

Power, Prosperity and Protectionism: Comparative Analysis of Trade Protectionism Motives in Britain and America

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Abstract: Throughout human history, trade has been a consistent and controversial theme for the rise and fall of political regimes. According to economist Ronald Findlay's *Power and Plenty*, trade could have a tremendous impact on the strength of regimes through promoting regimes' financial abilities and incentives. Due to such influence, countries that gained myriads of trade opportunities and benefits after the First and Second Industrial Revolutions including the United States and Britain, must regulate and protect trade in order to maximize the regime's benefits. Thus, Anglo-American trade protectionism was born. This article focuses on the mechanism of international trade barriers and its ideological basis of Anglo-American protectionism. This article deeply analyses the traditions and differences of Anglo-American protectionism, such as the use of tariff, protection of local employment and direct subsidies.

1. Introduction

In recent years, the wave of globalization has shown a trend of decline. Global trade barriers, especially tariffs, are constantly rising, making consumers more panicked. Some scholars regard tariffs and the trade protectionism they represent as a tool of geopolitics to reshape the geopolitical landscape and the world economic landscape. The practice of protectionist policies as a tool did not appear and become popular after the 20th century. As early as the 17th century, protectionism was used by Britain as a tool to accumulate wealth and hit rival trade. However, the purpose of tariffs is different in different countries and regions. For example, the United States, which is analyzed in this article, did not regard protectionist policies as a tool for international competition in the early days of its founding, but only to protect its domestic manufacturing industry so that the country could accelerate economic development. In this article, we will mainly analyze the speeches of British and American thinkers, as well as some specific policy implementations and consequences, to analyze how Britain uses protectionism to compete for hegemony, and why the United States chooses to use protectionism to protect its own companies.

2. British mercantilism in the 17th and 18th century

The term "mercantilism" first appeared in Adam Smith's canon *The Wealth of Nations* published in 1776. Adam Smith used this term to refer to the British government's administrative intervention in overseas trade from the 16th to the 18th century [1]. Adam Smith listed several ways in which the British government intervened: establishing colonies, imposing large protective tariffs, and issuing bonuses. Adam Smith believed that the British government should suspend these administrative interventions and allow the market to allocate resources fairly, thus leading to his most famous "invisible hand" theory [2]. In the early modern era of European history, the first group who widely made use of mercantilism in Europe were businessmen from the Italian city states and mercantilism was their effective tool to gain advantage in the Mediterranean trade in the 15th century. Jonathan Levy, one of the most prestigious economic historians, wrote in the first chapter of *Ages of American Capitalism*, the idea of balance between credits and debts in the international trade and ideology of mercantilism, was coming from the battles between the Italian city states like Florence and Milan [3]. There is also evidence that the Hanseatic League, a Nordic commercial organization that emerged in the 13th century, also relied on tariffs to confront British

merchants and protect its own interests [4]. However, economic thinkers from Britain first systematized the use and theories of mercantilism. The rise of mercantilism in Britain is closely related to the political and military threats it faces. From the mid 16th century to early 17th century, Britain was threatened by the Spanish Habsburg dynasty at sea, and its trade routes to Asia and North America were frequently harassed by the Spanish navy [5]. Against this background, British economic thinkers began to think about how to maximize Britain's interests and military power. The earliest form of mercantilism is "bullionism" led by Thomas Gresham, highlighting that precious materials, such as gold and silver, are key for economic growth [6]. These thinkers who advocated Bullionism were responding to the shortage of precious metals at the time. Historian Geoffrey Parker once found that although precious metals (gold and silver mines) in Europe increased from 1500 to 1580, the output of gold and silver mines in the Americas gradually dried up after 1620 [7]. Therefore, the growing value of precious metals became a mainstream way of sustaining the British currency. Based on this situation, the economist who supported bullionism proposed the use of tariffs to prevent importation, and the loss of precious metals. In addition to bullionism, early economists who supported mercantilism conceived the government intervention on trade as a tool for improving productivity. In 1621, economist Thomas Munn published his pamphlet *A Discourse of Trade: From England into the East Indies*, and wrote that the regime should not place the gain of currency as the paramount task for short-term growth, but tries to acquire more resources for selling products in the long term [8].

Throughout the 17th century, mercantilism was the ideology of the Tory Party, a political party representing the landed aristocracy, on commercial policy. For instance, in a collection of essays published in 1699, Charles Davenant, a Tory economist and political thinker, wrote that "the Wealth of a Country is Finite, as well as the Substance of any private man [9]." At the same time, in this collection of essays, Davenant also emphasized that wealth cannot come from domestic production and finance, but can only come from the sale of agricultural products. In order to export agricultural products and obtain sufficient profits, the country can reduce the number of agricultural products overseas. He did not write about how to reduce overseas agricultural products, but the ideology of mercantilism can already be seen. In the world of mercantilists, the world's wealth and heavy metals are limited, and the competition between them is a zero-sum game. At the same time, the mercantilist hypothesis defines a Hobsonian international political system: the prosperity and strength of a country must be based on the plunder and weakening of another country [10].

The ideology of mercantilism had a profound impact on Britain's trade policy later. For example, starting in the late 17th century, the North America achieved rapid economic development. In its policy towards the Northern American colonies, Britain used administrative power to forcibly bind the exports of the colonies to those of the British mainland. In the Staple Act of 1663 [11], North American landlords were required to purchase only production tools from mainland Britain, and slaves had to be purchased from British slave traders. Similarly, an important motivation in Britain's mercantilist policies from the seventeenth to the eighteenth century was still to maintain the British Empire's economic and political dominance in Europe and to strike at Britain's main rivals: from Spain to France. Similarly, an important motivation for Britain's mercantilist policies in the 17th and 18th centuries was still to maintain the British Empire's economic and political dominance in Europe and to fight against Britain's main rivals: from Spain to France. In the Seven Years' War from 1754 to 1763, in order to defeat its opponents, Britain spent a lot of money on the military, causing Britain's national debt to soar. Later historians calculated that after the Seven Years' War, Britain's national debt was as high as 132 million, accounting for a percentage of GNP far higher than the 80% before the war [12]. During this process, the military confrontation in North America was mainly in the border area between Britain's North American colonies and French Canada, and the British supported the North American colonists against the pro-French Indians and French. Therefore, after the war, the British Parliament believed that it had the right to squeeze the colonists' funds to fill the treasury of the British Empire. And the tool for the British to obtain funds was mercantilism.

A series of well-known laws were enacted. These laws are often considered to have stimulated

the outbreak of the American Revolution from 1776 to 1783, including the Sugar Act of 1764, the Townshend Act of 1767, and the Intolerable Act of 1774. In this process, the British government did gain some economic benefits through mercantilist policies. Take the sugar industry as an example: after the Sugar Act of 1764 (which strictly restricted the smuggling of sugar from other countries and gave British sugar privileges), Britain successfully reduced the share of other countries such as France in British sugar consumption, thereby gaining economic benefits. Britain successfully curbed the decline in sugar industry revenue from 1759 to 1762. Revenue began to rise in 1764. By 1775, on the eve of the outbreak of the American Revolution, British sugar industry revenue had returned to the level of 1760 [13].

3. Alexander Hamilton's economic thoughts of protectionism (1776-1792)

During the early periods of the US from 1776 to 1789, the founding fathers of the United States hoped to abandon mercantilism and promote fair and free international and domestic trade. In April 1776, Congress opened all ports in the United States, allowing all international merchant ships to enter the ports of the colonies freely. For example, in the Plan of Treaties in 1776, John Adams communicated with French politicians in the hope of abolishing the trade barriers that prevailed on the European continent. In 1778, France agreed to open two ports to the United States in order to reduce Britain's total trade in North America, and guaranteed the safety of American merchant ships in the Atlantic through the personal influence of the French king and his relationship with pirates. However, France was still unwilling to eliminate the inherent trade barriers. Until the early 1780s, Thomas Jefferson continued to negotiate with the French government, hoping that the French government would reduce trade barriers. Although the French royal family also weakened some trade barriers against the United States from 1780 to 1789, French trade managed by a corrupt and bloated bureaucracy still had no way to achieve true free trade. At the same time, in the early 1780s, the United States also tried to conclude trade agreements with Prussia, the Netherlands, and Sweden to reduce trade barriers between the United States and these countries, but all three countries rejected the United States. The unfriendly attitude of the international community forced the founding fathers of the United States to stop pursuing free trade and instead increase their own trade barriers and protection. This is the origin of American protectionism.

In the US Congress in 1780, Alexander Hamilton was the main figure who advocated trade protectionism. Hamilton was a political and economic nationalist, and even more so a man of action. In his early years (1773-1775), he studied at King's College in England. He read a series of Tory-themed works in college, and began to realize the advantages of mercantilism in accumulating national wealth, and became interested in the oppression of North American colonists by the British government at that time [14]. In his view, political leaders "ought not to wait for the event...but the measures which they have taken ought to produce the event [15]." Therefore, due to the economic recession in the United States in the 1780s, Hamilton would undoubtedly try to intervene directly with the state. The origin of Hamilton's support for trade barriers such as tariffs can be traced back to some pamphlets he wrote before 1776. For example, in a pamphlet in 1774, he lamented the abundance of resources in the North American colonies and even pointed out that "by lessening its need of external commerce, will render it still secure against the encroachments of tyranny [16]." In other words, in Hamilton's view, eliminating overseas trade would not seriously undermine the economic life of the North American colonies, because the North American colonies could be completely self-sufficient. In this regard, he was very different from the British mercantilists. Other scholars pointed out that during the American Civil War, Hamilton witnessed businessmen using currency depreciation to make private profits and the weakness of the American manufactures in front of such currency depreciation, which prompted him to hope that the state could intervene in trade and make profits. In 1782, Hamilton reiterated that the "balance of trade" is key for restoring the recessive economy [17]. In Hamilton's world, protectionist policies, subsidies and tariffs, were very important for accumulating national revenue [18]. In this regard, he inherited the mercantilist ideology of the Tory school. Out of consideration for American interests, Hamilton believed that the US government could first take administrative measures to strike at Britain's extensive commercial

interests. For example, in the Federalist Papers, Hamilton proposed that the United States should "exclude" all British ports in the United States, and such exclusion would facilitate trade negotiations between the United States and Britain [19]. This is similar to Trump's intention to exclude Chinese companies' exports in the United States today: striking opponents before trade negotiations. In addition, he also wrote in a short article that the national government should extend its responsibilities to the import field.

This series of ideological foundations prompted Hamilton to publish the *Report on Manufactures* in 1791 [20]. This is a document widely cited by subsequent American protectionists to provide legitimacy for the US tariff policy. Hamilton first proposed that the US government should increase tariffs on imported goods and reduce tariffs on raw materials. In this regard, Hamilton inherited Thomas Munn's theory that obtaining raw materials is to ensure the long-term prosperity of the country (although there is no textual evidence to prove that Hamilton has ever read Thomas Munn's works). Second, the US government must provide large-scale subsidies to the manufacturing industry. To ensure that these manufacturing industries can gain sufficient advantages in the international market and will not be defeated by the manufacturing industries of Britain and France, the government must implement effective industrial policies. In addition, unlike Charles Davenant, Hamilton refuted the view that agriculture and land were important means of promoting international revenue [21]. Although protectionists are happy to cite this document, it does not mean that Hamilton is a radical or even populist protectionist like Calvin Coolidge or Trump today. Hamilton's goal is still to increase government revenue. He believes that tariffs, as a government responsibility, must be moderate, not radical. In addition, he also believed that the purpose of the report was to promote American manufacturing, not to destroy foreign manufacturing imports [22]. As historian Gerard Clarfield said, "the key word in Hamilton's conception was encouragement, not protection [23]."

Finally, in 1792, Congress did not pass Hamilton's series of proposals on subsidies, but did pass Hamilton's series of proposals to increase manufacturing tariffs. This is the origin of American trade protectionism. After that, tariffs became a political and economic weapon for the US government, and also brought in a lot of revenue for the US government. Perhaps even Hamilton himself had never thought that from 1790 to 1860, tariffs provided nearly 90% of the US government's revenue [24]. It is for this reason that Hamilton and his theory were frequently cited by later protectionists and became an important ideological basis for US trade protectionism.

4. Conclusion

Although the purposes of British and American trade protectionism (mercantilism) are vastly different, there are certain similarities and inheritances in terms of means and motivations. British mercantilism is fundamentally an imperialist project. Britain intended to finance its military power through tariffs and other trade barriers, weaken European competitors such as Spain and France, and systematically use colonial resources and markets to obtain natural resources from other countries. In American trade protectionism, Hamilton and others also believed that trade barriers were important for obtaining resources from other countries. Both acknowledged the role of the government in actively shaping the economic growth by trade and rejected the principle of pure laissez-faire. But the difference is that in American trade protectionism, manufacturing has occupied a very important position since the birth of the doctrine, and expanding military power is not the main purpose of trade barriers. The focus of protectionism is internal development - cultivating emerging domestic industries ("infant industries") through tariffs and proposed subsidies to reduce dependence on imported manufactured goods and ensure the country's long-term viability. As Hamilton said, reducing the need for foreign trade can protect the country from tyranny. This emphasis on manufacturing has been transformed into the following form in the 21st century: The US government intends to use a large number of tariffs to exclude foreign small commodities, especially Chinese commodities, from entering the US market, thereby protecting the interests of American manufacturing and industrial workers.

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