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Economist and Revolutionary

Adam Smith and 1776

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Executive Summary

2026 marks the 250th anniversary of two momentous historical events: the publication of Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations*, on March 9, 1776, and, four months later, the proclamation of the Declaration of Independence on July 4, 1776. Our world continues to be shaped by the ideas expressed in both texts.

No text is written in a contextual vacuum, and the drafting of *The Wealth of Nations* – a book that would become the foundational work of modern economics – was overshadowed by the crisis in the relationship between Great Britain and its North American colonies that followed Britain's defeat of France in the Seven Years' War (1756-1763). Though immersed in the world of scholarship, Adam Smith was intensely interested in the events shaping his time. Much of Books IV and V of *The Wealth of Nations* contain extensive commentary on the economic relationship between Britain and the 13 colonies, with whom relations had steadily deteriorated from 1766 onwards. Other writings penned by Smith – most particularly, a 1778 memorandum submitted to the British government at the request of the Solicitor-General on the options facing Britain following its defeat at the Battle of Saratoga in 1777 – directly discuss the economics and politics of the conflict as well as how to end the war between British America and what the colonists still called “the mother country.”

The purpose of this paper is to outline and reflect upon Adam Smith's analysis of the economic factors contributing to the conflict and his thoughts on how the crisis might be settled. It demonstrates that Smith was prepared to contemplate solutions that had revolutionary implications for America – and, for that matter, Britain. It concludes by delineating the lessons that Smith's engagement with these matters offers us today.

KEY POINTS:

- *The Wealth of Nations*' application of rigorous economic analysis to the American crisis enabled Smith to identify key economic factors contributing to the conflict, as well as ways in which better economic policies might help to resolve the crisis.
- Smith identifies the doctrines and practices of the mercantilist economics that dominated the eighteenth-century European world as gradually putting Britain and the 13 colonies at odds with each other. By virtue of imposing higher costs on trade for American colonists and placing significant restrictions on the colonists' economic liberty, mercantilist economic policies would gradually cause American colonists, Smith believed, to reconsider the benefits of belonging to the British Empire.
- Though Smith identified several ways in which the war between Britain and America might be avoided, he thought that there were two optimal long-term solutions to Britain's American predicament. The first involved a political and economic union between Britain and its North American colonies based on free trade, fiscal consolidation, and the full integration of the American colonies into the British Parliament and therefore Britain's constitutional arrangements. The second option for Britain was to simply allow the colonies to go their own way: that is, to become independent.
- Smith favored the unification option, but he concluded by 1778 that the progress of the war and the anger left in its wake on both sides of the Atlantic made this unlikely. Smith, however, argued that American independence, by ending the 13 colonies' enmeshment in British mercantilist policies and establishing their status as a separate sovereign entity, would eventually open the way for the negotiation of a healthier, more stable, and prosperous long-term economic and political relationship between Britain and an independent America – one that would be buttressed by longstanding historical, cultural, linguistic, and religious ties to the former mother country.
- Smith's engagement with the American question constitutes an example of economic analysis identifying underlying problems that generate tensions between nations, but also the possibilities for resolving them. It thus demonstrates the worth of economics as a tool of intellectual inquiry to provide insights into problems of international relations that might otherwise escape the attention of policymakers.

Introduction

On March 9, 1776, a two-volume book written by the Scottish philosopher Adam Smith was published by W. Strahan and T. Cadell in London. The product of almost two decades of research by Smith, his *Inquiry into the Nature and Causes of the Wealth of Nations* is widely recognized today as the text that laid the foundation of the social science of economics. Until then, what we would recognize as “economics” had been primarily studied as a sub-branch of moral philosophy and jurisprudence. *The Wealth of Nations*, however, marked the beginning of economics as a new way of seeing the world, revealing insights into human affairs that had hitherto eluded most people.

Four months later, across the Atlantic, on July 4, 1776, a shorter but equally momentous text was adopted by the Second Continental Congress in Philadelphia. This document – the Declaration of Independence – marked the formal separation of the 13 colonies of British North America from Great Britain. The Declaration was the culmination of years of disputes between London and its North American colonies over issues ranging from taxation to the colonies’ constitutional relationship to the British Parliament in London.

Given the slowness of transportation between Britain and North America, it is unlikely that many of the American colonial leaders had read Smith’s book before America’s first Independence Day. Close reading of *The Wealth of Nations*, however, illustrates that Smith had given considerable thought to the American crisis. And while Smith’s analysis and proposed solutions were couched in rhetorically mild terms, they had revolutionary implications for not just the 13 colonies but also for Britain and its empire.

Smith was hardly alone in devoting time and energy to these topics. Legislators, thinkers, and pamphleteers throughout Britain and North America had been debating the reasons for the collapse of relations and offering proposals to restore harmony between the two English-speaking peoples separated by the Atlantic. What makes Smith’s analysis different from that of others is that he brought the full force of his economic way of thinking to the challenge. In the words of the British historian Andrew S. Skinner, “Smith’s brand of radicalism is distinctive in the sense that he addressed the American question from the standpoint of a political *economist*.”¹ That perspective is what made Smith’s reflections on this topic truly revolutionary.

The goal of this paper is to present Adam Smith’s views on the causes of the conflict between Britain and the North American colonies, outline his proposed solutions for settling the conflict, and discuss his reasons for believing

why, in the long-term, American independence was likely. It concludes by outlining four insights from Smith's study of the quarrel which are relevant for our time: specifically, 1) protectionist policies severely distort perceptions of the national interest; 2) interventionist agendas augment friction in international relations; 3) economic liberalization can help facilitate (but cannot guarantee) the more peaceful conduct of domestic and international politics; and 4) rigorous economics can help us better understand complex political and foreign policy problems and thereby create more possibilities for resolving them.

The Shadow of Mercantilism

Before exploring these questions, it is helpful to understand the dominant economic arrangements of Adam Smith's time, not least because they constituted Smith's primary point of intellectual entry into the debate about America. At the core of *The Wealth of Nations* is Smith's critique of what he famously called "the mercantile system." Smith's critique of mercantilism is central to comprehending his insights into some of the deeper economic causes of the conflict between Britain and the 13 colonies.

Britain was not the only country to embrace mercantilist policies. They were also followed by other European powers with a substantial global presence – especially, Spain, France, Portugal, and the Dutch Republic – but also European states like Prussia and the Habsburg Empire whose ambitions were limited to the European continent. The core doctrines of mercantilism were not written down in the way that economic theories are articulated today. The closest that mercantilist ideas came to being formally outlined was a book penned by Smith's fellow Scot, Sir James Steuart, entitled *An Inquiry into the Principles of Political Economy* (1767).

Mercantilism's core features may be summarized as follows:²

- Wealth was not viewed as primarily created through entrepreneurship, competition, and free exchange. Instead, nations were thought to prosper by acquiring as much of the world's existing wealth as they could, by acquiring as much territory as they could, and by dominating as many trade routes as possible.
- Wealth itself was not primarily understood as our capacity to meet our needs and wants. Ultimately, wealth was identified as consisting of how much gold and precious metals individuals and nations possessed.

- Mercantilism's conception of wealth encouraged policymakers to focus upon how their nations could export more than they imported to realize a positive balance of trade. To reduce imports, governments sought to create or promote numerous domestic industries *via* subsidies. They also imposed tariffs on imports to disincentivize individuals from purchasing foreign-made products. Conversely, the export of goods was encouraged, and often subsidized, by governments. The overall effect was that trade and trade routes between countries were managed by governments rather than reflecting free exchanges between consumers and producers in international markets.
- Mercantilism involved governments giving charters to joint-stock companies, which conferred upon them a monopoly of a country's trade in particular parts of the world. The objective was partly to raise revenue, but also to establish some degree of indirect control by governments over trade routes and thereby minimize foreign competition. The world's foremost example of this policy was the British East India Company (EIC), which was granted a charter by Queen Elizabeth I in 1600. By the terms of this charter, any English ship which traded west of the Straits of Magellan and east of the Cape of Good Hope without a license from the EIC risked being confiscated and having its cargo permanently impounded. By the time of the American Revolution, the EIC enjoyed a monopoly over British trade in the Indian subcontinent and had an iron grip on British trade with China, the source of much of the tea that the EIC exported to Britain.³ As early as 1612, the EIC was using force to protect its monopoly by deploying what amounted to a private navy to protect its trading ships.⁴ This trend toward militarization accelerated in the eighteenth century, when the EIC began maintaining its own armies to defend and expand its establishments throughout India.⁵ To support and promote its interests at the political level, the EIC also spent considerable sums to maintain a powerful lobby in the British Parliament and inside the government.

Adam Smith studied the policies associated with mercantilism closely. His conclusions played a significant role in shaping some of the most important economic ideas, especially concerning trade policy, outlined in *The Wealth of Nations*. After carefully describing the mercantile system's workings in relatively neutral terms, Smith proceeded to identify the fallacies of key mercantilist doctrines as well as their negative long-term implications for consumers, governments, and countries.

Much of that critique was focused on the concept of the balance of trade. According to Smith, the entire idea was, to put it bluntly, "absurd."⁶ Smith noted that "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.”⁷ But, Smith insisted, “Both suppositions are false.”⁸ When two people freely exchange goods within or between countries, Smith underscored, both “win” (albeit to different degrees) insofar as both get what they want. Otherwise, neither party would have agreed to the exchange.

Another key Smithian criticism of mercantilism concerned efforts by governments to promote domestic industries and domestic production, thereby reducing, it was thought, the need to import goods. Subsidies, regulations, and tariffs, Smith argued, can certainly shape a country’s economic direction, but they could not increase a country’s total output. No regulation, Smith maintained, “can increase the quantity of industry in any country beyond what its capital can maintain.”⁹ All such regulations did was shift a nation’s capital “into a direction into which it might not otherwise have gone.”¹⁰ The problem, Smith stressed, is that there was no way of knowing whether “this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord.”¹¹ All tariffs and subsidies do is incentivize businesses to move their investments elsewhere, and we cannot know in advance whether this will boost output in ways superior to that facilitated by the free exchange of goods and free flow of capital.

But there was another, even more fundamental problem with mercantilist efforts, stressed Smith, to restrict imports to protect domestic producers: such policies misconceived the very purpose of economic production. The goal of production was not for the sake of production. Production, Smith stressed, is a means to an end, and the end is consumption: that is, the satisfaction of consumers’ needs and wants.¹² It followed, Smith stated, that “the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer.”¹³ Mercantilism, by contrast, constantly sacrificed the interest of the consumer “to that of the producer.”¹⁴ And if existing producers are the priority, then governments will gravitate to maintaining them, no matter how inefficient or even corrupt they might be.

The consequence was less competition which, as we will see, translated into slower growth and potential stagnation. Moreover, Smith recognized that by allowing the state to grant monopolies or subsidies to bolster particular groups at everyone else’s expense, mercantilism encouraged businesses to focus their attention on acquiring political privileges, instead of competing in the marketplace. And once a company was granted a monopoly of, for example, a trade route, it could exert disproportionate influence over trade policy and thus promote its sectional interests to the economic detriment, again, of everyone else.

The East Indian Company, Taxes, and War

By the mid-1760s, the dysfunctionalities associated with mercantilism and identified by Smith were becoming harder to ignore. For example, the high customs duties imposed to discourage imports had led to widespread smuggling throughout Europe. Governments found themselves having to devote vast expenditures to an expansive customs enforcement apparatus to engage in a losing battle against smugglers.

The political downsides of mercantilist economics were also becoming more evident. The EIC's convergence of economic and political power had corrupted many British colonial officials, merchants, and their Indian counterparts. Just as corrupting were the vast sums spent by the EIC in bolstering its lobby in Britain's halls of power. In addition, many government ministers and members of parliament were major EIC shareholders, with financial incentives to maintain its trade monopoly. The result was cronyism on a wide scale and widespread resistance to any attempt at economic liberalization.¹⁵ This is partly what Smith had in mind when he described the fury that his critique of mercantilism encountered from some quarters. "I had no expectation," Smith told a Danish correspondent, "that the public would be very favourable to my system. I knew it was a very violent attack I had made upon the whole commercial system of Great Britain; I expected a very great attack; but though I have been some times virulently enough abused, I have never yet been answered."¹⁶

At this point we can begin to grasp the contribution made by mercantilist policies to the emerging antagonisms between the American colonies and Britain. In the 1760s, widespread famine and war in India were compromising the EIC's ability to pay the vast tax revenues it owed to the British government. The EIC also had large surpluses of tea sitting in its London warehouses. To rectify both problems, the EIC and its lobby pressured government ministers and members of parliament to extend the EIC's dominance of the trade in goods like tea to other parts of the British Empire. This was one factor behind the 1773 Tea Act.¹⁷

The Act allowed the EIC to export tea directly into North America and to sell it at a discounted price, thereby cutting out British and American middlemen. The Act was also intended to reduce the smuggling of tea into the colonies from Europe by American merchants in violation of what were called the Navigation Acts. But such smuggling reflected more than just an effort by American colonists to circumvent mercantilist structures and regulations. It was also a way of signaling resistance to the tax on tea that continued to

be levied on Americans by Britain: a tax regarded by the colonists as illegitimate on the grounds that only their own assemblies, and not the British Parliament, could levy taxes on colonists. The memorable confluence of these policies and events was the Boston Tea Party, in which colonists dumped hundreds of chests of imported EIC tea into Boston Harbor in 1773, which in turn played a key role in precipitating the American Revolution.

This brings us to the second dimension of mercantilism that weighed heavily on the North American colonies' relationship with Britain: the aforementioned Navigation Acts, or "the Acts of Trade and Navigation," to give them their full title.¹⁸ First enacted in 1650 and gradually amended and expanded for decades afterwards, they outlined an extensive list of regulations and customs requirements concerning trade between Britain, its colonies, and the rest of the world. The Acts were thus a primary way in which London sought to manage the flow of trade within the British Empire as well as commerce between inhabitants of the empire and those of other nations.

The Navigation Acts mandated that all British trade with the colonies around the world had to be transported on British ships and that 75 percent of those crews had to be British or colonials. They also specified that foreign exports to the colonies first had to be transported through Britain, where a tax was levied. This, plus the costs associated with a second shipping-and-handling process that was entirely superfluous, meant that consumers in the 13 colonies found themselves paying higher prices for imported goods.

The Acts also specified that certain colonial goods (known as "enumerated" products) that were in short supply in Britain or which were commodities peculiar to American colonies (including tobacco and naval stores) first had to be sent to Britain before being exported to other countries, even if better prices were offered elsewhere. Americans resented this, as it impeded them from sending these goods directly to buyers in other countries who might be willing to pay more than British merchants. Moreover, it was the British merchants, rather than Americans, who consequently reexported the American goods to Europe, and thereby secured much of the profits from continental European markets. Compounding the expenses of American traders was the requirement for colonial merchants to pay import duties on the products which they exported to British ports like Liverpool and Glasgow.

That said, many American colonists were willing to put up with these impositions, partly for what we would call national security reasons. In the first place, much of the revenue raised by the Navigation Acts helped Britain to pay for the Royal Navy. As an island kingdom, Britain needed a large and experienced navy to prevent interdiction of its trade routes and blockages

by foreign powers. Just as important was a regular supply of skilled sailors who could operate ships during war. This was why the Acts mandated that 75 percent of British ships had to be crewed by Britons and colonials.

Furthermore, as the world's most powerful naval force, the Royal Navy helped to secure the safety of trade routes extensively used by Americans who traded across the Atlantic and throughout the British Empire, especially in the Caribbean. And though the Royal Navy's upkeep was expensive, the Royal Navy's control of the seas prevented the American colonies from being cut off from Britain, the country which remained their biggest export market.

Smith Enters the Fray

Notwithstanding Americans' relative comfort with the Navigation Acts, the costs associated with the Acts and mercantilist policies more generally were steadily increasing, thereby impacting the rate of economic growth in Britain and America. Few understood this better than Adam Smith. He made this point the centerpiece of his analysis of the conflict between Britain and the 13 colonies.

Long before the outbreak of war between Britain and the 13 colonies in 1775, Smith had been thinking about the growing tensions characterizing the relationship. Such was Smith's focus on the topic that his friend David Hume described him as "very zealous in American affairs."¹⁹ At one point, Hume even rebuked Smith for allowing his preoccupation with the American situation to delay publication of *The Wealth of Nations*. "If you wait till the Fate of America be decided," he told Smith, "you may wait long."²⁰

Part of Smith's interest in the subject was stimulated by British government officials such as Lord Shelburne and Lord Townshend, both of whom would later become prime ministers. Aware of his deep knowledge of fiscal matters, they began asking Smith in the mid-1760s for his advice on taxation in the colonies in light of the growing difficulties around the whole issue in North America.²¹ They also understood that Smith's interest in commercial and trade policy was likely to yield insights less obvious to other commentators.

Perhaps the most surprising feature of Smith's analysis of the deeper economic reasons underlying the conflict between Britain and the colonies is Smith's suggestion that, for all the distortions associated with mercantilism, there were aspects of mercantilism which had delivered some benefits to America and Britain.

First, the pre-1776 mercantilist arrangements effectively created complementary markets for Britain and the 13 colonies. For example, Smith noted that the production of more “advanced or more refined manufactures”²² was actively forbidden in the North American colonies. In Smith’s mind, “such prohibitions” were “unjust” as they restricted the economic freedom of the colonists to use their capital as they saw fit.

But, Smith added, the restrictions had “not hitherto been very hurtful to the colonies.” Some of the limitations on the ability of Americans to produce certain goods, Smith argued, had actually bolstered the economies of the North American colonies by discouraging Americans from investing in activities where they lacked what we would call a comparative advantage. After all, land in America was so cheap, plentiful, and fertile that it made perfect economic sense for Americans to focus heavily on agriculture and instead import what manufacturing goods they needed from Britain.

Britain, for its part, gained from this “new and inexhaustible market”²³ in North America where it could sell its manufactured goods. British merchants were also able to import the enormous agricultural produce of the colonies as well as strategic goods important for national defense (like pig-iron).²⁴

Smith’s acknowledgement, however, of this seemingly win-win situation did not prevent him from identifying looming problems with these arrangements. These difficulties revolved heavily around the question of the rate of economic growth. Smith argued that, absent the Navigation Acts and the way in which it and other mercantilist impositions structured trade between Britain and North America, the rate of growth in Britain would likely be much higher. In Smith’s view, “if the manufactures of Great Britain . . . have been advanced, as they certainly have, by the colony trade, it has not been by means of that monopoly, but in spite of the monopoly.”²⁵ He observed, for example, that, without the Navigation Acts, British manufacturers would have been freer to send their goods to “the neighboring markets of Europe, or to the more distant one of countries which lie round the Mediterranean sea.”²⁶ That would have considerably reduced their shipping costs and thereby likely produced greater profits.

Looking more generally at British trade and the way that it had been effectively pushed in specific directions by the Navigation Acts, Smith lamented that the Acts were likely to compromise the growth rates that would otherwise be realized by British trade with the rest of the world:

Her commerce, instead of running in a great number of small channels, has been taught to run principally in one great channel.... In her present condition, Great Britain resembles one of those unwholesome bodies in which some of the vital parts are overgrown, and which, upon that account, are liable to many dangerous disorders scarce incident to those in which all the parts are more properly proportioned.²⁷

In short, while the trade routes created by mercantilist policies were “upon the whole beneficial,” growth was “a good deal less so than it might otherwise be.”²⁸ Economic growth in Britain would have been much greater if trade had been free of mercantilist strictures that discouraged people from pursuing new opportunities to engage in exchanges in many “small channels” that, taken together, might turn out to be more profitable than those realized through the “one great channel” into which everyone was being artificially corralled.

As for the Americans, Smith believed that the point was rapidly approaching whereby the restrictions associated with the mercantile system would start to outweigh the apparent benefits — including those of a national security nature. In short, the trade-off of greater growth for the security provided by Britain and the Royal Navy was likely to become less attractive. As the economies of the colonies grew more sophisticated, it was likely that American merchants would want to experiment and try their hand at activities like manufacturing. “In a more advanced state,” Smith thus stressed, mercantilist obstacles to the colonists pursuing such a path would come to be seen as “really oppressive and insupportable”²⁹ and hindering an even greater rate of growth.

But there was also a political dimension to this emerging American dissatisfaction with mercantilist policies. For one thing, Smith predicted that mercantilist restrictions would become viewed by the Americans as the “principal badge of their dependency.”³⁰ In short, as time passed, Americans would start to resent the limits imposed by Britain’s mercantilist policies upon Americans’ economic freedom. And at the heart of this discontent, Smith believed, would be a dawning recognition of mercantilist policies as a “manifest violation of one of the most sacred rights of mankind:”³¹ that being the rights associated with property ownership and the freedom to exercise those rights as they wish.

Finally, Smith believed that the mercantilist policies that determined the parameters for trade between America and Britain were characterized by a significant injustice: that the people who benefited the most from these structures were those merchants and companies (like the EIC) with close connections to the government. Britons and Americans alike, Smith thought,

should ask themselves whether the interests of such individuals has “been considered more than either that of the colonies or that of the mother country.”⁵² The whole “project” of mercantilism, as Smith described it, was “altogether unfit for a nation of shopkeepers; but extremely fit for a nation whose government is influenced by shopkeepers.”⁵³ Such cronyism was, for Smith, ultimately bad for the long-term economic development of both America and Britain, and, above all, unjust by virtue of being based upon legal privileges and rampant influence-peddling.

An Economic and Political Union

Mercantilist assumptions and policies were steadily distorting and corrupting the relationship between Britain and its colonies. Smith was convinced, however, that it did not have to be this way. He pointed out, for example, that “the most perfect freedom of trade is permitted between the British colonies of America and the West Indies,”⁵⁴ implying that it could be extended further throughout the British Empire.

But Smith also concluded that changing the economic arrangements between the 13 colonies and Britain was going to require something else: a fundamental alteration of the political relationship between Britain and its North American colonies. Here, Smith offered two primary ways forward, both of which involved radical changes to the political and constitutional status quo. His thoughts on this matter are primarily laid out in two texts: *The Wealth of Nations* and a memorandum submitted to the British government in 1778 at the request of the Solicitor-General Alexander Wedderburn, following the devastating British loss at the Battle of Saratoga in 1777 – a defeat that brought France into the war, thereby fundamentally changing the British government’s military calculus by dramatically reducing the odds of Britain winning.⁵⁵

Smith was not the only person to consider the possibility of the first option: a constitutional union between Britain, the North American colonies, and the empire more widely. Twenty years earlier, Benjamin Franklin had suggested that such a union would be “very acceptable to the colonies.”⁵⁶ Others, however, like Smith’s friend and patron Lord Kames doubted that the colonies could sustain a union between themselves, let alone with Britain.⁵⁷ What makes Smith’s proposed unification different is that it was economic reasoning that pointed him in this direction.

The economic union that Smith had in mind had three features. One was the gradual phasing out of the maze of mercantile restrictions and regulations that retarded growth in North America and Britain, along with the “extension of freedom of trade”³⁸ between the colonies, Britain, and other provinces of the British Empire. His second unifying economic measure would be to have the colonies share the responsibility for Britain’s colossal public debt. Smith considered this fair because, he commented, “That publick debt has been contracted in the defense, not of Great Britain alone, but of all the different provinces of the empire; the immense debt contracted in the late war in particular, and a great part of that contracted in the war before, were both properly contracted in defense of America.”³⁹

Smith is referring here to the debt accumulated by Britain during the Seven Years’ War (known to most Americans as the French and Indian War) in which most of Britain’s efforts had been directed against the French in North America. Britain’s sweeping victory, as reflected in the terms of the Treaty of Paris (1763), removed forever the threat to the 13 British colonies hitherto posed by France’s huge, pre-1763 geographical dominance of North America. On this basis, Smith argued, it was reasonable that the taxes levied by Britain upon its own inhabitants to pay down the public debt should also be levied upon the American colonies.

Smith understood, however, that there was a political implication to this type of economic union. One of the basic principles of the British constitution, Smith affirmed, was that taxation required representation. Americans needed to be given a say in the taxes levied throughout the empire by the British Parliament. That in turn meant giving Americans direct representation in that legislature. In his words,

By extending the British system of taxation to all the different provinces of the empire inhabited by people of either British or European extraction, a much greater augmentation of revenue might be expected. This, however, could scarce, perhaps, be done, consistently with the principles of the British constitution, without admitting into the British Parliament, or if you will into the states-general of the British Empire, a fair and equal representation of all those different provinces, that of each province bear to the produce of the taxes levied upon Great Britain.⁴⁰

For Smith, an economic and political union was not simply a way to fix some immediate problems. It was also a means of forcing Britain to come to grips with what it meant to have an empire, and more specifically an empire in which the freedoms of the British constitution (the principles of which the American colonists claimed to be defending) prevailed.

On the concluding page of *The Wealth of Nations*, Smith posited that “The rulers of Great Britain have, for more than a century past, amused the people with the imagination that they possessed a great empire on the west side of the Atlantic. This empire, however, has hitherto existed in imagination only. It has hitherto been, not an empire, but the project of an empire.”⁴¹ If this enterprise were to become a reality, and bound together by a fiscal consolidation, free trade, and the British constitution, then a political union was inevitable.

To those concerned that such a union might end up damaging the British constitution, Smith argued that the contrary outcome was more likely. As Smith saw it, “there is not the least probability that the British constitution would be hurt by the union of Britain and her colonies. That constitution, on the contrary, would be compleated by it, and seems to be imperfect without it.” The biggest change, he thought, would be to the composition of the legislature in Westminster. “The assembly,” he wrote, “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.”⁴²

In his 1778 memorandum on Britain’s war with America, Smith expanded on his ideas of what a constitutional union might look like. As in *The Wealth of Nations*, his focus is upon the economic foundations of that union:

If the complete submission of America was brought about altogether by treaty, the most perfect equality would probably be established between the mother country and her colonies; both parts of the empire enjoying the same freedom of trade and sharing in their proper proportion both in the burden of taxation and in the benefit of representation.⁴³

Not only would this relieve Britain from the expense of maintaining a huge military force in North America, but Smith believed it would also provide “the leading men of America” – whether as members of a parliament for the whole empire, or as voters for such legislators – the sense that they were the peers of the leading figures in British public life. Smith insisted this mattered deeply, because “the principal security of every government arises always from the support of those whose dignity, authority, and interest, depends upon its being supported.” These Americans, he thought, would have “the same interest to support the general government of the empire which the Members of the British legislature and their electors have at present to support the particular government of Great Britain.”⁴⁴

Intriguingly, Smith suggested in *The Wealth of Nations* that, should such a union occur, it was likely at some point in the future that the empire’s epicenter would cross the Atlantic. This, Smith said (again, thinking in economic terms), would be the natural consequence of the population and economic

growth of the 13 colonies eventually surpassing that of Britain. “In the course of little more than a century, perhaps,” he wrote, “the produce of Americans might exceed that of British taxation. The seat of the empire would then naturally remove itself to that part of the empire which contributed most to the general defense and support of the whole.”⁴⁵ The locus of political power, in short, would follow the locus of economic strength — not the other way around.

Independence For America — And Britain

By 1778, Smith had become deeply pessimistic that any such union was a realistic possibility. There was, he conceded in his Memorandum, no party of any significance in Britain in favor of it.⁴⁶ As for the Americans, Smith recognized that “In their present elevation of spirits [following their victory at Saratoga], the ulcerated minds of the Americans are not likely to consent to any union even on terms the most advantageous to themselves.”⁴⁷

This state of affairs, he argued, left British policymakers facing four ways in which the ruinously expensive war might be ended. One involved “the restoration, or something near to the restoration, of the old system:”⁴⁸ in other words, the status quo ante bellum. Smith does not say whether he considers this a likely possibility, but it is safe to surmise that Smith thought that the mood of the Americans in 1778 made this option as equally unlikely as a constitutional union.

A second way to terminate the war was *via* the outright conquest of the colonies by military means, followed by rule by “a military government.” Though that might, Smith said, fit the “present humor of Great Britain,” and encounter “scarce any opposition in Parliament,”⁴⁹ Smith did not consider it a viable long-term policy. Of all forms of government, Smith noted, “a military government is the one that the Americans hate and dread the most.” The financial cost of an indefinite occupation would also be prohibitive, and prolonged military rule, Smith believed, would make the Americans even less willing “to contribute to the general expense of the empire.”⁵⁰ It would also condemn Britain to “the disgrace of being supposed to oppress a people whom we have long talked of, not only as of our fellow subjects, but as of our brethren and even as of our children.”⁵¹

A third possibility, Smith proposed, is that the war might end “in the submission of a part, but of a part only, of America; Great Britain, after a long, expensive and ruinous war, being obliged to acknowledge the independen-

cy of the rest.”⁵² In a certain sense, this was what transpired when Britain recognized the 13 colonies’ independence at the Treaty of Paris in 1783, but retained much of the rest of British North America (essentially a large portion of modern-day Canada) as well as Bermuda. Britain also found itself saddled with a public debt in 1783 that was even larger than the one which existed in 1776.

The fourth option outlined in Smith’s Memorandum but also canvassed in *The Wealth of Nations* was the most radical of all the ways forward. It was, Smith wrote, “the complete emancipation of America: not a single acre of land, from the entrance into Hudson’s Straits to the mouth of the Mississippi, acknowledging the supremacy of Great Britain.”⁵³

Giving America its independence and effectively withdrawing from the North American continent was not something that most Britons were in a mood to accept in 1776 or 1778. Smith, however, underscored the catastrophic costs associated with the continuance of the war. He also thought that the realism of the option of independence would become more obvious if British policymakers were willing to ask themselves some hard economic questions about the war, the nature of the relationship between Britain and the 13 colonies, and what it meant to have an empire. If Britain was unwilling to effectively complete the project of an empire by investing it with the type of economic structures that such an enterprise required, then, Smith brusquely stated in *The Wealth of Nations*, “it ought to be given up. If any of the provinces of the British Empire cannot be made to contribute towards the support of the whole empire, it is surely time that Great Britain should . . . endeavor to accommodate her future views and designs to the real mediocrity of her circumstances.”⁵⁴

This is strong language. Moreover, Smith recognized in his 1778 Memorandum that freely giving up an empire and effectively conceding that the war had been a serious error “would not, in the eyes of Europe, appear honorable to Great Britain.”⁵⁵ Britain’s loss of face among the European powers would be considerable. The same choice, Smith stressed, would also “discredit the Government in the eyes of our own people.” In particular, those British political leaders associated with withdrawal from North America and the colonies’ independence “would have every thing to fear from their rage and indignation at the public disgrace and calamity, for such they would suppose it to be, of thus dismembering the empire.”⁵⁶

Yet, however harsh these realities were, Smith was confident that the post-independence relationship between the two post-imperial nations would gradually become more tranquil, profitable, and even mutually advantageous.

As rancor slowly faded, Smith stated in his Memorandum that “the similarity of language and manners would in most cases dispose the Americans to prefer our alliance to that of any other nation.”⁵⁷ In *The Wealth of Nations*, he had made a similar point. “By thus parting,” Smith wrote, “the natural affection of the colonies to the mother country, which, perhaps, our late dissensions have well nigh extinguished, would quickly revive.”⁵⁸ That would provide an opportunity for Britain and the newly independent American colonies to reset their trading relationship in a manner free of mercantilist distortions and thus of greater profit to both countries over the long term.

Smith In Our Time

Lord North’s government did not embrace either of Smith’s radical proposals to put an end to Britain’s conflict with the 13 colonies. After the loss suffered at the Battle of Saratoga, North chose to argue in favor of restoring imperial relations to the *status quo ante bellum* via a negotiation with Congress. His initiative failed, lacking support from leading British politicians and King George III but also garnering complete disinterest from the Americans.

Smith himself had no illusions that the British government would embrace either of his preferred ways to end the war, establish a lasting peace, or open new opportunities for a flourishing of economic life and a faster pace of economic growth. The bitterness between Britons and Americans occasioned by the war made it improbable that “the leading men” in North America or Britain would seriously consider the constitutional union built upon the fiscal consolidation, free trade, and constitutional representation suggested by Smith.

Nor did Smith think that Britain would simply terminate the conflict, withdraw its forces from North America, and then work towards creating a friendly existence based on trade liberalization and a military alliance. Though Smith certainly believed that this would be in Britain’s long-term interests, he underlined that it would be “contrary to the private interest of the governing part of [the nation].”⁵⁹ By this, Smith meant that those in power in London would be blamed for the loss of Britain’s North American empire and thus see their political careers end immediately and in disgrace. He also, however, had in mind those legislators “who would thereby be deprived of the disposal of many places of trust and profit;”⁶⁰ that is, patronage and the ability that it gave British politicians of the time to dispense positions, favors, and privileges to their supporters.

What lessons then can we derive today from Smith's engagement with the American question? Though today's global economy is dramatically different from that of the eighteenth century, the insights which Smith brought to his investigation of the American situation remain pertinent in our time. Four such points are especially worth highlighting.

First, protectionist policies severely distort our perception of what is truly in the national interest. Smith's analysis of how mercantilist doctrines and policies led to slower growth in Britain and North America, distorted trade flows, inflated costs, and promoted rampant cronyism contains a message for governments, legislators, and citizens today: that economic policies ostensibly designed to promote the national interest turn out to be highly sectional in their actual objectives and in the distribution of benefits. Smith showed that the ultimate beneficiaries of mercantilism were not consumers. Rather, it was those 1) politically connected enterprises like the EIC who had successfully secured privileges from the state and 2) the legislators who helped to enable and then protect these arrangements. In short, governments directly influenced by "shopkeepers" (or what we call special interests) tend to prioritize short-term, private gains over the nation's economic welfare.

Second, interventionist economic agendas introduce unnecessary friction into international relations. Smith's emphasis upon the manner in which mercantilist policies gradually sowed seeds of resentment between Britain and its colonies remains relevant today. Mistaken economic policies were not the only reason for the outbreak of war between Britain and its colonies. But Smith shows us how economic grievances, if left to fester and metastasize, can put otherwise friendly nations at odds, and contribute to the outbreak of political disorders and, in some instances, even war. The lesson for us today is clear: policies which distort international markets for political gain risk escalating economic frictions into broader, and more intractable, political conflicts.

Third, market-oriented economic reforms can provide solid foundations for the more peaceful conduct of domestic and international politics. Smith's favored solutions to the American crisis – either 1) an economic and constitutional union based on free trade, fiscal equity, and commensurate representation in the legislature, or, 2) alternatively, an amicable separation – illustrate the potential for economic liberalization to create new possibilities for political measures to help mitigate geopolitical tensions.

Smith was not naïve about politics, nor the motivations of legislators. All of Smith's writings on the subject of relations between Britain and the colonies stress the extent to which political realities – the ability of interest groups to bring pressure to bear on legislators, politicians' fear of disgrace or electoral backlash, the

lingering effects of memorable resentments, and such — obstruct clear economic and political thinking, thereby undermining the possibility of lasting fiscal, political, and constitutional reforms. But Smith did think that the right economic choices could go some way towards transforming potential or actual adversaries into good political neighbors, thereby reducing the risks of conflict expressed as prolonged and expensive wars.

Fourth, and finally, rigorous economic analysis can help us solve complicated political and foreign policy problems. Smith's approach to the American crisis reminds us of the value of bringing the economic technique that he championed in *The Wealth of Nations* to bear upon heavily disputed and complicated policy questions. By separating the economic aspects of the crisis from its political and foreign affairs dimensions, Smith was able to alert policymakers to specific considerations and longer-term trends that might otherwise have received less attention.

This is no guarantee that political leaders will necessarily pay attention to the conclusions of such analyses. Some legislators, as well as many business leaders, will have personal interests that are threatened by efforts to dismantle the neo-mercantilist structures that manifest themselves today in the form of protectionism, industrial policy, and other economic nationalist measures. Others will sincerely believe that the national interest demands that the state should act to force the economy's development in particular directions. Even after Britain recognized America's independence in 1783, it took a long time for Britain and the new American republic to resolve their differences over trade, in the Jay Treaty of 1794. Throughout the nineteenth century, special interests and sympathetic legislators lobbied hard in America for protectionist policies. The spread of free market ideas, thanks in part to the publication of *The Wealth of Nations*, was, in short, not enough to persuade significant numbers of people of the long-term problems associated with tariffs and other mercantilist policies.

In the face of those realities, however, *The Wealth of Nations* and Smith's Memorandum of 1778 exemplify how economists — and the insights and truths conveyed by their social science — can highlight many factors, considerations, and evidence that would otherwise elude many policymakers. Moreover, they can also bring these reference points to the attention of wider audiences concerned about their country's future and looking for analyses and answers untainted by the machinations of special interests. Such was the revolutionary service performed by Smith in his time, and it remains the core responsibility of economists in ours.

Endnotes

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21 See Donald Winch, “Adam Smith’s ‘politique coloniale,’” *Cahiers d’économie politique* 27/28 (1996), 41.

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25 WN, vol. II, IV.vii.c.55, 610. My emphasis.

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30 WN, vol. II, IV.vii.c.64, 615.

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