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# An Analysis of the Relationship between Capitalism and Imperialism through Adam's The Wealth of Nations

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*An Analysis of the Relationship between Capitalism and Imperialism through Adam's  
The Wealth of Nations*

In Adam Smith's *The Wealth of Nations* he describes the discovery of the Americas and the passage to the East Indies as the "most important events recorded in the history of mankind."<sup>1</sup> The discovery of new markets for European goods and new sources of raw material lead to the expansion of trade to a global economy, and eventually lead to the emergence of modern capitalism. In Smith's *The Wealth of Nations* he outlines the benefits of a market economy and unrestricted trade, and how through promoting individual self-interest the system in fact indirectly benefits the country as a whole.

Despite all these benefits of the new world order, Smith also criticizes British imperialism, and more specifically the monopoly of the East India Trading Company, so it is unclear in Smith whether imperialism is concomitant with capitalism or the remnants of mercantilist mentality which is being rendered anachronistic. While Joseph Schumpeter argues that the remnants of feudalistic ideals in the nobility is responsible for the development of imperialism and colonial rule; Smith points rather to the disproportionate influence of merchants over government affairs as the source of British imperialism. Smith draws attention to the fact that the logic of capitalism is incompatible with the maintenance of empires because it is more economically efficient to trade with countries rather than rule them. Nevertheless, merchants cannot be counted on to support the logic of the market. The merchants sway government policy of colonial rule for the advancement of their private interests to the detriment of the rest of the nation. The goal of capitalism, as envisioned by Smith, is to promote "universal opulence" and not the

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<sup>1</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, (Indianapolis : Liberty Classics , 2005), 100.

enrichment of the few. The influences of mercantilism in British policy extort and undermine the benefits of the capitalist system of free trade, and therefore imperialism is a perversion of capitalist values, not the residue of feudal values.

The emergence of foreign markets and the ability to access them provided countries, in this case Britain, the opportunity to expand their economic reach and divide their labor and specialize in ways that would increase their wealth unprecedentedly. With the widening of the market across continents, Smith anticipated that free trade and a series of small competitive markets would emerge across the globe, thus allowing for the increase in opulence for a number of nations and companies. However, Britain was able to obtain its raw materials cheaply and make more of a profit through selling back manufactured goods to a large, controlled market, without fear of competition due to their monopoly vis-à-vis the East India Trading Company.

In a free market system a monopoly would be expected to decline, as new firms are attracted to the high profit ratios of a monopolist market. Contrary to this logic, in Britain the influence of the merchants within the government enabled them to erect barriers to entry and obtain a de jure<sup>2</sup> monopoly on trade. Through the decrees and laws of Parliament, the East India Trading Company, effectively restricted the trade of the colonies, America and India, so that they can only purchase manufactured goods through their company, and only sell their goods to England. They accomplished this through the implementation of restrictions as well as high tariffs that make the purchasing of non-British goods and trading with other countries untenable:

“In their present state of improvement those prohibitions, perhaps, without cramping their industry, or restraining it from any employment to which it would have gone of its own accord, are only the impertinent

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<sup>2</sup> Muthu, *Adam Smith's Critique of International Trading Companies*, 196.

badges of slavery imposed upon them, without any sufficient reason, by the groundless jealousy of the merchants and manufacturers of the Mother Country.”<sup>3</sup>

The East India Company forces the colonies to purchase their goods and maintains a monopoly in Britain as well, not because their goods are the cheapest or best quality but as a result of “prevailing upon the legislature”<sup>4</sup>, to ensure they generate a profit and secure their prominence in the market. The tariffs and restrictions upon the colonies created a perpetual monopoly for the East India Trading Company and these laws were not only detrimental to the colonies, but also to the home country as well:

“By a perpetual monopoly, all other subjects of the state are taxed very absurdly in two different ways; first by the high price of goods, which, in the case of a free trade, they could buy much cheaper; and, secondly, by their total exclusion from a branch of business, which it might be both convenient and profitable for many of them to carry on,”<sup>5</sup>.

The pressure and influence from the merchants on the international market of the East India Company leads Britain to protect and prolong it through an imperialist role, rather than encouraging a competitive free market economy where the East India Company competes with a variety of companies. Instead of spreading universal opulence, the monopoly of the East India Trading Company leads to the enrichment of the few merchants at the expense of the general population of the colonies as well as Great Britain.

Imperialism, as described by Joseph Schumpeter, is the remnants of feudalistic social structures within capitalism where capitalists are subservient to state rulers driven by a desire for glory. The capitalists allow themselves to become an arm of the state to protect their industry from competition through the implementation of tariffs and trade restrictions, but they need the cooperation of political elite whose goal is not the

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<sup>3</sup> Smith, *The Wealth of Nations*, 582.

<sup>4</sup> Smith, *The Wealth of Nations*, 581.

<sup>5</sup> Smith, *The Wealth of Nations*, 755.

accumulation of wealth: “It is in the *state* that the bourgeoisie with its interests seeks refuge, protection against external and even domestic enemies. The bourgeoisie seeks to win over the state for itself, and in return serves the state and state interests *that are different from its own.*”<sup>6</sup> While the economic system of England appeared capitalistic, many of the underlying political and social structures were still feudal and autocratic:

“Modern Imperialism is one of the heirlooms of the absolute monarchical state. The “inner logic” of capitalism would have never evolved it. Its sources come from the policy of the princes and the customs of a pre-capitalist milieu. But even export monopoly is not imperialism and it would never have developed to imperialism in the hands of the pacific bourgeoisie. This happened only because the war machine, its social atmosphere, and the martial will were inherited and because a martially oriented class (*i.e.*, the nobility) maintained itself in a ruling position with which of all the varied interests of the bourgeoisie the martial ones could ally themselves. This alliance keeps alive fighting instincts and ideas of domination. It led to social relations which perhaps ultimately are to be explained by relations of production but not by the productive relations of capitalism alone.

It is important to note, that according to Schumpeter, the state rulers are not at the whim of the merchants, but rather the merchant bourgeoisie supports the tariffs and foreign policies proposed by the state as a way of gaining power in the system and protecting their narrow interests: “Martial dispositions are especially furthered by the groups ruling the internal relationships of interests. And with martial dispositions are allied the influences of all those who *individually stand to gain, either economically, or socially by martial policy.*” Thus the merchants support the militaristic expansion of the country through imperialism, because it allows for them to benefit both through the monopoly of trade and for their elevated social standing within Great Britain.<sup>7</sup> The atavistic desire for war, within the noble classes, fuels its imperialistic tendencies over the colonies. The continuing vitality of feudal values is also shown by the propensity of the merchants to acquire landed estates and marry into the nobility.

<sup>6</sup> Schumpeter, Joseph. "State Imperialism and Capitalism." , *State Imperialism and Capitalism (1919)*. N.p., n.d. Web. 15 Nov. 2013. <<http://www.panarchy.org/schumpeter/imperialism.html>>.

<sup>7</sup> Schumpeter, *State Imperialism and Capitalism*.

While I agree that capitalism is not the original cause of imperialism, I disagree with Schumpeter that it is not the desire for power and glory and hence the subservience of the merchants to the government that fuels imperialism. Rather it is the dominance and influence of the merchants *over* the state system to pursue their own interests at the expense of the state that leads to imperialist tendencies. It is the greed rather than glory and influence of the East India Trading Company that promotes colonial dominance, and persuades the state to implement colonial regulations:

“the greater part of the regulations concerning the colony trade, the merchants who carry it on, it must be observed, have been the principal advisers. We must not wonder, therefore, if, in greater part of them, their interest has been more considered than either that of the colonies or that of the mother country,”<sup>8</sup>

The East India Trading Company subverts upon the well being of the colonies and Great Britain in the name of pursuing its own self-interest and prosperity. Smith is adamant against the actions of such a company because its “self-interest” does not generate opulence for the state but rather detracts from it:

“For the sake of that little enhancement of price which this monopoly might afford our producers, the home-consumers have been burdened with the whole expense of maintaining and defending that empire. For this purpose, and for this purpose only, in the two last wars, more than two hundred millions have been spent, and a new debt of more than a hundred and seventy millions has been contracted over and above all that had been expended for the same purpose in former wars.”<sup>9</sup>

Imperialism is more costly to the state than it is beneficial; it generates exorbitant amounts of debt as well as getting the country involved in military conflict that serves no benefit to the nation. The wars are fought and the money is spent to protect the interest of the merchant, not the state.

Capitalism, as envisioned by Smith, does not warrant the emergence of imperialism. Smith warns countries of the dangers of involving themselves in efforts to control the market. Capitalism is most successful when it is implemented in a free market

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<sup>8</sup> Smith, *The Wealth of Nations*, 584.

<sup>9</sup> Smith, *The Wealth of Nations*, 661.

economy. The role of government as envisioned by Smith is limited, and he warns against becoming involved in market affairs. By remaining aloof from the economic workings of its society, the state remains safe from the susceptibility to sway from special interest groups:

“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.... But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary.”

When the British government became involved in granting tariffs and restrictions to the East India Trading Company, it became entangled in the monopoly over the colonies:

“But most crucially they [tariffs] are the result of the power of merchants acting in concert in order to influence economic and foreign policy to the advantage of their companies, an advantage that, as Smith argues repeatedly, is often contrary to the actual public interest of British and foreign societies.”<sup>10</sup> The government’s insertion into the market led to it being taken advantage of by the merchants. Smith warns against government involvement in the market, or economy, because when the government is involved, special interest groups are more compelled to seduce the government to assist them in their endeavors, in the name of national interest: “Smith believed that venal state officials were routinely corrupted by companies into thinking that the national interest was synonymous with the interests of the companies whose headquarters are in their lands.”<sup>11</sup>

The purpose of a capitalist system is to generate universal opulence for the population of the country, and monopolies, like the East India Trading Company, serve as

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<sup>10</sup> Muthu, *Adam Smith's Critique of International Trading Companies: Theorizing "Globalization" in the Age of Enlightenment*, 190.

<sup>11</sup> Muthu, *Adam Smith's Critique of International Trading Companies: Theorizing "Globalization" in the Age of Enlightenment*, 206.

a profit for the few at the expense of the state and the population. Smith suggests that if Britain gave up its colonies and allowed them legal freedom to elect their own officials and other privileges of being self-governed, Britain wouldn't have to spend exorbitant amounts of money defending their colonies and could still prosper from trade between them as trading partners in a competitive market<sup>12</sup>: "Establishing treaties of commerce that would genuinely bring about free trade – not in name only, but truly open and fair competition – would no doubt be<sup>13</sup> 'more advantageous to the great body of the people *though less so to the merchants.*'"<sup>14</sup> Thus, the disproportionate influence of merchants over the government prevents the emergence of free trade from occurring. Smith denotes that monopolies rarely succeed even with the help of the government because they mismanage and confine trade.<sup>15</sup> Granting monopoly to the East India Trading Company shows that it is *purely the greed of the merchant* that prolongs the monopoly because it is clearly not in the interest of the state to promote a company that will inevitably fail. At the expense of the state and the colonies, the East India Company attempts to generate as much profit for themselves until their collapse: "To found a great empire for the sole purpose of raising up a people of customers, may at first sight appear a project fit only for a nation of shopkeepers. It is however, a project altogether unfit for a nation of shopkeepers; but extremely fit for a nation *whose government is influenced by shopkeepers.*"<sup>16</sup> The merchants encourage the British government "to sink its citizens' fortunes and lives in its ongoing – and what must ultimately be its disastrous – imperial

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<sup>12</sup> Smith, *The Wealth of Nations*, 616.

<sup>13</sup> Muthu, Adam Smith's Critique of International Trading Companies: Theorizing "Globalization" in the Age of Enlightenment, 204.

<sup>14</sup> Smith, *The Wealth of Nations*, 617.

<sup>15</sup> Smith, *The Wealth of Nations*, 741.

<sup>16</sup> Smith, *The Wealth of Nations*, 613.

exploits.”<sup>17</sup> Joseph Schumpeter argues that the reason colonizers retain their colonies despite economic deficits is that they are wary of sacrificing their pride when there is a chance that the colony can generate wealth and continue to exist. Schumpeter would argue that this is an instance of feudal values manifesting itself within the capitalist economic structure. However, it is not the remnants of feudal desires for pride that compels Britain to maintain its colonies and the monopoly of the East India Company, it is the influence of the merchants and owners of the company that keep the monopoly in existence:

“No nation ever voluntarily gave up the dominion of any province, how troublesome so ever it might be to govern it, and how small so ever the revenue which it afforded might be in proportion to the expense which it occasioned. Such sacrifices, though they might frequently be agreeable to the interest, are always mortifying to the pride of every nation, and *what is perhaps of still greater consequence*, they are always contrary to the private interest of the governing part of it.”<sup>18</sup>

Smith details that the private influence of those who hold power in government place the primacy and success of their company over the concerns with national image, while rhetoric of nationalism could be used as a guise for maintaining the existence of their imperial possessions, the true primary concern is the maintenance of the monopoly. Imperialism and colonization are not the natural product of capitalism but a product of selfish corporations and the follies of government who grant these companies monopolies. The government is blind to the consequences such deals will bring to the mother country and the colonies. True free trade is the natural progression of capitalism however the greed of the merchants, not the fault of the system, is what produces imperialism.

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<sup>17</sup> Muthu, *Adam Smith's Critique of International Trading Companies: Theorizing "Globalization" in the Age of Enlightenment*, 198.

<sup>18</sup> Smith, *The Wealth of Nations*, 616-7

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