

# States and markets

RYAN WALTER\*

**Abstract.** Use of the ‘states and markets’ pair to conceptualise the international is pervasive. This article narrates the intellectual genesis of this dyad in eighteenth- and nineteenth-century British political economy. Adam Smith’s arguments in *Wealth of Nations* are central, for there the analysis of strength is uncoupled from the analysis of wealth, de-politicising the international and making the economic denunciation of war possible. In the process the international economy is elaborated as a new theoretical object.

**Ryan Walter** is a Postdoctoral Research Fellow at the Centre for the History of European Discourses, University of Queensland. Ryan can be contacted at: {r.walter1@uq.edu.au}.

But some Nations having departed from the antient simplicity of Living contented with Productions of their own Countries, and having by Navigation and Trade, raised themselves to Wealth, Power and increase of Inhabitants; it thereupon grew necessary for other Nations to fall into the like Methods, lest otherwise they should have been a Prey, as well as a Derision to them whom *Trade* had rendred Mighty and Opulent.<sup>1</sup>

It is the maintenance of great fleets and armies, which is always the most formidable weight in the scale of consumption, and which has the most fatal tendency to turn the balance against reproduction and prosperity. It is by the lamentable continuance of wars, almost always nourished by puerile prejudices and blind passions, that the affairs of prosperous nations are first brought to the stationary condition.<sup>2</sup>

‘International’ refers to the space or relations between nations and, like most concepts that are central to intellectual disciplines, it sustains rival conceptualisations. A regular point of repulsion for competing understandings of the international is how to specify the split between international politics and international economics. This split is seen in such pairings as ‘money and power’, ‘exchange and coercion’, ‘markets and hierarchies’ and, most commonly, ‘states and markets’.

Robert Gilpin has offered a typical formulation of the states and markets pair:

The parallel existence and mutual interaction of ‘state’ and ‘market’ in the modern world create ‘political economy’; without both state and market there could be no political economy. In the absence of the state, the price mechanism and market forces would determine the outcome of economic activities [. . .] In the absence of the market, the state or its equivalent would allocate economic resources.<sup>3</sup>

\* The author would like to thank Carolina Caliaba Crespo, Barry Hindess, Ian Hunter, and Keith Tribe for useful comments on earlier drafts.

<sup>1</sup> C. K., *Some Seasonable and Modest Thoughts Partly Occasioned by, and Partly Concerning the Scots East-India Company* (1696), p. 4.

<sup>2</sup> James Mill, *Commerce Defended* (New York: A. M. Kelley 1965 [1808]), p. 74.

<sup>3</sup> Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press 1987), p. 8.

The interactions of state and market and the complicated dynamics they engender provide political economy with its field of inquiry and constitutive concerns. Indeed, a useful understanding of the international requires that one understands both ‘how markets work and how states and other actors attempt to manipulate markets’.<sup>4</sup> Thus, both political science and economics effect a false division of labour: the international is a congeries of political and economic elements.

Globalisation enthusiasts occupy this theoretical space, but emphasise the market side of the pair. Consider Kenichi Ohmae’s claim that the world must come to terms with the ‘global logic of the borderless economy’. This phrase refers to the effects on nations of an international economy in which investment, production, population, and information flow across national borders in an historically unprecedented way. These flows radically undermine the tenability of the nation state as an economic unit by withering its accidental, non-economic borders.<sup>5</sup>

World-systems theory ostensibly rejects the states and markets pair in favour of a single, self-sustaining analytical category, the world-system. In Immanuel Wallerstein’s seminal presentation, a capitalist world economy assigns the economic to the outside of states and politics to their inside. Yet this inside is not autonomous – world trade patterns give rise to a division of world labour, and different types of labour need different forms of labour-control. Differing methods of labour-control, in turn, result in diverging shares in the world surplus, class structures, and state machineries. States with strong machineries can skew the surplus distribution towards their own capitalist classes.<sup>6</sup> In this understanding of the international, the states and markets pair endures, but within an overarching dynamic given by the world-system.

Michael Hardt and Antonio Negri also claim to have eclipsed the states and markets pair, not with a world system but with a renovated concept of Empire. Where the old imperialism is driven by competing Western powers, the contemporary Empire that supersedes this system is ‘a single power that overdetermines them all, structures them in a unitary way’. This new configuration involves an attempt ‘to bring together economic power and political power [...] a properly capitalist order’. The privileged instruments for realising this process are juridical – ‘norms and legal instruments of coercion’ that portend ‘the unitary regulation of both the world market and global power relations’. The unification of economic and political power through international law is necessary because the world market ‘requires a smooth space of uncoded and de-territorialised flows’, just the kind of space that the old imperial system clogged with its ‘strict notions of inside and outside’. Here, then, the states and markets pair is elevated to the international level, as the world market operates on international legal and political structures to create ‘a smooth world’.<sup>7</sup>

All of these configurings of the international mobilise a version of the states and markets pair, some willingly, and some despite theoretical efforts to the

<sup>4</sup> Robert Gilpin, with the assistance of Jean M. Gilpin, *Global Political Economy* (Princeton: Princeton University Press 2001), p. 45.

<sup>5</sup> Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies* (London: Harper Collins 1995), pp. 2–4, 8, 15, 20, 64, 68.

<sup>6</sup> Immanuel Wallerstein, *The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (London: Academic Press 1974), pp. 67, 162, 353.

<sup>7</sup> Michael Hardt and Antonio Negri, *Empire* (London: Harvard University Press 2000), pp. 9, 332–3.

contrary. Studying the intellectual process by which the states and markets pair came into being therefore assumes considerable importance: historical perspective is a partial remedy for stubborn self-evidence. The particular site to be considered here is eighteenth-century British political economy; there the politics-economics split emerged as a tactic to de-politicise and de-militarise the international, recasting international interaction in benign and mutually beneficial terms, as against the antagonistic framing that this genre had hitherto produced.

The shift from a body of knowledge that produced an inherently antagonistic analysis of the international to one that produced separate and inimical logics for trade and war can be seen in the two extracts given at the beginning of this article. The stunning and unintended consequence of this tactic is the intellectual elaboration of a new object – the international economy. The constitution of this object makes it possible to judge the actions and policies of individual states from the perspective of their effects on the international economy, and from here states can be portrayed as retarding the growth of the world's wealth by pursuing self-interested policy. In consequence, international economic governance becomes conceivable as governance that will limit destructive, self-interested state behaviour in favour of fostering the life of this new object.

Contemporary examples of international economic governance – such as the World Trade Organization (WTO), International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) – are particular manifestations of an international program that has its theoretical conditions of possibility in a pacifying tactic pursued in the eighteenth century. To study the history of this tactic and its effects is to be better placed to understand the assumptions we make about international political economy and the possibilities and limitations they engender, such as the widespread use of the states and markets pair.

This case study in intellectual history proceeds in four steps. The political economy of eighteenth-century Britain is first sketched, with attention paid to how these texts can be read in context, and on identifying the central categories of this genre. The discussion then moves to William Paterson's *A Proposal to Plant a Colony in Darien*, which offers an example of the threatening international that this genre produced. Adam Smith's *Wealth of Nations* is then treated at length, with emphasis on the way it disrupted the central categories and argumentative moves of the old analysis, not least by making it possible to cognise a new theoretical object, the international economy. Finally, the reproduction of Smith's arguments by James Mill and Robert Turrens is examined.

### Eighteenth-century economics

The phrase 'eighteenth-century economics' is a barbarism that we would do well to leave behind. It inescapably imports presentist assumptions to the task of reading early modern writings on trade and money, namely, that they are proto-versions of an economics to come and therefore take as their constitutive questions the same questions that occupy contemporary economists.<sup>8</sup> This pitfall can be sidestepped if we orient our reading by a number of points that will place this genre of texts in

<sup>8</sup> See Ryan Walter, 'The Economy and Pocock's Political Economy', *History of European Ideas*, 34 (2008), pp. 334–44, esp. pp. 342–44.

their intellectual context, starting with how these writers understood their genre. Three of its essential themes then need to be brought to mind: the balance of power; the strength-wealth relation; and circulation as an analytical category.

When eighteenth-century writers in Britain reflected on what they were doing when they wrote about trade, money, and commerce, they typically called it political œconomy, and the titles of their pamphlets and treatises used words such as ‘trade’, ‘commerce’, ‘money’, and ‘wealth’. The fundamental obstacle to reading these writings as early economics is that a notion of the economy as something separate from the state or society is alien to them. As the Greek root of political œconomy (*oikonomia*) indicates, the analogy is between state management and the management of a patriarchal household, with the statesman acting as the head of a household that encompasses the entire polity.<sup>9</sup>

The figure of the statesman is most clearly seen in James Steuart’s *An Inquiry into the Principles of Political Oeconomy*:

What oeconomy is in a family, political oeconomy is in a state: with these essential differences however, that in a state there are no servants, all are children: that a family may be formed when and how a man pleases, and he may establish what plan of oeconomy he thinks fit: but states are found formed, and the oeconomy of these depends upon a thousand circumstances. The statesman (this is a general term to signify the head, according to the form of government) is neither master to establish what oeconomy he pleases, or in the exercise of his sublime authority to overturn at will the established laws of it.<sup>10</sup>

The statesman ‘may not simply establish what plan of oeconomy he thinks fit’ and he is reliant on good counsel if his management is to be effective: ‘when principles are well understood, the real consequences of burdensome institutions are clearly seen [...] the abuse of the statesman’s administration appears palpable’.<sup>11</sup>

It is through the notion of counsel that the genre of political œconomy can be related to cognate genres. For example, in chapter twenty five of Hobbes’s *Leviathan*, ‘Of Counsell’, counsel is said to be necessary because ‘no man is presumed to have experience in all those things that to the Administration of a great Common-wealth are necessary to be known’.<sup>12</sup> These include the nature of man, the rights of government, equity, law, justice, honour, strength, the strength of neighbours and enemies.

In a similar vein, Adam Ferguson’s *An Essay on the History of Civil Society* is in large measure concerned with how European states differ from non-European states and from each other. Yet, Ferguson insisted, ‘there are certain objects that claim the attention of every government, that lead the apprehensions and the reasonings of mankind in every society, and [...] furnish an employment to statesmen’.<sup>13</sup> These objects are given as national defence, the distribution of justice,

<sup>9</sup> Keith Tribe, *Land, Labour and Economic Discourse* (London: Routledge and Kegan Paul 1978), ch. 5.

<sup>10</sup> James Steuart, *An Inquiry Into the Principles of Political Oeconomy*, Vol. 1 (London 1767), p. 2. Steuart did not use the ligature ‘œ’ as Smith did.

<sup>11</sup> *Ibid.*, p. 4. For patriarchalism in early modern political thought more generally see Gordon Schochet, *Patriarchalism in Political Thought: the Authoritarian Family and Political Speculation and Attitudes, Especially in Seventeenth-century England* (New York: Basic Books 1975).

<sup>12</sup> Thomas Hobbes, *Leviathan*, ed. Richard Tuck (Cambridge: Cambridge University Press 1991 [1651]), p. 180.

<sup>13</sup> Adam Ferguson, *An Essay on the History of Civil Society* (Cambridge: Cambridge University Press 1995), p. 131.

and the preservation and internal prosperity of the state. Despite their divergent orientations – republican historiography of virtue as against natural law theory of sovereignty – Ferguson and Hobbes offered similar lists of national concerns. Similar, too, is the role Ferguson assigned to counsel in the proper administration of these concerns:

the consideration due to these objects will be pleaded in every public assembly, and will produce, in every political contest, appeals to that common sense and opinion of mankind, which, struggling with the private views of individuals, and the claims of party, may be considered as the great legislator of nations.<sup>14</sup>

So identified as a species of public counsel, we can now turn to some of the recurring themes of this genre. The balance of power was a practical-theoretical surface where the concern with the security of the state could emerge.<sup>15</sup> This was a system of diplomacy, treaties and wars that regulated the power of the European states system to ensure no one power could preponderate. Charles Davenant's long essay on this topic was published in 1701, when France was aspiring to 'universal monarchy', or European empire. Davenant traced the origins of this danger to Louis XI, who consolidated power to the throne and away from the nobility. This was necessary since 'a Free People are not easily brought to follow the mad Sallies of a Prince's wild Ambition', an ambition spurred by the prospect of France and Spain being united through the House of Bourbon.<sup>16</sup>

With the intentions of France discerned, Davenant then judged the strength of contemporary France under Louis XIV as formidable – she has 'a Powerful Navy' and 'he has render'd his whole People Warlike, insomuch that he is able to raise three hundred thousand fighting men'. More alarmingly, France had established her 'Revenue into so good a method, that he could maintain the Expence of such Fleets and Armies' that were marshalled during the last war. As a result, the French have it 'in their Power to oppress the whole', and so 'seem the People most likely to invade the liberties of *Europe*'.<sup>17</sup> With France's intentions and capacities now assessed, Davenant concluded that England and her allies must act immediately, for France 'twill soon be an over-match either for any single, or indeed for any Confederate Opposition'. Hence, 'common Interest may unite his Neighbours in a common danger'. If such action is not taken, however, Louis will 'in no long course of time have the whole World Slaves either to his Fortune, or to his Power'.<sup>18</sup>

Davenant's portrayal of the threat France represented is an example of what Hobbes termed 'the strength of neighbours and enemies', and it can be understood in terms of three assessments. The first involves determining the intentions of France, the second her power, or capacity to pursue those intentions, and finally in deciding on the best course of action to preserve the state. Note that war was not always the necessary option. Later in his career Davenant authored two reports

<sup>14</sup> *Idem*.

<sup>15</sup> See Steven Pincus, 'The English Debate Over Universal Monarchy', in John Robertson (ed.), *A Union for Empire: Political Thought and the British Union of 1707* (Cambridge: Cambridge University Press 1995); Michael Sheehan, *The Balance of Power: History and Theory* (London: Routledge 1996).

<sup>16</sup> Charles Davenant, *Essays Upon I. The Balance of Power. II. The Right of Making War, Peace, and Alliances. III. Universal Monarchy* (London, 1701), pp. 269, 275.

<sup>17</sup> *Ibid.*, pp. 272–3, 276.

<sup>18</sup> *Ibid.*, pp. 277, 289.

on the nature of the trade between Britain and various nations, and identified the Dutch as England's 'most dangerous Rivals in Trade', who required 'a watchful Eye over all their Proceedings' in trade.<sup>19</sup> But for the Dutch, unlike the French, the appropriate response was not in the order of 'an open Breach', but 'strong and steady Councils'. Davenant offered some prosaic examples of what these might be, such as lifting prohibitions and erecting public granaries. More interesting was his reason why this was the appropriate form of competition with the Dutch: 'the Common-Concerns of Religion, which should always link together *Great Britain* and the *United Provinces*'.<sup>20</sup>

Here we see the connection between politics and economics, or, the way trade was understood in connection with state strength and, therefore, with what we now call geopolitics. To understand this connection it is crucial to recognise the intimate and complex relationship between strength and wealth. Strength and power were used interchangeably to refer to the status of the state relative to other states in the context of war. More explicitly, these terms signify the capacity of the state to defend itself against other states, which depends on its stock of those things necessary for war and its ability to generate a continuous flow of them.

John Law's definition demonstrates how strength and wealth were treated together. He claimed that 'NATIONAL Power and Wealth consists in Numbers of People, and Magazines of home and Foreign Goods. These depend on Trade, and Trade depends on Money'.<sup>21</sup> So, too, did William Webster when he suggested that 'the *Riches* of a Nation are the *Strength* of it', and defined the strength of a nation as 'the *Number of its People*, and its Ability to maintain *Fleets* and *Armies*'.<sup>22</sup> In this vein, William Revolution assessed Spain as a formidable adversary because 'we have seen her sending out vast and surprising Armaments frequently, for fifteen Years together, which is an undeniable Proof that she is not less powerful in *Treasure*, the Nerves of War, than she is in *Ships* and *Troops*'.<sup>23</sup>

Bullion as the 'nerves of war' or similar is a common metaphor. Bullion derives this privileged status from the accepted role of gold and silver as the mediums of exchange, and this

because no other Metal is so lasting and durable, or so fit to receive the Royal Stamp, nor to be ascertained in Value, and divided into several Denominations, nor so convenient to pay Fleets and Armies; and because hath a general esteem in all parts of *Europe*, as fit for such uses, and to be the Standard for the carrying on of Commerce.<sup>24</sup>

This is why Simon Clement claimed that the trading nations have never before been as powerful as they are now – having never had as much bullion, they could never support such great armies and for so long. Accordingly, the relevant maxim is 'he that hath the longest Purse, will certainly have the longest Sword'.<sup>25</sup>

<sup>19</sup> Charles Davenant, *An Account of the Trade Between Great Britain, France, Holland, Spain, Portugal, Italy, Africa, Newfoundland &c. Part II* (London 1715), p. 72.

<sup>20</sup> *Ibid.*, pp. 67–9.

<sup>21</sup> John Law, *Money and Trade Consider'd; With a Proposal for Supplying the Nation with Money* (London 1720), p. 49.

<sup>22</sup> William Webster, *The Consequences of Trade, as to the Wealth and Strength of Any Nation* (London 1740), pp. 9–10.

<sup>23</sup> William Revolution, *The Real Crisis; Or, The Necessity of Giving Immediate Succour to the Emperor Against France and her Present Allies* (London 1735), p. 25.

<sup>24</sup> John Pollexfen, *England and East-India Inconsistent in their Manufactures* (London 1697), pp. 6–7.

<sup>25</sup> Simon Clement, *A Discourse of the General Notions of Money, Trade, and Exchanges* (London 1695), pp. 26, 32.

The final point to fix in this discursive constellation is the way money, men and things were conceived as circulating in a polity. Circulation denotes ‘the successive transition of money, or transferable commodities, from hand to hand, and their return, as it were in a circle, to the point from which they set out’.<sup>26</sup> The entry for ‘circulation’ in *A New and Complete Dictionary of Trade and Commerce* also money moving in a circuit:

money that goes out of the land-proprietor’s pocket, to be spread into the several rivulets of barter in *circulation*; out of which it is again gathered into the farmer’s purse, to make another quarter’s payment to the land proprietor.<sup>27</sup>

Political economists studied circulation as taking place between segments of the population in this fashion, yet several sources could be identified, thereby providing the rationale for differing policies intended for its care. Labour, trade and agriculture were all regularly nominated as the source of circulation; at the same time, two anxieties were regularly expressed about a nation’s circulation – that it might become stagnant, and that some of the circulating material might perish or be consumed. In the following description from Locke, stagnancy is an inevitable fact of circulation:

That Money in its Circulation driving the several Wheels of Trade, whilst it keeps in that Channel (for some of it will unavoidably be drained into standing Pools) is all shared between the Landholder, whose land affords the Materials; The Labourer, who works them; The Broker, (*ie*) Merchant and Shopkeeper, who distributes them to those that want them; And the Consumer, who spends them.<sup>28</sup>

William Paterson argued that one way a Bank of England could ‘facilitate the circulation of Money’ was by minimising the accumulation of such stagnant pools, including its own. That is, the Bank would ‘circulate their Foundation of *Twelve hundred Thousand Pounds*, without having more than *Two or Three Hundred Thousand Pounds* lying dead at one time’. This would also have the effect of lowering the rate of interest – a sure indicator and benefit of a plentiful circulation of money.<sup>29</sup>

Next to water, the other favoured metaphor for circulation is the body and its circulating blood that nourishes the various parts, such that it is the body politic that is given strength by the movement of trade and money. A typical example is found in Davenant, who bemoaned the effect of clipping (trimming metal) on the national coin:

Trade and Money are like Blood and Serum, which tho Different Juices, yet runn through the veines mingled together. And this present Corruption of our Coyn is like a dangerous Ulcer in the Body Politick which is never to be thoroughly Cured by applying Remedies to the Part, but by mending the whole Mass of Blood which is corrupted.<sup>30</sup>

The corruption of coined money is ‘like a dangerous Ulcer’ because, as Locke put it in the earlier passage, money drives ‘the wheels of trade’. Bullion is given this

<sup>26</sup> Stuart, *An Inquiry*, p. 374.

<sup>27</sup> Thomas Mortimer, *A New and Complete Dictionary of Trade and Commerce* vol. 1 (London 1766), s.v. ‘circulation’.

<sup>28</sup> John Locke, *Locke on Money*, vol. I, ed. P. Kelly (Oxford: Clarendon Press 1991 [1696]), p. 233.

<sup>29</sup> William Paterson, *Brief Account of the Intended Bank of England* (London 1694), pp. 1, 13–5.

<sup>30</sup> Charles Davenant, ‘A Memorial Concerning the Coyn of England’, in Abbet Payson (ed.), *Two Manuscripts* (Baltimore: John Hopkins Press 1942 [1695]), p. 8.

crucial role in facilitating and fostering a large circulation not only because of its role as a medium of exchange, but also because of its non-perishable character. Being non-perishable, bullion lasts forever and so permanently augments the circulation. Read in its own terms, the supposed ‘mercantilist’ confusion between wealth and money dissolves.<sup>31</sup>

## Old Empire

The Navigation Acts represent the most familiar way the colonies were managed for trade in the interests of imperial power. Yet the colonies themselves were read in ‘politico-commercial’ terms,<sup>32</sup> understood as elements in broader strategies, the balance of power in particular. To see this, consider Paterson’s *A Proposal to Plant a Colony in Darien*. In his address to the King, Paterson described his proposal as an attempt to open a ‘door of commerce’, and he claimed that ‘both worlds, the new as well as the old, do at this time implore your protection’.<sup>33</sup> The security issue to which Paterson referred, and which his new trade would be used to address, was the conjoining of the interests of Spain and France through the House of Bourbon, particularly in regard to Spain’s colonies in the Indies.

Paterson argued that if it was true that ‘the fruits of those new discoveries of the Spaniards have, within the last two ages, made far greater alteration in Christendom than the sword’, the impetus that the French would give to the cultivation of those fruits should be cause for alarm, since it would create the conditions for universal monarchy.<sup>34</sup> Paterson suggested that England could be thankful for the Spanish approach to the Indies, which he derided as ‘lazy, negligent, and untoward’. For if another nation had managed them, one ‘only as industrious as that of the English or Dutch’, he estimated that the quantity of commodities produced from them would have been treble. Such a competent state would be in ‘a condition not only to conquer, but even to buy what was valuable of the rest of Christendom’.<sup>35</sup>

This was exactly where the danger of such a union lay, for the ‘people, arts, manufactures, and shipping of France’ would see to the ‘best and most advantageous means of employing and improving’ the Indies.<sup>36</sup> As a result, the union has given France and Spain the chance of

gaining the ascendant in point of trade, manufactures, and navigation, and of time to regulate, fortify, and secure their interests in the Indies, so as quickly to be in a condition of putting what terms they please on the rest of mankind’.<sup>37</sup>

<sup>31</sup> Tribe, *Land, Labour*, p. 88.

<sup>32</sup> As Adam Anderson put it, who presented a survey of Britain’s colonial possessions in terms of what they traded and with who, the size of their populations, institutions of government and so on. *An Historical and Chronological Deduction of the Origin of Commerce, from the Earliest Accounts to the Present Time* Vol. II (London, 1764), p. 332.

<sup>33</sup> William Paterson, ‘A Proposal to Plant a Colony in Darien’, in S. Bannister (ed.), *The Writings of William Paterson* Vol. I (London: Effingham Wilson 1858 [1701]), p. 117.

<sup>34</sup> *Ibid.*, pp. 119–20.

<sup>35</sup> *Ibid.*, pp. 127–8.

<sup>36</sup> *Ibid.*, p. 120.

<sup>37</sup> *Ibid.*, p. 135.

Since this trade was the source of the threat for Paterson, his proposed remedy was for a countervailing trade.

The specifics involved establishing two or three ‘posts’ at certain sites in Darien (located on the isthmus of Panama), each assessed in terms of various factors, such as access to seas, freshwater, and climate.<sup>38</sup> These sites would be secured by a military and naval force, yet they were to permit a relatively free trade – lightly taxed and open to all. This freedom was even extended, as far as Paterson could recognise, to indigenous populations. From today’s perspective Paterson’s freedom still looks like colonial administration:

we order matters so as may best shake and overturn the present tyranny in the Indies, that the natives everywhere may get an opportunity and be induced to set up for themselves, and be for the future enabled to maintain the freedom of their governments and trade, under the glorious and easy protection of his Majesty.<sup>39</sup>

This two-tiered system of regulation was the central means for securing the Indies. On the one hand, the ‘advantageous principles of a general naturalisation, liberty of conscience, and a permission to trade’ would attract the trade of the Indies, since it compared so well with the high level of restraints and prohibitions employed by the Spanish. This would be a large trade and, even when lightly taxed, it would furnish the monies necessary for a navy to protect it. On the other hand, the ‘natives’ would be enabled to ‘break and shake off the unjust and tyrannical yoke of the Spaniards’.<sup>40</sup>

The Spanish and French could be brought to a lasting peace in this way, since both powers would be denied the increase of strength needed to achieve universal monarchy at the same time as Britain gained in strength.<sup>41</sup> Britain would gain not only from the augmentation of her revenues, people, and navy, but also from the allegiances it would gain from other European nations as they became dependent on her for access to the trade of the Indies. And this would be a strong allegiance, underwritten by ‘having their ships, merchants, and other effects, as it were, in hostage’.<sup>42</sup> Ultimately, then, Paterson’s colony is a means for securing an imperial polity against its rivals, by managing its own trade and the trade of friends and enemies.

The Union of 1707 created the United Kingdom of Great Britain by joining England and Scotland in a single crown and common legislature. It thereby entrenched unequal relations in the empire, from the ‘semi-colonial dependency of Ireland to the colonial semi-autonomy enjoyed by the American and Caribbean colonies’.<sup>43</sup> An enabling distinction for the English and British empires was between colonies for trade and colonies for empire, where only the latter required standing armies while the former could be managed by the navy and trade.<sup>44</sup>

<sup>38</sup> *Ibid.*, pp. 139–45.

<sup>39</sup> *Ibid.*, p. 148.

<sup>40</sup> *Ibid.*, pp. 151–4.

<sup>41</sup> *Ibid.*, p. 153.

<sup>42</sup> *Ibid.*, p. 155.

<sup>43</sup> David Armitage, *The Ideological Origins of the British Empire* (Cambridge: Cambridge University Press, 2000), p. 149.

<sup>44</sup> This was significant in the ideological context that Armitage has so skilfully mapped: the republican fear that empire corroded liberty, which was activated forcefully in seventeenth- and eighteenth-century Britain, could be assuaged when empire was conceived as maritime and commercial in nature. See *Ibid.*, chaps 5 and 6.

Darien is a failed Scottish example of a colony for trade, but what it nicely illustrates is the way trade and geopolitics were fused together by the immanence of strength in wealth, and by the balance of power as the program for managing International Relations. War and trade are different elements of the same diplomatic-military-commercial assemblage that the balance of power concept gave theoretical expression to. It is this assemblage that Smith deals a radical blow to when he separates the analysis of strength and wealth by redefining wealth.

### Smith and the de-politicisation of international trade

Smith's decisive break is seen early in *Wealth of Nations*, in the first paragraph of the Introduction, in fact, where wealth is defined in terms of a homogeneous category:

The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consists always, either in the immediate produce of that labour, or in what is purchased with that produce from other nations.<sup>45</sup>

The nation's annual labour constitutes its wealth, which are now necessaries and conveniences, not the elements of strength, such as men, money, and munitions.

The annual labour is then divided into two categories: productive and unproductive. Productive labour adds to the value of the materials it is bestowed upon while unproductive labour does not. For example, the labour of a manufacturer usually adds to the value of the materials that are worked on, while the labour of a servant does not.<sup>46</sup> Labour in Smith's sense is like a 'subtle or imponderable fluid' that can implant itself in objects for later extraction.<sup>47</sup> For this reason, the proportion between productive and unproductive labour is one of the two great factors that condition the size of the annual labour in every country.

The other and more significant factor that determines the wealth of nations is the 'skill, dexterity, and judgment' with which the labour of a nation is applied.<sup>48</sup> And the greater part of this level of skill, dexterity, and judgement is the result of the division of labour, which primarily involves the increasing sub-division of tasks in the production of a certain good. It is in this context that the famous pin-maker is encountered, who alone 'could scarce, perhaps, with his utmost industry, make one pin in a day'. When this task is appropriately divided into its individual operations (eighteen we are told), each person, on a pro rata basis, can 'be considered as making four thousand eight hundred pins in a day'.<sup>49</sup>

Two limits to the division of labour are also discussed in *WoN*. The first is the nature of agricultural labour, which offers narrow scope for the division of labour, such that it cannot normally be carried out to the same degree as in

<sup>45</sup> Adam Smith (ed.), *An Inquiry into the Nature and Causes of the Wealth of Nations* (eds), R. H. Campbell, A. S. Skinner, W. B. Todd (Oxford: Clarendon Press 1976 [1776]), Vol. I, p. 10.

<sup>46</sup> *Ibid.*, Vol. I, p. 330.

<sup>47</sup> Margaret Schabas, *The Natural Origins of Economics* (Chicago: University of Chicago Press 2005), pp. 89–90.

<sup>48</sup> *Ibid.*, Vol. I, p. 10.

<sup>49</sup> *Ibid.*, Vol. I, pp. 14–5.

manufacturing.<sup>50</sup> The second limit owes to its very origin: ‘it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power [. . .] by the extent of the market’.<sup>51</sup> The ‘extent of the market’ – and therefore the division of labour – can be extended by accessing foreign markets, as we will see.

When the two factors just considered are held constant – the ratio of productive to unproductive labour, and the division of labour – the wealth of nations is then determined by two more concerns: one, the uses of capital that sets labour to productive work (book II); and two, the policy of nations that influences these uses (book III). I focus on the uses of capital, since book III is an historical explanation of Europe’s retrograde development path, one that sets the analysis of book II to work.<sup>52</sup>

Smith distinguished between four general uses of capital.<sup>53</sup> One, in procuring raw material for either use or consumption; two, in the manufacture of this raw material; three, in transporting the raw or manufactured material; and finally, in the retail trade. Each of these uses is essential to the operation of the others, in the straightforward sense that they are practical steps in the production process, and because in each step the capital of the previous step is replaced. It is this second link that provides the basis for evaluating the contribution of a given quantity of capital to national wealth.

For example, the capital of the retailer

replaces, together with its profits, that of the merchant of whom he purchases goods, and thereby enables him to continue his business. The retailer himself is the only productive labourer whom it immediately employs. In his profits, consists the *whole* value which its employment adds to the annual produce of the land and labour of the society.<sup>54</sup>

More precisely, the retail trade only employs one productive labourer, the retailer, and that retailer’s profits are the only value added to national wealth. Given this mode of evaluation, Smith is justifiably almost as unenthusiastic about the contribution of capital employed in the next step – the wholesale trade. In fact, the wholesaler receives their greatest praise for replacing the capitals of the manufacturer and the farmer, where more significant contributions to national wealth are found.

Smith’s essential claim is that although all capital, by definition, maintains productive labour, not all uses of capital maintain the same quantity of it, and neither do all identical quantities of labour make the same contribution to the annual produce. It follows that there is an optimal and natural development path for nations to pursue that will maximise their wealth and its increase through capital accumulation. This path is to first exhaust the opportunities for directing capital to agriculture – the most productive sector, to use contemporary terms – and only then move to manufacturing and other uses.<sup>55</sup>

<sup>50</sup> Ibid., Vol. I, p. 16.

<sup>51</sup> Ibid., Vol. I, p. 31.

<sup>52</sup> See Keith Tribe, ‘Reading Trade in the *Wealth of Nations*’, *History of European Ideas*, 32 (2006), pp. 58–79, esp. pp. 65–71.

<sup>53</sup> Smith, *An Inquiry*, vol. I, pp. 360–2.

<sup>54</sup> Ibid., Vol. I, p. 362. Emphasis added.

<sup>55</sup> Ibid., Vol. I, p. 366.

This analysis is starkly opposed to those found previously in political economy. In the first place, particular trades are privileged not for their ability to supply conscriptable labour or sailors or war supplies, but for their contribution to the accumulation of productive labour, which has no straightforward connection with military strength. Further, sailors and manufacturers are now only species of labour connected with one employment of capital or another, which in turn can be more or less productive. In other words, it has become possible to evaluate negatively in economic terms those trades that add to the military might of the state.

On this point, note that, excepting some brief and scattered comments throughout the text (in particular in book V on the necessity of debt in times of war), in a 900 page work the strength of the state is given a sustained treatment of less than 10 pages. The reason is clear in the passage below:

The riches, and so far as power depends upon riches, the power of every country, must always be in proportion to the value of its annual produce, the fund from which all taxes must ultimately be paid.<sup>56</sup>

Strength has become a function of tax: strength and wealth are no longer immanent in one another; they no longer criss-cross and imply one another at diverse points, and calculating how to maximise their interrelations is no longer the stuff of analysis. Instead, strength is now mildly implied by taxation, such that in *WON* the analysis of wealth can only treat strength indirectly through this proxy. Once twins, strength and wealth now enjoy a mere family resemblance.

This conceptual shift is projected into the international with profound effects. To grasp how the international was intellectually reconfigured two additional details of Smith's schema for evaluating the different uses of capital need to be brought to mind. First, there is a geographical element to the analysis. Not only is the quantity of productive labour a certain capital sets to work important, but the location of that labour is also relevant. For example, capital employed in the agriculture of a nation must necessarily reside in that nation; the capital employed in wholesale trade, by contrast, can 'wander about from place to place, according as it can either buy cheap or sell dear'.<sup>57</sup>

Second, Smith's third use of capital, the wholesale trade, can be broken down into three different varieties. (1) The home trade, where the produce of one part of a nation is sold in another part of the same nation; (2) the foreign trade of consumption, where foreign goods are purchased for home consumption and, (3) the carrying trade, where one nation transports goods that are both produced and sold in foreign nations.<sup>58</sup>

Viewing this second typology in terms of the first allows the different varieties of the wholesale trade to be given divergent evaluations. Smith's example of home trade sees Scotch manufactures sent to London and returning with English manufactures for Edinburgh. In this case, the trade 'replaces, by every such operation, two British capitals'.<sup>59</sup> But in Smith's example of the foreign trade of consumption, a home manufacture is traded for a Portugese one, so that only one

<sup>56</sup> *Ibid.*, Vol. I, p. 372.

<sup>57</sup> *Ibid.*, Vol. I, p. 364.

<sup>58</sup> *Ibid.*, Vol. I, p. 368.

<sup>59</sup> *Idem.*

of the capitals replaced is British – the ‘wandering’ capital above. Finally, the carrying trade also replaces two capitals, but neither belong to the home nation.<sup>60</sup>

Smith also noted that the time it takes for each capital to be replaced varies with the employment – capital employed in the home trade is ‘sent out and returned’ more rapidly than in the foreign or carrying trades, and therefore makes a greater contribution to the annual produce and the wholesaler’s profits.<sup>61</sup> As a result, there is a clear hierarchy between these three sub-divisions, just as there is between the general divisions of agriculture, manufacturing, wholesale and retail trade. In this hierarchy, overseas trade (the foreign and carrying trades) is identified as the least valuable variety of the least valuable employment of capital.

This is not to say that overseas trade is an evil. Quite the contrary. This employment of capital is a natural outcome of the progress of opulence, and always performs two important services for a nation: (1) It permits the exchange of the surplus from the nation’s more productive employments and, in doing so, gives the surplus a value it would not otherwise have – the enjoyment of the goods it is traded for and, (2) overseas trade means ‘the narrowness of the home market does not hinder the division of labour [...] from being carried to the highest perfection’, which was seen earlier to be fundamental to increasing a nation’s annual produce.<sup>62</sup>

While overseas trade is given this positive role, it retains its lowly place in the hierarchy of capital employments. The wise nation will not, therefore, give

preference nor superior encouragement to the foreign trade of consumption above the home trade, nor to the carrying trade above either of the other two. It ought neither to force nor to allure into either of those two channels, a greater share of the capital of the country than what would naturally flow into them of its own accord.<sup>63</sup>

This analysis sets Smith against what he calls the ‘mercantile system’ of political œconomy: ‘force and allure’ are exactly what are rife in Britain thanks to the influence of this system.<sup>64</sup> It is a system built on two great errors: first, a mistaken association of money and wealth, with a favourable balance of trade the means to ensure both; and second, the idea that a large war chest is crucial for supporting armies overseas.<sup>65</sup> Two practices are used to pursue these goals. The first is restraints on imports, of which there were two kinds, and the second is encouragement to exports, of which there were four kinds. An examination of each of these six practices makes up most of book IV, but considering three will suffice here.

The first practice considered is to restrain imports of foreign goods that can be produced locally, by using either high duties or outright prohibitions. The result of these restraints is to engross a larger share of the local market for whatever goods are protected to domestic production, which then employs ‘a greater share of both the labour and stock of the society than would otherwise have gone to it’.<sup>66</sup>

<sup>60</sup> *Ibid.*, Vol. I, pp. 368–71.

<sup>61</sup> *Ibid.*, Vol. I, pp. 368–9.

<sup>62</sup> *Ibid.*, Vol. I, pp. 372, 447.

<sup>63</sup> *Ibid.*, Vol. I, p. 372.

<sup>64</sup> *Ibid.*, Vol. I, p. 428.

<sup>65</sup> *Ibid.*, Vol. I, pp. 429–51. Smith’s description therefore does violence to the mode of analysis he disrupts, and his construction of mercantilism is one we still labour under.

<sup>66</sup> *Ibid.*, Vol. I, p. 453.

This outcome is clearly undesirable in view of the analysis above, since capital and labour have not been directed in the ideal manner – by liberty. Regulation of trade cannot increase its total level, only ‘divert a part of it into a direction into which it might not otherwise have gone’.<sup>67</sup> The consequences of this diversion will be, at best, to leave the annual produce unimproved, as when capital is transferred between equally valuable uses, but more likely it will have been diminished, as when capital is diverted from a more to a less valuable use.

It is only ‘folly and presumption’ that allows a statesman to think that he either needs to or could successfully direct the capital of individuals. The far more prudent approach for a nation is simply to mimic the master of a family, who does not ‘make at home what it will cost him more to make than to buy’.<sup>68</sup> This maxim is translated into the national context as follows:

If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.<sup>69</sup>

There are four exceptions to this general predilection for free trade, and they are worth considering for the insight they offer into how the mode of argument regarding overseas trade has shifted in *WoN*.

The first exception is for giving encouragements to those domestic industries which are ‘necessary for the defence of the country’. The Navigation Acts, which limited the trading access that would be given to non-British ships, are identified as a clear example of such a valid exception, since the defence of Great Britain ‘depends very much upon the number of its sailors and shipping’.<sup>70</sup> The second exception is to tax foreign goods when there is a tax on the equivalent domestic good, so as to ‘leave the competition between foreign and domestick industry, after the tax, as nearly as possible upon the same footing as before it’.<sup>71</sup>

Unlike these first two exceptions, identifying when the final two apply requires more careful judgement. As will be seen, this is not an immaterial point. One exception relates to laying retaliatory restraints on the importation of a nation’s goods when that nation has first taken similar actions. The purpose of such retaliation, however, must be to ultimately achieve a mutual repeal of restraints, since the ‘recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time’.<sup>72</sup> This takes œconomy into a murky business, since

To judge whether such retaliations are likely to produce such an effect, does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty

<sup>67</sup> *Idem*.

<sup>68</sup> *Ibid.*, Vol. I, p. 456.

<sup>69</sup> *Ibid.*, Vol. I, p. 457.

<sup>70</sup> *Ibid.*, Vol. I, p. 463. Support of the Navigation Acts in the name of national defence is, on the surface, a continuation of old arguments. What has changed is that now the analysis must be *interrupted*, through the device of exceptions, to bring the question of national defence into the argument. Arguments in the analysis of wealth before Smith already geared towards defence, since strength and wealth are interintrinsic; in *WoN* their analysis is separate and strength has become an add-on consideration, since the categories of capital and annual produce do not directly speak to it.

<sup>71</sup> *Ibid.*, Vol. I, p. 465.

<sup>72</sup> *Ibid.*, Vol. I, p. 468.

animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs.<sup>73</sup>

The final exception relates to the return to free trade from a situation of protection and, in particular, where domestic manufactures have, as a result of protection, been 'so far extended as to employ a great multitude of hands. Humanity may in this case require that the freedom of trade should be restored only by slow gradations'.<sup>74</sup> And humanity here would have concern for two groups: first, for those who would lose their employment, and so also their means of subsistence; and second, for those manufacturers who could only transform much of their fixed capital into another employment at a loss.<sup>75</sup>

Smith then examined the balance of trade doctrine using his own principles, where the claim that trade between two nations must necessarily favour one at the expense of the other is denied. Instead, trade that is 'naturally and regularly carried on between any two places, is always advantageous, though not always equally so, to both'.<sup>76</sup> Here, advantageous refers to the contribution a trade makes to a nation's annual reproduction, which occurs by definition, since capitals that set labour to work are replaced through trade. Though as was seen, not all capitals are equally productive, such that if England were to trade wheat for East-India goods carried by France, more English than French capital is replaced because of the nature of the different uses.

The old rivalry between France and England is recast in this new logic: because of the proximity of these two nations, the time taken for the replacement of capitals in overseas trade is greatly reduced, so that a trade with France would be 'three times more advantageous, than the boasted trade with our North American colonies'.<sup>77</sup> While a free trade is then the 'real interest' of these two nations it is unlikely to be realised, because as neighbours 'they are necessarily enemies'.<sup>78</sup> In these passages Smith acknowledged the validity of the old analysis of external rivalry, but divorced it from his analysis of wealth.

Divested of geopolitics in this way, the analysis of wealth can now analyse and configure the external anew. Instead of the balance of trade, the new criterion for judging the decay or growth of a nation is the balance of produce and consumption. That is, when the annual produce is greater than the annual consumption the 'society in this case lives within its revenue, and what is annually saved out of its revenue, is naturally added to its capital, and employed so as to increase still further the annual produce'.<sup>79</sup> Unlike the balance of trade, which refers only to the situation of an individual nation, Smith's balance

may take place in the whole globe of the earth, of which the wealth, population, and improvement may be either gradually increasing or gradually decaying.<sup>80</sup>

The concept of the annual produce permits the accumulation of wealth to be projected onto an international context, which provides a hitherto unavailable

<sup>73</sup> *Idem.*

<sup>74</sup> *Ibid.*, Vol. I, p. 469.

<sup>75</sup> *Ibid.*, Vol. I, pp. 469–72.

<sup>76</sup> *Ibid.*, Vol. I, p. 489.

<sup>77</sup> *Ibid.*, Vol. I, p. 495.

<sup>78</sup> *Ibid.*, Vol. I, p. 496.

<sup>79</sup> *Ibid.*, Vol. I, p. 497.

<sup>80</sup> *Idem.*

perspective for assessing trade practices – from the point of view of the *world's wealth*. The possibility for making assessments from this perspective registers the constitution of an international economy as a theoretical-political object.

Now consider how colonies feature in this new international setting, most notably as places that advance in wealth rapidly:

The colony of a civilized nation which takes possession, either of a waste country, or of one so thinly inhabited, that the natives easily give place to the new settlers, advances more rapidly to wealth and greatness than any other human society.<sup>81</sup>

The key reason for this relates to the optimal development path identified earlier – colonies can direct their capital to agriculture, which makes the greatest contribution to raising the annual produce, and they are typically abundant in ‘new’ lands. Furthermore, colonies benefit from modern techniques of cultivation, and can avoid institutional obstacles such as the concentration of land ownership and primogeniture, telling in the case of Europe.<sup>82</sup>

In addition to this empirical status as rapid-growers, in *WoN* colonies represent an extension of the market.<sup>83</sup> This function had not been fully realised, however, because of the effects of the mercantile system. There are a slew of practices which are criticised in this context, including granting exclusive trading rights with a colony to a private company (the most disastrous of all measures), limiting the colonial trade to ports in the mother country, and imposing restrictions on which nations may carry colonial produce.<sup>84</sup>

Predictably, at the general level the harm of these policies arises from the capital and labour of a nation being directed by force, not liberty. For Great Britain, establishing a monopoly on the trade of her colonies saw the withdrawal of those foreign capitals formerly employed in it. As a result, British capital had to supply the entire trade, and so received superior profits, drawing capital from other branches where the profits were lower. Typically, Smith claimed, these new capitals were diverted from a foreign trade of consumption with a *neighbouring* nation. Given the effect of distance on the frequency of returns, and the importance of this frequency in determining how much domestic labour can be supported, this is a clear loss, as is shifting capital from the foreign trade of consumption to the carrying trade.<sup>85</sup>

Smith also noted two further disadvantages in addition to the misdirection of capital. First, the creation of a monopoly has taken Britain’s capital from many small channels and concentrated it into one great channel. Consequently, the body politic is like ‘one of those unwholesome bodies in which some of the vital parts are overgrown’, and is susceptible to disorders caused by the loss of these enlarged channels of circulation.<sup>86</sup> (The purely descriptive role of the circulation metaphor can be noted here.) Second, the high rate of profits created by monopoly ‘seems

<sup>81</sup> *Ibid.*, Vol. II, p. 564.

<sup>82</sup> *Ibid.*, Vol. II, pp. 564–5, 572.

<sup>83</sup> *Ibid.*, Vol. II, p. 591.

<sup>84</sup> *Ibid.*, Vol. II, pp. 575–77.

<sup>85</sup> *Ibid.*, Vol. II, pp. 595–7, 600–1, 604.

<sup>86</sup> *Ibid.*, Vol. II, pp. 604–5. Smith is referring here to ‘the contest with America’. Fortunately for Britain, the ‘disorder’ caused by American independence and the resulting loss of that trade was mitigated by five unforeseen and compensating events, see pp. 606–7.

every where to destroy that parsimony which in other circumstances is natural to the character of the merchant'.<sup>87</sup> And the merchant's decadence can cause the capital and productive labour of a nation to dwindle away.<sup>88</sup>

Notwithstanding these negative consequences arising from the mismanagement of Britain's colonies, it is important to note that the net result (the benefits of the extension of the market minus the costs of the mis-direction of capital) is a 'greatly advantageous' colonial trade. At least for Great Britain; the outcome of this calculation will vary from nation to nation. For example, in Spain and Portugal a more rigorous – and therefore more harmful – system of mercantilist practices, coupled with the still greater negative effects of an irregular system of justice, sees their colony trades make near negative contributions to the annual produce of both nations.<sup>89</sup>

In view of the arguments so far, it is clear why Smith advocated the abandonment of Britain's colonies. Smith acknowledged, however, that pride and the interest of the governing class made such actions impossible. In principle, the benefits to Britain of abandoning the colonial relation with her dependents would be 'favour in war as well as in trade'. Or, a natural military alliance arising out of 'filial respect', and a free trade.<sup>90</sup> As a practicable proposal, Smith advocated for a union with the colonies, based on the claim that an

assembly which deliberates and decides concerning the affairs of every part of the empire, in order to be properly informed, ought certainly to have representatives from every part of it.<sup>91</sup>

More radically still, and in regards to taxation, Smith suggested that because of America's rapid progress to opulence their contribution to the Empire's taxes might in 'little more than a century' eclipse Britain's, in which case the 'seat of the empire would then naturally remove itself' to America.<sup>92</sup>

In sum, the external in *WoN* is primarily known through the category of wealth. Smith even suggested that the discovery of America, and of a passage to the East Indies by the Cape of Good Hope, together constituted 'the two greatest and most important events recorded in the history of mankind'. While he noted that the full consequences were at that stage unknown, it was nonetheless clear that, by uniting distant parts of the world, these discoveries had enabled nations to 'relieve one another's wants, to increase one another's enjoyments, and to encourage one another's industry'.<sup>93</sup>

Yet the enormous injustices suffered by indigenous populations had to be placed against these commercial benefits. More hopefully, though, one could expect the communication of knowledge and various arts, which is normally achieved by commerce, to ultimately establish an equality of military force between the new world and the old. An equality of this kind 'can alone overawe the injustice of

<sup>87</sup> *Ibid.*, Vol. II, p. 612.

<sup>88</sup> Here is one of the several particular conditions required for Smith's 'invisible hand' to work to national advantage, namely, the right setting of the merchant's variable character.

<sup>89</sup> *Ibid.*, Vol. II, pp. 609–10.

<sup>90</sup> *Ibid.*, Vol. II, pp. 616–7.

<sup>91</sup> *Ibid.*, Vol. II, p. 624.

<sup>92</sup> *Ibid.*, Vol. II, pp. 625–6.

<sup>93</sup> *Ibid.*, Vol. II, p. 626.

independent nations into some sort of respect for the rights of one another'.<sup>94</sup> It would seem, then, that with trade comes an international destiny of opulent, powerful, and therefore mutually-regulating nations.

This new object and its *telos* engendered a redistribution of what counts as a problem in international affairs. In *WoN* colonies are significant because they increase the extent of the market, for all nations, regardless of who trades with them directly; and because their discovery may usher in a desirable *telos* for the world. Yet in their current form the colonies are a problem, primarily because they foster the misallocation of capital, at times in a way that not only retards the growth of the world's annual produce, but that even diminishes it. For political reasons the colonies cannot be abandoned easily, hence Smith's middle ground proposal for a union, with the attendant difficulties of such a remedy noted. Colonies, then, are an inherited problem with no immediate solution.

Paterson's *A Proposal to Plant a Colony in Darien*, considered earlier, is a call to establish a new colony in part to manage a balance of power threat. Here, colonies are known in terms of their strategic importance, as determined by a set of complicated judgements regarding external rivalries. Although Smith is hardly any better in balking at colonisation, in *WoN* a colony is primarily known in terms of its rate of progress to opulence, which in turn presupposes a knowledge of the extent of its mismanagement and certain institutions. In other words, in *WoN* a new typology of colonies overlays the external.<sup>95</sup>

A new typology of Western European nations emerges in parallel. This typology categorises a nation on the basis of whether its annual produce is increasing or decreasing, at what rate, how far the management of a nation's trade derogates from a system of liberty, and certain institutional features, for example, how strictly the rule of law is enforced.

The quantity of men and money do not feature in *WoN* as key variables through which a state can be known. This shift correlates directly with the analytical separation of strength and wealth, a move intended to make a whole machinery of tactics for managing trade in view of external rivalries look obsolete. The new arguments assess the employment of capital. Overseas trade is the least important employment, to which capital is ideally directed by self-love alone, but in reality by a mix of mercantile policies too. Foreign trade is no longer the means to make nations strong or weak, and no longer a hands-on task for the statesman.

### Mill, Torrens, and the economic attack on war

The crucial shift to treating labour as *the* source of wealth, and as a generalised homogeneous category, was reproduced after Smith by both James Mill and Robert Torrens. As a consequence, both could also repeat – with minor variations – Smith's analysis of international trade as a benign and natural process. This makes it possible to forcefully claim that this process is damaged by the war-like nature of

<sup>94</sup> *Ibid.*, Vol. II, pp. 626–7.

<sup>95</sup> The more well known typology is Smith's stages of society, and it more directly underwrites imperialism, as when, in Chapter I of book V, Smith argued that trade 'with barbarous and uncivilized nations' will often need to be facilitated by fortified outposts. *Ibid.*, Vol. II, p. 731.

international politics, such that international historical processes begin to be set against the narrow self-interest of individual states, a refrain we are familiar with today.

The central architecture of Mill's argument is adapted from Smith. A nation 'is poor or is rich according as the quantity of property which she annually creates, in proportion to the number of her people, is great or is small'.<sup>96</sup> This annual property is the product of the different species of labour in a nation, and agricultural labour is privileged as the most productive source of wealth: 'of all species of labour, that which is bestowed upon the soil, is in general rewarded by the most abundant product'.<sup>97</sup> The division of labour is said to be crucial to the accumulation of wealth even as a caveat is registered against agriculture in favour of manufacturing:

the business of agriculture being much less susceptible of this improvement, the whole or the great part of the opulence, which is diffused in society by the division of labour, is to be ascribed to manufactures.<sup>98</sup>

Thus, the same tension that appeared in Smith – between the position of agriculture as the most rewarding species of labour yet the least susceptible to improvement by the division of labour – also appears in Mill. This tension is ultimately resolved in favour of agriculture through the analysis of the employments of capital, just as it is in *WoN*.

Torrens similarly contracted a number of debts to Smith. He defined wealth as the stock of those articles that fulfil wants and desires, and its source is labour, which 'creates wealth in three ways; by appropriating; by preparing; and by augmenting the productions of the land and water'.<sup>99</sup> Because the land and water are not subject to increase, only labour can be increased, through the division of labour, of which there are two kinds. The first kind is termed mechanical, and it refers to the division of labour between discrete tasks; the second is territorial, and refers to the division of labour between locations.<sup>100</sup>

No qualifications are made regarding the applicability of these two divisions to different employments of capital. The extent of the market, though, sets a limit to how far the division of labour can progress, and the extent of the market is a function of the quantity of stock in a nation. As a consequence, in 'countries where stock is deficient, each person is obliged to divide his attention among a variety of occupations', but where stock is abundant, 'a more perfect division of labour obtains'.<sup>101</sup> Smith's argument about the extent of the market is therefore substantially reproduced and, as will be seen, this opens the door to similar claims about the nature of overseas trade.

In addition, Torrens can now mobilise a version of Smith's mode of evaluating different uses of capital based on their contribution to accumulation. For example, the home trade is designated as the most important trade because of its size, and

<sup>96</sup> James Mill, *Commerce Defended* (New York: A. M. Kelley 1965 [1808]), p. 105.

<sup>97</sup> *Ibid.*, p. 13.

<sup>98</sup> *Ibid.*, p. 29.

<sup>99</sup> Robert Torrens, *The Economists Refuted and Other Economic Writings*, (ed.) P. D. Groenewegen (Fairfield, NJ: A. M. Kelley), p. 2.

<sup>100</sup> *Ibid.*, pp. 7–9.

<sup>101</sup> *Ibid.*, p. 13.

therefore the magnitude of the division of labour it engenders, and because all those divisions occur in Britain. In the overseas trade, by contrast, a ‘part of the benefit goes to enrich foreigners’.<sup>102</sup>

A similar adaptation of Smith is used by Mill. Capital is likewise acknowledged as what sets labour to work and, as a result, overseas trade is relatively unimportant in engaging only a fraction of the capital and labour that domestic agriculture and manufacturing do. Mill also acknowledged that ‘agricultural industry is not at the same height in England as commercial and manufacturing industry’. His explanation amounts to a one page summary of Smith’s nuanced historical account, in which he cites the distribution of land, taxes, and prestige as the relevant factors.<sup>103</sup>

For both Mill and Torrens, then, the assessment of different employments of capital is central to the analysis of wealth accumulation, and both have mobilised variations of Smith’s arguments. As a consequence, the separation between strength and wealth became entrenched in the newly forming science and, at the same time, international trade is affirmed as a benign natural process.

Now to trade between nations. Smith’s forms of argument produce an international economy, understood as a terrain of mutually advantageous exchange that is apprehended by an analysis independent of geopolitical concerns. The existence of this object permits the evaluation of national trade practices from its own perspective – the perspective of an international economy that is affected by the practices of states.

Torrens claimed that by creating a surplus of those articles it is well suited to produce and trading them for surplus articles from another nation Britain can ‘obtain such articles in greater abundance than if our labour and capital were employed to supply them directly’.<sup>104</sup> Consequently, the relevant maxim is: ‘prohibit foreign trade, and the foreign divisions of labour [...] must be discontinued; restore it, and these divisions of labour will be re-established’.<sup>105</sup> In view of this maxim, the colonial trade is evaluated as beneficial, since distant colonies will ordinarily be suited to producing different articles than Britain is, and so permit a mutually beneficial division of labour.<sup>106</sup> However, the misguided policy requiring that all colonial produce first be shipped to Britain ‘withdraws capital and labour from other employments’ and, as a result, the ‘wealth of the nation will be diminished’.<sup>107</sup>

Torrens then considered a possible objection to this argument – that the restriction on the colonial trade is justifiable because it supports Britain’s maritime superiority. This argument is rejected on the grounds that the restriction increases the price of the colonial produce, thereby reducing demand, such that the level of shipping would be the same with or without the restriction. What is significant is Torrens’s qualifying claim – that if the restrictions were beneficial to shipping, then

<sup>102</sup> Ibid., p. 22.

<sup>103</sup> Mill, *Commerce Defended*, pp. 108–9, 115–6.

<sup>104</sup> Torrens, *Economists Refuted*, p. 33.

<sup>105</sup> Ibid., p. 32.

<sup>106</sup> Torrens added that this is not a benefit that can be expected unless the colonies are settled by Europeans, since the indigenous peoples do not have the skill or industry to create a beneficial division of labour, Ibid., p. 26.

<sup>107</sup> Ibid., pp. 25–7.

‘the friend of British glory will wish to see them continued, however injurious they may be to British wealth’.<sup>108</sup> Thus, here, as in *WoN*, the analysis of wealth must be suspended to enter the analysis of strength.

Turning to Mill, and as for Torrens, the division of labour is the primary means by which overseas trade is configured as mutually advantageous. We are told that ‘the commerce of one country with another, is in fact merely an extension of that division of labour’. It follows that the human race is a ‘great empire, of which the different kingdoms and tribes of men may be regarded as the provinces’.<sup>109</sup> Mill suggested that the gains to nations from trade should be understood as the value of the articles that are additional to what could be produced domestically, less transport costs.<sup>110</sup>

Mill was not silent on the vagaries of the international economy. In particular, he noted that there is no guarantee that the relative values of tradable goods in other nations will be so arranged as to give rise to gains from trade. For example, should those articles in the surrounding countries gradually become dearer, while the articles from England become cheaper, it would then become less and less the interest of England to manufacture for these countries; and if the articles which she wants should rise in them to the price at which she could provide them from her own land and labour, it would then be her interest to provide them at home, and manufacture for these countries no longer.<sup>111</sup>

The point to note is that the question of whether or not overseas trade is advantageous is decided purely with reference to economic conditions, ones that do not come within the remit of the statesman.

Mill explicitly rejected circulation as a category of analysis. He insisted that the only important distinction to be made between different commodities is ‘between the commodities which are destined to serve for immediate and unproductive consumption’ and those that will ‘operate as the instruments or means of production’.<sup>112</sup> Similarly, the idea of wealth as a stock of certain goods is also rejected; instead, wealth is the ‘powers of annual production’.<sup>113</sup> And this is the same conception found in *WoN* – a conception that splits the analysis of strength from the analysis of wealth. This split underwrites Mill’s arguments about the merits of peace or war with Napoleon.

Given his distinction between goods destined for consumption and those for reproduction, Mill claimed that the advance of prosperity is a function of the proportion between these two uses of the annual produce. Thus the tragedy of war is that

it is the maintenance of great fleets and armies, which is always the most formidable weight in the scale of consumption, and which has the most fatal tendency to turn the balance against reproduction and prosperity. It is by the lamentable continuance of wars, almost always nourished by puerile prejudices and blind passions, that the affairs of prosperous nations are first brought to the stationary condition.<sup>114</sup>

<sup>108</sup> *Ibid.*, p. 28.

<sup>109</sup> Mill, *Commerce Defended*, p. 38.

<sup>110</sup> *Ibid.*, p. 36.

<sup>111</sup> *Ibid.*, p. 116.

<sup>112</sup> *Ibid.*, p. 47.

<sup>113</sup> *Ibid.*, pp. 51–2.

<sup>114</sup> *Ibid.*, p. 74.

Balance of power calculations are derided in the second sentence. Formerly, these calculations conditioned the analysis of trade between nations, but this connection is severed by the new categories. Indeed, now that the analysis of strength and wealth are separate, they can do battle, casting each other in alien terms, as in Mill's call for the estimated gains of another year of war to be weighed against its costs:

if they shew us any certain object of great importance which by continuing the war for one year longer we may be sure of obtaining, we might listen to them [those who favour the war], and weighing carefully the object to be obtained with one year's expence of the war, determine whether it is worth that expence.<sup>115</sup>

Wars have finally become expensive, thanks to an argumentative apparatus that portrays war as wasteful and contrary to the economic interests of a nation and, indeed, the world. Trade is no longer an element in a broader strategy to manage international relations: now it is the basis of a rival strategy that produces a different understanding of the international sphere. This rival strategy has consistently been activated against its political-military rival since its emergence at the turn of the nineteenth century.

## Conclusion

The possibility for evaluating the actions of states in terms of their effects on an international economic process registers the constitution of an international economy. From this perspective, it does not much matter if this international process is conceived as a market, an economy, or a world system. Smith's particular version of this process has two temporalities. One is static, in the sense that at a given point in time the capital of the world will be allocated to its most profitable uses. This allocation is underwritten by the self-love of agents, at least when this agency is not corrupted by circumstance or policy, and it then determines the activities that labour will be directed towards. The other is dynamic, embedded in historical time. Capital moves through the hierarchy of employments, starting with agriculture and ending with overseas trade, and in the process it takes nations through the different stages of opulence. It is to this logic that the world's *telos* is attached, in the form of a collection of independent and opulent nations that regulate one another's conduct.

Smith does not deny the capacity of states to inflect this economic logic – much of *WoN* is an attempt to show that this has happened historically and continues to happen. His concern is to show the undesirability of certain state actions from the perspective of this logic because they inhibit its operation. The clearest example is found in the quote given earlier, where the balance of produce and consumption is projected into an international context. This balance

may take place in the whole globe of the earth, of which the wealth, population, and improvement may be either gradually increasing or gradually decaying.<sup>116</sup>

<sup>115</sup> *Ibid.*, p. 122.

<sup>116</sup> Smith, *Wealth*, Vol. I, p. 497.

This balance is the sum of the contributions from individual nations – each nation’s annual produce. Mercantile trade practices retard the positive growth of this balance, while a system of liberty is most likely to foster it.

It should be stressed that this international economy is not an object suddenly seized on by a consciousness freed from the tropes of power politics and imprecise concepts. It is an object constituted by certain forms of argument – forms that reorganise the nature of the external world, and in doing so create the perspective of an international logic from which to judge the actions of states. The concept of an international economy is an *effect* of certain forms of arguments.

With this point in mind, note how much of Smith’s analysis is still current – it posits a world-forming international economic process that has its natural other in state actions that are myopic and feeble by definition, since the national level subtends the international. To think the one is to necessarily think the other. Similarly, our markets and states pair relies on a troubled split between economic wealth and political power. Its unsatisfactory nature is, of course, a central theme for political economy, not to mention critical theory.<sup>117</sup> But we can note that this is not a problem for the mode of analysis that Smith’s *WoN* did so much to undermine. Indeed, the debate over relative and absolute gains could be read as symptomatic of the disappearance of the old techniques of assessing the state of the international.<sup>118</sup>

The idea that the international economy has a self-regulating nature, or internal mechanism, logically forces the requirement that if politics is to challenge or countervail this mechanism then it must be raised to the same level – to the international level. The Bretton Woods system and its devolved simulacrum in the IMF thus appear as institutional correlates of an international governmental theme springing from the eighteenth-century imagination. In this regard, as Istvan Hont gently put it, our current debates lack ‘conceptual novelty’.<sup>119</sup>

The eighteenth century gave rise to multiple governmental programs endeavouring to govern through processes that were posited as being natural and self-sustaining, such as culture, society, the economy, and the civilisational progress of peoples.<sup>120</sup> The seductive promise is that the very process can be co-opted as a governmental agent and, in the case of the international economy, that if states can be made sufficiently respectful of the governing process then they will self-regulate their behaviour in accordance with it. This is both a fantastic image and a tactic in intellectual battle.

<sup>117</sup> For a classic statement see Herbert Marcuse, *One Dimensional Man* (London: Sphere 1968).

<sup>118</sup> Consider Duncan Snidal’s comment: ‘The relative gains hypothesis applies to economy as well as security. In part, this is because economic gains can ultimately be transformed into security gains, so that in the long run, security and economics are inseparable.’ Snidal’s ‘long run’ is elusive because security and economy are now apprehended by separate discourses. Duncan Snidal, ‘Relative Gains and the Pattern of International Cooperation’, in David A. Baldwin (ed.), *Neorealism and Neoliberalism: The Contemporary Debate* (New York: Columbia University Press 1993), p. 173. Kenneth Waltz suggested that ‘When faced with the possibility of cooperating for mutual gain, states that feel insecure must ask how the gain will be divided’. An analogous premise also guided the old analysis, a premise that is challenged by the image of a self-regulating and mutually-enriching international economy. Kenneth N. Waltz, *Theory of International Politics* (New York: Random House, 1979), p. 105.

<sup>119</sup> Istvan Hont, *Jealousy of Trade: International Competition and the Nation-State in Historical Perspective* (Cambridge, Mass: Harvard University Press 2005), p. 155.

<sup>120</sup> See Christine Helliwell and Barry Hindess, ‘“Culture”, “Society” and the Figure of Man’, *History of the Human Sciences*, 12 (1999), pp. 1–20.