

The Tradition of Free Trade

Lars Magnusson

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The Tradition of Free Trade

In the nineteenth century followers of Adam Smith and others gradually invented a 'tradition' of free trade. This was a towering achievement and has proved to be influential to this day. This book examines this construction of the free trade tradition.

Showing how historical construction is a vital component in the writing of doctrinal history, Lars Magnusson argues that it is important for historians of economic thought to distance themselves from the practice of writing history backwards. Contrasting what occurred in Britain in the nineteenth century with what occurred in the United States and in Sweden, this book shows that perhaps the classical tradition meant something else entirely in different national contexts.

This original and thought-provoking book is written such that it will be of great interest not only to historians specializing in economic thought, but also historians with other areas of interest.

Lars Magnusson is Professor of Economic History at Uppsala University, Sweden.

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

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Lars Magnusson
Uppsala May 5, 2004.

1 The invention of a tradition of free trade

An introduction

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

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

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

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

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

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

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

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

A historical reading of the history of economics

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

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

My aspiration is not of course to enter into the thought-process of long-dead thinkers; it is simply to use the ordinary techniques of historical enquiry to grasp their concepts, to follow their distinctions, to appreciate their beliefs and, so far as possible, to see things their way.⁵

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

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

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

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