

## Adam Smith on Tariff and Trade

- (1) The case in which it may sometimes be a matter of deliberation how far it is proper to continue the free importation of certain foreign goods is, when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into their country. Revenge in this case naturally dictates retaliation, and that we should impose the like duties and prohibitions upon the importation of some or all of their manufactures into ours. Nations, accordingly, seldom fail to retaliate in this manner. The French have been particularly forward to favour their own manufactures by restraining the importation of such foreign goods as could come into competition with them. In this consisted a great part of the policy of Mr. Colbert, who, notwithstanding his great abilities, seems in this case to have been imposed upon by the sophistry of merchants and manufacturers, who are always demanding a monopoly against their countrymen. It is at present the opinion of the most intelligent men in France that his operations of this kind have not been beneficial to his country. That minister, by the tariff of 1667, imposed very high duties upon a great number of foreign manufactures. Upon his refusing to moderate them in favour of the Dutch, they in 1671 prohibited the importation of the wines, brandies, and manufactures of France. The war of 1672 seems to have been in part occasioned by this commercial dispute. The peace of Nimeguen put an end to it in 1678 by moderating some of those duties in favour of the Dutch, who in consequence took off their prohibition. It was about the same time that the French and English began mutually to oppress each other's industry by the like duties and prohibitions, of which the French, however, seem to have set the first example. The spirit of hostility which has subsisted between the two nations ever since has hitherto hindered them from being moderated on either side. In 1697 the English prohibited the importation of bonelace, the manufacture of Flanders. The government of that country, at that time under the dominion of Spain, prohibited in return the importation of English woollens. In 1700, the prohibition of importing bonelace into England was taken off upon condition that the importation of English woollens into Flanders should be put on the same footing as before. (*Wealth of Nations*, Modern Library, 1994, pp. 497-498)
- (2) There may be good policy in retaliations of this kind, when there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of

goods. 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 animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs. When there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people to do another injury ourselves, not only to those classes, but to almost all the other classes of them. When our neighbours prohibit some manufacture of ours, we generally prohibit, not only the same, for that alone would seldom affect them considerably, but some other manufacture of theirs. This may no doubt give encouragement to some particular class of workmen among ourselves, and by excluding some of their rivals, may enable them to raise their price in the home-market. Those workmen, however, who suffered by our neighbours prohibition will not be benefited by ours. On the contrary, they and almost all the other classes of our citizens will thereby be obliged to pay dearer than before for certain goods. Every such law, therefore, imposes a real tax upon the whole country, not in favour of that particular class of workmen who were injured by our neighbours prohibition, but of some other class. (p. 498)

- (3) Nothing, however, can be more absurd than this whole doctrine of the balance of trade, upon which, not only these restraints, but almost all the other regulations of commerce are founded. When two places trade with one another, this doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium. Both suppositions are false. A trade which is forced by means of bounties and monopolies may be and commonly is disadvantageous to the country in whose favour it is meant to be established, as I shall endeavour to show hereafter. But that trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous, though not always equally so, to both. (p. 521)
- (4) The wealth of a neighbouring nation, however, though dangerous in war and politics, is certainly advantageous in trade. In a state of hostility it may enable our enemies to maintain fleets and armies superior to our own; but in a state of peace and commerce it must likewise enable them to exchange with us to a greater value, and to afford a better market, either for the immediate produce of our own industry, or for whatever is purchased with that produce. As a rich man is likely to be a

better customer to the industrious people in his neighbourhood than a poor, so is likewise a rich nation. A rich man, indeed, who is himself a manufacturer, is a very dangerous neighbour to all those who deal in the same way. All the rest of the neighbourhood, however, by far the greatest number, profit by the good market which his expence affords them. They even profit by his underselling the poorer workmen who deal in the same way with him. The manufacturers of a rich nation, in the same manner, may no doubt be very dangerous rivals to those of their neighbours. This very competition, however, is advantageous to the great body of the people, who profit greatly besides by the good market which the great expence of such a nation affords them in every other way. Private people who want to make a fortune never think of retiring to the remote and poor provinces of the country, but resort either to the capital, or to some of the great commercial towns. They know that where little wealth circulates there is little to be got, but that where a great deal is in motion, some share of it may fall to them. The same maxims which would in this manner direct the common sense of one, or ten, or twenty individuals, should regulate the judgment of one, or ten, or twenty millions, and should make a whole nation regard the riches of its neighbours as a probable cause and occasion for itself to acquire riches. A nation that would enrich itself by foreign trade is certainly most likely to do so when its neighbours are all rich, industrious, and commercial nations. A great nation surrounded on all sides by wandering savages and poor barbarians might, no doubt, acquire riches by the cultivation of its own lands, and by its own interior commerce, but not by foreign trade. It seems to have been in this manner that the ancient Egyptians and the modern Chinese acquired their great wealth. The ancient Egyptians, it is said, neglected foreign commerce, and the modern Chinese, it is known, hold it in the utmost contempt, and scarce deign to afford it the decent protection of the laws. The modern maxims of foreign commerce, by aiming at the impoverishment of all our neighbours, so far as they are capable of producing their intended effect, tend to render that very commerce insignificant and contemptible. (pp. 527-528)

- (5) There is another balance, indeed, which has already been explained, very different from the balance of trade, and which, according as it happens to be either favourable or unfavourable, necessarily occasions the prosperity or decay of every nation. This is the balance of the annual produce and consumption. If the exchangeable value of the annual produce, it has already been observed, exceeds that of the annual consumption, the capital of the society must annually increase in proportion to this excess. 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. If the exchangeable value of the annual produce, on the contrary, fall short of the annual consumption, the capital of the society must annually decay in proportion to this deficiency. The expence of the society in this case exceeds its revenue, and necessarily encroaches upon its capital. Its capital, therefore, must necessarily decay, and together with it the exchangeable value of the annual produce of its industry. (p. 531)

- (6) This balance of produce and consumption is entirely different from what is called the balance of trade. It might take place in a nation which had no foreign trade, but which was entirely separated from all the world. It 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. The balance of produce and consumption may be constantly in favour of a nation, though what is called the balance of trade be generally against it. A nation may import to a greater value than it exports for half a century, perhaps, together; the gold and silver which comes into it during an this time may be all immediately sent out of it; its circulating coin may gradually decay, different sorts of paper money being substituted in its place, and even the debts, too, which it contracts in the principal nations with whom it deals, may be gradually increasing; and yet its real wealth, the exchangeable value of the annual produce of its lands and labour, may, during the same period, have been increasing in a much greater proportion. The state of our North American colonies, and of the trade which they carried on with Great Britain, before the commencement of the present disturbances, may serve as a proof that this is by no means an impossible supposition. (pp. 531-532)