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Abstract While extensive scholarship has shown that it is possible to maintain global economic openness after hegemony, economic liberalization is still thought to be unlikely prior to hegemonic ascent. This assumption is based on the conventional narrative that Great Britain began lowering its trade barriers in the 1820s as it began its hegemonic ascent. This article shows that Britain began pursuing an open trading structure in the 1780s—in precisely the multipolar world that hegemonic stability theorists claimed would be least likely to initiate the shift. This change in commercial strategy depended crucially on the intellectual conversion of a key policymaker—the Earl of Shelburne—from mercantilist foreign economic policy to Adam Smith’s revolutionary laissez-faire liberalism. Using the case of “the world’s most important trading state” in the nineteenth century, this article highlights the importance of intellectuals—as well as their ideas—in shaping states’ foreign policy strategies. It also provides further evidence of key individuals’ significance and their decisions at “critical junctures.”

I owe to a journey I made with Mr. Smith from Edinburgh to London the difference between light and darkness ... The novelty of his principles ... made me unable to comprehend them at the time, but he urged them with so much ... eloquence, that they took a certain hold which, though it did not ... arrive at full conviction for some few years after, I can truly say has constituted ever since the happiness of my life.

—The Earl of Shelburne, Prime Minister (1782–83)

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What an extraordinary man [Prime Minister William] Pitt is; he understands my ideas better than I do myself.

—Adam Smith

Theories of international organization have not yet escaped the long shadow of so-called hegemonic stability theory. The neoliberal institutionalists theorized that it was possible for openness to exist independent of hegemony, and they empirically demonstrated that openness has persisted even “after hegemony.” But there still has not been a robust challenge to the hegemonic stability theorists’ claim that trade liberalization is least likely in a system populated by large, unequally developed states.

The debate about the distribution of power’s influence on global economic openness is as important as ever. Regimes of global economic governance have proven sufficiently durable to maintain openness even in the face of American relative economic decline. But the increasing tensions within these regimes, the ascent of economic powers resistant to complete market integration—like China and India—and the continuing economic malaise all increase the propensity toward closure. Will actors continue to support economic openness as the “structure” of the international system evolves? If global markets shift toward closure, can they shift back toward openness absent a rising hegemon?

I address these pressing questions by reexamining the origins of the first era of trade liberalization. Focused on the “openness” achieved, scholars of international politics have largely assumed that Britain did not begin pursuing openness until the 1820s. But the pursuit of openness might long antedate its achievement. Indeed, Britain first sought openness in the 1780s, as a threatened power in a hostile, multipolar system. At that point, Britain relinquished control over the American colonies and pursued free trade with friend and foe alike.

This article challenges “materialist” explanations for Britain’s shift toward free trade that exclusively consider the structure of interests, institutions, and power at the international and domestic levels. The shift toward openness came well before hegemony, in precisely the multipolar world that hegemonic stability theorists claimed would be least likely to initiate the shift. I also show that domestic interests and institutions underdetermined Britain’s commercial strategy in the 1780s. These material variables did matter. They defined the range of possibilities. But this was a broad range, and it remained for policymakers to choose among competing strategies as they pursued power and plenty.

Britain’s shift depended on a previously unnoticed variable: the influence of an enterprising intellectual on a key policymaker at a critical juncture. The intellectual was Adam Smith. The policymaker was William Petty, the second Earl of Shelburne. And the critical juncture was the American Revolutionary War.

A leading member of Parliament, Shelburne commanded the support of the opposition needed to capture the government, grant the American colonies independence, and reform Britain’s commercial policy. Initially, Shelburne extolled the mercantile system as the best means to preserve Britain’s empire, emphatically arguing that commercial regulation was the solution to—rather than the cause of—the American Revolution. Shelburne’s repeated engagement with Smith, however, caused him to rethink this assumption. Ireland’s 1779 uprising in favor of free trade provided the empirical evidence that confirmed, in Shelburne’s mind, Smith’s prediction that mercantilism engenders conflict. When he became prime minister in 1782, Shelburne designed the postwar settlement to embody Smith’s prescriptions: American independence, peace with Europe, and trade liberalization for all. Despite the brief tenure of his government, Shelburne’s initiatives provided the framework for the liberalizing reforms that followed in the 1780s and beyond.

No previous scholar has identified the decisive role Smith played in the political battles that determined America’s fate. This may be due to the difficulties inherent in studying Smith and Shelburne. Understanding Smith’s role has proven elusive because the fragmentary evidence supports multiple interpretations. Shelburne presents the inverse challenge: much of his corpus survives, but he has received only a few serious treatments in several centuries.

In addition to revising our understanding of the origins of the first era of openness, this article deepens our understanding of the role ideas play in shaping foreign policy. Rather than treating “ideas” as disembodied formulations accounting for unexplained variation, this article reembodies ideas in the intellectuals who developed, saw adopted, and helped to implement their policymaking frameworks. It shows that policy-influencing ideas were chosen in part on their intellectual merits—their theoretical strength and perceived empirical veracity—and in part on the persuasive capacities of those who pressed them upon policymakers. It

6. The Earl of Shelburne (1737–1805) was born into a wealthy Irish family recently raised to the British peerage. As prime minister (1782–83), Shelburne managed the peace negotiations that ended the American Revolutionary War.
7. This narrative parallels Douglas Irwin’s account of Robert Peel’s conversion to laissez-faire liberalism in the 1840s. Irwin 1989.
8. See Heckscher 1922, 19; Benians 1925; Fay 1934 and 1956, 114; Stevens 1975; Willis 1979, 532; Ross 1995, 295; and Phillipson 2010, 262–63.
9. Smith instructed the executors of his will to burn his papers. Smith 1997, viii. Scholars disagree about no less important an issue than Smith’s influence on the Townshend duties. See Scott 1935; Fay 1956, 116; and Viner 1965, 85.
also bolsters the case for the causal power of ideas by recounting an instance where a leading policymaker changed his mind at considerable political and personal cost.

This analysis provides further evidence of the value in combining modern social scientific frameworks with the “old history” focus on pivotal actors’ shifting responses to evolving material circumstances. In the language of modern social science, Britain’s imperial crisis in the 1770s and 1780s constituted a “critical juncture”—a “relatively short [period] of time during which there [was] a substantially heightened probability that agents’ choices will affect the outcome of interest.” At such points, “contingency ... becomes paramount.” But to say that outcomes are contingent is not to say that they cannot be studied with analytic rigor. Scholars in a range of fields have employed numerous approaches—formal and informal—to grapple with contingent events. Recently, Capoccia and Kelemen synthesized these disparate approaches into two highly specified techniques: “counterfactual analysis and narrative process tracing.” This article utilizes both methods to explain Britain’s radical policy reorientation in the 1780s.

I first challenge the hegemonic stability theorists’ choice of dependent variable, showing that their focus on the “openness” achieved, rather than the commercial strategy pursued, is problematic theoretically and empirically. After reviewing the dominant (materialist) explanations for the reforms of the 1780s, the next section proposes that key policymakers’ ideas played a crucial role in initiating Britain’s shift. Making way for ideational variables, however, requires challenging the consensus that Britain’s reforms followed inevitably as a result of its military defeat in the American Revolution. I issue that challenge using counterfactual analysis and specify a model showing how intellectuals influence policy at critical junctures. I then develop a narrative that demonstrates the influence both of Smith on Shelburne and of Shelburne on the transformation of British foreign economic policy.

**The Dependent Variable: Commercial Strategy versus “Openness”**

Krasner attempted to explain the “structure of the international trading system,” which he gauged according to observed policies and economic outcomes. For Krasner, policymakers’ ideas were irrelevant. “Stupidity,” after all, “is not a very interesting analytic category.” But interesting or not, “stupidity” is a crucial analytic category. A growing literature recognizes that policymakers’ ideas shape not just

13. These approaches include everything from “analytic narratives” to “virtual history.” See Bates et al. 1998; and Ferguson 1999.
their goals but also the varying strategies they use to pursue those goals. Thus, the “structure of the international trading system” depends in part on the commercial strategies policymakers employ. As such, policymakers’ commercial strategies are well worth consideration in their own right.

Ignoring policymakers’ ideas, Krasner overlooked the crucial first step in the march to openness. When he did not observe openness until the 1820s, he inferred that Britain, “the instigator and supporter of the new structure,” did not pursue liberalization until that point. Prior to Krasner, however, most scholars agreed that Britain’s shift in commercial strategy occurred four decades earlier. As Ehrman put it, the reforms of the 1780s “have long been regarded as marking the start of a new and more liberal commercial policy ... as the harbingers ... of a free-trade summer which the Revolutionary and Napoleonic Wars then delayed.”

These reforms were a stark departure from centuries of “mercantilist” trade policy. Like realists today, mercantilists recognized that international integration brings absolute gains but they feared that unequal relative gains would threaten national autonomy. Policymakers in London attempted to have the best of both worlds by developing an expansive, vertically integrated empire. From Ireland to the Indies, they cultivated overseas colonies to furnish raw materials, alleviate domestic population problems, and, ultimately, provide foreign markets for exports. At the same time, they heavily managed trade with rivals in an effort to improve Britain’s terms of trade, support the Royal Navy, and amass reserves. While their “language” was different, the mercantilists followed the same logic that impels modern states “to induce trade to follow the flag.”

The American Revolution, however, directly challenged this model. Not only did the colonies resist supporting the mother country, but they actually embraced her enemies, reigniting old rivalries. After attempting both conciliation and subjugation, Britain eventually gave up the fight in 1783.

The postwar settlement ended more than just the war. The peace agreements established a framework for reorganizing the international system according to the principles of laissez-faire liberalism.

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18. Kindleberger recognized that “the movement toward freer trade in Britain began gross in the eighteenth century, net only after the Napoleonic Wars.” He focused exclusively on the latter. Kindleberger 1975, 27. See also Semmel 1970, 13.
22. See Magnusson 1994; and Gowa 1994, 7.
23. The Americans did not revolt under the banner of laissez-faire. Crowley 1993. But British policymakers came to believe that they did.
24. Definitions of these terms abound. I follow those used by Viner 1991 and Irwin 1996. In their view, the mercantilists and the laissez-faire liberals both pursued “power and plenty” but differed on
ized. The new American states were granted free trade with Britain and much of its empire. In 1785, London offered essentially free trade to Ireland in exchange for moderate taxation. The change in Britain’s approach to its adversaries was equally dramatic. Between 1785 and 1793, Britain pursued more than ten reciprocal trade agreements. While most of these negotiations became stymied, its 1786 agreement with France—Britain’s chief rival—proved nothing short of revolutionary. Previously, Britain had embargoed most French goods. The remaining imports faced an average tariff rate of more than 75 percent ad valorem. The Anglo-French Commercial Treaty of 1786 eliminated tariffs on many goods and reduced the rates on most of the rest to just 10 to 15 percent. While the ensuing military conflicts reignited commercial warfare, Britain returned to its strategy of commercial liberalization after victory had been assured.

Thus, the 1780s brought Britain’s first decisive shift from mercantilism to laissez-faire liberalism. Under the old system, policymakers pursued “power and plenty” by redirecting foreign trade into intra-imperial commerce. Under the new system, policymakers pursued these same goals with different means. They dismantled the system of mercantile restrictions, allowing trade to flow “naturally” among friends and foes alike.

The Independent Variable: Ideational Versus Material Explanations

It may be that Britain’s hegemonic ascent was necessary to transform the structure of the international trading system in the nineteenth century. But the “distribution of potential economic power” clearly cannot explain Britain’s shift toward laissez-faire in the 1780s. At that point, Britain was only slightly more competitive than its European rivals. To all but a few leading policymakers, Smith’s calls for trade liberalization seemed not merely utopian but downright dangerous. After all, mercantilism was widely celebrated as the cause of Britannia’s development from a collection of middling, factious kingdoms into an “opulent” world power.

Those familiar with the history of Britain’s shift toward openness have offered no shortage of explanations for the dramatic policy shift. Recognizing that states

the extent to which government intervention was required to secure these goals. Beneath his rhetoric Smith understood this disagreement in the same terms. Wyatt-Walter 1996, 14.
27. Harlow overstated the case when he suggested that “Shelburne’s slogan . . . ‘We prefer trade to dominion’ was . . . the general principle on which the Second Empire was . . . established.” The bitterness left by the American Revolution did not diminish Britain’s appetite for territorial acquisition. In its “second” empire, however, Britain granted its colonies more autonomy and pursued trade liberalization with allies and adversaries alike. See Harlow 1952, 1–11; and Hyam 2010, 76–77.
do not behave as monolithic actors, such scholars examine the interplay of ideas, interests, and institutions within Britain. These scholars all confront the correlation between the meteoric rise of Smith’s ideas and the commercial reforms of the 1780s.

Traditionally, scholars assumed that Smith’s ideas must have sparked the reforms. They point to the reforms’ Smithian character and the homage that leading reformers paid to Smith. All these scholars concede, however, that this intellectual re-orientation followed after Britain lost the fight to keep its American colonies.30

This concession has prompted materialists to insist that Smith’s ideas were embraced because they fit Britain’s new circumstances. For centuries, the story goes, London’s policymakers had been in the pockets of England’s “merchants and manufacturers.” Fearful of international competition, these special interests promoted mercantilism as an intellectual justification for protecting them from foreign competitors and developing complementary colonies “as captive markets and monopolized suppliers.”31 By the middle of the eighteenth century, however, keeping the colonies within the system had become remarkably expensive while British industry and trade were becoming competitive abroad. Entrenched interests hesitated to abandon the system that served them so well, but military defeat made American independence “inevitable.”32 With the American colonies lost, British policymakers had to reconsider their commercial strategy.33 Thus, the reforms were really attempts to find new revenue streams, to keep the American market open, and to open new foreign markets—so-called “free trade imperialism.”34 When these policymakers discovered the serendipitous fit between their policies and Smith’s prescriptions, they retroactively anointed him the progenitor of their movement.35

Thus the timing of Britain’s shift from mercantilism to laissez-faire proves crucial. Smith had been lobbying leading policymakers to abandon the mercantilist project in America since the 1760s. After repeated failures, he took to the presses, publishing his Wealth of Nations shortly before the Americans declared independence. According to all previous accounts, however, Smith’s ideas were embraced only after the military contest in America had been decided. If this were true, it would be difficult not to conclude that the shocking loss of the American colonies played a critical role in the adoption of Smith’s ideas.

33. See ibid., 228; and Willis 1979, 528.
34. See Fay 1934; Gallagher and Robinson 1953; Harlow 1952, 201, 210, 228; Henderson 1957; and Semmel 1970, 7–8.
35. Ehrman 1962, 49; Willis 1979; and Ritcheson 1983 emphasize policymakers’ opportunistic use of Smith’s arguments and limited implementation of his prescriptions. Others argue that the esteem accorded to Smith’s Wealth of Nations resulted from Britain’s shift toward liberalism rather than vice versa. See Teichgraeber 1987, 360; Crowley 1990, 340; and Rashid 1998.
Challenging that narrative, I argue that Britain’s capitulation after the Battle of Yorktown (1781) depended on the prior transformation of a pivotal policymaker’s commercial strategy. This thesis defends the “idiographic” counterfactual that if Shelburne had not engaged Smith’s ideas, the American Revolutionary War would have ended on vastly different terms. This, of course, cuts against the consensus that American independence was determined by the fortunes of war.

**Military Disaster Was an Insufficient Cause**

It is widely assumed that Britain’s capitulation became “inevitable” after the loss at Yorktown in 1781. Students of international politics, however, know better than to blithely accept claims of historical inevitability. Determining the causal weight of multiple variables, however, proves difficult given that Britain’s decision to grant independence constitutes a single case. I use both of Fearon’s methods to test causality in such small-N cases. First, I increase the number of “actual cases” by comparing Yorktown to similar military setbacks. Second, I develop “counterfactual cases” that might have followed if Shelburne had not embraced Smith’s ideas (all else remaining equal).

Beyond the fact that it was the last major American battle in the war, it is difficult to understand why Yorktown is so commonly assumed to have been “decisive.” The loss at Yorktown, while substantial, was hardly Britain’s wartime nadir. The loss at Saratoga in 1777 was equally costly from a military standpoint. More important, the loss prompted the French to formally commit to the American cause, transforming a “settler revolt” into a world war. The summer of 1779 was even bleaker. Following Spain’s declaration of war, the French and Spanish amassed an invasion force of 30,000. Caught completely unprepared, the meager military force in Britain improvised coastal earthwork defenses while the government enacted universal impressment. Had unfavorable winds and sickness not forestalled the Franco-Spanish armada, the “American” Revolutionary War may have ended with the British surrendering to the French and Spanish in England.

More nuanced accounts emphasize Britain’s cumulative losses, suggesting that Yorktown put Britain over a critical threshold. “As the nation began to feel the drain and disappointment of an unsuccessful war,” Harlow suggests, “bellicosity

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39. Ibid., 172.
41. Each campaign cost Britain roughly 8,000 troops. See Ketchum 1999, 437; and Lengel 2005, 343.
42. Greene 2000, 100.
began to fade ... into war-weariness and a longing for peace.”45 But this is difficult to square with Britain’s uninterrupted bellicosity throughout the “long” eighteenth century. After all, Britain fought in a major military conflict in virtually every decade from the 1690s to the 1810s. In the two decades prior to the Revolutionary War, Britain had expended unprecedented quantities of blood and treasure to expand its control over North America.46 But even these sums were dwarfed by the costs incurred just a few years later in the French Revolutionary and Napoleonic Wars. Between 1793 and 1815, Britain spent £1 billion and suffered 250,000 casualties fighting abroad—more than ten times its costs in the American Revolutionary War.47 Throughout this period, Britain remained materially capable of withstanding losses like that suffered at Yorktown. In 1782, it wanted resolve, not capacity.

By comparing Britain’s position in 1782 to its bleaker circumstances before and after, it becomes clear that military losses were necessary but insufficient to make Britain concede American independence. Indeed, we can construct several “easily imagined” counterfactual courses that Britain might have taken after Yorktown.48 Historical data show that each alternative path was “available, considered, and narrowly defeated by the relevant actors.”49

Britain might simply have continued the war, albeit with a different military strategy. This was precisely the option the king pressed upon Lord North, the Tory prime minister.50 Assuming North would retain power, the king spent much of the ensuing parliamentary recess discussing alternative military strategies and commanders with his prime minister.51 King George III was not (yet) mad. Britain had lost 8,000 troops at Yorktown, but it had another 30,000 garrisoned throughout America.52 These forces easily could have been deployed on another campaign had the pro-independence opposition not captured the government.

Second, Britain could have acknowledged de jure independence but nonetheless pursued de facto dependence.53 After the defeat at Saratoga (in 1777), the king had proposed using loyalist strongholds to “continue destroying the trade and ports of the rebellious colonies” and, by “distressing the rebels,” “secure the dependence of America.”54 This strategy remained equally valid after Yorktown—particularly after several major naval victories in 1782. Short of maintaining

45. See Harlow 1952, 210; and Middlekauff 2007, 590.
46. Harlow 1952, 454.
47. See Tombs and Tombs 2006, 179; and Monod 2009, 282.
50. Lord North (1732–92) was a leading Tory. As prime minister (1770–82), he reluctantly endeavored to pacify the American colonies.
53. Military capitulation may have determined the “form” of the Anglo-American relationship, but it did not dictate its “content.” Ruggie 1982, 382.
hostilities, Britain still might have subjected the newly independent states to the same trade restrictions faced by all foreign powers. Instead, Britain unilaterally granted the Americans most of the privileges they had enjoyed as colonists.55

Finally, Britain could have taken a radically different approach to its European adversaries. Indeed, leading members of Shelburne’s own Whig Party animadverted against the “disastrous and disgraceful peace” of 1783. Citing Britain’s naval resurgence late in the war, they insisted that Shelburne could have driven a harder bargain.56 They similarly challenged the subsequent trade negotiations. Clinging to mercantilism, they demanded that trade agreements follow political alliances.57

After Yorktown, Britain granted the Americans independence, made peace with the Europeans, and pursued free trade with all. But the Revolutionary War did not have to end this way. While Britain’s military losses did narrow the range of possibilities, they did not dictate policymakers’ choices within that range. The war might have ended earlier or later—and on far different terms—than it did. The military disaster at Yorktown became “decisive” because of the political conditions in London.

The Model: Enterprising Intellectuals and Crises

In recent years, scholars of international politics have progressed beyond the questions of whether and how ideas shape foreign policy.58 Discussion now centers on the difficult task of explaining the changes in policymakers’ ideas.59 Following Kuhn, most scholars agree that “the disjunctive experience of paradigm shift” follows after “anomalies” generate “policy failures that [discredit] the old paradigm.”60 In some cases, the failure is manifest.61 In others, the new ideas themselves define “when a given situation actually constitutes a crisis.”62 In crisis, policymakers initiate “a wide-ranging search for alternatives.”63

As Haas suggested, policymakers rely on “epistemic communities” to help them narrow the range of policy alternatives they consider: a “relatively small” community—or, perhaps, even an individual—uses “political infiltration” to “[lay] the groundwork for a broader acceptance of the community’s beliefs and ideas.”64 Subsequent scholars, however, have construed their epistemic communities more broadly. Numerous studies originate the policy-influencing ideas in “the econom-

57. Ibid., vol. 26, 396–408.
60. Hall 1993, 291.
61. See McNamara 1998, 144; and Legro 2005, 11.
62. See Blyth 2002, 10; and Haas 1992, 14.
64. Haas 1992, 27.
ics profession” writ large.65 Another study goes further, attributing policymakers’ ideas to “evolving societal debate.”66 The policy-influencing ideas themselves are often disembodied abstractions—“Keynesianism” and “monetarism,” for example—formulated independently of the crises in which they are adopted.67

Occasionally, however, policymakers entertain radical ideas that directly challenge the orthodoxy of the knowledge elites. Britain’s experimentation with laissez-faire, for instance, began decades before “Ricardo conquered England.” Indeed, the experiment’s success was partly a cause of its subsequent embrace “by the city, by statesmen, and by the academic world.”68 This case demonstrates an alternative path by which ideas influence policy: through the agency of an enterprising intellectual. In this case, an ambitious intellectual—Smith—developed a revolutionary policy paradigm. This “ideas entrepreneur” then cultivated personal relationships with leading statesmen in an effort to promote his proposals within influential circles. His interactions with policymakers prompted him to refine and repackage his ideas to make them more politically relevant. Framing contemporary events as a crisis, he provided converts with the ammunition they needed to further his revolution.69

But how did Smith convince leading policymakers to embrace his revolutionary—untested—ideas? On what basis do policymakers choose whether to abandon orthodoxy in favor of new ideas? Three decades ago, Odell elucidated numerous “dynamics of policy learning.”70 Today, however, most accounts default to the “instrumentalist” view that “ideas rise to the fore because they correspond to the interests of influential actors.”71 In this view, “It is not something intrinsic to ideas that gives them their power, but their utility in helping actors achieve their desired ends under prevailing constraints.”72 Specifically, policymakers choose those ideas with “legitimate social purpose,”73 with “social salience, that is, those backed by important constituencies or activist subgroups and that have the ability to vie for new dominant orthodoxy.”74 Sometimes, the audiences have to be convinced that the new ideas are compatible with “their interests” and their pre-existing “aims.”75

While power and interest may often dictate the choice of ideas, highlighting those cases does little to convince materialists of the causal power of ideas. After

68. Keynes 1973, 32. The formulations belong to Keynes, but the contention is mine.
69. This process is adapted from Finnemore and Sikkink 1998 to fit the adoption of causal (rather than normative) ideas within a state (rather than across states).
70. Odell 1982, 367–76.
71. Bleich 2011, 60.
73. Ruggie 1982, 382.
74. Legro 2005, 35.
75. Finnemore and Sikkink 1998, 899.
all, if the selection of ideas is beholden to interests, “skeptics can always [suggest] . . . that ideas caused [the outcome] less than has been claimed.”76 We can be sure ideas matter only where we see them adopted contrary to the dictates of interests. A small number of scholars follow in the “informational vein” in which ideas are chosen based strictly on “objective, environmental stimuli.”77 Irwin, for instance, showed that Sir Robert Peel reversed his position on the Corn Laws after his experiences seemed to validate classical liberal economists’ theories.78 The Earl of Shelburne underwent a similar intellectual conversion.

The Narrative

Smith’s Laissez-Faire Liberalism

Smith has been anointed the godfather of laissez-faire liberal political economy for good reason. His Wealth of Nations was not only the most systematic, vigorous challenge to the mercantile system the world had seen. It uniquely provided a virtual blueprint for reorganizing the international system itself.

Even this mammoth work, however, was only the most visible salvo in what Smith called his “very violent attack . . . upon the whole commercial system of Great Britain.”79 Smith’s assault began in the 1750s when he used his teaching position at the University of Glasgow to inculcate his students—several of whom went on to become influential policymakers themselves—and to finagle connections to these students’ well-placed relatives. Eventually, Smith secured the patronage of two of Britain’s most influential policymakers: Charles Townshend and William Petty, the second Earl of Shelburne.80 The former was chancellor of the exchequer, and the latter was the secretary of state for the south (which included the American colonies). In the mid-1760s, Smith was invited to London where each consulted him on their rival approaches to the American fiscal crisis.81

Smith, however, fit uncomfortably within the two camps. He had made a lasting impression on Shelburne when the two shared a long carriage ride to London in 1761.82 But the earl hesitated to experiment with Smith’s untested system. Smith also earned Townshend’s esteem, but the chancellor was determined to make the Americans conform to the mercantile system. As Townshend pushed through his infamous Revenue Act in the spring of 1767, Smith retreated to Scotland to sys-

76. Parsons 2002, 49.
77. See Bleich 2011, 60; and McNamara 1998.
80. Smith tutored Townshend’s stepson and Shelburne’s younger brother.
82. See Stewart 1858, 95; and Ross 1995, 188. See discussion below.
tematically elaborate his case—perhaps with Shelburne’s blessing.\textsuperscript{83} The \textit{Wealth of Nations} was the result.

The treatise assaulted the premises of mercantilism and the imperial policies it engendered. Smith caricatured the mercantilists as believing “that wealth consisted in gold and silver, and that those metals could be brought into a country which had no mines only by the balance of trade.” Pursuing a positive balance of trade, they deployed “restraints upon importation, and encouragements to exportation.”\textsuperscript{84} They cultivated colonies to provide the benefits of foreign trade without the dangers of allowing the balance of trade to turn negative.\textsuperscript{85}

Smith proposed instead a laissez-faire system in which the strong arm of the government gives way to the “invisible hand” of the market. The mercantilists had insisted that the “private vices” of the market were made into “public benefits” through “the skillful management of the clever politician.”\textsuperscript{86} By contrast, Smith argued that, “Without any intervention of law … the private interests and passions of men naturally lead them to divide and distribute the stock of every society, among all the different employments carried on in it … in the proportion which is most agreeable to the interest of the whole society.” Despite Smith’s infamous exceptions to this rule, his framework was a radical departure from “all the different regulations of the mercantile system.”\textsuperscript{87}

As Smith drafted the \textit{Wealth of Nations}, Britain’s empire descended into civil war. The heady debates of the 1760s over taxation gave way in the 1770s to insurrection, followed by repression, and, at last, demands for independence. Smith saw the crisis as symptomatic of the mercantile system’s pathologies. The American colonies were merely the first that would buckle under the mountain of mercantile regulations.\textsuperscript{88} Smith delayed publishing his treatise to make explicit connections between the predictions of his theory and the colonists’ violent rejection of mercantilist imperialism.\textsuperscript{89}

Smith insisted that the colonies were not worth the cost of their support even when they wanted to remain a part of the empire. They certainly were not worth the cost required to retain them against their will. Instead, if they were granted independence,

Great Britain would not only be immediately freed from the whole annual expence of the peace establishment of the colonies, but might settle with them such a treaty of commerce as would effectually secure to her a free trade,

\textsuperscript{83} Smith 1997, 137–38. This interpretation will be elaborated in subsequent work.
\textsuperscript{84} Smith 1976, 450.
\textsuperscript{85} Ibid., 647.
\textsuperscript{87} Smith 1976, 630. Commentators from Bentham to Viner highlight Smith’s departures from laissez-faire. Wyatt-Walter 1996. Scholars also emphasize Smith’s circumscription of the economic domain in his \textit{Theory of Moral Sentiments}. See Winch 1996; Rothschild 2001; and Phillipson 2010. None of this, however, diminishes the radicalism of Smith’s system of political economy. Irwin 1996, 75.
\textsuperscript{88} Heckscher 1922, 19.
\textsuperscript{89} Stevens 1975, 203.
more advantageous to the great body of the people ... than the monopoly
which she at present enjoys.

Free states joined through free trade would foster commerce, comity, and cooperation:

By thus parting good friends, the natural affection of the colonies to the mother
country ... would quickly revive. It might dispose them ... to favour us in
war as well as in trade, and, instead of turbulent and factious subjects, to
become our most faithful, affectionate, and generous allies.90

As he worked, Smith nurtured his relationship with Shelburne. He sent at least
one progress report on the treatise and visited Shelburne frequently when he was
in London. Occasionally staying over as Shelburne’s guest, Smith surely pressed
his case over dinner and drinks just as he had on their carriage ride years earlier.
He sent Shelburne a copy of the finished work and each subsequent edition. Shel-
burne read the treatise “with avidity,” but he was not yet ready to abandon the
mercantile system.91

After Saratoga

The fall of 1777 brought Britain’s first military disaster. General Burgoyne man-
aged to lose his entire 8,000-man army. More importantly, Britain’s defeat drew
France into the war. This changed the military calculus. Beyond providing sup-
port to the Americans, France would also threaten Britain’s other possessions.92

This shift was not lost on contemporaries. Upon hearing the news, the opposi-
tion pounced on Lord North’s government. Edmund Burke suggested that the loss
of an entire army was virtually without precedent. Charles James Fox pro-
claimed that “all those who had concurred in the measures of the war ... were
... criminal.” The embattled North deflected the attacks until he was able to adjourn
Parliament.93 Shaken, he wrote to the king: “[The] consequences of this most
fatal event may be very important and serious and will certainly require some
material change of system. No time shall be lost, and no person who can give
good information left unconsulted in the present moment.”94 Smith was among
those consulted.

Smith’s connection to North likely came through the Solicitor General, Alexan-
der Wedderburn—one of Smith’s former students. In 1776, Smith had written to
several of his well-placed contacts, including Wedderburn. Citing Britain’s early
false starts, Smith advertised the alternatives he developed in his treatise—which

91. Smith 1997, 137–38; and Willis 1979, 528–29. Shelburne later distributed the book on Smith’s
behalf. Rae 1895, 359.
he likely included.\textsuperscript{95} When British forces gained momentum, however, Wedderburn and the others insisted that coercion would soon quash the rebellion.\textsuperscript{96}

But Smith knew that things were different after Saratoga. By February, he was circulating a memorandum more strident than the \textit{Wealth of Nations}. It had since become impossible to restore the antebellum status quo. While the British people might “desire this event so ardently,” the Americans would never consent so long as they could maintain an army in the field. Even if they were compelled to submit, “they would be ten times more ungovernable than ever” and “upon the slightest disoblige, disposed to rebel.”\textsuperscript{97} Order could be sustained only via “a military government”—“what . . . the Americans hate and dread the most.” This would be nearly as bad for Britain: “much more than could be extorted from [the Americans], would be spent in maintaining that military force . . . requisite to command their obedience.”\textsuperscript{98}

Even as he acknowledged that a “constitutional union” was unlikely, Smith extolled its virtues: “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.” But while it would reduce the costs of retaining the colonies, Smith conceded the practical difficulties of electing Members of Parliament from another continent. He lamented that few in Britain beyond “a solitary philosopher like [himself]” supported the idea.\textsuperscript{99}

Since American independence was inevitable, it only remained to determine how Britain would relate to the new states. Smith feared that vindictiveness was “most probable.” He admitted that Britain could increase its garrisons in the loyalist strongholds, imposing de facto constraints on the Americans’ external relations. He insisted, however, that this “termination . . . [was] likely to prove most destructive to Great Britain.”\textsuperscript{100}

Instead, Smith advocated “the complete emancipation of America from all dependency upon Great Britain.” He even proposed transferring Canada, Nova Scotia, and the Floridas to the new states or returning them to France and Spain. While embarrassing, this would eliminate the cost of subordinating the colonies and obviate “the still greater extraordinary expence of defending them in time of war.” Instead, Britain could invite the states into a “federal union” of free trade and military alliance, underpinned by their “similarity of language and manners.”\textsuperscript{101}

\begin{flushleft}
\textsuperscript{95} Willis 1979, 529.  
\textsuperscript{96} Smith 1997, 196–200.  
\textsuperscript{97} Ibid., 383.  
\textsuperscript{98} Ibid., 381.  
\textsuperscript{99} Ibid., 381–84.  
\textsuperscript{100} Ibid., 382–84.  
\textsuperscript{101} Ibid.
\end{flushleft}
Lord North ignored Smith’s ideas. Instead, he attempted to restore imperial relations to the status quo antebellum. First, a new Declaratory Act renounced Parliament’s right to impose the dreaded “internal” taxes in the colonies, reserving merely the power to regulate imperial commerce. Second, North proposed a peace commission empowered to negotiate a settlement with Congress “as if it were a legal body.”

Led by Lord Rockingham, many Whigs counted this a victory—the proposals aligned with those they had advocated for years. But the issue was far from settled. First, the peace commission had to reach an agreement with Congress, which was likely to reject anything short of complete independence. Second, any American counteroffer would have to be accepted by the British government—including the obstinate George III. The king acquiesced to North’s conciliatory policy now, but he could withdraw his support when Britain’s military fortunes improved. Rockingham’s Whigs could not lay the American troubles to rest without first controlling the government. And while he did not realize it, Rockingham could not control the government without first controlling Shelburne.

Shelburne, the Mercantilist

When Parliament debated North’s Conciliatory Bills, Shelburne proclaimed he “would never consent that America should be independent.” Without America, “the sun of Great Britain is set, and we shall no longer be a powerful or respectable people.” He offered a full-throated defense of mercantilism in direct response to Smith’s radical proposals. Shelburne “reprobated treaties of commerce, as the most ridiculous things in the world,” and he “ridiculed the hope of gaining anything from America by commercial alliances. Such alliances were found by experience to be binding no longer than mutual interest connected the parties.” He attacked the radical implications of laissez-faire:

Trade and commerce between independent States of different interests, would not be restrained; they would . . . fall into their natural channels, in spite of every attempt to give them a different or artificial direction. Trade laws were of quite a different nature; they were solemn compacts, in which the interests of the contracting parties were reciprocal . . . Such were the connections between all states and their colonies.

103. Lord Rockingham (1730–82) led his powerful, eponymous Whig faction. He served as prime minister twice: first, during the Stamp Act crisis (1765–66) and later in a coalition with Shelburne during the final phase of the American Revolutionary War (in 1782).
105. Ibid., 850, 852.
106. Willis 1979, 526.
Shelburne extolled the mercantilist model: “both countries . . . should have one friend, one enemy, one purse, and one sword; and . . . Great Britain should superintend the interests of the whole, as the great controuling power.”¹⁰⁸

Shelburne embraced the military strategy that Smith had reluctantly acknowledged might work. Britain should isolate the colonies, relying on “the command of their coasts by superior fleets, and . . . occupying such parts in the interior country, as would best answer the keeping them in awe and alarm.” “The colonies would soon find themselves compelled to break their foreign engagements, and seek [Britain’s] protection upon fair, constitutional, and secure grounds.”¹⁰⁹

Shelburne used Smith’s very formulations against him. After the fighting subsides, “much might be hoped from the inclinations of people, having the same religion, the same language, the same relations, and interwoven interests with us.” And “independent of their attachment to the parent state . . . they would plainly perceive, that a connection with this country would be the best means of advancing the interest of their own.”¹¹⁰ Whereas Smith had argued that these connections ensured that mercantilist regulation was not required to preserve Anglo-American interdependence, Shelburne used them to imply that his military strategy would prove less coercive than Smith feared.

In effect, Shelburne’s position served only to divide the opposition and keep Lord North in power—as Shelburne admitted.¹¹¹ Nonetheless, he continued attacking the government for blindly pursuing the same disastrous military policy. By December, he had surrendered hope of “effecting conquest” and began entertaining Smith’s idea of a constitutional union with America. But he failed to convert the leaders of either the government or the opposition.¹¹²

In the summer of 1779, Britain suffered its greatest military threat of the war. In June, the Spanish aligned with the Americans. Within weeks, Spain and France had mustered 30,000 men for an invasion of Britain. Britain had 21,000 regulars and 30,000 militia at home, but with the British fleet at sea, the joint armada could bombard the coasts with impunity and land its force wherever it enjoyed the greatest advantage.¹¹³

After the Spanish declaration, the opposition attempted to seize the initiative. Speaking for the Rockingham Whigs, the Duke of Richmond moved to “abandon the American war . . . to collect the great military force now doing nothing there, andemploying it instantly against our enemies,” meaning France and Spain. America “was already worse than lost. It was a drain of treasure, a loss of some of our best blood.” Shelburne inched closer to the Rockinghams. But while he “highly approved” of Richmond’s motion, he did not fully support it. He “professed him-

¹⁰⁸. Ibid.
¹⁰⁹. Ibid., 853–54.
¹¹⁰. Ibid., 852–53.
self to be of no party.” When the motion failed, he did not sign the Rockinghams’ protest.\textsuperscript{114}

With invasion looming, the factions moved toward the extremes. Lord North rallied supporters around the flag and pushed through bills to expand the home defense force and silence the opposition. When the Whigs attacked the bills on constitutional grounds, Shelburne seconded their concerns. But he “would not vote one way or another . . . because he saw great difficulties on both sides the question.” After the bills had been carried, North prorogued Parliament through the end of the crisis.\textsuperscript{115} The crisis was so acute that one of Shelburne’s supporters encouraged him to prepare a junto to govern should the invasion trigger the dissolution of government.\textsuperscript{116}

If American independence hinged strictly on military fortunes, the war should have ended in 1779. Military disasters, however, were necessary but insufficient. The opposition had to capitalize on these setbacks to capture the government. The votes were close, but the opposition could not win without the support of Shelburne and his followers. Even with the homeland threatened, however, Shelburne refused to accept American independence. As long as Shelburne kept the opposition divided, the war would rage on.

\textit{Ireland Precipitates Shelburne’s Conversion}

By the time Parliament reopened in November, events had taken another dramatic turn. Disease and bad weather had forestalled the invasion long enough to allow the Royal Navy to regroup. Deft maneuvering and good fortune bought enough time that the onset of winter indefinitely postponed the Franco-Spanish invasion. However, the situation in Ireland deteriorated rapidly. American defiance reignited Irish resistance to British mercantilism. The 20,000 Irish troops raised to defend against the Franco-Spanish force began to make demands of their own.\textsuperscript{117} In October, the Irish Parliament resolved “that nothing less than a free and unlimited trade could save that country from ruin.”\textsuperscript{118}

The previous spring, the Rockingham Whigs had framed Ireland as another example of the corrupt mercantile system’s failure. Rockingham led the charge, cataloging the extensive restraints laid upon Irish commerce. He explained these disastrous policies in simple terms: they were designed to benefit narrow English interests at Ireland’s expense.\textsuperscript{119}

\begin{itemize}
  \item \textsuperscript{114} Parliamentary History, vol. 20, 881–91.
  \item \textsuperscript{115} Ibid., 969–73, 1003, 1020.
  \item \textsuperscript{116} Fitzmaurice 1875–76, vol. 3, 48–50.
  \item \textsuperscript{117} Shelburne estimated the force at twice that number. Parliamentary History, vol. 20, 1159.
  \item \textsuperscript{118} Ibid., 1156.
  \item \textsuperscript{119} Ibid., 635–42. In 1778, North had supported limited liberalization of the Anglo-Irish trade, but he tabled the reforms upon encountering resistance. Moody and Vaughan 1986, 220–21.
\end{itemize}
Shelburne had been raised in Ireland, and his economic and political ties ensured that he remained sensitive to Irish perspectives even after Westminster became his primary milieu. He seconded the Whigs’ call to respond to Irish grievances, but he “did not believe our restrictions on their trade were the sole cause of [their] distresses.” Instead, “the common interests of both countries was [sic] to be united in the regulation of their trade and intercourse.” He did fear that the American disaster would be repeated in Ireland. After all, “the American war commenced upon less provocation than this country had given Ireland.”

But even as Shelburne began to question the imperial model, he stopped short of calling for a change in system.

The Irish, however, set the earl straight. His equivocation drew “scurrilous” attacks from “his native country.” Old friends wrote to him, emphatic that Britain’s mercantilist regulation was the source of Ireland’s distress. This sentiment was so widely held, Shelburne observed, that it transcended Ireland’s deepest political and religious divisions. To Shelburne, Ireland served as an out-of-sample confirmation of Smith’s predictions. Together with the American Revolution, the burgeoning Irish rebellion constituted a pattern that Shelburne could not ignore. In the fall of 1779—even as Britain’s military fortunes improved once again—the Earl of Shelburne surrendered to Smith.

Shelburne announced his conversion in the next parliamentary session. Initially, the government framed Ireland’s demands in mercantilist terms. The Earl of Hillsborough insisted that by “free trade,” Ireland understood “equal trade,” meaning trade management designed to achieve “equal advantages.” Rejecting Hillsborough’s casuistry, Shelburne defended the broadest possible interpretation: “a free trade imported ... an unrestrained trade to every part of the world, independent of the control, regulation, or interference of the British legislature.” Citing “public and private reasons,” Shelburne insisted that “the people of Ireland had explained the context.”

He warned of the Irish-American negotiations to establish reciprocal trade agreements. He went further, espousing for the first time Smith’s laissez-faire liberalism. Even without formal agreements, “the general advantages arising from an open and unrestrained trade between them, would necessarily perfect what had already actually begun.” Rather than cultivating dependence through commercial regulation, “real unanimity, grounded upon mutual confidence and affection, is confessedly essential to the preservation of what is left of the British empire.” For years, Shelburne had been the most vocal critic of these very propositions. But his engagement with Smith and the emerging pattern of independence move-

121. Ibid., 1157–61.
122. Ibid., 1052.
123. Some of the “private” reasons may have come from Smith himself. During the prior recess, sympathetic policymakers solicited Smith’s perspective. His detailed replies found their way into a proliberализation epistle William Eden published that month. And they were strikingly similar to those Shelburne subsequently used. See Smith 1997, 239–46; and Eden 1779, 133–36.
ments evidently confirmed it. In a crescendo, Shelburne announced his political conversion,

He had united with those with whom he had the honour to act for several years; their principles were the same; their future rule of conduct was to be correspondent; whatever different opinions they might have held, they no longer interfered with their general plan; they were... fully united in the great leading principle, of new men and new measures... If the country was to be saved... it was only by a change of system.\(^{124}\)

With that, Shelburne served notice to Lord North: the opposition was now united.

Shelburne’s \textit{volte-face} cannot be explained with reference to his interests. Within Parliament, his faction determined the balance between the government and the opposition. Maintaining his autonomy would have allowed him to maximize the benefits of this position. By acceding to the opposition, however, Shelburne accepted a subordinate position within a larger coalition. As a lord, he personally faced no electoral pressures. Retaining support within Parliament, however, required maintaining his credibility; and such a dramatic reversal provided the opprobrium adversaries could use to vitiate his leadership credentials.\(^{125}\) He surely recognized this eventuality—which might explain his reluctance to convert sooner. In effect, Shelburne traded his long-term career prospects for the chance to effectuate his new principles at this critical juncture.

Late in life, Shelburne insisted that Smith had been pivotal to his conversion to laissez-faire:

I owe to a journey I made with Mr. Smith from Edinburgh to London [in 1761] the difference between light and darkness... The novelty of his principles... made me unable to comprehend them at the time, but he urged them with so much... eloquence, that they took a certain hold which, though it did not... arrive at full conviction for some few years after, I can truly say has constituted ever since the happiness of my life.\(^{126}\)

At the time, Shelburne did not specify precisely when he embraced Smith’s ideas. It is now clear that Shelburne converted in the autumn of 1779, after Ireland followed the Americans’ violent rejection of mercantilism.\(^{127}\)

With Shelburne and Rockingham united and Ireland verging on revolution, North finally prioritized Ireland. In December, Parliament removed the restrictions on Irish exports of wool, woolen goods, and flocks as well as on glass and glass manufactures. To preempt the Irish-American trade negotiations, Parliament granted Ireland “an equal and unrestrained trade” with the colonies in the West.\(^{128}\)

125. Discussed on pages 417–19.
126. Rae 1895, 153.
127. Ibid., 154.
was less than Shelburne demanded, but such liberalization had been unthinkable just a few months earlier. The restriction of colonial manufacturing—of textiles in particular—and the management of intra-imperial trade were cornerstones of the mercantile system. The Irish reforms demonstrated that this system was vulnerable when a unified opposition could capitalize on the opportunities afforded by crises.

But the American war provided the united opposition with few such focal points. The dispersion of the Franco-Spanish armada and the Americans’ failure to retake Savannah that fall put the Tory cause in its best shape in years. The following spring, British forces won major victories. The capture of Charleston was arguably Britain’s greatest victory in the war.

With the Americans providing little political ammunition, the Whigs in London attacked the North government’s corruption. Despite differences in their reform agendas, Rockingham and Shelburne offered mutual support, and the Whigs began to win Parliamentary votes. They drew increasing strength from a wave of popular dissatisfaction with the North government. It seemed they wanted only a military disaster to catalyze their ascent.

Instead, catastrophe struck London. In June 1780, public discontent erupted into the most destructive riots in London’s history. When political moderates attributed the disorder to the Whigs’ incessant calls for “reform,” Rockingham and Shelburne fell out. Feeling betrayed, Shelburne abandoned his seat in the Lords, dissolving the tenuous Whig coalition.

The Whigs gained seats in the election that followed, but without Shelburne, they remained ineffectual. Communicating through a friend, the Duke of Richmond beseeched Shelburne to return to London: “[Richmond] began with lamenting your absence, and wishing most earnestly that you would come to town . . . being divided all was lost.” Citing the Whigs’ recent Parliamentary losses, he implored, “for God’s sake get Lord Shelburne to come to town.”

Shelburne, however, was still brooding. He recalled, “[Richmond] was present when I repeatedly stated the alternative to Lord Rockingham. It is plain Lord Rockingham perfectly understood it, by the decided steps which he risked during the summer.” “Nothing is farther from my intention,” he declared, “than having any thing to do with them.”

Throughout the next session, Shelburne appeared in Parliament sporadically, speaking on just one occasion. But while the speech was eloquent, it reflected few innovations in his approach to the American revolutionaries and no change in his mood toward the Rockinghams. Without Shelburne’s support, the Rockinghams remained ineffective into the fall of 1781.

132. Ibid., 104–7.
Opposition Victory

After a year of sulking, Shelburne reentered public life in November 1781 determined to reunite the opposition.\textsuperscript{133} When he approached Rockingham, the two leaders agreed to make American independence the opposition’s primary cause.\textsuperscript{134}

Shortly after the Shelburne-Rockingham rapprochement, news arrived of Cornwallis’s defeat at Yorktown. The government advocated continuing the fight, but the Whigs would not hear of it. Recapitulating the costs of each disastrous campaign, Shelburne (hyperbolically) predicted that carrying on the war would soon be materially impossible. Richmond issued another motion to abandon the rebellious colonies entirely. As before, the North government withstood this initial salvo.\textsuperscript{135}

But unlike previous military defeats, the government enjoyed no quick improvement in its fortunes. Instead, a poorly organized naval expedition proved indecisive and the French retook several West Indian colonies. Throughout the winter, the opposition steadily won over moderates until North lost a confidence vote in March. The king was then forced to accept a government led jointly by Rockingham and Shelburne.\textsuperscript{136}

The Rockinghams and Shelburnites, however, had conflicting policy objectives. The former largely wanted to wash their hands of the colonies. The war distracted from their priority: diminishing the influence of the crown. For Shelburne, little mattered more than preserving connections with America. He planned to use his position as secretary of state to drive a hard bargain. American independence would be a carrot to coax the Americans and Europeans into an open trading system.

When the North government fell, Benjamin Franklin reached out to Shelburne who then convinced Rockingham to appoint the Scottish merchant Richard Oswald as Britain’s emissary in Paris. Oswald had been an outspoken advocate of commercial liberalization and may have even met Shelburne through Adam Smith himself.\textsuperscript{137}

Initially, the negotiations with Franklin developed precisely as Shelburne might have hoped. Franklin shared his desire to achieve “reconciliation” rather than “mere peace.” Franklin’s proposals followed in the spirit of the Wealth of Nations. Citing the costs of maintaining colonies, Franklin proposed that Britain transfer Canada to the United States, which would then sell Canadian land to compensate the dislocated loyalists. In exchange, Britain would “enjoy the right of free trade … unencumbered with any duties whatsoever.”\textsuperscript{138} Shelburne detailed his evolving approach. He “had reluctantly come into the idea of the complete independence of

\textsuperscript{133} Temporarily resigning from politics was Shelburne’s characteristic but “ineffective retort” to perceived slights. Cannon 2010.
\textsuperscript{134} Fitzmaurice 1875–76, vol. 3, 121–23.
\textsuperscript{135} Parliamentary History, vol. 22, 634–79.
\textsuperscript{137} Lewis 1864, 81. Hancock 2008 questions this assumption.
America . . . [and] he had wished for a federal union between the two countries; but . . . having been forced by circumstances to abandon his plan he would loyally try to carry through the other.” He accepted Franklin’s offer of “free trade . . . to every part of America.” Shelburne, however, refused to surrender Canada, insisting that American independence ought to be sufficient.  

The Rockingham Whigs grew weary of Shelburne’s protracted interchanges. Charles James Fox proposed splitting the Franco-American coalition by offering the Americans independence unconditionally and then negotiating with France separately. In May, he convinced the cabinet to embrace his approach and transfer authority to his own plenipotentiary. Shelburne resisted but in vain. He was an outsider among the Rockinghams, and the cabinet backed its own.

Rockingham’s death in July, however, catapulted Shelburne to the head of the government. The king had always preferred Shelburne to Rockingham, but Shelburne had known better than to accept the prime ministership without a larger parliamentary following. In the summer of 1782, however, Shelburne saw that Britain was at a crossroads. Rather than allowing Fox to salvage mercantilism and reignite trade war, Shelburne was determined to use the postwar settlement to redefine the international order along the lines prescribed by Smith. Backed by the king, Shelburne formed a government as Fox led much of Rockingham’s cabinet into opposition.

In London at the time, Smith interceded on Shelburne’s behalf. Smith, however, was rebuffed by his Rockingham Whig friends. Disaffected by the intractable political intrigue, Smith once again retreated to his books in Scotland.

**Shelburne’s Laissez-Faire Liberal Postwar Settlement**

Fox’s Whigs put Shelburne on the defensive immediately. Mocking his “wavering . . . disposition,” they recited his previous declarations that “when the independence of America was granted, the sun of Great Britain was set.” Shelburne insisted “he had not altered his sentiments” but had to embrace new “means” since all previous attempts “had proved ineffectual.” In masterful doublespeak, he announced, “the sun of England would set with the loss of America; but it was his resolution to improve the twilight, and to prepare for the rising of England’s sun again.” With the parliamentary recess looming, Shelburne did not have to defend himself for long. But the battle lines were drawn.

139. Ibid., 187–89.
140. Ibid., 194–96.
141. Ibid., 222–27.
142. This episode parallels Smith’s departure after Shelburne and Townshend fell out in 1767. See Smith 1997, 249–52, 258–59; and Rae 1895, 378–79.
144. Ibid., 219.
145. Ibid., 191–96.
Shelburne made the Paris peace negotiations his top priority. Fox, however, had undermined Shelburne’s position. The Americans made unconditional independence a precondition of further negotiations; and the French and Spanish demanded many of their former possessions. Shelburne conceded the former, but a major British victory at Gibraltar in October humbled the French and Spanish emissaries. By the fall, the powers were hammering out the subsidiary issues: territorial bounds, fishing rights, the validity of prewar debts, and compensation for the civilians affected by the fighting. Each issue proved sticky, but no power seriously contemplated abandoning the peace process. Britain signed preliminary articles of peace with the United States in November and similar agreements with the continental powers in January.

Shelburne kept his eye on the prize. He wanted to secure peace on the most favorable terms possible, but he was also determined that the treaties would launch commercial negotiations. He explicitly sought “the destruction of commercial monopoly.” The other negotiators were delighted that Britain might lower its mercantilist tariff walls. John Jay went so far as to propose the removal of all commercial distinctions between U.S. and British ships, establishing a completely free trade between the two countries. Shelburne later wrote, “in the treaties of peace, the great principle of free trade ... inspires them from beginning to end ... [A] peace is good in the exact proportion that it recognizes that principle.”

Empowered by his successes abroad, Shelburne’s speech opening Parliament in December reflected his ambition. He announced that he had committed to American independence, and he alluded to the progress being made with the continental powers. But he did not stop there. Citing the success of the “liberal principles adopted” in Ireland, he demanded “a revision of our whole trading system, upon the same comprehensive principles.”

Shelburne, however, fared worse with his opponents at home than he had with those abroad. He suffered attacks both from North’s Tories, who suggested his reforms went too far, and from Fox’s Whigs, who suggested they did not go far enough. He made overtures to each leader but persuaded neither to serve under him. Despite their previous rivalry, North and Fox found they would rather work together than with Shelburne.

In February 1783, Shelburne presented the full details of the treaties to Parliament. The Fox-North coalition attacked relentlessly. Shelburne defended the “broad and liberal policy on which the present treaty [was] formed” in terms borrowed from Smith. The territories surrendered, he claimed, had provided less revenue than they cost to maintain. Instead, new trade agreements would allow Britain to enjoy the benefits of commerce without the costs of maintaining dominion. He attacked the mercantilists’ pursuit of colonial trade monopolies. Such “monopolies ... are ever justly punished.” He continued,

if there is any nation ... which ought to be the first to reject monopoly, it is the English. Situated ... between the old world and the new, and between southern and northern Europe, all we ought to covet upon earth is free trade ... With more industry, with more enterprise, with more capital than any trading nation upon earth, it ought to be our constant cry, let every market be open ... It is a principle on which we have had the wisdom to act with respect to ... Ireland; and, if conciliation be our view, why should we not reach it out also to America?

Shelburne, however, was ahead of his time. In a moment when "nothing but dreary despondency remained to the well-wishers of Great Britain," he was among the few who imagined that Britain's slight competitive edge would compound in the decades that followed. But his prescience did not save him. He carried the Lords, but the Fox-North coalition triumphed in the Commons. Within days, his government was lost.

Shelburne's postwar settlement, however, was a fait accompli. The Americans refused to alter the agreement, and the Fox-North government acceded to the terms Shelburne had negotiated. In September, Britain signed treaties with Shelburne's laissez-faire liberal principles at their core. The Americans would have independence, Europe would make peace, and all of the powers would subsequently negotiate commercial agreements.

Ultimately, the American negotiations in the 1780s and 1790s failed to realize Shelburne's dream of a "federal union" of commercial and military alliance. One scholar takes this as evidence of Shelburne's disingenuous commitment to liberalization. But this is unfair. For more than a century, the commercial system had diverted foreign trade into intra-imperial commerce. When the American colonies gained independence, they became foreign states. Without a commercial treaty, the mercantile system would have discriminated against their trade as it did with all foreign powers. Granting exceptions to the Americans had legal and political implications for many of Britain's preexisting trade agreements—implications beyond mere commerce. The mercantile system undergirded Britain’s security strategy. Abandoning mercantilism also required rethinking British national defense. Even those who embraced Shelburne’s vision hesitated to dismantle the mercantile system as rapidly as Shelburne advocated.

In this light, it is astounding that Shelburne and his followers accomplished as much as they did. Even without a reciprocal agreement, Britain unilaterally granted the Americans most of the privileges reserved to colonies, including free trade

148. See ibid., 407–20; and Pares 1953, 284.
151. Subsequent ministries embraced liberalization (excluding the shipping trade) in the very terms developed by Smith and deployed by Shelburne. Crowley 1990 and 1993. Britain’s 1794 offer to liberalize shipping was rejected by the U.S. Senate. Harlow 1952, 488.
152. Ibid., 448–91.
with Britain and the British East Indies. As contemporaries noted, the Anglo-American trade was the freest trade between sovereign states in the world.\textsuperscript{153}

Despite his accomplishments, Shelburne’s fall from power underscored his doubts about his capacity to lead a government. For decades, he had crafted policy under the banner of William Pitt the Elder.\textsuperscript{154} Now, as Pitt’s son came of age, Shelburne reluctantly passed the mantle to Pitt the Younger.\textsuperscript{155} Shelburne, however, was no mere placeholder between the Pitts. He had reinvented their brand of Whiggism in the spirit of laissez-faire liberalism. This radical reorientation became the lifeblood that nourished the younger Pitt’s imperial reformation in the years that followed.

\textit{Shelburne’s Laissez-Faire Liberal Legacy}

Combining the political acumen he inherited from his father with the revolutionary ideas he inherited from his mentor, William Pitt the Younger ensured that the 1780s were a decade of reform. Shelburne’s biographer went too far in claiming that “there was hardly one [of Pitt’s measures] which cannot be shown to have had its origin in the brief period when Shelburne was at the head of the Treasury.”\textsuperscript{156} But it is fair to say that Pitt’s agenda, while pragmatic, embraced Shelburne’s laissez-faire liberal model.\textsuperscript{157}

In 1785, Pitt took up Shelburne’s call to grant the Irish truly free trade. Pitt garnered domestic support by coupling liberalization with Irish financial support of the Royal Navy. Although Pitt steered the proposal through the Parliament at Westminster, the Irish Parliament rejected the deal. Pitt persevered—in 1800, he successfully oversaw the political and economic union of Ireland with Great Britain. The union epitomized Smith’s proposals. Indeed, Pitt’s followers defended the union in Parliament by reading at length from the \textit{Wealth of Nations}.\textsuperscript{158}

Pitt achieved similar breakthroughs in Britain’s approach to its adversaries. Using Shelburne’s framework from the Paris peace negotiations, Pitt sent emissaries to negotiate tariff reductions with nearly a dozen countries. The single successful envoy—to France—was the most important. The treaty reversed decades of mercantilist management.\textsuperscript{159} In Parliament, Shelburne framed the treaty as the dawn

\begin{itemize}
\item 153. Ibid., 488.
\item 154. Pitt the Elder (1708–78) was a dominant Whig leader long before he became prime minister in 1766. He mentored the Earl of Shelburne and his son, William Pitt the Younger.
\item 155. William Pitt the Younger (1759–1806) served as Shelburne’s chancellor of the exchequer (1782–83). He later outmaneuvered the Fox-North Coalition and became Britain’s youngest prime minister (1783–1801). When Napoleon threatened invasion in 1805, Pitt headed a wartime government until his health failed in 1806.
\item 156. Fitzmaurice 1875–76, vol. 3, 429.
\item 157. His reluctance to radically reform the East India Company might be an exception. Willis 1979, 534–35.
\item 158. Ibid., 518, 535–37.
\item 159. See details above. The treaty was negotiated by sometime Smith devotee William Eden. Smith 1997, 244–46, 271–74.
\end{itemize}
of a new age. Alluding to the work of the laissez-faire liberals, he insisted that the “old commercial system” was “totally erroneous.” The “truth [of free trade] had made its own way,” and “the idea of estimating the balance of each trade was given up.”

Shelburne’s characterization was apt. In the words of one economic historian, the treaty “marked a break in a commercial system which had long been accepted as the only method of regulating international trade. It marked also a serious attempt to end the traditional rivalry between France and Britain.”

Pitt, however, was just beginning. When the other negotiations became frustrated, he insisted that Britain undertake reform unilaterally. His Consolidation Act rationalized Britain’s Byzantine commercial code. Even those who downplay Smith’s influence in Parliament admit that “the influence of Adam Smith on this bill is clear.” Those close to Pitt suggested that he subsequently “formed a plan for abolishing all customs duties, and that he would have carried it into effect if the war of the French Revolution had not broken out.”

Pitt and Shelburne repeatedly proclaimed Smith’s centrality to their reform efforts. Pitt called himself a “scholar” of Smith. In return, Smith praised the young prime minister: “What an extraordinary man Pitt is, he understands my ideas better than I do myself.” Similarly, Shelburne remarked to the French economist André Morellet: “I have not changed an atom of the principles I first imbibed from you, and Adam Smith. They make a woeful slow progress, but I cannot look upon them as extinct; on the contrary they must prevail in the end like the sea.”

Pitt shared Shelburne’s optimism, insisting that Smith’s “extensive knowledge of detail, and depth of philosophical research, will furnish the best solution to every question connected with the history of commerce, or with the systems of political economy.”

This optimism was well-founded. The French Revolutionary and Napoleonic Wars derailed Pitt’s reform agenda. After victory, however, Britain returned to the laissez-faire liberal commercial strategy. The progress was slow, with steps back as well as forward. But the trend was clear. Britain’s hegemonic ascent may have helped it generate an open trading structure, but its pursuit of openness drew directly on the achievements of the 1780s—as Smith’s nineteenth-century devotees acknowledged.

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162. Willis 1979, 539.
163. Ehrman 1962, 194n.
164. Rae 1895, 405.
165. See Lovat-Fraser 1916, 128; and Pellew 1847, 151.
168. Passed in 1815, the infamous Corn Laws were a conspicuous step back. They were repealed in 1846.
169. See Harlow 1952, 6–7; and Henderson 1957, 112.
What If?

If Shelburne had not engaged Smith and his ideas, Britain would have taken a different course at the critical juncture of the American Revolutionary War.\(^{170}\) It likely would have ended the war on different terms, and it almost certainly would not have tried to reorganize international politics according to the prescriptions of laissez-faire liberalism. Instead, Shelburne’s intellectual conversion precipitated a shift in commercial strategy that material variables might not have generated for decades—if ever.

This counterfactual satisfies the “minimal-rewrite-of-history,” “contenability,” and “Cleopatra’s nose” standards of counterfactual analysis.\(^{171}\) It does not require changing much history to imagine Shelburne remaining a mercantilist. He might have simply rebuffed Smith’s overtures—as did most of the policymakers Smith lobbied. Also, because Shelburne’s singular contribution was to settle the war on Smithian principles, we can imagine reducing Smith’s effect on Shelburne without that changing the whole world of the 1770s, apart from Shelburne’s postwar settlement.

However, the counterfactual cannot be construed with as much specificity as one might like. Did Shelburne’s conversion depend on all of his personal interactions with Smith, all of his engagement with Smith’s writings, and Ireland’s 1779 rising? Or might Shelburne have converted without the 1761 carriage ride, without the Wealth of Nations, or without the Irish rebellion? Unfortunately, we do not have enough information about Shelburne’s reactions to these stimuli to adjudicate their relative causal weight. Clearly, Shelburne’s journey with Smith to London was insufficient to generate a Pauline conversion. As with Irwin’s account of Peel, Shelburne became a free trade apostle only after Smith’s theory appeared to have been confirmed by the empirics. But it also seems clear that colonial insubordination alone would not have prompted Shelburne to rethink his mercantilist premises. After all, to what would Shelburne have converted? Smith provided Shelburne with both an explanation for the colonies’ resistance to mercantilism and the first comprehensive alternative system.

Conclusion

Britain’s decision to acknowledge American independence may have been the most significant political-economic event in the Western Hemisphere since Columbus’s arrival. “American” independence both marked the beginning of the end of European governance of the Americas and signaled the end of all attempts to confine European-American settlement to the eastern seaboard. Simultaneously, the disin-

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\(^{170}\) I am grateful to James Fearon for assistance with this section.

tegration of the First Empire in the West shifted Britain’s focus onto developing the Second Empire in the East. Beyond the British Empire, Britain’s experiment in the 1780s demonstrated the viability of a new commercial strategy in which trade is not forced to “follow the flag.”

This article has shown that this experimentation cannot be explained by material variables alone. The liberalizing reforms of the 1780s were initiated not merely well before Britain began its hegemonic ascent but in a moment of uncertainty and crisis. It has also demonstrated, however, that the opposite interpretation is equally invalid: Britain did not embrace openness because of this perceived weakness. Britain turned toward laissez-faire at that juncture because Adam Smith persuaded the Earl of Shelburne that mercantilist management cost Britain both power and plenty.

This case deepens our understanding of how ideas influence policy more generally. Typically, scholars treat ideas as vague abstractions to which policymakers are beholden—as Keynes described it, “Madmen in authority . . . distilling their frenzy from some academic scribbler of a few years back.”172 This article, however, reembodies ideas by examining the interaction between policymakers and the intellectuals behind these policy-influencing ideas. Even those scholars who insist upon the causal power of ideas often concede that new ideas are chosen based on underlying material variables. My account, however, bolsters the case for ideas’ causal power by providing an example of an important intellectual conversion that was unambiguously driven by a policymaker’s perception of the merits—theoretical and empirical—of competing ideas. This policymaker embraced new ideas despite the costs of doing so.

In recent years, students of international relations have almost completely eliminated the “individual” from their analyses.173 In an effort to render scholars’ approach more “scientific,” the individual has steadily been replaced by the amorphous “actor.” By design, the “actor” can be anything from a specific individual to an international coalition; and there is space within the “strategic choice approach” to incorporate actors’ varying preferences and strategies.174 In practice, though, scholars of international politics have privileged conciseness and generalizability at the expense of accuracy.175 This predilection generated the hegemonic stability theorists’ incorrect rendering of the first free trade movement’s origins.

In many “critical junctures,” the specific individuals who were the “actors” clearly mattered. The 1930s, for instance, would have played out differently if Churchill had replaced Chamberlain sooner—or if Hitler had not replaced Hindenburg in the first place.176 The same is true for the birth of the first era of global economic openness. Britain’s decision at the end of the eighteenth century to experiment

175. See Waltz 1979, 7–8; and Mearsheimer 2001, 10–11.
with the laissez-faire liberal commercial strategy was not materially predeter-
mind. It depended crucially on the personalities, “intellectual idiosyncrasies,” and
relationships of particular individuals at this critical juncture.\textsuperscript{177} This article con-
tributes additional momentum behind approaches that “deepen the investigation
of the historical material to identify the key decisions … steering the system in
one or another direction.”\textsuperscript{178} These old methods—recently refined—not only help
us generate a more accurate understanding of the past. They also highlight our
own power to influence the course of events at future critical junctures.

References


