

# Background for “The First Exception”

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## Overview

This imagined letter in Adam Smith’s voice draws primarily from *An Inquiry into the Nature and Causes of the Wealth of Nations* (hereafter WN, 1776; citations follow the Glasgow Edition, 5th ed., 1789) and *The Theory of Moral Sentiments* (hereafter TMS, 1759; citations follow the Glasgow Edition, 6th ed., 1790). Citations follow Book–Chapter–Section–Paragraph (WN) and Part–Section–Chapter–Paragraph (TMS).

The letter advances six tightly connected claims grounded in Smith's writings:

1. Smith begins from a strong presumption in favor of open, competitive markets, but he does not deny that some departures may be justified.
2. Smith himself distinguishes between two cases in which burdens on foreign goods will "generally be advantageous" and two others in which restraint may "sometimes be a matter of deliberation": defense; equal treatment after domestic taxation; retaliation when repeal abroad is realistically obtainable; and the prudential problem of restoring free importation after long interruption.
3. The clearest admitted exception is defense: Smith judges defense more important than opulence and speaks favorably of the Navigation Act.
4. Smith nevertheless shows how public reasons for restraint become entangled with a wider mercantile system of monopoly, colonial preference, and political influence. This is not because every restriction reduces to defense, but because organized interests learn to inhabit and widen exceptions.
5. Smith is skeptical that legislators can manage such departures safely: the sovereign is exposed to "innumerable delusions," while the "man of system" imagines society can be arranged like pieces upon a chess-board.
6. The deepest issue is not only economic efficiency. It is whether commercial society is governed by general rules of justice or by an expanding system of discretionary favors, exemptions, and partial interests.

As in the earlier background papers, each major claim from the Substack letter is identified and examined against Smith's texts. One interpretive point should be stated explicitly at the outset. The letter's strongest synthetic claim - that once the law bends for one interest, other interests learn how to demand the same treatment - is not a sentence Smith writes. It is, however, a fair condensation of recurring Smithian themes: narrow admissible exceptions, mercantile sophistry, the political influence of organized interests, and the difficulty of restoring freedom once privileges are established.

## 1. General Rules, Not Zero Exceptions

**Letter's claim:** "I did not deny that one exception may sometimes be justified... The difficulty is not in seeing that some cases are exceptional. It is in ensuring that they remain so."

### Textual Basis

Smith begins from a strong presumption against import restraints:

"To give the monopoly of the home-market to the produce of domestick industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation" (WN IV.ii.11).

But Smith immediately introduces exceptions. He offers his own taxonomy of admissible departures from free importation. He first states that "there seem, however, to be two cases in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestick industry" (WN IV.ii.24). Those two cases are: (1) when "a particular sort of industry is necessary for the defence of the country" (WN IV.ii.24), and (2) when a domestic tax on a home-produced good appears to justify a comparable tax on the like foreign commodity (WN IV.ii.31). He then identifies two further cases in which restraint may "sometimes be a matter of deliberation": retaliation against foreign restrictions when repeal is realistically obtainable (WN IV.ii.38-39), and the prudential problem of restoring free importation after it has long been interrupted (WN IV.ii.40-44). Strictly speaking, this taxonomy concerns import restraints rather than every conceivable departure from competitive markets. It is nonetheless Smith's clearest statement of the narrow circumstances in which departures from free importation may be justified.

Smith clearly (1) allowed for exceptions to open, competitive markets and (2) warned of the difficulties of keeping such cases narrow, temporary, and genuinely exceptional. The sentence in the letter, "The difficulty is not in seeing that some cases are exceptional. It is in ensuring that they remain so," is an interpretive synthesis rather than a direct quotation. Yet it is well supported by Smith's repeated insistence that exceptions invite abuse, that retaliation is often misused, and that once the state establishes monopolies and protections for favored firms and industries, they are politically difficult to unwind (WN IV.ii.39-44). I discuss this in more detail below.

## 2. The First Exception: Defense and the Navigation Act

**Letter's claim:** "Consider the case of national defense. I wrote that 'defence... is of much more importance than opulence.'"

### Textual Basis

This claim rests directly on Smith's discussion of the Navigation Act.

"Defence, however, is of much more importance than opulence." (WN IV.ii.30)

Smith immediately applies this judgment to the Navigation Act, which he famously describes as:

"perhaps, the wisest of all the commercial regulations of England." (WN IV.ii.30)

This is not a casual aside. Smith's argument is that maritime strength depends on sailors and shipping, and that a naval power may therefore have reason to maintain a merchant marine even

at some economic cost. The letter, therefore, presents defense as Smith's clearest admitted exception. At the same time, Smith is not endorsing a general program of industrial favoritism. He is making a comparatively specific argument about national security in a maritime state.

### 3. From Defense to Directed Trade: The System Widens

**Letter's claim:** "What began as an exception for naval strength did not remain so."

#### Textual Basis

This sentence is an interpretive synthesis. Smith does not write that the defense exception for shipping generated every subsequent state intervention in markets. What he does show, especially in WN IV.vii.b, is that the same state-commercial regime engaged in a broader pattern of directed trade and mercantile privilege. (WN IV.vii.b.25, 34–36, 49).

Smith is careful about the details. He does not say that all colonial trade was absolutely confined to Great Britain. Rather, "it is only with regard to certain commodities that the colonies of Great Britain are confined to the market of the mother country" (WN IV.vii.b.25). These were the "enumerated commodities." Non-enumerated goods, by contrast, "may be exported directly to other countries provided it is in British or Plantation ships" (WN IV.vii.b.25). The system gave British merchants and British shipping a privileged place in colonial commerce.

Smith is explicit about the commercial goal:

"By confining them to the home market, our merchants, it was expected, would not only be enabled to buy them cheaper in the Plantations, and consequently to sell them with a better profit at home ..." (WN IV.vii.b.35).

He is equally explicit about the political economy of these restrictions on open, competitive markets:

"Of the greater part of the regulations concerning the colony trade, the merchants who carry it on ... have been the principal advisers" [to the government in imposing those regulations.] (WN IV.vii.b.49).

In their "exclusive privilege of supplying the colonies with all the goods which they wanted from Europe, and of purchasing all such parts of their surplus produce" as suited them, "the interest of the colonies was sacrificed to the interest of those merchants" (WN IV.vii.b.49).

### 4. Different Justifications, Same Direction

**Letter's claim:** "Different justifications—defense, fairness, protection, necessity—yet all tend in the same direction: privilege and patronage."

#### Textual Basis

Smith does not treat all of these justifications alike. Some he admits in narrow form. Others he reports mainly to criticize. The letter highlights a recurring pattern in the *Wealth of Nations*: publicly plausible rationales are repeatedly used to justify departures from competition and general rules.

#### 4.1 Domestic protection

Smith begins WN IV.ii by observing that restraints upon imports more or less secure “the monopoly of the home-market” to domestic industry (WN IV.ii.1). This is the textual basis for the letter’s claim that one recurring plea is shelter from foreign rivals. Smith does not treat this as an isolated mistake. Throughout the *Wealth of Nations*, he treats it as a powerful tendency in commercial society.

#### 4.2 Equal treatment after domestic taxes

Smith’s second generally admissible exception is the case in which a domestic tax appears to justify a comparable tax on similar foreign commodities. In his own formulation, such a measure may leave competition “as nearly as possible upon the same footing as before” (WN IV.ii.31).

But Smith immediately warns that this logic is usually abused. The complaint that domestic producers bear burdens unfairly becomes a standing rationale for broader protection. This is the basis for the letter’s line that “what begins as fairness ends as favor.”

“In Great Britain... to stop the clamorous complaints of our merchants and manufacturers that they will be undersold at home, [lawmakers commonly] lay a much heavier duty upon the importation of all foreign goods of the same kind.” (WN IV.ii.31)

The letter is faithful to Smith in treating this as a move from a narrow claim of fairness toward broader favoritism.

#### 4.3 Retaliation

Smith allows for retaliatory tariffs **only** when there is a real chance that they will secure the repeal of the high duties or prohibitions by foreign countries (WN IV.ii.38-39). He writes:

“There may be good policy in retaliations of this kind, when there is a probability that they will procure the repeal of the high duties or prohibitions complained of” (WN IV.ii.39).

He immediately adds that judging whether retaliation is likely to have this effect belongs less to the “science of a legislator” than to the skill of “that insidious and crafty animal, vulgarly called a statesman or politician” (WN IV.ii.39).

Importantly, Smith adds:

“When there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people, to do another injury ourselves” (WN IV.ii.39). A retaliatory restriction “imposes a real tax upon the whole country” (WN IV.ii.39).

Smith, therefore, treats retaliation as a temporary bargaining device aimed at repeal, not as a standing justification for protection.

#### 4.4 Gradual repeal after long interruption

Smith also wrote that it might be advisable to gradually remove trade restrictions. When high duties and prohibitions have long sustained particular manufactures and employ “a great multitude of hands,” Smith says: “Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection” (WN IV.ii.40). Later in the same discussion he adds that “equitable regard” to the interest of

those whose capital has been fixed in protected employments requires that such changes should never be introduced "suddenly, but slowly, gradually, and after a very long warning" (WN IV.ii.44). This does not create a new justification for protection. It is instead a prudential rule for unwinding inherited restrictions while reducing disruption.

#### **4.5 Distant and difficult trades**

Smith also considers and rejects another familiar plea for exception: that some trades are too distant, slow, uncertain, and capital-intensive to be left to ordinary competition.

He first states the case. In poor countries such as Sweden and Denmark, an exclusive company "necessarily encourages adventurers," since "their monopoly secures them against all competitors in the home market," and without that encouragement traders might never have risked "their small capitals in so very distant and uncertain an adventure as the trade to the East Indies" (WN IV.vii.c.95).

But Smith does not accept this as a sound justification for state interventions to support a domestic firm to engage in that trade. He argues that it would be better for those countries "to buy East India goods of other nations, even though they should pay somewhat dearer," than to divert scarce capital into such a remote trade (WN IV.vii.c.97). He adds: "Though without an exclusive company... a particular country should not be able to carry on any direct trade to the East Indies, it will not from thence follow that such a company ought to be established there" (WN IV.vii.c.98).

When he turns to the familiar defense that "No private merchant... could well have capital sufficient to maintain factors and agents in the different ports of the East Indies," he replies that if this argument proved anything at all, "it would prove that no one great branch of trade could be carried on without an exclusive company, which is contrary to the experience of all nations" (WN IV.vii.c.99).

Smith stresses that such state-sponsored monopolies not only force the public to pay high monopoly-set prices, but the public also pays for the "fraud and abuse, inseparable from the management of the affairs of so great a company" (WN IV.vii.c.91).

The current letter does not include the East India material, but this material reinforces the letter's message about state restrictions on free, competitive markets—either through the regulation of trade or other interventions that today would be called "industrial policy."

### **5. Interest, Influence, and the Spread of Exceptions**

Letter's claim: "The danger is not the first exception. It is that the first exception teaches every other interest how to demand the second."

#### **Textual Basis**

This sentence is supported by Smith's repeated account of how interests organize, how they speak the language of public necessity, and how difficult it becomes to undo the privileges they secure.

Smith's baseline diagnosis is famous:

"To widen the market and to narrow the competition, is always the interest of the dealers [merchants and manufacturers]." (WN I.xi.p.10)

Again and again, Smith argues that merchants and manufacturers invented the doctrine of mercantilism as a pretext for limiting competition and raising their profits to the detriment of the public:

“That it was the spirit of monopoly which originally both invented and propagated this doctrine, cannot be doubted; and they who first taught it were by no means such fools as they who believed it. In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest, that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question, had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people.” (WN IV.iii.c.10; also see WN IV.ii.21; WN IV.viii.54)

Given these incentives, Smith offers his most powerful statement on the policy proposals and influence of these groups:

“The proposal of any new law or regulation of commerce which comes from this order ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the publick, who have generally an interest to deceive and even oppress the publick, and who accordingly have, upon many occasions, both deceived and oppressed it.” (WN I.xi.p.10).

As noted above, Smith is clear that private interests learn to speak the language of public necessity to gain greater profits:

“Of the greater part of the regulations concerning the colony trade, the merchants who carry it on ... have been the principal advisers” [to the government in imposing those regulations.] (WN IV.vii.b.49).

And Smith is clear that merchants and manufacturers are successful in maintaining state support. He explains that those protected by government restrictions:

“... have become formidable to the government, and upon many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, ... [nothing] can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from insolent outrage of furious and disappointed monopolists.” (WN IV.ii.43)

Smith adds an observation about the dynamics of exceptions that support the logic of the letter:

"Every such regulation introduces some degree of real disorder into the constitution of the state, which it will be difficult afterwards to cure without occasioning another disorder." (WN IV.ii.44)

This is the textual foundation for the letter's repeated claim that once exceptions are admitted, organized interests learn how to inhabit them, widen them, and defend them.

## 6. "Innumerable Delusions" and the Man of System

**Letter's claim:** "Statesmen may believe they can manage this process—that they can grant the sound exceptions, refuse the unsound ones, and keep the system within prudent bounds. I thought such confidence rested on 'innumerable delusions.'"

### Textual Basis

The phrase "innumerable delusions" comes from Smith's summary of the sovereign's proper role at the close of Book IV:

"The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions... the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society." (WN IV.ix.51)

He immediately adds that for the proper performance of this duty "no human wisdom or knowledge could ever be sufficient" (WN IV.ix.51).

In a pointed statement about such presumptuous leaders, Smith argues:

"The statesman who should attempt to direct private people in what manner they ought to employ their capitals would... assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it." (WN IV.ii.10)

The "man of system" quotation comes from *The Theory of Moral Sentiments* (TMS VI.ii.2.17). Smith criticizes the reformer—the man of system:

"The man of system ... is often so enamoured with the supposed beauty of his own ideal plan" that he imagines "he can arrange the different members of society with as much ease as the hand arranges the different pieces upon a chess-board. ... but that, in the great chess-board of human society, every single piece has a principle of motion, altogether different from that which the legislature might chuse to impress upon it."

This is the textual basis for the letter's line that people are not pieces upon a chess-board. In WN, Smith criticizes the epistemic and political presumption of directing industry. In TMS, he adds a deeper psychological and institutional warning: legislators act upon persons with independent purposes, attachments, prejudices, and interests. The problem is not only lack of information. It is also the false imagination that society can be arranged as if it were passive material.

## **7. General Rules, Justice, and the Difference Between Law and Favor**

**Letter's claim:** "A free society asks, What rule should govern all? A society of exceptions asks, Who is important enough to be excused?"

### **Textual Basis**

This is a fair expression of Smith's jurisprudential orientation. Smith states the principle of liberty in a form that directly connects freedom to justice: "Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men" (WN IV.ix.51).

That sentence is important for the present letter because it shows that Smith's preferred order is not one of discretionary permission, but of general liberty bounded by general justice. The same view appears in TMS. Smith treats the rules of justice as precise enough to resemble the rules of grammar rather than the looser maxims of other virtues (TMS III.6.11), and he calls justice "the main pillar that upholds the whole edifice" of society (TMS II.ii.3.4).

Smith's account also requires impartial administration. In WN V.i.b.25 he argues that when judicial power is not sufficiently independent of executive power, justice is likely to be sacrificed to "partial interest."

This is the institutional basis for the letter's contrast between law and favor. A commercial society works best when governed by relatively general, precise, and impartially administered rules. It decays when increasingly particularized departures from those rules invite individuals and orders of men to seek exemptions, preferences, and protection.

### **Conclusion**

Claims in "The First Exception" are grounded in Adam Smith's writings.

The letter's central warning—that exceptions teach every interest to demand the next one—is a synthesis, not a sentence Smith himself writes. But it is a fair synthesis of recurring Smithian themes: mercantile sophistry, special interests intimidating the state, and the difficulty of restoring liberty once monopolies are established.

The dominant arc of Smith's argument is clear. Departures from the general rules underpinning open, competitive markets are politically prone to widening. The deepest danger is not merely economic loss. It is the drift from a society governed by general rules of justice to one governed by favor.