In that same year a commentator writing in the *Gentleman's Magazine* referred to a 'Dr. Adam Smith's principle that all trade should be free'. [27](http://www.questia.com/reader/action/gotoDocId/108269411) The context in which he did this is highly instructive. It was included in a review of Edmund Burke's posthumously published pamphlet 'Thoughts and Details in Scarcity' (1800). In this text Burke had of course defended Smith's free trade views while indirectly criticising the 'Whitbread Smith' concerned with distributive justice. As a piece of 'deconstruction' of Smith this served several purposes. First, Burke could show his familiarity with the modern principles of political economy as well as with their main architect, Adam Smith. Second, by stripping Smith of any sense of distributive justice, he made him less of a radical than he was. Hence, Burke, in this text, wrote things to which Smith would never have agreed but seemingly as a logical continuation of Smith's own views: 'The labouring poor are only poor because they are numerous' (p. 2); 'I deny…that contracting parties should originally have had different interests'; or even more to the point: '[w]ithout question, the monopoly of authority is, in every instance and in ever degree, an evil; but the monopoly of Capital is the contrary. It is a great benefit, and a benefit particularly to the poor'. [28](http://www.questia.com/reader/action/gotoDocId/108269411) Without doubt Burke was one of the first to manufacture the image of Smith as a *laissez-faire* man and a believer in restricted government. It is Burke's Smith who is echoed in Hayek's late twentieth-century portrait of Adam Smith's politics:

That the state ought to confine itself to what regards the state…namely the exterior establishment of its religion; its magistracy; its revenue; its military force by sea and land; the corporations that owe their existence to its fiat; in a word, to every thing that is truly and properly public, to the public peace, to the public safety, to the public order, to the public prosperity. [29](http://www.questia.com/reader/action/gotoDocId/108269411)

However, as will be described later, this deconstruction and transformation of Smith was not finished by 1800. Rather it was a long process which continued throughout the nineteenth century. Hence, outside Britain, Smith was used by many, including the creator of the American system, Alexander Hamilton, to defend protectionist views. Even Friedrich List

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tried to find support from Smith in his attempt to explode what he saw as the myth of (British) classical political economy. Thus, Smith was used for many ends. However, as we will see, a dominant discourse of Adam Smith's economics and politics gradually emerged, which accorded him a place as the grandfather of the liberal school of free trade. Many helped to create such a vision of Smith. More than anybody else, however, the Manchester men, in their fight against the Corn Laws in particular and free trade in general, played a seminal role. They helped to popularise a discourse which still dominates both learned and popular opinions about Adam Smith.

**Adam Smith as a system builder**

From 1800 onwards Smith was gradually turned into *the* political economist and founder of a new system of which freedom of trade was an indispensable part. Many factors, of course, contributed to the building up of this paradigmatic interpretative scheme. The first step in this process, which was already happening from the beginning of the nineteenth century, was when Smith was presented as great system builder, originator of a new system of political economy. We can illustrate this using the examples of Sismondi and Malthus.

In 1815 Simonde de Sismondi in an entry on 'Political Economy' for the *Edinburgh Encyclopedia* discussed three distinct 'systems of political economy', i.e. the mercantile system (or Colbertism), the 'territorial' system of Dr Quesnay (which we prefer to call the physiocratic system) and a third system, to which he never gave a name. However, Sismondi credited Adam Smith as the 'author of this third system…. which represents labour as the sole origin of wealth'. It is interesting to note that while Sismondi notes that Smith has 'carried the science of political economy to perfection, he tends to place the principle of *laissez-faire* firmly as part of the 'territorial system' (mainly propagated by the French physiocrats and *economistes*). More than anything else, this illustrates that the notion of Adam Smith as the founding father of free trade doctrine or *laissez-faire* economics had not much appeal at this time. Hence, Sismondi did not regard *laissez-faire* as anything particular or indeed typical of Smith. In fact, in his treatise where he specifically used Smith's ideas on the division of labour there is no reference at all to the principle of freedom of trade. [30](http://www.questia.com/reader/action/gotoDocId/108269411) In his *Principles of Political Economy* of 1820 Malthus carries out almost the same manoeuvre. He too speaks about three distinct systems of political economy and hails both Smith and the French *economistes* 'for the interest of the science and its usefulness to society' and for 'those great general principles which lead to the most important

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practical conclusions; such as the freedom of trade, and the allowing every person, while he adheres to the rules of justice, to pursue his own interest his own way.' [31](http://www.questia.com/reader/action/gotoDocId/108269411)

Smith was recognised by both Sismondi and Malthus as a creator of a new system of political economy of which the main inventions were, first, the principle of the division of labour and, second, labour as the sole cause of wealth. When Sismondi points out that '[n]ever did a philosopher effect a more complete revolution in any science', it was surely not *laissez-faire* to which he referred. [32](http://www.questia.com/reader/action/gotoDocId/108269411) This was undoubtedly how the bulk of reviewers, both friendly and hostile, interpreted of Smith's book.

One of the most important figures in establishing Adam Smith as a great system builder was the classical economist John Ramsey McCulloch. Together with Richard Jones and others he helped to cement the view that Smith had been the originator of a system of political economy totally different from the mercantilist or mercantile system. We will return in Chapter 4 to the important role the construction of a certain 'mercantile system' played for McCulloch and later writers. Here we will note only how Smith's invention in the *Wealth of Nations* of a specific mercantile system founded upon the fallacious theory of a positive balance of trade later on became an indispensable part of the invention of a tradition of free trade.

For Jones, McCulloch and others it was pivotal to show that there existed an earlier coherent mercantilist 'school' of economics, since it then became easier to argue that Smith was the father of a new and superior system of political economy. From this point of departure, McCulloch in particular argued forcefully that Smith's new system was the building block of the classical system. In his 'Introductory Discourse' to his own edition of *Wealth of Nations* (1828) he pointed out the very close kinship between Smith and the classical economists at the same time as he greeted Smith as *the* great master of political economy. According to McCulloch, Smith's greatness lay in his emphasis on the role of productive labour and the division of labour for economic growth and development. Moreover, he had developed a new theory of value-a cost of production theory-which later Ricardo and his followers (including McCulloch) had developed to perfection, they argued. In attacking the erroneous beliefs of the mercantilists, Smith, of course, at the same time had protested against the restrictive policies that were the logical outcome of the favourable balance of trade theory. Hence, his skill in arguing against the old restrictive system and for freer trade was impressive.

McCulloch was of course not the only one who emphasised Smith as the creator of a new economic doctrine far superior to the mercantilist one. This view was shared, as we have seen, by Sismondi and also by Richard

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 Jones and many others. However, in McCulloch's day writers were more generous in acknowledging that Smith was by no means the first to have criticised the mercantile system:

The advantages of commercial freedom were set in a very striking point of view by Sir Dudley North about one hundred and forty years since; and sir Mathew Decker, Mr Hume, and others. But is complete overthrow was reserved for Dr Smith, who has examined and refuted the various arguments in favour of restrictions, in the most acute and masterly manner. [33](http://www.questia.com/reader/action/gotoDocId/108269411)

In fact, during this period it was most often acknowledged that the advocacy of free trade was not new even in 1776. In general, politicians who wanted support for the standpoint of *freer* trade could equally well refer to such popular economists at the time as Josiah Tucker and Arthur Young as well as, indeed, such older authorities as Matthew Decker, whose *Essay on the Causes of the Decline of the Foreign Trade* had run into seven editions in the twelve years after its first publication in 1744, or even to that old 'Tory free-trader' (according to W.J. Ashley) Charles Davenant, whose *Collected works* was brought out in 1773. [34](http://www.questia.com/reader/action/gotoDocId/108269411)

In contrast to many interpreters, we should not be puzzled by the fact that many of Smith's contemporaries (such as, for example, his admirer and the successor to Adam Ferguson's chair in moral philosophy at Edinburgh, Dugald Stewart) so strongly emphasised that Smith's 'doctrine concerning the freedom of trade and of industry coincides remarkably with that which we find in the writings of the French Economists'. [35](http://www.questia.com/reader/action/gotoDocId/108269411) Without doubt, as Stewart says, the general principle of freedom of trade holds a central place in *Wealth of Nations*. As many commentators have argued, Stewart, a moderate and cautious person eager not to offend anyone, sought to downplay the radical features of Smith's book, 'so agreeable in its arrangements to the rules of a sound logic'. However, when he argues that Smith is much less dogmatic than the French economists regarding freedom of trade and industry he is undoubtedly right. In fact, he understood well the methodological principles which had been dear to Adam Smith. Hence, Stewart argues that in Smith there is a difference between general principles and practical matters of policy: 'in what manner the execution of the theory should be conducted in particular instances, is a question of a very different nature, and to which the answer must vary, in different countries, according to the different circumstances of the case'. Moreover, according to Dugald Stewart, Smith 'was abundantly aware of the danger to be apprehended from a rash application' of general principles and that, in the end, '[i]n what manner, therefore, the

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 natural system of perfect liberty and justice ought gradually to be restored, we must leave to the wisdom of future statesmen and legislators to determine'. [36](http://www.questia.com/reader/action/gotoDocId/108269411)

While Dugald Stewart might have approved of this methodological approach, McCulloch, for example, did not. In fact, he stated that it exhibited the defects of a work stemming from the teaching practices of Scottish universities. Digressions and historical illustrations, he felt, were unnecessary and out of place in modern treatises on political economy. [37](http://www.questia.com/reader/action/gotoDocId/108269411) However, this uneasiness shows clearly that McCulloch did not at all understand the historical method and methodological principles of Adam Smith. We must instead emphasise that Smith used illustrations not only for pedagogic purposes, rather, his aim with them was to point out that there often was a gulf between what might be regarded as an economic principle and what could become practical policy. Historical peculiarities, the role of institutions, human nature as well as unintended consequences, intervened between principle and human design. Unfortunately for the future development of political economy, people like McCulloch were uneasy with such complexities as the difference between principle and practical matters.

As we have seen, for many contemporaries Smith simply shared a liberal outlook with many others. There was no specific peculiar principle to his new 'system'. Moreover, as there were many political, moral and social circumstances to be taken into account, it was not completely clear how a principle like free trade could be applied in practice. John Millar, who clearly belonged to Smith's circle (while still being rather sceptical of too much freedom in trade matters) put this clearly in a letter to a friend discussing the *Wealth of Nations* immediately after its publication. Among other things, Millar points out: '[i]n particular his great leading opinion, concerning the unbounded freedom of trade, I have not a vague notion how far it is truer, or how far he means to say it ought to be carried'. [38](http://www.questia.com/reader/action/gotoDocId/108269411)

Thus, throughout the first decades of the nineteenth century Smith was looked upon as a great thinker and the inventor of a new 'system of political economy'. However, what this comprised, exactly, was still by no means settled. Neither was it clear whether Smith had said anything utterly original regarding freedom of trade and linked issues in relation to what many others had said earlier. The status of free trade in his system was thus not very clear at all.

**The historical Smith**

In modern economics Adam Smith is rarely recognised as a major trade theorist. [39](http://www.questia.com/reader/action/gotoDocId/108269411) He is certainly regarded as a founding father of the comparative

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 cost theory, although he left it to Ricardo, Torrens, Ohlin and others to develop an analytical framework. Hence, it is most often stated that Smith saw foreign trade mainly as a special case of his theory of the advantage of the division of labour. Thus, he saw no distinction in principle between domestic and foreign trade. Foreign trade was beneficial because it increased specialisation (among nations, in this case) which propelled productivity increases and growth in general. This theory has, by Myint and others, been called Smith's 'productive theory'. [40](http://www.questia.com/reader/action/gotoDocId/108269411) However, Smith is also supposed to have presented another theory of the advantage of foreign trade, namely the 'vent for surplus theory' which John Stuart Mill rejected as a surviving relic of the old mercantile theory. [41](http://www.questia.com/reader/action/gotoDocId/108269412) Mill described this idea as 'inconsistent with a clear conception of the phenomena' in the following way: 'Adam Smith's theory of the benefit of foreign trade was that it afforded an outlet for the surplus produce of a country, and enabled a portion of the capital of the country to replace itself with a profit'. [42](http://www.questia.com/reader/action/gotoDocId/108269412) To this effect it seemed to go against his own dynamic 'productive theory' as well as-more importantly-seeming incompatible with what later became known as Say's law.

The 'vent for surplus' argument appears in various places and in different versions in the *Wealth of Nations*. It is most straightforwardly put in Book II Chapter V, where we can read:

When the produce of any particular branch of industry exceeds what the demand of the country requires, the surplus must be sent abroad, and exchanged for something for which there is a demand at home. Without such exportations, a part of the productive labour of the country must cease, and the value of its annual produce diminish. The land and labour of Great Britain produce generally more corn, woollens, and hard ware than the demand of the home market requires. The surplus part of them, therefore, must be sent abroad and exchanged for something which there is a demand at home. It is only by means of such exportations, that this surplus can acquire a value sufficient to compensate the labour and expense of producing. [43](http://www.questia.com/reader/action/gotoDocId/108269412)

The second time this theory appears is in Book IV Chapter I entitled 'On the Principle of the Commercial, or Mercantile System':

The importation of gold and silver is not the principal, much less the sole benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labour for which there is no demand among them,

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 and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyment. By means of it, the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. 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. [44](http://www.questia.com/reader/action/gotoDocId/108269412)

In Book IV Chapter III Smith points out that a foreign trade, carried out 'without force' is mutually beneficially to both parts 'though not always equally so'. He then goes on to say that if the exchange between the countries is carried out with their 'native commodities' each will gain equally as:

each will in this case afford a market for a part of the surplus produce of the other; each will replace a capital which had been employed in raising and preparing for the market this part of the surplus produce of the other, and which had been distributed among, and given revenue and maintenance to a certain number of inhabitants.

Smith continues, if one country sells 'native' commodities while the other sells 'foreign goods' the former will gain 'the greatest revenue from trade'. Smith illustrates this by saying '[i]t would, indeed be more advantageous for England that it could purchase the wines of France with its own hardware and broad-cloth, than with either the tobacco of Virgina, or the gold and silver of Brazil and Peru'. From this he draws the principle: 'A direct foreign trade of consumption is always more advantageous than a round-about one'. [45](http://www.questia.com/reader/action/gotoDocId/108269412)

Since Smith's days many have attempted to interpret what he tried to say with this 'vent for surplus' theory. As we saw, Mill regarded it simply as a kind of 'Mercantilist prejudice', perhaps along the lines of, for example, James Steuart. [46](http://www.questia.com/reader/action/gotoDocId/108269412) As Mill points out, Smith here seems to fall back upon a static view of the gains from foreign trade and it even seems that he believed there could be a general overproduction. In his discussion on the distinction between 'native' and 'foreign' goods for export, he seems close to the mercantilist dogma of a 'labour balance of trade', saying that the exportation of domestic wares was better for employment than re-exportation. [47](http://www.questia.com/reader/action/gotoDocId/108269412)

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 We will never know exactly what Smith really meant. But it is interesting to see how many later interpreters have had difficulties with Smith's-as well as Mill's interpretation-regarding this point. [48](http://www.questia.com/reader/action/gotoDocId/108269412) Many have in fact downplayed its importance and even questioned its existence. For example, Arthur Bloomfield regarded the 'vent for surplus' theory as 'mythic' and interpreted it as referring to a dynamic situation where before foreign trade opens when there is a surplus of goods in one country. This means that the country can sell off this surplus-which in turn leads to the possibility of even further increased division of labour. [49](http://www.questia.com/reader/action/gotoDocId/108269412) In the same manner as Andrea Maneschi has argued recently, it is possible to combine those two theories: 'It seems reasonable to infer that the learning by doing and economies of scale associated with specialization in a manufacturing economy could yield a productive structure whose full utilization is predicated upon exports'. [50](http://www.questia.com/reader/action/gotoDocId/108269412) Heinz Kurz thinks it plausible that Smith here referred to a situation characterised by joint production. Thus, foreign trade might be found to be particularly valuable to a country because it-as in the case of cattle rearing-'allows the country to dispose of a part of its joint output, which would otherwise have been thrown away as superfluous, in exchange for useful things produced abroad'. [51](http://www.questia.com/reader/action/gotoDocId/108269412) However suggestive this interpretation may be, it seems unlikely that Smith would have returned to the idea of the role of foreign exchange if it had been applicable only to jointly produced goods. Certainly Kurz's interpretation would have been more convincing if Smith had not-as in the first of the cited parts above-explicitly referred to such wares as corn, woollens and hardware. It seems clear that it was not their jointly produced goods that Smith argued could be hard to sell to the domestic customers, but rather that an overproduction of these goods could occur, for which export was a solution.

What seems more important in the present context is the fact that so many have been alarmed by Mill's view that Smith could have harboured mercantilist prejudices. However, this is problematic only if we want to suggest that Smith, implicitly at least, was the true founding father of the comparative cost theory-later on developed by Torrens and Ricardo-and that because of this he could have no 'mercantilist prejudices'. Moreover, although he never developed his 'productive theory', for whatever reason, into a comparative cost argument, his intention had been to do so. This might of course have been the case. However, it is just as plausible that Mill was right in saying Smith was influenced by arguments which were extremely common during his day, such as, for example, those developed by James Steuart in the form of a theory of 'foreign paid incomes' or 'labour balance'. As Mill so clearly understood and worried about, the 'vent for surplus' theory could easily be used as an argument for wasteful regulations which served to promote the home industry, and even export

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 promotions, as long as the pecuniary advantage of getting rid of the surplus was greater than the negative costs of the support of 'native' commodities and could therefore be seen as bounty. Even if this was not what Smith intended, his work could surely be used to such purpose. Maybe this is why it was not unheard of for economic writers in Britain, and was more common for those writing elsewhere (especially in America), to argue that while they advocated some restrictions in foreign trade they were still true followers of Smith. [52](http://www.questia.com/reader/action/gotoDocId/108269412)

There is an alternative to this puzzle which might be even more realistic, given what we know of Smith. While he might have regarded his dynamic 'productive' view of trade (both internal and external) as the general principle, he must at the same time have been sceptical as to whether this principle provided a very realistic picture of the present (mid-eighteenth-century) situation. Hence, it was more realistic to assume that, for example, the agricultural sector worked under its capacity and could export much more than it did. This comes close to what many later interpreters, including Kurz, have observed, (although we do not necessarily need to assume joint production). Alternatively, he might have believed that it was very difficult in practice for the producers-even in the medium term-to change from one kind of production to another (as his productive principle suggested), and that therefore, due to institutional arrangements and historical circumstances, the 'productive theory' could be realistic only in a very long-term perspective. In the short or even medium term, the producers would not shift over to other kinds of production but would rather work under capacity. The reason Smith did not press the 'productive theory' very far in the direction of international trade could have been simply because he believed it was less realistic given the historical and institutional context of international exchange. There was a limit to the dynamics of market forces.

With this in mind it is also easier to reconcile the fact that Adam Smith was *not* a dogmatic *laissez-faire* advocate in the modern sense of the word, a point which has been widely acknowledged in most modern scholarly works. For example, D.P.O'Brien points out that:

a closer examination of the *Wealth of Nations* does show that Smith's view of government was nothing like so negative as it might seem at first sight. Defence itself was recognized as sufficiently important to permit of interference with commerce; and in the interests of Justice, regulation of contracts, truck, and monopolies, might be undertaken. The issue of paper money could be a government function as could highways, bridges, canals, harbours, coinage, the Post office, education, public health, regulation of mortgages, and colonial laws

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 to check engrossing of land. Even the Usury laws for regulating the maximum rate of interest on loans were approved by Smith. [53](http://www.questia.com/reader/action/gotoDocId/108269412)

This was also the case with international trade. Although he argued forcefully against the 'commercial or mercantile system' and for 'free trade' in general, Smith pointed out several instances when a free intercourse between countries was not to be recommended. More particularly with regard to import duties, Smith found two cases where it would be 'generally advantageous to lay some burden upon foreign for the domestic industry', namely, first, 'when some particular sort of industry is necessary for the defence of the country' and, second, when some tax is imposed at the home industry. In this latter case it would only be reasonable, he said, to tax the imported wares equally by imposing a duty. [54](http://www.questia.com/reader/action/gotoDocId/108269412) To this he added two cases where there was 'a matter of deliberation' whether to introduce protection or not. This concerned, first, 'when some foreign nation restrain by high duties or prohibitionism the importation of some of our manufactures into their country'. [55](http://www.questia.com/reader/action/gotoDocId/108269412) Thus, in some cases it would only be just to 'retaliate', he thought. The second 'matter of deliberation' is also of interest to us. In this case Smith recommended a gradual and piecemeal return to free trade:

The case in which it may sometimes be a matter of deliberation, how far, or in what manner, it is proper to restore the free importation of foreign goods, after it has been for some time interrupted, is, when particular manufactures, by means of high duties or prohibitions upon all foreign goods which can come into competition with them, have been so far extended as to employ a great multitude of hands. [56](http://www.questia.com/reader/action/gotoDocId/108269412)

Moreover, although Smith proposed 'perfect freedom of trade' as the most general principle for receiving wealth and 'opulence', he was nevertheless ready to admit that opulence sometimes must be rated second in relation to other national goals and interests. Hence, as is well known, he argued in favour of such a typical 'mercantilistic' institution as the seventeenth-century Act of Navigation, for example: 'As defence, however, is of much more importance than opulence, the act of navigation is, perhaps the wisest of all the commercial regulations of England'. [57](http://www.questia.com/reader/action/gotoDocId/108269412) Thus, Smith was ready to admit regulations in the case where 'perfect freedom' threatened the general interest and the invisible hand seemed unable to steer economic activities in the right direction.

According to R.H. Campbell and A.S. Skinner, Smith's exception to the general rule of freedom of trade in fact reveals two principal arguments. First, Smith was prepared 'to interfere with activities which reflected

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 imperfect knowledge on the part of the individual'. Regarding the question of whether and to what extent state intervention in the economy is admitted this principle undoubtedly has wide implications. However, he was also ready to propose regulation in situations when the exercise of natural liberty might-in his own words-'endanger the security of the whole society'. [58](http://www.questia.com/reader/action/gotoDocId/108269412) Certainly this second principle had even wider implications and seems, at least to some extent, to contradict our general picture of Smith. If this is combined with what was said at the beginning of this chapter regarding Smith's views on distributive justice and his insistence that it could be necessary to introduce laws and regulations to defend the poor against the rich, such a revision seems even more important. Indeed, Smith's emphasis on the general interest is perhaps logical only in someone who had been taught moral philosophy and jurisprudence-'the science of a legislator'-by David Hume and the other Enlightenment Scots. [59](http://www.questia.com/reader/action/gotoDocId/108269412) Of even greater interest perhaps is the sceptical conclusion he draws from his proposition that human institutions always and everywhere seems to thwart men's 'natural instincts': 'To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that Oceana or Utopia should ever be established in it'. [60](http://www.questia.com/reader/action/gotoDocId/108269412)

Even though it has been difficult to establish that Smith was no mere propagandist for free trade and could see many instances where this principle would not work, it has been even more difficult to find acceptance for its wider implications. Certainly, the most important conclusion from our discussion is that we cannot automatically use Smith in order to defend free trade and *laissez-faire.* In general he was certainly ready to emphasise the advantages of a trade 'without force'. Both parties would gain-but perhaps unequally, as we have seen-and the division of labour would surely be extended, which in the longer run would increase 'opulence'. As a consequence, in contrast to, for example, Ricardo and Torrens later on, he believed in the mobility of all factors of production and in a long-run equalisation of factor prices. [61](http://www.questia.com/reader/action/gotoDocId/108269412) Hence, free international trade, like intra-regional trade within a single country, would increase specialisation and productivity in an upward development process leading to increased wealth and opulence. However, Smith's historical approach and the importance he placed on 'human institutions' certainly made him aware that this principle could not always be followed and that sometimes it could even work against the public interest

**The real classical economists**

Because of Smith's rise to stardom it became important for the classical political economists in the beginning of the nineteenth century to use

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 *Wealth of Nations* as a source of support for their own views. Hence, they combined to construct the image of Smith as a great system-builder and the creator of the building of modern political economy in which they all wanted to live. In praising Smiths originality, the principle of the division of labour and, perhaps most importantly, labour as the source of wealth, was emphasised.

Also for the classical political economists of this age it seemed more important to point out that this new 'system' included a new methodological principle instead of any definitive standpoints regarding freedom of trade. Hence, as argued by Terence Hutchison, it seemed important for many of the later classical political economists-including James Mill and J.R. McCulloch-to argue that Smith had been the originator of a new methodological approach to the study of economic phenomena. [62](http://www.questia.com/reader/action/gotoDocId/108269412) Nevertheless, this invention of a more 'scientific' Smith was perhaps most pertinently stated once again by J.R. McCulloch. In contrast to most of his contemporaries he was concerned with the methodological aspects of the new political economy. Hence, in one passage he greets *The Wealth of Nations* as a work 'which has done for Political Economy what the Essay of Locke did for the Philosophy of Mind'. He continues:

The science of Political Economy was long confounded with that of Policy. But, in their leading features, they are sufficiently distinct. The laws which regulate the production and distribution of wealth are the same as in every country and stage of society. [63](http://www.questia.com/reader/action/gotoDocId/108269412)

That this methodological principle seems more appropriate for some of the classical economists than for Smith is without doubt. As we have seen above, it is false to regard Smith's sometimes longish digressions into history and institutional matters as mere 'illustrations'. McCulloch disregarded Smith's distinction between general principles and the actual working of human institutions. It is another matter, of course, that this was the methodology for the future. Most classical and neo-classical economists from Ricardo and McCulloch onwards shared an uneasiness with Smith's lengthy disgressions into politics and history. Occasionally, however, McCulloch-in order to treat him fairly-put aside his own programme and engaged fully with the complexities of Smith's views. Hence, in his introduction to the 1828 edition of Smith's *Wealth of Nations* he seems to have come closer to the real historical Smith when he wrote:

To arrive at a true knowledge of the laws which regulate the production, distribution, and consumption of national wealth, we must draw our materials from a very wide surface. The Economist should

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 study man in every different situation. He should resort to the history of society, arts, commerce, and government; to the works of philosophers and travellers; to every thing, in short fitted to threw light on the progress of opulence and civilization. He should mark the successive changes which have taken place in the fortunes and conditions of the different ranks and orders of men in his own accounts and others; he should trace the rise, progress and decline of population and industry; and above all, he should analyse and compare the influence of different institutions and regulations, and carefully discriminate the various circumstances wherein advancing and declining societies differ from each other. [64](http://www.questia.com/reader/action/gotoDocId/108269412)

To a large extent the 'classical economists' shared Smith's hesitance in general with regard to regulation (as well as with regard to free trade in particular, as we will see). As they did not bother so much about socially constructed institutions and polity as Smith-most of them indeed followed McCulloch's methodological principle and sought to draw a definite line between economics and politics-the question of intervention and regulation in order to bolster the 'general interest' is often hidden away. Thus, they could often admit government intervention and regulation in a number of specific 'political' instances. Just how complex the classical economists' attitude was towards factory legislation, social policy and so on, has been pointed out by, for example, A.W. Coats and Mark Blaug. [65](http://www.questia.com/reader/action/gotoDocId/108269412) Hence, neither the classical economists nor by any means all members of the Manchester School-as we will see in the next chapter-were a 'homogenous sect' proposing, for example, general *laissez-faire.* [66](http://www.questia.com/reader/action/gotoDocId/108269412)

This complex attitude was characteristic of their views on international trade and protection. Hence, neither the liberalisation of trade during the 1820s, the repeal of the Corn Laws in 1846 nor the Cobden Treaty some years later can be interpreted simply as a victory for the classical economists. Several economic historians have strongly argued against the existence of such a causal link. [67](http://www.questia.com/reader/action/gotoDocId/108269412) As we will see in the next chapter, this would make all too simple the very complex relationship which exists between economic policy and economic theory in general. However, even more important is that the classical economists themselves tended to disagree on the matter, and many of them proposed only gradual reform.

This was the case even with Ricardo. In principle he was of course in favour of a liberalisation of foreign trade. However, at the same time-despite his radical onslaught against the Corn Laws-he recommended only a gradual reduction of the duties on corn over a ten-year period. It is also clear that Ricardo took an ambiguous position regarding the Navigation acts. As Sarah Palmer pointed out-in a parliamentary

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discussion in June 1823 on reciprocity of trade and the Navigation Act, he clearly stated that the repeal of this act could only be undertaken if other powers recognised the same liberal rule:

[i]t certainly was a question of policy whether England should take off their duties without receiving reciprocal advantage from foreign powers; but, if foreign powers recognised the same liberal principle, there could be no doubt that the advantage to England would be double the advantage which any other country could derive from the regulation. [68](http://www.questia.com/reader/action/gotoDocId/108269412)

Ricardo also seems to have agreed (as had Adam Smith) that the navigation laws were necessary for the upkeep of the navy. According to the minutes of the parliamentary session he agreed to the proposal by Mr Huskisson of the Board of Trade that the navigation laws were beneficial to the navy and that 'personal benefits ought to be sacrificed for the good of the navy'. [69](http://www.questia.com/reader/action/gotoDocId/108269413)

Such a pragmatic standpoint was also very much John Ramsey McCulloch's-that great admirer of Smith. He seemed able at the same time to advocate free trade as well as to accept protection in the form of duties and tariffs. Hence, on the one hand, he would state in his most wellknown work (which reached five editions during his lifetime), the *Principles of Political Economy* (1825), that: '[u]nder a free commercial system, labour would be distributed as best suits the genius and capacities of different nations'. [70](http://www.questia.com/reader/action/gotoDocId/108269413) On the other hand, he was willing to defend widely the introduction of protection and tariffs, especially for revenue: 'when such duties are imposed on proper articles, and are confined within moderate limits, they are among the most unexceptionable that can be devised'. [71](http://www.questia.com/reader/action/gotoDocId/108269413) Thus, import duties up to 25 per cent were permitted for revenue purposes, according to McCulloch. He even stated that: 'it is plain that in commercial policy, as in most other things, there are no absolute principles, and that they must in every case be subordinated to the *solus populi*'. [72](http://www.questia.com/reader/action/gotoDocId/108269413) Although he generally criticised the infant industry argument for protection he could see some instances when it might be applied: 'it may sometimes be expedient to restrain the too great or rapid development of branches of industry, the success of which mainly depends on our dealing with a peculiar people or territory'. [73](http://www.questia.com/reader/action/gotoDocId/108269413)

McCulloch as well as most other 'classical economists' would in general tend to argue against the introduction of import duties in order to defend a certain industry from competition while they could very well accept duties for other purposes. John Stuart Mill most often (but not always, as we will see) regarded duties in order to encourage some particular branch of domestic industry 'as purely mischievous, both to the

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 country imposing them, and to those with who, it trades'. He also held that consumption taxes 'which do not encourage one mode of producing an article at the expense of another, but allow interchange to take place just as if the duty did not exist' were baneful, but he could still see a point when such duties would become necessary: '[a] country cannot be expected to renounce the power of taxing foreigners, unless foreigners will in return practice towards itself the same forbearance'. [74](http://www.questia.com/reader/action/gotoDocId/108269413)

Mountifort Longfield, the first to hold a chair in political economy at Trinity College, Dublin-is another classical political economist who, as a general principle, was much in favour of free trade. He was at heart a Ricardian but developed British economic theory towards the so-called 'marginal revolution' of the 1870s. Thus, according to Schumpeter, his 'argument against labour theory of value is one of the best ever penned'. [75](http://www.questia.com/reader/action/gotoDocId/108269413) In any historical account of the development of trade theory he is acknowledged for filling in some of the gaps and holes in the comparative advantage theory. According to D.P.O'Brien, Longfield was 'perhaps nearer to Heckscher-Ohlin than anything else in the Classical literature'. [76](http://www.questia.com/reader/action/gotoDocId/108269413) He wrote widely but perhaps most important for our purpose is the little pamphlet 'Three Lectures on Commerce', that he delivered at Dublin in 1834 and published the next year. In the first two lectures he develops an argument which is close to the general orthodoxy of the time. Thus, he argues that an unrestricted trade with foreign countries will lead to comparative advantages for both parties. Consequently, he is on familiar ground when he draws the policy conclusion that 'every restraint or duty upon our imports operate precisely to the same extent as an obstacle to our exporting trade'. [77](http://www.questia.com/reader/action/gotoDocId/108269413)

At the same time he argues that 'Justice and policy…require that protecting duties should be cautiously, not suddenly removed. [78](http://www.questia.com/reader/action/gotoDocId/108269413) The reason for this is simple: 'Those engaged in the protected manufacture have been led to embark their property in it, by their belief in the continuance of existing regulations'. [79](http://www.questia.com/reader/action/gotoDocId/108269413) In lecture three he goes on to discuss some possible exceptions to the rule of free trade. Some of them he does not think hold out to scrutiny but at the same time he is eager to 'mention some cases in which I think that the principles of free trade may possibly be carried too far'. [80](http://www.questia.com/reader/action/gotoDocId/108269413) He particularly thinks that it is legitimate ('a convenient and a usual mode') to introduce duties for the purpose of raising revenue, i.e. to use it as a tax. Furthermore, 'impositions of import duties' can be used in order to regulate consumption: 'by their means the nation has a considerable power in regulating its consumption, and of directing the course it shall take'. On the whole, Longfield thinks, this method is superior to controlling or regulating particular industries. Moreover, by introducing duties the nation will be able to select 'the class of persons upon which the

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 tax shall fall'. [81](http://www.questia.com/reader/action/gotoDocId/108269413) Without doubt, Longfield was a friend of greater freedom of trade but at the same time he shared a certain caution with so many other classical economists.

A last example of this kind is Nassau William Senior. Most certainly he was in favour of free trade and was also the one who most fiercely attacked Torrens (see below) for his 'mercantilist prejudices'. However, at the same time and building on Smith, he was eager to point out that there existed at least three exceptions where the rule of free trade would not prevail. The first 'interference with the natural character of commerce' would be 'security in case of war'. The second and third exceptions are perhaps more interesting. Second, he argued that free commerce must be restricted when there is an 'immediate injury to the domestic producer with whom the imported commodity would interfere'. It is impossible to say how far he would have gone in applying this exception. However, that it is an important restriction even in a milder form there can be no doubt. Third, taxation of consumption items could be the grounds for an exception:

[b]ut when a tax is laid on any domestic product for which a substitute can be obtained from abroad, if the tax exceed the difference between the price at home and abroad, and the expense of importation, it may, besides the general evils necessarily incident to a tax, also operate as an interference with the natural employment of industry.

And he gives this example: 'A heavy tax is imposed in the domestic manufacture of glass-if no restrictions were imposed on the importation of foreign glass we should cease to manufacture glass at home.' [82](http://www.questia.com/reader/action/gotoDocId/108269413)

Other classical economists were less favourably attuned to the principle of free trade. [83](http://www.questia.com/reader/action/gotoDocId/108269413) The standard case here is Colonel Robert Torrens (1780-1864), who gradually turned more protectionist and openly defended import duties on a formula he called the principle of 'reciprocity'. As a pamphleteer on economic issues he had earned his spurs already in 1808 with 'The Economist Refuted', which was targeted at William Spence's 'physiocratic' text *Britain Independent of Commerce* (1807). This was the same pamphlet that roused James Mill to publish his *Commerce Defended* (1808). It is unlikely that Mill and Torrens were aware of each other's ambitions before publication. However, in many ways their critical remarks against Spence show great similarity. Thus, both Torrens's and James Mill's (1773-1836) pamphlets were largely inspired by Smith's critique against the physiocratic school as well as by his pleas for more freedom of trade in order to increase the division of labour.

Like Mill, Torrens would remain critical of the method of imposing duties in order to protect a certain branch of industry. In his earlier writings,

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 including 'The Economist Refuted' and his famous *Essay on the External Corn Trade* (1815), in which the comparative cost theory which was to become so famous-often believed to be Ricardo's invention-appeared for the first time, he repeated Smith's argument of the dynamic effects of free trade upon the division of labour. This is also the main line of argument in Mill's 1808 pamphlet. However, during the 1830s Torrens became increasingly critical of any policy of unilateral tariff reduction so long as foreigners continued to impose duties on British wares. Hence, with his famous Budget articles, which were in fact a set of open letters to leading politicians of the day and other prominent persons (afterwards collected in a small booklet entitled 'On Commercial and Colonial Policy' (1844)) he at once 'became the focus of an extensive controversy on commercial policy in which Torrens emerged as easily the most distinguished supporter in that age of the policy of reciprocity'. [84](http://www.questia.com/reader/action/gotoDocId/108269413) However, as Lionel Robbins points out, there are several hints of his critique of unilateral free trade also in a series of article he wrote for *The Bolton Chronicle* in the beginning of the 1830s, later published as *Letters on Commercial Policy* (1833).

It could be argued that Torrens's principle of 'reciprocity' was not so far removed from Adam Smith as we might want to believe. It is clear that he himself did not feel he had become less a Smithian than before. Moreover, Torrens's apparent change of position from being recognised mainly as a free-trader to being seen as a protectionist involved no rejection of his own or Ricardo's comparative cost approach. Still, in his 1848 *The Principles and Practice of Sir Robert Peel's Act of 1844 Explained and Defended against the Objections of Tooke, Fullarton and Wilson* (1848), he would talk of the great theory of international trade which he himself had invented and which 'Mr Ricardo subsequently adapted in his great work on Political Economy and Taxation'. [85](http://www.questia.com/reader/action/gotoDocId/108269413) Rather, according to Lionel Robins, his later policy standpoint on this issue was caused by a shift of attention from the dynamic effects of a division of labour in general to the effects of duties and tariffs on the terms of trade, i.e. the international price system. In this context he would increasingly argue that the difficulties of the 1830s and 1840s in Britain were due to an unilateral dismantling of its import duties. He mainly stated his views in this general form:

When any particular country imposes import duties upon the productions of other countries while those other countries continue to receive her products duty free, then such particular country draws to herself a larger portion of the precious metals, maintains a higher range of general prices than her neighbours, and obtains in exchange for the produce of a given quantity of her labour, the produce of a greater quantity of foreign labour. [86](http://www.questia.com/reader/action/gotoDocId/108269413)

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 According to Nassau Senior, who as we saw was the first to launch a general attack on Torrens's 'Budget' articles in the *Edinburgh Review* in the summer of 1843, this was a mere relapse into old mercantilism. [87](http://www.questia.com/reader/action/gotoDocId/108269413) Thus, he seemed to argue that Torrens's problem could easily be solved using an ordinary specie-flow-mechanism argument merely supposing export demand to be elastic. Torrens's response was indignant as he expressed shock at: 'your conduct, in representing, not the cabinet supporters of the corn laws, but the followers of Ricardo, as the pupils of Colbert and the Emperor of China'. [88](http://www.questia.com/reader/action/gotoDocId/108269413) In propagating a gradual repeal of the Corn Laws Torrens was of the same opinion as Ricardo, but he could not share the viewpoint of the radicals in the Corn Law League.

Torrens also had a second argument which was quite solid in principle but perhaps less realistic in the long run, as Lionel Robbins has pointed out. [89](http://www.questia.com/reader/action/gotoDocId/108269413) Hence, if a certain country freely buys wares from another country for money instead of goods because its trade with that country is hindered by trade barriers, the following would occur, according to Torrens:

the free-traders said it mattered nothing whether another country took from us our commodities for theirs or our money, because, say they, we must send our commodities somewhere else in order to procure that money. And this error sprang from that of another of still more universal acceptation; namely…that as the value of a commodity in the home market depended on the cost of the labour of protection, so must it be in a foreign market. But what we received in return for our goods in foreign markets did not depend on the cost of producing those foreign articles but on the demand that existed in the foreign market. To the extent of that demand every country supplied itself, but it could not be increased but on one condition which involved the whole question of our advantage; namely, that we gave them our goods at a diminished price. [90](http://www.questia.com/reader/action/gotoDocId/108269413)

Torrens's political suggestions to remedy such problems caused by an unilateral introduction of free trade by the British were twofold. First, he recommended the use of the principle of reciprocity:

[t]o lower the duties of customs upon the importation of goods produced in countries which consent to receive British goods upon the terms equally favourable and to prohibit, or lay heavy duties upon, the importation of any goods, not consisting of first necessaries, produced in countries which prohibit, or lay heavy duties upon, British goods. [91](http://www.questia.com/reader/action/gotoDocId/108269413)

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Second, he proposed for a change in the British colonial policy and the introduction of an imperial British *Zollverein*. [92](http://www.questia.com/reader/action/gotoDocId/108269413) Thus, Torrens belonged to a group of colonial reformers including Wakefield, which Bernard Semmel-not very accurately for Torrens in his later years at least, when he surely must be described as a protectionist-christened 'the free trade imperialists'. [93](http://www.questia.com/reader/action/gotoDocId/108269413)

We have so far emphasised the fact that the classical economists as a group were by no means doctrinaire free-traders. Especially for revenue purposes they were ready to accept import duties. Moreover, most of them were agreed that it would be foolish to abolish customs whenever such were introduced by foreign nations. Some kind of reciprocity must thus be followed in international trade relations, they argued. In this instance, for example, Torrens, as we have seen, was as good an inheritor of Smith as anybody else.

In most overviews of the history of economic doctrine an orthodoxy has been stubbornly defended which emphasises that 'mercantilist' views, for example the foreign paid income doctrine, were successfully overruled by a new discourse of free trade and *laissez-faire* which was introduced in the middle of the eighteenth century by such authors as Hume, Smith and, later on, the classical economists. Although this is true to some extent, we must be a bit cautious for at least two reasons. First, as Semmel has shown, it is important to note that the special significance given to manufactures in order to achieve national strength and wealth was fundamental also to Smith and classical political economy. However, as Britain was the 'workshop of the world' it could certainly be argued that this goal could be achieved best by free trade. Hence, behind the explicit critique of the 'infant industry' argument lurked another implicit argument, which we perhaps can call 'free trade protectionism'. In the middle of the nineteenth century free trade was certainly regarded by leading 'liberal' reform politicians, for example Robert Peel, as 'essential to England's position as the Workshop of the World'. [94](http://www.questia.com/reader/action/gotoDocId/108269413)

Second, although this was the main line of argument, several of the classical economists were sometimes ready openly to defend the infant industry argument as a special case. It is clear, for example, that John Stuart Mill's main position in *The Principles of Political Economy* was to criticise this argument against the claims of Friedrich List and Henry Carey. However, as usual, he was divided in his opinion. As a general principle-inherited from the mercantilists-protectionism had been defeated, he thought. However, it still survived in particular cases and Mill had difficulties in rejecting some of them. 'The only case in which, on mere principles of political economy, protecting duties can be defensible', he

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says, 'is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalising a foreign industry in itself perfectly suitable to the circumstances of the country'. [95](http://www.questia.com/reader/action/gotoDocId/108269413) However, this goes a long way towards especially the American Hamiltonians or protectionists, in fact it was basically what they argued for. Moreover, in a passage in *Essays on some Unsettled Questions in Political Economy* (1844), Mill says outright that a nation can very well use its legislative powers to 'engross to itself a larger share of the benefits of commerce than would fall to it in the natural or spontaneous course of trade'. [96](http://www.questia.com/reader/action/gotoDocId/108269413)

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# 3 The invention of a tradition

## From the Corn Laws to the fair trade controversy

Smith's name can no more be disassociated from free trade than Homer's from the siege of Troy.

(E W. Hirst) [1](http://www.questia.com/reader/action/gotoDocId/108269414)

Francis Wrigley Hirst was undoubtedly one of the most influential figures in what we know as the Manchester School of Economics. He provided this 'school' with a coherent intellectual and doctrinal content and, above all, he constructed a history to go along with it. However, as T.S. Ashton made clear many years ago, credit for first using the term the Manchester School should probably go to Benjamin Disraeli who, in a speech in Parliament in February 1846 mentioned 'the school of Manchester' and 'the disciples of the school of Manchester'. [2](http://www.questia.com/reader/action/gotoDocId/108269414) Shortly afterwards this label became increasingly used in popular language. Hence, in May 1851 John Bright in a speech made it clear that he was proud of belonging to the 'Manchester party' and for his contribution to the making of a specific 'Manchester School'. [3](http://www.questia.com/reader/action/gotoDocId/108269414) Moreover, in a series for the *Plymouth Mail* in 1857 'the Manchester Party' was used to describe a core group of political reformers within the Anti-Corn Law League, including such contemporaries as Richard Cobden, John Bright, William Huskisson, John Bowring, John Arthur Roebuck and Charles Pelham Villiers. [4](http://www.questia.com/reader/action/gotoDocId/108269414) To give a last example, in 1870 one Frederick Cortzazzi-who wrote in favour of fair instead of free trade-used the 'Manchester School' in the title of a pamphlet. [5](http://www.questia.com/reader/action/gotoDocId/108269414) However, it is noteworthy that such early nineteenth-century historians of the Anti-Corn League as Archibald Prentice-also an important activist for the League-and Henry Ashworth never used the term 'Manchester School'. [6](http://www.questia.com/reader/action/gotoDocId/108269414) The reason why neither they nor, for example, Cobden's first biographer John Morley [7](http://www.questia.com/reader/action/gotoDocId/108269414) did so is probably quite simple: contemporaries knew very well that the League included men of different views and doctrines which it would be futile to try to squeeze in to a coherent school

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of thought. It is also worth noticing that the term 'Manchester School of Political Economy' was hardly used at all during this time, although Ashton provides us with an early example from 1850, in the form of a periodical (only three issues are known to exist) with this title, published and edited by Alexander Somerville. [8](http://www.questia.com/reader/action/gotoDocId/108269414) Somerville is mostly known for his *Autobiography of a Working Man* (1848), in which he developed radical views on the land question and his plea for the abolishment of such 'unjust privileges' as the Game Law. Hence, in his view, the Manchester men-with Cobden and Bright at the forefront-were mainly radical reformers who spoke in favour of the rights of tenants and against the landed interest (a one-sided view but not totally unjust, of course). In *The Plymouth Mail* (1857) it is stated quite frankly that 'The Manchester party …told their workpeople that all their sufferings were caused by the landowners'. [9](http://www.questia.com/reader/action/gotoDocId/108269414)

By the turn of the last century 'the Manchester School' was mainly recognised as a political label designating a specific party led by people like Cobden and Bright campaigning for the repeal of Corn Laws, land reform but also international peace and reform of the franchise, but without a coherent intellectual content. Instead it was up to Hirst and others to construct the 'Manchester School of Economics' in doctrinal terms. Born in Huddersfield within a prosperous wool stapler family Hirst first entered London School of Economics in 1896 and later on became editor of *The Economist*. He was first and foremost a stern liberal, belonging to the radical National Liberal Club, and a decided antiimperialist who saw in Joseph Chamberlain the incarnation of everything evil. In 1904 Hirst published a biography of Adam Smith in the popular 'English Men of Letters' series and later on also a popular overview of the history of free trade entitled *From Adam Smith to Philip Snowden* (1925). Earlier on he had published a collection titled *Free Trade and Other Fundamental Doctrines of the Manchester School* (1903), which included a number of pamphlets, petitions, speeches and so on by such Manchester men as Richard Cobden, Joseph Hume and many others. In putting these texts together his aim was not only to show that they shared a common political goal: the repeal of the Corn Laws. His aim was also to argue that these men were connected to each other intellectually and thus could be said to form a coherent doctrine or school. And with regard to the basic character of this school, he stated that: 'the Manchester men were the disciples of Smith and Bentham.' [10](http://www.questia.com/reader/action/gotoDocId/108269414)

Certainly, an underlying aim of publication was not merely to replicate a piece of intellectual history but rather to use it as a weapon against the imperialism, jingoism and protectionism of Joseph Chamberlain and his party. Hence, in the agitation against the Corn Laws in the 1840s Hirst

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found food for his own political cause fifty years later. It was particularly the link made by Richard Cobden and others between free trade and international peace that he found useful for his own campaigning. Hence, as he argued, more than half a century before him the Manchester Anti-Corn Law League men had developed anti-imperialist arguments which could be used in the struggle against jingoism and the kind of war-mongering which, for example, found its expression in the Boer war. This link between Cobden and a later 'idealist' tradition in British foreign policy, which included Hobson, Brailsford, Personby and others, has been made clear by later research. Hence, for Hobson *et al*., Cobden appeared as a shining beacon useful for their own efforts to bring about peace. After all, it was John A. Hobson who, in a book title, had used the term 'the international man' as a description of Cobden. [11](http://www.questia.com/reader/action/gotoDocId/108269414)

It was largely due to political considerations that campaigners like Hirst found it useful to construct a coherent Manchester School. To a large extent this is also the explanation why, as Norman McCord has said, the Anti-Corn Law League and the Chartist movement: 'have received a disproportionate amount of historical attention in relation to their significance in their own day'. That is, the historical attention paid to these movements was largely 'due to their presumed relevance to later political battles, rather than a simple desire to understand early-Victorian Britain'. [12](http://www.questia.com/reader/action/gotoDocId/108269414) The aims and arguments of the Anti-Corn Law League were not new by the end of the 1830s. Moreover, the campaign had proved not so successful nor so heroic-at least not in the beginning-as an early generation of glorifying historians attempted to demonstrate. In fact it was other circumstances rather than the League's agitation that finally put an end to the dreaded 'bread tax' in 1846; most importantly Sir Robert Peel's fear of a shortage of food in the wake of the potato crop failure in Ireland of 1845 and the political turbulence that this would entail. [13](http://www.questia.com/reader/action/gotoDocId/108269414) However, in the political climate around 1900 it seemed a good idea both to glorify the Anti-Corn Law League by emphasising its crucial role in creating a regime of liberal free trade during the second half of the nineteenth century and to invent an economic 'school' as its intellectual fundament.

In this campaigners like Hirst and early historians were able to build on something which has been called the 'cult of Cobden' and which had emerged slowly during the second half of the nineteenth century-no doubt especially bolstered by his comrades in arms Bright, Prentice, Villiers and Roebuck. However, as for example Anthony Howe makes clear, there were also many others who contributed to making Cobden an almost saintly figure. Thus, he was not only an 'international man', a campaigner for the abolishment of the Corn Laws and a land reformer, but also the leader of a moral crusade converting the question of the Corn

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Laws into 'a symbol of new community of interest and a new understanding of the nation itself. Hence, as Howe argues, 'the cult of Cobden was to be strongly articulated after his death, but the myth of Cobden as a contemporary one, built up in the *League* and in the accounts of Martineau, Duckley, and Prentice'. [14](http://www.questia.com/reader/action/gotoDocId/108269414) Moreover, the repeal of the Corn Laws was something which 'immediately and lastingly' developed into 'a series of myths central to British political memory in the nineteenth and early twentieth century'. In this way, according to Howe, 'free trade became the indispensable part of the Peelite-Gladstonian ethic of good government, a model of the efficient and knaveproof state, which remained well into the twentieth century the beau ideal of the Civil Service': [15](http://www.questia.com/reader/action/gotoDocId/108269414)

Their starting point was the contemporary interpretation of Repeal, hailing the victory of the League over both Peel and the aristocracy. From this grew an inveterate Victorian identification of free trade with British power and prosperity, while for the Edwardians, the narrative of the Repeal contained a central parable of the people's deliverance from the aristocratic oppression symbolized by the hungry forties. [16](http://www.questia.com/reader/action/gotoDocId/108269414)

This myth was something which was shared both by the right and the left. Hence, Disraeli in his critical account of the Manchester School was eager to point out the importance of both the League and the Repeal as the victory of urban and bourgeois England against the tenant farmers, the landed gentry and the aristocracy. In the opposite corner, the radicals were as eager to point out their victory over unrighteous monopoly symbolised by the adherents of the Corn Laws. [17](http://www.questia.com/reader/action/gotoDocId/108269414)

Since these times many writers have questioned whether it is really possible to speak about a coherent 'Manchester School' at all. William D. Grampp, for example, argued: '[i]t is helpful at the start to know that the Manchester School was not a school in the sense in which classical economics or other intellectual groupings were, because unlike them it did not have a relatively complete or consistent doctrine nor is there an authoritative statement of its ideas about particular ideas'. [18](http://www.questia.com/reader/action/gotoDocId/108269414) As recent collections of the Manchester School writers vividly show, they varied in their views on important points. [19](http://www.questia.com/reader/action/gotoDocId/108269414) The main thing that in fact kept them together was their belief in the evil effects of the Corn Laws. By and large they were as wide-ranging in their opinions as was the League itself, which McCord says 'contrived to bring together a wide and varied array of interests in a crusade against agricultural protection'. [20](http://www.questia.com/reader/action/gotoDocId/108269414) Furthermore, it is a rather futile undertaking to try to distinguish between the League and the Manchester School. The Manchester men were to a great extent the intellectual and campaigning elite of the League.

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 Thus, the attempt to try to construct a Manchester School with a particular doctrine or ideology seems to be unfruitful. Hirst attempts to do this by distinguishing between what he calls the 'philosophical radicals' and the 'Manchester School'. However, in reality the lines of demarcation between these two groups are muddled, to say the least. It is especially misleading when Hirst says that the first group was held together by its commitment to Bentham first and Adam Smith second, while the Manchester men's allegiance ran from Smith over to Bentham. What this means is unclear but in a moment we will return to Hirst's careful strategy to make Adam Smith the true intellectual forefather and originator of the Manchester School.

In his short but seminal book Grampp distinguishes between at least five groups within the 'Manchester School': the Gradgrind businessmen 'who wanted free trade because they believed it would increase the demand for textiles, or lower wages and other costs, or arrest the growth of textile mills abroad, or would do all three'; the humanitarian businessmen; the pacifists (including especially Cobden); the (London) philosophical radicals (John Bowring, William Molesworth, George Grole, John Adam Roebuck, Joseph Hume, Perronet Thompson); and the middle-class radicals (John Bright, George Wilson, Joseph Sturge, and so on). [21](http://www.questia.com/reader/action/gotoDocId/108269414) One begins to doubt whether a school can really be said to have existed if it included so many different individuals and groups with highly different aims and interests.

However, this does not discourage Hirst, for example, from making broad generalisations. In the preface to the collection of Manchester texts he presents a history of the Manchester School which in fact is highly revealing. His historical construct falls into four stages. It begins with 'the speculations of Adam Smith and other political economists'. [22](http://www.questia.com/reader/action/gotoDocId/108269414) The next stage of progress he explains as that 'from a science to a policy'. For this second stage Hirst especially mentions such important contributors as John Perronet Thompson, Huskisson and Joseph Hume. The third stage comes when, from the late 1830s, free trade become a 'party watchword' through the campaigns of the Anti-Corn League. Last, since 1846 and for the next half century a fourth stage can be identified after free trade had been set as the established rule: 'After the establishment of free trade, the most important work done by the Manchester School for humanity, liberty, and progress was its exposition of the Political Economy of war'. [23](http://www.questia.com/reader/action/gotoDocId/108269414)

In his popular book on Adam Smith, Hirst emphasises even more strongly the line from Adam Smith to Richard Cobden. In fact, he uses several pages to argue against the standpoint, which was developed in the preceding chapter, that Smith was not a radical free-trader, at least not in the nineteenth century sense. Moreover, he ridicules 'the so-called

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 exceptions or limitations by which Smith is supposed to have watered down what Cobden's biographer has called "the pure milk of the Cobdenite world"'. [24](http://www.questia.com/reader/action/gotoDocId/108269414) He even cites Cobden in order to find support for his views:

It was in England that the idea was started of dressing up Adam Smith as a protectionist At one of the League meetings (3 July 1844) Cobden gave a numerous description of the way in which some protectionist pamphleteers turned to adapt Adam Smith's opinions to their own views. They have done it in this manner: they take a passage, and with the scissors snipped and cut away at it, until by paring off the ends of sentences and leaving out all the rest of the passage, they managed to make Adam Smith appear in some sense as a monopolist. When we referred to the volume itself, we found our their tricks, and exposed them. [25](http://www.questia.com/reader/action/gotoDocId/108269414)

Hirst's position is thus clear and he concludes: 'The *Wealth of Nations* is a forest of full-grown arguments to free trade' And further: '[t]he more one reads it, the more irresistibly is one driven to the conclusion that the science of political economy, as established in this masterpiece, is inextricably bound up within the doctrines of free trade'. [26](http://www.questia.com/reader/action/gotoDocId/108269414)

Both in this book and in *From Adam Smith to Philip Snowden: A History of Free Trade in Great Britain,* Hirst puts forward a second argument, namely the historical connection between the free trade doctrine of Adam Smith and the policy of freer trade pursued by liberal reformers. He argues that its influence was seen in Britain as early as the reform bills put forward by Pitt and Shelbourne in the 1780s. It was even more pronounced during the 1820s and in the reform policies of Huskisson. It is of course true to say that here Hirst is only following in the footsteps of John Ramsey McCulloch who had pointed out in 1831 how the more liberal policies which had been inaugurated during the 1820s by the Peel administration were connected to, or even caused by, Smith's thinking. McCulloch thus said 'that notwithstanding Dr Smith's work has been in circulation for about half a century, it is only within these very few years that statesmen…have given a practical assent to its doctrines, and begun to act upon them. But happily a new era has at length begun.' [27](http://www.questia.com/reader/action/gotoDocId/108269414) Moreover, McCulloch even goes so far as to propose a clear causal connection between Smith's theories and practical policy-a standpoint which surely can be questioned for historical reasons as pointed out by, for example, the economic historian Boyd Hilton. [28](http://www.questia.com/reader/action/gotoDocId/108269414) McCulloch also emphasises 'the principles expounded by Adam Smith and acted upon by Sir Robert Peel' [29](http://www.questia.com/reader/action/gotoDocId/108269414) and states in yet another passage: 'Sir Robert Peel was in practice what Adam Smith was in theory'. [30](http://www.questia.com/reader/action/gotoDocId/108269414)

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 However, returning to Hirst, this influence was not only visible in a British context, McCulloch argues:

To translate, interpret, and systematise the *Wealth of Nations* was the main function of continental economists in the early years of the nineteenth century; and its influence was seen in a rapid and radical modification of continental commercial policy. Internal barriers were swept away, feudal restrictions abolished, and tariffs reduced. [31](http://www.questia.com/reader/action/gotoDocId/108269414)

This is certainly a bold statement. The name of Adam Smith was perhaps known to an inner circle of intellectual Europeans already in the beginning of the nineteenth century-we know that *Wealth of Nations* was partly or wholly translated into French, Danish, Dutch, German, Italian, Spanish, Russian and Swedish up until 1810. However, it is another matter, of course, to argue that he in fact had a clear impact on the political scene outside Great Britain. Nobody has yet been able to detect such a causal connection between Adam Smith's thinking and practical trade policies in continental Europe during this period. And even if *Smithianismus* was widely spread outside his native island-which can be doubted-this might not have helped. As we will see later on, foreigners sometimes tended to interpret Smith in a way that made him less free trade and *laissez-faire* than Hirst, at least, would like to have us believe.

Moreover, the role of radical free trade thoughts for policy reforms during the 1820s have also been seriously questioned by many historians. It might be true that the economist Thomas Tooke played an important role behind the famous so called 'petition of the London merchants' in 1820, which gave the signal for a slow shift in policy towards freer trade. However, as William Grampp make clear, Tooke was the exception and no other trained economist of repute was to be involved in the actual political campaigning for free trade during the 1820s. [32](http://www.questia.com/reader/action/gotoDocId/108269415) As noted, for example, by Boyd Hilton in his important study regarding economic policy during this decade, the steps and measures taken by the politicians seem to have been dictated by quite different motives than pure economic doctrines. Such things as a possible shortage of food, a dire business cycle, unemployment, and so on were the most important factors when governments decided upon economic policy measures, including tariffs. Thus, to that extent that a'liberal awakening' did occur during the 1820s it was by no means triggered off by the writings of Adam Smith. He concludes bluntly: 'official policy was not transformed by free trade ideology'. [33](http://www.questia.com/reader/action/gotoDocId/108269415)

Although history on many occasions can be disrespectful towards wellknitted theories, liberal agitators like Hirst (and others, as we will see) were nevertheless successful in establishing the popular myth that there

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 existed a causal connection between Adam Smith and the Manchester men. As shown, this was certainly important for making their noble cause intellectually respectable. But even more importantly, the invention of such a tradition back to Smith was crucial in order to distinguish a 'theoretical' Manchester School from a more 'practical' anti-Corn Law agitation. This invention began with the Manchester men themselves-and others, as we shall see. Together they contributed to the formation of such a view by actively referring back to Smith as the intellectual hero of Victorian free trade. We will in the next section present a number of such instances, i.e. how different writers, from different political, moral and theoretical points of view, within or outside the Manchester School, made use of Smith in bolstering their own theoretical and practical standpoints.

## The Christian moralist-and others

The step from Adam Smith to the so-called Christian economists of the 1820s up at least to the 1840s seems quite far. However, it is clear that the Christian economists helped to popularise and make legitimate the liberal and market process version of economics to those who felt that Smith and the Ricardians were too little concerned with Christian values, if not outright atheists. In this sense they were also a bridge between Smith and later liberal economics in the sense which A.M.C. Waterman emphasises: an 'intellectual enterprise of combining classical political economy with Christian-specifically Anglican-theology in normative social theory'. [34](http://www.questia.com/reader/action/gotoDocId/108269415) However, to some extent this might be misleading as it can downplay the quite critical tone in many Christian economic texts during this time directed against 'the Smithians'. Hence, Christian economics is perhaps even more pertinently a good example of how free trade views also could be held by such who were quite critical of Smith and classical political economy during this period for its ungodly and conflict-ridden form of economics. For this reason, there is perhaps an even more profound intellectual link between the Christians and the later Manchester School-or at least 'the harmony school'-than between Smith and this school.

Among others Boyd Hilton has emphasised the 1820s and especially the 1830s as a breakthrough period for an 'evangelical political economy' which became extremely influential and probably did more than anything else to make free trade a popular slogan and catch-phrase in the period before Cobden and the Manchester men. [35](http://www.questia.com/reader/action/gotoDocId/108269415) Without doubt, the evangelicals' vision of economic relationships, including trade relations, was less harsh and brutal than its secular Ricardian alternative seemed to be. Hilton draws the conclusion:

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 There were then two discrete, if sometimes overlapping, models of free trade in the first half of the Nineteenth Century. The more familiar is that of professional economists like Ricardo; the more widespread and probably more influential was that of evangelicals such as Chalmers. The former was expansionist, industrialist, competitive and cosmopolitan. Its objective was economic growth through capital accumulation and the international division of labour The alternative, evangelic, version of free trade may be characterized as static (or cyclical), nationalist, retributive, and purgative, employing competition as a means to education rather than to growth. Its psychological premise was not self-interest but the supremacy of economic conscience, the latter innate in men yet needing to be nurtured into a habitude through the mechanism of the free market, with its constant operation of temptation, trial and exemplary suffering. [36](http://www.questia.com/reader/action/gotoDocId/108269415)

Within the rather loose group of early Christian political economists we find Malthus, John Bird Sumner and William Paley. [37](http://www.questia.com/reader/action/gotoDocId/108269415) A typical figure was also Edward Coplestone (1776-1849), the Bishop of Llandaff who tried to combine the Malthusian theory of population with God's intentions for Man and divine wisdom-a not altogether easy enterprise, as one may imagine. [38](http://www.questia.com/reader/action/gotoDocId/108269415) In the 1830s there was an inner core of such Christian writers including George Grote, Joseph Butler and George Combe as well as the evangelist ministers J.W. Massie and William McKerrow-the latter two important agitators for the repeal of the Corn Laws as early as 1841. [39](http://www.questia.com/reader/action/gotoDocId/108269415) However, the most important writer in this group was undoubtedly Thomas Chalmers (1770-1847). In 1825 Chalmers was appointed to the first Drummond Chair in Political Economy at Oxford-it was in fact the first chair in the new subject in Britain. Most certainly-as been pointed out-Chalmers was more influenced by Malthus than by Smith. [40](http://www.questia.com/reader/action/gotoDocId/108269415) His insistence-and also that of others, like Coplestone (as well as Senior, as we will see)-that human wishes or laws could not at all affect such 'laws of nature' as the law of population is of course quite distant from Smith, who said-as we have seen-exactly the opposite. Moreover, for Chalmers free trade was a means for revealing the truths and orders of God's given nature. The real essence of his views on political economy can be summarised from a quotation from one of his essays 'The Political Economy of the Bible' (1844-1845), where he points out that the essence of any wise policy is to leave the market 'to its own spontaneous evolutions as to reveal a striking testimony to the superior intelligence of him who is the author both of human nature and of human society'. Equipped with such a theological natural rights view he goes on to say that: 'We are not…of the number of

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 those who rate very high the advantages of the system of free trade… [yet] there are certain attendant moral benefits…which render the adaptation of the system one of the best and wisest achievements of an enlightened national policy'. [41](http://www.questia.com/reader/action/gotoDocId/108269415) Obviously, viewpoints like these were attractive to those who feared the secular market beast but still sympathised with the goal of freer trade in particular and liberal reforms in general. Hence, in the years before the repeal of the Corn Laws we can detect a conflict between a 'right ways' thinking about free trade and a market way of thinking of it. [42](http://www.questia.com/reader/action/gotoDocId/108269415)

Even though 'the market way' would win in the end the Christian group achieved political prominence-for a while. Thus, Anthony Howe, for example, points out that the liberal Tories of the period owed much less to the secular Ricardians than to Christian political economists such as Chalmers and Copleston. Perhaps also Nassau Senior in his earlier days should be counted to this group. [43](http://www.questia.com/reader/action/gotoDocId/108269415) Howe defines this influence in the following words:

As advocates of freer trade, the Liberal Tories sought stability and morality through the removal of artificial props in the economic world, allowing the operation of the providential order, with God-given rather than man-made pains and penalties. This emphasis encouraged banking and Poor Law reform, as well as the gradual removal of protective duties. [44](http://www.questia.com/reader/action/gotoDocId/108269415)

There was also an outer circle of writers who, to some extent, shared the outlook of the Christian group, in the sense that they valued the most beneficial effects of competition and free trade in terms of the spread of 'good' moral values rather than merely as leading to economic growth and material prosperity. Looking back on the campaign for the repeal of the Corn Laws Cobden pointed out in 1846 that: 'I do believe that the principle of free trade is calculated to alter the relations of the world for the better, in moral point of view, that I bless God I have been allowed to take a prominent part in its advocacy'. [45](http://www.questia.com/reader/action/gotoDocId/108269415) One important writer here-to what extent he influenced, for example, Cobden, we do not know-was Edward Baines (1774-1848), a well-known liberal MP for Leeds during the late 1830s (1834-1841). In 1830 he had published a tract entitled *On the Moral Influence of Free Trade and its Effects on the Prosperity of Nations.* His main proposition in this book is that as wealth and growth will occur with freedom since 'true self-love and social [aims] are the same'. [46](http://www.questia.com/reader/action/gotoDocId/108269415) At points he sounds quite Smithian, for example when he emphasises that 'free trade is not opposed to the political interests of the state' as the state is made up of individuals which all try to pursue their

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 own interest. Baines maintained that if we let people choose their own employment freely this will lead to higher profits earned by individuals which will in turn increase the income of the state and thus increase the happiness of most individuals. [47](http://www.questia.com/reader/action/gotoDocId/108269415) However, his main line of argument is quite un-Smithian, namely how free trade can bolster 'moral advantages'. He puts his main thesis in the following terms: 'I have described the Moral influence of free trade as consisting in its tendency to promote pacific and friendly relations among nations of the world, and to diffuse the light of civilisation and true religion over the whole earth'. [48](http://www.questia.com/reader/action/gotoDocId/108269415) This is certainly a view that many Manchester men shared. Of course, it was a shining beacon for the group which Grampp identified as the 'pacifists' and which included Richard Cobden. [49](http://www.questia.com/reader/action/gotoDocId/108269415)

As the moral Christian writers were to some extent in opposition to the secular version of political economy we would not expect them to incorporate someone like Adam Smith. However, someone like Edward Baines would do this openly and so, later on,-as we shall see-did Cobden and the Manchester men. According to Alon Kadish, Baines was one of the very first to present a view of society which he himself acknowledged as 'Smithian' and in which free trade had become not only a leading principle of political economy but a moral issue as well. [50](http://www.questia.com/reader/action/gotoDocId/108269415) It is questionable, however, to what extent Smith would have agreed with Baines proposition of 'free trade' as the 'absolute Freedom of Commerce'. [51](http://www.questia.com/reader/action/gotoDocId/108269415) Neither it is likely that Smith would have agreed with statements like this one:

No principle of Political Economy seems to me more incontestably true than this-that the resources of a nation will be the most rapidly developed, and its prosperity built upon the surest basis, under an entire absence of interference on the part of government with its commerce or industry. [52](http://www.questia.com/reader/action/gotoDocId/108269415)

Nor indeed would Smith have found himself in sympathy with the following kind of reasoning: 'The Moral influence of Free Trade is excellent…that it tends to unite the nations of the world in peaceful and friendly relations by the powerful tie of self-interest'. 53

This did not stop Baines, however, from referring in several instances to Adam Smith for support, especially with regard to his discussion on the relationship between 'restrictive and monopolising systems' and war. [54](http://www.questia.com/reader/action/gotoDocId/108269415) For example, he stated that: 'Adam Smith has well expressed the sum of the evidence of history as to the effect of commercial jealousies in provoking international contests.' [55](http://www.questia.com/reader/action/gotoDocId/108269415) He also searched for support first from Ricardo in order to argue against the view that taxes afford a motivation for

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 introducing duties on foreign commodities so that the home producer could not lose in competition, and second, from McCulloch, when he said that foreign restrictions on imports does not immediately mean that we must introduce the same restrictions with regard to their exports. [56](http://www.questia.com/reader/action/gotoDocId/108269415) His discussion served the purpose of arguing against any kind of reciprocity principle and it is of course correct that Ricardo and McCulloch would have doubted its applicability However, Baines at the same time forgot the other objections people like Ricardo, McCulloch or other classical political economists had against the principle of 'absolute freedom of commerce'.

Another author with a similar message as Baines was Philip Harwood, who, in *The Economics and Morals of Free Trade* (1843), expressed such views as: '[t]he cause of free trade is the cause of peace, peace at home and peace abroad'; '[t]he case of free trade is the cause of civilization' and 'the [c]ause of free trade is the cause of civil liberty'. He even stated (which once again is something Smith never would have uttered): 'Free Trade is a universal interest. It belongs not to party, sect or class, it is the cause of All; of the richest and of the poorest'. [57](http://www.questia.com/reader/action/gotoDocId/108269415) Or in another place:

The beneficent mutualities of free commerce are the best guarantee that the world's peace can have. The wide brotherhood of nations, knit together in the reciprocal relief of wants by the reciprocal exchange of superfluities-this is the best of all possible Societies for the Promotion of permanent and universal Peace. [58](http://www.questia.com/reader/action/gotoDocId/108269415)

## Manchester uses of Adam Smith

As we have seen, the hard core of the Manchester School was made up of a number of leading writers and activist of the Anti-Corn Law League. We have already seen that it is highly doubtful that they shared any common doctrine or ideology. The Manchester School included different groups with quite different views about society and the economy. What held them together was their general belief in free trade: '[f]ree trade itself was the basic faith', as Scott Gordon has put it. [59](http://www.questia.com/reader/action/gotoDocId/108269415) Perhaps we can add to this, especially after 1846, their shared belief, as Sarah Palmer has pointed out, 'in the subordination of national power to wider, internationalist, objectives.' [60](http://www.questia.com/reader/action/gotoDocId/108269415) Moreover already in 1830-and long before Cobden and his comrades in arm started their agitation against the Corn Laws-a certain J.S. Buckingham had published a pamphlet which included a programme which at least the inner core of the Manchester men would have agreed with. It included, for example, such points as '8. Evils of Hereditary Honours, and superiority of Service and Merit to Birth'; '19. Plan for the Gradual but certain Redemption of the National Debt';

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'23. Consolidation and Simplification of the Laws'; '24. Abolition of slaves'; '25. Emancipation of our Colonies'; '27. Repeated efforts in favour of unfettered commerce'; as well as a no. 26: 'Free Trade and peace with the world', where it said something which Cobden at least would have agreed with wholeheartedly:

The narrow and selfish policy of attempting to raise every thing required for use or pleasure in our limited territory…has done more to provoke wars than almost any other single cause. To be independent of all aid from other nations, has thought to be the perfection of political greatness. On the contrary-as, in social life, the very dependence which men necessarily feel on the justice, kindness, and courtesy of others, induces them to purchase these pleasures by the exercise of the same virtues towards their fellow-men. [61](http://www.questia.com/reader/action/gotoDocId/108269415)

Most certainly, the Manchester men used contemporary political economy for their own purposes and in order to find good arguments. However, it is noteworthy that none of the classical political economists were members of the Manchester School or joined ranks of the Anti-Corn Law League. The leading economists of the day were either indifferent or (like Torrens) openly opposed to its campaigns. Grampp even states that: 'It is one of the ironies of the free trade movement that it had to combat what it first thought was its naturally ally: classical economics'. [62](http://www.questia.com/reader/action/gotoDocId/108269415) That this is also is accurate with regard to Adam Smith we have already seen. However, it was still important for the Manchester men to use Smith as well as the Classical School for support. We will in the following sections present some examples of how this strategy was carried out.

Richard Cobden himself most effectively propagated the view that universal peace and harmony lay at the core of Smith's teachings. Through his career he cited Smith to find support for his own views, and we have already noted instances in his speeches where he made reference to Smith. Already in his *England, Ireland and America* (1835) Cobden shows his devotion to a Smith partly of his own design. For example, he says: 'Adam Smith more than sixty years ago, promulgated his doubts of the wisdom and profitableness of our own colonial policy.' [63](http://www.questia.com/reader/action/gotoDocId/108269415) At other places he calls Smith 'our great luminary' and goes on to say: 'We have our Banksian, our Linnean, our Hunterian Societies; and why should not at least our greatest commercial and manufacturing towns poses their Smithian societies, devoted to the purpose of promulgating the beneficial truths of the *Wealth of Nations*?' [64](http://www.questia.com/reader/action/gotoDocId/108269415)

Thomas Perronet Thompson (1783-1869) is often acknowledged as one of the most important writers of the Manchester School. In 1831 he

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 published the highly influential *Catechism on the Corn Laws* which, in its first three years, was reprinted no less than seventeen times. During the campaign against the Corn Laws this pamphlet written in 'a strong, racy, Saxon style', according to the biographical note in *Dictionary of National Biographies,* served as a source of arguments for the League. It was made up-like Martin Luther's catechism-in the form of simple questions to which answers were given. Thus, it could be used directly by agitators, both in their encounters with the enemy and before friendly audiences. When Thompson, for example, presents the Corn Laws ('the prohibition by perpetual law the importation of foreign corn and cattle') as an enactment against progress and growth ('in reality to enact that the population and industry of the community shall at no time exceed what the rude produce of its own skills can maintain'), he directly cites *Wealth of Nations*. [65](http://www.questia.com/reader/action/gotoDocId/108269415) However, he forgets to say that Smith, immediately after this passage, develops his famous argument regarding the two cases in which it is advantageous 'to lay some burden on foreign, for the encouragement of domestic industry', for the sake of defence and when a good is taxed in Britain. [66](http://www.questia.com/reader/action/gotoDocId/108269415) It is true that Smith does not discuss restrictions on the corn trade as an example of such a diversion from the general free importation rule. However, this seems to be because he thinks that it is the merchants-conspiring against the interests of humanity as ever-who are the propagators of and indeed who stand to gain from such a restriction. It is unlikely that Perronet Thompson would have agreed with Smith's optimistic view of the role of the landowners for the pursuit of corn duties. Without doubt, in the 1820s it would have sounded awkward when Smith said: 'Country gentlemen and farmers are, to their great honour, of all people, the least subject to the wretched spirit of monopoly'. [67](http://www.questia.com/reader/action/gotoDocId/108269415)

Whether or not the prolific writer and outstanding intellectual and political thinker of his time Walter Bagehot (1826-1877) should be mentioned as a 'Manchester man' in the rather restricted sense that we do here is of course open to question. Bagehot, second editor (1859-1877) of *The Economist* after its founder James Wilson, was undoubtedly too young to belong to the original group. However, in many instances he paid his respect to them and was quite similar to them in his economic thinking. Without doubt, during most of life he remained faithful to the programme and principles which had been set up by James Wilson in 1843 when he started *The Economist*: 'Its principles were simple and clear, free enterprise and particular reform at home and the provision of peace, commerce and fraternity abroad, avoiding unnecessary foreign entanglements'. [68](http://www.questia.com/reader/action/gotoDocId/108269415) When Cobden died on 8 April 1865 *The Economist* published a long, devoted and warm farewell to that Northern tenant farmer son, 'sensitive agitator' and Manchester man, which was probably written by Bagehot. [69](http://www.questia.com/reader/action/gotoDocId/108269415) For our

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 purpose it is perhaps most revealing to see how he connects Cobden to Adam Smith:

Mr Cobden of course was not the discoverer of the free trade principle. He did not first find out that the Corn Laws were bad. But he was the most effectual of those who discovered how the Corn Laws were to be repealed-how free trade was to change from a doctrine into a doctrine of 'The Wealth of Nations', into a principle of Tariff, and a fact of real life. If a thing was right, to Mr Cobden's mind it ought to be done, and as Adam Smith's doctrines were admitted on theory, he could not believe that they ought to lie idle, that they ought to be 'bedridden in the dormitory of the understanding'. [70](http://www.questia.com/reader/action/gotoDocId/108269416)

Bagehot was obviously also a great admirer of Smith. In an essay titled 'Adam Smith as a person'-first published in *Fortnightly Review* in 1876- he tries to understand the eighteenth-century man who was Adam Smith. However, at the same time he cannot avoid inventing a Smith who also could be of practical significance for present days political controversies:

Scarcely any writer's work has had so much visible fruit. He has, at least, annexed his name to a great practical movement which is still in process through the world. Free trade has become the in the popular mind almost as much his subject as the war of Troy was Homer's…. If all the speeches made at our Anti-Corn Law League were examined, I doubt if any reference could be found to any preceding writer, though the name of Adam Smith was always on the men's lips…. And in other countries it is the same. Smith-ism is a name of reproach to all who do not hold such doctrines, and of respect with those who believe them; no other name is used equally as comparably by either. So long as the doctrines of protection exists-and they seem likely to do so, as human interest are what they are and human nature is what it is-Adam Smith will always be quoted as the great authority of antiprotectionism-as the man who first told the world the truth so that the world can learn and believe it…. And besides this great practical movement Adam Smith started a great theoretical one also. On one side his teaching created Mr Cobden and Mr Bright, on another it rendered possible Ricardo and Mr Mill.

Hence, for Bagehot all his heroes are united in a great chain of being: Smith, Ricardo and Mr Cobden. This was basically much the same as Francis Wrigley Hirst would argue twenty-five years later-we can even note the latter's borrowing of the Homer and Troy metaphor mentioned

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above. Much of the same message was also presented in *The Economist,* which celebrated the centenary publication of Smith's *Wealth of Nations* in 1876. It is a long piece that runs over more than two full pages (this, too, was probably written by the editor, Bagehot, himself)-a highly unusual format for *The Economist* at this time. Taking for granted the relationship between Adam Smith and liberal political reforms, our writer argues that: '[a]s far as England is concerned, most of the legislative effects of the work of Adam Smith are complete'. In many other countries much remains to be done, he continues. But what is even worse, 'everywhere Protectionism rises like a weed from the soil'. Thus, we must still learn from him, 'from the spirit of the teaching'. Once again Adam Smith is needed as front-line soldier: '[p]erhaps there never was a time in which we more needed to combine a stern and homely sagacity resembling his, with the far-reaching aims and ample knowledge for which he was so remarkable'. [71](http://www.questia.com/reader/action/gotoDocId/108269416)

The same link between Smith and Cobden also appears in the perhaps most widely read pamphlet directed against the fair traders, Agustus Mongredien's 'History of the Free Trade Movement in England' (1879). Without doubt there is also a clear line between Mongredien and the historical construction which Francis Hirst made popular in the beginning of the twentieth century. It is worth citing Mongredien at some length:

England stands in a peculiar position with respect to the free trade system. Its theoretical soundness and particular advantages has been proclaimed by scientific adepts for nearly a century before it was adopted and brought into actual use by the governments of any country; and then, it was only by the government of one country. That country was England. In all other states, the amateurs of the science of Political Economy have set at naught the conclusions of its professors, and the action of statesmen with regard to free trade has been the very reverse of that advocated by the best thinkers and writers on the subject. [72](http://www.questia.com/reader/action/gotoDocId/108269416)

Mongredien here of course refers especially to Adam Smith. And he laments: '[s]o far England is the only country in which the voice of science has been listened to with any practical result'. [73](http://www.questia.com/reader/action/gotoDocId/108269416)

## Popular economics

During the 1820s a peculiar version of economics began to appear; something which has been called 'popular economies' or 'popular political economy'. Its gospel was basically liberalism, free trade and freedom of

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enterprise. Sometimes the popularists revealed attitudes which were close to moral free-traders such as-as we have seen-Edward Baines or even such Christian economists as Thomas Chalmers. They were always more Benthamite than Smithian or Ricardian. However, it is perhaps even more important to point out that they were mere than simple popularisers. First of all they had a specific political goal. As Noel Thompson has pointed out, they can at least to some extent be seen as a reaction against the 'Smithian' or 'Ricardian' socialists of the 1820s and 1830s (including Gray, Bray, Hodgskin and others) whose influence on the early Chartist movement cannot be overrated. [74](http://www.questia.com/reader/action/gotoDocId/108269416) Hence, some of their leading front figures were strongly anti-Chartist and anti-socialist.

This is the case especially with the prolific writer Harriet Martineau (1802-1876). It is recorded that, as a populariser of a Benthamite version of classical political economy, active, for example, in the Society for the Diffusion of Useful Knowledge, Martineau became very upset when she was accused of having being close to the Chartists. She preached a more harmonious gospel of class peace. Her biographer Maria Weston Chapman comes closest to her when she says that her work aimed 'to bridge the gulf of ignorance and class exclusiveness which kept Englishmen at enmity, and to show them how all things contributes to the support and employment of life must be produced and conveyed to all'. [75](http://www.questia.com/reader/action/gotoDocId/108269416) Hence, by popularising a specific version of Smithian and Ricardian political economics she, as well as many others, sought to influence the popular mind to stay away from more dangerous readings of the classical economic canon.

While the popularisers were eager to point out that all they did was to make orthodox political economy accessible to ordinary readers, we should not of course be fooled by this. Typical is Harriet Martineu's modest proposal in her famous *Illustrations of Political Economy* (1834) which sold about ten thousand copies. In such short stories as 'The Loom and the Lugger', which discussed free trade, or 'Sawers not Reapers', which agitated for a repeal of the Corn Laws, (both included in her *Illustrations*) she emphasised her role as a mere populariser: 'This is the method in which we propose to convey the leading truths of Political Economy, as soundly, as systematically, as clearly and faithfully, as the utmost pains-taking and the strongest attachments to the subject will enable us to do'. [76](http://www.questia.com/reader/action/gotoDocId/108269416)

Moreover, in the same work she refers to Smith as the founding father of the 'science of political economy' and his *Wealth of Nations* as 'a book whose excellence is marvellous' but which at the same time is 'not fitted nor designed to teach the science to the great mass of the people'. [77](http://www.questia.com/reader/action/gotoDocId/108269416) Martineau argues that her contribution is exactly that: to convey to the people the truths of the new science founded by Smith. However, when

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doing this she presents an outline of its fundamentals which differs starkly from the position Smith would have taken. Political economy, she says, is a science which:

observes how by good management in every department, all the members of a family have their proper business appointed to them, their portion of leisure secured to them, their wants supplied, their comforts promoted, their pleasures cared for; how harmony is preserved within doors by the absence of all causes of jealously; how good will prevails towards all aboard through the absence of all causes of quarrel. [78](http://www.questia.com/reader/action/gotoDocId/108269416)

Rather than being a mere carbon copy of Smith and the classics it is more accurate to say that popular economics reproduced a novel version of political economy which in fact was quite far removed from Smith. It was much more orthodox in moral terms, Benthamite and basically preached class harmony. Most of Smith's emphasis on the role of social and historical institutions was lost. His complex attitude towards political regulation is totally absent as is his insistence on group or even class conflict as a living force in human societies. Likewise from the Ricardian version of political economy all the technical complexity and intellectual openness is lost, as well as the class conflict perspective. Instead we are left with a skeleton of simple 'principles' taken out of proper context. The principles or general maxims are connected in such a way as to produce a view of economic society that teaches harmony, philanthropy, peace between the classes, the preservation of social order and also moral and social progress-all as a consequence of a free market economic order.

Jane Marcet's *Conversations on Political Economy* (1827) is often recognised as one of the first popular economics works. [79](http://www.questia.com/reader/action/gotoDocId/108269416) It seems to have been widely read and it certainly inspired Harriet Martineau to publish her own even more widely read popular versions of political economy just mentioned. [80](http://www.questia.com/reader/action/gotoDocId/108269416) In her *Conversations,* Marcet (1769-1858) refers to Smith as 'the father of the science' of political economy. [81](http://www.questia.com/reader/action/gotoDocId/108269416) By describing herself as a populariser of the 'new political economy' she helped to cement a version of the subject-of which Smith was the father, as we saw-in which free trade was one of the leading principles. In a chapter in *Conversations* dealing specifically with foreign trade she presents a picture of harmony which seemed quite remote from anything described by Smith. For example, she lets her heroine Caroline burst out: 'The more I learn upon the subject, the more I feel convinced that the interest of nations, or those of individuals, so far from being opposed to each other, are in the most perfect unison'. [82](http://www.questia.com/reader/action/gotoDocId/108269416) This harmonious picture of individuals as well as nations

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 in peaceful co-operation for the common good was far removed from Smith. However, it was pivotal in creating the image of Smith as a founder of a new system of political economy in which free trade was a leading rule.

Most certainly, many others also contributed to this image of Smith. This version of political economy was more or less repeated in most books of popular economics over the next decades. We can illustrate this with an example from a little later. From the 1860s onwards Millicent Fawcett-the wife of the Manchester man Henry Fawcett, a *laissez-faire,* idealistic, 'blind Victorian' economist [83](http://www.questia.com/reader/action/gotoDocId/108269416) -was an important populariser. In her *Political Economy for Beginners* (1870) she especially emphasises the importance of Adam Smith's onslaught on the 'mercantilists'-to which we will return to later on. This 'elementary' book which aims 'to make political economy a more popular study in boys' and girls' schools' contains what we would expect. In the chapter on foreign trade we can read that' [t]he great advantage derived from foreign commerce is that which is obtained by division of labour'. She continues: '[f]ree trade is simply an extension of the principle of the division of labour'. Hence, she follows quite closely the great masters of Smith and onwards. What she says is not totally different from them. However, her tone is very different. As with Jane Marcet and others, all the complexities are gone. We are left with an economics which preach as harmony, common sense and a polity founded upon individual morality and self-sacrifice.

**The fair trade debate**

In 1878 Henry Fawcett published his well-known *Free Trade and Protection*. It was two years after the centenary celebration of Smith's *Wealth of Nations,* at which point-as we saw-Walter Bagehot had been worried by new protectionism rising like 'a weed from the soil'. The aim of Henry Fawcett was explicitly to intervene because of 'the firm hold which protectionist doctrines have obtained in many countries'. [84](http://www.questia.com/reader/action/gotoDocId/108269416) Fawcett did not pretend to be very original in his critique against such tendencies, which also were widespread in Britain. Rather his aim was to bring forward '[a] 11 the most effective arguments that can now be urged against in favour of free trade…previously been stated with the most admirable clearness and force by Adam Smith, Ricardo, and other economists.' [85](http://www.questia.com/reader/action/gotoDocId/108269416)

It is without doubt that the controversy of fair versus free trade which become the political issue of the day in the early 1870s worried many liberal economists and politicians within or outside the rank of Manchester men. It is usually taken for granted that Benjamin Disraeli's Crystal Palace talk on 24 June 1872 was not only the signal for a change in Britain's

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 imperial policy but also reflected a growing feeling in the country that the system of international free trade triumphing after the establishment of the Cobden treaty in 1860 no longer worked in the national interest of Britain. However, already during the 1850s and the 1860s some voices in defence of the British manufacturing interest could be heard. Moreover, three years before Disraeli's speech, an Association of the Revivers of British Industry was established using this slogan for agitation: 'Let us be patriotic first, cosmopolitan when we are able'. [86](http://www.questia.com/reader/action/gotoDocId/108269416) However, the real breakthrough of a more root-and-branch critique against the free trade system occurred in the middle of the 1870s. At first the new movement was centred on Bradford, a city badly hit-as it seemed-by the protection tariffs on worsted wares put up in America and in Germany. [87](http://www.questia.com/reader/action/gotoDocId/108269416) However, a number of protectionist societies were soon formed at the national level, for example, 'The National Society for the Defence of British Industries', and 'The National Industrial Defence Association', as well as a number of smaller local societies in Birmingham, Sheffield and Wolverhampton.

This movement reached its peak with the establishment of The National Fair Trade League in 1881. It began to agitate on a mass scale and from 1885 to 1891 it even published its own weekly paper, *Fair Trade*. The League pressed for a new national policy in support of British industry. According to the 1881 manifesto the main purpose of the League was:

to promote, by every means at its command, an extension of trade with all countries, and especially with our colonies and dependencies… and to agitate for such fiscal re-adjustments as shall prevent the products of foreign states which refuse to deal with Great Britain in fair trade with Great Britain in fair trade from unduly competing with the products of home labour. [88](http://www.questia.com/reader/action/gotoDocId/108269416)

Moreover, among the reform suggestions for the 1881 programme we find: 'Adequate import duties to be levied upon the manufactures of foreign states refusing to receive our manufactures in fair exchange'; 'A very moderate duty to be levied upon all articles of food from foreign countries'; and 'To develop the resources of our own Empire and to determine the flow of British capital, skill and industry henceforth into our own dominions instead of into foreign protective states, where it becomes a force commercially hostile to us'. [89](http://www.questia.com/reader/action/gotoDocId/108269416)

This is not the right place to trace the complicated history of the fair trade movement in Britain. However, we must add that although it achieved a strong support among manufacturers as well as workers in the industrial districts the movement never really became a success in national

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 political terms. After reaching its peak during the years 1884 to 1887 the League started to decline at the end of the 1880s. After 1892 this decline was rapid. The reasons for this are complicated and obscure. Most important perhaps was the tension building up between the three different fractions within the League-'imperialists', 'manufacturers' and 'farmers'-which led to an open struggle from 1887 and finally to the abolishment of the League. As the three factions only had their opposition to free trade in common, the increasingly bitter internal struggles are not so difficult to understand. During the 1880s in particular the agricultural and industrial interests within the organisation were set on a collision course. Moreover, in the 1890s the fair trade movement became a part of a movement for imperial reform and colonial expansion which achieved its real triumph only after the turn of the new century. Once again in 1903 to 1906 the tariff question became a major political issue in Britain. Chamberlain's controversial proposal-which forced him to resign from the cabinet-to combine protection for British industry with strong imperial preference 'was in essence a manufacturer's campaign'. [90](http://www.questia.com/reader/action/gotoDocId/108269416) But that, of course, is a different issue.

Although the League as well as the other fair trade societies worked for tariffs and industrial protection they were quite moderate in their suggestions for reform. The translation of List's main work into English as *The National System of Political Economy* (1885) was carried out by a leading fair trade activist, Sampson Lloyd. However, only a minority shared List's wider historical outlook and radical programme for industrial protection. What is striking in most of the literature is that the fair traders main political wish seems to have been to achieve reciprocity. Hence, they seem to have argued that free trade was beneficial in principle but that it did not function in a world where industrial preference had become the rule. In this instance they were closer to what many classical economists had argued earlier in the century than was admitted at the time. Moreover, their opposition to Britain's stubborn defence of free trade and their pleas for reciprocity were hardly outlandish. Hence, as J.E. Tyler remarked long ago:

It was certainly impossible for anyone to ignore the remarkable growth of protection in Europe and elsewhere. The German tariff was first made protectionist in 1879. Russia followed with general increases in 1881 and 1882; France and Austria-Hungary in 1882. There were further increases in the years which followed: in Russia and Switzerland (1884); in Germany and Austria-Hungary (1887) and in Italy (1888). In 1890 came the McKinley tariff in the United States. [91](http://www.questia.com/reader/action/gotoDocId/108269416)

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 Certainly, in a situation where industrial tariffs were introduced by almost all of the industrial nations-alongside the 'great depression' which led to severe industrial distress in the 1880s-it was not so strange to argue for reciprocity And it certainly does not automatically make those who did this members of a specific protectionist 'school' in opposition to a classical free trade 'school'. Last, we might add that the reason why the fair trade movement did not succeed in gaining more political support in Britain-besides the causes we already have mentioned-must be regarded as a consequence of the weakness of the manufacturing interest in Victorian Britain. Elsewhere in Europe this interest was strong enough to convince the public as well as to push the traditional governing elite groups in the direction of introducing industrial preference. Hence, according to two leading historians in the field-P.J. Cain and A.G. Hopkins-British economic history since the eighteenth century is distinguished in the following way 'when a choice had to be made between the claims of finance and those of manufacturing, as was increasingly the case in the late nineteenth century, preference was given to the former'. [92](http://www.questia.com/reader/action/gotoDocId/108269416) Hence, it was the leading position of finance capitalism and services in Britain which were behind the failure to introduce tariffs in the 1880s. The main result of this failure, Cain and Hopkins argue, was a steady decline of Britain's industrial strength.

From the 1870s onwards a great number of books and pamphlets were published-written by economists, journalist and other laymen-which directly criticised the fair trade movement and its protectionist tendencies. Including the above mentioned pamphlet by Henry Fawcett were the following: 'England under Free Trade', G.W. Medley (1881), 'The Attack upon Free Trade', W. Sumners (1881), 'The Fair Trade League', J.K. Cross (1881), which was starkly critical and 'Free Trade versus Fair Trade', Thomas Farrer (1882). Probably the most widespread pamphlet was-as we have seen-'Free Trade and British Commerce', Augustus Mongredien (1879), which sold no less than 43,000 copies. [93](http://www.questia.com/reader/action/gotoDocId/108269416) Clubs also paid a role; especially the Cobden Club but also the Political Economy Club gathered academics, businessmen, civil servants and City bankers-here free trade was the gospel. From its inauguration in 1866-one year after Cobden's death-the Cobden Club was also a powerful lobbying group, and its role as the epicentre of Liberal values from the 1860s onwards is hard to exaggerate, according to Anthony Howe. [94](http://www.questia.com/reader/action/gotoDocId/108269416) Moreover, its aim was to reinforce Cobdenite policies, including free trade, liberal fiscal reform and anti-imperialism as a driver of foreign policy.

Most professional economists without doubt were sceptical of the fair trade movement and its ideas, but there are some exceptions. A number of

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 leading economists were even deeply involved in the Cobden Club. This included Thorold Rogers, at Oxford and King's College London, who was close both to Richard Cobden and John Bright, and who might even have come up with the idea of the Cobden Club. [95](http://www.questia.com/reader/action/gotoDocId/108269416) Thorold Rogers, who would later become a pioneering economic historian and who was overtly critical of the use of deductive theory in economics in general, openly confessed his close connection to the Manchester School, whose leading idea he defined as the principle whereby 'freedom was the natural condition of the individual'. [96](http://www.questia.com/reader/action/gotoDocId/108269416) There were also many others including W.A.S. Hewins (J. W. Ashley always talked of Hewin's 'Manchesterism' [97](http://www.questia.com/reader/action/gotoDocId/108269416) ), Arnold Toynbee and Bonamy Price in Oxford as well as Henry Fawcett in Cambridge. The Cobdenite influence was also strong in the Oxford Extension movement which, from the 1870s onwards, included such lecturers as Thorold Rodgers, A.H.D. Aceland, Arnold Toynbee and L.L. Price, the latter who published a book on the basis of one of his courses-*A Short History of Political Economy in England* (1891)-which ran to fifteen editions (the last in 1932).

We can imagine that lecturers such as Rodgers, Toynbee and Price-all of them belonging to what has since been called the British Historical School [98](http://www.questia.com/reader/action/gotoDocId/108269416) -besides giving a short and popular outline of political economy emphasising the role of free trade and agitating against the fair traders, would also teach the history of political economy. In this L.L. Price was surely not alone. As we will see later on, Adam Smith-especially his critique against the 'mercantile system'-was an important figure for their whole understanding of political economy. In the narrow sense that we have discussed Adam Smith in this chapter he was also useful for them in order to attack the fair traders. In 1869 Rodgers published his edition of Smith's *Wealth of Nations*-following McCulloch's from 1828. In his preface he pointed out the overall importance of Adam Smith. Here he also presented Smith as the originator of liberal reform in Britain since the days of Pitt and as a hero in the struggle for free trade. This was the kind of historical rhetoric that people like Francis W. Hirst would later expand upon:

The quick sagacity of Pitt immediately appreciated *Wealth of Nations.* It is known that he read it diligently, and valued it highly. It is certain that had he not been betrayed or coerced into a war with the French Revolution, he could have made its reasoning the basis of his fiscal and commercial policy…. The progress of economical reform was retarded for half a century. Their opposition was ignorant; for Fox declared that he could not understand Smith…. The Principles of free trade, announced in the ever-memorable petition of Mr Tooke (known

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 as the Merchant's Petition), and still forming an economical creed, were ultimately carried out by the most illustrious of Smith's many disciples, Cobden."

As a piece of historical writing this is misleading, to say the least. However, it served its purpose and became part of a paradigmatic discourse on Adam Smith which has surely been hard to root out.

What is most important from our point of view, however, is that the controversy over the fair trade movement-with the help of popularisers as well as professional economists-played its own role in establishing the view that there existed a distinctive tradition of free trade discourse leading back to Smith. As we have seen, this is a serious oversimplification at the very least. Instead, the tradition from Smith, including the Classical School, was very much divided on the matter of free trade, when it could be introduced and the desirable exceptions to its rule. Thus, when Richard Cobden and his followers turned Adam Smith's plea for more division of labour on an international scale into a call for a Utopia of peaceful co-operation through universal free trade this was certainly not in line with Smith's more sceptical outlook. However, in the situation after 1870 it was perhaps easy-and at least useful-to regard Cobden as the true inheritor of Adam Smith. Moreover, the transformation of Smith's theory into a dogma of comparative costs meant that much of Smith's historical and institutional approach was lost. During the first half of the nineteenth century many classical economists were still mindful of the complexities and grey areas of Smith's original theories when they offered practical advice. But after this period it seems that such subtleties were easily forgotten.

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# 4 The historical construction of mercantilism

In a lecture as the first Drummond Professor of Political Economy in Oxford, given during the academic year 1825-1826, Nassau Senior presented an outline of his own subject which emphasised the great gulf between the old and new: [1](http://www.questia.com/reader/action/gotoDocId/108269417)

Political Economy was an art long before it was a science…. Those who first practised it in modern Europe…those who first endeavoured to employ the powers of government in influencing the production, distribution and consumption of wealth, were semi-barbarous sovereigns, considering their subjects not as a trust, but a property to the best and readiest account. Their advisers were landholders, merchants and manufacturers, each anxious only for his own and immediate gain, and caring little how the rest of society might be affected by the monopoly he extorted. From the mode in which these persons pursued what they thought their individual interests, aided by national jealousy, and by the ambiguities of language, and selected by any sound principle, were that unhappy expound of theoretical and practical error, the mercantile system.

Before his audience Senior also scorned 'that extraordinary monument of human absurdity the Mercantile Theory', [2](http://www.questia.com/reader/action/gotoDocId/108269417) describing it as:

the opinion that wealth consists of gold and silver, and may be indefinitely increased by forcing their importation, and preventing their exportation, a theory which has occasioned, and still occasions, more vice, misery and war, than all other errors put together. [3](http://www.questia.com/reader/action/gotoDocId/108269417)

The manner in which Senior used the terms 'the mercantile system' or the 'mercantile theory of wealth' he had borrowed from Adam Smith. However, the term *systèms mercantile* first appeared in print in Marquis de

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 Mirabeau's *Philosophic Rurale* in 1763. Here Mirabeau refers critically to the idea that a nation may profit from an importation of money. [4](http://www.questia.com/reader/action/gotoDocId/108269417) It is likely that the term was used more generally before that among French *economistes* to describe a system of *dirigiste* trade and industrial policies. Earlier, during the eighteenth century, French writers from Boisguilbert onwards had referred to the *système Colbert.* Certainly, for the more free-trade-inclined economists the *système Colbert* designated state support of manufactures but also aggressive trade policies in general and industrial tariffs in particular. Hence, the 'Colbert' and 'mercantile' systems were often used interchangeably. As Adam Smith was familiar with Mirabeau's *Philosophic Rurale* (1763) it is highly likely that he picked up this idea from this book. [5](http://www.questia.com/reader/action/gotoDocId/108269417) In his own *An Inquiry in to the Wealth of Nations* Smith devoted the first chapter in Book IV ('Of Systems of Political Economy') to the 'commercial or mercantile System'. At the heart of this 'system' lay the 'popular notion' that 'wealth consists in money, or in gold and silver'. Back in medieval times, Smith points out, 'all the different nations in Europe have studied…every possible means of accumulating gold and silver in their respective countries'. Such practices were the basis of the popular notion which also informed policies forbidding the export of bullion. However, 'when those countries became commercial, the merchants found this prohibition upon many occasions extremely inconvenient', he says. During the seventeenth century many of the merchant pamphleteers noted this inconvenience. Here, Smith could have drawn attention to Thomas Mun and Edward Misselden's defence of the East India Company-but of course he did not. Writing in more general terms, he stated that, as a consequence of their campaigning, '[t]he attention of government was turned away from guarding against the exportation of gold and silver, to watch over the balance of trade, as the only cause which could occasion any augmentation or diminution of those metals'. [6](http://www.questia.com/reader/action/gotoDocId/108269417) Hence, the theory of the favourable balance of trade was born. Moreover, the only architect of this theory mentioned by Smith is Thomas Mun and specifically his work 'England's Treasure by Forraign Trade' (printed in 1664 but written in the late 1620s). However, the popular notion that wealth consists of money remained dominant for at least another hundred years, Smith argues. True to his critical attitude towards to the merchant class, he thinks that although 'some of the best English writers upon commerce' were aware that this was a fallacy, they fell victim to their own special interest. Thus, even those 'convinced of its absurdity', he says, supported the notion: 'In the course of their reasonings…the lands, houses and consumable goods seems to slip out of their memory, and the strain of their arguments frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce'. [7](http://www.questia.com/reader/action/gotoDocId/108269417)

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 That Smith published his critical discussion on the popular notion of confusing wealth with money in a book entitled 'Of Systems of Political Economy' was certainly no coincidence. In this book he sought to explain the specific economic policies-which Eli Heckscher later on called 'staple policies'-pursued by kings and governments in England and elsewhere since the medieval period. He found the answer in the popular delusion of confusing wealth with money, which he thought widespread during the sixteenth and seventeenth centuries. Furthermore, his aim was to contrast this view with his own theory on wealth and value, which had radically different policy implications, formulated in *Wealth of Nations*. This was also the reason why he was so eager-something which always irritated Dugald Stewart, who was well aware of Smith's closeness to the French *economistes*-to signal his distance from the physiocrats in France. [8](http://www.questia.com/reader/action/gotoDocId/108269417) Hence, by this strategic manoeuvre he sought to establish his own system in opposition to two older ones, the mercantile system and the agricultural system. He wanted to show that both of these systems were erroneous in the sense that they based their theory of wealth on foreign trade or agriculture rather than on productive labour. Smith's strategy in this was to prove extremely successful in the long run. As we have already seen, since the early nineteenth century most writers on the history of economic thought have accepted the existence of three different systems of wealth and value, with all that this implies for the science of economics as a whole. Moreover, Smith's success has been almost total: by almost all later interpreters his 'system' has been regarded as by far the best of the three.

**Mercantilism**

After Smith the view of the mercantile system, or simply mercantilism, as a political economy of state *dirigisme* in order to support a special interest with the aid of the positive balance of trade, was carried further by classical political economy. For example, Richard Jones argued that the seventeenth century had seen the emergence of a protective trade system which built on 'the almost romantic value which our ancestors set upon the possessions of the precious metals'. [9](http://www.questia.com/reader/action/gotoDocId/108269417) Hence, mercantilism was based on the King Midas folly and could be described as a mere fallacy. Certainly Hume and others before him had used a simple specie-flow argument to correct this mistake: a net-inflow of bullion must certainly mean a relative rise in price, which, through the export and import mechanism, will tend to correct itself.

During the nineteenth century this viewpoint was contested by the German Historical School which preferred to define mercantilism as state-making in a general sense. [10](http://www.questia.com/reader/action/gotoDocId/108269417) Hence, the doctrines of mercantilism were no

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 mere folly. In short they were the rational expression of nation-building during the early modern period. The definition of mercantilism as a process of state-making during a specific historical epoch first appeared in a series of articles published between 1884 and 1887 by the German historical economist Gustav Schmoller, later published in English under the title *The Mercantile System and its Historical Significance* (1896). 'Mercantilism' was the term he used to designate the policy of unity and centralization pursued particularly by the Prussian government during the seventeenth and eighteenth centuries. Hence, mercantilism also expressed the economic interest of the state and viewed economic wealth as a rational means to achieve political power. Rooted in the tradition of the older German Historical School with such leading figures as Wilhelm Roscher, Karl Knies and Bruno Hildebrand, Schmoller (as the front man of the 'younger Historical School') argued that the core of mercantilism consisted of *dirigiste* ideas propounding the active role of the state in economic modernisation and growth. The much-debated balance of trade theory was perhaps misguided. However, according to Schmoller it was rational in a more general sense in its emphasis regarding the pivotal role of protectionism and infant industry tariffs in order to create a modern industrial nation.

These two widely different definitions of mercantilism are not easy to reconcile. However, an attempt was made by the Swedish economic historian Eli Heckscher who, in his massive *Mercantilism* (1931), sought to present mercantilism as a system of both economic thought and economic policy. In this broader school of economic doctrine he very much accepted Adam Smith's description. He agreed that the balance of trade theory was at the core of the mercantilist doctrine. Moreover, he agreed that it was based on a folly, as was subsequently revealed by modern thinking, such as Hume's expounding of the specie-flow mechanism. Heckscher explained the core of the positive balance of trade theory by pointing at what he believed was a distinct 'fear of goods' dominating the popular mind during the seventeenth century. This fear of goods and love of money was, according to him, an expression of the transition which took place during this period from a barter economy to one based on money (gold and silver).

Heckscher also regarded mercantilism as a system of economic policy. And as such its logic was-as the historical economists emphasised-nation-making. Hence, with the goal of national power the mercantilists developed a number of nationalist economic policy tools, including tariffs. The British Navigation Acts, as well as the establishment of national standards of weights and measurements and a national monetary system could be viewed as outcomes of the same mercantilist policies. [11](http://www.questia.com/reader/action/gotoDocId/108269417)

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 It is not easy to grasp in Heckscher's synthesis how the two components of mercantilism-economic theory and policy-relate to each other. Certainly, it left scope for misunderstandings. Thus, for example, Jacob Viner from Chicago, unfairly and wrongly interpreted Heckscher as being a follower of Schmoller and the Historical School. It was not only that Heckscher was a stern liberal and as such critical of any kind of *dirigiste* or restrictive system. In fact, Heckscher often referred critically to the methodology of the Historical School and rather stood on the side of Karl Menger in the *Methodenstreit*. [12](http://www.questia.com/reader/action/gotoDocId/108269417) Viner emphasised that the main characteristic of the mercantilists was their confusion of wealth with money. In contrast to Heckcher's more complicated picture, he portrayed them as simple bullionists. [13](http://www.questia.com/reader/action/gotoDocId/108269417)

## Adam Smith's mercantile system today

So far we have seen that Adam Smith in *Wealth of Nations* constructed a 'mercantile system' of political economy the kernel of which was the fallacy of confusing wealth with bullion expressed, for example, in the so-called favourable balance of trade theory. To what extent this construction is valid on historical grounds is extremely unclear, as modern research on this topic has attempted to show. [14](http://www.questia.com/reader/action/gotoDocId/108269417) Certainly, in major countries like England, France and Spain, as well in the petty states of northern Italy and elsewhere, economic writers from the sixteenth century onwards were preoccupied with the question of how the nation should become prosperous, wealthy and powerful. Without doubt they regarded trade and industry as of especial importance in this context. However, it seems unfruitful to think of mercantilism as a structured doctrine which contained a number of settled principles by which to describe economic behavior and/or prescribe the right policy measures. Such a scepticism towards the notion of mercantilism as a 'true' (whatever that is) system of political economy is acknowledged to have been opened up by A.V. Judges in a famous article from 1939. Most well known is his often cited comment that mercantilism 'never had a creed; nor was there a priesthood dedicated to its service'. [15](http://www.questia.com/reader/action/gotoDocId/108269417) It is clear that Judges' article was a response mainly to Eli F. Heckscher's *Mercantilism* (which appeared in Swedish in 1931, in German 1932 and in English 1935). His rejection of mercantilism as a coherent system was later taken up by a number of British economic historians. For example D.C. Coleman denounced outright the usefulness of mercantilism as a description of either an economic policy or an economic theory: it was 'a red-herring of historiography'. Its main problem, according to Coleman, was that it gave a false unity to disparate events and ideas. Hence, mercantilism was not a school of economic

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 thinking and doctrine, as opposed to, for example, the physiocratic school of the eighteenth century. [16](http://www.questia.com/reader/action/gotoDocId/108269417)

Thus, it is certainly correct that mercantilism was no finished system or coherent doctrine in the sense in which it was used in the nineteenth and twentieth centuries. However, while mercantilistic views mainly appeared in pamphlets which dealt with economic and political issues of the day, this does not necessarily imply that economic writers during the seventeenth and early eighteenth centuries composed economic texts without some common aims, views and shared concepts in order to make intelligible the complex world of economic phenomena. Hence, it is perhaps useful to note that the mercantilist writers shared a common vocabulary to argue specific political and economical viewpoints. On the other hand, Coleman, amongst others, was certainly right when he stressed that such commentators as Schmoller and Heckscher overemphasised the systematic character of mercantilism as a coherent system both of economic ideas and economic policy more or less directly stemming from its doctrines. However, to be historically correct, the critical attitude towards the view that mercantilism could be identified as a coherent 'system' did not begin with Judges' critique of Heckscher. Rather it had its modern origin with Ephraim Lipson, the English economic historian who, in 1931, warned against the concept. But, in contrast to Coleman's stark condemnation, Lipson could find it useful at least to some extent:

The term 'mercantile system' is generally employed to indicate the commercial policy of the State in sixteenth, seventeenth and eighteenth centuries. The use of the term is apt to be misleading: it suggests the systematic working out of a national economic system based on precise and definite principles. In reality the policy of the State was primarily dictated by the needs of an ever-changing environment. The fact that the term was not used by sixteenth- or seventeenth-century writers warns us against the attempt to give formal shape and substance to what was largely nebulous and opportunist. Nevertheless the 'mercantile system' serves as a convenient phrase to express a trend of thought. Broadly speaking, mercantilism denoted the pursuit of economic power in the sense of economic self-sufficiency. [17](http://www.questia.com/reader/action/gotoDocId/108269418)

It is not, therefore, very fruitful to regard mercantilism as an all-encompassing phenomenon appearing from country to country during most of the early modern period organised around a fallacious dichotomy drawn between money and wealth or a 'fear of goods'. From Adam Smith to Jacob Viner in the 1930s the orthodox view that the mercantilist writers had confused money with wealth has been repeated over and over again.

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|  | However, more recent research has agreed that this argument is unsound. Although Viner brought forward a number of citations to support his view, they are taken out of context and he does not really provide a conclusive or even fair illustration of contemporary views. In fact, the Midas interpretation has not much support in actual texts from this period at all. It is quite clear that a majority of writers from Thomas Mun to Edward Misselden in the 1620s by and large regarded wealth in the form of consumable goods such as corn, meat, tools, manufactured utensils or luxury goods. Some of them would have argued that to have abundance of money in the country was of great importance for economic progress and the wealth of the nation. But this did not at all imply that money was identical with wealth. Rather, many would argue that a net inflow of money was the 'barometer' by which was signalled whether a nation won or lost in its trade with other countries. Others would say that abundant money would help to speed up intercourse in the marketplace, and stimulate growth and development. Thus, a net inflow of money could be a means to procure wealth; but wealth itself was always the result of production and consumption. It is difficult to find any hard evidence that the English mercantilist writers supported a favourable balance of trade because they saw an advantage in higher prices. According to such an interpretation the mercantilists were nothing more or less than supporters of price inflation. However, Mun, for example, understood well that part of the specie-flow argument which stated that an inflow of money would necessarily imply rising prices. For the bulk of the seventeenth-century writers on economic and trade issues, the quantity theory of money was a standard presupposition. As Viner stated, there were in fact very few price inflationists among the English mercantilists. Instead a majority agreed that high prices would cause lower exports-i.e. they argued that elasticity of demand was considerable in most export markets. Hence, neither the Midas folly nor the idea that the mercantilists sought to fill the prince's coffers with bullion, nor a belief in price inflation seems to have any real support in the contemporary texts themselves. More historically convincing, Max Beer in his *Early British Economists'* (1938) has suggested that the crux of this 'doctrine' was the idea of the need for more money in circulation-'a struggle for liquid assets'. A main worry of the economic writers in England of the seventeenth and eighteenth centuries, therefore, was that the shortage of money would curtail growth and economic development. This was a major problem, especially, for example, in England, as it had no silver or gold mines of its own. A solution to this dilemma could only be an importation of money from abroad. As bullion could be obtained only in exchange for goods, one possible interpretation of the favourable balance idea might be the existence of an -76-  |

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 export surplus of goods, which would mean that gold and silver could be obtained without having to sell more wares than would be brought into the country. Hence, as a result, the kingdom's stock would be enlarged both in wares and money. [18](http://www.questia.com/reader/action/gotoDocId/108269418)

Another interpretation has been suggested by J.D. Gould. [19](http://www.questia.com/reader/action/gotoDocId/108269418) As Viner already pointed out, Mun was certainly aware of both the quantity theory of money and the existence of demand elasticity. So why did he not follow this line of thought and state that an inflow of money could not be obtained over a long period, as an increase of prices would only lead to less foreign demand (in accordance with the specie flow mechanism later developed by Hume)? According to Gould, Mun simply believed that an increased stock of bullion could be used as liquid capital in order to finance a greater volume of trade. This would then imply that Mun-perhaps because of the factual circumstance of the day, with the bulk of the capital stock made up of liquid capital assets-identified money with capital.

It is possible to interpret Mun in yet another way. He-and many others during this period-feared that without a steady inflow of money originating from a favourable balance of trade, trade and industry would stagnate and the price of land fall. Hence, if the circulation of goods expanded so fast that it led to a shortage of money this could only be through a steady inflow of gold and silver money through a net trade surplus. This was the case at least where there existed no domestic resources of gold and silver-in such countries a trade surplus was unnecessary. In such cases there was no fear of price inflation as the new gold and silver was needed in order to serve an increased circulation. [20](http://www.questia.com/reader/action/gotoDocId/108269418)

However, whatever interpretation we choose of the favourable balance of trade, it is clear that this 'theory' had already been abandoned in its simple form by most writers by the end of the seventeenth century. Some argued that the principle was impractical as a policy goal as it was impossible to account for a trade surplus in quantitative terms. Others found problems on more theoretical grounds-i.e. directly or indirectly admitting the argument later known as the specie flow argument. Instead, from the 1690s writers such as Josuah Child (1630-1699), Charles Davenant (1656-1714) and Nicholas Barbon (1640-1698) developed a new idea which has been called alternatively the theory of 'foreign-paid incomes', the 'labour balance of trade theory' or the 'export of work' theory. Instead of holding on to the dogma that a country should receive an inflow of bullion through the balance of trade, these authors stressed that a country should export products with as much value-added content as possible and import as little of such products as they could. The more manufactured goods were exported the more income would accrue, they thought. Without doubt this 'theory' could serve as an excuse both for high

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 duties on the import of manufactured wares and for subsidies for infant manufactures. [21](http://www.questia.com/reader/action/gotoDocId/108269418)

Finally, it should to be pointed out that most modern research dealing with seventeenth- and eighteen-century doctrinal history has found it increasingly difficult to draw such a stark demarcation line between Adam Smith and his predecessors as that suggested by Smith himself and many of his followers. Thus, rather than being opposed to Smith, many writers acknowledged as mercantilists (such as Nicolas Barbon, Charles Davenant and others) can to a large extent be regarded as forerunners to both him and the Classical School. To an even greater extent can this be said of such eighteenth-century writers as Josiah Gee and Josiah Tucker. The latter, who regarded 'self-love' as the driving force in economic life, most often spoke for free trade as a 'right of nature': 'Surely, it is impossible to conceive that any Trades deserve to be discouraged by a wise government; but those only which administer Temptiality to Vice and Idleness; For all other are an absolute Benefit to Society, and the more free and uncontained they are, the greater and more universal is their Benefit'. [22](http://www.questia.com/reader/action/gotoDocId/108269418) Hence, many of them were not so *dirigiste* as they have been interpreted by a later generation. Moreover, their demand and supply analysis formed the nucleus of what would later become modern economics. In particular their insistence that the economy should be understood as a separate sphere governed by 'natural' laws outside politics and ethics was indeed path-breaking. [23](http://www.questia.com/reader/action/gotoDocId/108269418)

## The historical construction of a concept

So far we have questioned whether modern historical research is supportive of Adam Smith's idea that the (restrictive) trade policies of the seventeenth century were based on a 'theory' of the favourable balance of trade. However, what is perhaps more interesting in this context is how this historical construction was used by nineteenth-century political economists to bolster their views for free trade against protection. What is then of utmost importance is the role of mercantilism-as a historical construction-for the development of economics and, especially, for the invention of a tradition of free trade originating with Adam Smith. From the outset we can suspect that the existence of a certain mercantile system before Smith played an important part for those who sought to invent such a tradition, given the intensity of the discussions on the subject. It cannot have been only for internal historical reasons that the concept and reality of mercantilism has been so hotly debated over the last two hundred years. Only if we understand how central it was to the construction of economics, especially during the nineteenth century, can this make sense. It is the aim

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 of what follows in this chapter to clarify just how important mercantilism was, especially for the Manchester School of economists.

After Smith the view of the mercantile system 'as an agglomeration of commercial interference's fortified by a monetary folly' [24](http://www.questia.com/reader/action/gotoDocId/108269418) was carried further in Britain by classical political economists. Nassau Senior, Richard Jones and particularly J.R. McCulloch in Britain, and Auguste Blanqui in France, helped to reinforce the notion of a 'mercantile system' along the lines set out by Adam Smith. Hence, it is no exaggeration to say that much of his great work in tracing the history of economics-and in this McCulloch was indeed, as we have seen, a pioneer-was devoted to supporting one of Adam Smith's inventions in the *Wealth of Nations*: his straw man characterisation of a mercantile system founded on the fallacious theory of a positive balance of trade. Hence, already in his 'Introductory Discourse' to his 1828 edition of *Wealth of Nations,* McCulloch presented a sketch of doctrinal development which closely followed in Smith's footsteps, remarking, for example, that 'Mun was the great apostle of the mercantile system'. [25](http://www.questia.com/reader/action/gotoDocId/108269418) Moreover, regarding Mun he wrote:

Mr Mun lays no stress whatever on the circumstances of foreign commerce enabling us to obtain an infinite variety of useful and agreeable products, which it would either have been impossible for us to produce at all, or to produce so cheaply at home. We are desired to consider all this accession, wealth…as nothing-and to fix our attention exclusively on the balance of £200,000 of gold and silver…. And yet Mr Mun's rule for estimating the advantage of foreign commerce, was for a long time regarded, by the generality of merchants and practical statesmen, as infallible. [26](http://www.questia.com/reader/action/gotoDocId/108269418)

At the core of the 'mercantile system' lays a doctrine expressed by Mun as well as others which main message is that:

the wealth of individuals and of states was measured, not by the abundance of their disposable products-but by the quality and value of the commodities with which they could afford to purchase the precious metals-but by the quantity of these metals actually in their possession-and here the policy, as obvious as it was universal, of attempting to increase the amount of national wealth by forbidding the exportation of gold and silver, and encouraging their importation. [27](http://www.questia.com/reader/action/gotoDocId/108269418)

Already with McCulloch we find everything which traditionally is attached to a full-fledged mercantile system: the bullionist fallacy as well as

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 protectionism. This historical construction was even more forcefully pushed upon the public through an impressive publishing effort-with financial support from the Political Economy Club-of old tracts and pamphlets written by seventeenth- and eighteenth-century economic authors. [28](http://www.questia.com/reader/action/gotoDocId/108269418) In total McCulloch published six thick volumes of such collections from 1856 to 1859. The first, *A Select Collection of Early English Tracts on Commerce,* included pamphlets by Mun, Lewes Roberts, Josiah Child and Samuel Fortrey as well as a lengthy and slightly odd anonymous piece entitled 'Britannia Languens, or a Discourse of Trade' from 1673. Later volumes included *Scarce and Valuable Tracts on Money: A Select Collection and Valuable Tracts and other Publications on Paper Currency and Banking* and another was devoted to tracts regarding public debt, and so on. His aim was without doubt to show the coherence of the 'mercantile system' and its foundation upon a theory of a favourable balance of trade stemming from a confused view of the role of money. In order to emphasise this point he wrote in the introduction to the first of the volumes (in which Mun's important pamphlets are printed):

Its influence was not confined to England, but extended to most other countries. The rule that in dealing with strangers 'wee must not ever sell more to them yearly that we consume of theirs in value' was looked upon as infallible. Its merits were proclaimed by philosophers and merchants, while statesmen exerted themselves to give it a practical effect. Agriculture, commerce, and manufactures, ceased to be objects of public solitude. The 'balance of trade' was regarded as the only source of national wealth, and the only measure of its increase; and all the complex machinery of premiums and bounties on the one side, and restrictions and prohibitions on the other, was set in motion to render it favourable. [29](http://www.questia.com/reader/action/gotoDocId/108269418)

We can also understand why McCulloch was so keen to emphasise the importance of the mercantile system-this 'so completely successful… sophistry'-when reading the following:

And such and so powerful was the delusion, that long after its fallaciousness had been fully demonstrated by North, and Hume, and Smith, and others, it continued to maintain an unimpaired ascendancy …[e]ven in our own time Parliament was annually congratulated on the excess of exports over the imports. [30](http://www.questia.com/reader/action/gotoDocId/108269418)

By showing that there existed an earlier coherent mercantilist 'school' of economics it was easy for him argue that Smith was the father of a new

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 and superior system of political economy. Without doubt, the case for Smith against earlier schools of political economy became even stronger if old *dirgisme* could be shown to be based on a mere folly.

Another writer who helped to establish the view of a 'mercantile system' along the lines of Adam Smith was-as we have already stated-Richard Jones. His 1847 article in the *Edinburgh Review* was especially important in this context. Here Jones, in accordance with his more historical understanding of the subject of political economy, spoke of stages and systems of economic thought and policy. He showed how economic policies and legislation since the medieval period had been carried from the point of view of specific and system-like principles. Up until the seventeenth century the balance-of-bargaining system was the leading principle of governance. The aim of this system was to bring bullion into the country and to prevent it from going out. In England the two famous statutes of staples and employment explicitly forbade foreign salesmen from taking money or bullion out of the kingdom. However, in the same manner as Smith, Jones points out that increased foreign trade put pressure on this system. Thus, from an increase of the social and political power of merchants-but not from 'the prevalence of scientific notions'-this system was gradually abandoned. During the seventeenth century the 'system' of balance of trade as a cornerstone of economic policy appeared instead. Moreover, according to Jones, the chief promoter of this new system was the 'eminent merchant of London', Thomas Mun. [31](http://www.questia.com/reader/action/gotoDocId/108269418) Jones also considered the confusion between wealth and money as the main driving force behind mercantilist policies. Like McCulloch, he pointed out that Mun's 'system' had been very influential policy-wise. Hence, it was received 'as the gospel of finance and commercial policy; and his principles ruled for above a century the policy of England, and much longer that of the rest of Europe'. [32](http://www.questia.com/reader/action/gotoDocId/108269418) Jones's appreciation of Smith as the demolisher of the Mercantile doctrine is famous:

Whoever has heard of Adam Smith, has heard of the almost romantic value which our ancestors set upon the possession of the precious metals; yet few persons are acquainted with the singular processes by which they sought to bring home the golden fleece, or with much more than the names of the early writers who had the honour of first enlightening their countrymen on the true nature of this Midas folly. [33](http://www.questia.com/reader/action/gotoDocId/108269418)

To this list we can also add another-and earlier-author, Dugald Stewart. In his Edinburgh lectures from 1809-1810 (published in 1855 under the title *Lectures on Political Economy*) he seems faithfully to repeat Smith's definition of the 'false system of political economy', the mercantile

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system. However, he extends it further than Smith had done. In Stewart's version it becomes much more a fully fledged theoretical system. Stewart's predecessor had been more careful-true to his general methodology and way of writing-in pointing out the popular origin of this doctrine and had moreover especially pointed out that 'some of the best English writers upon commerce' had seen through the notion that wealth consisted of money but kept quiet for opportunistic (or special interest) reasons. Hence, Stewart expands upon Smith when he writes: 'The great Principle of the Mercantile System is that money constitutes the wealth of a nation, or in other words, that a nation is rich or poor in proportion to the plenty or scarcity of the precious metals.' [34](http://www.questia.com/reader/action/gotoDocId/108269418) Thus Stewart helped to cement and indeed exaggerate this idea which certainly bore Smith's stamp.

## Manchester and the mercantile system

Britain never had a *Methodenstreit* in the same way as Germany and Austria. However, it was really not until the 1890s, or perhaps even later, that the new neo-classical paradigm in economics-in its special Marshallian version-gained its breakthrough. In fact it is fair to say that historical economics dominated the professional scene in Britain up until then. Most of the leading professors who held chairs in political economy were historically orientated. Their economics was characterised by a strong empirical and commonsense character. Several of them wrote economic history, either British or general. Some of them-especially Bonamy Price and Cliffe Leslie-were also explicitly inductivists in a philosophical sense. [35](http://www.questia.com/reader/action/gotoDocId/108269418)

It is possible to find a number of parallels between the historical economists in continental Europe and in Britain. However, in one important sense these two cultural and geographical scenes differed. In Britain the main bulk of the historically minded economists were on the side of free trade, *laissez-faire,* economic liberalism-and Adam Smith. Most historical economists in Germany rather sided with the protectionists than with the free-traders. Moreover, in Germany, within the Historical School, Smith was most often regarded as a starting-point for an ahistorical methodology which they believed characterised the (English) school of classical political economy. Hence, Ricardo and the others had carried out only that veiled form of cosmopolitanism of which Friedrich List was so critical. The relationship between List and the historical economists-both in its older and the younger versions-is certainly complex. [36](http://www.questia.com/reader/action/gotoDocId/108269418) However, it is not unfair to say that most of the historical economists of continental Europe opposed the kind of *laissez-faire* connected with, for example, Manchester-and most often also with the name of Adam Smith.

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Among the more well-known and influential historical economists in Britain only William Cunningham and John Kells Ingram in Dublin showed open sympathy for the kind of *dirigisme* that characterised most of the historicist thinking in Germany Ingram was on the whole critical of the role 'individual liberty' played in Adam Smith's moral philosophy and instead pleaded that economics in the future must be regarded 'as forming only one department of the larger science of Sociology'. Moreover, he was heavily influenced by Herbert Spencer and criticised presentday economics for its atomistic character and its failure to understand that '(t)he individual point of view will have to be subordinated to the social'. [37](http://www.questia.com/reader/action/gotoDocId/108269418) The Irish professor of political economy at Dublin, Thomas Edward Cliffe Leslie was also a stern opponent of a kind individualism that seemed to stem from the orthodox classical position: 'The history of Europe, and so far as it is the history of progress of opulence, is not, in its pages, the history of selfishness, but of improving justice, of emancipated industry, and of protection for the poor and weak'. [38](http://www.questia.com/reader/action/gotoDocId/108269418)

Cunningham was also an exception in the manner in which he interpreted Adam Smith. In contrast to Ingram he was sympathetic-most probably for opportunistic reasons-to Smith and sought to win him over to his own camp. Thus, he presents a Smith quite different from the one familiar to both the Germans and most of his fellow historical economists. In a pamphlet published by The Tariff Reform League in 1904 entitled 'Richard Cobden and Adam Smith' he sought to adjoin Cobden to the cause of Chamberlain's tariff reform. Times had changed since the days of Cobden, he wrote. With the advent of new protectionism Britain too must protect its interests. With regard to his great political sense, Cobden would clearly have admitted this, he concluded. However doubtful this reinterpretation of Cobden may seem, his characterisation of Smith was much more accurate. On Smith, for example, he says: 'how little he was prepared to adopt the conceptions of a self-acting economic system'. [39](http://www.questia.com/reader/action/gotoDocId/108269418) On the whole, Cunningham thinks that Smith's disciples had misinterpreted him and paid too little attention to his historical method and his more complex attitudes towards the state. They had made the mistake 'to pass from taking the principle of *laissez-faire* as an assumption for purposes of investigation, and to elevate it into a maxim for practical guidance', [40](http://www.questia.com/reader/action/gotoDocId/108269418) he stated. This was also the opinion of another great economic historians, W.J. Ashley, when he wrote:

No great English economist indeed-neither Adam Smith, nor Malthus, nor Ricardo, nor John Stuart Mill-was, in fact, an out-and-out free-trader so far as practical application was concerned. Still less were they resolute non-interventionists over the whole range of economic life. [41](http://www.questia.com/reader/action/gotoDocId/108269418)

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and superior system of political economy. Without doubt, the case for Smith against earlier schools of political economy became even stronger if old *dirgisme* could be shown to be based on a mere folly.

Another writer who helped to establish the view of a 'mercantile system' along the lines of Adam Smith was-as we have already stated-Richard Jones. His 1847 article in the *Edinburgh Review* was especially important in this context. Here Jones, in accordance with his more historical understanding of the subject of political economy, spoke of stages and systems of economic thought and policy. He showed how economic policies and legislation since the medieval period had been carried from the point of view of specific and system-like principles. Up until the seventeenth century the balance-of-bargaining system was the leading principle of governance. The aim of this system was to bring bullion into the country and to prevent it from going out. In England the two famous statutes of staples and employment explicitly forbade foreign salesmen from taking money or bullion out of the kingdom. However, in the same manner as Smith, Jones points out that increased foreign trade put pressure on this system. Thus, from an increase of the social and political power of merchants-but not from 'the prevalence of scientific notions'-this system was gradually abandoned. During the seventeenth century the 'system' of balance of trade as a cornerstone of economic policy appeared instead. Moreover, according to Jones, the chief promoter of this new system was the 'eminent merchant of London', Thomas Mun. [31](http://www.questia.com/reader/action/gotoDocId/108269418) Jones also considered the confusion between wealth and money as the main driving force behind mercantilist policies. Like McCulloch, he pointed out that Mun's 'system' had been very influential policy-wise. Hence, it was received 'as the gospel of finance and commercial policy; and his principles ruled for above a century the policy of England, and much longer that of the rest of Europe'. [32](http://www.questia.com/reader/action/gotoDocId/108269418) Jones's appreciation of Smith as the demolisher of the Mercantile doctrine is famous:

Whoever has heard of Adam Smith, has heard of the almost romantic value which our ancestors set upon the possession of the precious metals; yet few persons are acquainted with the singular processes by which they sought to bring home the golden fleece, or with much more than the names of the early writers who had the honour of first enlightening their countrymen on the true nature of this Midas folly. [33](http://www.questia.com/reader/action/gotoDocId/108269418)

To this list we can also add another-and earlier-author, Dugald Stewart. In his Edinburgh lectures from 1809-1810 (published in 1855 under the title *Lectures on Political Economy*) he seems faithfully to repeat Smith's definition of the 'false system of political economy', the mercantile

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 justified in order to be defended…. It attacked every kind of protection, on the ground that assistance given to one interest was an injury, a restraint, and indefensible control on other interests, which were depressed, impoverished, and dwarfed in consequence…. Commercial freedom, i.e. the right of each individual to employ his labour innocently to his best advantage, and to spend the produce of his labour in the best market which the discretion and opportunities give him, is only one form of the great struggle for social freedom. [45](http://www.questia.com/reader/action/gotoDocId/108269419)

In other places he talked about 'the natural right of free exchange' and free exchange as 'the economical aspect of free will on personal liberty'. [46](http://www.questia.com/reader/action/gotoDocId/108269419) In a last example from a lecture in Oxford 1887-1888: '*Laissez-faire*…is no more than natural justice particularly the absolute and entire freedom of contracting parties'. [47](http://www.questia.com/reader/action/gotoDocId/108269419) Moreover, Rogers was extremely critical of John Stuart Mill and said with regard to his infant industry argument: 'Few statements made by an writer have, I am persuaded, been more extensively, though unintentionally, mischievous than this admission of Mr Mill'. [48](http://www.questia.com/reader/action/gotoDocId/108269419) Or in a lecture given at Worcester College Hall in Oxford: 'a most erroneous and mischievous utterance of Mr J.S. Mill, that retaliatory tariffs are real remedies against prohibitive or protectionist tariffs.' [49](http://www.questia.com/reader/action/gotoDocId/108269419)

Although James E. Thorold Rogers' most famous work remains the pathbreaking, *A History of Agriculture and Prices in England* in seven volumes (1866-1902), he was a prolific and productive author of books and pamphlets which dealt with everything from agricultural history to modern political issues, including the current land question. He was also a founder of the popularising Oxford Extension movement and was also active as a teacher and lecturer there from the 1870s and onwards. [50](http://www.questia.com/reader/action/gotoDocId/108269419) Before that he had published *A Manual of Political Economy for Schools and Colleges* in 1868.

The other great hero pushed to the fore by the Oxford Extension movement was, of course, Adam Smith. For example, Rogers, in his efforts as populariser, constructed a Smith which almost made him into a Manchester man. In *The Industrial and Commercial History of England* (1892) Rogers presents Adam Smith's general approach in the following manner: 'This great writer does not speak of classes nor of our country. He intends to be comprehensive as regards the whole community, and cosmopolitan as regards other civilized nations'. [51](http://www.questia.com/reader/action/gotoDocId/108269419) This view of Smith is spelled out even more clearly in his preface to the 1869 edition of *Wealth of Nations*. In this text he presents Smith as a follower of a political programme the main basis of which was minimal government and as little state intervention as possible. He also emphasised the important political role Smith had played and essentially described him as the founder of

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 economic liberalism in Britain. Smith had influenced Pitt, he says, but after that 'the progress of economic reform was retarded for half a century'. Nothing happened until Mr Tooke's Merchant Petition in 1824 (see p. 52). After that liberal reforms 'were ultimately carried out by the most illustrious of Smith's many disciples, namely Richard Cobden'. [52](http://www.questia.com/reader/action/gotoDocId/108269419)

In his preface Rogers also hails *Wealth of Nations* not only as a great English classic but also as 'a landmark in economical history'. [53](http://www.questia.com/reader/action/gotoDocId/108269419) To this extent Smith's main achievement was to correct the fallacy that money is wealth. In the preface Rogers gives much weight to Smith's discussion of the mercantile system, on the development from bullionism to balance of trade and he explicitly-like Smith, of course-mentions Thomas Mun. Hence, according to Rodgers, Smith was the founder of a new system of political economy which replaced the old mercantile system. This latter system, which taught *dirigisme* and protection was based on a mere fallacy and superstition. Free trade was only the logical consequence of the rooting out of old analytical mistakes. We find the same historical narrative everywhere in Rogers's writings. Hence, in his *Manual* for schools and colleges he says with regard to foreign trade in the sixteenth century onwards:

Unfortunately, however, all men in those days were occupied by the notion that money was wealth. This fancy led the kings and statemen of the age to encourage export and prohibit imports, because this seemed to be the best way of increasing the stock of money…. Slowly, after many a hard struggle, and in the face of bitter hostility, the economical reformers of this country, long after the genius of Adam Smith had discovered the true theory of trade, have induced the legislature of the United Kingdom to accept and act on the principle of free importation and exportation. [54](http://www.questia.com/reader/action/gotoDocId/108269419)

Elsewhere he would write about 'erroneous commercial theories of a bygone age' which had led to 'follies and public cries for protection'. [55](http://www.questia.com/reader/action/gotoDocId/108269419) In his lecture notes from Oxford later published by his son, he would speak about his 'late distinguished friend Mr Cobden' and Adam Smith in panegyrical style:

I do not know whether, in this age of experimental study, you are advised to read Adam Smith…. But I can assure you that in my opinion, whatever that may be worth, Adam Smith is much more frequently in the right than his commentators and critics are, and that, in particular, he had the advantage of a just and unprejudiced judgement, to say nothing entirely fearless candours, at a time when it was difficult to form a sound opinion and dangerous to utter it. [56](http://www.questia.com/reader/action/gotoDocId/108269419)

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 Rogers's successor at the Drummond Chair in Oxford in 1868-after Rogers had offered himself for re-election but was turned down after he offended a conservative convocation-was Bonamy Price (1807-1888). As we might have guessed he was less a liberal radical than James Thorold Rogers and, in contrast, his economics was perhaps not, as Alon Kadish states: 'part of a comprehensive *weltanschaung* as it was with Rogers'. [57](http://www.questia.com/reader/action/gotoDocId/108269419) However, Bonamy Price was also a solid Manchester man in the sense that he was totally in favour of free trade. In his politics he was, as noted, more conservative. Price was something of an expert on banking and currency issues. He was also like Rogers keen to teach non-academic audiences. In fact, Bonamy Price was not at all enthusiastic about abstractions and theory in economics. Rather he was an inductivist and empiricist and regarded political economy mainly as a practical subject. Hence, in his *Chapters on Practical Political Economy* (1882) he says that the strength of Adam Smith was that he 'placed his discussions in the very heart of the every-day life of men'. [58](http://www.questia.com/reader/action/gotoDocId/108269419) Furthermore, for Price, Smith's practical truths were more important than his theories which were later developed by the classical political economists. In *Chapters* Bonamy Price rejects the idea that political economy is a science. One important consequence of which is that:

Free trade is not the child of scientific skill upon the deductive method. The doctrine of free trade is only the explanation and enforcement against selfish perverseness of a very common practice, known and observed by all men. [59](http://www.questia.com/reader/action/gotoDocId/108269419)

His recommendation was therefore to 'retrace their steps back beyond the point where Ricardo diverged into a wrong path…[l]et them return to the method of *Wealth of Nations*'. [60](http://www.questia.com/reader/action/gotoDocId/108269419) Last, Price emphasised the connection between free trade and Adam Smith: 'free trade is the master of the mind in England, and that avowedly on the authority of Adam Smith'. Moreover 'there is not a free-trader in England who does not acknowledge Adam Smith to be his leader'. [61](http://www.questia.com/reader/action/gotoDocId/108269419) Hence, for Bonamy Price, the main achievement of Adam Smith's *Wealth of Nations* was to demonstrate the immortal truths of free trade.

Langford L.F.R. Price was also an Oxford man and in fact also a student of Marshall. In his attempt to write doctrinal history-the widely circulated, *A Short history of Political Economy in England: From Adam Smith to Arnold Toynbee* (1891)-he explicitly used Smith's critique of the mercantile system to attack the protectionism of his own day. He even tries to convince us that 'the protectionists arguments of the present day are generally tainted with the same erroneous conception of money and trade

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 as that which infected the mercantile system, though they may conceal the taint even more skilfully'. [62](http://www.questia.com/reader/action/gotoDocId/108269419) Consequently, establishing the existence of a mercantile system which built on a mistaken identification between wealth and money becomes very important indeed for Price. Thus, in his popular *Short History of English Commerce and Industry* (1900) he presents a stylised historical sequence which begins with bullionism, continues with the 'broader views' of 'the mercantilists' and ends with Adam Smith. Thus, from the sixteenth century in England, according to his view, '[t]he economic policy of the day was the mercantile system'. Moreover, '[n]ational power, and not plenty was the object sought'. [63](http://www.questia.com/reader/action/gotoDocId/108269419) He explicitly underlines that 'the favourable balance of trade' theory was at the centre of the mercantilist theory. In his typical cautious style, but with a clear aim, he for example propounds with regard to the 'mercantile system':

the system does appear to have at least encouraged the notion that money was the main form of wealth, and that national riches consisted in the abundance of gold and silver, and it certainly countenanced the idea that a nation was not really prospering unless there was on the whole 'balance of trade' a greater flow of the precious metals into than out of it…. Adam Smith met these arguments by an appeal to the true functions of money and the real nature of exchange. [64](http://www.questia.com/reader/action/gotoDocId/108269419)

Moreover, regarding '[t]he mercantile system…aimed at the accumulation of treasure' [65](http://www.questia.com/reader/action/gotoDocId/108269419) he made the following (but perhaps less historically convincing) connection to practical policy: 'Colonial trade was regulated by the principles of the mercantile system'. [66](http://www.questia.com/reader/action/gotoDocId/108269419) Even more doubtful is the historical scheme suggested by Price that the '[h]istory of free trade in England…begins with Pitt imbued with free trade principles, which he had learnt from Adam Smith'. [67](http://www.questia.com/reader/action/gotoDocId/108269419) Or elsewhere he says that free trade: 'was the triumph of a new school of thought [originating from]…the application to an important department of practice of the fundamental ideas of that economic science, which supplanted the old Mercantilist creed'. [68](http://www.questia.com/reader/action/gotoDocId/108269419) Consequently, Price writes:

Thus, was proved untrue the prophecy made less than a century before by Adam Smith, who declared that it was 'as absurd' to expect that 'the freedom of trade' should ever be entirely restored in Great Britain as it was to 'expect that an Oceana of Utopia should be established in it. The Repeal of the Corn Laws was followed, in 1849 and 1854, by the total abolition of the Navigation Laws, and the Budgets of 1853 and 1860 completed the reform. The mercantile system disappeared; the era of free trade was opened in its stead. [69](http://www.questia.com/reader/action/gotoDocId/108269419)

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 Moreover Adam Smith was the 'father of English Economics' as well as 'the father of a new school of thought': 'The first great name in the history of English Political Economy is that of Adam Smith'. Or, as he says elsewhere: 'if any economic book could be styled immortal the *Wealth of Nations* would be the first to earn that title'. [70](http://www.questia.com/reader/action/gotoDocId/108269419) Smith's greatest achievement was to root out the fallacies of mercantilist thought and to establish free trade doctrine in its place. Langford Price thus hails Smith as a great hero and describes *Wealth of Nations'* 'unique and almost magical influence': 'The book has exercised an influence in practical affairs which might have filled Adam Smith with astonishment…largely through the influence, direct or indirect, of his teaching…freedom of trade was entirely restored.' [71](http://www.questia.com/reader/action/gotoDocId/108269419)

At the same time Price provides us with a historical scheme which still to this day is often used. Adam Smith was the founder of a new theory, he proclaims. However, he would not have succeeded if the industrial revolution had not created the seedbed for free trade. Thus, the combination of Smith and the industrial revolution created free trade. The logic was hard as a rock: free trade was an indispensable part of the modern industrial economy and society.

Also in his *Economic Science and Practice* (1896) Price emphasises Smith's role in dismantling the 'mercantile system'. From Smith's *Wealth of Nations* he says, 'statesmen and men of affairs, from Pitt and downwards, have derived instructions, and obtained guidance, from its pages no less than academic economists'. [72](http://www.questia.com/reader/action/gotoDocId/108269419) Here he also discusses the 'mercantile system'. He starts out to admit and give credit to at least some of the mercantilist writers who were 'more reasonable than the reader of the famous book of the *Wealth of Nations* might suppose'. However, at the same time he stresses regarding Smith that 'the erroneous conception of money in the Mercantilist doctrine to which he devotes most continual attention, and it is on the correct idea of its function and place in industry and commerce that he lays repeated insistence'. Hence:

it is scarcely possible to read a Protectionist pamphlet, however able and well informed, without finding the old mistakes about money making their reappearance in some cunning disguise. It is as true now as it was when Adam Smith wrote it that even they who are convinced of the absurdity that wealth consists in money, or in gold and silver, are very apt to forget their own principles, and in the course of their reasoning to take it for granted as a certain and undeniable truth. [73](http://www.questia.com/reader/action/gotoDocId/108269419)

From the 1890s onwards James Bonar (1852-1941) was another prolific populariser of Manchester economics and a highly influential free-trader.

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 Bonar had also been a pioneer in the Oxford Extension movement, and had started to teach classes at Toynbee Hall, in Whitechapel in East London at the age of 25. Moreover, he was the founder of the Adam Smith Club and served for many years as its president. His great interest in Adam Smith was also shown in his publication of the *Catalogue of the Library of Adam Smith*. [74](http://www.questia.com/reader/action/gotoDocId/108269419) With regard to intellectual history Bonar put forward the proposition-also used by other popularisers such as Francis Hirst, as we have seen-that the philosophical radicals were bound up especially with Bentham, Ricardo and Malthus while '[t]he Manchester School were more nearly *Smithianisten*'. [75](http://www.questia.com/reader/action/gotoDocId/108269419) In his widely read *Philosophy and Political Economy* (1893) Bonar wrote:

It is impossible to understand the position of Adam Smith in the history of Economics without forming some idea of the two economic systems which influenced him most (the one by attraction, the other by repulsion)…. These were the Mercantile System and the Agricultural System…. The common notion of Mercantilism represents it as confusing wealth with money, or at least with the precious metals. [76](http://www.questia.com/reader/action/gotoDocId/108269419)

## The role of mercantilism in nineteenth-century economic thought

Without any doubt the establishment of a mercantile system-or mercantilism-became an important part of the story which many-and not the least the Manchester men, or their followers-sought to explicate. According to this stylised version of economic history, the thinking as well as the practical policy making of the seventeenth and eighteenth centuries was dominated by a doctrine which the physiocrats and Adam Smith had called 'the mercantile system'. According to this paradigmatic version, mercantilism was built on the King Midas fallacy: that wealth and money were identical. During an earlier period bullionism had been the prevailing doctrine. It had been demonstrated practically in such ancient institutions as the statute of employment, which forbade the exportation of currency from England. During the seventeenth century such merchant writers such as Thomas Mun paved the way for another doctrine with important practical implications: the favourable balance of trade theory. This became the basis of all prevailing *dirigiste* and protectionist policies of the day. For many of the Manchester-inspired economic historians-such as Thorold Rogers, Bonamy Price, Langford Price, James Bonar and others-the mercantilist identification of money with wealth was also the main cause behind the many wars and conflicts during the seventeenth and eighteenth centuries, the commercial wars. The main achievement of Adam Smith

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 was to show the simple analytical mistake that lay behind the mercantile system. In its place he had developed his own theory which emphasised industry and labour as the true originator of wealth. Moreover, free trade was an integral part of Smith's theory. From this it was only natural to interpret Smith as the main inspiration behind the free trade movement in Britain from the 1820s onwards. In this stylised history the merchant's petition from 1824 played a central role. In this sense Richard Cobden was Adam Smith's most faithful pilgrim, and the history of the Anti-Corn Law League was the heroic ingredient in this Whig interpretation of history. Moreover, and this needs to be restated, even after seventy years of critique this remains the dominant version of the economic historical transition from *dirigisme* to liberalism during the eighteenth and nineteenth centuries.

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# 5 The American system

Canonical interpretations of the history of economic thought often reflect slight anxiety with the American experience when using European doctrinal conjectures as a model. The history of political economy in the United States does indeed differ from the stylised general history of economic doctrine. From this fact many conclude that the American political economy, at least until the beginning of the twentieth century, is less interesting to study. Most obviously it lacks-with a few obvious exceptions-outstanding theoretically advanced thinkers and writers. Instead, the American scene is believed to have been more practical and institutional in nature. This was already Alexis de Toqueville's position when, in his famous, *Democracy in America,* published in two parts (1835 and 1840), he wrote the following regarding American scholarship in general:

Scientific precedents have little weight with them; they are never long detained by the subtlety of their schools nor ready to accept big words for sterling coin; they penetrate, as far as they can, into the principal parts of the subjects that occupies them, and they like to expound them in the popular language.

He held the view that 'hardly anyone in the United States devotes himself to the essentially theoretical and abstract portion of human knowledge'. [1](http://www.questia.com/reader/action/gotoDocId/108269419)

However, the 'otherness' of the American tradition lies not only in its commonsense philosophy nor in its empirical and institutional inclinations. Also, when developing theoretical propositions or drawing conclusions, there is a difference of the American mind. Hence, clear-cut doctrinal lines and divisions which seem obvious if we take the British political economy as the model are often muddled and more difficult to detect in American soil. This is the case, for example, with regard to the scholarly debate between free-traders and protectionists in the Unites States during the

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 nineteenth century, which is the particular focus in this chapter. Especially in Britain, but also elsewhere in Europe in the same century, as we have seen in previous chapters, the issue of free trade versus protection formed the backbone-at least in the second half of the nineteenth century-of two distinct schools of political economy with radically different theoretical contents as well as scientific and political programmes. [2](http://www.questia.com/reader/action/gotoDocId/108269420) However, this clear demarcation line is less easy to identify in America. It was only after the Civil War that a more clear-cut division between these two positions in the European fashion could be clearly identified. Moreover, it remained a peculiarity of American political economy that protectionist positions were treated respectfully in scholarly circles well into the twentieth century. Hence, Judith Goldstein, for example, is right to emphasise that there were few true protectionist academic writers before Henry Carey (except perhaps Daniel Raymond). [3](http://www.questia.com/reader/action/gotoDocId/108269420) However, it is equally true that many of those who regarded themselves as free-traders and adherents to the British Classical School-as we shall see later on-were very cautious in their views on trade policies. Moreover, it is also correct to add that there might have been few outright protectionists in the late-nineteenth-century sense before Carey, Raymond and List. However, on the other hand many adherents of the so-called American system appeared who housed protectionist feelings but did not see themselves as being in total opposition to the classical (British) programme. Thus, they are difficult to identify as die-hard protectionists. Many of them regarded themselves as 'Smithians' yet at the same time they were critical of Ricardo and Malthus as well as of Manchester *laissez-faire* economics.

The 'otherness' of American political economy should not be regarded only as a curiosity, something only antiquarians could take any interest in. From the historian's point of view two important and questions arise when dealing with American economic thought in the nineteenth century. First, is the question of what impact the evolution of peculiarly American institutions had for the development of American economic thinking. Second, is a related question of the importance of 'translation' processes. Hence, it is important to acknowledge that the incorporation of economic ideas often takes the form of a process of translation. This means that economic concepts are not passively received but are interpreted within a particular discourse which has its roots in specific historical (and institutional) contexts. [4](http://www.questia.com/reader/action/gotoDocId/108269420) Such a process of translation can take two forms: it can affect the way core concepts are interpreted and sensed in different local and institutional settings and it can also affect the conclusions drawn from texts. We have discussed both processes earlier in the book. The aim of the present chapter is to examine such processes of translation from the point of view of nineteenth-century economic thinking in the United States.

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 The aim is also once again to emphasise that the simple canon of free trade thought originating from Adam Smith fits very badly with the American historical experience. So far this has meant that American writers writing on issues such as free trade and protection have been excluded to a large extent from the mainstream of the history of economic thought. This has made the subject seem much less exiting than it is really is and has led to the neglect of its true historical dimension.

## The other face of American political economy

In his *Statement of some New Principles on the Subject of Political Economy, Exposing the Fallacies of the System of Free Trade* (1834) the American political economist John Rae wrote:

The doctrines which Adam Smith maintained with so much ability, never took so deep hold in this country as in England, and they have been more strongly opposed. There is, hence, a very considerable difference between the state of public sentiment in Great Britain and America, concerning the most interesting practical questions of political economy. This is especially the case with regard to the policy of the protective system. [5](http://www.questia.com/reader/action/gotoDocId/108269420)

In general, when transferred to American soil British classical political economy changed many of its original traits. Some, like Rae, took the opportunity to criticise most British authors on the subject, including Smith. Others chose to follow in the footsteps of Smith, although interpreting him (as well as other classical political economists) in what seems to us a peculiar fashion. On the American political economy Thomas Edward Cliffe Leslie was the first to state 'the influence of physical geography, history, institutions, moral and religious ideas on economic theory'. [6](http://www.questia.com/reader/action/gotoDocId/108269420) Elsewhere he wrote, more with regard to political economy in general, that: 'so far from being of no country, and unchangeable from age to age, it has varied much in different ages and countries, and even with different expositors in the same age and country.' [7](http://www.questia.com/reader/action/gotoDocId/108269420) Against this background he identified four 'peculiar features' of American economics. First, its economists have been 'nearly unanimous in rejecting, or, at least, setting aside as practical unimportant, the Malthusian doctrine.' Second, he stressed the existence of a 'theological element' in American political economy, stating as an example, Arthur Latham Perry's *Elements of Political Economy* (1866). Third, he noted 'the absence of long chains of deduction, such as English economists have effected, from the assumption that competition equalises the wages of labourers and the profits of capitalists in different

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 occupations and localities'. Fourth, he stressed 'the systematic teaching of protectionism in colleges and textbooks as a scientific doctrine'. [8](http://www.questia.com/reader/action/gotoDocId/108269420) In accordance with what was said earlier we may add a fifth point to this list: many authors' peculiar interpretation of classical political economy and their habit of mixing free trade and protectionists viewpoints.

From the point of view of the American economists the part of the classical gospel which was especially difficult to adopt was its dismal and pessimistic tone. When it did not speak of 'the stationary state' it offered the gloomy perspective of outright stagnation and decline, the exhaustion of natural resources, and so on. Nor could Americans easily accept the social conflict perspective inherent in most classical political economy. In the face of America's abundance of available and potentially fertile land and its relative shortage of capital and manpower it was very difficult indeed to maintain either the Malthusian position on population or the Ricardian theory of increasing land rents and diminishing profits leading to the stationary state. [9](http://www.questia.com/reader/action/gotoDocId/108269420) Moreover, in view of the clerical tone of academic economics in North-eastern antebellum America-as noted by Michael J.L.O'Connor in his seminal work on economics writing in the academic curriculum before the Civil War-Malthusianism was rejected 'as much because some devout people could not stomach the doctrine as because of its inapplicability here'. [10](http://www.questia.com/reader/action/gotoDocId/108269420)

As we have noted, Smith can certainly be understood in different ways and a doctrinaire free trade reading is the only possible reading of his work. Against this background it can surely be argued that, at least before the middle of the nineteenth century, there existed no sharp division between a free trade and more moderate protectionist attitude. [11](http://www.questia.com/reader/action/gotoDocId/108269420) However, in America this division line is even harder to draw.

American admirers of Smith-regarding themselves as followers of the British Classical School-tended to be rather cautious when it came to the question of tariffs. It was commonplace to regard tariff reduction as a pro-British policy which, more than anything else, would open up America for competition from abroad. Tariffs on manufactured wares were for many a necessity in order to achieve industrial growth and development.

This caution can be spotted in many works and texts written by writers who in principle regarded themselves as free-traders. One typical example was the lawyer, politician and writer Alexander Hill Everett (1790-1847) who regarded Adam Smith as the great authority while at the same time identifying himself as a faithful follower of the American system. [12](http://www.questia.com/reader/action/gotoDocId/108269420) Hence, on the one hand he stated that:

Having had occasion to make use of the phrase balance of trade…we hasten to add, on order to relieve ourselves from any suspicion of

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 heresy, that we are not partisans of the antiquated doctrines on this subject, and that, on the contrary, we fully acquiesce in modern theory, which is that of Adam Smith'. [13](http://www.questia.com/reader/action/gotoDocId/108269420)

On the other hand he spoke in favour of the protecting system: 'The protecting system has in fact become already the settled policy of the country [USA]. It was recommended and sanctioned at the outset of the government by the powerful mind of Hamilton.' [14](http://www.questia.com/reader/action/gotoDocId/108269420) In fact this was also the policy, under the heading 'free trade', which Britain had followed. Hence, Everett said (and to this extent he anticipated List):

The beautiful consistency of the British mode of reasoning upon the subject is rendered, if possible, still more conspicuous by the suddenness of their conversion to the principle of free and unrestricted trade. The centuries in succession, they kept their ports hermetically sealed against any foreign product which could possibly be made at home.

Hence, his conclusion on the hypocrisy of the British: 'The convenience of every other part of the world, was systematically sacrificed by the promotion of domestic manufacturing in the British islands'. [15](http://www.questia.com/reader/action/gotoDocId/108269420)

Another example is the Harvard man Francis Bowen (1811-1890). [16](http://www.questia.com/reader/action/gotoDocId/108269420) Bowen was a protectionist and as such he defended Alexander Hamilton and industrial protection. However, at the same time as Bowen was a cautious protectionist he regarded himself as a follower of Smith and also of Mill. He argued from the standpoint that there were only a few universal principles in Political economy. Instead its theories and subject matter must change over time and in relation to 'the peculiar circumstances and conditions of one country.' [17](http://www.questia.com/reader/action/gotoDocId/108269420) He also suggested a more historical reading of Adam Smith:

As circumstances vary from age to age, as well as between different countries, it is continually necessary to review and modify the leasing doctrines of the science so as to preserve their conformity to the habits and institutions of the people. If Adam Smith were living in our own day, it may be doubted whether he would be the uncompromising advocate of that he was of the principles of free trade. He flourished at a time when the system of monopolies and restraints was in full vigor…. It was natural that he should utter an earnest protest against these odious restrictions and monopolies, and carry his argument against them too far, by neglecting to mention the exceptions and limitations to which his own principles were liable.' [18](http://www.questia.com/reader/action/gotoDocId/108269420)

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 He argues that we must go beyond the 'narrow principles of Adam Smith and McCulloch' since these would imply that America produce only raw materials while England would be the exclusive producer of manufactured wares. According to Bowen this would have dire effects-and here he sounds like a twentieth-century sceptic regarding the policy recommendations that follow from the Heckscher-Ohlin theorem-because over time and as a consequence of increased wealth the price of raw materials tends to fall in relation to the price of manufactured goods. To this he gives the following explanation: 'A country cannot prosper by devoting all its energies to the cultivation of but one of the great branches of industry'. Hence:

Devoted to agriculture alone, or to manufacture alone, or to commerce alone, it makes no difference-in either case, it will have but one class of articles to sell while it will have two classes of articles to purchase-in either case, it will have a greater surplus of one kind to dispose of, that other nations will be willing or able to purchase, except at the lowest price. [19](http://www.questia.com/reader/action/gotoDocId/108269420)

Moreover, along the lines of John Stuart Mill, he speaks for infant industry tariffs and repeats the same view about English hypocrisy as Alexander Hill Everett: 'While her own industry and skill were not developed enough to enable her to defy rivalry, she maintained as rigid a system of protection and productive duties as was established in every country on earth'. [20](http://www.questia.com/reader/action/gotoDocId/108269420)

Bowen was certainly not alone among the American economic writers during the first half of the nineteenth century in being protectionist while at the same time paying tribute to Adam Smith. We can also in this context mention one of the most staunch free-traders, William Beach Lawrence (1800-1881), who taught economics at Columbia. In his lectures published as *Two Lectures on Political Economy* (1832) he emphasised the principle of free trade but at the same time argued-as in fact did McCulloch in England-that tariffs could not be reduced immediately as this would hurt many producers. [21](http://www.questia.com/reader/action/gotoDocId/108269420)

A number of other important antebellum writers can be mentioned in this context. As noted, Ricardo was most often disliked by American economists. In fact, most would argue along the lines of Francis Bowen: 'We say, then, that this theory of rent being inapplicable and unsound in the case of America, is consequently untrue in its application to Europe generally, and even to England.' His argument is that the Ricardian theory of rent is not at all general but relies on certain historical and institutional circumstances (i.e. the combination of a lack of agricultural land in Britain and the continental system):

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An increase of the English population does create a larger demand for food. But this demand does not oblige the people to have recourse to the poorer soils in order to enlarge the crops, or even to apply more capital with less profit to the soil already under tillage; it simply obliges them to import more food from America and the countries on the Baltic and the Black Sea. [22](http://www.questia.com/reader/action/gotoDocId/108269420)

We can also find Americans who regarded themselves as Ricardians. From our point of view, however, it is interesting to note that they often interpreted Ricardo in a manner unfamiliar to us. For example, we can mention the cautious free-trader Henry Vesthake (1792-1866) at Pennsylvania University who published a treatise closely following Ricardo both with regard to content as well as its title: *Principles of Political Economy* (1838). In contrast to most other Americans he was ready to accept the validity of the Ricardian rent theory. [23](http://www.questia.com/reader/action/gotoDocId/108269420) Interestingly enough, however, in this work (which was really a collection of lecture notes) he presented a critique of the American system, but with so many qualifications that a protectionist reviewer found a friend in him. [24](http://www.questia.com/reader/action/gotoDocId/108269420) In a similar vein, Michael O'Connor described Vesthake as a free-trader, a viewpoint which, however, provided his readers with 'significant concessions' to the protectionists. [25](http://www.questia.com/reader/action/gotoDocId/108269420)

Another important early economist was John McVickar (1787-1868) who taught economics at Columbia. He was the author of an early textbook, *Outlines of Political Economy* (1825), which at its core consisted of a reprint of McCulloch's 1823 supplement on the subject of political economy to the *Encyclopedia Britannnia*. McVickar, who became at Columbia the last Professor of Moral Philosophy as well as the first Professor of Political Economy, lectured on free trade and regarded himself as a Ricardian. [26](http://www.questia.com/reader/action/gotoDocId/108269420) However, as Dorfman convincingly shows, 'it was a brand of Ricardianism that Ricardo would hardly have recognised as his own'. [27](http://www.questia.com/reader/action/gotoDocId/108269420) For one thing McVickar adhered to Ricardo's theory of rent but interpreted it in a way that made landowners with zero rent the group to be pitied. As long as the 'wants of society' have not advanced very far, many landowners will remain poor even though they are sitting on a great potential source of wealth, he thought. Surely, it is difficult to be much further from Ricardo than this! On the other hand, McVickar denounced both Ricardo's theory of labour as the source of value and his doctrine that capital is merely added-up labour. The latter theory he found as too 'metaphysical'. [28](http://www.questia.com/reader/action/gotoDocId/108269421) Even Ricardo's fondness for manufactures was rejected by McVickar. [29](http://www.questia.com/reader/action/gotoDocId/108269421)

Another Ricardian with a difference was the Southerner Thomas Roderick Dew (1802-1846) at William and Mary College in Willamsburg,

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Virginia. [30](http://www.questia.com/reader/action/gotoDocId/108269421) Dew was, according to Dorfman, probably 'the most influential thinker in the South' in the 1830s and 1840s. As McVickar before him, Dew was a defender of a system of free trade and a disciple of Smith and especially of Ricardo. In his *Lectures on the Restrictive System* (1829) Dew explicated the Ricardian dogmas fairly well. However, these were at the same time 'deftly manipulated to meet a host of miscellaneous exigencies'. [31](http://www.questia.com/reader/action/gotoDocId/108269421) For one thing Dew was pro slavery-but then so were the majority of Southern writers whether of free trade or protectionist inclinations. Perhaps the most peculiar aspect of Dew's Ricardianism was his radical condemnation of factories and manufactures. In order to denounce them, all the familiar social evils of manufactures he could find in the contemporary literature were set forth. [32](http://www.questia.com/reader/action/gotoDocId/108269421) He even to seems to have regarded free trade as a means of preserving America from this evil. According to his view, it was best if America concentrated on agriculture and the production of raw materials:

not only is freedom of trade best upon politici-economical principles, but that there is nothing in the employment of manufactures which should cause to wish their premature introduction. On the contrary, there are evils attendant to them, which, under an equal choice of labour, would lead us to prefer agriculture. Better, therefore, that we should leave…industry to itself. [33](http://www.questia.com/reader/action/gotoDocId/108269421)

Against this background it is understandable that America's response to Carlyle paid service to Ricardo's comparative theory of free trade:

Why, then, is it best that all the nations of the earth should enjoy a free and unrestricted commerce? Because, our unrestricted and free commerce enables each nation to produce those commodities for the production of which, it is more peculiarly adapted by nature and adventitious circumstances. [34](http://www.questia.com/reader/action/gotoDocId/108269421)

A last example may perhaps suffice. Among the clerical economists of the North-eastern School, O'Connor picks out Francis Wayland (1790-1865) at Brown University as highly typical and influential. [35](http://www.questia.com/reader/action/gotoDocId/108269421) And according to William J. Barber, Wayland's *Elements of Political Economy* (1839) was 'the most widely read textbook before the Civil War'. [36](http://www.questia.com/reader/action/gotoDocId/108269421) Moreover, Barber also points out that Wayland's 'interpretation of the message of political economy was more than a replay of later classical doctrine'. [37](http://www.questia.com/reader/action/gotoDocId/108269421) In fact, on a number of critical points Wayland rewrote standard classical arguments, including his rejection of the rent theory and the improductiveness of the service industry. His 'Ricardianism with a difference' is perhaps not very

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 difficult to explain. His first and foremost principle was social harmony. As Wayland 'denied any conflict between capital and wages, and made land a form of capital, he tried to remove all the sting from the law of rent', as Conkin emphasised. [38](http://www.questia.com/reader/action/gotoDocId/108269421) However, his principle of social harmony was also used in relation to foreign trade. Hence, as '[i]ndividuals are made… dependant upon each other, in order to render harmony, peace and mutual assistance' for the same reason 'nations are dependant upon each other'. Moreover, '[f]rom this universal dependence we learn that God intends nations, as well as individuals, to live in peace, and to conduct themselves towards each other upon the principles of benevolence'. [39](http://www.questia.com/reader/action/gotoDocId/108269421) Conkin also makes this general conclusion regarding Wayland: 'By transplanting the Ricardian model across the Atlantic, and fitting it into the boundless resources and glorious political institutions of the United States, Wayland, converted it into a blueprint for national greatness.' [40](http://www.questia.com/reader/action/gotoDocId/108269421) Above all, of course, he was a Christian moralist. Hence, he defines political economy as the science of wealth and 'by science…we mean a systematic arrangement of the laws which God has establishes, so far as they have been discovered, of any department of human knowledge'. [41](http://www.questia.com/reader/action/gotoDocId/108269421)

In comparison with the 'great tradition' the American economists-because of their prudence, their unease, their ruptures and admittedly sometimes also their lack of analytical rigour-could be seen as representatives of a tradition of misinterpretation and poor analysis carried out by petty and not very original writers abusing concepts and muddling the otherwise clear lines of demarcation between different theoretical approaches. However, to some extent this is unfair, as we have argued. Their ambiguity was caused not so much by their lack of analytical ability but rather by their insistence on the importance of institutions and historical facts in political economy; America was without doubt quite different from England, for example. Certainly, America's commonsense philosophy and aptitude for the concrete also played an important role and this can only have turned the American economic mind even more in favour of taking their own particular history and institutions seriously rather than attempting to fit a European model. However, whether this can really be described as a weakness is debatable.

## Henry C. Carey

One result of the lack of fit between European and American economic theory is the problem of where to place one of the great figures of early nineteenth-century economic thinking in America, Henry C. Carey (1793-1879), in the standard historical interpretation of economics. The

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 most simplistic interpretation is that Carey first was a 'respectful student of classical theory and an admirer of Adam Smith' [42](http://www.questia.com/reader/action/gotoDocId/108269421) (and thus also a free-trader), while later in his life he converted to his father Mathew Carey's gospel for the protection for industry Hence, we can read in the very reliable *Dictionary of National Biographies* that Carey 'was originally a zealous advocate of free trade' but later became convinced that 'real free trade with foreign countries was impossible in the existing state of American industry'. [43](http://www.questia.com/reader/action/gotoDocId/108269421) However, several objections to this interpretation can be put forward. First and most obviously, already as a 'respectful disciple of Adam Smith', Carey had developed his 'harmony of interests' philosophy which stood very far from Ricardo and also from Adam Smith. For example, there are hardly any similarities between Carey's consensual view on the relations between the classes and Ricardo's more conflict-prone interpretation. In this sense the Jacksonian democrats-who Carey loathed-certainly stood much closer to a Ricardian position than Carey who, already as a free-trader, strongly refuted the notion that social antagonism was inevitable. [44](http://www.questia.com/reader/action/gotoDocId/108269421) Second, he was able to withhold this philosophy-which in general of course is easy to combine with a *laissez-faire* position (but not Ricardo's)-later on when he became a devoted champion of protection for industry and the subsequent development of an adequate home market. Moreover, it is clear that Carey himself regarded his philosophy as a variant of *laissez-faire*. Thus, he accused Fréderic Bastiat of plagiarising his harmony of interest theory. Third, both as a 'free-trader' and as a 'protectionist' he referred to Adam Smith for support. Hence, Judith Goldstein is quite accurate when she emphasise that Carey 'did not believe his work was critical of Smithian arguments'. Rather, 'he blamed Ricardo and Malthus for turning academic economists down the wrong path'. [45](http://www.questia.com/reader/action/gotoDocId/108269421) Thus, it is clearly extremely difficult to place Henry Carey in any pre-defined camp which refers to the European doctrinal situation.

From around 1835 when he made his debut as a writer on economic issues Carey regarded himself as a free-trader. In these early works, according to one of Carey's biographers, A.D.H. Kaplan, he revealed himself 'in his first guise as an ardent advocate of economic freedom, a disciple of Adam Smith possessed of unbounded faith in the efficacy of *laissez-faire*'. [46](http://www.questia.com/reader/action/gotoDocId/108269421) Hence, although in fierce opposition to both Ricardo and Malthus on important issues, the tone in Carey's first important work *Essay on the rate of Wages* (1835) was still classical. In this work, for example, he defended the wage fund doctrine as well as other parts of the classical model. However, already in this early writing we find the famous critique of the Ricardian diminishing return rent theory as well as the view that Ricardo and Malthus erred in believing that profits had to diminish when

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 wages and rent rose. Instead, Carey believed that all factor incomes would increase simultaneously as a consequence of industrial growth and development.

The following year Carey printed a work that never reached the public as it was withdrawn at the last minute. It had a long title with a very optimistic message: *The Harmony of Nature, as Exhibited in the Laws which Regulate the Increase of Population and the Means of Subsistence; and in the Identity of the Interest of the Sovereign and the Subject; the Landlord and the Tenant; the Capitalist and the Workman; the Planter and the Slave* (1836). By allowing the individual perfect freedom of action and property harmony could be achieved, Carey stated. Taking his point of departure in a natural rights idiom Carey believed that in nature as well as in society perfect balance was the natural state. Certainly, as noted, this sounded very much like a gospel in favour of *laissez-faire.* Moreover, in his next, and even longer work, the three-volume *Principles of Political Economy* (1840) he set himself out as a free-trader. Here his harmony theory is outlined in the following fashion:

The interests of the capitalist and the laborer are thus in perfect harmony with each other, as each devises advantage from every measure that tends to facilitate the growth of capital, and to render labour productive, while every measure that tends to produce the opposite effect is injurious to both. [47](http://www.questia.com/reader/action/gotoDocId/108269421)

Also in this work he develops a more elaborate critique on the Ricardian rent theory. As is well-known, his main line of argument was that more doses of capital and labour invested in land led to increased rather diminished marginal productivity. It was only logical, therefore, for him to believe that capital accumulation and investment in agriculture would lead to higher wages, higher rents and higher profits-all at the same time. Hence, 'the rise of rent is always the effect of the increasing wealth and of the increased facility for providing food'. [48](http://www.questia.com/reader/action/gotoDocId/108269421) Investment in land was, however, dependent upon the increase of industry, a rapid rise in population and growth of bigger cities.

After the High Tariff Act of 1842 Carey began-as noted by Joseph Dorfman 'to espouse more openly a high protective tariff for the activities he deemed important'. [49](http://www.questia.com/reader/action/gotoDocId/108269421) But it was really only in 1848 when publishing his famous, *The Past, the Present and the Future*, that Carey's 'fall' to protectionism was clearly demonstrated. He repeated his attack on Ricardo's rent theory more vigorously than ever, stating that the true historical development process depicted a succession from inferior to rich soils rather than the other way round. However, such a sequence depended

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 upon the development of industry. The present problem was that the 'workshop of the world'-Great Britain-flooded the American market with manufactured wares. Hence, in order for American industry to prosper a protective tariff was a necessity.

From this point on a Carey became leading proponent of protective tariffs, but this did not in the least hinder him in preaching the gospel of an inherent harmony of nature, including harmony between labour and capital. His more mature view on this topic was demonstrated in his, also three-volume, work *The Principles of Social Science* (1858-1859). Moreover, it was here that he charged Fréderic Bastiat's *Harmonies économiques* with plagiarianism. In *The Principles* Carey demonstrated how close his social philosophy was both to the European *laissez-faire* position and to that of Herbert Spencer. The only difference was that when they draw clear free trade conclusions from their views on the harmony of interests, Carey, on the contrary, seemed to be able to reconcile his natural philosophy with a protectionist attitude. Nether did Carey in his fall to protectionism stop to hail Adam Smith as the true founder of political economy. Hence, in a response to letters attacking him in the London *Times* Carey referred to:

that fountain-head, or well-spring of economic science, the *Wealth of Nations,* a work that has stood a century's test, and stands now so far ahead of those of its writer's countrymen who claim him as their chief while discarding his most essential principle as to warrant the belief that he will be remembered when they and their works will have been long forgotten. [50](http://www.questia.com/reader/action/gotoDocId/108269421)

Moreover, Smith's view on the advantage of foreign trade for increased division of labour and wealth was completely sound, Carey stated. To this extent Carey regarded himself as a true follower of Smith:

Such, Mr Editor…were the ideas Adam Smith sought to impress upon his countrymen; and such, exactly, are those which, as humble follower of a man who, in my belief, is entitled to stand side by side with Shakespeare as greatest of all the human productions of the British soil. [51](http://www.questia.com/reader/action/gotoDocId/108269421)

Repeating the familiar argument used by List and many more before him, that the effects of unrestricted free trade were different in a 'new' and an 'old' country, he came to the conclusion that to follow a Smithian approach was to allow newcomers to protect their industry. In fact, England had hardly ever followed its own example but rather pursued a

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 course of protection and colonalisation as long as it fitted its own interests.

The difficulty in defining Carey's position has implications for the general discussion of free trade and protection in America. In relation to the European discussion, it is really a discourse with a difference. Thus, the main observation to be drawn is that there seems to be not such a great difference between a free trade and a protectionist position in America, at least not before the Civil War. One reason for this may be that in America classical political economy was accepted only partially and/or interpreted differently than in Europe which, for example, implied that the Americans believed to a much greater extent that protection and infant industry arguments could be combined with a Smithian or even a Ricardian position. Second, the demarcation line between free trade and protectionism was muddled by other issues which perhaps seemed as important, especially the North-South (and slavery) controversy. Third, and perhaps most obviously, the unclear demarcation line could have something to do with an original ambiguity on this context within the influential so-called American system. We will later deal with each of these possible explanations separately.

## John Rae

Perhaps the most outspoken and indeed the principal voice against classical political economy was John Rae's. As noted, only a few of his contemporaries in America would follow him to include Adam Smith in this critique. In fact, his *Statements of some New Principles on the Subject of Political Economy: Exposing the Fallacies of the System of Free Trade* (1834) was a critical scrutiny of Smith's *Wealth of Nations*. As we have already noted, in the opening paragraphs he points out that the doctrines which Adam Smith maintained with so much ability never took so deep a hold in America as in England. Hence, he believed that there existed a considerable difference between the state of public sentiment in Great Britain and America concerning the most interesting practical questions of political economy, including and perhaps especially with regard to 'the protective system'. [52](http://www.questia.com/reader/action/gotoDocId/108269421) He draws far-reaching conclusions from his denouncement of Smith: 'If Adam Smith be essentially wrong, none of his followers can be right'. And, consequently, 'The System established by him stands, or falls, with him'. [53](http://www.questia.com/reader/action/gotoDocId/108269421)

In Book 1 of his work Rae makes the claim that, contrary to Smith, in real life 'individual and national interests are not identical'. This is hardly what Smith meant and, as we have seen, it is quite plausible that he would have agreed with Rae when he said that the legislator must 'direct part of

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 the energies of the community towards the furtherance of this power [creating wealth], this necessary element in the production of the wealth of nations'. Hence, according to Rae, the government must be active 'in promoting the progress of science' as well as in promoting 'the progress of the arts'. [54](http://www.questia.com/reader/action/gotoDocId/108269421) Moreover, in this context he is highly critical of Smith's use of the invisible hand metaphor. A visible hand is particularly important with regard to the importation of skills and knowledge:

The difficulties of finding persons of sufficient intelligence and integrity, for the purpose who will remove to a distant country, without an extravagant reward, is very great, and the risk of being imposed on by engaging Persons of insufficient skill, and consequently suffering considerable loss, is not small. [55](http://www.questia.com/reader/action/gotoDocId/108269421)

Also, in a more general context John Rae was one of the first economists to emphasise the important role of market failure in economic life:

It must be kept in mind, that, by the efforts of individuals, are meant, according to our author [i.e. Smith], their endeavours to better their conditions; that is, as he defines it, to increase their fortunes. But in order to add to his fortune, one must get much more than he gives. No such efforts can ever be lead by any individual to embark in a project that will probably take more from him, than it will return to him. Now, to transfer a manufacture from one country to another, must always be a very tedious and expensive operation, for any individual to perform. [56](http://www.questia.com/reader/action/gotoDocId/108269421)

In several chapters Rae directs his critique against Smith's opinion that everywhere and in every country the 'desire of accumulation' is an internal human propensity. On the contrary, Rae argues, this desire or 'passion' is historically and socially bound. There is a great difference between, say, northern Canada or civilised countries in this respect, he says, and emphasises the role of climate and habits for the spirit of innovation as well as the will to accumulate. Moreover, he is critical of Smith's materialistic interpretation of man and society as well his concept of wealth. He claims that wealth to a great degree depends upon knowledge, the intellectual faculties of man, as well as his moral nature. And, connected to this, Rae is also highly critical of Smith's positive view of an increased division of labour. As we know Smith, regards this as one of the most important factors behind economic growth and opulence. Rae claims, to the contrary, that a higher division of labour does not lead to higher productivity and thus to growth. It only leads to the worker becoming more stupid and ignorant, he says. [57](http://www.questia.com/reader/action/gotoDocId/108269421)

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## The American system

There are several meanings attached to what has gone down in history as 'the American system'. Historically, in political terms the rise of the American system is most often connected with the British-American War, 1812-1814 and the protective policies developed by the Kentuckian economic nationalist Henry Clay. After the cease-fire English manufacturers flooded the American market with cheap wares hoarded during the war years. This especially incensed the manufacturing interest in Philadelphia and Pennsylvania which, for the coming decades, served as the main strongholds of protection and the American system. [58](http://www.questia.com/reader/action/gotoDocId/108269421) Hence, from this time until 1833 high protective tariffs on foreign (British) goods remained. During the 1830s, however, Andrew Jackson formulated a political programme which included lower tariffs. In this he was applauded by the Jeffersonians and the agrarian interest in the Southern states. What he achieved during the years 1833-1842 has been described by historians as the 'compromise tariff. Moreover, these moderate tariffs remained for most of the period up to the end of the 1850s (which has motivated some scholars to talk about 'quasi-liberal emphasis on free trade' during this period). [59](http://www.questia.com/reader/action/gotoDocId/108269421) In fact, industrial tariffs were lowered even further when the Democrat, James Knox Polk, was inaugurated as president in 1844. It was only during the 1850s with the rise of the new Republican Party that the tariffs began to rise again. As, for example, Judith Goldstein and before her Tom E. Terrill have shown, protectionism and the tariff became a rallying point for the Republican Party immediately before the Civil War. After the war industrial protection would bring the party further victories and it also influence other parties. Hence, in political terms the American system had its hey-day during the Postbellum period. [60](http://www.questia.com/reader/action/gotoDocId/108269421)

The American system can also be regarded as a doctrine of political economy. And such it is primarily connected to the name of Alexander Hamilton and his celebrated report on manufactures from 1793. As this report and its plea for industrial protection is very well known we need not rehearse its content here. [61](http://www.questia.com/reader/action/gotoDocId/108269422) What it is necessary to emphasise, however, is that it is utterly wrong to describe Hamilton's report as a 'practical' and defensive proposal without theoretical insights. On the contrary, as one commentator has emphasised, Hamilton 'revealed a wide reading of Adam Smith and the more prominent members of the early British school'. Furthermore:

Following Adam Smith, Hamilton pointed to the possibilities of the new industrial era, with its market efficiencies in the division of labour and wider use of machinery; like Smith, he denied to agriculture the

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 exclusive role in the creation of national wealth. But Hamilton went further in suggesting peculiar advantages for the United States in the promotion of manufactures. Manufacturers would provide employment for elements of the population not ordinarily engaged in production-women and children; the new employment opportunities would encourage immigration; the young nation would climb out of its primitive stage limited to agriculture…. Bounties and tariff protection would help new American industries through their infancy, until they were strong enough to meet foreign competition. [62](http://www.questia.com/reader/action/gotoDocId/108269422)

Certainly such a scheme could be invented only by someone who was familiar with Smith's critique of physiocracy and shared many of the great Scotman's general views on economic and industrial development. How close to him Hamilton's position actually was is an open question and depends largely on our interpretation of Smith. Hamilton was surely close to Smith's spirit in his emphasis on industrial progress and growth. He was more distant from him when he agitated for protection. Smith had certainly presented a number of exceptions to free international trade-although the infant industry argument which Hamilton emphasised was not one of them. [63](http://www.questia.com/reader/action/gotoDocId/108269422) However, this should be put in its proper context: to a large extent Hamilton's plea for protection in order to build a national manufacturing sector was defensive. He contrasts the ideal principle-which promptly had been put by Smith-with reality:

If the system of perfect liberty to industry and commerce were the prevailing system of nations, the arguments which dissuade a country, in the predicament of the United States, from the zealous pursuit of manufactures, would doubtless have great force. It would not be affirmed that they might not be permitted, with few exceptions, to serve as a rule of national conduct. In such a state of things, each country would have the full benefit of its peculiar advantages to compensate for its deficiencies or disadvantages But the system which has been mentioned is far from characterizing the general policy of nations. The prevalent one has been regulated by an opposite spirit…. In such a position of things, the United States cannot exchange with Europe on equal terms. [64](http://www.questia.com/reader/action/gotoDocId/108269422)

Hence, the American system can be regarded as a challenge to European classical political economy established on a critical-but on the whole sympathetic-reading of Adam Smith. Hamilton had many followers, later however, who occasionally tended to forget Hamilton's careful argumentation and replaced it by a more simplistic formula in which industrial

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 tariffs was the main policy option. Hence, some of the most important economic writers in the Antebellum United States started out as 'Hamiltonians' but later became followers of Ricardo and Malthus. This was the case with Thomas Cooper who, in the 1820s, became one of the leading Ricardians in the country. [65](http://www.questia.com/reader/action/gotoDocId/108269422) Others started out as devoted Hamiltonians and remained followers of the American system. The most famous of them was the Irish immigrant to Philadelphia, rich printer, bookseller, politician and economic writer Mathew Carey-father of Henry C. Carey. In his famous intervention in the political debacle on protection following Clay-*Addresses of the Philadelphia Society for the Promotion of National Industry* (1819-1822)-he followed closely in Hamilton's footsteps. At the same time he identified Adam Smith with unrestricted free trade in a way Hamilton had not done. Hence, Carey blames the 'system of Adam Smith' for the fact that 'our manufactures are paralized [sic]' (due to lowered industrial tariffs). Moreover 'Dr Smith's theory…that when a particular branch of industry is destroyed by the home market being suddenly laid open to the competition of foreigners' is now according to Carey 'fairly tested in the United States, as they have been for centuries in Spain'. [66](http://www.questia.com/reader/action/gotoDocId/108269422)

Another famous Hamiltonian was George Tucker (1775-1861), who undoubtedly was a more careful and educated writer than Carey and who became the first teacher of economics at the University of Virginia. [67](http://www.questia.com/reader/action/gotoDocId/108269422) A writer who made an even greater impact was Daniel Raymond (1786-1849). [68](http://www.questia.com/reader/action/gotoDocId/108269422) He was the author of the first comprehensive systematic economic treatise in America, *Thoughts on Political Economy* (1820). In his explicit critique of the Classical School he was clearly inspired by Malthus's anti-Say views on gluts and the role of consumption. He defended tariffs using infant-industry arguments. Certainly, tariffs might lead to higher prices, he wrote. However, the opposite was also possible as the restriction of foreign manufactured goods increased wages and demand and stimulated people to work harder, which leads to higher productivity for homemade wares and thus puts a downward press on the price-level. [69](http://www.questia.com/reader/action/gotoDocId/108269422)

Moreover, in this text Raymond is highly critical of Adam Smith, especially his distinction between unproductive and productive labour, as well as the distinction between 'necessaries of life' and 'luxuries', which he describes as 'whimsical'. [70](http://www.questia.com/reader/action/gotoDocId/108269422) On the other hand he states that the thesis that labour of every nation is the basis of the wealth of nations 'contains the soundest principle of Political Economy to be found in the whole of the *Wealth of Nations*.' [71](http://www.questia.com/reader/action/gotoDocId/108269422) Characterising Smith almost as a physiocrat, Raymond is critical of Smith's total denunciation of the logic of the mercantile system. He does not accept the favourable balance of trade argument but says nevertheless about Smith:

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 He was also a champion of free trade in opposion to navigation laws, colonial monopolies, and protecting duties; and in many of these things, he was no doubt right, but in many he was manifestly wrong. There can be no doubt that the mercantile system which has been adopted by England, has been pushed to an extreme, prejudicial to her interest, and she is now reaping the evil consequences of it; but there can be as little doubt, but that…system has contributed most essentially to her unexpected wealth and power. [72](http://www.questia.com/reader/action/gotoDocId/108269422)

Against this background he defends protective duties:

If a nation has not fully employed in its ordinary vacations, it is not better to employ its unoccupied time in manufacturing cotton and woollen cloths, than in doing nothing? And will this not be a saving of just as much, as the clothes would have cost in foreign countries?… The doctrine, therefore, of not making for yourself, what you can buy cheaper than your make, in the unqualified manner in which Dr Smith lays it down, is a most absurd and improvident doctrine and leads to utter and ruin. [73](http://www.questia.com/reader/action/gotoDocId/108269422)

In 1828 Raymond even published a tract-highly praised by Mathew Carey-which he called 'The American System'. Herein he stated that: 'The science of political economy is beginning to attract a good deal of attention in the United States'. However, still if 'we judge from speeches in Congress-the Reports of Committees, the essays and pamphlets that are daily put forth upon the subject from the American press, we should not for a very high estimate of the progress, as yet made in our country, in this all important science'. It was therefore 'high time that the elementary principles of political economy should be taught in all our colleges and principal seminaries of learning'. [74](http://www.questia.com/reader/action/gotoDocId/108269422) The controversial political issue of the day in 1828 was of course whether a higher tariff or not should be introduced. Daniel Raymond was certainly in favour of such a tariff increase. He agreed with what Andrew Stewart, Congressman of Pennsylvania, had to say on this issue. Stewart, who had been a democrat until 1828, broke with his party in 1828 over this issue and delivered his views before the House of Representatives in a manner which was highly typical for the time:

After all this, gentlemen tell us that Mr Huskinson and Mr Canning have yielded to the liberal system of free trade, and that we should follow this example. They were repealing the duties imposed by Edward and Elizabeth, by Pitt and Fox, duties that protected and raised

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 the British manufacturing skill and industry to its present unexpected height; constituting the foundation and basis of the power and the glory of the British empire; and now, when they have acquired such skill and power, perfection and extent that they are fairly beyond the reach of competition, her ministers cry out to those who are wisely following their footsteps to wealth and independence, stop! You are wrong! You are wrong to follow the examples of our ancestors which see us now discarding, and adapting in their stead, the new and glorious theory of free trade. It is unwise and unmanly to resort to artificial regularities to protect yourselves against us; we are willing to meet you in the open field of fair competition. Yes, sir, the giant may well tell the stripling to lay aside the pistol, and meet him in the open field with the weapons which nature's God has supplied. Well might Napoleon dispose with arms when he conquered the world and well might Mr Huskisson recommend free trade when it would make the world tributary to England. [75](http://www.questia.com/reader/action/gotoDocId/108269422)

However critical Raymond was of the present position of political economy, he was in no doubt that this subject would have a great future in America. Hence, he writes in his *Thoughts on Political Economy*:

Whenever the true foundations of the science of political economy shall be laid, they will be laid in America…. It cannot be expected that Europeans with all the existing abuses in their governments… should escape having their minds perverted by such an unnatural state of things…. Americans certainly possess much greater advantages for studying the science of Political Economy than Europeans. [76](http://www.questia.com/reader/action/gotoDocId/108269422)

The last Hamiltonian to be mentioned here is Williard Philipps (1784-1875). [77](http://www.questia.com/reader/action/gotoDocId/108269422) Phillips was a graduate of Harvard in 1811 who started out as a defender of free trade. However, in 1828 he published a tract with a significant title-*A Manual of Political Economic, with Particular Reference to the Institutions, Resources and Conditions of the United States*-which must be placed definitively within the Hamiltonian camp. The main message here was that the New England textile industries in particular ought to be protected until they were truly competitive. In the long run such highly productive state-protected industries would out-compete foreign industry and thus form the basis of a international monopoly-and as such be of great benefit to the American public. According to O'Connor, the *Manual's* chapter on commerce 'is a carefully balanced, restrained, and precise, but nevertheless decisive, defence of

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 protection'. [78](http://www.questia.com/reader/action/gotoDocId/108269422) Too much competition was wasteful, Phillips argued. By and large, he dreamed of a situation where state regulation with regard to the national economy prevailed. Such an order would imply full employment, stable profits and wages. This in effect distanced him much further from Alexander Hamilton than Hamilton was from Adam Smith!

Perhaps the most famous Hamiltonian and follower of the American system was Friedrich List (1789-1846) from Würtemburg in Germany. After being convicted and serving his sentence often months imprisonment with hard labour for 'sedition' in 1825 he migrated to the United States. [79](http://www.questia.com/reader/action/gotoDocId/108269422) In Germany he had agitated for economic and administrative reforms and for a *Zollverein* within the old imperial Germany. While in America, after a brief and unsuccessful attempt at farming, he became member of the pro-protectionist Pennsylvania Society for the Promotion of Manufactures and Mechanic Arts, of which Mathew Carey was president. His appearance at the famous Harrisburg Convention 1827 to promote the American system made him well known in his new country. In Pennsylvania industrial circles he was looked upon as a possible future ideologue and frontman, and was presented to the public as the famous Professor List of Germany. [80](http://www.questia.com/reader/action/gotoDocId/108269422) Before the Harrisburg Convention he wrote twelve letters for the Philadelphia protectionist newspaper, the *Philadelphia National Journal*. These articles were immediately published as a pamphlet with the title 'Outlines of a new System of Political Economy'. Here appeared most of the ideas in a raw form which later on would form the bulk of his *magnus opus Das National System der politischen Ökonomie* (1841). [81](http://www.questia.com/reader/action/gotoDocId/108269422) What happened after Harrisburg and the publication of the pamphlet has been described by Margaret Hirst:

So great was the success of the pamphlet that the Pennsylvania Society entertained List to a complimentary dinner in recognition of his services to the case. It was held at the mansion House, Philadelphia on 3 November 1827. A printed account of it survives, as a preface to List's speech, which shows that was an occasion of some political importance. According to the fashion of the day, there is a portentous list of set toasts or 'sentiments', some of which are interesting as tokens of the popular feeling. One coupled 'the memory of Alexander Hamilton and the success of Richard Rush in perfecting their plans of national industry'. Mathew Carey…made a great hit by his toast of 'Henry Clay, the able and successful advocate of the protection of that portion of American industry which furnishes 'a domestic market, the best of all markets', according to the sound doctrine of Adam Smith 'for the rude produce of the soil'. This skilful quotation was greeted with 'rapturous applause'. [82](http://www.questia.com/reader/action/gotoDocId/108269422)

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In his *Outlines* List specifically discussed the historical origin of an American system. List especially gave reference to Hamilton but also mentioned such authors as Daniel Raymond, Mathew Carey and Hezekiah Niles. Moreover, he presented himself as a stark opponent of Adam Smith and Jean Baptist Say. In the first of his letters he talks about 'the refutation of the theory of Adam Smith and Co., the fundamental errors of which have not yet been understood so clearly as they ought to be'. He even propounds that it is the duty of the Harrisburg convention to 'lay the axe to the root of the tree by declaring the system of Adam Smith and Co. to be erroneous-by declaring war against it on the part of the American System.' [83](http://www.questia.com/reader/action/gotoDocId/108269422) In the third letter he declares that 'during many years I was not only a very faithful disciple of Smith and Say, but a very zealous teacher of the infallible doctrine'. However, later on he become more critical, studying 'the admirable effects of what is called the continental system and the destroying effects of the return of what they call trade after the downfall of Napoleon'. [84](http://www.questia.com/reader/action/gotoDocId/108269422) In letter four he even sets out to 'overthrow the whole building of Messrs Smith and Say'. Here he states what became the kernel of his *magnum opus* fourteen years later:

As these theorists confounded cosmopolitical principles with political principles, so they entirely misapprehended the object of political economy. This object is not to gain matter in exchanging matter for matter as it is in individual and cosmopolitical economy, and particularly in the trade of a merchant. But it is to gain productive and political power by means of exchange with other nations. [85](http://www.questia.com/reader/action/gotoDocId/108269422)

List's feelings with regard to Smith were certainly mixed. He at the same time could say things like: 'Mr Smith brought many a valuable truth to light, never before acknowledged, and his work contains many beauties on detached matters, which are written with superior talent, sagacity and experience. The literary world wanted a system of political economy, and Mr Smith's was the best extant'. [86](http://www.questia.com/reader/action/gotoDocId/108269422)

Yet also things like: '[t]he world has advanced wonderfully in experience and intelligence since the times of Adam Smith'. Smith's 'cosmopolitical scheme' and stress upon freedom might have been apt or at least understandable for his own time, List argued. However, and this is his main argument against Smith: 'It seems, therefore, that cosmopolitical institutions, like those of free trade, are not, yet ripe for being introduced into practice'. [87](http://www.questia.com/reader/action/gotoDocId/108269422) As we know, this was not far even from Adam Smith's own view.

After the publication of his famous letters List started working on what would eventually become *Das National System der politischen Ökonomie*.

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At the end of 1827 he over-optimistically published an advertisement for this work as follows:

The book was to be entitled 'The American Economist, by Frederick List of Pennsylvania, formerly Professor of Political Economy, and Counsel of the General Society of German Manufacturers and Merchants for obtaining a German System of Political Economy', and its aim would be to render that important science which the works of Adam Smith and John Baptist [sic!] Say covered with mysteries, with confusion and contradiction…what it ought to be in every free country, truly and thoroughly popular and practical. The author will endeavour not only to impart all important truths laid down by the principal writers of the old school, or by great statesmen and ingenious writers of this country, but to reveal the errors and imperfections of that system. [88](http://www.questia.com/reader/action/gotoDocId/108269422)

Later, in the book itself, List once again presented himself as a German political economist who, under the influence of the 'admirable effects' of the Napoleonic continental system had formed a German party in favour of tariffs which had rapidly won popular support. The new system of political economy, which stood in contrast to the 'chimerical cosmopolitianism' of Smith, he chose to call 'national economy'. At the same time he repeated that Smith was not altogether wrong but that his system was something that could be fulfilled only in the future. List maintained that, especially for young industrial nations, 'national economy' was a more realistic alternative. [89](http://www.questia.com/reader/action/gotoDocId/108269422) Moreover, as List saw it, the slogan of international free trade was merely a cloak for Britain's self-interest.

## Free-traders in the Antebellum South

It was in the South that the most ardent followers of a more radical free trade gospel-and as such enemies of the American system-were to be found before the Civil War. Hence, most often in Northern states free trade was looked upon as a southern special interest. It was cotton and slavery, according to them, that formed the 'material' basis for any clear-cut free trade position. Moreover, in the 1830s this suspicion was fed by strong political feelings-be they right or wrong-that President Andrew Jackson's promise in the act of 1833 to lower tariffs was really a concession to the South. However, from our point of view sympathies for a more radical free trade position in the South is of special interest as it often went hand in hand with a condemnation of both Adam Smith and-more specifically-industrialisation. Southern writers of such conservative

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inclinations were surely far removed from both Adam Smith and the classical political economists. They were Jeffersonian agrarian individualists especially critical towards manufacturing and modern industry As such they stood in clear opposition to the Hamiltonians and the federalists, who were less devoted to free trade but hailed the rise of manufacturing. [90](http://www.questia.com/reader/action/gotoDocId/108269422)

One such influential free-trader and undoubtedly very reactionary Southerner was Thomas Roderick Dew-the 'Ricardo of the South', according to Dorfman [91](http://www.questia.com/reader/action/gotoDocId/108269423) -of whom we have already heard. Another example was George Frederic Holmes (1820-1897), who perhaps was *the* leading social philosopher of the South during the 1850s. [92](http://www.questia.com/reader/action/gotoDocId/108269423) Before retiring to his farm in Virginia after an academic controversy he held the Chair in Political Economy and History at William and Mary College at Williamsburg in Virginia as well as maintaining the chancellorship of the University of Mississippi. According to Holmes, free trade in foreign trade was one of the best-established principles of political economy. He could find exceptions to this but, interestingly enough, only for mature nations, who would find it necessary to diversify their industry and increase their revenue base. However, with regard to mainly agricultural nations the only possible policy would be to recommend free trade and direct taxation, he thought. [93](http://www.questia.com/reader/action/gotoDocId/108269423) In most other issues Holmes was a true orthodox Christian and a die-hard conservative. *Laissez-faire* might be a good economic principle but in the political sphere order must prevail, he emphasised. Moreover, he regarded Adam Smith's economics as being too much based on Locke's individualistic social contract theory-something he loathed above all else. The individual search for gain paired with industrial expansion would lead to labour being enslaved under capital. Holmes feared that the rise of a propertyless proletariat would give rise to grave social unrest and lead to the destruction of organised society. At times he condemned modern industry in a language not far removed from that of Thomas Carlyle-an author he admired and quoted. Boston and Lowell were awful places of sin and greed, he preached. Moreover, Holmes was pro-slavery and is still sometimes remembered for his blasting review of Harriet Becher Stowe's *Uncle Tom's Cabin,* which he described as a dangerous book leading to 'dissension, sedition and murder'. [94](http://www.questia.com/reader/action/gotoDocId/108269423)

In many of his views Holmes stood close to Beverly Tucker who, like Dew had preceded him at William and Mary College. [95](http://www.questia.com/reader/action/gotoDocId/108269423) Like his follower Holmes, Beverly Tucker was a free-trader, a friend of slavery and a Carlylite. Tucker had written to his hero Carlyle asking for support for his views on slavery. Carlyle's answer would most likely have crushed his heart, as he pointed out that slavery was unjust and as such should be abolished. However, perhaps mercifully, the letter arrived only after Holmes had died.

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Some other examples may also be presented here in brief. Francis Lieber (1800-1872) succeeded Thomas Cooper in 1835 at the University of South Carolina. [96](http://www.questia.com/reader/action/gotoDocId/108269423) He is described by Dorfman as a 'nationalist free-trader' from the South. Lieber taught economics from Say's text and he wrote the introduction to the first American translation of Bastiat. One of his works is the *Manual of Political Ethics,* in two volumes (1838-1839), a social philosophical treaty which, above all, defends private property. Perhaps his greatest achievement, however, was the treatise *On Civil Liberty and Self-government* (1835). In 1856 he moved to take the Chair in Political Economy and History at Columbia University and he never returned to the South. He was at the same time a free-trader and a Southern dissident-as he was against slavery. [97](http://www.questia.com/reader/action/gotoDocId/108269423) He defended both his nationalism and free trade inclinations at the same time in a pamphlet published in 1870 for the American Free-Trade League:

If protection, unfitly so called, enriches a few at the expense of the many, who must purchase the product they stand in need of by the labour of more days, it does not increase our national wealth, but diminishes it, and consequently diminishes our fitness to war with other nations, if that becomes necessary. [98](http://www.questia.com/reader/action/gotoDocId/108269423)

George Fitzhugh (1806-1881) was a layer, plantation owner and writer. Even for a Southerner he was an extreme and almost fanatical proponent of slavery-but he was clearly not racist, as he defended slavery in principle and not negro slavery in particular. [99](http://www.questia.com/reader/action/gotoDocId/108269423) His two most hotly debated books which, according to Dorfman, 'provided an armory for both southern defenders and northern opponents of slavery' were *Sociology for the South: or the Failure of Free Society* (1854) and *Cannibals All; or Slaves Without Masters*. He was an original in the sense of being one of the only opponents of free trade in principle among the pro-slavers. According to Fitzhugh, free trade was based on a vicious notion of natural rights. Thus, it bore the stamp of selfish individualism whereby a free society merely gives the poor man the right to starve. Instead, he made slavery into an almost communist Utopia in which every hand was needed and strong ties of unselfish love bound master and slaves together. Thus, Fitzhugh was, and remains, a special case of anti-modernism in the South. [100](http://www.questia.com/reader/action/gotoDocId/108269423) In his perhaps most widely read work, *Cannibals All; or Slaves Without Masters* (1857), he stated: 'The effect of international free trade, aided by the facilities of the credit system, of the mail, and speedy communication, is to centralize wealth in a few hands in those cities'. However, 'the worst effect of free trade is, that it begets centres of opinion, thought and fashions, rob men of their nationality, and impairs their patriotism by teaching them to

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 ape foreign manners, affect foreign dress and fashion, and despise what is domestic'. [101](http://www.questia.com/reader/action/gotoDocId/108269423)

Finally we mention Henry Middleton (1797-1876), who was from South Carolina and wrote *The Government and the Currency* in 1844 (a second, slightly amended, edition appeared in 1850), and the more famous, *The Economic Causes of Slavery in the United States, and Obstacles to Abolition* (1857). Middleton was a pro-slavery man and a defender of free trade, especially as the latter-he argued-would benefit the working man and lead to lower prices. However, in his economics Middleton above all emphasised the role of demand. The greater the demand the greater the industry and the capital to support it, he argued. Also, the amount of money in circulation was dictated by demand and that spoke in favour of an open Southern export economy, he thought. [102](http://www.questia.com/reader/action/gotoDocId/108269423)

In Northern eyes radical free trade views of a kind which in Europe were connected with the Manchester School-including such liberals as Richard Cobden in Britain and Fréderic Bastiat in France-were viewed as a Southern special interest. However, from a more Southernly perspective, the North's sympathy for industrial tariffs was also seen as the symptom of a partisan view stemming from a special interest. In the South protectionist views were very rare indeed before the Civil War. In the North, as we have seen, there could be found both protectionists and free-traders. Many in the North were willing to defend free trade in principle and pay tribute to Adam Smith and the classical political economists. However, to some extent this was merely lip-service. The American discussion of free trade and industrial tariffs was set out quite differently than it was in Europe. One obvious explanation was the ever-widening gulf between the North and the South, which eventually exploded into bloody war only decades later. In order to cope with this fundamental controversy the original European doctrines were transformed so that some of their original messages changed both in form and meaning.

## After the Civil War

In American history the Civil War still remains a great turning-point. To some extent this also fits in with the history of protection and industrial tariffs. Hence, the Civil War stands as a point of division between the 'quasi-liberalism' of the 1840s and 1850s and the increased industrial protection afterwards. However, as already mentioned, the critical turning-point in the politics of protection occurred with the creation of the Republican Party just before the Civil war. While the Democrats were still against higher tariffs during the 1860s, they became more protectionist in the 1870s and 1880s. According to Terrill this was due to a very strong

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protectionist fraction in the party 'which explains why the Democrats did not take a firm stance on tariffs reduction until 1887'. [103](http://www.questia.com/reader/action/gotoDocId/108269423) Hence, increasingly, a situation of political consensus was reached with regard to the question of tariffs. Why this occurred is explained by Tom Terrill in the following way: 'The national political leaders of the Gilded Age focused on the tariff, an issue that was less decisive than other issues and one that potentially had a broad voter appeal.' [104](http://www.questia.com/reader/action/gotoDocId/108269423)

Certainly, after the Civil War this was no longer such a burning issue. With the downfall of the Southern Confederacy the most enthusiastic free¬ traders had been silenced. The industrial interest of the North remained devoted to a policy of industrial tariffs and they formed the bulk of the Republican Party. In fact, protectionism gained ground after 1865. Moreover, the tariff vanished as a controversial political issue for several decades. The only remaining critical issue was how high the tariffs should be set. In this *milieu,* as Dorfman puts it 'free-traders were at best tariff reformers.' [105](http://www.questia.com/reader/action/gotoDocId/108269423) The party differences centred around the issue of whether very high or somewhat lower tariffs would best help American industry and retain the high wages of the American workers. [106](http://www.questia.com/reader/action/gotoDocId/108269423) This consensus was not even broken when the traditional 'free-trade' Democratic Party gained power in 1884. Certainly, the Democratic President, Grover Cleveland, passed a bill to reduce tariffs in 1888. However, typically enough, this was one of the main reasons why he was defeated in the elections the following year. In 1890 the new Republican presidency inaugurated the so called McKinley tariff on imports, which made them higher than ever-'the tariff reached a climax as an issue in the 1890s', according to Terrill. [107](http://www.questia.com/reader/action/gotoDocId/108269423) This step was followed by the even more protective Dingley tariff of 1897. [108](http://www.questia.com/reader/action/gotoDocId/108269423) More than anything else this proved that protectionism was still alive and kicking in America.

Paradoxically enough, as a doctrine the American system remained less vigorous than previously. Thus, among the academic economists radical protectionism as an alternative to mainstream free trade economics gained less and less intellectual support. [109](http://www.questia.com/reader/action/gotoDocId/108269423) Hence, in the 1870s a book on the history of economics written by the French disciple of Bastiat, Auguste Blanqui, became popular reading in academic circles. At the same time the influence of John Stuart Mill was at its height. Moreover, during this period he was mainly regarded in America as a propagator of free trade-something which is not self-evident, as we have seen. [110](http://www.questia.com/reader/action/gotoDocId/108269423) One remaining defender of protectionism was the ageing Francis Bowen. In 1870 he published a treatise called *American Political Economy,* in which he once again warned against Darwinism and other radical gospels that might destroy the fabric of ordered society. For Bowen, Darwinism, Malthus and radical German philosophy was one and the same thing. Another defender

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of protectionism was Van Buren Denslow from Chicago-an ardent Careyite, according to Dorfman. [111](http://www.questia.com/reader/action/gotoDocId/108269423)

Perhaps the most zealous defender of protectionism from the middle of the 1880s was Simon Nelson Patten (1852-1922). [112](http://www.questia.com/reader/action/gotoDocId/108269423) Patten had received a doctorate in public finance from Halle in Germany. He was devoted to protectionism at the same time as being an ardent follower of marginal utility economics. In such treatises as *Premises of Political Economy* (1885) and *The Economic Basis of Protection* (1890) he based his protectionist position on arguments which could partly be found among the old Hamiltonian's but were also partly new. Hence, his tone was rather different from, for example, the arch-conservative Bowen.

Patten argued that in the United States as well as in other raw-material-producing countries free trade had led to a harmful exclusive specialisation of certain export crops such as cotton, tobacco, and so on. Such a division of labour was especially wasteful, he felt, because it would lead to less diversity, an unproductive utilisation of the soil and, in the long run, to a Ricardian increase in marginal rents. The nation should, Patten argued, devote more of its resources in order to satisfy the home market with both industrial and agricultural products. Hence, it is clear that in general terms Patten put forward arguments for an economic nationalism which would be used much later on in the debate on the issue of development and underdevelopment during the 1960s and 1970s, especially in its Latin American *dependistia* version. Perhaps there is a clearer intellectual line from Hamilton to modern radical development economics than we presently acknowledge. [113](http://www.questia.com/reader/action/gotoDocId/108269423) In his *The Economic Basis of Protectionism,* for example, Patten wrote regarding his own position:

It will be seen…that I am not a believer in the theory that there is but one system of political economy, the doctrines of which hold true for every civilization. Each nation in its own industrial conditions has perhaps all the economic causes at work which influence any other civilization, yet the relative importance of each of these causes varies with the industrial condition of each people: Not only is this true, but the prominent causes operating in any nation at one time are not likely to be the same as the prominent causes which have operated in that nation at a much earlier period or will operate in the same nation in the distant future. [114](http://www.questia.com/reader/action/gotoDocId/108269423)

From this point if view his aim was to present a sound theory of economics on which the case of protection of home industries could be based: 'A leading purpose, therefore…will be to present an ideal of a society in a

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dynamic conditions as counterpart to the ideal of a static state [as with Smith]'. Moreover he stated:

I do not advocate protection in the case of our own nation, for example because we are a backward country needing a special means to bring us up to the level of more progressive nations, In this respect I differ from the older economists who advocated a protective policy They seem to imply that it is good for the American people to approximate European conditions. On the other hand, I would differentiate as much as possible our industrial conditions from those of Europe. We should not accept the ideal of European civilization as the best fitted to American conditions. We need most of all a new ideal which will conform to the industrial phenomena which have become prominent in America…. In this respect our ideal must stand in sharp contrast with the static ideal advocated by most free-traders. The older theories of economics have always pushed to the front the conception of a static society in which all the various elements would harmonize, and thus form the highest state of civilization. The ideal that I wish to emphasize, on the contrary, is based on the changing dynamic conditions which are necessary for any people to pass through in its progress towards the highest possible social state. [115](http://www.questia.com/reader/action/gotoDocId/108269423)

However, as mentioned, at the same time the academic economists became less enthusiastic about protection. Among the fierce opponents of protectionism in the Postbellum era we find for example the leading economist during these decades, Amasa Walker (1779-1875). His *Science of Wealth* (1866) was distinctively free trade and *laissez-faire* in character. Among other critical voices against the American system, we find the famous American social thinker and follower of Herbert Spencer, William Graham Sumner (1840-1910). [116](http://www.questia.com/reader/action/gotoDocId/108269423) His argument against protectionism and for free trade took as its point of departure a belief in natural selection and evolution. In his economics he seems to have been especially inspired by Malthus. The tone of his onslaught on protectionism in his widely read pamphlet *Protectionism: The -ism which Teaches that Waste Makes Wealth* (1885) makes it clear that any peace between free trade and protectionist followers would be a foolish dream (so different from the pre-Civil War era!). Perhaps we can better understand the historical importance of the dichotomy between free trade and protection which took root in America as in Europe during the last half of the nineteenth century when we read passages like this one. Hence, according to Sumner:

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Protectionism seems to me to deserve only contempt and scorn, satire and ridicule. It is such an arrant piece of economic quackery, and it masquerades under such an affectation of learning and philosophy, that it ought to be treated as another quackeries are treated. Protectionism arouses my moral indignation. It is a subtle, cruel, and unjust invasion of one man's rights by another. It is done by force of law. It is at the same time a social abuse, an economic blunder, and a political evil. [117](http://www.questia.com/reader/action/gotoDocId/108269423)

Another very influential free-trader was Arthur Latham Perry (1830-1905), who was especially active as an economic writer in the 1880s. Dorfman describes him as an almost fanatical free-trader who came to devote almost all of his time and teaching at Williams college to this issue. He also left the Republican Party and joined the Democrats because of its support for protectionism. [118](http://www.questia.com/reader/action/gotoDocId/108269424) In his agitation for tariff reform he would even go to extremes like these:

It is an old trick of the devil to cover up a wicked thing with a good word. A masterpiece of this sort of accursed deceit is under the word Protection. No such duties, in point of high rates, complications in the way of levying them, number of articles burdened by them, or discriminations in favour of the rich, were ever laid in any civilized country since the world began, as those under which the United States are now labouring. [119](http://www.questia.com/reader/action/gotoDocId/108269424)

At the same time Perry was a devoted follower of Henry Carey's social philosophy. Moreover, like Carey he believed that wealth formation in connection with a simultaneous increase in wages and profits was a characteristic feature of long-run economic development, at least in America. This would, in the long run, lead to a harmony of interest and diminished class struggle. Hence, Perry's was critical of the main English orthodoxy. However, he did not-as most others in the United States-combine this critique with protectionism.

Although the argument in favour of free trade in the United States after the Civil War remained different to some extent, it seems clear that the influence from Europe became increasingly stronger and in effect brought American economics closer to the theoretical positions taken elsewhere. In the universities the majority support was won for viewpoints which stood close to the new economics that was spreading in Europe at the time, the marginal utility school. Simultaneously, the American system as an intellectual alternative was put in the background. This happened at the

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same time that the struggle between historical and neo-classical economics raged in Germany and Britain. [120](http://www.questia.com/reader/action/gotoDocId/108269424)

The consequence of the rise of neo-classical economics in the United States was however *not* that a majority of economists very rapidly were won over for free trade in principle. Remaining faithful to the American tradition of cautiousness in this matter this meant that the previous somewhat peculiar mix between different positions regarding free trade and protection which, up to then, had been a characteristic feature both for American and classical economists in the United States (that is, for both those who regarded themselves as free-traders and protectionists in principle) remained or only slowly faded away.

A typical exponent of such a cautious attitude was Frank Taussig (1859-1940), now perhaps the most well-known of the economists discussed in this section. It was as doctoral student at Harvard that he wrote the dissertation 'Protection to Young Industries' (1883). Although mainly a follower of John Stuart Mill and the Classical School, he was also influenced by a school of political economy which, in the 1880s and 1890s was called 'German' rather than 'American'. He was also a great admirer of John Kells Ingram of Dublin, who is best described as a historical economist (and as such inspired by such Germans as Roscher and Schmoller). In his *Wages and Capital* (1896) and later on in the much-read textbook *Principles of Economics* (1911) Taussig attempts in a general synthesis to amalgamate the Ricardo-Mill tradition with a more modern version of economics received from J.B. Clark and Alfred Marshall. However, his main interest lay in tariffs. Hence, he elaborated his dissertation of 1883 into the seminal *Tariff history of United States* (1888) which reached several editions, always with new material added. Taussig was in principle a free-trader but-in a typical American fashion, one must add-allowed for many exceptions to this rule, for example the infant industry argument. His pragmatic views on this subject were later synthesised into the classical treatise *International Trade* (1927) which can be seen as the last great example of a line of thinking which emerged with Hamilton and was, after Taussig, replaced by a more orthodox free trade version of economics. His cautious conclusions regarding the effects of American tariffs since the beginning of the nineteenth century in his 'Protection to Young Industries' are worth quoting:

The restrictive period may indeed be considered to have been one of extreme protection. The stimulus which it gave to some manufactures perhaps shows that the first steps in these were not taken without some artificial help. The intrinsic soundness of the argument for protection to young industries is therefore not touched by the conclusions drawn

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from the history of its trial in the United States. It is only shown that the intentional protections of the tariffs of 1816, 1824 and 1828, had little effect. [121](http://www.questia.com/reader/action/gotoDocId/108269424)

By the turn of the century no serious professional economist would regard himself as a follower of any specific American system. Rather, in a milder form it had become part of an orthodox and mainstream position. Radical voices, critical of the neo-classical gospel, had to seek other sources of inspiration and present their propositions in new and different ways. However, it is still an open question to what extent the American system and its particular dimension on free trade and protection influenced the new institutional economics which arrived one or two decades later and became an explicit alternative for dissenting academic economists. Such an influence might perhaps help to explain why institutionalism became such a strong force in America early this century with the work of Thorstein Veblen, John Commons and Wesley Mitchell. The American economic mind, at least to some extent, remained aware of the institutions peculiar to the United States and the role they played in shaping economic development. Moreover, this heritage from the nineteenth century made the American economists perhaps more acutely aware of the interplay between political and economical factors than their European counterparts. This does not at all exclude the existence of high theory in America or put in question the formidable analytical achievements made by American economists during the present century. Nevertheless, it must be admitted that high theory in the United States has always retained a distinct flavour of pragmatism and commonsense practicality. The Swedish economist Gustav Cassel once stated that 'nothing is so practical as a good theory'. Without any doubt, the majority of American economists would find themselves in total agreement with this. And in this light Tocqueville's point might, after all, remain a vital one.

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# 6 The three systems of political economy

## A Swedish case of translation

The coming of the industrial revolution in Britain was one of the most important events of the late eighteenth and the nineteenth century, and it shaped the political economy of the rest of the world for a long time to come. Not only did it have an impact on 'real' economic events-how growth occurred, the development of new forms of production, the distribution of income and the level and organisation of world trade-it also influenced economic thinking and the way people thought about economic phenomena. It also shaped the policies of national states. In America, as we saw, the so-called American system developed from a feeling of inferiority: the aim of economic policy must be to develop industry in order to catch up with Britain-and hopefully to pass her in the longer run. It was acknowledged, as we saw, by most economic writers in the United States during this period that such a catching-up effect could only be achieved through the visible hand of the state. To this effect protectionist measures were argued for (and accepted) from the point of view which would, after Mill, became known as the infant-industry argument.

In this chapter we will see how such ideas were also widespread outside America. Here we will deal with the case of Sweden. However, in other countries too a similar feeling of inferiority led to the same political economical conclusions: an active role for the state in achieving industrial growth and transformation. It was argued that only by catching up with Britain and establishing an industrial economy could the state and its powers flourish. Industry was seen as the basis for modernity. Hence, political as well as military strength grew out of the industrial revolution.

The impact of the industrial revolution on the economic thinking and the different polities in Europe and elsewhere is, of course, well known. However, what might be still unclear is how economic thinking was shaped in different parts of Europe in order to argue for a more visible role for the state. To some extent this was done by developing an alternative to the free trade version of classical political economy which, as we saw, emerged in

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Britain slowly and not without difficulty. In the case of America we can perhaps speak of such an alternative emerging over time. However, as the American case makes clear, it is perhaps more appropriate to speak of a process of 'translation', in which the original meanings of concepts and theories were transformed and put to work in a new context. Hence, in the United States and elsewhere, there was certainly a lot of open and explicit criticism directed against Smith and Ricardo and the tradition of British political economy. However, it is more interesting to note how American economists used Smith and others to argue against total free trade and in favour of at least some governmental intervention. As we saw, until the 1840s at least, it was possible to argue that Smithian economics as well as classical political economy was open to different interpretations. It was not until later that the invention of a tradition of absolute free trade dating back to Smith won the day.

This was even more the case in many of the European polities. Here we often find a strange mixture of the acceptance of new economic ideas and their reinterpretation in order to suggest political conclusions of *dirigisme* which were quite different from the Manchester interpretation of the classical tradition. While it was recognised that the new ideas were superior in relation to old schools of thought-including physiocracy and mercantilism-they were innovatively used in order to fit the peculiar situation of the catching-up states. Hence, a complex process of translation occurred which implied, on the one hand, that Smith and others were accepted as authorities, while on the other hand that they could be interpreted differently and independently. It was only later that a true alternative to classical political economy developed; namely historical and institutional economics. However, up until at least the middle of the nineteenth century it was possible to argue for Smith while at the same time as holding protectionist and other *dirigiste* ideas.

As noted earlier, it was common at the beginning of the nineteenth century to speak of three distinct 'politico-economical systems', i.e. the mercantile, agriculture and industrial systems. To a great extent this division could serve as a point of departure for different interpretations in different national contexts. As in the United States, some of the propositions made by the emerging Classical School fitted less well with the institutional and historical conditions in a number of Central and Northern European states. Certainly in the German states a long-lived tradition of Cameralism developed during the eighteenth century was still dominating economic teaching and writing during the nineteenth century. However, as has been shown by Keith Tribe and others, German economics were not totally devoid of influence from Smith and the Classical School. *Wealth of Nations* had certainly been translated into

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German by J.F. Schiller in 1778, by Christian Garve in 1796-1798 and by Georg Sartonius in 1806-and so by the way had Smith's *Theory of Moral Sentiments* in 1770. [1](http://www.questia.com/reader/action/gotoDocId/108269424) However, as Tribe notes, Smith's book was widely ignored during the first decades after translation. It was not until around 1800 that 'a phase of Smithianism' began to make its impact. The main reason for this delay was probably that Smith's book was so different and so difficult to digest for an audience brought up on a diet of Justi, Darjes, Schreber and other eighteenth-century Cameralists. Another possible reason was the popularity of James Steuart, whose great work *Inquiries into the Principles of Political Economy* (1770) was much easier to read for a German audience. [2](http://www.questia.com/reader/action/gotoDocId/108269424) However, especially after Sartonius' condensed translation of Smith's *Wealth of Nations* published in 1796 Smith began to make more impact in Germany. Tracing the different ways in which this influence can be noted, Tribe first points to the fact that Smith was often looked upon as a physiocrat and thus as more or less a political and economical radical. Second, he shows how the influence from Smith-and Immanuel Kant-led to the muddling of some of the steadfast truths and definitions of the Cameralist doctrine. More specifically, a view emerged-inspired by natural rights ideas largely via Smith and Kant-which differentiated between the state and civil society. As a consequence, as Tribe notes, 'something had happened to the regularities of Cameralistic textbooks'. [3](http://www.questia.com/reader/action/gotoDocId/108269424) Third, however, the main way in which Smith was understood in Germany during most of the nineteenth century and well up until the Nazi period was that Smith and his work increasingly:

undergoes a transition into a broader public domain and comes to symbolise a clash between 'cosmopolitanism' and 'nationalism' as guidelines for economic policy. Free-traders in Germany were known as *Manchestermänner,* peddling *Manchestertum,* a clear identification of economic liberalism with English policy and the 'English book'. [4](http://www.questia.com/reader/action/gotoDocId/108269424)

This instance of Smith as mainly a cosmopolitan free-trader without doubt triggered off the heated debate in Germany of the two Adam Smiths, the debate of *Das Adam Smith Problem* which we have discussed in an earlier chapter. [5](http://www.questia.com/reader/action/gotoDocId/108269424)

During the nineteenth century and due to the influence of List and later on the two historical schools, Smith became identified with free trade and as a proponent of free-trade imperialism. [6](http://www.questia.com/reader/action/gotoDocId/108269424) However, there are also alternative ways to understand Smith and the 'new political economy'. Here, peripheral Sweden can serve as an interesting example. Hence, in this chapter we investigate-in the second part-how cautious and basically *dirigiste* Swedish economists were able to define Smith, not in

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the first place as a defender of free trade but of an 'industrial system'. In the German discussion-for example by T. Schmaltz in his *Encyklopädie der Cammemlwissenschaften (1797)*-there were also references made to Smith's *Industrie-System* in contrast to a mercantile and agricultural (physiocratic) system. [7](http://www.questia.com/reader/action/gotoDocId/108269424) However, in Germany the dichotomy between cosmopolitanism and nationalism was so strong that it excluded a kind of alternative Smith suggested by Swedish writers.

In other respects too Sweden can serve as an example of how translations from one intellectual and discursive *milieu* to another affects the content and message of economic texts. Hence, as in the American case, we emphasise the importance of institutional and historical context for how (economic) texts are understood and read. For this reason in the first half of this chapter will deal with Swedish economics in general and how one of the other three 'economic systems'-namely the agricultural or physiocratic-was understood in a late eighteenth-century context in Sweden. Then we return to the main theme of this book.

## Early economics in Sweden

In a survey of Swedish economic thought from the middle of the nineteenth century onward Eli Heckscher emphasised how old 'mercantilist ideas' during the 1860s were replaced by liberal and free trade ideas. [8](http://www.questia.com/reader/action/gotoDocId/108269424) In fact, the change was so dramatic, he wrote, that the 'main cause of this must have been outside influences and not internal change within our own community'. [9](http://www.questia.com/reader/action/gotoDocId/108269424) This outside force was the free trade liberal doctrine which had-at last-arrived in Sweden. At the same time, however, Heckscher notes that the main influence behind this breakthrough did not originate 'from where one should have expected', i.e. from Britain. In fact, as Heckscher argues: 'As far as I am acquainted with the Swedish economic discussion and our popular economic literature of the 1860s and 1870s, there is almost no trace of any influence from English writers'. [10](http://www.questia.com/reader/action/gotoDocId/108269424) Hence, very few translations of English economic texts were made during this period-not even Richard Cobden's writing was translated into Swedish, Heckscher argued. However, this is not entirely correct as Harriet Martineau's *Illustrations of Political Economy* from 1834 was translated-the 'famous English writer' and populariser of the new doctrines of National Economy, according to the Swedish writer Erik Gustaf Geijer who wrote a preface to one of Martineau's translated novels [11](http://www.questia.com/reader/action/gotoDocId/108269424) -together with texts by Millicent Fawcett, G.H. Smith, A. Helps, P.J. Stirling and others. [12](http://www.questia.com/reader/action/gotoDocId/108269424) According to Heckscher, however, the new ideas were instead imported via France, and especially from Bastiat and the 'harmony economists'. Apart from Bastiat, Heckscher mentions such writers as

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Ambroise, Clément, Couercelle-Senueil, Blanqi and others for having a profound influence on the Swedish discussion. Although there were some exceptions to this rule, the French influence was certainly the strongest from the middle of the nineteenth century. The Uppsala *Docent* in 'Nationaleconomie och fmansrätt', Wolter Arnberg's little book based on his lectures entitled *Om arbetets och bytets frihet* (1864) was one of the earliest and most important *laissez-faire* texts published in Swedish. Here Arnberg condemned on principle both the mercantile system and any system of protective duties. Bastiat's influence is clearly visible here. [13](http://www.questia.com/reader/action/gotoDocId/108269424)

Moreover, Heckscher argued that harmony economic *laissez-faire* ideas were the main driving force behind the trade reforms and tariff reductions that took place in Sweden during the middle of the 1850s. Such ideas also served as the main intellectual argument behind the Swedish signing of the Cobden Treaty in 1865, he stated. Heckscher as well as many other Swedish economic historians would also draw the conclusion that the liberalisation of Swedish foreign trade in its turn triggered off an export-driven industrial breakthrough which had its origin in the 1840s with the introduction of free trade in England. Britain was of course one of the main buyers of Swedish timber and planks as well as iron and steel during this period. Moreover, after the signing of the Cobden Treaty in 1865 Sweden was ripe for yet another upsurge of industrialisation during the 1870s. According to Heckscher, and the prevailing orthodox interpretation of nineteenth century Swedish economic history, Sweden was really the success story *par excellence* of free trade economics.

To what extent this linking of events gives us an adequate historical picture of the Swedish industrialisation process I will not deal with in this context. [14](http://www.questia.com/reader/action/gotoDocId/108269424) It is of course an open historical question whether free trade reform in Sweden really had such a great impact on the subsequent industrialisation of the country. However, it is clear that rising exports, especially to Britain, played a positive role for Swedish. More important here to note is that Eli Heckscher talked about a drastic shift occurring in the middle of the century from 'mercantilism' to Bastiat and the French harmony economists (perhaps including Carey since several of his pieces were translated into Swedish in the 1850s including *The Past, the Present and the Future* (1848)). Hence, liberal economic thought was certainly imported to Sweden-but as we will see later it was a liberalism with a difference.

It is in this context, interesting to note-as Heckscher did-that most Swedish scholars have tended to tone down the importance of the ideas of Adam Smith in Sweden. It was only later and in the harmony version of the French writers that free trade ideas were imported to Sweden, they emphasise. [15](http://www.questia.com/reader/action/gotoDocId/108269424) However, this is not because Smith was unknown by Swedish

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economic writers at an early date. It is rather because Swedish scholars have been uncomfortable with how Smith was interpreted and understood in Sweden during the first half of the nineteenth century. The critical question is which Adam Smith was imported into Sweden? As argued in this book it seems clear that the image of Smith as a 'doctrinaire' (Heckscher) free-trader, a Manchester liberal of the Cobden kind, was created from the middle of the nineteenth century onwards. In general, as we have seen, it seems wise not to draw an immediate line of causation between 'classical political economy' and Smith on one hand and the policies of free trade on the other. This is also true when we come to the specific case of Sweden and the translation of such new ideas into this country. As we will see later on, Smith and his 'system' was in fact largely accepted by the Swedish economic writers-but perhaps in a peculiar way. The message of Bastiat and the harmony economists (including Carey) too was translated and took a different form when it became popular within the Swedish discussion from the 1850s. As we will see, a stern follower of Bastiat such as the extremely influential finance minister J.A. Gripenstedt-the mastermind behind the tariff reforms and the adjoining to the Cobden system-was able to reconcile the *laissez-faire* gospel of Bastiat with a positive view of the regulatory orders of the state to intervene in the economy.

It is not the case that 'mercantilists' prevailed in the Swedish economic discussion in Sweden up until the middle of the nineteenth century. To some extent this was reconciled by Heckscher, who argued that 'mercantilism' by 1860 had lost its former position, although it had not yet been replaced by something else. Not even List could fill up this void, or 'jerkiness' according to Heckscher. There is in fact little traceable influence in the Swedish economic discussion from the school of 'national economists', i.e. from Americans such as Alexander Hamilton, Matthew Carey or even from Friedrich List. However, in this context Heckscher forgets Henry Carey whose work-as we saw-certainly was translated into Swedish during this period. However, Heckscher is correct to emphasise that given the historical and intellectual contact between Sweden and the German states, especially since economic discourse in Sweden during the eighteenth century-especially in the universities-was heavily influenced by the German Cameralist version of economics, this is perhaps a bit peculiar. Like Germany and United States, Sweden was also a late-comer to the industrialisation race and for the same reason it could easily have fallen prey to infant-industry or import-substitution arguments. Instead, the response to the English initiative to abolish its Corn Laws and to establish free trade seems to have been much more positive in Sweden. As we will see later, this positive response fits well with the general political and economical situation prevailing in Sweden at the time.

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In Sweden the first chairs in the economic discipline were inaugurated in Uppsala 1741, Åbo 1747 and Lund 1750. In Uppsala the first professor, Anders Berch, was heavily influenced by German Cameralists such as Dithmar and he lectured on a mixture of policy, economic legislation and practical husbandry His textbook, *Inledningen till Almänna Hushållningen* (1747) was even translated into German in the 1750s. In Åbo and Lund the emphasis on husbandry and agriculture was even more strongly marked. The first professor in Åbo was Pehr Kalm, who was a student of Linneaus and as such lectured mainly on natural history and practical husbandry. In Lund the first professor was Johan Henrik Burmeister, who gave lectures in zoology, botany and practical husbandry. He was succeeded in 1758 by Claus Blecher Trozelius a former clergyman and reader in economics in Uppsala. He adopted Berch's textbook in his lectures, but spent most of his time teaching husbandry and the improvement of agriculture. During the 1760s Trozelius presented a number of dissertations at Lund which, according to the custom of the time, he probably wrote himself, with such titles as 'The advantage of building stone-houses' or 'On Scanean bee-keeping'. [16](http://www.questia.com/reader/action/gotoDocId/108269424)

According to Trozelius, therefore, 'economies' was an applied natural science in the service of agricultural improvement. This approach became even more pronounced when Carl Adolph Agardh-to whom we will return-was appointed to a chair in 'practical economy and botany' in Lund 1812. Agardh's main interest was botany, where he made some important scientific discoveries by trying to improve Linneaus's sexual system. But he also lectured on economic legislation and during the 1820s and 1830s he attended many Diets as an expert on economic policy, especially concerning monetary issues. [17](http://www.questia.com/reader/action/gotoDocId/108269424)

Outside the academic sphere the eighteenth-century discussion was very much influenced by English 'reform mercantilists' and in particular French *economistes*. Hence, during the 1750s and 1760s many writers appeared who were eager to attack old 'mercantilist' regulations and use natural law language in order to argue for greater freedom of trade. Amongst these we must especially mention the writer and politician Anders Nordencrantz and the vicar from the distant Österbotten, Anders Chydenius, crowned by Carl G. Uhr as a 'predecessor of Adam Smith' especially with his short tract *Den Nationale Winsten* (1767). [18](http://www.questia.com/reader/action/gotoDocId/108269425) Nordencrantz was heavily influenced by the contemporary moral philosophical discussion, and in his political and economic views he relied very much on the Scottish Enlightenment school. The French physiocrats also had some impact in Sweden, especially during the 1760s and early 1770s, as we will see later on. It is symptomatic that most of these new influences appeared outside the academic world, where economics retained its character as a science of

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householding and Cameralism well into the nineteenth century. Hence, it is often stated that to the extent that any intellectual influence whatsoever from Adam Smith and the new classical political can be traced in Sweden after 1800, the universities were certainly not involved.

Adam Smith's *Wealth of Nations* first appeared in Swedish in the form of eight abridgements (200 pages) in Georg Adelsparre's journal *Läsning i blandade ämnen* (1797-1801). In 1800 a highly abridged translation from Sartorius' German condensed version appeared. Another translation of some parts of *Wealth of Nations* was published in 1804 under the title *Politisk undersökning om lagar, som hindra och tvinga införseln af sådana utländska varor som kunna alstras eller tillverkas inom landet*. However, it was only in 1909 that a full translation appeared in Swedish language. [19](http://www.questia.com/reader/action/gotoDocId/108269425) Against this background it is typical that the leading Swedish writer on economic issues during the 1790s-the merchant Christian Ludvig Jöransson who between 1792 and 1798 published a long work (1,450 pages) in several parts entitled *Försök til et systeme i Sveriges allmänna hushållning och pennning-väsende*-was influenced by Sir James Steuart but seems to have been unaware of Smith's work. [20](http://www.questia.com/reader/action/gotoDocId/108269425) During this period the only writer who directly referred to Smith was the politician and physician David von Schulzenheim who, in his *Bref om rikets penninge-werk och allmänna hushållning,* published in two parts (1794 and 1796), set out to criticise Jöransson's text. He mainly used Smith in order to criticise the view that much bullion in a country made the country rich and thus echoed Smith's assault against the 'mercantile system'. However, according to Heckcher, Schulzenheim may have been citing Smith but seems not to have understood him properly and thus on the whole remains quite unaffected by Smith's general conceptions and views. [21](http://www.questia.com/reader/action/gotoDocId/108269425)

## Physiocracy in Sweden

In Sweden as in many other European countries, physiocratic ideas-and specially their political implications-became popular among the highest circle of noblemen and politicians at the end of the 1760s. It is well known that the crown prince, later Gustavus III, was well acquainted with the writings of the physiocratic sect or school. [22](http://www.questia.com/reader/action/gotoDocId/108269425) In October 1767 he had thoroughly read Mercier de La Rivière's newly published *L'Ordre naturel et essentiel des sociétes politiques* and wrote rather enthusiastically about it to his mother the queen. [23](http://www.questia.com/reader/action/gotoDocId/108269425) Without doubt, de le Rivière's insistence that society was best administered by a king who had inherited his throne, and thus was less inclined to hold partisan views, inspired Gustavus to stage a *coup d'état* in 1773, which established him as an enlightened despot in Sweden after five decades of parliamentary rule (the so called 'Age of

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Liberty', 1721-1772). His chief councillor during this period was his former tutor and a leading politician, Count Carl Gustaf Scheffer. Scheffer was an enthusiastic translator of physiocratic texts, including Quesnay's *General Maximes*. At the end of the 1760s he carried out a lively correspondence with Mirabeau-of which unfortunately only a few letters from Mirabeau are preserved in the Swedish archives. [24](http://www.questia.com/reader/action/gotoDocId/108269425) It is also quite likely that Count Scheffer, while visiting Paris as an ambassador, participated in the famous Tuesday receptions in Marquis de Mirabeau's home which served as a social focal point for the members of the school. [25](http://www.questia.com/reader/action/gotoDocId/108269425)

The circle around crown prince Gustavus that strove for legislative change and the establishment of stronger monarchal rule was clearly influenced by French physiocratic ideas. Eli Heckscher would conclude, however, that physiocratism-perceived as a specific economic doctrine-probably only had a minor influence upon Swedish economic thought in the longer term. According to Heckscher, physiocracy was only a footnote in Swedish intellectual history. [26](http://www.questia.com/reader/action/gotoDocId/108269425) He felt its gospel was too exclusive, sectarian and Utopian to have any lasting impact in Sweden. The central thesis of a single tax strictly imposed on the *produit net* must particularly have seemed an impossible dream even for an enthusiastic physiocrat such as Scheffer, he believed. At the same time Heckscher felt strongly that Scheffer was a doctrinaire apostle. However, as such an extremist he had no real followers in the Swedish economic discussion. [27](http://www.questia.com/reader/action/gotoDocId/108269425)

This rather negative attitude towards a possible physiocratic influence in Sweden has also been shared by others, most notably Lars Herlitz. Thus, according to him, not even Scheffer could be said to have been a true physiocrat. In a study where he systematically compared Scheffer's translation of Quesnay and Dupont de Nemours in the tract 'Bref til Herrar Riksens råd' (1770) with the original texts, Herlitz was able to detect many peculiar alterations and omissions. Rather than looking upon these omissions as a mere consequence of a wish to abridge the original texts and make them more easily accessible to a Swedish public, he hypothesised that they revealed major differences and disagreements. Hence, while dressing himself up as a loyal disciple to de Nemours and Quesnay, Scheffer, especially in 'Bref til Herrar Riksens råd' presented to the Swedish public a 'translation' which carried a socio-economical message that differed very much from his sources. Most importantly, as argued by Herlitz, in Scheffer's version the notion of the necessity of an agricultural capital in the hands of rich *fermiers* disappeared. Hence, as Heckscher also noticed, Scheffer in his translation spoke only of two classes-landowners and farmers-while Quesnay and the other physiocrats also include the capitalist farmer who leases his property from the feudal proprietor. Certainly, as Herlitz further argued, Scheffer followed

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Quesnay in that only *the produit net*-the surplus otherwise yielded in toto by the landowner-could be taxed. To interfere in the 'necessary advancements' of the farmer-Scheffer's translation of *les avances primitices* and *les avances annuelles*-would thus lead to agricultural stagnation and ruin. However, at the same time, Scheffer neither mentioned nor proposed that an agricultural capital in the hands of the *fermier* could play an active role in increasing the *produit net,* Herlitz suggested. Instead, this surplus was, with Scheffer, a given amount as long as the 'necessary advancements' for the farmer were recognised. Consequently, instead of arguing for as high a profit as possible for the capitalist farmer, Scheffer turned the argument into a justification for preserving a rent income, as high as possible, for the feudal proprietor. [28](http://www.questia.com/reader/action/gotoDocId/108269425) Moreover, in this version the important distinction between Quesnay's *grand* and *petit agriculture* became blurred.

Consequently, against this background, Herlitz drew the conclusion that there were important differences in principle between Scheffer and the physiocratic gospel made manifest in his translation of Quesnay and Dupont de Nemours in 'Bref til Herrar Riksens råd'. Thus, rather than being a true physiocrat, Scheffer could better be described as a representative of 'a fiscal physiocratism not uncommon in other parts of Europe at this time'. [29](http://www.questia.com/reader/action/gotoDocId/108269425) Like the physiocrats, Scheffer, of course emphasised the role of agricultural sector for economic wealth and improvement-but so did many others, without belonging to the physiocratic sect.

Herlitz's 'strong programme' for using the label 'physiocratism' did stir up some controversy in the Swedish scholarly debate. We do not need to follow the details of this controversy here. [30](http://www.questia.com/reader/action/gotoDocId/108269425) To a large extent, the judgement as to whether Scheffer was a 'true' physiocrat depends on whether one uses a strong or a weak definition to characterise the physiocratic school. Hence, in order to avoid unfruitful squibbles over definitions it can perhaps be concluded, once and for all, that Scheffer certainly was influenced by physiocratic ideas as well as by other enthusiasts for agriculture, including that 'friend of the people', Count Mirabeau. What is more interesting, is that while translating the French texts Scheffer made some changes which, to some extent at least, highlighted the different institutional, social and economic *milieu* in Swedish and French agriculture at the time. Such changes also mirrored Scheffer's own political views and inclinations. For example, his message was not so radical in a socio-economic sense. He was apparently less critical of the feudal landowners than were his French colleagues-and of 'the mercantile system'. On the other hand, his defence of competition and a free grain market implied a certain radicalism-even though a number of other Swedish debators who could not be described as

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physiocrats, such as Nordencrantz and Chydenius, were in agreement with Scheffer on this matter. It becomes increasingly obvious that Scheffer's translation and amendments to the original texts should be understood not only against the backdrop of the radically different socio-economic structure of Swedish agriculture and society, in contrast to the French, but also in relation to the fact that Scheffer had certain political aims in sight.

Before we discuss Scheffer any further, we must place him in a wider historical and intellectual context. Almost total freedom of the press during the 'Age of Liberty' (1721-1772) had fostered the emergence of a lively discussion, especially on economic and political issues. Until the end of the 1750s this discussion had been undoubtedly 'mercantilistic' in character. Thus, most economic writers-including the first professor of economics at Uppsala university from 1741, Anders Berch-had supported the leading party, the Hats, in their search to establish more manufactures and to stimulate increased exports and reduced imports (especially of manufactured wares). For these efforts the idea of a favourable balance of trade-or at least a less disfavourable balance of trade-had served as a legitimation. [31](http://www.questia.com/reader/action/gotoDocId/108269425)

Even during this period not all writers in the discussion were agreed on protectionism and a regulated domestic and international trade as a general method for increased power and plenty. Thus, other voices with a distinctive 'liberal tendency' appeared in the debate. Hence, such writers as Lars Salvius and Christopher Polhem tended to emphasise free trade as a general principle, much in the same way as the German writer Beecher had done more than half a century earlier. [32](http://www.questia.com/reader/action/gotoDocId/108269425) As noted in the modern interpretative literature dealing with 'mercantilism', such liberal tendencies were not at all uncommon in this literature-a fact obscured by the nineteenth century when, for ideological reasons, a clear line of demarcation was drawn between free trade and mercantilism. [33](http://www.questia.com/reader/action/gotoDocId/108269425)

In a Swedish historical context it was, however, the 1760s which saw a breakthrough for a 'reform mercantilism' with strong liberal overtones. To some degree its focal point was a critique of the overgenerous manufacture policy of the leading political party, the Hats. Serious monetary and financial problems gave way to a view which underpinned that state support of the manufacture sector was wasteful and had led to corruption. According to its critics, several of the new establishments were unsound and could never survive without heavy state subsidy. These policies were severely criticised in a number of pamphlets and this heated discussion has gone down in Swedish history as 'the dispute of the Swedish factories' or 'the contest of occupational preference'. At the Diet of 1765-1766, more or less as a consequence of enraged allegations of corruption during a period of severe economic and financial crisis, the Hat party fell from

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power. The new party, the Caps, was much less inclined to subsidise the manufacturing. [34](http://www.questia.com/reader/action/gotoDocId/108269425)

'Reform mercantilism' was to a large extent a political movement criticising an economic policy which had emphasised the role of foreign trade and manufactures. Instead, a more general utilitarian approach spread, which also recognised the role of other industries for economic improvement and growth, including agriculture. Hence, from the 1750s agricultural reform and improvement were put in the forefront of discussion. In the wake of this new emphasis several new journals, a royal academy of sciences and several so-called societies of householding were launched which served as forums for the discussion of practical reforms (for example the need for enclosures) as well as technological improvements in agriculture. Moreover, when economics was introduced as a scholarly subject in Swedish academia during this period-it came especially to deal with agriculture and agricultural improvement.

The great interest in agricultural issues coupled with an emphasis on its important role for economic growth set the tone of the economic debate in Sweden from the 1750s. As a consequence, this discussion has been branded as 'pre-physiocratic'. In the discussion concerning the superiority of certain industries over others, Carl Leuhusen's *Tankar om De rätta och Sanskyldiga Medel till Sweriges wälmåga* (1761-1763) stands out. According to Leuhusen-heavily inspired by Mirabeau's *L'ami des people,* as he was-'the right road to a prosperous Sweden was a plethora of corn, flesh and fish and such prosperity can only be achieved through the improvement of agriculture as all other occupations are inadequate and uncertain'. [35](http://www.questia.com/reader/action/gotoDocId/108269425) Agriculture was 'the only art which actively creates and generates' wealth, for example, in opposition to handicrafts which 'only distribute and use' it. [36](http://www.questia.com/reader/action/gotoDocId/108269425) Moreover, Leuhusen pointed out that the current weakness of Swedish agriculture was due to too much regulation and a regulated trade in corn. In its place, he proposed a free corn trade so that 'anyone can buy and sell as he wishes'. With such a reform not only will more corn be available on the market, he argued, but people will also become more industrious and the price of corn will increase over time. [37](http://www.questia.com/reader/action/gotoDocId/108269425)

The view that special consideration should be given to the improvement of agriculture and the need for the free trade of corn was shared by a number of writers at the time, including Per Karleby, E.O. Runeberg and Carl Fredric Scheffer. Especially in the case of Anders Nordencrantz and Anders Chydenius these views were formulated in a more systemic form which propounded free trade as a general principle and a view of the economy as a 'natural' system ruled by certain independent forces and laws. Without doubt, both these writers were heavily influenced by the French *economistes* as well as such writers as Mandeville and Hume. They turned

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with rage against the old 'mercantile' system of the Hats and saw its downfall as the only remedy against corruption and poverty.

Anders Nordencrantz (1697-1772) was a leading politician, ideologue and keen participant in the discussion during the 1750s and 1760s. In Swedish historiography he has become known for his stern support for liberal reforms, a free press and parliamentary rule against monarchical rule. Especially in his memorandum *Till Riksens Höglofl*. *Ständer församlade wid Riksdagen 1760* (1759) he explicitly used a vocabulary of natural law in order to press for reforms. He heavily criticised the Rousseauean concept of 'the state of nature' as being a concealed defence for absolutism and a strong state. Instead, he used arguments inspired by Mandeville, Helvetius and Hume to argue for civil rights and liberal reforms. [38](http://www.questia.com/reader/action/gotoDocId/108269425)

Without doubt, his great affinity for the new ideas stemming from France and Scotland also influenced him as an economic writer. In his first published work, *Arcana oeconomiae et commercii* (1731), he had presented himself as a reform mercantilist quite close to leading authorities such as Child and Davenant. While not at all a dogmatic protectionist from the beginning-he was after all a follower of the liberally inclined Tory mercantilists [39](http://www.questia.com/reader/action/gotoDocId/108269425) -he turned increasingly radical during the 1750s and 1760s. Gradually, he came to develop a view of the economy as an interchangeable system ruled by natural laws and made up by a multitude of individuals each trying to satisfy their selfish appetites and passions. From this point of view he criticised the state policy of supporting manufacturing, protectionism and the regulation of trades and employment which were key elements of the Hat regime.

His pupil, the vicar from the Finnish Österbotten Anders Chydenius (1729-1803), went even further in this direction. So far, in fact, that he was named by the economist Carl G. Uhr 'a Finnish predecessor to Adam Smith'. [40](http://www.questia.com/reader/action/gotoDocId/108269425) Thus, according to Uhr, in Chydenius's short tract 'Den Nationale Winsten' (1765) we find a critique of the 'mercantile system' as well as the presentation of a self-acting economic system which, in principle, is the same as that developed by Smith in his *Wealth of Nations*. As with Nordencrantz, there is also a hint of the invisible hand included here. Nordencrantz, as well as Smith, seem to have argued from a Mandevillian position that private vices could become public benefits only in a commercial society with many competing tradesmen and merchants. Only within such an institutional framework can corruption be avoided and maximum wealth procured.

Let us now return to the Swedish version of physiocracy made public mainly through the pen of one person, Carl Fredric Scheffer (1715-1786). [41](http://www.questia.com/reader/action/gotoDocId/108269425)

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In the 1760s he already had a long political career behind him. As noted, he was originally a Hat and reached top positions within the party hierarchy as well as in the government. From 1743 he was nominated Swedish Minister in Paris-where he stayed until 1752. Back in Stockholm he was first appointed *riksråd*-the head of the king's privy council and in practice chancellor of the state (from 1751)-and then tutor of the royal princes (from 1756). In the latter position he developed a lasting personal friendship with crown prince Gustavus, later Gustavus III.

It was also while in this position that he gradually developed a critique of the prevailing Hat economic policies from much of the same position as Nordencrantz and Chydenius. His contribution to the 'dispute of the Swedish factories' was a short pamphlet from 1755, 'Anmärkningar Wid herr Commissarie Johan Fredric Krygers Tankar om Swenska Fabriquerna'. Here he proposed the idea that 'undisturbed freedom in all trades' was a precondition for economic prosperity and happiness. [42](http://www.questia.com/reader/action/gotoDocId/108269425) In order to support his views of the need to introduce less restricted trade and more competition he cited the works of Forbonnais and Dangeul.

As a consequence of the financial and economical crisis in Sweden from the late 1750s his criticism of the ruling Hats-to which he had once belonged-turned increasingly bitter. Thus, the ruling Hats were attacked not only by the Caps but by other Hats as well. [43](http://www.questia.com/reader/action/gotoDocId/108269425) Without doubt, this opposition from within was a major factor in the overthrow of this party at the Diet of 1765-1766. However, Scheffer's increased radicalism led him in a slightly different direction from Nordencrantz or Chydenius. While the latter two came to take the view that the economic system was an interchangeable machinery of forces constituted by individuals pursuing their self-interests, Scheffer was eager to point out that agriculture was of special importance for economic growth and 'happiness'. This view is first apparent in a tract discussing whether or not Sweden has progressed economically during recent decades: 'Tankar om Sweriges Närwarande Tillstånd i anseende till wälmåga och Rikedom' (1761). Scheffer here argues that it is a myth that Sweden had grown much poorer. Instead, the shortage of money and the 'high exchange' of the Swedish currency was a sign of increased prosperity. Scheffer argues from the point of view of a standard quantity theory of money: 'the value of goods is determined by the quantity of money, which is supplied in order for their exchange'. [44](http://www.questia.com/reader/action/gotoDocId/108269425) Swedish money, he explains, has grown scarce because of increased prosperity and a subsequent importation of luxury wares as well as corn in order to fabricate *brännvin* (aquavit or Swedish liquor). However, more or less money in the country does not prove that it has become either wealthier or more impoverished. Instead, 'a country's real wealth consists in land, a great population and work'. [45](http://www.questia.com/reader/action/gotoDocId/108269425) From this point of view it is

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obvious, Scheffer believes, that Sweden had grown much richer during the preceding twenty years.

In this pamphlet there is no explicit reference to a single source of inspiration. Instead, it seems clear that Scheffer had gained impulses from a wide number of authors, most probably of French origin. He obviously shared his high opinion of agriculture in a general sense, his emphasis upon a great population, free trade and his critique of the favourable balance theory with a number of French *economistes*. As we saw, such a general 'programme' was also shared by others in the Swedish discussion, for example by Leuhusen, Karleby and Fischerstrom. Certainly at this stage, there was no sign of a full-blown physiocratic programme in the more restricted sense of which we spoke earlier. Thus, it is clear that if we judge from this text written by Scheffer himself, he certainly was not a true physiocrat, as Herlitz suggested.

Scheffer was certainly able to read all these authors-including Mirabeau, who he quite possibly met early in the 1750s-in their original language. However, several of the French writers were also introduced to the Swedish public through translations during this period. The predominance of French translations from the early 1750s give clear evidence of the particularly strong French influence over the Swedish economic discussion at the time. Among the *economistes* who were translated we find Melon's *Essai politique sur le Commerce* (1751), parts of Dangeul's *Remarques sur le les advantages et lés disadvantages de la France et de la Grande Bretagne* (1761), a free translation of some texts of Gournay's with the Swedish title *Tvänne Memorialer angående Frihet i Handel och Slögdenäringar* (1756)-and the first part of Mirabeau's *L'ami des Hommes,* of which an abridged translated form was published by Scheffer in 1759 with the title *Tankar om sedernas werkan på folkmängden*. On the title page Scheffer is mentioned as the author, but in the foreword he points out that the work is actually a translation of Mirabeau's *L'ami des hommes*.

Certainly *L'ami des hommes* was not a physiocratic text in the strict sense. However, after the middle of the 1760s Scheffer also started to translate truly physiocratic works for the Swedish public. In 1767 a translation of Mercier de la Rivières *L'ordre Naturel* is announced in the journal *Stockholms Post Tidningar*. [*46*](http://www.questia.com/reader/action/gotoDocId/108269425) Scheffer, was clearly behind this project but the translation never appeared, for reasons unknown. As we saw, the book was advertised soon after that crown prince Gustavus had talked so approvingly of it. A more successful project for Scheffer was an abridged translation of an article in the *Ephémerides du Citoyen*-at this time still edited by abbé Baudeau-published in 1768 under the Swedish title 'Någre utländske philosophers tankar om yppighet och sumptuariska

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lagar'. Scheffer had chosen to include and translate passages from the article 'Du luxe et des lois somptuaires'-written by Baudeau-which argued against the laws forbidding consumption of luxuries as well as against the favourable balance theory which, according to the author (and translator), had so often been used as an ideological device in order to suppress consumption of foreign wares. However, as Herlitz argued, most of the positive content in Badeau's article where he develops some original points-building on Quesnay's *Tableau economique*-on the contradistinction between *'dépenses non productives'* and *'celles qui servent a la production'* is left out by our translator. Included is the negative argumentation against *les lois somptoires*. [47](http://www.questia.com/reader/action/gotoDocId/108269425)

A second translation of physiocratic texts by Scheffer appeared in the tract 'Bref til Herrar Riksens råd' (1770). The tract was published anonymously and in the foreword the writer/translator pointed out: 'I will not use any of my own words; I take it all from foreign writers'. [48](http://www.questia.com/reader/action/gotoDocId/108269426) Moreover, on page 7 our translator mentions that what will follow is a summary of Quesnay's 'teachings' *(lära)*. However, this summary does not stem directly from Quesnay. As a matter of fact, and as pointed out by Heckscher and Herlitz, the text which appear in Swedish is really a translation of three separate pieces put together by Scheffer. The first piece contains only one page (page 2 in Scheffer's publication) and is a very condensed translation of Mirabeau's 'Lettre de M B à M…sur la nécessité de l'instruction politique' published in *Ephémerides* in 1767. This follows after a short introduction written by the translator himself (page 1). The second part is longer, running up to page 33 and is an abridgement of Dupont de Nemours 'De l'origine et des progrés d'une science nouvelle' (1767). It is divided up in twenty-two paragraphs and follows the original quite closely with regard to form and content. The third translated work begins at page 33 and is an abridged version of Quesnay's 'Maximes génerales' which appeared in *Physiocratie* (1767) edited by Dupont de Nemours. The translation included twenty-six paragraphs-out of thirty in the original. Moreover, the last pages are very compressed and Scheffer simply presented the maxims without explaining their content. It looks as if Scheffer-for some reason-had to interrupt his translation and in the end only presented a table of contents for the rest of the maxims. [49](http://www.questia.com/reader/action/gotoDocId/108269426)

However, with Scheffer's anonymous 'Bref til Herrar Riksens råd' the physiocratic movement was introduced to a Swedish public. This translation of Badeau and Dupont de Nemours presented a general introduction of the sect's general philosophical and political views. Through the translation of Quesnay's 'Maximes génerales' the Swedish public had also been introduced to the physiocratic gospel, with its specific view of the economy and its vocabulary.

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We have so far omitted to discuss more specifically how the works of the physiocrats-through the translating efforts of Scheffer-were received by the political public at the time. Certainly, as noted in the modern literature dealing with the history of economic or political thought, this question of the reception of work by the public is most important in order to understand the form and content of political as well as economic texts as they appear. [50](http://www.questia.com/reader/action/gotoDocId/108269426) From this point of view it is certainly not by chance that in 'Bref til Herrar Riksens råd' Dupont de Nemours's 'De 1'origine et des progrés d'une science nouvelle' was the most completely translated of the sources-a work which Heckscher described as mainly dealing with 'social philosophy'. [51](http://www.questia.com/reader/action/gotoDocId/108269426) As we know, it is here that Dupont presented his largely 'materialist' and socio-economic-based plea for an enlightened monarchy. Quite clearly, this part was the more important to translate as the Swedish discussion around 1770 dealt largely with the issue of parliamentary versus monarchical rule-a discussion in which Scheffer was active as an advocate for the latter. In Swedish historiography he is also regarded as the most important architect of Gustavus III's *coup d'état* in 1773.

The most important message of 'Bref til Herrar Riksens råd' was the need to reform the old political order. However, Dupont's text was especially important from another point of view as well. As noted by Herlitz, it was easy from the Swedish translation to refer directly to the contemporary economic political discussion regarding taxation and its relation to the severe devaluation crisis which occurred in the late 1760s. Hence, one oft-cited effect of the revaluation of the Swedish currency in 1766 was the increased burden of indirect taxes, especially on people who were unable to compensate themselves by selling-as it was clear that food prices, for example, had not fallen in proportion to the lowering of the currency-such as *rentiers* or landowners living on rents. As many of these taxes, especially the *bevillningen* was taken out in money, its relative value had of course increased as a consequence of monetary reform. Hence, in the public discussion the view was held that landowners in particular had suffered. This seems very much have been Scheffer's view as well. Hence, without doubt, it was possibly to use the physiocratic notion of a single tax in order to push for a tax reform which would in particular secure the incomes of the landlords in these times of trouble-without of course interfering with the necessary advances made by the farmer. [52](http://www.questia.com/reader/action/gotoDocId/108269426)

To the public around 1770 the physiocratic texts translated by Scheffer must also have seemed to offer a direct and relentless critique against the monetary and financial policies pursued by the Caps from the Diet of 1767-1776 onwards. As we saw, it was during this Diet that the inflationary policy of the Hats-which was said to have caused an

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unfavourable balance of trade, widespread use of imported luxury wares, idleness, exchange, robberies and corruption-was replaced by a deflationary policy carried out by the Caps. While he was no Cap, Scheffer was certainly critical towards the old Hat rule. However, at the same time, he regarded the shortage of money and low circulation as being caused by the devaluation of the currency-and as the main reason for the depression into which Sweden had fallen after 1765. The remedy, according to Scheffer, was a reissue of banknotes. And for this purpose he added the following to his translation of Quesnay in 'Bref til Herrar Riksens råd': 'a shortage in the stock of money can easily be relinquished through the issue of paper money', which is certainly not in the original and would have been against Quersnay's main point that the size of the money stock is not at all important. [53](http://www.questia.com/reader/action/gotoDocId/108269426) Through such an addition Scheffer certainly used Quesnay to defend his own position in the prevailing heated political discussion.

Regardless of Scheffer's efforts the physiocrats seem to have made only a slight impact on the Swedish discussion. Certainly, its continued in its more extended version-as a general movement emphasising the freedom of trade, the productive role played by an expanding agriculture, and so on. But in its stricter form its influence vanished after the 1770s. Some of its concepts and vocabulary appeared once again in a short tract written by a certain spice merchant from Gävle, Anders Wappengren. However, the whole framework of his 'Grunderna till den borgerliga hushållningen' (1798) was completely different. Wappengren used the physiocratic vocabulary to strike a massive attack-with socialist overtones-against all those 'ursurpers' who lived off the labour of others, including the landowners. [54](http://www.questia.com/reader/action/gotoDocId/108269426)

Little was heard thereafter of physiocratism in Sweden. And it is symptomatic that in his textbook on economics from 1829, *Lärobok i Nationalekonomien,* the Uppsala professor of economics Lars Georg Rabenius-to whom we will return to shortly-named the 'agricultural system' alongside the 'mercantile system' as past systems which progress had discarded and replaced with the 'industrial system', i.e. the Smithian system.

## Smith, Sweden and the industrial system

Heckscher and other commentators have tended to play down the influence from Smith both outside, and certainly within, the Swedish academic *milieu* during the first half of the nineteenth century. As we saw, the breakthrough of the new liberal ideas occurred only in the 1850s and 1860s. However, this is certainly an exaggeration. In fact already in the 1790s several writers were aware of Smith but either a) did not regard him

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as the founder and originator of a totally novel system of economics or, b) interpreted him in a different manner than the later generation. For example, von Schultzenheim in the 1790s discussed Smith as on a par with other writers such as Hume and, to Heckscher's astonishment, the obscure writer John Sinclair. In this context it must be remembered that much of what Smith said in *Wealth of Nations* on trade, the invisible hand, and so on, was common parlance during this period. As already argued, we can even trace parts of his general approach-including the invisible hand argument-to the writings of Chydenius and Nordencrantz in the 1760s. [55](http://www.questia.com/reader/action/gotoDocId/108269426)

This was to change at the beginning of the nineteenth century when several Swedish writers-also within the academic community-began to hail Smith as the originator of a new system of political economy. However, they would 'translate' his views in a way that may sound unfamiliar to us-if not perhaps for the public at the time. It is to these 'translators' and interpreters that we now must turn.

An important example in this context is Lars Georg Rabenius, who held the chair in jurisprudence, economics and commerce in Uppsala from 1807 to 1837. In 1829 he published a new textbook of economics, *Lärobok i Nationalekonomien,* which replaced Berch's by now extremely dated book published more than eighty years earlier. In this treatise, where, for a Swedish public, he introduced the German term *'Nationalökonomie'* as the name of his subject matter, Rabenius set out to build a bridge between the new and old ideas of political economy. In his introduction he presented 'three different economic systems', i.e. 'the mercantile system', 'physiocracy' and the 'industrial system'. The latter he discussed mainly with reference to Adam Smith. After harshly criticising the first two systems, he hailed the 'industrial system' as the most logical and providing 'a true' picture of the economic system. His appreciation of Smith is also evident from one of his student's notebooks (probably compiled during the term 1827). In his lectures too he seems to have scorned both the mercantile and physiocratic systems. The first of these systems he defined largely as Smith had done. It was faulty, he said, largely because it defined foreign trade as the only source of income for a state. Moreover, according to this student, Rabenius in his lecture said that 'Smidt [sic] had laid a proper foundation for the study of his subject'. [56](http://www.questia.com/reader/action/gotoDocId/108269426) In his textbook Rabenius provided an outline dependent upon Smith's (and Say's) discussion of growth and wealth, the importance of the principle of division of labour, and so on. 'The Smithians', he said, 'have without doubt laid a true foundation of the subject when emphasising Land, Labour and Capital, as the source of production and…wealth'. [57](http://www.questia.com/reader/action/gotoDocId/108269426) At the same time he defined his subject, *Nationalekonomien,* as:

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a scientific outline regarding the means by which, given the preservation and growth of national economic self-maintenance, every individual may through industry legally gain what he can and enjoy what he wants, while the state at the same time may receive necessary means for the general requirements of the society. [58](http://www.questia.com/reader/action/gotoDocId/108269426)

Hence, he was ready to support different regulations in order to defend state intervention and thus strengthen the *Nationalekonomien*. He argued that private and public interest were not always identical: 'Private gain may be accomplished by selling alcohol at a great profit but does the Nation really gain as well?', he asked rhetorically. [59](http://www.questia.com/reader/action/gotoDocId/108269426) Thus, although individuals have a number of inalienable rights the state has the right to defend itself and to protect the interests of all. Rabenius's statement in his text book: 'Freedom is of course the most valuable right Man possesses, but it must be regulated by law so that it does not degenerate and become pernicious'. [60](http://www.questia.com/reader/action/gotoDocId/108269426)

Much the same can be said with regard to Carl Adolph Agardh, who held the chair in economics at Lund from 1812 to 1834. As with his predecessors, Agardh's main interest was botany. However, as noted earlier, as a delegate to several Diets he served as an economic expert and adviser to the government on monetary, financial and other subjects. In his economic views he was heavily influenced by Smith and-perhaps even more profoundly-by Jean Baptiste Say. In 1821 and 1822 he even followed Say's lecturing courses in Paris and was probably involved behind the scenes when Say's *Traité d'économic politique* was translated into Swedish in 1823. In his main theoretical work in economics, *Granskning af Statseconomiens grundläror* (1829) Agardh is ready to accept the 'liberal' system of Smith-but only so far. Thus, he states that Smith's system has been 'rejected by the experience of practical men as well as by an instinct which makes statesmen reluctant to carry it out'. [61](http://www.questia.com/reader/action/gotoDocId/108269426) His most important argument against Smith-or rather against the conclusions that most people tended to draw from *Wealth of Nations,* as this work, according to Agardh, was more often cited than thoroughly read-was the passive role it provided for the state in economic life. Second, he argued that Smith overestimated the role of labour and underestimated the role of natural resources as progenitors of economic wealth and growth. Hence, in his role as economic expert he would often argue for state intervention. He was a bitter opponent of the decision to sell state-owned forests and he defended the Swedish version of the Navigation Acts (*Produktplakatet* established in 1721), as well as calling for an expansionary fiscal policy in order to encourage the agricultural sector in particular. However, to say that Agardh was a protectionist is to exaggerate. At times he would defend

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custom duties for the same reason as, for example, Torrens-following the rule of reciprocity. But particularly after 1840 he seems to have become more critical towards them. The main point here, however, is that he was ready to ask for state intervention at the same time as he, by and large, accepted the 'systems' of Smith and Say. It seems quite accurate, therefore, when one of Agardh's biographers, Eskil Wadensjö, argues that:

Some writers have referred to Agardh as a mercantilist and physiocrat. However, he cannot be described as a mercantilist just because he asks for a more active role of the state in the economy or as a physiocrat just because he feels sympathy for the physiocrat's high regard for of agriculture. [62](http://www.questia.com/reader/action/gotoDocId/108269426)

When Agardh resigned from his position in 1834 to become bishop in Karlstad his chair in economics and botany was withdrawn. However, two years later a new chair was inaugurated, but now in 'Cameral- and Economic Jurisprudence'. Its first holder was the law man Johan Holmbergsson, but after 1844 it was given to the economist and historian Jacob Lundell. Just like Agardh, Lundell accepted classical political economy and Smith. He was also ready to accept free trade and freedom of enterprise, and he argued for the abolishment of the guild system. However, at the same time he warned against too much freedom as this might lead to the rise of 'big capital', a decline of competition and the establishment of monopoly. He does not give the state such an important role in economic development as Agardh and Rabenius. He sees its main role as providing a regulatory order in which industry can thrive. He says: 'freedom in trade both allows for and necessitates a reasonable organisation which can minimise the dangers which stem from the abuse of freedom'. [63](http://www.questia.com/reader/action/gotoDocId/108269426) And further:

Free enterprise is to be understood as a means for each and all to freely choose their own occupation to support themselves, without any restrictions besides such which are necessary for the well-being of the state. However, its defenders can surely not go so far as to demand total freedom or limitless discretion; instead they admit that the individual's natural liberties or his ability to work can be restricted and organised according to reason so that it does not violate the general interest or is set against the a purposeful state. [64](http://www.questia.com/reader/action/gotoDocId/108269426)

Besides these three examples it is possible to add a number of other writers who by and large accepted Smith and the classics but at the same time were hesitant to become 'doctrinaire' free-traders. The Swedish author and

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history professor, Erik Gustaf Geijer-a leading Conservative of long standing who became a stern liberal after his famous 'downfall' in 1834 (influenced by his reading of the *Edinburgh Review*)-remained convinced that the economy must be regulated to some extent, especially in order to defend the poorer strata of the population. His wavering between freedom and regulation was especially evident in his discussion on the Swedish poor law system. Here he would occasionally argue that the 'social question' necessitated state intervention and sometimes he rather stressed the need for voluntary philanthropy-explicitly referring to the principle of benevolence-as a means to solve this issue. [65](http://www.questia.com/reader/action/gotoDocId/108269426)

Another example is from 1839 when Anders Stenkula, a lecturer in finance and law at Lund in the 1830s as well as a devoted follower of Geijer, published his *En blick från stats-ekonomien på Sweriges handel och näringsflit*. In this text Stenkula portraits himself as a follower of Smith and the classical political economy school. Moreover, like Rabenius before him, he refers to Smith's system as 'the industrial system'. In *Wealth of Nations,* Stenkula says, is outlined a new theory of state economy *(statsekonomien)* which depicts how modern industry is the basis of the modern state. According to him, Smith's brilliance lay mainly in the explication of this system and how it operated. Hence, we must accept Smith's 'industrial system' because it provides Sweden as a state with an effective means to prosper and grow. [66](http://www.questia.com/reader/action/gotoDocId/108269426) The main advantage with Smith was his insistence upon human labour as the true source of wealth, Stenkula argues. However, although Stenkula condemned the mercantile system with the same arguments as Smith, and even mentions Ricardo as a source of inspiration, he was not ready to follow Smith in all his conclusions. Hence, the state undoubtedly must play a greater role in the establishment of the 'industrial system' than Smith would have allowed:

The national economist looks to the limitlessness of human needs, part of our natural drive to perfect human life. He knows that this instinct easily will degenerate into egoism and other vices, and for this reason he tries to bind it to peaceful commitment to trade and industry…. It is the function and aim of the state to keep human endeavours to this principle, to act as a rudder, and thus to stimulate peaceful work and trading, on one hand by specific interventions in particular instances, and on the other hand through political means in order to increase the spread of useful knowledge. The aim is to give polity and economy a patriotism that rises above animalistic and egoistic spirits. The true meaning of the teachings of National Economy is to provide human society with natural order and clear direction. [67](http://www.questia.com/reader/action/gotoDocId/108269426)

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Olof Bjurbeck-who preceded Agardh as bishop in Karlstad-was well acquainted with Adam Smith. In a small book from 1818 he explicitly used Smith in order to argue against the physiocrats. It is probable that he had also read Malthus, as his main argument was that all classes in society were necessary and none of them sterile or unproductive: 'Nobody, of any class or order in society, which works in a necessary occupation'. [68](http://www.questia.com/reader/action/gotoDocId/108269426) He also wrote: Although it is hard to compare, a true Commonwealth can be regarded as an animalistic body'. [69](http://www.questia.com/reader/action/gotoDocId/108269426) On the whole he was critical of any interference in free economic intercourse both in agriculture and elsewhere. He hails Smith and Say for 'having been able to show just how negative restrictions are for Trade and Industry'. [70](http://www.questia.com/reader/action/gotoDocId/108269426) However, on the other hand he argued along the same lines as Stenkula:

An orderly society necessitates a certain restriction of free will…. Without such restraint society is unthinkable. Therefore every individual at the same time as he seeks freedom, equality and independence must be subordinate to the whole…. The more closely a state resembles a physical body in the way that each member is knit closely together, the more ideal will be every part's relation to the whole. [71](http://www.questia.com/reader/action/gotoDocId/108269426)

Last, we can also note that the German economist Ludvig Henrik Jacob's textbook was translated into Swedish in 1813, presumably because it fitted so well with the cautious views set out by Professor Rabenius in Uppsala and other adherents of 'the industrial system' at this time. [72](http://www.questia.com/reader/action/gotoDocId/108269426) In the parts which were translated, Jacob points out that 'Adam Smith, is the first who more systematically developed and established a true science of the National wealth and its cause'. [73](http://www.questia.com/reader/action/gotoDocId/108269426) The critique of the mercantilist theory of a favourable balance of trade-as well as his condemnation of the colonial system-is directly taken from Adam Smith. [74](http://www.questia.com/reader/action/gotoDocId/108269426) Moreover, through the text Jacobs mixes liberal and *dirigiste* principles and attitudes. [75](http://www.questia.com/reader/action/gotoDocId/108269426) On the one hand, for example, he claims that:

it flows from the nature of things that every restriction in private property rights which does not follow from the principle of natural rights also restricts its use, and that every action taken against the free will of individuals to the extent that they are hindered to seek their own gain must also restrict human industriousness.

On the other, he propounds the view that there must be some restrictions of free trade and enterprise. He thinks, for example, that 'certain trades in the cities can be forbidden if this is advantageous for its inhabitants'.

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Moreover, he defends the guilds and a certain amount of monopolies which might be privileged by the state. [76](http://www.questia.com/reader/action/gotoDocId/108269426) He was also eager to point out that manufactures were especially important: 'The more manufactured wares that are produced in a country, the more can it satisfy its wants, and the more happier and prosperous it will stay' [77](http://www.questia.com/reader/action/gotoDocId/108269426)

According to Heckscher, as we saw, the introduction of Smithian economics-particularly in the form of harmony economics-occurred only in the 1850s and 1860s. As we have seen, however, this is a highly dubious conclusion. Rather, it seems clear that the new 'industrial' or Smithian system was accepted by the majority of leading Swedish economists during the first half of the nineteenth century. The conclusions they draw from Smith were, however, different than the ones a later generation would draw. Above all, many of them were ready to mix these new ideas with a quite positive view of the state and with some scepticism regarding 'doctrinaire' *laissez-faire* views. As we have argued, this view of Smith-and not just in Sweden-only became dominant after 1850 and can be perhaps be seen as a consequence of the amalgamation of Smith with the gospel of free trade, especially from the 1840s onwards. Still in 1853 S.D. Stenberg in his small book, aimed at a popular readership, *Nationalhushållningsläran*. *Populär framställning* was able to present himself as a disciple of Smith and Say-for example, by denouncing the mercantile system and supporting freedom as a general principle in economic life-at the same time as he proposed a number of exceptions when free trade could not be practised. [78](http://www.questia.com/reader/action/gotoDocId/108269426) In this instance he uses both Mill's infant industry argument as well as McCulloch when he admits that import duties might be necessary if a certain good is taxed in the country. [79](http://www.questia.com/reader/action/gotoDocId/108269426) Most certainly, Stenberg did not do anything but expound what was seen as the orthodox view at the time among liberal economists. Both Stenberg and most others seem to have been able both to be Smithians and to remain somewhat sceptical towards free trade in all instances.

Furthermore, it has been stated by many Swedish economic historians that there was a causal link between the intrusion of 'foreign' liberal ideas of a free trade stance and the breakthrough of more liberal policies in Sweden, especially in the field of duties and tariffs. Also, on the whole it has been common to argue that the establishment of the new liberal policies in Sweden implemented especially from the middle of the 1850s onwards can be explained as an outcome of such an influence. Hence, it was especially at the Diet of 1853-1854 that a great number of prohibitions against free importation and exportation were lifted as well as duties lowered on more than two hundred items. [80](http://www.questia.com/reader/action/gotoDocId/108269427) More recent historical works, however, have questioned to what extent these liberal

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politics really implied a radical break with the past. Instead, the argument has been put forward that there was a clear continuity in which new liberal ideas were mixed with a positive view of state intervention. [81](http://www.questia.com/reader/action/gotoDocId/108269427) For one thing, it seems clear that protectionist policies remained a popular alternative-especially at times of crisis-and never totally disappeared during this period. Thus, after a period of liberalisation, protectionism once again came back with full force at the end of the 1850s and at the Diet of 1859-1860 some members went so far as to plead for a more general prohibitive act against importation. In this case the severe crisis of 1857 played the pivotal role for the reappearance of strong protectionist views. [82](http://www.questia.com/reader/action/gotoDocId/108269427) Another telling fact is that when, in 1865, Sweden suddenly and without warning joined the Cobden system this stirred up great controversy afterwards and in fact would never have been carried by a majority had the vote not been pushed through by ruthless methods. Moreover, without the great prestige of the finance minister, J.A. Gripenstedt, this step would certainly not have been possible. The general view in the 1860s seems to have been that protection was a method that must be utilised in order to achieve economic growth, to preserve stability during period of trade crises and to serve as a welcome source of income for the state.

Born in 1813, Johan August Gripenstedt became a member of the Swedish government in 1848-a position which he would retain, mainly as a finance minister, for the next two decades. According to his biographers, he had early on been influenced by economic liberal ideas, especially those of Bastiat. At times he would express rather doctrinaire liberal ideals-at least in theory. In his politics, however, he was often ready to make compromises and admit exceptions to the general rule.

'The Gripenstedt system' is the name given to the liberal reform programme in Sweden which set the tone of the political discussion during the late 1850s and 1860s. Gripenstedt was not merely the architect of the free trade act of 1865 but was also behind the establishment of the partly state-run and partly privately run railway system established in the late 1850s, the inauguration of a modern banking system (which introduced privately owned finance banks)-a field in which he co-operated with the finance tycoon A.O. Wallenberg-and the establishment of domestic free trade in 1864, and so on. To this we can add his efforts to reform the Swedish monetary system and to introduce the decimal system in Sweden. Hence, the reform activity of Gripenstedt was far-reaching and would have important consequences for the future. These reforms provided the necessary institutional framework for further industrialisation and growth in Sweden.

On the one hand, the 'Gripenstedt system' can be seen as the result of one man's liberal economic ideas. Often Gripenstedt would provide general statements which seemed very close to Bastiat's natural-rights-based free

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trade gospel, especially as articulated in *Harmonies économiques* (1850). Gripenstedt, for example, wrote in 1851: 'Free trade is one of the main pillars upon which human society and culture resides'. [83](http://www.questia.com/reader/action/gotoDocId/108269427) However, there was another side to his personality as well his political 'system'-and it echoes what we have heard earlier in this chapter. Hence, at the same time as he presented himself as a true disciple of Bastiat he was ready to defend-for particular purposes-state interventionism. This duality is perhaps most clearly seen in the heated discussions during the 1850s regarding the establishment of a Swedish railway system. In the public debate on this matter at the beginning of the 1850s-especially in the liberal newspaper *Aftonbladet*-several in the radical camp argued for a free and privately owned railway system. Gripenstedt, on the other hand, was determined to see to that the state would play a leading role in the building-up of a railway system in Sweden. [84](http://www.questia.com/reader/action/gotoDocId/108269427) In a speech in 1853 he thus argued that 'in a society there are certain tasks which are of a kind that necessitates public steering and intervention'. [85](http://www.questia.com/reader/action/gotoDocId/108269427) Another typical example of his positive view of state intervention with regard to the banking sector. While introducing laws and regulations which made possible the introduction of a system of private finance banking in Sweden, he tended to view the state as the true guarantor of this system. Hence, in the crisis of 1857 when a number of the newly established finance banks were experiencing severe troubles he set out to save these banks-among them A.O. Wallenberg's Stockholms Enskilda bank-by ways of state loans. [86](http://www.questia.com/reader/action/gotoDocId/108269427) By this measure it was made clear that the Swedish state would not allow any of the major financial institutes to go bankrupt-and this policy would be carried out in practice several times during the latter half of the nineteenth century. Gripenstedt defended these measures with the argument that 'nobody can with a good conscience just leave the different industries to their own fates'. [87](http://www.questia.com/reader/action/gotoDocId/108269427) Coming from someone who was held to be a convinced disciple of Bastiat this might seem a bit surprising, to say the least.

Against this background it is clear that the 'Gripenstedt system' above all can be characterised as a 'pragmatical, nationalistic liberalism which recognised both the free interplay of market forces as well as the overall duty of the state'. [88](http://www.questia.com/reader/action/gotoDocId/108269427) It gave recognition to freedom of trade and pursued a policy of deregulation while admitting that the state had an important role to play. Hence, the function of the state was not merely to provide a suitable institutional framework for modern industrialisation and further growth-in accordance with Bastiat and the post-1840 interpretation of Smith. In addition to this, according to Gripenstedt, the state must play a direct intervening role in a liberal economy. Without doubt, this ideology became the cornerstone of Swedish economic policy from the middle of the nineteenth century onwards.

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In a more general sense the first half of the nineteenth century was characterised by changes in the economic and administrative system. This process has often been described in terms of 'deregulation'; against the background of what we know of the 'Gripenstedt system' it is, however, more appropriate to talk of a system of economic modernisation and 're-regulation'. Back in the eighteenth century the strategy of administered industrialisation had been propounded by a *dirigiste* state. Reforms to improve agriculture were launched in order to increase population and contribute to increased productivity. At the same time the establishment of manufactures was very much supported. According to this view only a prosperous agriculture and a modern manufacturing sector could provide the means for a powerful and happy commonwealth. Moreover, in order to support manufacturers, a policy of regulation was introduced. At the core, this policy implied that each occupation should be protected from interference from others. Hence, it was made manifest that manufacturers-especially those in textiles-should be protected against competition from peasant handicrafts and proto-industries. [89](http://www.questia.com/reader/action/gotoDocId/108269427)

After the end of the Napoleonic Wars, Sweden experienced a more distinct phase of deregulation and liberalisation. As a consequence, many restrictions on production and against free enterprise were gradually lifted. From the 1820s the so-called *Bergverks-lagarna* (laws for the protection of the mining and iron industry) were abolished which, up to then, had limited the production of iron and steel (so as not to exhaust the supply of charcoal). In the same vein the specific privileges of the manufacturing sector were abolished, as was the system of state-supported manufacturing originally introduced in the 1720s. Such reforms made entry easier for start-up entrepreneurs. Of even more importance in this context was the abolishment of the guilds in 1846 and the gradual establishment of free enterprise in 1864. At the same time the labour market was gradually 'liberalised' and various bans and regulations were lifted in order to make production for the market easier. [90](http://www.questia.com/reader/action/gotoDocId/108269427)

This did not imply that the state withdraw from all interference in the evolving industrial market economy, which began to flourish, especially from the 1850s. On the contrary, the vindication of the old governance structure laid the ground for the establishment of a new set of institutions which served to promote and bolster modern economic growth and development. Hence, development from 1840 onwards was very much characterised by the introduction of new principles of state governance aimed explicitly at modernisation. Certainly, the departmental reform of 1840 served such a cause. Through this an old and quite inefficient state apparatus built on privilege and characterised by the independence of old *collegiums,* academies and, especially, the locally based *länsförvaltningen*

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(county administration) was replaced with a much more efficient and tightly knit state administration. By establishing specially designed departments with their own exclusive functions the state became a much more powerful machinery for direct rule and governance. Previously, with the looser 'feudal' structure, the possibility to implement policies had been very limited.

This process of 'deregulation' did not mean that costs for state administration were reduced. To the extent that figures of this kind can be computed it seems rather that overall costs for state administration-in real prices-increased during most of the nineteenth century. And although the tax system was reformed in different steps during the same century-one step being, for example, the abolishment of the old land-based taxes-there is no positive indication that the total tax burden decreased during the period. Rather, the opposite seems to be the case. [91](http://www.questia.com/reader/action/gotoDocId/108269427)

Heckscher's statement that mercantilism prevailed until the middle of the nineteenth century and was then replaced by liberalism is misleading for the reasons we have just argued. As we have seen, Smith and his 'system' was to a large extent accepted-at least partly-during the first half of the nineteenth century. However, in general neither Smith nor the classical political economists were in the first place regarded as a radical advocates of free trade. Instead, they were interpreted as proponents of an 'industrial system' which indeed allowed for more freedom of trade and industry than before but at the same time was compatible with state intervention. Thus, in the Swedish context a specific discourse of political economy was developed in the beginning of the nineteenth century in which 'liberal' ideas were mixed with a positive view of the state and its orders to promote economic growth and preserve social and economic stability. Most certainly, this blend of ideas cannot be regarded as *'laissez-faire* economies' or 'protectionism', neither as *Nationalökonomie* in the German-cameralist tradition and even less as 'mercantilism'. Without doubt, the economic discussion in Sweden was highly influenced by French-but also British-political economy. However, when translated within a Swedish context the languages of these schools changed into something quite distinct. Although the tone of the economic discussion would change after the 1860s when *laissez-faire* and harmony ideas would prevail-and particularly after the founding of *Nationalekonomiska föreningen* in 1877 which, as Heckscher pointed out, were dominated by 'doctrinaire' free-traders-a positive view of the state would survive over the years. In spite of the breakthrough of neo-classicism in Sweden at the turn of the century, with such leading names as Wicksell, Cassel and Heckscher, radical *laissez-faire* economics would never dominate in Sweden-at least not for a very long period. Hence, it is perhaps not far-fetched to argue that the

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establishment of a specific language of economics in Sweden during the nineteenth century, a language in which liberalism and state interventionism was blended, serves as one of the main reasons behind the acceptance of the Stockholm School of economics and later Keynesianism-both with a positive view of state intervention-in Sweden during the inter-war period.

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# 7 Epilogue

In the history of economic writing there are currently two different approaches: the intellectual history approach (IH) and the history of economic analysis approach (HEA). M.C. Waterman, surveying the nineteenth century literature on Malthus, regarded these traditions-as personified by Donald Winch (IH) and Samuel Hollander (HEA)-as basically incommensurable and non-competing. [1](http://www.questia.com/reader/action/gotoDocId/108269427) Both approaches can be used and are used for different purposes. However, although this might seem to be a standpoint one can sympathise with, there are obviously moments of interpretation where these approaches clash and compete with each other. As we have seen, the IH tradition has been criticised for its historicist pretensions: to demand that intellectual historians should try to ignore the present and avoid using any terms not current in the period in question is really asking too much. But of course trying to avoid reconstructing what past writers on economic issues might have meant in their own terms (the HEA approach) has its pitfalls too. A technical history of the development of analysis in a particular field of economics can certainly be of interest. However, if one attempts to discover the intellectual origin of certain (to quote Arthur Lovejoy) 'unit ideas', their influence on politics, and so on, as well as the subsequent development of economic doctrines, some kind of IH approach must surely be followed.

In fact the IH approach must be seen as the more important, as the HEA tradition does not in general follow its own methodology. HEA historians often tend to make judgements on such issues as origin and influence. Rather naively, they seem to take for granted that analytical achievement-the 'internal' refinement of tools and theories-is the most important factor for doctrinal development and change. This is when HEA becomes bad history. Another more serious problem with HEA is that this approach seldom acknowledges the problem, or even the existence of, an ongoing process of invention of traditions. Such inventions are indeed common in all types of intellectual history, including the history of economic

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doctrines. Certainly there are many advantages to using past masters to reinforce one's own theoretical or ideological standpoints. And Adam Smith-as we have seen in this book-is probably one of the most 'invented' writers of economics of all ages. Hence, what Smith wanted to say to his contemporaries often remains hidden. To treat the *Wealth of Nations*-as Donald Winch has noted-'as the magnificent opening speech in a largely autonomous form of discourse' to which one sees oneself as the latest contributor can certainly make an impact on any audience. [2](http://www.questia.com/reader/action/gotoDocId/108269427)

For more than two decades there has been a lively discussion on Smith's legacy for the discipline of economics, in which such historians as Donald Winch, Knud Haakonsen and others have taken part. [3](http://www.questia.com/reader/action/gotoDocId/108269427) The aim here has been quite specific: to trace how a tradition from Smith onwards was invented in the middle of the nineteenth century with regard to free trade and how this invention has become *the* great canon, not only for those who write the history of economics or of the political economy of free trade doctrines, but also among the general public. As we have seen, this invention of a tradition of free trade has certainly been a long process. It began around 1800 as a consequence of the transformation of the Scot Enlightenment thinker Smith to the classical political economist Smith. This process was largely finished a hundred years later. Certainly, the development of economics from classical political economy to the neo-classical synthesis during the nineteenth century set the scene for this invention of Smith into a largely *laissez-faire* free-trader (not so far from the doctrines of the Manchester School). However, as been emphasised here, the political controversies around free trade and protection, on fair and unfair trade and on Empire and colonial preference certainly played a pivotal role here. Hence, the line from Adam Smith to liberal free trade in its late-nineteenth-century meaning became cemented in Britain, not least as a consequence of Joseph Chamberlain's tariff campaign. Cain and Hopkins's interpretation of why Chamberlain's campaign failed and was looked upon as closely related to the British is quite pertinent:

Chamberlain's tariff campaign was an attempt to create a producers' alliance of industrial capitalist and their workforce which, besides muting industrial class conflict, was also expressly designed to encourage industry to assert itself and to take the nation's destiny out of the hands of the gentlemanly class. Since Chamberlain was making a direct assault on gentlemanly culture, it was inevitable that he would be condemned, in similar terms, by traditional leaders on both sides of the political divide. Almost instinctively, his attempt to place industrial wealth creation and its problems at the head of the political

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agenda was condemned as 'utterly sordid' because it catered for the ignoble passions of 'vulgarity' and 'cupidity'. [4](http://www.questia.com/reader/action/gotoDocId/108269427)

Consequently Adam Smith became a great hero of British liberalism and a forefather of gentlemanly capitalism-we can, for example, note the title of one of Francis Hirst's influential early-twentieth-century pamphlets on free trade: 'From Adam Smith to Philip Snowden' (1925). To what extent this presents a 'true' picture of Smith is open to doubt, as we have seen. Returning to the issue of where IH and HE A differ, the problem is not only that modern liberalism, free trade as a doctrine and perhaps also gentlemanly capitalism would have been incomprehensible to Smith living more than a century earlier in a radically different historical context. Whether he would have approved of his use as a figurehead for Cobden's campaign against the Corn Laws or for late-nineteenth-century liberals against the Fair Trade League and Joseph Chamberlain we will never know. Although one can say with confidence that Cobden's Utopia of prosperity, free trade and peace was something Smith would have been sceptical about. Nor would he have felt comfortable with the gentlemanly vision of class peace and harmony economics. On the other hand, we can be certain that he would have identified Chamberlain's tariff campaigning as class politics. However, we will never know exactly what he would have said and this might not, in the end, be of such great importance. A more pressing problem is that it is false history to treat Smith as a simple originator of late-nineteenth-century free trade and liberal thought. As we have seen in the previous chapters, Smith could be used for different interpretations. It is simply not correct to draw a definitive line from Smith's critique of 'old corruption' or his approval of the division of labour to the Manchester School, or even to the late-nineteenth-century understanding of free trade. His views were much more complex than this. And, as we have argued, the real breakthrough for freer trade in political terms has a much more complex historical background than simply the ideas of a particular author-even one of Adam Smith's magnitude.

This book has tried to make intelligible how a view subsequently developed which made Smith the true originator of the modern view of free trade and of its central position in the neo-classical synthesis. However, it also develops another theme which here is exemplified by the development of trade theory and the controversies on free trade and protection, but which can be discussed more generally. This second theme is not simply that grand figures like Adam Smith, or for that matter David Ricardo, Karl Marx or J.M. Keynes, can be interpreted in different ways, [5](http://www.questia.com/reader/action/gotoDocId/108269427) but rather that the same can be said of economic texts and discourse in general. Hence,

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texts are used for various purposes in different contexts, and it belongs to craft of the intellectual historian to acknowledge this and perhaps also to explain why a specific process of what I have called 'translation' occurs. In most treatises on the history of economics the grand tradition of English political economy from the late nineteenth century until the inter-war years of the twentieth century is hailed as the true and only measuring stick. The achievement of writers outside this tradition is seldom recognised-and certainly not if they are not seen to have contributed to the stylised canon. To the extent that they are remembered they are looked upon as less gifted or as a typical result of a backwards national academic or intellectual culture. In specific cases it might perhaps be appropriate to argue for such a ethnocentric and Whiggist position. Without doubt, some people are cleverer than others and some cultures can certainly be held to have been less impressive with regard to intellectual achievements. However, it is perhaps more interesting to try to understand why interpretations other than the standard were developed and how they fared. Surely it was not because of less intellectual capacity that classical political economy was translated into something slightly different when it reached American soil during the nineteenth century. Of course this can also be explained as a consequence of institutional particulars and historical differences between Great Britain and her former colony. Hence, we have been able to trace how not only the theories of Malthus and Ricardo were not easily accepted in America but also how it seemed possible for certain proponents of the American system to hail Adam Smith as an important intellectual forefather while simultaneously criticising him on several points. For the twentieth-century mind-also in the United States-this might seem surprising. However, for nineteenth-century economic writers this was quite possible and made perfect sense. Surely this does not make Smith into the protectionist or neo-mercantilist of a later age. What it amounts to instead is that American economic writers in the nineteenth century were able to draw other lessons from Smith than, for example, Cobden did. Instead of emphasising his general liberal attitude and his critique of a corrupt *dirigiste* state they used his historical approach in order to differentiate between young and old countries. (Alexander Hamilton is a prime example of this).

This means that we should not be surprised to find a slightly different Smith appearing for example in Sweden at the beginning of the nineteenth century. It is the system-builder Smith we here find, the creator of an 'industrial' system in contrast to the old and dated 'commercial' or mercantile system as well as the agricultural system. For a small country like Sweden the visible hand of the state felt necessary in order to grow richer and become modern; to introduce industrialisation on a larger scale.

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This was the overwhelming object of both politicians and economic writers in Sweden during the first half of the nineteenth century. Hence, the Adam Smith they wanted to import was the man who emphasised human labour as the true originator of the wealth of nations and who saw increased division of labour and industry as its main means. The economic liberal Smith who argued for free trade in general was not known in Sweden at all during this time.

The existence of several different interpretations of discrete theories and concepts in economics, as well the crucial role played by particular national and cultural institutions, points to the question of whether we should continue to regard Anglo-Saxon economics as the measuring stick for progress in economics. After all, as we have discussed, the British political economy during the nineteenth century was apt to focus on institutional conditions which were peculiar to its own situation. It makes as much sense, therefore, to speak of a British *Sonderweg* as it does to discuss a German, French or Swedish one. For example, classical political economy before the middle of the nineteenth century relied heavily on two theories which must be regarded in its proper historical, social and spatial context: the Ricardian rent theory and the Malthusian population law. In 1888 Cliffe Leslie wrote particularly about the difference between political economy in Britain and in the United States:

The problems relating to wealth that have most urgently demanded solution in the Old World have either never emerged or have assumed comparatively little importance in America down to recent years. Without sickness, wounds and pain, there would be no physiology, pathology, or science of medicine. It was the distressed conditions of Europe in the last century that gave birth to its economic philosophy…. Adam Smith wrote in a better governed and more prosperous kingdom, and after a generation of plenty; yet his inquiry into the causes of the wealth of nations arose out of their general poverty throughout history and in his own time. The fact that the majority of the population of the whole world stood always in the verge of destitution produced the doctrines of Malthus. The free trade controversy in England grew out of their dear bread, depressed trade, low wages and low profits; and it gave political economy most of its importance in English estimation during the last generations. Had Great Britain been as large, as fertile, and as underpeopled as the United States, Mr Mill might have made a fortune in a counting-house instead of a reputation as a political economist. America owes, doubtless in part to its institutions, its exception from the necessity of attempting a solution to the chief economic problems that have occupied philosophers in Europe. [6](http://www.questia.com/reader/action/gotoDocId/108269427)

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Throughout the nineteenth century much energy and analytical work was devoted to trying to develop those principles. Through this work analytical progress was undoubtedly achieved, together with a number of theoretical innovations. However, this development occurred within the limit of these theories and to this effect determined the direction of advancement in economic discourse, which questions were asked and also to some extent the answers given to them. During the course of the nineteenth century these theories-the Ricardian theory of rent and the Malthusian population theory-were slowly put in the background as other questions and issues gained increased interest. The modern neo-classical synthesis from the turn of the century could use these old theories and the analytical progress made in the discussion, but gave them a new place within the general equilibrium model. However, it is not difficult to detect both Ricardo and Malthus also in the neo-classical synthesis with regard to how a market process is defined and the role of demand and supply in this model.

Finally, we cannot avoid the question of whether national traditions, geography, culture and history still matter with regard to economic theory and writing. Are there still important national styles to be observed or has cosmopolitan mainstream economics been able to take over altogether? This is certainly not an easy question to answer. Perhaps the emergence in trade theory of 'new trade theory' or 'strategic trade theory' can be regarded as a typical feature of US economics in the post-communist period of increased globalisation and international competition. Perhaps neo-Keynesianism in its present form is unthinkable outside a British context. Perhaps. However, in general terms, what was said more than a century ago by the great Irishman and economist Thomas Edward Cliffe Leslie still stands. He emphasised the pivotal role of geography, culture, history and personality for economic texts and how they should be interpreted. By and large what he said still seems accurate:

I venture to maintain…that political economy is not a body of natural laws in the true sense, or of universal and immutable truths, but an assemblage of speculations and doctrines which are the result of a particular history, coloured even by the history and character of its chief writers; that, so. Far from being of no country and unchangeable from age to age, it has varied much in different ages and countries, and even with different expositors in the same age and country. [7](http://www.questia.com/reader/action/gotoDocId/108269427)

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# Notes

## 1 The invention of a tradition of free trade

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| [30](http://www.questia.com/reader/action/gotoDocId/108269263)  | Quentin Skinner 'Negative Liberty' pp. 201ff.  |
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| [3](http://www.questia.com/reader/action/gotoDocId/108269270)  | Donald Winch *Riches and Poverty,* p. 114ff; Knud Haakonsen *The Science of a Legislator: The Natural Jurisprudence of David Hume and Adam Smith.* Cambridge University Press: Cambridge 1981.  |
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| [7](http://www.questia.com/reader/action/gotoDocId/108269271)  | Richard Teichgraber III 'Adam Smith and Tradition: Wealth of Nations before Malthus', in Stefan Collini, Richard Whatmore and Brian Young (eds) *Economy, Polity and Society: British Intellectual History 1750-1950.* Cambridge University Press: Cambridge 2000, p. 86.  |
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| [24](http://www.questia.com/reader/action/gotoDocId/108269274)  | Cf. Rashid *Myth of Adam Smith,* p. 156.  |
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| [25](http://www.questia.com/reader/action/gotoDocId/108269275)  | See Emma Rothschild *Economic Sentiments,* pp. 61ff.  |
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| [61](http://www.questia.com/reader/action/gotoDocId/108269286)  | See, for example, P.O'Brien *J.R. McCulloch: A Study in Classical Economics.* London: George Allen & Unwin 1970, pp. 192ff.  |
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## 3 The invention of a tradition

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## 4 The historical construction of mercantilism

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| [43](http://www.questia.com/reader/action/gotoDocId/108269351)  | *Dictionary of National Biographies,* 'Carey'. On Carey see further Conkin *Prophets of Prosperity,* pp. 261-307.  |
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| [44](http://www.questia.com/reader/action/gotoDocId/108269351)  | Judith Goldstein *Ideas, Interests,* p. 74.  |
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| [45](http://www.questia.com/reader/action/gotoDocId/108269351)  | Ibid., p. 41.  |
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| [46](http://www.questia.com/reader/action/gotoDocId/108269351)  | A.D.H. Kaplan *Henry Charles Carey,* p. 31.  |
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| [47](http://www.questia.com/reader/action/gotoDocId/108269352)  | Henry C. Carey *Principles of Political Economy, I,* Baltimore 1837, p. 141.  |
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| [52](http://www.questia.com/reader/action/gotoDocId/108269354)  | John Rae *Statement of Some New Principles,* p. ix.  |
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| [57](http://www.questia.com/reader/action/gotoDocId/108269355)  | Ibid., pp. 352ff.  |
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| [58](http://www.questia.com/reader/action/gotoDocId/108269356)  | See Malcolm Rogers Eiselen *The Rise of Pennsylvania Protectionism.* Garland Publications Inc.: New York 1974.  |
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| [59](http://www.questia.com/reader/action/gotoDocId/108269356)  | Judith Goldstein *Ideas, Interests,* p. 23.  |
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| [60](http://www.questia.com/reader/action/gotoDocId/108269356)  | Judith Goldstein *Ideas, Interests* and Tom E. Terrill *The Tariff, Politics and American Foreign Policy 1874-1901.* Greenwood Press: Westport Conn. 1973.  |
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| [61](http://www.questia.com/reader/action/gotoDocId/108269356)  | See Magnusson 'Controversy on Free Trade and Protection', p. 10. Hamilton's report is included in volume II, pp. 3-71, in Lars Magnusson (ed.) *Free Trade 1793-1886.* Routledge: London 1997. On Hamilton see also Conkin *Prophets of Prosperity,* pp. 172ff.  |
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| [62](http://www.questia.com/reader/action/gotoDocId/108269357)  | A.D.H. Kaplan *Henry Charles Carey,* p. 20.  |
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| [63](http://www.questia.com/reader/action/gotoDocId/108269357)  | See Magnusson 'The Controversy on Free Trade and Protection', pp. 2ff. for discussion and references.  |
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| [64](http://www.questia.com/reader/action/gotoDocId/108269357)  | Alexander Hamilton 'Report of the Secretary of the Treasury of the United States on the Subject of Manufacturers', in Lars Magnusson (ed.) *Free Trade,* vol. II, pp. 19ff.  |
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| [65](http://www.questia.com/reader/action/gotoDocId/108269358)  | Joseph Dorfman *Economic Mind,* pp. 531ff.  |
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| [66](http://www.questia.com/reader/action/gotoDocId/108269358)  | Henry Carey *Commerce, Christianity,* in Magnusson *Free Trade and Protectionism in America 1822-1890,* vol. 1, Routledge: London 2000b, pp. 32ff.  |
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| [67](http://www.questia.com/reader/action/gotoDocId/108269358)  | On Tucker see William J. Barber (1998c) 'Political Economy and the Academic Setting Before 1900: An Introduction', in Barber *Breaking the Academic Mould,* pp. 15ff, 28ff. See also Tipton R. Snavely *George Tucker as Political Economist.* University of Virginia Press: Charlesville 1964 and Robert Colin McLean *George Tucker: Moral Philosopher and Man of Letters.* University of North Carolina Press: Chapel Hill 1961.  |
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| [69](http://www.questia.com/reader/action/gotoDocId/108269358)  | Joseph Dorfman *Economic Mind,* pp. 566ff.  |
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| [79](http://www.questia.com/reader/action/gotoDocId/108269361)  | Margaret E. Hirst *Life of Friedrich List,* London 1909, pp. 4-23. See also O'Connor *Origins of Academic Economics,* pp. 33ff.  |
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| [82](http://www.questia.com/reader/action/gotoDocId/108269361)  | Margaret E. Hirst *Life of List,* pp. 44ff.  |
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| [90](http://www.questia.com/reader/action/gotoDocId/108269364)  | On this see especially John Ashworth *Slavery, Capitalism and Politics in the Antebellum Republic,* vol. 1. Cambridge University Press: Cambridge 1995,  |
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## 6 The three systems of political economy

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