

## THE ENGLISH MERCANTILIST LITERATURE

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

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

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

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

ture, although quite similar ideas were expressed elsewhere in Europe at this time.<sup>3</sup>

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

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

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

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

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

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

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

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

<sup>4</sup> W. H. Price (1906), for example, traces English concerns about the balance of trade back to the fourteenth century.

<sup>5</sup> For a comparison of scholastic and mercantilist thought, see Raymond de Roover (1955).

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

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

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

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

<sup>7</sup> See Roger Coke (1670, 4) and Thomas Mun (1621, 1).

<sup>8</sup> See Josiah Child (1693, 135) and William Petty (1690, 51).

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

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

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

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

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

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

<sup>10</sup> For another early example, see Gerard Malynes (1601, 6).

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

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

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

The generic praise of merchants and trade was tempered by the proviso that merchants might pursue profitable commercial activities that could prove detrimental to the nation as a whole. Therefore, not all branches of trade equally served the national advantage. Malynes (1622, 3–4) complained that trade yields “benefit[s] to be procured for the general welfare, or for the particular profit of some few persons . . . yet it may fall out, that the general shall receive an intolerable prejudice and loss, by the particular and private benefit of some” because merchants trade in “that which yields them the most gain: and commonly without consideration had of the good of the Commonwealth.” Similarly, Petyt (1680, 11ff) wrote that “private

trade hath regard to the particular wealth of the trader, and doth so far differ in the scope and design of it from the national, that a private trade may be very beneficial to the private trader, but of hurtful, nay of very ruinous consequences to the whole nation . . . particular men may grow rich by a trade, whereby the nation is impoverished.”<sup>11</sup> These beliefs were stated repeatedly in the seventeenth century and can be found well into the eighteenth century. Theodore Janssen (1713, 5) set down the maxim that “a trade may be of benefit to the merchant and injurious to the body of the nation.”<sup>12</sup> The *British Merchant*, a set of anti-free trade essays written in 1713–14, followed Janssen by adopting this as the first of its “general maxims in trade which are assented to by everybody.”<sup>13</sup>

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

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

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

<sup>12</sup> Simon Smith (1736, 12) concurred: “There are many commodities advantageous to the importer, that at the same time bring poverty and ruin to a nation.”

<sup>13</sup> See Charles King (1721, 1: 1).

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

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

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

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

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

<sup>15</sup> Malynes (1623, 54).

<sup>16</sup> [Petyt] (1680, 23).

<sup>17</sup> Cary (1695, 48).

<sup>18</sup> [Reynell] (1685, 10).

<sup>19</sup> "The chiefest way of enriching a kingdom is the expence of its nature or home commodities (that can well be spared) in foreign parts" [Battie] (1644, 3).

<sup>20</sup> Misselden (1623, 134).

duties.”<sup>21</sup> Such calls echoed the early Christian and scholastic view that spending on luxuries was essentially corrupting and wasteful, and that greater frugality was in order.

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

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

### *A Favorable Balance of Trade*

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

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

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

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

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

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

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

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

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

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

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

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

Indeed, concern about the balance of trade did not automatically imply support for import restrictions, and mercantilists did not always believe that higher import duties could improve the trade balance. Several mercantilists recognized the barter nature of trade, that trade was a two-way process of exchanging exports for imports. With this interdependence of exports and imports in mind, many mercantilists found it difficult to believe that import restrictions could lead to a favorable balance of trade. In advocating a shift in the burden of taxation from exports to imports, Henry Robinson (1641, 8) cautioned that “here is it worth remembrance that a great part of foreign commodities brought for England are taken in barter of ours, and we should not have vented ours in so great quantity without taking them.” Petyt (1680, 61–62) took this point to its logical conclusion: “For the opening of a sufficient foreign vent and market for our home commodities, it is not only necessary to remove all unequal clogs on mere exportation, but also those on imported goods; because . . . the value of our English exportation must be in a manner confined to the value of the goods imported. . . . Whereas were the clogs on our imported goods taken off, we might yearly vend of our own home commodities to the value of all foreign goods we should then import and re-export . . . whereby our exported home commodities would then amount to much more.” Thomas Tryon (1698, 23)

made this uncommon point: "It is most clear that the consumption of [imported] things at home is as profitable to the nation, as those that are exported again: for if we can neither consume them at home nor export them abroad, how should our neighbors be able to pay for our manufactures, for which we have those commodities in exchange." Paxton (1704, 61ff) concurred, arguing that high duties are "only an expedient, but no cure" to the problem of excessive imports, and that "duties are a violence upon trade" which "must, in the course of trade, lessen our own exportations."

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

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

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

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

*Employment and the Commodity Composition of Trade*

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

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

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

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

This objective, rather than the balance of trade doctrine (though they are not incompatible as Petyt's statement makes clear), should be more closely associated with mercantilist views on trade because the implication for

commercial policy was clear: low import duties on inputs and raw materials, high import duties on processed goods. Fortrey (1663, 28–29) described his position this way: “All foreign commodities that are useful, to improve our own manufactures and trade abroad, and cannot be raised here, should be brought into us under easy customs,” whereas foreign goods, especially luxury and consumption items, “should pay extraordinary customs, but should not be forbidden to be brought in.” This line of reasoning also supported export taxes on raw materials to ensure a cheap and plentiful domestic supply for further processing, and to prevent foreign manufacturers from acquiring those supplies.

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

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

hurt, or the progress of a nation's manufactures and the culture of its lands prejudiced, must necessarily bring on the ruin of that nation."

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

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

<sup>27</sup> E.A.J. Johnson (1932) elaborates on this point.

<sup>28</sup> Chapter 13 considers John Maynard Keynes's argument for protection in the face of severe unemployment.

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

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

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

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

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

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

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

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

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

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

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

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

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

sumption; consequently, diminish the quantity of circulating cash; consequently, it would promote hoarding; and consequently, would bring on poverty in all the *states* of Europe” (364–65).

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

. . .

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

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

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

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

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

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

## Chapter Three

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### THE EMERGENCE OF FREE TRADE THOUGHT

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

. . .

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

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

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

trade in certain directions are unwise or unnecessary, or that these burdens violate an individual's natural liberty.

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

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

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

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

imports and prohibitions on certain manufactures to establish their production in England.

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

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

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

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

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

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

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

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

By contrast, Francis Brewster (1695, 38–39) had no problem with a governmental committee on trade, but objected to putting merchants on it because they would be “judges of their own complaints . . . no man in the actual part and course of trade can be equal and different in the determination of controverted matters in traffic.” Others were still less optimis-

tic about the government's ability to act wisely under any circumstances. Thomas Johnson (1646, i) scorned all public magistrates because of their "specious pretense of common good."

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

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

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

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

He agreed with contemporaries in that the impact of imports on total employment determined whether or not they are beneficial. But Barbon (1690, 71ff) understood the barter nature of trade—"for all foreign wares are brought in by the exchange of the native: so that the prohibiting of any

foreign commodity, doth hinder the making and exportation of so much of the native.” He also criticized protectionist measures: “If the suppressing or prohibiting of some sorts of goods, should prove an advantage to the trader, and increase the consumption of the same sort of native commodity: yet it may prove a loss to the nation,” the loss arising from foregone customs revenue and lost employment overall.

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

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

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

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

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

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

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

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

<sup>2</sup> This debate is reviewed by P. J. Thomas (1926).

<sup>3</sup> *The Great Necessity and Advantage of Preserving Our Own Manufactures* (1697, 9).

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

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

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

The best way to promote the wool industry, Davenant insisted, was not to contrive its production artificially by using laws and import duties that raise domestic prices, but to encourage inexpensive domestic production that would lead to lower prices. Cheap production would enable domestic producers to undersell competitors and would discourage entry by other foreign firms, “but this can never be if . . . we endeavour to give wool an unnatural price here at home.” He concluded that “the East-India goods do sometimes interfere with the woollen manufacture must undoubtedly be

granted; but the principal matter to be considered is, which way that nation in general is more cheaply supplied” (32ff).

Regarding silk, Davenant again made a sweeping statement:

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

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

This is as far as Davenant carries the case for free trade in terms of providing an underlying economic reasoning. His statement was as much a critique of protection as a positive case for free trade. Although he eloquently put forth the view that there is a natural course to commerce that government cannot improve upon but only detract from, Davenant (1696, 37–38) never went so far as to advocate *laissez-faire*: “An unforced and natural improvement may be made in our wealth and substance, and it is here the legislative power may, to good effect, interpose with its care and wisdom . . . it is the prudence of a state to see that this industry [of traders and manufacturers], and stock, be not diverted from things profitable to the whole, and turned upon objects unprofitable, and perhaps dangerous to the public.” In other places, Davenant (1698, 128) reveals proclivities toward intervention: “If the trade of England, which is the common concern of all,

was made the particular business of some one council of men experienced and knowing therein; and if that council were armed with sufficient powers from the law, our traffic might perhaps be managed more to the general interest and welfare of the kingdom” (133). Such management might include sumptuary laws “such as might prohibit the use of commodities from those countries where we lose in the balance, and where trade is hurtful to us.”<sup>4</sup> Yet he (1698, 139) also mentions that “a nation that visibly loses in the balance of trade with any country, will find very little help by laying high duties at home” to block imports or in undertaking measures to encourage exports.<sup>5</sup>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Applying this to trade policy, Gervaise wrote:

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

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

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

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

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

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

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

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

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

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

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

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

. . .

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

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

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