

Globalization and economic development: some eighteenth-century views

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Paper to be presented at the Fiftieth Anniversary Conference of the Graduate Program
in Economic Development, Vanderbilt University, November 10-11, 2006

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I wish to express my indebtedness to Istvan Hont's *Jealousy of Trade: International Competition and the Nation-State in Historical Perspective* (2005) for his magnificent review and analysis of many of the issues examined in this paper. However Hont should be held in no way responsible for the views that I express.

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Globalization in economic relations, one of the dominant forces in the present-day world economy, is sometimes regarded as a phenomenon whose consequences were widely noted only in the second half of the nineteenth century. In fact the prospect of globalization, the dangers it can present to the viability of nation states, and the opportunities it offers for the process of economic development, were issues hotly debated by observers of economic and political trends starting in the late seventeenth and early eighteenth centuries. This paper examines how the first instances of globalization were perceived and analyzed two to three centuries ago. The reactions it provoked ranged from approval and advocacy on the part of some Enlightenment philosophers and statesmen, to the misgivings expressed by others regarding its implications for economic development, income distribution, the viability of the nation state, and government finances. This gamut of reactions finds a striking counterpart in the analogous attitudes of receptivity or apprehension that have been amply reported in recent times. The perception of the effects of globalization as it unfolded at the time of the Enlightenment, and the policy measures adopted to cope with the challenges it posed, are of potential interest to present-day policymakers who face similar political and economic challenges in both developed and developing countries.

This paper evaluates several consequences, both positive and negative, that were associated with globalization in the eighteenth century and still resonate in the twenty-first century. Section 1 describes how globalization was first perceived by the nation states of that era, in the form of a global marketplace considerably larger than the national markets to which economic activity had until then been limited. The international migration of skilled and unskilled

labor, and the international movement of capital, also opened up economic opportunities that were previously not available. Section 2 goes on to detail the economic advantages of expanded international trade and investment as they were then perceived by observers of the new phenomenon of globalization. These advantages included the availability to consumers of hitherto unknown commodities, and an increase in labor productivity due to the efficiency gains associated with the higher level of production required by an expanded export market. Other important gains were the domestic imitation of foreign inventions and innovations, the accompanying technological diffusion and the spreading of economic development from rich to poor countries.

Section 3 describes some of the noneconomic advantages that globalization held out for the writers of the Enlightenment, such as the practice of good government and a higher degree of civilization, or what the Scottish philosopher David Hume called “refinement in the arts”. The cultivation of export markets for manufactures was regarded by Adam Smith as the best way to obtain the cash needed to finance the frequent wars that were waged in the eighteenth century. Globalization, however, was not fully embraced since it could thwart the achievement of certain noneconomic objectives such as national defense. There was also increasing awareness of the economic challenges posed by globalization. Section 4 examines challenges such as a downward pressure on wages, the outsourcing of jobs due to competition from lower-cost countries, and the deindustrialization of parts of the British economy that would follow a greater openness to trade. As consequences of globalization, a more unequal income distribution and the rent-seeking measures of merchants and of trading companies were also sources of concern.

In light of these challenges, section 5 outlines the policies that were undertaken or contemplated to mitigate the effects of globalization. These included the gradual rather than the

immediate introduction of free trade, the outsourcing of some industries to low-wage countries such as India, and minimal levels of publicly financed education to promote what Adam Smith described as “an instructed and intelligent people” and to compensate for the negative side-effects of specialization. Section 6 concludes by noting the similarity of concerns about the implications of globalization, and of proposals designed to alleviate its effects, that were advanced by philosophers and statesmen from the eighteenth century down to our times.

1. Early forms of globalization

The earliest manifestation of globalization perceived by nation states in the eighteenth century was the scope for increased trade offered by a global marketplace considerably larger than the regional or national markets to which economic activity had until then been limited. Adam Smith began his magnum opus, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), with a thorough examination of the causes and advantages of the division of labor. He extolled the latter as the key to increasing wealth and prosperity, where “universal opulence ... extends itself to the lowest ranks of the people”. Since the division of labor is limited by the extent of the market, as he presciently noted in the third chapter of Book One of the *Wealth of Nations*, it could be practiced on a larger scale in a global market. The growth of this market was dramatically illustrated by Smith himself when he asserted that “The discovery of America, and that of a passage to the East Indies by the Cape of Good Hope, are the two greatest and most important events recorded in the history of mankind” (Smith 1776: 22, 626).

The potential gains from international trade led some writers to speculate on the physical or human endowments that cause countries to excel in particular commodities rather than others,

that is, to form a rough notion of what in the nineteenth century became known as “comparative advantage”. One of the first was Josiah Tucker, who was led to enunciate

as a general Proposition, which very seldom fails, That *operose* or *complicated Manufactures* are cheapest in rich Countries;—and *raw Materials* in poor ones: And therefore in Proportion as any Commodity approaches to one, or other of these *Extremes*, in that Proportion it will be found to be cheaper, or dearer in a rich, or a poor Country ... [Moreover] there are certain *local* Advantages resulting either from the Climate, the Soil, the Productions, the Situation, or even the natural Turn and peculiar Genius of one People preferably to those of another, which no Nation can deprive another of. (Tucker 1774: 188, 193)

Tucker’s notion of the territorial division of labor between rich and poor countries is one that most economists in the nineteenth century accepted as “natural” when they depicted trade between the more developed countries and those considered to be the “hewers of wood and drawers of water”. Although Smith never cited Tucker, he also believed that “The most opulent nations, indeed, generally excel all their neighbours in agriculture as well as in manufactures; but they are commonly more distinguished by their superiority in the latter than in the former” (Smith 1776: 16). These and other contemporary observations have been regarded as anticipations of comparative advantage.¹ Tucker joined with Hume in what became known as the “rich country—poor country” debate described below, where they examined whether poor countries could catch up with, and perhaps even surpass, the standard of living of the richer ones.

Hume and Smith noted that a growing degree of interdependence among nation states was also being brought about by the international migration of skilled and unskilled labor, and by international capital flows. These affected not only the availability of factors of production in each country, but the way in which these factors could be combined to yield diverse types of output or the very nature of technology. The “improvements” (as they were denoted) in methods of production, and the new commodities that appeared on the market, opened up new and exciting economic opportunities. The possibility of learning from foreigners, and adopting some of their customs and institutions, struck Hume, Smith, the Physiocrats and other Enlightenment philosophers, and convinced them that countries needed to become more open to the trade of commodities, the exchange of labor and capital, and the diffusion of ideas and techniques of production from abroad.

Financial innovations facilitated international capital flows for productive purposes as well as the waging of war. A worrisome development in some countries was the accumulation of public debt, some of which was financed by foreigners and required corresponding outflows of specie to service it. The complexities of war finance and their international implications exercised the minds of some of the more illustrious exponents of the Enlightenment.

2. Perceived economic advantages of globalization

The incipient forms of globalization described above were associated by students of this new phenomenon with important economic advantages. International trade allowed the import of cheap foreign commodities financed by the sale of exports. These “gains from trade”, as they became known later in the international trade literature, were evident on the production as well as

the consumption side. Europe's burgeoning market for its manufactured exports allowed it to benefit from the greater scope it afforded for economies of scale and rising labor productivity, which was reflected in falling costs. Another advantage of trade was the introduction of a variety of hitherto unknown commodities from Asia and the Americas. In addition to greater interindustry trade, the tendency of European countries with similar factor endowments to specialize in different varieties of manufactures opened up the prospect of intraindustry trade between them, such as the exchange of French for Spanish wine.

Another benefit that Adam Smith emphasized, and one whose conceptual basis was later criticized by most classical economists, was that trade offered a vent for surplus commodities produced over and above domestic needs. According to Smith, trade provides two benefits:

Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. By means of it, the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society. (Smith 1776: 446-7)

The first of these benefits of trade is the vent for surplus commodities for which no demand can

be found at home. John Stuart Mill (1848: 579) called it “a surviving relic of the Mercantile Theory”, since it implies that resources cannot be reallocated so as to avoid the “surplus” commodities whose existence Smith postulates. The second benefit is consistent with what Hla Myint (1958) called the “productivity” theory of trade, according to which trade stimulates an improvement in the methods of production and hence in labor productivity. It is noteworthy that both gains from trade identified by Smith in that passage relate to the production side rather than the consumption side favored by present-day textbooks of international trade. Moreover, Mill’s criticism of the vent-for-surplus theory can be deflected if, as in the passage just quoted from *The Wealth of Nations*, the two benefits of trade are viewed as complementary. The exploitation of economies of scale implicit in the productivity theory of trade can be attained only at an output level that is well above domestic demand. This “surplus”, the excess supply of this commodity, then necessitates an outlet in the form of exports.

Smith noted another gain from trade that relates to the consumption side, and is therefore much more in line with that stressed by present-day trade economists. As enunciated by Jacob Viner (1937: 440), the “eighteenth-century rule” that expresses this gain is that “it pays to import commodities from abroad whenever they can be obtained in exchange for exports at a smaller real cost than their production at home would entail”. Smith used this rule in several sections of the *Wealth of Nations* to depict the gains from trade between the hunters and shepherds of the same tribe, the urban and rural sectors of a country, and two different countries. Economists implicitly refer to this rule when they argue that trade is an indirect method of production. A long line of authors used this rule from the early eighteenth century on. In the anonymously published pamphlet titled *Considerations Upon the East-India Trade*, Henry Martyn (1701) presented the

first quantitative measure of the gains from trade based on this rule. The numerical example that he constructed illustrated the advantages that England would derive from importing wheat instead of producing it domestically:²

If nine cannot produce above three Bushels of Wheat in *England*, if by equal Labour they might procure nine Bushels from another Country, to employ these in agriculture at home, is to employ nine to do no more work than might be done as well by three; ... is the loss of six Bushels of Wheat; is therefore the loss of so much value. (Martyn 1701: 35)

Martyn's measure of the gains from trade, and its implied case for free trade, was superior to that proposed by Smith three quarters of a century later, and was not improved by writers after Smith for over a century.

According to David Hume, globalization yielded another important gain through Britain's imitation of foreign inventions and improvements, followed by technological diffusion. Referring to the previous two centuries in his essay "Of the Jealousy of Trade", Hume argued that "Every improvement, which we have since made, has arisen from our imitation of foreigners" (1758: 78). He also observed that a country's economic prosperity was enhanced, rather than imperiled, by the economic prosperity of its neighbors, and spelled out the prospect of a virtuous spiral of economic development induced by trade. By flatly contradicting the mercantilist tenet that trade is a zero sum game, such that it can benefit a country only if its trading partner suffers a corresponding loss, he set the stage for Smith to elaborate further on this theme in *The Wealth of Nations*.

Hume maintained that globalization in the form of a greater openness to trade and to the flow of ideas could benefit even poor countries such as Scotland, whose low prices and wages allowed some of its commodities to compete successfully with those of more advanced countries. He held out a vision of economic development spreading from rich countries to poorer ones because the exports of the rich ones would become uncompetitive on world markets (Hume 1752a). Josiah Tucker (1774) countered this view by arguing that rich countries possessed built-in advantages that poorer ones could overcome only with great difficulty and after considerable time. Their exchange of opinions resulted in the “rich country—poor country” debate mentioned above, and it appears that Tucker converted Hume to his viewpoint as evidenced in Hume’s later essay “Of the Jealousy of Trade” (1758). This debate finds a present-day counterpart in the growth-and-trade literature that studies whether the per capita incomes of advanced and less developed countries have tended to converge or diverge in recent decades.

3. Noneconomic advantages and drawbacks of globalization

In the eighteenth century globalization held the promise of noneconomic advantages as well as the economic ones described above.³ According to French Enlightenment figures such as Voltaire and the foremost representatives of the Scottish Enlightenment, Hume and Smith, an increased level of economic interaction with foreign countries leads not only to greater wealth, but to a higher degree of civilization or what Hume (1752b) called “refinement in the arts” in the revised title of one of his essays. Beyond the flowering of cultural achievements by artists, philosophers and scientists, Hume and Smith went so far as to associate commerce with the practice of good government and greater security for individuals, which assured them of the liberty to pursue lines

of activity for which they were best suited. Citing Hume as a precursor (and the only one) of his views, Smith maintained in Book Three of *The Wealth of Nations* that

commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbours, and of servile dependency upon their superiors. This, though it has been the least observed, is by far the most important of all their effects. (Smith 1776: 412)

The need to achieve certain noneconomic objectives, however, can militate against the pursuit of globalization and trump it. Although Smith is sometimes referred to as the “prophet of free trade”, he readily conceded that some noneconomic objectives are of greater importance than economic ones such as free trade. By maintaining that “defence ... is of much more importance than opulence” (1776: 464-5), he supported England’s navigation acts. By making it difficult or impossible for foreign shipping to transport commodities to England, these acts reduced the number of sellers of foreign goods in Britain and thereby lowered the foreign demand for British goods. This shrank the volume of trade and led to a deterioration in Britain’s terms of trade. But Smith was willing to forego economic efficiency gains in exchange for greater national security:

The act of navigation is not favourable to foreign commerce, or to the growth of that opulence which can arise from it. The interest of a nation in its commercial relations to foreign nations is, like that of a merchant with regard to the different people with whom he

deals, to buy as cheap and to sell as dear as possible. (Smith 1776: 464)

The British “are thus likely not only to buy foreign goods dearer, but to sell our own cheaper, than if there was a more perfect freedom of trade”. Despite this economic loss, “the act of navigation is, perhaps, the wisest of all the commercial regulations of England” (464-5) since it encouraged British shipping and added to the number of British sailors. The same concern for national defense led Smith to advocate bounties for industries that he assumed to be of strategic importance, such as sailcloth and gunpowder.

In Book Four of *The Wealth of Nations*, Smith examined the burning issue of how to finance the cost of wars:

A nation may purchase the pay and provisions of an army in a distant country three different ways; by sending abroad either, first, some part of its accumulated gold and silver; or, secondly, some part of the annual produce of its manufactures; or last of all, some part of its annual rude produce. (Smith 1776: 441)

Smith ruled out the first of these ways as totally inadequate given the cost of wars and their length. In the process of so doing, he gave the lie to one of the main mercantilist pretexts for the accumulation of precious metals, which was to enable a country to dispose of a literal war chest:

It is not always necessary to accumulate gold and silver, in order to enable a country to carry on foreign wars, and to maintain fleets and armies in distant countries. Fleets and

armies are maintained, not with gold and silver, but with consumable goods. The nation which, from the annual produce of its domestic industry, from the annual revenue arising out of its lands, labour, and consumable stock, has wherewithal to purchase those consumable goods in distant countries, can maintain foreign wars there. (Smith 1776: 440-1)

Smith also dismissed the export of agricultural exports (“rude produce”) on the grounds that they are too bulky and costly to transport, and that most countries can ill afford to export the commodities required for the subsistence of their people. By elimination, this left the export of “the finer and more improved manufactures; such as contain a great value in a small bulk, and can, therefore, be exported to a great distance at little expense” (1776: 444) as the best way to secure the means of payment for the war materiel and mercenary armies needed to wage the frequent wars of that time and aid the cause of national defense. It is ironic that Smith thereby privileged for a noneconomic reason the production of the very type of commodity, the finer manufactures, that were favored and subsidized by the mercantilist system of his day, rather than the agricultural goods that Smith believed on economic grounds to show the highest economic return.⁴

4. Economic and political challenges of globalization

Coupled with a perception of the gains promised by globalization, there also dawned on observers an increasing awareness of the economic, political and social challenges that it posed. Some sources of concern that emerged in the eighteenth century have a decidedly twentieth-century ring. The economic interdependence represented by international trade, and the accompanying

benefits in the form of new or cheaper commodities, means that a country becomes dependent on other countries for foodstuffs and other essential materials in the face of the vagaries of weather and war. Some writers warned that the very survival of a nation was being put at risk by its increasing reliance on the goodwill of foreigners. Others noted an untoward consequence of trade in the form of a downward pressure on wages and the outsourcing of jobs due to competition from lower-cost countries. It is ironic that India and China, for different reasons, were already perceived as parts of Asia that threatened European exports because of their dismally low wages and the decline in the cost of long-distance transportation via the Cape of Good Hope.

Some British pamphleteers saw India's colonial status under the control of the East India Company in a different light. Although British textiles were no longer competitive with low-cost Indian ones, the latter could be used as a battering ram to invade the markets of other European countries. At the start of the eighteenth century, Henry Martyn (1701) and other pamphleteers realized that the deindustrialization of parts of the British economy would inevitably follow greater openness to trade, but they accepted this as the price that their country should be willing to pay since it would tend to lower wages and thus make Britain more competitive in other lines of activity.⁵ That the pressure on wages would lead to a more unequal income distribution was a source of concern to some observers, especially to those sympathetic to the plight of labor. The latter did not include mercantilist writers such as Bernard Mandeville, who supported low wages. According to Adam Smith, a greater openness to trade posed another challenge that statesmen should be particularly aware of and try to combat: the rent-seeking measures pursued by industrialists and merchants associated with trading companies such as the East India Company. The prospect of greater globalization would tempt them to oppose it in order to extend their

overseas monopolies. Others would lobby to protect their own industries when threatened by imports, and thus force the structure of economic activity away from the “natural” channels it would take under free trade.

5. Policies taken to confront the challenges of globalization

Various policies were proposed or enacted in order to mitigate or oppose the effects of globalization. As pointed out in the previous section, some writers proposed the outsourcing of certain industries to low-wage countries such as India. Others advocated freer trade, but favored moderating the pace of trade liberalization in order to allow for a gradual reallocation of labor away from import-competing activities and toward more competitive sectors. Adam Smith favored minimal levels of publicly financed education to alleviate the negative side-effects of specialization. He deplored any form of industrial policy that would favor some sectors of the economy over others, and was vehemently opposed to the intrusion of merchants and manufacturers into the affairs of state.

Other writers turned away from globalization and decided that their nation needed to be protected from it. Imports were discouraged by various trade policies such as tariffs, quotas or outright bans, and domestic production was subsidized in other ways. Bounties were granted to exports to make them artificially competitive on world markets. These policies allowed domestic producers to monopolize the domestic market at the expense of domestic and foreign consumers. The fact that colonies were prevented from trading with countries other than the mother country reduced both the volume of their trade and their terms of trade. Colonies were also forbidden from establishing any manufactures, which they were forced to buy from the metropolis. They

were thus barred from developing any sources of comparative advantage alternative to their primary goods exports.

6. Awareness of the benefits and costs of globalization, then and now

The incipient trends toward globalization that emerged in the eighteenth century bred concerns over this new phenomenon that have found parallels in the period since World War Two. After reviewing the nature of these concerns and the policy measures undertaken to alleviate the consequences of greater openness to international competition two to three centuries ago, Istvan Hont noted in a recent book that “the globalization debate of the late twentieth and early twenty-first centuries lacks conceptual novelty” (2005: 155). In both periods, tensions arose between the opportunities that globalization presents and the challenges in terms of economic dislocation and social unrest that it is likely to generate. For countries that resolved to embrace globalization rather than oppose it, market access became an important bone of contention. In the eighteenth century, the need to finance wars through the export of manufactures led countries to look with jealousy — the jealousy of trade — on their competitors’ efforts to do the same. In the post-World War Two period, the issue of market access has been spurred by the needs not of war finance but of economic development, and resolved through participation of the leading industrial countries in the General Agreement on Tariffs and Trade (GATT). They were gradually joined by some less developed countries, especially after the GATT gave way to the World Trade Organization (WTO) in 1995. Negotiations in the GATT and the WTO have been successful in lowering trade restrictions since they are based on the reciprocity of market access. In early eighteenth-century France a similar vision was articulated by the Abbé de Saint-Pierre, who

advocated a European Union based on a federal system in order to eliminate the “jealousy of trade” that was rife between the European states.

Despite the fora for discussion and bargaining that international organizations such as the GATT and the WTO have offered in our times, the successive “rounds” of negotiation held under their aegis often stalled and were protracted for years before being successfully concluded. The current Doha Round sponsored by the WTO has been especially contentious, and is still far from certain of success. Spokespersons for developed and developing countries have been at loggerheads over market access for primary goods as well as services. The well-publicized disputes between them show that “jealousy of trade” is not simply a phenomenon of the past. Globalization, and its ideological cousin “globalism”, still engender strong feelings as evidenced by the struggle over the creation of the North American Free Trade Agreement (NAFTA) in the 1990s and the “Battle of Seattle” that stalled the negotiations over expanded free trade in the current round of the WTO.⁶ The contentiousness resulting from multilateral negotiations to further liberalize trade led some countries to promote another alternative in the form of preferential trade agreements such as the European Union and NAFTA. A great attraction for Mexico to join the negotiations for NAFTA after the United States and Canada had already achieved bilateral free trade through the U.S.-Canada Free Trade Agreement was the greatly expanded market access for Mexican exports in North America. An eighteenth-century parallel to preferential trade agreements such as NAFTA emerged in Scotland in 1707 when it signed a Treaty of Union with England that guaranteed it duty-free access to the English market in exchange for surrendering its sovereignty and even its own king to its neighbor to the south.

Another interesting parallel between the debates over globalization in the eighteenth

century and in recent times is the concern expressed in the leading industrial countries over cheap imports from less developed countries such as China and India. As noted above, a few eighteenth-century pamphleteers in Britain wished to use cheap Indian imports as a battering ram to conquer European markets, despite the unemployment and deindustrialization these imports would create in their own country and the downward pressure this would exert on British wages. The creation of multinational corporations with subsidiaries in developing countries can perhaps be regarded as a similar device used by the developed countries of the OECD to take advantage of cheap overseas labor in order to ensure their own competitiveness in world markets, at the cost of reduced wages and higher unemployment at home. Some of the globalists in our day are willing to countenance a stagnation in the real wages of unskilled labor and its chronic unemployment as the price one must pay for the advantages of economic openness. It is widely recognized by economists (but not many politicians) that greater openness and other forms of globalization result in both winners and losers. That this was also true in the eighteenth century offers matter for reflection to economists, policymakers and the public in our own time.

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Endnotes

1. See Maneschi (1998: 44-5) and Hont (2005: 68).
2. As shown by Maneschi (1998: 36), Martyn's numbers imply that a unit of labor employed in the export sector produces commodities that exchange for one bushel of wheat, while a unit of labor directly employed in the wheat sector yields only 1/3 bushel. Hence trade results in a gain of 2/3 bushel of wheat per unit of labor employed.
3. On the importance of noneconomic objectives in the writings of Adam Smith and of the classical economists that followed him, see Maneschi (2004).
4. Smith set out a hierarchy of employments of capital in chapter 5 of Book Two of *The Wealth of Nations*, where he declared agriculture to be a more advantageous sector than manufactures in terms of either the output to capital ratio, or the ratio of labor to capital employed.
5. On Martyn's contributions to economic analysis and their policy implications as viewed three centuries later, see Maneschi (2002).
6. On the relationship between globalization and globalism, see Steger (2002). The recent debates over the pursuit of multilateral trade liberalization are clearly analyzed and set in context by Irwin (2002).