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ADAM SMITH'S CASE AGAINST THE BRITISH EMPIRE

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Adam Smith's Case Against the British Empire*

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Abstract

The paper articulates Adam Smith's case that the British Empire is inimical to Great Britain's interest. It is argued, contrary to Smith, that under the structure of global trade that prevailed prior to the Industrial Revolution, the mercantilist restrictions on trade and capital movement that characterised the British Empire increased Britain's national income. But it is also argued, in agreement with Smith, that the military costs of enforcing these restrictions outweighed any benefit. Smith's 'cost of enforcement case' against the Empire rightly resonated among liberal critiques of Empire in the century after Smith. His proposals for political union to succeed the Empire were distorted by Imperial Federationists in the early 20th c.

Key Words: Adam Smith; British Empire; Mercantilism; Imperial Federation

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Adam Smith's Case Against the British Empire

There are several ways one might try to suitably mark in words the tercentenary of Adam Smith's birth in 1723. One might attempt to explicate the greatness of Smith, the kind of task Schumpeter set himself regarding his subjects in his *Ten Great Economists* (1952).¹ Or one might seek to decipher Smith's unusual psyche; the sort of undertaking brilliantly attempted by Mazlish in his *James and John Stuart Mill* (1975). Or one might venture to unearth some entirely new Smith in doctrinal terms, a Smith hidden up till now by the weeds of secondary literature; as Keynes attempted to do with Malthus in his 'The First of the Cambridge Economists' (1933).

This paper does not uncover some undiscovered Smith; but it will highlight a portion of Smith which is relatively neglected in the vast, ever-burgeoning wave of Smith literature. It will examine and appraise Smith's program for the British Empire. 'What to do with the Empire?' was a central concern of Smith. On this question he is powerful, unexpected, and at points ingenious. But it will be argued, Smith on this question also betrays some of the limitations in his thought. All in all, Adam Smith on the British Empire makes a fine spade for delving into his achievement.

1. The Context and Claim

Anyone undertaking this paper's task will have the benefit of a body of scholarship. From that corpus one might single out: 'Adam Smith's Project of Empire, by E. A. Benians (1925), editor of *Cambridge History of the British Empire*; secondly, *British Colonial Theories: 1570-1850* (1944), published at behest of Harold Innes, but authored by Klaus Knorr, best remembered as a Cold War arms race theorist, but in 1930s a German émigré completing, at the University of Chicago, a dissertation of that title; and, finally, *Classical Political Economy and Colonies* of Donald Winch (1965).

Anyone undertaking this paper's task will also have 'primary material'. Above all else, there is the *Wealth of Nations*, with little variation in the relevant text across its five editions between 1776 and 1790, save for the addition 'Conclusion of the Mercantile System' (ch viii, book iii) in the third edition of 1784. A second, and important, expression of Smith's thoughts on Empire is provided by, 'Thoughts on the State of the Contest with America' (Guttridge 1933), a confidential memorandum of Smith submitted to the Solicitor General in 1778, but which came to light only in the 1920s.

This paper's undertaking has a third resource: Smith's own life and times. Between his birth and death, the British Empire turned inside out. It was during his mid-life that Britain established a near hegemony in India. In his last years the first footholds of the 'New Empire' were trod: anglophone Canada being established in the 1780s; Penang in 1786, inaugurating the Empire in East Asia; Sierra Leone in 1787, presaging a British presence in Africa very differently rationalised from what had prevailed theretofore; and, in 1788, Sydney Cove.

But what was critical for Smith was not the dawning of the New Empire but the fall of the Old Empire: North America had fallen in crisis. The *Stamp Acts* of 1765 had initiated a conflict between Great Britain and the North American colonies, that spiralled into a crisis which came to a head while Smith was completing the *Wealth of Nations*. It was in 1773 – the year of the *Tea Act* and the original ‘tea party’ - that Smith arrived in London to complete the manuscript. It has been hypothesised that it was Smith’s concern get Empire policy right that unexpectedly delayed the completion of the great labour (Campbell and Skinner 1982). Finally, on 5 June 1776, the *Wealth of Nations* appeared, the same week that Thomas Jefferson was tasked with drafting a Declaration of Independence. Not so surprisingly, what do with the Empire constitutes the climatic final pages of his work. But what Smith has to say was not what his readers expected or wished to hear.

Smith contended that the British Empire - as it was then constructed - was injurious, not only to colonies (he took that as obvious) but also to Britain. And so should be dispensed with.

The rulers of Great Britain have, for more than a century past, amused the people with the imagination that they possessed a great empire on the west side of the Atlantic. This empire, however, has hitherto existed in imagination only. It has hitherto been, not an empire, but the project of an empire; not a gold mine, but the project of a gold mine; a project which has cost, which continues to cost, and which ...is likely to cost, immense expense, without being likely to bring any profit; It is surely now time that our rulers should either realize this golden dream, in which they have been indulging themselves ... ; or that they should awake from it If the project cannot be completed, it ought to be given up. (1776 [1937] p.899, ch iii, book v).

The Claim Appraised

How did Smith come to such a recommendation – ‘giving up’ the Empire - which, as he conceded to the Solicitor General, would ‘scarce have a single advocate outside ‘a solitary philosopher’ (Guttridge 1933 p.714)?

The fundamental point of departure of Smith’s thinking was a contrast he drew between the politically purposed empire, and the economic purposed empire. The aim of the first was power; the aim of the second was wealth, and the contrast between the two was exemplified by the contrast between Roman and British empires. Smith allowed a politically purposed empire might serve the power of the imperial centre. But the economically purposed would not serve that centre’s wealth.

To conventional 18th c thinking, an economic Empire would bring wealth by making captive markets of its colonies, and requiring them to trade only with the imperial centre; so that all colonial imports would be sourced from the imperial centre, and all exports would be destined for that centre. This ‘mercantilist’ regimen would make the imperial centre’s exports more valuable by constituting a compulsory source of demand for them (by the colonies); and make her imports cheaper, by constituting for a compulsory source of supply of them (from the colonies). In brief, it would improve the imperial centre’s terms of trade. This plausible contention Smith, however, denied. Why? How could it be that forcing North America to supply only Britain, and not France, would not cheapen Britain’s imports?

The tobacco of Maryland and Virginia ... by means of the monopoly which England enjoys of it, ... comes cheaper to England than it can do to France But had France ... been ... allowed a free trade to Maryland and Virginia, the tobacco of those colonies

might ... have come cheaper than it actually does, ... The produce of tobacco, in consequence of a market so much more extensive, ... would, ... have been so much increased as to reduce the profits of a tobacco plantation to their natural level ... The price of tobacco ... would, ... have fallen somewhat lower than it is at present. (1776 [1937] ,p. 561 part iii, ch vii, book iv)

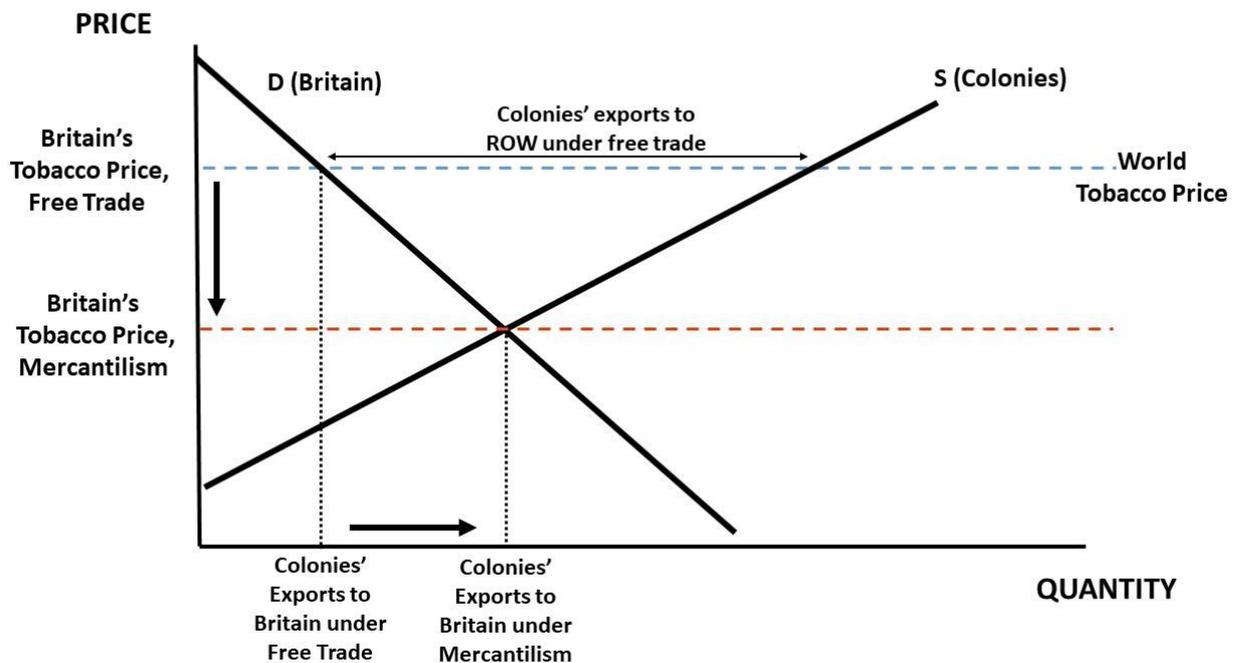
Regrettably, Smith's argument here is badly question begging;

Why would a more 'extensive market' in an agricultural commodity actually reduce prices? Because, Smith seems to say, it reduces costs. But why would a more extensive market reduce costs? Because, it seems, it reduces profits. But how can a more extensive market actually reduce profits? Smith's answer is that a more extensive market will increase competition amongst suppliers. But this answer is an undeveloped contention, barely more than a dogmatic one.² He also claims, reinforcingly, that a more extensive market encourages 'new improvements in art'.³ It surely does; but is there any reason to suppose that the induced innovation will be large enough to actually reduce prices below that of the less extensive market, as Smith contends? How many would brave predicting, for example, that a surge in immigration will actually reduce housing rentals thanks to the presumed stimulus it gives to innovation in accommodation? Or that an increase in the share of population over 70 in age will actually reduce the price of pharmaceuticals on account of the stimulus to innovation?

The effects of a more extensive market can be debated, but what is certain is Smith's contention is contrary core modern economic analysis. Such analysis endorses the Mercantilist proposition that prohibiting colonies from exporting to the rest of the world will improve Great Britain's terms of trade. Figure 1 depicts the tobacco market in a supply and demand framework, with

Britain's imports comprising the demand curve, the American colonies' exports comprising the supply curve, and the rest of the world comprising another source of demand, perfectly elastic at some world price.

Figure 1: The Tobacco Market



Evidently, Britain's imports are made cheaper by the mercantilist policy of forbidding the export of American tobacco to European continent.

Figure 1 can be usefully adapted to show how modern economic analysis also endorses the second mercantilist contention at issue - that the prohibition of colonies from importing from the rest of the world will improve the Britain's terms of trade, and so benefit Britain. Let linen be Britain's exportable of and the colonies importable, so that Britain's exports constitute the supply curve of linen, and the colonies' imports constitute the demand curve. And let the 'rest

of the world' (i.e. France or Europe) be of the same economic structure as Britain: in other words, it imports tobacco from Colonies, and exports linen to them. In consequence, the world price is such that, under free trade, the colonies also import linen from the 'rest of the world': see Figure 2.

Figure 2: The Linen Market (Free Trade)

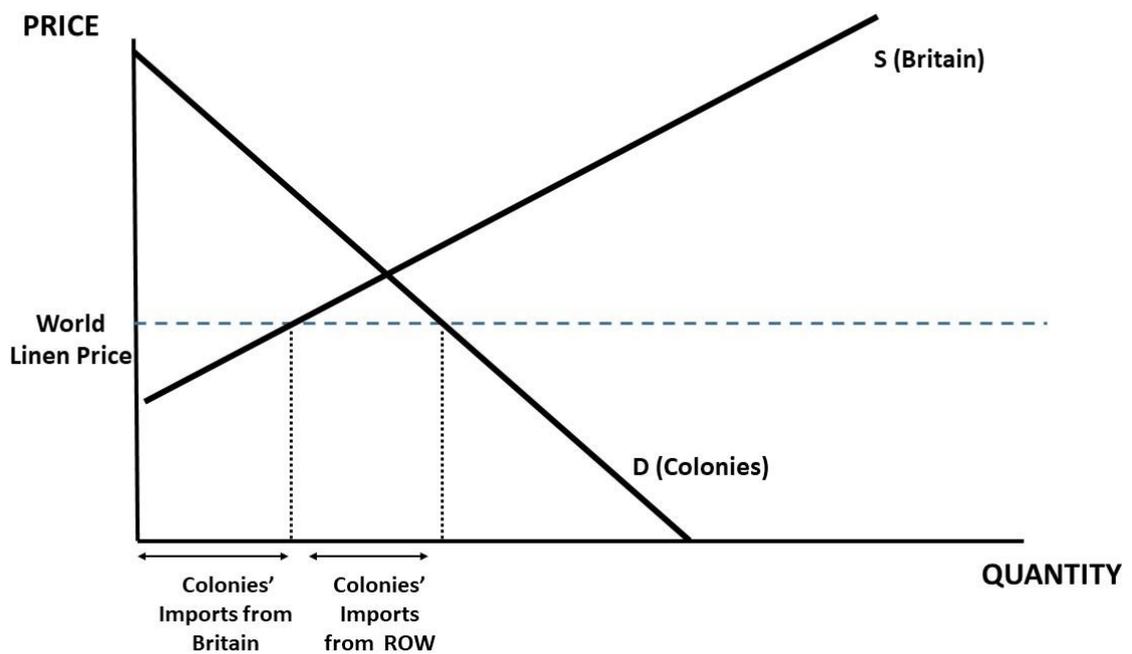
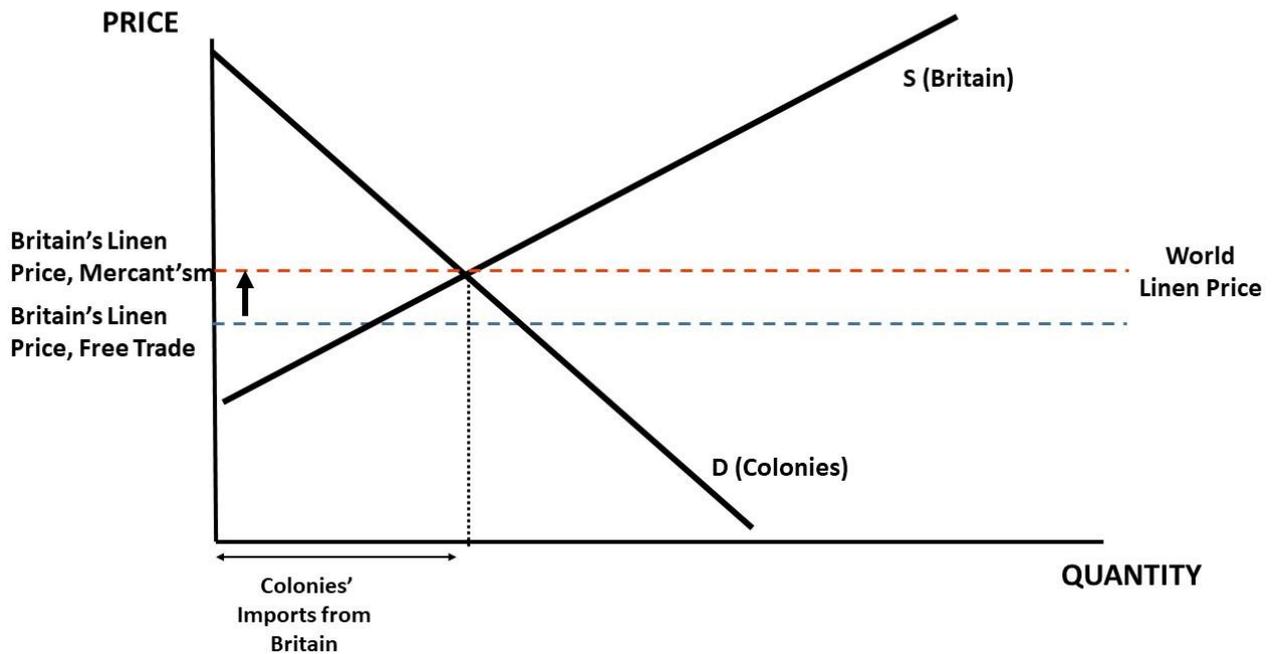


Figure 3 makes clear that, under mercantilism, the price of linen rises, to the benefit of Britain.

Figure 3: The Linen Market (Mercantilism)



The analyses of Figures 1, 2 and 3 simply formalize what will be obvious to the economist. But let another assumption now be added: let it be supposed that we live in a two good world; Tobacco, and Linen. So, tobacco is not just a representative import of Britain, but the only one; linen is not just a representative export of Britain, but the only one. Such two good schematisation of world may seem unnecessarily stark, but it helps makes in an arresting way a point that needs to be made. In such a two-goods schematisation, it is clear that, under free trade, Britain does not trade with the rest of the world. Its tobacco imports are satisfied wholly by colonial tobacco. And its exports (linen) go only to colonies, since Britain's exports are too small in volume to have any left over for the rest of the world. By contrast, under free trade Colonies do trade with the rest of the world: colonies sell to the rest of the world the tobacco which Britain has not bought, in exchange for the linen which Britain has not supplied. The upshot is that under free trade The British Empire trades with the rest of the world only through

its colonies. Thus, to forbid the colonies from trading with rest of the world, as Mercantilism commends, is stop the British Empire as a whole trading with the rest of the world. In a phrase, Empire Autarky.

This conclusion allows us to put the conclusion of our schematisation of mercantilist regimen this way: Empire Autarky benefits Great Britain. This jolts a folk theorem of economics: ‘autarky is bad’ isn’t it? Empire autarky is, indeed, bad for the Empire as a whole; but Empire autarky is not bad for all parts of the Empire. It is good for Britain.

So, is Smith’s case against the British Empire disposed of? No: Smith isn’t finished with the harm mercantilism supposedly does Great Britain. For Mercantilism recommends, not only an empire autarky in goods, but also an autarky with respect to capital. It enjoined barring foreign capital from British colonies, so that Britain could monopolise the profit from capital deployed in her colonies. But, said Smith, this policy of excluding foreign capital from the Empire would redound on Britain to its harm. Why?

When ... England assumed ... the monopoly of the colony trade, the foreign capitals which had before been employed in it, were ... withdrawn The English capital, which had before carried on but a part ... , was now to carry on the whole [of the colony trade]. ... and ... the profit must have been very ... much above the ordinary level This superiority of profit in the colony trade could not fail to draw from other branches of trade a part of the capital which had before been employed in them. ... The monopoly of the colony trade ... has forced some part of the capital of Great Britain ... from supporting ... the industry of Great Britain, to be employed altogether in supporting ... that of the colonies (1776 [1937], p.562, part iii, ch vii, book iv)

But, again, standard economic analysis denies that Britain would be injured by the policy Smith censures. Since our focus is on production, let production be modelled as simply as we can without becoming trivial: just two factors, labour and capital; and two incomes wages and profits. Labour is immobile, but British capital may move about the Empire. The amount of British-owned capital is a given, as is the amount of colonial-capital. The supply of capital by rest of the world is, by contrast, flexible; perfectly elastic at a certain profit rate. Figures 4, 5 and 6 demonstrate that, under this analytic set up, barring foreign capital from the Empire will increase the national income of Britain. There is an intuition. Barring foreign capital reduces the supply of capital within the British Empire. In response to this scarcity some British capital will emigrate to North America where the demand for capital is relative strong. In consequence, total production (GDP) of Britain declines; as Smith contended. But there is another consequence of making capital scarcer within the Empire; the profit rate in the Empire has been increased. And, in consequence, total income of Britain ('national income') will increase. There's an analogy: just as Britain, as a linen exporter will enjoy a higher national income in consequence of a higher price of linen; so Britain as a capital exporter – one which sends capital to the colonies – will obtain a higher income in consequence a higher profit rate. Britain GDP is reduced - yes - but Britain's national income – wages plus profits - has been increased, by the mercantilist policy of excluding foreign capital from the British Empire.

Figure 4: Profits and Wages in Britain (Foreign Capital Barred from Empire)

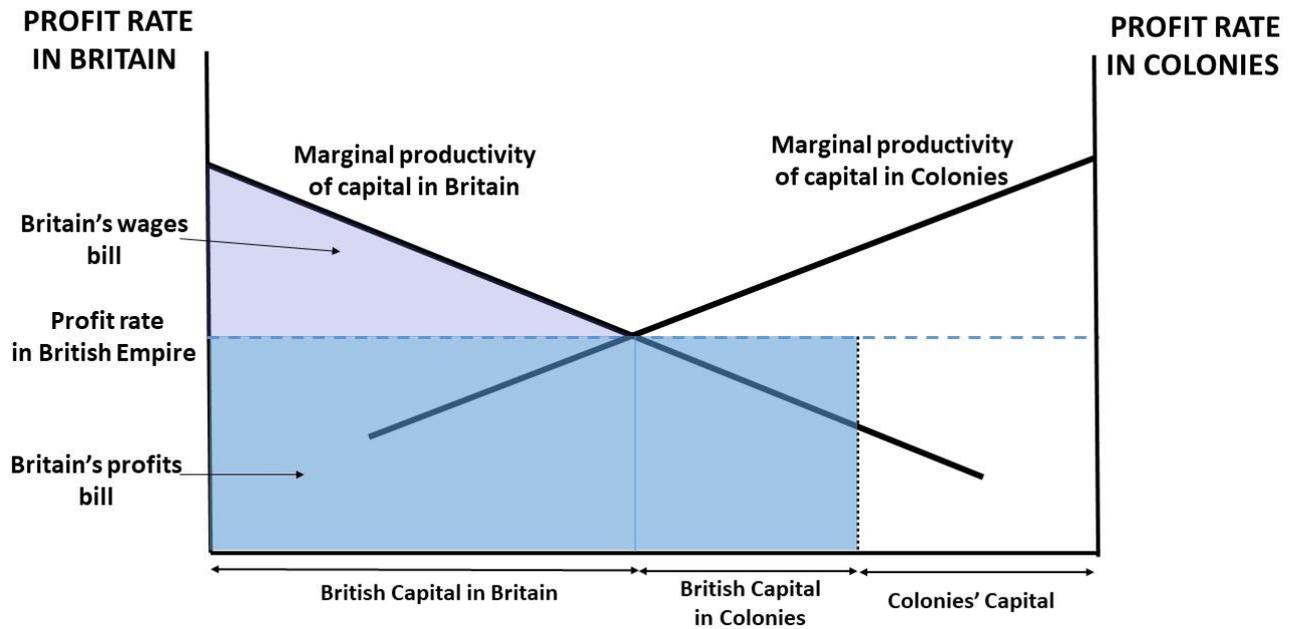


Figure 5: Profits and Wages in Britain (Foreign Capital not Barred from Empire)

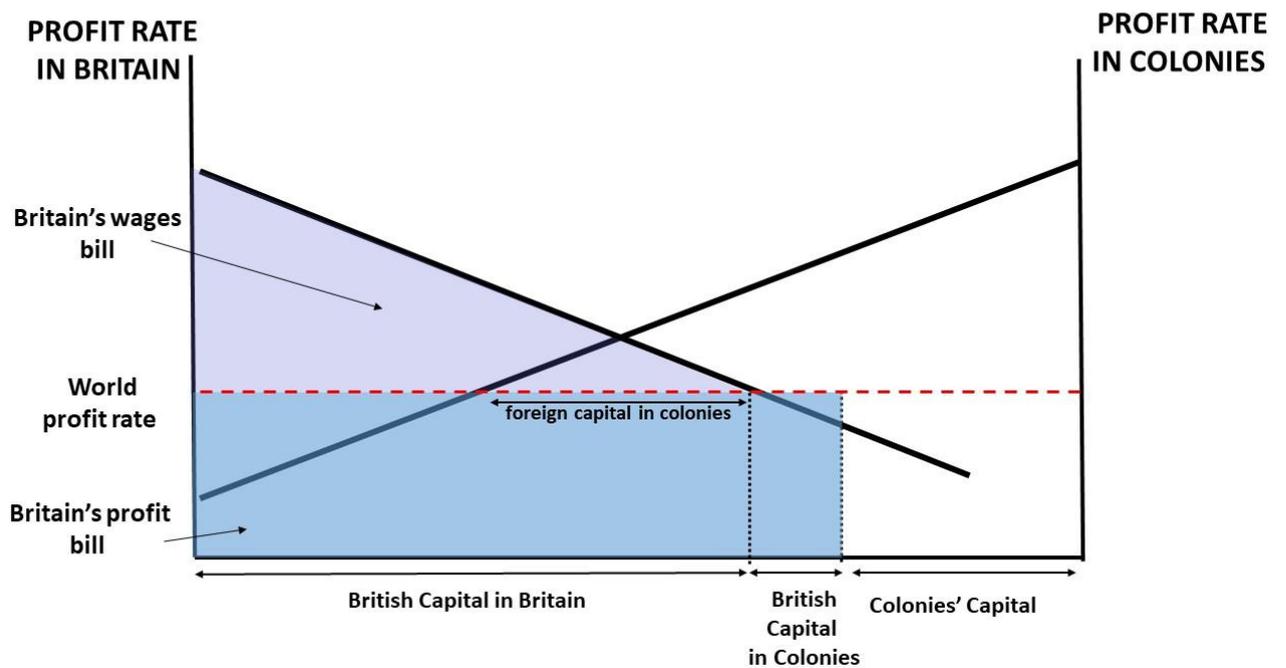
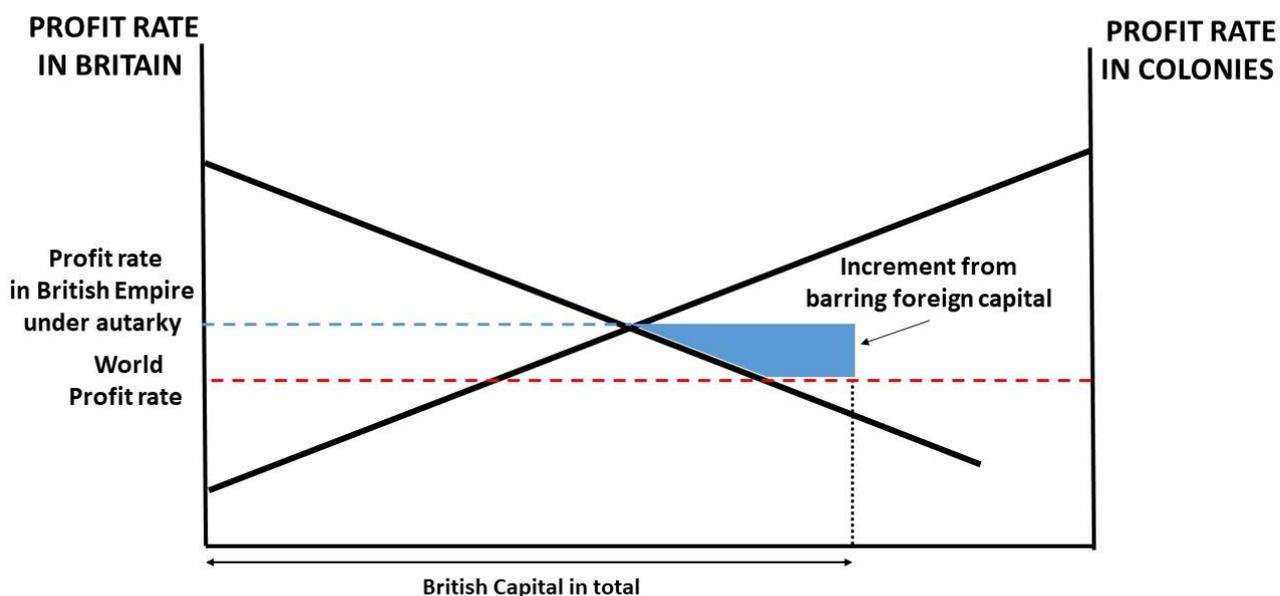


Figure 6: The Increment to Profits plus Wages in Britain from Barring Foreign Capital from Empire



But can we say Smith is now disposed of? The preceding critiques of Smith have simply countered Smith's contentions with models; and we can debate – and reject - models.⁴ But the models invoked are models of 'the first resort'; they would be the first port of call on any modelling journey of the problem at hand; their assumptions are simple, clear and insight-laden. Smith offers only unworked out remarks, wanting in analytical depth.

It is tempting to trace the definiteness of Smith's affirmations regarding the impact on Britain of mercantilism, in spite their thin grounding, to Smith's prior commitment 'natural system of

liberty'. Part of Smith's commitment was his overestimate of the Natural System's desirable properties. Smith believed the Natural System was characterised by a harmony of interests; the Natural System was good for every interest; it was win-win. Not just *Potential* Pareto, but *Actual* Pareto Improving. One may see this presumption of win-win in his analyses of Freedom of Labour Movement, Freedom in Grain Speculation Freedom in Foreign Trade: it's always win-win.⁵ It follows from this presumption that violating the Natural System of Liberty will be bad for everyone: lose-lose. Mercantilism is, therefore, lose-lose.

Smith's preconception bred a further misconception. Harmony economics implies that economic conflict can only be rooted in misunderstanding; that is, in not realising that the Natural System of Liberty is 'win-win'; thus, enlightenment will extinguish economic conflict, and bring 'an end of all strife'.

But it was Smith who laboured under a misunderstanding; there is a genuine conflict of interests. Putting to one side schemes of compensation, implementing the Natural System of Liberty will have losers as well as winners; and, by the same token, the violation the Natural System will often yield both winners and losers. One such violation – the Mercantilist System - will have winners and losers.

Economists have understood this since the time of David Ricardo. In in his chapter 'On Colonial Trade' in his *Principles of Political Economy and Taxation*, Ricardo blankly rejects Smith's attempt to demonstrate that Mercantilism – Empire Autarky - must harm Britain. Smith's inferiority to Ricardo in the matter of analysis is well-acknowledged. Extending the comparison to other theorists nourishes the thought that when it came to analysis, Smith did not flash or sparkle. But analysis was not the only method under Smith's command .

It is another method Smith uses to strike a deadly stroke against the supposed benefits of British Empire to Great Britain. Recall, Smith always allowed that a mercantilist regimen would be harmful to colonies; thus, any mercantilist regimen will need to be enforced. This leads to Smith to advance a ‘cost of enforcement argument’ against the Empire.

A great empire has been established for the sole purpose of raising up a nation of customers, who should be obliged to buy, from ... our ... producers, For the sake of that little enhancement of price which this monopoly might afford our producers, the home consumers have been burdened with the whole expense of maintaining and defending that empire. For this purpose, ... , in the two last wars, [= the War of Austrian Succession and the Seven Years War] more than two hundred millions have been spent, The interest of this debt alone is not only greater than the whole extraordinary profit which ... was made by the monopoly of the colony trade, but [greater than] ... than the whole value of the goods which ... have been annually exported to the colonies.
(1776 [1937], p. 626, ch viii, book iv)

This is a devastating paragraph.

Smith is interpreting British Empire as a gold mine; its wars are ‘capex’, its government debt is ‘finance’ and the enhancement it secured in export prices is ‘the profit’. But how large is this enhancement in export prices? Its size is unknown, but one can place an extreme upper bound. Suppose that without the Empire, British linen would sell for nothing; under that extreme circumstance the enhancement price - the profit - would equal the whole of the export value.

But, Smith is saying, even under such an extreme assumption, profits on ‘British Empire Inc’ would not even cover the interest on the debt which financed it, let alone repay the principal.

Table 1: Cumulative Exports of Britain to North America and Cumulative Interest Payments on Increase in Government Debt since 1740, £m

Year	Cumulative Exports to North America since 1740	Cumulative Interest Payments on Increase in British Government Debt since 1740
1745	4 193	1 014
1750	9 847	4 890
1760	16 677	9 021
1765	27 042	14 736
1770	36 870	26 862
1775	47 274	39 573
1780	60 535	51 708
1782	62 160	66 543

Sources: Price (1975), Mitchell (1962), Federal Reserve Bank of Saint Louis 2023.

Table 1 indicates that by 1782 Britain's cumulative interest payments on government debt since 1740 (the outbreak of the War of Austrian Succession) exceeded her cumulative exports to North America since 1740. So even if the Treaty of Paris had, by some miracle, restored North America to the Empire, the financial benefit of that Empire – even under the most extreme assumptions – would not even pay the interest on the debt necessitated by that Empire – let alone the principal.⁶

In the light the facts, 'British Empire Inc' cannot escape being convicted of a massively negative return for its owners.

I believe we locate here Smith's dialectic power. He had unusual talent for setting facts – 'historical facts' (facts about the past with a narrative structure) – in a strong conceptual framework. This method – might we call it 'conceptual history'? – is relatively unusual in the history of economics. It is absent in the one who was plainest in his aspiration to play Smith to a later generation, John Stuart Mill: he was not a historical author, and lost something because of that. It is largely absent in Alfred Marshall, Smith's 'brother' in Schumpeter's judgement: his Appendix A on 'The Growth of Free Industry and Enterprise' has too much contention and too little fact to be remembered as any species of history. Neither was it used in various incarnations of 'historical economics' that competed with Marshall. The post-war period saw something of a resurrection, especially in economic historians. But of those authors I could site, the one come closest to Smith's method is not an economic historian as such – no more Smith was an economic historian as such. It is Ronald Coase who exhibits an unusually Smithian propensity to argue by means of particulars of the past set in a conceptualised narrative (see Coase 1950, 1955 and 1974). It gave a power to Coase, as it did to Smith.

2. The Legacy

It was in Smith's interpretation of imperial history - as a costly investment which did not meet a bottom line - that Smith had far more impact on Smith than his analytical critiques.

Consider Edmund Burke: a friend, let's recall, of Adam Smith – when Burke was invested as Rector of the University of Glasgow it was Smith who ceremonially escorted him to the dais. Consider Burke in 1780 on Nova Scotia, the one North America seaboard colony that did not join the American thirteen. Did Burke praise her loyalty? 'Good God! [says Burke] What sums the nursing of that ill-thriven, hard visaged and ill-favoured brat has cost this ... nation!' (quoted in Knorr 1944, p.234).

Or, again, consider William Petty-Fitzmaurice, the 2nd Earl of Shelbourne, Prime Minister at a key point in the wars with America, and a long-time patron of Smith, who had entrusted the education of his son and younger brother to Smith, you might say his own: 'I owe to ... Mr Smith ... the difference between light and darkness' (quoted in Ross 1998, p.147). Shelbourne was Prime Minister when the Treaty of Paris was being drafted, and during this time told the House of Lords that Great Britain 'imports no more than 50,000 pounds a year'. 'Is 50000 pounds a year ... any object for Great Britain to continue a war? ... It is not. But much less must this appear ... when I tell parliament ... that for many years past, ... the preservation of this import of 50000 per year has cost the country 80 000 [a year]' (quoted in Ross 1998, p.150).

The echoes of Smith resound.

We can hear similar anti-imperial sentiments the subsequent century

Jeremy Bentham 1793 implored France's National Convention to 'Emancipate Your Colonies'. Its 1836 edition began with a quote from the *Wealth of Nations*, 'Under the present system of management, therefore, Great Britain derives nothing but loss from the dominion which she assumes over her colonies' (Bentham 1836).

George Lewis (editor *Edinburgh Review*, Chancellor of the Exchequer 1855–1858) in ambitious study, *An Essay on the Government of Dependencies* articulates, with some circumspection, Smith's position (1841).

Goldwin Smith, the Gladstonian Regius Professor of History at Oxford from 1858, emphatically reiterates in his book *Empire* (1863) Smith's summons to Britain disencumber itself of the Empire.

Finally, Thorold Rogers, the combative Smithian professor of political economy at Oxford from 1862, did the same. 'I could show you that all the profits of the Cape [Colony] trade ... are not ... equal to the interest on the capital which has been spent by the British Parliament on the progress and defence of the Cape Colony' (Rogers 1888 [1921] p.335). Sound familiar?

It is plausible Smith fostered among liberal 19th c British intellectuals an anti-imperial tradition, which formed a counter point to the burgeoning of Empire pride and consciousness through that century.

But anyone who subscribes to the ‘influences’ of authors will be aware that ‘influence’ can be wayward and paradoxical thing. And so it is here. For by opening of 20th c quotations from *Wealth of Nations* - and the very name of Smith - were gladly wielded by certain visionaries of an extreme vision of the British Empire (see Palen 2014); a vision in which the constituent parts were to be knitted together by the creation of an Empire Parliament; a Parliament where all portions of the Empire would be represented, and all great matters of state decided: Imperial Federation.

How could Smith, who argued ‘giving up’ the Empire, become a totem of Imperial Federation? Let’s go back to the American war. If the British Empire - as it was constructed - was injurious to Britain, what would Smith have done with it? In memorandum to the Solicitor General in 1778, he advances two options:

1. Keep the Empire but abolish mercantilism: keep the colonies but let them trade as they please. The objection here lay with the Americans’ objection to the continuation of the Empire: ‘In their present elevation of spirits, the ulcerated minds of the Americans are not likely to consent to ... terms even the most advantageous to themselves’ (in Guttridge 1933 p.717).
2. Abolish the Empire and the mercantile system along with it, Smith’s own preference. But here the spirits of the British public which was the impediment; for such an action ‘would scarce fail to discredit the Government in the eyes of our own people’ (in Guttridge 1933 p.718).

So how to eliminate the mercantilist regimen without either conceding American independence (politically impossible) or inducing American subordination (also impossible)?

Smith's solution lay in Political Union; Great Britain and colonies to become a single political entity. In the *Wealth of Nations* Smith proposed the creation of 'states-general' of the British Empire, in which all parts of the Empire – India and the West Indies apparently included - would be granted 'a fair and equal representation' based on the taxes they contributed to the Empire. (1776 [1937] p.886, ch iii, book v). Complementing this political union would be an economic union: free trade within, and uniform tariff on imports from without.

Here was a fine grist for Imperial Federationists of the 20th century to grind.

Thus in 1909 J.S. Nicholson's, *A Project of Empire: A Critical Study of the Economics of Imperialism, with Special Reference to the Ideas of Adam Smith* depicts Smith as a fellow Imperial Federationist. Nicholson knew where to go in the *Wealth of Nations* to find what he wanted: he was Professor of Political Economy at Edinburgh, and the *Dictionary of National Biography* records that Nicholson 'knew his *Wealth of Nations* as thoroughly as the Scottish peasant knows his *Bible*, and believed in it almost as thoroughly' (2004). This judgement was flourished by William Scott, Adam Smith Professor of Political Economy at the University of Glasgow, well known for his biographical researches on Smith. In 1927, with respect to a series entitled 'Books as Links of Empire', published by the *Empire Review*, Scott nominated the *Wealth of Nations* as such a book, and again depicts Smith as an Imperial Federationist.

I need not labour the spuriousness of marshalling Smith as precursor the designs of Imperial Federation. The economic goal of Smith's 'states general' was the elimination mercantilism

and Empire Autarky, while the economic goal of Imperial Federation was ‘Imperial Protection’, and ‘Empire Trade’, such that the British Empire would become a distinct, autonomous trading bloc; in the limit, Empire Autarky. But if the Imperial Federationists’ use of Smith was distorting and misleading, it was not insincere. If it is simple to demonstrate Smith’s scheme would not have *rationaly* encouraged the designs of Imperial Federationists, it is another thing to demonstrate it did not actually do so.

Such are some of the paradoxes of influence of ideas.

Smith’s genuine legacy lay not in any particular policy, specific doctrine or piece of analysis. His bequest lay in themes rather than theorems. Namely, the rewards of specialisation, the power of incentive, the prevalence of self-interest, the benefits of competition, and the invisible hand. And beyond these there is an over-arching theme: to perceive the gamut of human affairs in economic terms; ‘the economic outlook’, or ‘the economic interpretation of history’ (to use the title of the book by Thorold Rogers which was quoted earlier).

This ‘economic interpretation of history’ extends to include the economic interpretation of government. The starkest exemplification of the economic interpretation of government came with the Public Choice school in the 1970s, associated with James Buchanan and Mancur Olson. In their vision the state is assumed to extract revenue from the population with the same one-eyed, exploitative rationality that a monopolist is assumed to extract profits from customers. But however useful this Public Choice interpretation of government is as an analytical polar case, it is less than easily tolerable as an approximation of reality. Are we not a democracy? Would the population elect and re-elect such a government?

But there is a case where a starkly exploitative state envisaged by Public Choice might be tolerable approximation of reality; the case of an economic empire, of centre and colonies. As the paper has earlier argued, such an interpretation of government makes sense a mercantilist regimen of British Empire in the 18th, when her colonies under free trade would have imported from the rest of the world that which Britain exported (manufactures). But what is worth pressing is that the economic-interpretation-of-government also provides makes sense of the decline and fall of mercantilism in the early 19th c.

What happened between, say, 1776 and 1846? The Industrial Revolution. This altered the structure of world trade so that mercantilism was no longer advantageous to Britain. With Industrial Revolution came the massive expansion of Britain manufactures; “linen”. Now there would be no benefit of diverting colonial linen imports from the rest of the world to Britain because colonies don’t import any linen from the rest of the world; all colonial demand for linen was now satisfied by Britain. Corresponding to massive exports of linen was a massive expansion of British agricultural imports; “tobacco”. Now there would be no benefit in divert colonial tobacco exports from rest of the world and towards Britain, because there aren’t any colonial tobacco exports to rest of the world; all colonial tobacco was sold to Britain any way.

To put the point more analytically: Empire autarky will only increases the relative price of linen if the Empire as a whole is an importer of linen; if the Empire as a whole becomes an exporter, Empire Autarky will only reduce the price of linen.

The Industrial Revolution transformed British Empire as whole from importer to exporter of manufactures, and made autarky an irrational policy for Britain.

Ushering Empire Autarky off the stage, the Industrial Revolution ushered on to stage the phenomenon “free trade imperialism” where Britain’s goal was to open up, to its exports, independent countries which had previously been closed to trade (thus the Opium Wars with China).

A parallel analysis rationalises the disappearance of prohibitions of foreign capital within the Empire. In the 18th c, it may be ventured, the British Empire as a whole was a capital importer, and, in consequence, barring foreign capital increased the profit rate within the Empire, and thus Britain’s national income, she being a capital exporter. But with the Industrial Revolution 19th British Empire as a whole became a capital exporter: British capital built not only Indian railways but Argentinian ones, too. Now barring foreign capital from the British Empire would not increase the profit rate within the Empire, and so could not increase the national income of Britain.

3. The Residuum

With the Industrial Revolution the British Economic Empire came to an end.

Some parts were now re-conceived in terms of a political empire - the likes of India were now commonly seen as the very stuff British power. Other portions were transformed into third type of empire; neither economic nor political, but to use Smith’s terminology ‘Greek’: a merely ethnographic empire.

The Greek colonies sometimes furnished a military force [to the mother city], but seldom any revenue. ... They were generally her allies in war, but very seldom her subjects in peace. ... The mother city, though she considered the colony as a child, ...

yet considered it as an emancipated child, over whom she pretended to claim no direct authority or jurisdiction. The colony settled its own form of government, enacted its own laws, elected its own magistrates, and made peace or war with its neighbours, as an independent state, which had no occasion to wait for the approbation or consent of the mother city. (p. 559, part iii, ch vii, book iii)

Smith here is, in effect, describing the ‘Dominions’ of the 1920s period; and, in varying degrees, the ultimate destiny of the entire British Empire; a Greek, or cultural, Empire.

I would like to finish by briefly filling out the concept of cultural empire, in a way which serves this paper’s task. A cultural empire is not merely a cultural space; like a political empire, there is a structuring of authority within that space: where one part of that space is invested, by the whole, with an authority over the whole. So, there is a centre and periphery structure, or capital and colonies.

As in a political empire, authority has two forms. There is a personal authority; an elite at the centre which leads, and which others follow. (Why is Norwich provincial? asked John Stuart Mill. Because no novel will ever sell there which has not been favourably reviewed by London critics). And there is impersonal authority. In a political empire this amounts to constitutional and customary law. The equivalent in a cultural empire are the landmarks of cultural achievement; the prestigious, respected, approved works that constitute the exemplars, models, yardsticks of cultural activity. Here is ultimate legacy of Smith ; he is one of the constituents of cultural Empire. That statement serves well Australia, perhaps more than any other part. Berg (2017) has calculated sales of political, economic, legal and historical texts, title by title, for New South Wales, 1805-1849. The *Wealth of Nations* tops the list. And it was not merely

leading, but dominating; selling 132 copies, while the whole of Burke's works sums to just 68 sales; and all of Rousseau's to just 6. If Smithianism as a policy regimen did not flourish in Australia, the *economic criterion of judgement* – the ultimate legacy of Smith – did reign almost supreme. Australia's case puts well in mind that Smith has become part that cultural empire which was the inheritor of that the economic empire which he so concerned to condemn.

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¹ Schumpeter did not, of course, include Smith among his ten. Schumpeter complained that ‘A. Smith’ neglected political arithmetic, insufficiently acknowledged other authors, ‘flounders so badly’ in using the numeraire concept, and ‘loved to declaim about the labourer who produces everything for everybody and who himself “goes in rags”’ (1980, p.558).

² In his general discussion of profits, Smith remarks ‘When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit’ (1776 [1937] p.87, ch ix, book i). The (plausible) suggestion here is that an increase in the number of firms will, for a given “trade”, reduce the profit rate. But would an extension of the market increase the number of firms? And why would any resulting intensification of competition more than outweigh the increased in the value productivity of capital?

³ ‘The increase of demand, besides, though in the beginning it may sometimes raise the price of goods, never fails to lower it in the long-run. It encourages production, and thereby increases the competition of the producers, who, in order to undersell one another, have recourse to new divisions or labour and new improvements of art, which might never otherwise have been thought of’. (1776 [1937] p.706, part iii, ch i, book iv). Evidently, Smith also invokes ‘new divisions of labour’ to explain why a more extensive market reduces prices. Regrettably, Smith’s theory of the division of labour so incomplete its imputed effect in this question is provided no justification.

⁴ The assumptions made in Figure 1 include there being just two final goods, no intermediate goods, well-behaved production functions, competition in goods and factors, exogenous prices

in the rest of the world, and zero transport costs. Relaxing these would not alter the conclusions of the modelling. Those conclusions would, however, be vulnerable to moving from a single period model to a multi period one. Such a model would allow that Mercantilism's injury to the colonies would discourage investment in the colonies, and so weaken in subsequent periods their demand for British imports. It seems unlikely that a stunted America would be in Britain's long-term interests.

⁵ Smith 1776 [1937] p.141, part ii, ch ii, book I; p.500, ch iv, book iv; pp. 420-423, ch ii, book iv.

⁶ This critique is not quite a knockout, as Smith ignores the reduction in the price of British imports secured by requiring colonies to export only to Britain. This neglect is logical enough since Smith, as the paper has stressed, contended there would be no such reduction. But even making a generous allowance for a reduction in price of imports would not overthrow the critique.