Faculty Working Papers

ADAM SMITH ON "DEFENCE AND OPULENCE"

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#214

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In the bicentennial year of 1976, much attention will be focused within the economics profession upon the eighteenth century climate of economic thought and circumstance which nurtured the seminal work of the discipline in 1776, Adam Smith's Wealth of Nations. A project appropriate for such a bicentennial celebration would be to re-examine Smith's analysis of the English Navigation Acts, the Cromwellian commercial legislation which served as the keystone of the English mercantilist system. A study of the Navigation Acts and the analysis of them by the founder of the free trade school would be useful for broadening the frame of reference within which potential advisers to economic policy makers might view the present set of international trade relationships. In the ongoing international crisis of the 1970's the selfish interests of sovereign nation-states have been reasserted, in spite of the observation by many that the nation-state is obsolete in Europe. In the seventeenth century, which spawned the original Navigation Acts, the idea of sovereign nation-states in Europe was just becoming a reality.

The two major goals of modern nation-states are security and welfare, or "defence and opulence" as Adam Smith phrased it. Crucial to Smith's analysis of the Navigation Acts was the relative importance of these two goals and the effect of the Navigation Acts upon each goal. Smith's pronouncements on these questions give rise to confusion, however. At one point he stated, "As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England" (p. 431).* This quote is cited by those who

argue that Smith was, perhaps, less doctrinaire than his latter day disciples. Further on in Wealth of Nations, however, Smith argued with respect to opulence that the rise of the colony trade was at the expense of trade to Europe. "The causes of decay in other branches of foreign trade... may all be found in the over-growth of the colony trade" (p. 563). As regards defense, Smith argued that England's naval strength was "equal, perhaps superior to the united navies of France and Holland" at the beginning of the Restoration. "But this great naval power could not...be owing to the act of navigation" (p. 563).

The major task is to determine how the first quote, which implies that security and welfare are substitutes, can be reconciled with Smith's analysis of the Acts of Navigation. The bulk of his analysis seems directed to showing that "defence and opulence" are complements, not substitutes. The Acts of Navigation, which he clearly felt hampered the growth of opulence, would therefore inhibit the growth of military power. Finally, it will be interesting to determine how the economic and military development of England from 1650 to 1776 verifies or falsifies Smith's assessment of the effects of the Navigation Acts.

It will be shown that Adam Smith was consistent in arguing the complementarity of security and the welfare and that the "defence is of much more importance than opulence" quote has been completely misinterpreted by being taken out of context. It will also be shown that his complementarity argument was consistent with the historical record of England's rise.

*It was also cited by Herbert Stein, then Chairman of the President's Council of Economic Advisors, when defending the Administration's goal of self-sufficiency in energy by 1980. (Public Broadcasting Service television program, Spring 1974.*)
to economic and naval supremacy in the 18th century.


Adam Smith's phrase "defence, however, is of much more importance than opulence" is one of the most often quoted from the Wealth of Nations. It has most frequently been taken to mean that he was in fundamental agreement with the mercantilists of England in spite of the delight he took in revealing the intrinsic absurdity of specific pieces of legislation.

C. R. Fay calls it, "the famous concession wrung from the author of the Wealth of Nations" (14, p. 42). Heckscher comments "he showed himself in profound agreement with measures precisely in the sphere of the policy of power," and after rendering the quote with appropriate fanfare concludes "No one could have made it clearer that economic activity ought to be subordinated to the state's striving for external power" (18, p. 2, p. 16).

J. M. Clark takes it to show that "He recognizes national ends as vital" (8, p. 67). Jacob Viner used the quote as an example of the "concessions he made to the possibilities of the promotion of human welfare through governmental action." Viner's interpretation, now enshrined in virtually every textbook on the history of economic thought, was that when all the exceptions that Smith made in particular instances to his insistence on a very limited role for the state were put together, he gave the government a very substantial regulatory and participatory role in the economy (29).

Historians have also focused on this phrase. Charles Wilson has stated that, "until very recently most historians followed Adam Smith's interpretation and A
of the Acts as primarily if not solely strategic in character" (31, p. 183).

Wilson even claims that Gustav Schmoller, the most famous figure of the
German historical school and unalterably opposed to the teachings of
the Laissez-faire school founded by Adam Smith, in his "account of the
central features of mercantilist thought and his description of the
apparatus of legislation and enforcement of policy does not differ greatly
from Adam Smith's: it is only that he applauds where Smith condemns"
(Wilson, p. 185). Even William Cunningham, the English historian who used many of
Schmoller's ideas in writing his *Growth of English Commerce and Industry*,
is supposed to put himself in the same camp with Smith when he states that
"to some extent plenty is a condition of power and the two policies may
have much in common." The reason Wilson can make all these apparently
incredible statements is the weight he places on the "defence and opulence"
quote. "The famous defence of the Navigation Acts puts Adam Smith back
with the equivocators," (p. 183) i.e., back with Cunningham and most
historians, including Wilson himself.

Not all economists, however, accept the quora as the final epitome
of Adam Smith's analysis of the Navigation Acts. One recent analyst of
the *Wealth of Nations* concludes that it is "likely that Smith's approval of
the Navigation Acts was severely limited (perhaps to those sections only
relating to the British import and coastal trades). And we deduce that
the formally straightforward dictum 'defence is of much more importance
than opulence' was after all maintained subject to a degree of cost control"
(20, p. 265). An earlier analyst of Smith noted that "an appeal has been
made to the *Wealth of Nations* in support of a policy called Nationalism
by its friends and Imperialists by its critics. It has some foundation in particular texts, but the support will probably be found as slender as for the Social Revolution, taking text with context and then with the whole conspectus of the book, we shall hardly arrive at either" (4, p. 47-8). In view of the overwhelming acceptance of the validity of the quote as a true representation of Smith's analysis of the Navigation Acts, it is worth pursuing the lines of investigation suggested by these two dissenting authors—one using a deductive approach, the other an inductive. Fundamental to either approach is a close re-examination of Adam Smith's full remarks on the subject.

II. What Adam Smith Really Said about the Navigation Acts.

Adam Smith's "wrung concession" is found in the second chapter of Book IV in the Wealth of Nations, "Of Systems of Political Economy." In the first chapter of Book IV, he comments that "Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects (italics supplied): first, to provide a plentiful revenue or subsistence for the people...; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign" (p. 397). This statement, considered in the absence of any foreknowledge of the concession to come in Chapter II, appears to put "defence" in the category of one of the public services provided out of the public revenue, and to this extent makes "defence" complementary to "opulence". The order of
importance of the two goals, if a choice must be made, is apparently "plenty" first, and "power" second.

This interpretation seems consistent with the discussion of the public services which follows in Book V of the Wealth of Nations, "Of the Revenue of the Sovereign or Commonwealth," where he discusses in sequence the expenses of defense, justice, public works and of supporting the dignity of the sovereign. It also seems consistent with the conclusion of Book III, "Of the different Progress of Opulence in different Nations," where he concludes that "had human institutions, therefore, never disturbed the natural course of things, the progressive wealth and increase of the towns would, in every political society, be consequential, and in proportion to the improvement and cultivation of the territory or country" (p. 314). The nature of human institutions, as opposed to the natural course of things, is rooted not only in man's propensity to "truck, barter, or exchange" but in man's propensity to domineer. "The pride of man makes him love to domineer, and nothing mortifies him so much as to be obliged to condescend to persuade his inferiors" (p. 365).

The complementarity of power and plenty is then developed in Chapter I of Book IV in the most extreme case Smith can think of—a large scale foreign war. "In the midst of the most destructive foreign war" he explains, "the greater part of manufactures may frequently flourish greatly; and, on the contrary, they may decline on the return of peace" (p. 413). The reason for this is merely technical but interesting nonetheless. The government pays for its war expenses overseas by presenting to foreign suppliers foreign bills of exchange which the government has
purchased from English merchants. The English merchants, in order to pay the foreign correspondent for the bills drawn by them, export commodities which "when properly suited to the market, (are) always attended with a considerable profit" (p. 411). He then draws upon Hume to show the importance of this device, based on an increase in opulence, to generate an increase in defense. "Mr. Hume frequently takes notice of the inability of the ancient kings of England to carry on, without interruption, any foreign war of long duration. The English in those days, have nothing wherewithal to purchase the pay and provisions of their armies in foreign countries, but either the rude produce of the soil of which no considerable part could be spared from the home consumption, or a few manufactures of the coarsest kind, of which, as well as of the rude produce, the transportation was too expensive. This inability did not arise from the want of money but of the finer and more improved manufactures" (p. 413).

Not only the complementarity of power and profit is developed by Smith in this passage; a powerful reason is given why profit should take precedence over power. The argument, it is true, is limited to the case of a foreign war being fought by an island nation but within these limits (which are applicable to England from 1588 until 1941) it is supported forcefully by Smith. The rest of Book IV consists of six chapters describing in turn six of the major techniques used by "the commercial system" to "increase the quantity of gold and silver in any country by turning the balance of trade in its favour" (p. 419). These are two types of restraints upon imports (import substitution and discrimination against imports from a particular country) and four types of encouragements to
exports (drawbacks, bounties, treaties of commerce, and colonies). It is clearly the intent of Smith to show that these mercantile policies intended to obtain favorable trade balances and thereby enhance national power actually tend to retard the development of manufactures and hence detract from national defense.

Book IV is intended to be the "policy implications" of the theoretical work contained in Books I and II and the historical work in Book III. Book III, in turn, can be traced in Adam Smith's thought back through an early draft of Wealth of Nations (published in W. R. Scott's Adam Smith as Student and Professor), to the Glasgow Lectures on Justice, Police, Revenue and Arms delivered in 1763 (and published by Edwin Cannan in 1896), to a course "Juris Prudence" he delivered in Edinburgh during his stay there from 1748 to 1751 (24, p. 56). One quote which Scott traced to this Edinburgh lecture course spells out Smith's original idea on power and plenty: "little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice...governments which thwart this natural course, which force things into another channel, or which endeavour to arrest the progress of society at a particular point are unnatural and to support themselves are obliged to be oppressive and tyrannical" (24, p. 54, quoting in turn from Dugald Stewart, Memoir of Adam Smith, Edinburgh, 1811, p. 100). One may object that it is invalid to infer what Smith intended in his first edition of the Wealth of Nations published in 1776 from a fragmentary quote traced back to 1751. But the fact of the matter is that the Wealth of Nations had a gestation period fully this long. More to the point for the infamous
"defence-opulence" quote, Scott has stated unequivocally that 'wherever the word 'opulence' occurs, we may be sure that we are reading some of Adam Smith's earliest work. Besides which, there may be other cases in which it had been changed to "wealth" at some one of the many revisions to which the MS. was subjected" (24, p. 114).

The passage from Chapter I of Book IV, quoted in extenso above, is anticipated in the Glasgow Lectures (p. 209) and is followed by a passage that most readers should find unequivocal:

> It appears that Britain should by all means be made a free port, that there should be no interruptions of any kind made to foreign trade, that if it were possible to defray the expenses of government by any other method, all duties, customs, and excise should be abolished, and that free commerce and liberty of exchange should be allowed with all nations, and for all things (Glasgow Lectures, p. 209).

In spite of all this preambulatory evidence to the contrary, however, Adam Smith actually did say, in Chapter 2 of Book IV, "As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England" (W. of N., p. 431). This chapter, it will be recalled, was concerned with restraints on particular imports. At the close of the chapter, four cases are given in which "it will generally be advantageous to lay some burden upon foreign, for the encouragement of domestic industry" (p. 429). The act of navigation is concerned with the first case "when some particular sort of industry is necessary for the defence of the country." The other three cases are, in order, when the domestic equivalent of an import has
an excise tax upon it, retaliatory duties (but only as brief, transitory measures), and when freedom of trade is restored after a long period of restriction (due to high transition costs). In the last three exceptions to freedom of trade which Smith is willing to consider, the bulk of his exposition is devoted to showing how unimportant they are and the slight costs to the national welfare which would be incurred by ignoring even these exceptions. Why does he not make the same kind of argument with respect to the act of navigation?

One reason could be that he really was an equivocator. Another could be that he was saving his important argument on this point for the final chapter of the six dealing with mercantile policies, "Of Colonies". Since it was going to take an entire chapter which is by far the longest (and most repetitive) in Book IV to demonstrate the weakness of this particular policy, Smith dealt with this case first and closed the second chapter with three exceptions which were easily confuted or belittled in order to maintain the force of his general argument. Several signals are given to the attentive reader, however, to indicate that eventually Smith would mount an attack even upon the sacrosanct Navigation Acts. One was his wry statement, "It is not impossible, therefore, that some of the regulations of this famous act may have proceeded from national animosity" (p. 431). Smith's feelings about regulations proceeding from national animosity are made clear at the beginning of Chapter 3 where he stated, "The principles which I have been examining in the foregoing chapter took their origin from private interest and the spirit of monopoly; those which I am going to examine in this, from national prejudice and animosity. They are,
accordingly, as might well be expected, still more unreasonable. They are so, even upon the principles of the Commercial system" (p. 441). Another signal, possibly more subtle but still quite evident, is his statement before the equivocal quote. "The defence of Great Britain, for example, depends very much upon the number of its sailors and shipping" (p. 431). The object of the Chapter "Of colonies", however, was to show that the effects of the Navigation Laws were to mitigate the otherwise favorable effects of the new discoveries and their settlement upon the number of sailors and shipping coming from England. Another signal is his emphasis upon the point that the act of navigation was directed against Holland, "the only naval power which could endanger the security of England" (p. 431). Later he will state that England in fact was not endangered by the Dutch fleet then any more than at the time he published each edition of the Wealth of Nations. Finally, although it is evident this signal was far too subtle for later generations who could not sustain their attention to eighteenth century prose through seven, largely redundant, chapters, is the striking statement, in stark contrast to everything preceding and following it, that "defence, however, is of much more importance than opulence."

By refusing to mount a direct attack upon the Acts of Navigation at his first introduction of the topic, Adam Smith was following what he himself had described as the Socratic form of didactic discourse. "In this method we keep as far from the main point to be proved as possible, bringing on the audience by slow and imperceptible degrees to the thing to be proved, and be gaining their consent to some things whose tendency they cannot discover,
we force them at last either to deny what they had before agreed to, or to grant the validity of the conclusion. If they are prejudiced against the opinion to be advanced, we are not to shock them by rudely affirming what we are satisfied is disagreeable, but are to conceal our design, and beginning at a distance, bring them slowly on to the main point, and having gained the more remote ones, we get the nearer ones of consequence." (27, pp. 140-141).

Certainly Smith's audiences in Scotland, which had gained immensely from the Navigation Acts after the Act of Union with England in 1707, were prejudiced against any opinion that the Acts of Navigation were not wise and beneficial legislation. It is also possible that Smith was essaying a form of Swiftian ridicule which he greatly admired. "The most common manner in which he (Swift) throws ridicule on any subject, when he speaks in another character, is to make them express their admiration and esteem for those things he would expose. As ridicule proceeds from a combination of the ideas of admiration and contempt, it is very evident he could not take a more effectual method to ridicule any foible or silly object than by making someone express the highest admiration for it, as the contrast it here the strongest" (27, p. 45). If this was Smith's intent, and it may well have been in the context of the original lectures, it was lost upon subsequent readers for the same reason Smith felt that Swift's serious work was ignored—it was out of character. But the Acts of Navigation were certainly appropriate objects of ridicule for Smith, since "the foundation of ridicule is either when what is in most respects grand, or pretends to be so, has something mean or little in it...." (27, p. 39).
III. The Logic of Adam Smith's Argument Against the Navigation Acts.

The chapters following Chapter 2 each contain hints of the argument to be made against the Navigation Acts in Chapter 7. Thus Chapter 3 mentions the unreasonableness of regulations motivated by national animosity, Chapter 4 notes that the carrying trade "certainly deserves no peculiar encouragement" and that the motive for instituting drawbacks "was, perhaps, abundantly foolish" (p. 470), Chapter 5 confutes the argument that tonnage bounties are justified because they contribute to the nation's defense although not to its opulence, "by augmenting the number of its sailors and shippings. This, it may be alleged, may sometimes be done by means of such bounties at a much smaller expense, than by keeping up a great standing navy," (p. 484). This argument, clearly presented as an Aunt Sally, is immediately followed by ten paragraphs which give detailed evidence to the effect that the bounties are too large, "it has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty" (p. 486). These ten paragraphs, as well as the minor amendments necessary to "Aunt Sally-tize" the "defence and opulence" paragraph preceding them, were only placed in the 3rd and later editions of The Wealth of Nations. This indicates that initially Adam Smith felt constrained to make some concession to "defence" on the logic of the opposition's case until his further researches into the facts of the matter persuaded him that even this concession was not necessary. Even in the first two editions, however, the concession was in terms of the "cost-effective" technique of providing a public service and never implied that defense was more important than opulence. From the third edition on, he concluded his attack on the tonnage
bounty by saying, "in the wantonness of great prosperity, when the public enjoys a greater revenue than it knows well what to do with, to give such bounties to favourite manufactures, may, perhaps, be as natural, as to incur any other idle expense. In public, as well as in private expenses, great wealth may, perhaps, frequently be admitted as an apology for great folly" (p. 489).

All of these arguments against the various provisions of mercantile legislation are mere appetizers for the one to come in Chapter 7 against the Acts of Navigation. While each facet of the argument is developed at length and supported in great empirical detail, it is encapsulated in the following paragraph:

The monopoly of the colony trade, therefore, so far as it has turned towards that trade a greater proportion of the capital of Great Britain than what would otherwise have gone to it, has, in all cases turned it, from a foreign trade of consumption with a neighbouring, into one with a more distant country; in many cases, from a direct foreign trade of consumption, into a roundabout one; and in some cases, from all foreign trade of consumption, into a carrying trade. It has in all cases, therefore, turned it, from a direction in which it would have maintained a greater quantity of productive labour, into one, in which it can maintain a much smaller quantity. By suiting, besides, to one particular market only, so great a part of the industry and commerce of Great Britain, it has rendered the whole state of that industry and commerce more precarious and less secure, than if their produce had been accommodated to a greater variety of markets (Wealth of Nations, p. 573).

Analyzing this argument takes us into several side issues concerning the economic analysis of Smith and its consistency. In the first place, there is an obvious contradiction here to the assumption of idle capacity in capital implicitly made by Smith in an earlier articulation of the vent-for-surplus theory of foreign trade (p. 353). In the formal analysis of the
Navigation Acts, Smith is clearly assuming full utilization of capital stock and focusing upon the re-allocation effects of the Acts. Hollander (Ch. 9) argues that the latter analysis is consistent with Smith's dominant theory of foreign trade which explains it by the advantage in efficiency which a nation gains.

Another inconsistency is even more troublesome and has never, to my knowledge, been satisfactorily resolved in analyses of the Wealth of Nations from Ricardo to Hollander. This is the emphasis upon the capital-labor ratio, and an expression of approval for employing capital in those sectors which have the lowest capital-labor ration. This criterion for the allocation of capital among sectors may, and most likely will, be inconsistent with the criterion preferred by Ricardo and economists to this day of equalizing marginal rates of return to capital across sectors. In fact, Smith did argue later in Chapter 7 of Book IV that "stock" should be allocated among long- and short-distance trade on the basis of equalizing (with due allowance for the higher risk of long distance trade) the average net profit rates of stock.

But if any of those distant employments, which in ordinary cases are less advantageous to the country, the profit should happen to rise somewhat higher than what is sufficient to balance the natural preference which is given to nearer employments, this superiority of profit will draw stock from those nearer employments, till the profits of all return to their proper level. This superiority of profit, however, is a proof that, in the actual circumstances of the society, those distant employments are somewhat understocked in proportion to other employments, and that the stock of the society is not distributed in the properest manner among all the different employments carried on in it... Though the same capital never will maintain the same quantity of productive labour in a distant as in a near employment, yet a distant employment may be as necessary for the welfare of the society as a near one (Wealth of Nations, p. 593-4).
It appears, as Hollander has argued, that Smith introduces the criterion of the capital-labor ratio as a social criterion (generally used in mercantilist broadsides to give a normative evaluation of any particular policy measure) to show how the existence of monopoly created a discrepancy between social return and private return on stock. The numbers of laborers employed per unit of capital represent a part of Smith's normative, not his positive, economics. Hollander points out, however, that an ambivalence remains in Smith's positive economics. With respect to agriculture and manufacturing, Smith argues that there are strong, natural reasons for stock to be employed first on agriculture, and then more in industry as the extent of the market and division of labor progress. In these two sectors, the natural allocation process of capital among sectors will, Smith argues, create the socially optimum allocation of labor, based on the criterion that, other things equal (such as the amount of land being used) stock should employ the highest number of workers. Within the trade sector, however, Smith has no basis for arguing this, essentially because he regards returns to the distributive sector as transfer payments only. Therefore, he does not consider the possibility of a production function existing in the trade sector which would determine the "natural" capital-labor ratio, and the "natural" balance of stock among sectors, given endowments of the factors of production such as land and labor. Navigable water does not appear to be considered by Smith as a "natural" endowment of a nation.

But this ambivalence in Smith's treatment of the three major sectors of the private economy does not constitute an inconsistency in his argument.
against the mercantilist policies. Indeed, it strengthens the argument since mercantilist policies which will in fact tend to reduce the opulence and hence the power of the nation, can actually accomplish their intended goals. 

(The mercantile) system, by encouraging manufactures and foreign trade more than agriculture, turns a certain portion of the capital of the society from supporting a more advantageous, to support a less advantageous species of industry. But still it really and in the end encourages that species of industry which it means to promote. Those agricultural systems, on the contrary, really and in the end discourage their own favourite species of industry. (Wealth of Nations, p. 650).

To summarize, Smith held the following assumptions in his formal analysis of the Navigation Acts: Capital is fully employed for the economy as a whole; it is allocated among sectors according to the rate of profit it can command, allowing for differential risk; there are no fixed factors of production in the trade sector. These assumptions are, furthermore, consistent with the theoretical arguments developed in Books I and II of the Wealth of Nations.

With these assumptions, he then argues that the creation of any form of monopoly will reduce the net revenue of the society, by attracting too much capital into the monopoly which has artificially raised the rate of return on capital in that industry. With respect to the colonial trade of England, he argues that the Navigation Acts created a monopoly for English shippers, while leaving England's trade with Europe open to competition with shippers of other nations. The growth of English shipping in the colonial trade was then greater relative to its growth in the European trade than was natural. Logically, this meant to Smith that the Navigation Acts would reduce national income, the base of tax revenue, and hence national power.
The logic of his case was difficult to prove, however, on two grounds: one, the tremendous growth of shipping profits primarily from the growth of the colonial trade which had taken place after the Navigation Acts; and second, the obvious relationship between naval strength and the size of the merchant fleet, both of which had been growing dramatically since the Navigation Acts.

The first was dealt with by arguing that the beneficial effects of the colonial trade was so great as to outweigh the bad effects of the monopoly created by the Navigation Acts.

We must carefully distinguish between the effects of the colony trade and those of the monopoly of that trade. The former are always and necessarily beneficial; the latter always and necessarily hurtful. But the former are so beneficial, that the colony trade, though subject to a monopoly, and notwithstanding the hurtful effects of that monopoly, is still upon the whole beneficial, and greatly beneficial; though a good deal less so that it otherwise would be. (Wealth of Nations, p. 573)

The second argument was more difficult to dispose of. Two lines of attack were taken. One was that naval power depended upon the size of the merchant fleet and the number of English sailors which could be commandeered for military purposes in times of war. He tried to show that this relationship between naval power and size of the merchant fleet was not changed by the Navigation Acts.

England, it must be observed, was a great trading country, her mercantile capital was very great and likely to become still greater and greater every day, not only before the act of navigation had established the monopoly of the colony trade, but before that trade was very considerable. In the Dutch war, during the government of Cromwell, her navy was superior to that of Holland; and in that which broke out in the beginning of the reign of Charles II, it was at least equal, perhaps superior, to the United navies of France and Holland. Its superiority, perhaps, would scarce appear greater in the present times; at least if the Dutch navy was to bear the same
proportion to the Dutch commerce now which it did then. But this great naval power could not, in either of those wars, be owing to the act of navigation. (Wealth of Nations, p. 563)

Two assumptions are made here which will be examined below; one that the proportion of naval strength to shipping strength did not change for Holland from before to after the Navigation Acts; and the second, made only implicitly, that the ratio of naval strength to shipping strength remained unchanged for England as well.

The second line of attack was incorporated into the Wealth of Nations in its third edition which appeared at the end of 1784, after the conclusion of the American War of Independence. Smith then argued that the maintenance of the monopoly of colonial trade for purposes of increasing mercantile profits was injurious to the defense of the nation because the new colonies did not contribute to the revenue of the government and yet increased greatly the expense of government by increasing the likelihood of war. The monopoly increased the need for defense, but reduced the means of supplying defense. Even accepting the priority of defense over opulence could not justify the Navigation Acts to Adam Smith.

Beyond this, however, Adam Smith felt that the motivation of the Navigation Acts was primarily for opulence, not for defense. "A clause in the famous act of navigation established this slyly shopkeeper proposal into a law" (p. 580). Further, the expense of maintaining military forces in the colonies was an expense not for the defense of Great Britain but an expense for maintaining the monopoly of English "shopkeepers." The expense of the Spanish war of 1739 he calls a bounty "given in order to support a monopoly" (p. 581). He concludes it would have been worth using a bounty,
a device he abhorred, to avoid the effects of the Spanish war which was successful in maintaining the monopoly.

Finally, in Chapter 8, added to Book IV with the Additions and Correction of 1778 which constituted the second edition, Smith concluded with respect to the costs and benefits of the Navigation Acts that:

For the sake of that little enhancement of price which this monopoly might afford our producers, the home-consumers have been burdened with the whole expense of maintaining and defending that empire. For this purpose, and for this purpose only, in the two last wars, more than two hundred millions have been spent, and a new debt of more than a hundred and seventy millions has been contracted over and above all that had been expended for the same purpose in former wars. The interest of this debt alone is not only greater than the whole extraordinary profit, which, it ever could be pretended, was made by the monopoly of the colony-trade, but than the whole value of that trade, or than the whole value of the goods, which at an average have been annually exported to the colonies. (Wealth of Nations, p. 626)

So much for the effects of the famous acts which "may have proceeded from national animosity" but which were "as wise, however, as if they had all been dictated by the most deliberate wisdom."

IV. Conclusion

Smith argued that power and profit are complementary goals for a nation. In this he was consistent with the bulk of mercantilist thought (30). His only disagreement was that, contrary to mercantilist writers, he felt the Navigation Acts deprived England to some extent of her possible profit and hence of her potential power. Even after a century of operation under the Navigation Acts, England's naval superiority over Holland and France had not increased relative to those two countries, Smith argued (p. 563). The argument rests upon some notion of a naval-merchant marine ratio which is presumed fairly constant over time, for both England and Holland.
There are a number of ways in which such a ratio might become operative. Most simply, the ships of the merchant marine could provide naval strength in times of war if they could be readily converted to ships of the line. This had dramatically been the case when England defeated the Spanish Armada with the vital aid of large, well-armed merchant ships, and continued to be true into the seventeenth century. By the time of the first act of navigation, however, it was unlikely that most large merchant vessels could be used in time of war, most being built to carry only a few guns for protection from pirates (2,17). At the end of the seventeenth century, merchant ships were of no value to the navy except as supply ships or hospital ships (12, p. 45). In the half century before the Civil War, the ratio of naval strength to size of merchant fleet was increasing as English shipwrights concentrated on large ships for long distance trade where speed and armament were more important than cargo space. This was in marked contrast to Dutch policy, which encouraged the creation of a massive fleet of lightly manned, virtually unarmed, bulk cargo ships (2). Immediately after the first Navigation Acts, ironically, this ratio fell considerably due to the acquisition of 1,000 to 1,700 Dutch ships as prizes in the First Dutch War—approximately doubling the size of the English merchant fleet (12, p. 51).

Another possibility of complementarity, made much of by the Royal Navy in its pleas for Parliamentary appropriations, was the assurance of customs revenues from the protection of English shipping afforded by the Navy, whose existence in turn would be assured if it had sole claim to Customs duties. Unfortunately for the complementarity argument, the Navy had to contend with other claimants. Indeed, Customs as a share of the public revenue grew more
rapidly than Naval expenses as a share of government outlays—war periods excepted.

A third possibility lies in the pool of skilled seamen trained by the merchant marine which could be used by the Navy in time of war. Through that famous institution of doubtful legality—the press gang—the Royal Navy could avail itself of the entire stock of able-bodied seamen in time of war. Davis estimates, in fact, that the Royal Navy impressed approximately three-fourths of the total English sailors available in the League of Augsburg War with France at the end of the seventeenth century and again during the Seven Years War in mid-eighteenth century. The total manpower of the Navy was, from the Acts of Navigation to the Wealth of Nations, governed by the size of the merchant marine and the effective limits of the device of impressment. It is here that the strongest case can be made for complementarity of commerce and naval strength, but it rests upon an institution which should have been abhorred by Smith (although I can find nothing to this effect in Smith's writing) and which certainly ran counter to Smith's argument for a standing military force (28, pp. 653-669).

Nevertheless, the constancy of the Royal Navy's inroads upon the total pool of English sailors available in times of war throughout the eighteenth century is strong support for his assertion of the complementarity of power and plenty. This particular aspect of complementarity may also account for Smith's preference for short distance over long distance trade on grounds of social welfare. It was well-recognized that sailors in long distance trade had a better chance of avoiding the press-gang in times of war than those in the short distance and coastal trades, simply because their visits to English ports were less frequent.
While Smith's case was logically consistent and empirically well-supported, it cannot be generalized beyond the context of the circumstances of eighteenth century England. The reason for this is the same one that has given rise to so much of the confusion surrounding Smith's analysis of foreign trade—his refusal to postulate a production function in the trading sector. Without such a production function, which presumably would have had to include rights to navigable water as an input, he had no need to consider the implications of the alternatives of mare liberum or mare clausum for England's power and prosperity. The full acceptance of mare liberum by Adam Smith and his contemporary audiences made his arguments for complementarity of profit and power very convincing for the time. Similar acceptance of the doctrine of mare liberum in the modern era of offshore drilling, deep-sea mining, and factory fishing operations may well dictate the priority of power over profit in the minds of national policy makers today.
REFERENCES


