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## Smith's "Mutiny on the Bounty": The Perils of Polemic

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### **Abstract**

One does not read very far into Smith's work without encountering apparent inconsistencies. Perhaps the most troubling arise in the discussion of the corn trade, where, contrary to his well-known principle that trade protection and subsidies draw to the favored industry "a greater share of the capital of the society than what would naturally go to it," Smith insisted that the bounty on grain export produced no stimulus to domestic output, a conclusion that reflected his principle that the corn price "regulates that of all other home-made commodities." Smith's attack on the corn bounty prompted vigorous rebuttals from two influential countrymen, and his principle that the bounty produces no more than a proportionate rise in all prices would later bedevil Ricardo and his contemporaries. Yet these interpretive difficulties fall away when we place Smith's argument within the context of his larger theory of economic growth. Viewed in that context, the peculiar inability of the corn bounty to stimulate production can at least be excused as consistent with the demands of that larger theory, though the principle is so narrowly constrained by *ceteris paribus* conditions as to be analytically uninteresting. Here as at other points in his attack on the bounty, Smith pressed his argument beyond its limits and thereby diminished its polemical force. Yet his contemporary critics were unable to capitalize on his errors. For all its flaws, Smith's argument exhibits an analytical subtlety far beyond the clumsy justifications advanced by the bounty's apologists.

## Smith's "Mutiny on the Bounty": the Perils of Polemic

### Introduction

The *Wealth of Nations* is undeniably a work of polemic. Indeed, that is, in part, the cause of its lasting interest to each succeeding generation of readers. Adam Smith himself characterized his work as a "very violent attack . . . upon the whole commercial system of Great Britain" (*Corr.*, p. 251). To be sure, there can be no disagreeing with Richard Teichgraeber's warning that "both the character and object of [Smith's] attack were far more complex than this précis makes them sound," but neither can we safely disregard the reminder that within the years remaining to him after the publication of his famous work, Smith witnessed "the reduction of the *Wealth of Nations* to a book whose single overarching concern was seen to be driving home the doctrine of free trade" (Teichgraeber, 1987, p. 340).

This too was a time when the ancient imperatives regarding the "police" of the people's subsistence were just coming into question, first and most prominently in France around mid-century; but the dangerous idea that trade in the bread grain could be freed of all government supervision was making its way across the Channel as well. Here was the point of greatest controversy: the application of the free trade principle to the markets for grain. Smith was nearly alone amongst his countrymen in calling for the removal of government interference in *both* the internal and the external markets for grain. As to the internal markets, a substantial change in

attitudes had already been achieved before the appearance of Smith's famous work, the Tudor prohibitions against wholesaling operations having been repealed in 1772.<sup>1</sup> Of course, the issue was not yet settled, and prosecutions under the common law for "forestalling" or "ingrossing" continued into the next century (Thompson, 1991, p. 200). Nevertheless, Smith's famous "Digression concerning the Corn Trade" added the weight of his authority to principles already articulated by others some decades earlier.<sup>2</sup>

If Smith's endorsement of a free internal grain market provoked no critical comment, his attack on the existing government meddling in the international market certainly did.<sup>3</sup> That policy had come to be viewed by many of his contemporaries as "perhaps the wisest and the best political institution that has ever graced the annals of any nation" (Anderson, 1771, p. 370). To be sure, various authors advanced proposals for additions or emendations to the existing policy. Sir James Steuart ([1805]1967, p. 359), for one, took the trouble to devise a granary scheme which he saw as the remaining element needed, in combination with the existing export bounty, to ensure that "the policy of grain may be brought under better regulations in England than it has hitherto been in any other nation." Still, few of Smith's contemporaries would have disagreed with his earlier namesake, who concluded a 1758 review of the laws relating to the corn trade with the judgment that "though some amendments may be made, we are bold to say, the general Plan cannot be improved" (C. Smith, 1766, p. 36). Hence, in attacking the corn bounty, the later Smith was taking on an institution that was the object of widespread approbation among his countrymen. It is therefore, not surprising that this small section of his famous book drew some of the most concentrated fire of those bold enough to criticize its esteemed author. This too is the only point where Smith admits to some minor revisions made in response to his critics (*Corr.*, p. 251).

However, criticisms of Smith's attack on the bounty have arisen not only from its eighteenth-century apologists. The modern reader, inclined to view an export bounty as simply producing the misallocation of capital expected from any forcible redirection of trade flows, will likewise find Smith's analysis troubling. This is not to say that Smith fails to apply to the bounty case his general principle that

every system which endeavours, either, by extraordinary encouragements, to draw towards a particular species of industry a greater share of the capital of the society than what would naturally go to it; or, by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it; is in reality subversive of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labour. [*WN*, p. 687]

On the contrary, he opens and closes his discussion of the bounty with the observation that “[b]ounties upon the exportation of any home-made commodity are liable, first, to the general objection which may be made to all the different expedients of the mercantile system; the objection for forcing some part of the industry of the country into a channel less advantageous than that in which it would run of its own accord.” However, he does not stop here but insists that a “bounty upon the exportation of corn” is different from that on any other commodity in that the corn bounty “is liable to this further objection, that it can in no respect promote the raising of that particular commodity of which it was meant to encourage the production” (*WN*, p. 516). This peculiar failure of the grain export subsidy to produce an increase in output reflects “the great and essential difference which nature has established between corn and almost every other sort of goods” (*WN*, p. 515). Corn is endowed with a special role: its price “regulates that of all other home-made commodities” (*WN*, p. 509). Hence, as he put it in the first edition (one of the few passages later changed slightly in response to criticism), “The nature of things has stamped upon corn a real value which no human institution can alter” (*WN*, p. 515).

This unbending denial to the corn bounty of the power to produce any change in corn's relative price and hence in corn output has troubled generations of readers since. It was the object of a lengthy criticism from James Anderson ([1777]1968, pp. 342-60), to which Smith responded "with almost complete silence and equanimity," apart from a few very limited verbal alterations in later editions (Teichgreaber, 1987, p. 354; Prendergast, 1987, pp. 392-6). More than two centuries later, Hollander (1997, p. 772) is not alone, no doubt, in his discomfort at "the irresponsibly rigid theorizing in the context of the Corn Export Bounty that generated strong criticism from Thomas Pownall and James Anderson; and Smith's unpleasant responses to the latter's criticism." Furthermore, Smith's great authority gave added weight to his principle of the regulating character of the corn price, a principle that was widely interpreted in Ricardo's time to mean that a rise in the money price of corn produces general inflation. This view was destined to cause Ricardo great difficulty in his own analysis of value until he was finally able to "escape from habitual modes of thought" (Peach, 1993, p. 68 and chap. 2, *passim*); and, as Prendergast (1987, pp. 396, 402) reminds us, it commanded Malthus's attention in his *Essay on Population* as well.

Yet, it was all a misreading. Smith was indeed "rigid" in insisting on a "great and essential difference" for corn, but that singular nature was foreordained in his broader vision of economic growth. If his uncompromising demand that corn be imbued with a unique character seemed anomalous to later readers, it was at least consistent with his larger system. The source of the problem is not to be found in the treatment of the bounty; that is only the point where it becomes visible. Its origin lay in his reliance on corn to serve a key role in his theory of growth. But the anomaly is not as severe as it appears at first sight, for Smith was careful to constrain his peculiar principle within a narrowly-bounded *ceteris paribus* impound. When due attention is given to

those limiting conditions—that it is to be applied only within a clearly circumscribed comparative statics framework—then the criticisms launched by Anderson and others are seen to miss their mark; and Smith’s failure to respond, beyond the few expository changes noted by others, no longer seems worthy of remark: with a proper understanding of the limited character of his principle, nothing more was necessary. Further, the struggle of Ricardo and his contemporaries to come to grips with Smith’s principle is likewise seen as so much wasted effort, arising simply from a failure to grasp the very limited compass of that principle.

This is not, however, to absolve Smith of all fault. Though internally consistent, the claim that the corn price “regulates that of all other commodities” had a paradoxical and incongruous air that certainly diminished the polemical force of his argument. But this aspect of his case can at least be defended as necessary to meet the demands of consistency. No such defense can be offered for the number of other points where we find him adjusting his argument to meet the polemical needs of the moment, leaving behind a trail of inconsistencies vulnerable to attack by his critics. Yet, with all its faults, a reading of Smith’s treatment of the corn trade within the intellectual context of his time cannot fail to elicit a renewed appreciation for the superiority of his analysis over that advanced by his contemporaries. To be sure, Smith drew the materials for his analysis from the contemporary works available to him, but in this as elsewhere he had a remarkable ability to identify the analytical nuggets in his sources and to leave the dross.

However, before we can review the quality of the analytical material available to Smith from his sources and critics, we must first place his discussion of the corn bounty within the context of his larger model of economic growth. Doing so will reveal the source of that remarkable claim regarding the regulating character of the corn price which figures so prominently in the bounty controversy. Then, after a review of the materials available from his contemporaries, we will be

able to offer a better informed judgment of the nature of Smith's attack on the corn bounty and of the effectiveness of the rebuttals advanced by his critics.

### **The Problem of the Bounty in Smith's Polemic**

If Smith truly "had no great interest in public controversy," he must have recoiled at the thought of taking on so popular an institution as the corn bounty. But this was a fight he could not avoid, for, as described in greater detail elsewhere (Hueckel, 2000), the contemporary view of the bounty presented an awkward obstacle to his attack on the "mean and malignant expedients of the mercantile system" (*WN*, p. 610). Because that system "represents national wealth as consisting in the abundance, and national poverty in the scarcity of gold and silver" (*WN*, p. 255), it had given rise to the "popular notion," that inflation is an inevitable consequence (and therefore a reliable indicator) of growing national wealth: "as the quantity of silver naturally increases in every country with the increase of wealth, so its value diminishes as its quantity increases." Here is the "altogether groundless" claim that Smith took as his point of attack (*WN*, p. 207; see also IV.i).

His first salvo was directed at the inability of that "popular notion" to withstand even the test of logic. The demand for "food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniencies and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary." Hence, "[t]hose . . . who have the command of more food than they themselves can consume, are always willing to exchange the surplus, or, what is the same thing, the price of it, for gratifications of this other kind" (*WN*; p. 181; *cf.* p. 192). Consequently, economic growth increases the demand for all other goods (including the money commodity) relative to that for food.<sup>4</sup> In the absence of increases in the



world stock of specie, this growth-induced shift in demand will produce a falling, not a rising, silver price of food:

The increasing abundance of food, in consequence of increasing improvement and cultivation, must necessarily increase the demand for every part of the produce of land which is not food, and which can be applied either to use or to ornament. In the whole progress of improvement, it might therefore be expected, there should be only one variation in the comparative values of those two different sorts of produce . . . . As art and industry advance, the materials of cloathing and lodging, the useful fossils and minerals of the earth, the precious metals and the precious stones should gradually come to be more and more in demand, should gradually exchange for a greater and a greater quantity of food, or in other words, should gradually become dearer and dearer (*WN*, p. 193; *cf.* p. 234).

This is not to deny the mercantilist claim that the stock of precious metals rises with growth. It is true that “a greater quantity of coin becomes necessary in order to circulate a greater quantity of commodities; and the people, as they can afford it, as they have more commodities to give for it, will naturally purchase a greater and a greater quantity of plate.” But to suggest that the gold price of food will rise as a result of this inflow of metal is tantamount to the ridiculous claim that luxury goods decline in relative price as wealth rises: “as statuaries and painters are not likely to be worse rewarded in times of wealth and prosperity, than in times of poverty and depression, so gold and silver are not likely to be worse paid for” (*WN*; p. 208 *cf.*, pp. 253-4 and 340). Contrary to the opinion “of the greater part of those who have written upon the prices of commodities in antient times,” low food prices signify wealth, not poverty. Metal will “naturally exchange for a greater quantity of subsistence in a rich than in a poor country, in a country which abounds with subsistence, than in one which is but indifferently supplied with it” (p. 208; *cf.* pp. 223-4, 234, 255).

Here then is the purpose of Smith’s long “Digression concerning the Variations in the Value of Silver”: to test his hypothesis against the price trends produced by the acknowledged advance of European civilization over the previous four centuries. The hypothesis survives the test for the

first of the three periods covered in the Digression. By Smith's reading of the evidence, "From about the middle of the fourteenth to the beginning of the sixteenth century, what was reckoned the . . . ordinary or average price of wheat, seems to have sunk gradually [by] about one-half" and to have remained at that lower level "till about 1570" (*WN*, p. 197). The second period, running from 1570 to 1640, offers no test of the hypothesis since this was the time when, all agree, the newly discovered American mines produced a prolonged rise in the nominal price of corn (p. 210). This long inflation ended, however, "about 1636, [when] the effect of the discovery of the mines of America in reducing the value of silver, appears to have been compleated, and the value of that metal seems never to have sunk lower in proportion to that of corn than it was about that time." With no further additions to the world stock of specie, continued economic growth after the middle of the seventeenth century should, by Smith's reasoning, have produced a decline in corn's nominal price; and, indeed, Smith advanced the claim that the value of silver "seems to have risen somewhat in the course of the present century, and it had probably begun to do so even before the end of the last" (pp. 210-11).

Smith's data do not, however, support his claim. Over the last sixty-four years of the seventeenth century, his series reveals a slight rise in the silver price of corn rather than the predicted decline. Nevertheless, Smith insisted that "without supposing any further reduction in the value of silver," this anomaly could be explained by three extraordinary events: the civil war, which interrupted grain production through 1649, the debasement of the coinage in the last years of the century, and the bounty on grain export, established in 1689,<sup>5</sup> which, "by encouraging the exportation of the surplus produce of every year, and thereby hindering the abundance of one year from compensating the scarcity of another, [served] to raise the price in the home-market." Finally, over the first two-thirds of his own century, Smith's data exhibited the expected decline in

the corn price; but, he observed, this decline “must, in the same state of tillage, have been much more so, had it not been for this operation of the bounty” (*WN*, pp. 211-16).<sup>6</sup>

Smith was well aware, however, that this explanation would carry no weight with the bounty’s supporters:

it has been thought by many people that [the bounty] tends to encourage tillage, and that in two different ways; first, by opening a more extensive foreign market to the corn of the farmer, it tends, they imagine, to increase the demand for, and consequently the production of that commodity; and secondly, by securing to him a better price than he could otherwise expect in the actual state of tillage, it tends, they suppose, to encourage tillage. This double encouragement must, they imagine, in a long period of years, occasion such an increase in the production of corn, as may lower its price in the home market, much more than the bounty can raise it . . . . [pp. 507-8]

It was against this confusion of movements along and shifts in supply curves that Smith was forced to contend. If he could demonstrate that the bounty had no stimulating effect on corn output, the battle was won. As it happened, his theory of rent produced just such a result. Fortunately, the connection between Smith’s rent theory and his understanding of the growth process has already been described to varying levels of detail in other contexts (Brewer, 1995; Hueckel, 2000; O’Donnell, 1990, ch. 5). We need only sketch the broad outlines of that story as it bears on Smith’s dispute with the bounty’s advocates.

Because “food is always, more or less, in demand,” and because wheat is, in Europe, the common food crop, “the rent of good corn land,” with few exceptions, “regulates the rent of the greater part of other cultivated land” (*WN*, p. 245). In other words, corn rents determine the opportunity cost which must be met if the land is to be turned to an alternative use.<sup>7</sup> Tilled land will be turned to animal products only “[w]hen the price of cattle . . . rises so high that it is as profitable to cultivate land in order to raise food for them, as in order to raise food for man ” (*WN*, p. 237). The process of economic development, then, involves a progressive expansion of the area

of cultivation. At the beginning of the process, in countries “almost waste, or but thinly inhabited,” there is a preponderance of virgin land on which “cattle, poultry, game of all kinds . . . are the spontaneous productions of nature” available “in such profuse abundance, that they are of little or no value” (*WN*, pp. 206 and 237; *cf.* pp. 164 and 241). As society advances, the extension of cultivation reduces the quantity of waste land, thereby reducing that “spontaneous” supply of meat animals, while at the same time, through the rise in grain production, increasing the demand for animal products. Hence, “the extension of improvement and cultivation . . . necessarily raises more or less, in proportion to the price of corn, that of every sort of animal food” (*WN*, pp. 237 and 259). This result—that the meat-wheat price ratio necessarily rises with economic development—provides Smith with an alternative index of economic growth (O’Donnell, 1990, pp. 76-8; Hueckel, 2000).

Other products of the land will, of course, exhibit varying price trends depending upon the state of demand in their respective markets (which may be confined to a narrow locality for bulky goods, like building materials and coal—*WN*, pp. 179 and 183-4—or which may extend “to the whole commercial world,” as in the case of wool and hides—*WN*, p. 247) and upon the scope for efficiency gains (which systematically reduce, relative to that of corn, the price “of every sort of vegetable food”—*WN*, p. 259). Nevertheless, at any particular “period of improvement,” each price must bear a specific ratio to that of corn by virtue of the latter’s role as determining the opportunity cost of any alternative land use. Hence, a purely nominal change in the price of corn, maintaining the “period of improvement” unchanged, must be communicated proportionately to all other prices. Furthermore, because the corn wage is constant within a particular stage of development (though, of course, real wages vary with the rate of economic advance), any change in the nominal price of corn must likewise be communicated proportionately to the money wage

and thence to the prices of manufactured goods. By this reasoning, Smith is led to the principle which serves as the key weapon in his attack upon the bounty:

the money price of corn regulates that of all other home-made commodities. It regulates the money price of labour, which must always be such as to enable the labourer to purchase a quantity of corn sufficient to maintain him and his family either in the liberal, moderate, or scanty manner in which the advancing, stationary or declining circumstances of the society oblige his employers to maintain him. It regulates the money price of all the other parts of the rude produce of land, which, in every period of improvement, must bear a certain proportion to that of corn, though this proportion is different in different periods. . . . By regulating the money price of all the other parts of the rude produce of land, it regulates that of the materials of almost all manufactures. By regulating the money price of labour, it regulates that of manufacturing art and industry. And by regulating both, it regulates that of the compleat manufacture. The money price of labour, and of every thing that is the produce either of land or labour, must necessarily either rise or fall in proportion to the money price of corn. [*WN*, pp. 509-10]

By this principle, we may conclude that the “real effect of the bounty is not so much to raise the real value of corn, as to degrade the real value of silver.” The bounty produces, in the first instance, no more than a purely nominal effect, “exactly in the same way as [that] absurd policy of Spain and Portugal,” by which those nations impose impediments on the export of specie. It is this that is the peculiar character of the corn bounty. Preferences granted any other commodity raise the price of that commodity relative to that of labor, thus raising the “real value” of the producers’ incomes as expressed in Smith’s famous “labor-commanded” unit, and enabling, thereby, those producers to employ more labor in production. Hence, preferences granted to any other industry will necessarily redirect capital to that industry:

When either by the monopoly of the home-market, or by a bounty upon exportation, you enable our woollen or linen manufacturers to sell their goods for somewhat a better price than they otherwise could get for them, you raise, not only the nominal, but the real price of those goods. You render them equivalent to a greater quantity of labour and subsistence, you encrease not only the nominal, but the real profit, the real wealth and revenue of those manufacturers, and you enable them either to live better themselves, or to employ a greater quantity of labour in those particular manufactures. You really encourage those manufactures, and

direct towards them a greater quantity of the industry of the country, than what would probably go to them of its own accord [*WN*, p. 515].

In the case of corn, however, the introduction of a bounty can serve only to raise the nominal price of corn. Since, within an *unchanging* “period of improvement,” prices of all other goods—including that of labor—must preserve their respective positions relative to that of corn, the labor-commanded value of producers’ incomes is unaffected.<sup>8</sup> Hence, by such a policy, “[y]ou do not encourage the growth of corn, because you do not enable [producers] to maintain and employ more labourers in raising it” (*ibid.*).

Here then is the nature of that “great and essential difference” attributed to corn. But the strictly static character of the argument must not be missed. The price of corn can be said to “regulate” those of all other goods only within a particular “period of improvement.” The principle cannot be applied to a dynamic context, for in that case—as the nation traverses several such “periods”—the consequent changes in the real structure of the economy will alter the corresponding structure of relative prices. Had Ricardo and his contemporaries grasped this narrowly limited character of Smith’s principle, they certainly would have given it far less attention. Moreover, as we shall see, most of the objections raised by Smith’s critics can be likewise dismissed as inappropriate applications of his static principle to dynamic contexts.

Judged within the narrowly-confined context within which it is derived, Smith’s peculiar denial of a bounty-induced stimulus to corn production can, at least, be excused as consistent with the requirements of his larger model of economic development. Nevertheless, it must be admitted that in his eagerness to discredit the claims of the bounty’s apologists, he was at a number of other points to stretch his argument beyond the limits of consistency. However, before considering those flaws in his case against the bounty, we turn now to a review of the arguments advanced by those apologists so as to develop a context within which to judge Smith’s contribution.

### Smith's Contemporaries on Regulation of the Corn Markets

Among contemporary authors with something to say on the corn trade, Smith was certainly familiar with the views of his famous countryman, Sir James Steuart, at least as they were expressed in his *Principles*, though it is well known that, while he was preparing the *Wealth of Nations* for the press, Smith admitted to a correspondent that “[w]ithout once mentioning [Steuart’s book], I flatter myself that every false principle in it will meet with a clear and distinct confutation in mine” (*Corr.*, p. 164). The corn law works that Smith did cite were those of Charles Smith (whom Adam praised as “the very well informed author of the tracts upon the corn trade;” *WN*, p. 461) and Jacques Necker, the opponent of the Physiocrats, soon to become Louis XVI’s finance minister. It is true that Smith made explicit reference to Necker’s work only to draw upon his estimate of the French population—and that in an unrelated context (*WN*, p. 905)—but as his earliest critic observed, Smith seemed “to have adopted the reasoning which Mr. Necker uses, and to have copied it closely” (Pownall, 1776, p. 361)

That perspicuous critic was Governor Thomas Pownall, commonly granted that epithet in recognition of his service in the administration of the American colonies, including two years as governor of Massachusetts Bay. Six months after the first appearance of the *Wealth of Nations*, Pownall published a pamphlet in the form of a letter to Smith in which he criticized Smith’s views on a number of points, including the question of the bounty (Rae, [1895]1965, pp. 318-19). The second of Smith’s bounty critics was James Anderson, who, in the year following the first publication of the *Wealth of Nations*, treated Smith to a lengthy disquisition on the bounty’s merits. Anderson’s was the only critique to prompt any changes to which Smith would admit. In a 1780 letter accompanying gift copies of the second edition of his famous work, Smith acknowledged to his correspondent that he had, “in the heat of writing,” been “too strong” in his

first edition characterization of corn as a commodity imbued with “a real value which no human institution can alter,” and that Anderson, a “very diligent, laborious, [and] honest man,” had taken “advantage of this hasty expression.” In response to Anderson’s objections, he altered the offending expression in the second edition (1778) to describe corn’s value as one that “cannot be altered by merely altering its money price.” Since the bounty was, for Smith, no more than a purely nominal shock, this correction of his earlier “careless expression” was, he assured his correspondent, “all that the argument required and all that I really meant;” and with that he had taken “away the foundation of the whole argument of Mr. Anderson” (*Corr.*, p. 251). However, he certainly recalled his critics’ objections some four years later, for we find that in the “Additions and Corrections” and the third edition (1784), he has limited the application of his principle concerning the regulating character of the corn price to “home-made” commodities only, no doubt in response to Anderson’s (1777, p. 344), observation that if that principle is to hold, his “manufactures must have been all worked up from materials the produce of his own country” (Prendergast, 1987, pp. 394-5).

The modern reader who surveys the British works on the corn bounty cannot fail but to be struck by the nearly reverential esteem in which that institution was held by Smith’s contemporaries. Looking back on the debate a generation later (upon the occasion of the renewal of the bounty in 1804), Francis Horner remarked that “the best writers and statesmen of England, throughout the first part of the last century, . . . mentioned it always with admiration, as an institution that had been planned in wisdom, and the success of which was complete—to be ranked [as] . . . an inseparable part of that peculiar system, to which England was indebted for her superiority over all other nations” (1957, p. 97).



This praise reflected a fundamental conception of the grain markets as too important to the nation's well-being to be permitted to operate without close government supervision. The common view apprehended the grain stock as comprising a "necessary" component, required to satisfy national subsistence, and any remaining "surplus." When, in 1759, he came to devise a proposal for a national system of granaries, Steuart (1805, p. 353) makes this conception the motivating principle of his scheme: "The consideration of these two portions of every crop, *viz.* the national provision, and the surplus, in their respective relations to one another, and to home and foreign markets, is what leads to the true principles of policy with respect to grain." Across the Channel, Necker (1775, p. 345) worked diligently to establish a policy that was the reverse of that adopted in Britain ("in a country such as France, the prohibition to export corn ought to be fundamental law") though he was willing to permit exceptions to that rule in years of abundance, when it would become "an inconvenient imprudence." But Necker's prohibition of export was grounded in the same conception of the grain market that in Britain produced support for her export subsidy, while he added an additional consideration for charity: "Every one would certainly consider an exportation as contrary to the public good which should deprive the inhabitants of France of part of the corn necessary for their subsistence, or which should carry out of the kingdom that quantity of the surplus which prevents the proprietors of corn from prescribing arbitrarily to those who stand in need of that corn to support life" (Necker, 1775, p. 56). Further, the unsupervised market cannot be trusted to preserve the "necessary" component of the grain supply within the nation. Steuart's granary proposal was intended to "lay down the principles by which the legislature may be directed how to prevent, as far as possible, that part of every crop which is necessary for national subsistence, from being exported, or confounded with the surplus of grain, which is and must continue the object of foreign trade" (Steuart, 1805, p.

354). Necker (1775, p. 58) sought to prohibit export because the dealers “make no distinction of persons” in their transactions: “the farmer will open his barns to the French factor who buys for foreign countries as readily as to the merchant who intends to dispose of them in the heart of the kingdom.”

We hear also in this literature an echo of Thompson’s characterization of the period as the “transitional moment between locally-based markets and an emergent national grain market,” a transition that prompted periodic outbreaks of social unrest. In these periods, the “crowd derived its sense of legitimation” from the old proscriptions against wholesaling activities in the subsistence markets. Those ancient proscriptions reflected a conception of “traditional rights or customs” so deeply ingrained and widely held that occasionally, “this popular consensus was endorsed by some measure of licence afforded by the authorities.” In this respect, “the authorities were, in some measure, the prisoners of the people” (Thompson, 1991, pp. 295, 208, 188-9).

Certainly the fear of popular unrest is never far below the surface in the corn law literature of the time. However, that unrest is typically seen not as the outcome of truly deficient harvests but rather as the product of the inability of consumers to acquire valid information as to the true state of supply, producing an unwarranted anxiety that is further manipulated by the dealers for short-term gain. Necker (1775, pp. 72-3), for example, warned his readers that because consumers “have no easy means of counting” the stock offered for sale, they become “distracted by their anxiety;” and in this state, “they will judge ill” and underestimate the true quantity available. Further, the “sellers again, on their side, will endeavour to keep up this fear, by the artful manner in which they . . . lessen the appearance of [their wares], and they will succeed thus in selling them much dearer.” According to Steuart (1767, p. 293), the situation is much the same on his

side of the Channel: “It is the fear of want, and not real want, which makes grain rise to immoderate prices.” But that fear “does not proceed from a natural cause, to wit, the degree of scarcity, but to the avarice and evil designs of men who hoard it up . . . .” It is to avoid this evil that he proposes his national system of granaries, for with such “granaries established, the minds of a people may be free from all anxiety or fear of want” (Steuart, 1805, p. 372).<sup>9</sup> Of course, not all of Smith’s contemporaries shared this solicitude for the people’s tranquility. Arthur Young (1771, pp. 83-4), that indefatigable proponent of the agricultural interest, urged that “[p]opular clamours, raised by interested people, ought never to be hearkened to.” Lest there be any doubt as to the identity of the “interested people” behind the riots, we are assured a few lines later that “facts will ever display in the strongest manner the miserable politics of letting a set of idle, debauched, and insolent manufacturers carry us by riot into measures pernicious to the well-being of the kingdom.” Nor does Young have any patience with a legislature cowed by the fear of unrest. In considering the “present [export] embargo” (1770), he complained that although “it was proved clearly as possible” that the current wheat price remained well within the range over which the export subsidy is to be paid, “it was observed by one in power, that the people were discontented, and in case of an high price of corn ensuing, would be still worse; this sentiment had such weight that the ports were kept shut. Thus our corn trade destroyed, not from riots but from the fear of them!”

Though they differed in their attitudes toward the bread rioters, the British commentators were widely agreed as to the merit of the bounty: it avoided the dangers of excess supply in years of bountiful harvests. Here we see the consequence of their conceptualization of the grain market as comprising a fixed magnitude defined as “necessary” to subsistence with any production beyond that limit viewed as “surplus.” Because any such “surplus” is met by a strongly inelastic

demand, “in years of plenty, the market being overstocked, prices would naturally fall, not in exact proportion to the amount of the surplus, but a great deal below it” (Anderson, 1777, p. 312; Steuart, 1767, p. 293 suggests a price elasticity of demand of -0.2). The sharp decline in price diminishes the farmer’s incentive to “proceed with alacrity in his preparations for another crop;” and after “a few years of moderate abundance,” some farmers would be obliged to abandon the tillage altogether ( Anderson, 1777, pp. 296 and 312-13). By encouraging the export of this troublesome surplus, the bounty was said to promote agricultural investment, stimulate output, and yield, thereby, lower long-run average food prices than would be seen in its absence. Young (1771, p. 54) took the outcome to be self evident, saying of the bounty’s critics that “such people do not sufficiently consider how much a lively demand and quick sale encourage the cultivator to proceed in his business with spirit and alacrity; new ground is broken up, and the plough triumphs!” Anderson, however, offers us the fullest expression of the argument in his long rebuttal to Smith (a summary of which is found in Predergast, 1987).

That rebuttal is included in a larger work written as a series of letters urging a scheme to introduce fine sheep and woolen manufacture into the Scottish highlands. It was, in Anderson’s view, a lack of sheep that was “the chief cause of their present difficulties,” and a thriving woolen manufacture would provide just the stimulus required (Anderson, 1777, Letters III-IV). It is this desire to encourage industry that led him to his defense of the bounty, which, as he expressed it, was prompted by the policy’s effectiveness in preventing a wide fluctuation in the price of grain: “it ought to be the study of every wise and humane legislature, to provide with the most cautious foresight against any considerable variation in the price of the most necessary articles of life for the labouring poor, but above all in the price of bread-corn . . . .” It is in this dimension that no nation can “produce a system of legislation equal to that of Great Britain.”

Indeed, “Britain does not possess such a decided advantage over the nations around her in any other respect, as in what relates to her corn-laws; nor has perhaps any other circumstance contributed so much to her prosperity for a century past as this has done” (Anderson, 1777, p. 294). The great benefit of a stable grain price arises from the operation of a backbending labor supply curve. Because “necessity alone induces men to work, . . . when people can earn as much in one day as may maintain them for two, or more, they will then be more disposed to indulge their own inclinations, and work less than when the whole labour of the day is barely sufficient to supply the wants of nature” (*ibid*, p. 277). Hence, abundant harvests are disruptive to industry and the social order: when grain prices are “exceedingly reduced, manufacturers would turn idle and insolent, commissions from abroad could not be executed in a proper time by our manufacturers, and foreign merchants would be obliged to apply to other markets for these goods; farmers would be unable to pay their rents; proprietors would be distressed for want of these, and the whole nation would be thrown into the most violent ferment that could be imagined.” Nor are short harvests any better, for though “a temporary rise in the price of provisions . . . must naturally produce a greater degree of industry among the labouring people, . . . if this advanced price was to be long continued, the labourers finding themselves too much straitened in their circumstances, would either insist upon having more wages, or they would leave that country.” Anderson does not tell us why this apparent ease of labor out-migration in periods of low real wages does not produce, in periods of abundance, a corresponding in-migration sufficient to contradict his implied assumption of a back-bending labor supply. We learn only of the possible out-migration, no doubt because that too threatens both the interests of the manufacturers and the social order: with rising wages and fewer workers, “it becomes necessary to advance the price of manufactures in foreign markets; which slackens the demand

for them, and is the cause of much uneasiness, that often ends in tumults and bloodshed at home” (*ibid.*, pp. 293-6).

But the bounty’s benefits are not limited to the manufacturing sector. Agriculturalists benefit as well from its persistent stimulus to demand. The bounty induces a permanent increase in that maximum quantity which can be sold without fear of loss. In the absence of the bounty, that quantity is limited by the amount necessary to meet domestic subsistence, and the farmers, having “only a demand for as much grain as the inhabitants of this island alone could annually consume, . . . would raise no more than was just sufficient for that purpose in ordinary years.” The bounty, however, adds a “certain and steady demand for a considerable quantity for exportation,” by which “that quantity also would be raised in ordinary years.” This excess production in “ordinary years” also benefits the poor, for it provides protection against the fear of shortage in years of poor harvests: “in a year of scarcity, the quantity that was destined for exportation comes to be naturally applied to make up the deficiency of that part of the crop which was originally destined for the home market,” serving, thereby, “to lower the price of grain in times of scarcity” (*ibid.*, pp. 311 and 317-18). By this reasoning, the bounty payments may be considered “as a premium advanced by the community for insurance against the loss they might sustain from a variation of seasons.” Agriculture, being an activity subject to the risk of uncertain seasons, requires profits “upon the whole higher than in other less hazardous trades.” Hence, the bounty permits society “to pay the farmer for the loss he might sustain in a year of plenty from the disproportionate lowness of price” and thus “enable him to dispense with the extraordinary price he would have been obliged to exact in years of scarcity,” thereby “tempting him to rear as much grain as possible.” But the bounty does more than simply increase the quantity of resources devoted to agriculture; it enhances the productivity of those resources as well, thereby reducing society’s

vulnerability to the vagaries of the seasons: “The bounty has a natural tendency to over-rule even the influence of bad seasons themselves, . . . for as it gives the farmer perfect security, . . . it necessarily occasions a more perfect culture of the soil; and every sensible farmer knows that a rich soil in a high degree of cultivation is far less liable to be affected by a variation of seasons” (*ibid.*, pp. 327-32).

Nearly two decades earlier (in a tract first published in 1758), C. Smith conveyed much the same view through simile, describing the satisfaction of the nation’s subsistence in years of poor harvests through the redirection of the bounty-stimulated production as comparable, “to the expenses of a man of fortune in diversions and amusements, . . . as well as for necessaries; but these increasing, he is content to forego his pleasures, and applies what was provided for them to supply his wants, and by that means find comfort when otherwise he would have been in distress” (C. Smith, 1766, p. 23). Here too, it is the assurance of a steady export demand that is the source of the surplus output: “the legislature seems to have taken . . . care . . . as much as possible by encouraging the farmer to till so much land that our own growth may be sufficient, and in case it should exceed the consumption, by making provision for a bounty to be paid in order to export the surplus, whereby the farmer’s fears of loss in that case are removed or rather prevented” (*ibid.*, p. 11).

Indeed, the enormous importance of exportation for the national abundance is dramatized by an extraordinary “short piece of history” said to be confirmed by “an eye-witness of the facts,” and offered to illustrate “[h]ow far the farmer may by exportation, for which we give a bounty, be prompted to till, or by the prohibition thereof . . . , or by the fear of large importations, be discouraged from tillage.” We are told of a “Grand Vizir” of Turkey, who “suffered a more general exportation of corn . . . than any of his predecessors had done, insomuch that three

hundred French vessels . . . were one day seen to enter Smyrna Bay to load corn,” yet in the face of these exports, “wheat was then sold for less than seventeen pence English a bushel” (less than one-quarter the threshold for the cessation of the British export bounty). Unfortunately for the ruler, at the sight of these unprecedented exports, “the people took alarm, pretended that all the corn was going to be exported and that they, in consequence, must be starved,” a conclusion which, naturally, caused them to grow “so mutinous that they could not be appeased till the Vizir was strangled and his body thrown out to them.” The successor, taking “particular care not to split on the same rock,” prohibited grain export. But at this change of policy, “many of the farmers, who looked on the exportation as their greatest demand neglected tillage,” causing the corn price to rise, “in less than three years,” by more than four times; “and the distress of the people was such that every bakehouse and magazine of corn was obliged to have a military guard” (*ibid.*, p. 33n.). Smith evidently took the message to heart, for when he reissued his 1759 pamphlet as a part of the 1766 *Three Tracts*, he rescinded a suggestion, advanced in the earlier edition, that British agriculture had grown so strong under the bounty that the subsidy could be gradually withdrawn over a period of years. The intervening, 1764 edict of Louis XV freeing French grain exports and the reports of other observers that they would soon “see as good a bounty given for corn exported from France as is given from England” convinced him that the earlier proposed repeal seems “now in the year 1766 highly improper and that it would be wrong even to think of taking the bounty entirely off,” lest Britain be inundated with grain from a resurgent French agriculture under its new export freedom (*ibid.*, pp. 90-91).

Perhaps the most famous of Smith’s critics, at least among his contemporaries, was Governor Pownall (on whom, see Teichgraeber, 1987, pp. 346-51). On the matter of the bounty, his views would have carried some weight with his contemporaries, for he wrote as a member of



Parliament, who, some four years earlier, had introduced a revision to the bounty which reduced the threshold at which the export subsidy ceased from 48s. to 44s. per quarter, a reduction which, when viewed against the subsequent rise in grain prices, came to be seen by a future generation as the “virtual repeal” of the bounty (Barnes, 1930, pp. 42-4; Horner, 1957, p. 98). This was the act that Adam Smith was moved to notice in his first edition as “an improvement upon the antient system,” though disappointing for its addition of a bounty on oats, where none had before existed. Later, when he came to prepare his second edition, his view softened to the point of characterizing the act as “though not the best in itself, . . . the best which the interests, prejudices, and temper of the times would admit of” (*WN*, pp. 542-3).

Pownall was himself no advocate of repeal. On the contrary, he agreed with other bounty supporters that it tended to reduce grain prices in the long run, but he came to that conclusion by a rather different route. Indeed, Smith must have read Pownall’s argument on this point with a particular exasperation, for it took as its opening premise that very “popular notion” which Smith sought so strenuously to refute—namely that a “country in that progressive state of improvement, by which England for near a century hath been rising, must have experienced a continued influx of riches; that continued influx must have and hath created a continued progressive rise of prices.” In the end, all prices rise proportionately, but during the period of adjustment, the relative price of corn and the real wage always decline: “The relative proportion of the scale of prices being changed . . . and corn will be always last in the scale.” Consequently, “the landed man and the labourer must be in a continued state of oppression and distress.” The agriculturalist, therefore, “requires some adventitious force or spring to aid the velocity of the rise of the price of his commodity which he hath to sell,” and the bounty serves as that “spring.” In doing so it increases output, creating, by “the high prices of the home market,” a “succession of surpluses”

which “keeps down the price taken in a general series of times” (Pownall, 1776, pp. 362-5).

There is, to be sure, no hint of exasperation in the very kind letter that Smith wrote to Pownall acknowledging receipt of the latter’s pamphlet (*Corr.*, p. 224), but Horner, writing from the objectivity of a later age did not scruple to complain of the credulity of those eighteenth-century bounty advocates who could hold the “opinion that the real price of corn will . . . be rendered cheaper to the consumers, and that the same real price will be maintained permanently higher to the farmer, though these two positions are . . . contradictory of each other” (1957, p. 106).

Of course, even this spirited, if flawed, vindication of the benefits to be expected from exports is not sufficient. One must also explain why a subsidy is necessary to promote those exports; and Anderson, at least, took up that question. His argument took the form of a denial of Smith’s claim (*WN*, pp. 514-15 and 524-7) that under a system of free trade farmers or merchants would maintain grain stores across seasons in anticipation of a future price rise. The perishable nature of grain and the risk of fire, riot, and other calamities make the enterprise so costly that, the mere suggestion can be dismissed as “extravagantly absurd.” The only means to achieve this intertemporal transfer of product is through the bounty’s power to promote a level of capacity capable of yielding a surplus in “ordinary” years, which surplus is then available for redirection to domestic consumption in those inevitable years when the seasons turn unfavorable (Anderson, 1777, pp. 321-3).

Here we find a significant break in the ranks of the bounty’s defenders, for Charles Smith, though as certain in his support of the bounty as its other apologists, nevertheless wrote at considerable length of the benefits arising from privately-owned grain stores. It was this aspect of his views that the author of the *Wealth of Nations* was later to find so appealing. Indeed, the content and structure of the earlier Smith’s analysis reappears nearly intact in Adam Smith’s more

famous vindication of the grain dealers. Even the phrasing of the two authors is similar. Just as the earlier Smith was moved to defend the grain dealers against the “general opinion” which attributed the high price of corn to “the avarice of the farmers and iniquity of the factors . . . and dealers in corn” (C. Smith, 1766, p. 5), so his more famous namesake was drawn to the task by a conviction that “no trade is so much exposed to popular odium” (*WN*, p. 527). We find even an unmistakable shadow of the “invisible hand” in the earlier Smith’s defense of the farmer who, in time of scarcity, withholds his grain immediately after harvest: “though he regards only himself, this conduct may be of public utility; for was he to supply the market in the beginning of the year with as much as in good years, too great a quantity might be exported and famine stare us in the face before next harvest” (C. Smith, 1766, pp. 26-7). The later Smith, when describing the activities of the corn dealer, simply adds the effective metaphor of the ship captain: “Without intending the interest of the people, he is necessarily led, by a regard to his own interest, to treat them, even in years of scarcity, pretty much in the same manner as the prudent master of a vessel is sometimes obliged to treat his crew.” When provisions are low, “he puts them upon short allowance” (*WN*, p. 525). Likewise, the earlier Smith insists, just as does the later, that there is no possibility of the merchants combining to extract cartel profits: “their number seems too great for them ever to combine . . . to oppress the people.” Further, any such attempt “will generally turn out to the loss of such schemers, whilst the post is regular, and the corn-trade continues free; for interest never sleeps, and every advance of price is quickly known to all dealers, and desire of sharing in the profit will soon overstock the market” (C. Smith, 1766, p. 17; *cf.*, *WN*, pp. 77 and 525-6). The later Smith adds to the case advanced by his predecessor only his penetrating analysis of the efficiency gain arising from the trade of the wholesaler (*WN*, pp. 528-30). The earlier Smith departs from the later only in his explicit reference to the perishable nature of grain—a point which

is omitted from the discussion of his more famous namesake. On that point, Charles Smith departs as well from his fellow bounty advocates. Anderson considers that quality to be a reason to dismiss as absurd even the possibility of private grain storage. Steuart ([1805] 1967, pp. 368-9) expects to prevent the problem in his proposed granaries by regular sales from the granary stock made on commission for local dealers, who would be required to replace the sold quantity “in a short time.” To ensure the dealers’ participation, he proposes a tax on all market sales of grain, exempting only sales from the granary stocks. Charles Smith, however, had no confidence that public granaries can adequately deal with the problem: “Neither can that care be taken to preserve the corn from corruption, decay, or being diminished or destroyed by vermin, in such public magazines, as in private hands” (C. Smith, 1766, pp. 14-15). Certainly it must have been this very congenial analysis of the social benefits arising from grain speculation that prompted Adam Smith’s commendation of his earlier namesake as “very well informed,” in spite of the latter’s unwavering defense of the bounty.

This, however, was the only analytical gem available to Smith in his corn law sources. He certainly would have found nothing to admire in their claims to empirical support, those claims being uniformly no more than illustrations of the *post hoc ergo propter hoc* fallacy. Once again, Horner’s retrospective offers an instructive, if gently stated, evaluation: “The diminution of the average price and the progressive increase of exports, within the period at the beginning of which the bounty had been instituted, presented no doubt a very deceitful coincidence; and at a time when the analysis of national wealth was unknown, it was natural enough to believe that the cause of these curious facts could be no other but that remarkable law which just preceded their appearance” (1957, p. 97).<sup>10</sup> Young (1771, pp. 46-8) offers the most extreme illustration of the fallacy. After presenting the reader with price tables purporting to establish “that wheat has been

cheaper the last 75 years since the bounty than it was for the ninety-four years before,” he concludes, “It is farther observable that for the first sixty-nine years, the price of wheat was continually rising, and since the bounty was given, it has been continually sinking; which seems to be a plain proof that this sinking of the price was owing to the bounty.” But even this was not enough. By arranging his tables to isolate the period in the seventeenth century of a nearly prohibitive import duty, the effect of the duty is, he insists, made “visible in the price, for wheat, which for many years before was rising, did at this time sink more than ten shillings a quarter.” From this, he would have his reader conclude, “It is impossible that stronger proof than this should be advanced of the certainty of the assertion . . . made before, *viz.* the exportation of corn gives plenty, and consequently cheapness at home; and now I may add, that preventing our receiving any from abroad is attended with the same effect.” With arguments like this for his guide, there is little wonder that Smith pronounced himself as possessed of “no great faith in political arithmetick” (*WN*, p. 534). Other writers, while less extreme, were no more persuasive. Charles Smith could offer his reader nothing more than the observation that grain prices had declined since the enactment of the bounty, “which is a good proof of the utility of the law” (1766, p. 73, *cf.*, pp. 76 and 79). Likewise, Anderson’s effort at “proof” consisted simply of the claim that “the price of almost every commodity has risen” since the introduction of the bounty except that of corn, followed by the rhetorical device, “Whence . . . arises this singular exception to the general rule, if it is not to be ascribed to the influence of the bounty?” (1777, pp. 361-2; *cf.* p. 335).

Anderson’s treatment presents us with a particular irony, for he criticized Smith for a failure to offer “further proof” of the latter’s contention that the observed decline in the corn price over the first two-thirds of the eighteenth century “must have happened in spite of the bounty and cannot possibly have happened in consequence of it” (*WN*, pp. 506-7; Anderson, 1777, p. 336). In

fact, Smith did offer some evidence in support of his contention, repeating Necker's (1775, p. 271, n.) earlier observation that the decline in grain prices had occurred in France as well, in spite of that nation's contrary policy prohibiting exports prior to the 1764 edict. To be sure, Smith's comment appeared, in the first edition, only in the digression on silver and was not repeated in the later chapter on bounties (*WN*, p. 216). Nevertheless, Pownall (1776, p. 361), who also, like Anderson, was working from the first edition, did notice this "decisive proof" and recognized its source in Necker. No doubt, it was Anderson's criticism that prompted Smith to introduce, in the 1784 "Additions and Corrections," a revision to the bounty chapter that included, immediately after the passage that drew the complaint, a repetition of the earlier reference to the French experience (*WN*, p. 507).

This is not the only point at which Smith's argument seems to parallel elements of that advanced by Necker a year earlier. Pownall cannot be faulted for his observation that Smith seemed "to have adopted the reasoning which Mr. Necker uses," though, if it is true that Smith held a low opinion of the French author, he must have found the comment galling—doubly so as Necker's urging of a prohibition on grain exports was as much an affront to Smith's "system of natural liberty" as was the corn bounty. Nevertheless, it cannot be denied that the key element of Smith's argument—the inability of the bounty to stimulate output—appears in the same role in Necker's treatment. It is true that, unlike Smith's more complete derivation, Necker's version makes no attempt to ground the principle within a larger theory of rent and economic growth. But his treatment does share Smith's reliance on a labor-commanded measure to express the purchasing power of proprietors' incomes. Thus Necker asks us to suppose a proprietor's income "equivalent to the annual subsistence of fifty men." This conveys the purchasing power of that income over commodities since the owner "would destine these subsistances to support men

without property, and he would obtain in exchange the fruit of their industry.” Introducing monetary units to the discussion changes nothing since wages move in proportion to the corn price. Thus we are led to conclude, “What then will a proprietor gain by selling the subsistances in disposal for a greater or a less sum of money, if the labour which he wants to buy in exchange becomes dearer in proportion” What additional encouragement will he have to cultivation?” Of course, a rise in the corn price does benefit the proprietor in the short run since wages adjust only with a lag. So long as this “disproportion subsists, the proprietors gain by the sufferings of the man of toil, and thus they perceive a fresh advantage cultivating, which may induce them to break up land.” But this can be no more than a transitory condition; the proprietor “must necessarily give it up when the price of labour shall have followed in its progress the rise of commodities, as his temporary advantage would be destroyed” (Necker, 1775, pp. 88-95). It is true that we do not find this acknowledgment of a transitory quantity response in Smith’s discussion of the bounty, but there was no need: he had dealt with the matter some five hundred pages earlier, when he first introduced his labor-commanded concept and observed that the “money price of labour . . . does not fluctuate from year to year with the money price of corn, but seems to be every where accommodated, not to the temporary or occasional, but to the average or ordinary price of that necessary of life” (*WN*, p. 53).

Having established that it can produce no supply response, Necker, like Smith, carries us to the conclusion that the bounty can do no more than produce an equal rise in the domestic price of corn: “without the bounty, corn would have fallen in England to the price at which foreigners would have purchased it; and yet the nation would have received the same sum of money from them for the sales at twenty-four livres, without the bounty, as for those of twenty-seven livres, when the public really paid three of them” (Necker, 1775, pp. 268-9). Here we have that “second

tax” that Smith was to add to his own discussion in the 1784 “Additions and Corrections”—that is, “the tax which arises from the advanced price of the commodity in the home-market, and which, as the whole body of the people are purchasers of corn, must in this particular commodity, be paid by the whole body of the people” (*WN*, p. 508). However, because it lacks the context of Smith’s larger theory of rent, Necker’s bounty does not preserve the structure of relative prices. On the contrary, in Necker’s scheme, the corn price “affects the price of labour only,” and “there are many other goods, such as fruits, garden-stuff, wines, metals, which have a value independant of labour, and solely in proportion to their scarcity, or to the greater or smaller estimation which men set upon them.” Nevertheless, this complication makes little difference since, in manufacturing, the raw material “is generally of so small a value in comparison of that which labour adds to it, that, in this kind, the produce of the earth is, one may say, only an implement of manufacture” (Necker, 1775, pp. 107-10). Hence, just as with Smith, the rise in the corn price produced by Necker’s bounty is communicated through the wage to the prices of nearly all other domestic commodities. Finally, this bounty-induced rise in the prices of Britain’s manufactures diminished her manufactured exports and “would have hurt prodigiously the prosperity of that kingdom, if a thousand lucky circumstances had not counterbalanced these disadvantages.” Chief among those “lucky circumstances” was her “political strength,” which enabled her to extort treaties from Russia and Portugal “by means whereof she has procured herself a preference which mere mercantile calculations would not have given her.” Likewise, her “maritime power” enabled her to acquire “an exclusive commerce of prodigious extent, by establishing considerable colonies in Asia and America.” But no doubt Necker found most irritating the policies by which she “restrained, by excessive duties, the importation of foreign wines, and of those of France in particular” (*ibid.*, pp. 271-7).



To acknowledge the close structural parallels between Smith's attack on the corn bounty and Necker's slightly earlier call for an export prohibition is not, of course, to suggest that Smith drew upon Necker's approach. On the contrary, in view of the degree to which the labor-commanded concept pervades Smith's argument throughout the *Wealth of Nations* (Hueckel, 2000), it is simply not possible that he could have first encountered the idea in Necker's 1775 pamphlet. The timing is such that Smith could have found in Necker's treatment the stimulus for his own 1784 addition of the "second tax" aspect of the bounty; but beyond the observed parallels, we have no compelling evidence to that effect, and the notion certainly is not so subtle that it could not have independently occurred to Smith as a simple extension of his earlier argument. Indeed, with that possible exception, if there was any significant transmission of ideas between the two authors it seems more likely that it was in the reverse direction, perhaps during their acquaintance while Smith was living in France as tutor to the young Duke of Buccleuch (Rae, [1985] 1965, p. 206).

### **Smith's Attack: Marred by Inconsistency**

Smith's thought remains appealing more than two centuries after his death in part because it is the product of his self-conscious effort to construct a systematic body of work of extraordinary breadth. One difficulty inherent in such an enterprise is that, as the range of the corpus expands, one faces an increasing risk that inconsistencies may be inadvertently introduced among its constituent elements. The risk is heightened if the work contains a polemical dimension and the author becomes caught up in the "heat of writing." Such seems to have been the case with Smith's attack on the bounty.

Like Necker, Smith too took notice of the effect of the bounty-induced rise in the price level in diminishing manufactured exports. But in his case the pursuit of the idea brought him into

conflict with a more fundamental element of his system. He acknowledged that, although the bounty cannot increase the labor-commanded value of the proprietors' incomes and consequently does "not encourage the growth of corn," it "may give them some little advantage" in the purchase of imports." However, even this redounds to their harm, for the concurrent rise in manufacturing prices "tends to discourage more or less every sort of industry . . . and to enable foreign nations . . . to undersell them, not only in the foreign, but even in the home market." This decline in manufacturing demand is then communicated to the agricultural sector since, "in every country the home market, as it is the nearest and most convenient, so is it likewise the greatest and most important market for corn." Thus, we are drawn to the surprising conclusion that a subsidy to the export of grain serves actually to reduce the rate of investment in agriculture, for the country gentlemen, through their support of the bounty "discouraged, in some degree, the general industry of the country, and, instead of advancing, retarded more or less the improvement of their own lands" (*WN*, pp. 509-17 and 535-6). It was not, therefore, the bounty that was the source of Britain's acknowledged advance in prosperity. It was rather that "security which the laws . . . give to every man that he shall enjoy the fruits of his own labour . . . ; [which] security was perfected by the revolution, much about the same time that the bounty was established" (*WN*, p. 540). Here Smith adopted a line of argument which he could well have heard from his mentor, whose father, a quarter-century earlier, had proclaimed that "security is the best friend of industry" (Townshend, 1751?, p. 34).

No doubt many of Smith's readers, at some point in their study, have found themselves, like Hollander, troubled by Smith's "frequent recourse to 'ignorance' as an explanation of certain conspicuous types of behavior, including the political" (Hollander, 1997, p. 772). The strategy raises a bothersome appearance of inconsistency with Smith's famous dictum that "the law ought

always to trust people with the care of their own interest, as in their local situations they must generally be able to judge better of it than the legislator can do” (*WN*, p. 531). For all that, the country gentlemen apparently cannot be trusted to recognize that their own bounty tends in the long run to diminish the most important market for their output. But this is only in keeping with the virtuous, if rather dimwitted nature of the class. Unlike the merchants and manufacturers, who are concentrated in the towns, the country gentlemen “cannot so easily combine” to obtain monopoly privileges; and consequently they “are generally disposed rather to promote than to obstruct the cultivation and improvement of their neighbours farms and estates.” For this reason, and “to their great honor,” they are “of all people the least subject to the wretched spirit of monopoly” (*WN*, pp. 461-2). Nevertheless, because they receive their income with “neither labour nor care,” they have grown indolent, which “renders them too often, not only ignorant, but incapable of that application of mind which is necessary in order to foresee and understand the consequences of any publick regulation” (*WN*, p. 265). Just as in other areas of public policy, they have in the matter of the bounty been misled by the actions of the merchants. While, in seeking the bounty, the country gentlemen “acted in imitation of [the] merchants and manufacturers, they did not act with that compleat comprehension of their own interest which commonly directs the conduct of those two other orders of people.” Their error lay in a failure to grasp that “great and essential difference which nature has established between corn and almost every other sort of goods”—a difference which ensures that efforts to raise corn’s relative price through trade regulations, in imitation of those applied to manufactures, are destined to be, in the first instance, ineffectual, but ultimately, through their damaging effect on manufacturing exports and thence on the domestic demand for grain, absolutely harmful (*WN*, pp. 515-16; *cf.* p. 462).

It was unfortunate for the logic of his case, and for the reputation of his country gentlemen, that Smith was drawn by the polemical character of the dispute to insist that the bounty would actually reduce the rate of agricultural investment. Such a claim is, of course, inconsistent with the general principle that bounties serve to direct to the favored industry a greater share of the nation's capital than "would naturally run of its own accord," a principle that he had earlier applied to the corn bounty in particular (*WN*, pp. 505-6). This tendency to stretch his argument to insupportable lengths occurs frequently in the corn law analysis, leaving his case vulnerable to attack and thereby diminishing its persuasive power. In a discussion of the duties levied on grain imports, after posing the perfectly reasonable suggestion that the low value to volume ratio of grain raises the necessary transport costs to the level of an effective import barrier, rendering additional tariffs unnecessary, he advanced, as empirical confirmation, the claim that the average annual level of imports "does not exceed the five hundredth and seventy-one part of the annual consumption," a claim that drew from Pownall the objection that the effective magnitude of imports must be judged at the margin: "It is not the ratio of the quantity of corn exported or imported, and the quantity of the whole stock raised, but the ratio between the *surplus* and this quantity exported or imported which creates the effect" (*WN*, p. 461; *Corr.*, p. 360; Teichgraeber, 1987, p. 349).<sup>11</sup>

Even Smith's revisions sometimes introduced new contradictions. In that long paragraph added to the bounty chapter in the "Additions and Corrections," Smith seemed to forget his own principle that the bounty cannot alter the real wage. There we are told that the bounty-induced rise in the corn price imposes a "very heavy . . . tax on the first necessary of life [which] must either reduce the subsistence of the labouring poor" or raise money wages proportionately. But even the second alternative now has a real outcome since "it must reduce the ability of the

employers . . . to employ so great a number as they otherwise might do, and must, so far, tend to restrain the industry of the country” (*WN*, p. 508). Here the bounty now seems to reduce domestic demand directly, in addition to the channel operating indirectly through a decline in manufacturing exports (which is retained two pages later). This slip in expression drew a rebuke from Horner, who argued that, though real wages might decline temporarily (due to a lag in the adjustment of the nominal wage), they “must soon rise to their true rate; and this rise in the money-price of labour will only reduce the ability of the employers to its former level” (1957, pp. 105-6).

Smith’s inclination to strain his analysis to score points on his bounty opponents produced its most striking inconsistency in his “Digression concerning the Corn Trade.” Here Smith faced conflicting polemical objectives. While, on the one hand, he must refute the claim that the export bounty encourages domestic agriculture, he desires also to contend against that “popular odium” to which the corn trade is exposed and thereby build the case for “the liberal system of free exportation and free importation.” To be sure, these goals present no conflict in the case of the “merchant importer.” Here, indeed, is where we find the most complete description of that channel of influence operating through changes in the manufacturing export balance, though, of course, the process is reversed since imports reduce the corn price: “as the rise in the real value of silver, in consequence of lowering the money price of corn, lowers somewhat the money price of all other commodities, it gives the industry of the country . . . some advantage in all foreign markets, and thereby tends to encourage and increase that industry,” and this, as we have seen, increases the market for corn (*WN*, p. 535).

It is when he turns to the activities of the exporter that the problem arises, for now Smith must reverse his field: he can no longer hold to his earlier claim that (subsidized) exports produce

a positive harm. Hence he insists that, while the export trade does not add “directly” to the domestic supply, “[i]t does so, however, indirectly.” It does so by assuring the farmer that any “surplus can, in all ordinary cases, be exported.” In the absence of such assurance, “the growers will be careful never to grow more, and the importers never to import more, than what the bare consumption of the home market requires.” Consequently, the domestic “market will very seldom be overstocked; but it will generally be understocked, the people, whose business it is to supply it, being generally afraid lest their goods should be left upon their hands” (*WN*, p. 537). But this is precisely that fear of surplus that underlay the arguments of the bounty’s supporters. Here, Smith’s eagerness to press forward with his polemic provided his opponents with a particularly inviting target.

### **The Apologists’ Rebuttals**

We noted at the outset that Smith’s “almost complete silence” in the face of the criticisms from Anderson and Pownall has provoked comment from a number of readers. However, an examination of the charges lodged against Smith’s argument suggests that his silence is indicative of nothing more than the ineffectual nature of those criticisms. Both Anderson and Pownall showed themselves capable of analytical and interpretive error in their critiques to Smith’s corn law analysis; and, remarkably, they overlooked most of the openings that Smith’s inconsistencies offered them. The most obvious such point did not escape notice, however. Anderson quoted at length Smith’s admission that the export trade (“indirectly”) stimulates domestic output, gleefully concluding that the bounty “must, therefore, according to Dr. Smith’s own reasoning, tend in the most effectual manner to supply the home market abundantly at all times, and consequently to moderate the price” (1777, p. 338).

The remainder of Anderson's objections, however, simply missed their mark. He recognized that Smith's argument rested on his principle of the supposed "regulating" character of the corn price, but he failed to grasp the narrow, static character of that principle. Like generations of subsequent readers, Anderson saw Smith's principle only within a dynamic context; and from such a perspective, it was clearly unacceptable. He acknowledged, indeed, that "every difficulty would disappear, and that Dr. Smith's reasoning would be here plain and consistent, if we were to suppose that the price of grain had such an immediate influence on that of all other commodities as necessarily to make the nominal price of each of these, on all occasions, to rise and fall with every fluctuation in the price of grain." But such a "supposition" was to be dismissed as "so directly contrary to experience that it would be an insult on Dr. Smith to suppose we should understand it in that way" (1777, p. 357, n.). "Insult" or no, this was precisely the meaning intended by Smith's limitation of his principle to a fixed "period of improvement."

Because of his misapprehension of Smith's principle, the several pages devoted by Anderson to criticism of that principle (1777, pp. 341-61) pose no threat to the substance of Smith's case that could not be deflected by the few expository adjustments noted earlier. Thus, Anderson's objection that the corn price does not "regulate" the wage, as demonstrated by the observation that, in the American colonies, "the price of labour is very high, although the price of grain is extremely low" (Anderson, 1777, pp. 346-7), demonstrates nothing but Smith's own conclusion that corn wages will be "liberal, moderate, or scanty" depending upon the "period of improvement." Similarly irrelevant are the quotations which Anderson (1777, pp. 359-61) drew together (in the "long footnote" noticed by Prendergast, 1987, p. 394) to demonstrate his claim that Smith himself contradicted his own principle. Each of the alleged contradictions involved real changes in the economy—in the one case, a change to the extent of the division of labor (*WN*,

pp. 669-72) and in the other, changes in manufacturing efficiency (*WN*, pp. 683-6). Finally, the complaint that “the rate of manufactures and the rate of mercantile profit must in all cases influence in a certain degree the price of grain” (Anderson, 1777, pp. 352-3) demonstrates nothing more than the well-known principle that rates of profit must tend to uniformity across industries, a principle of which, as Brewer (1995) has effectively demonstrated, Smith was well aware. Here too Anderson’s complaints prompted from Smith nothing more than a simple verbal correction to the second edition: the substitution (*WN*, p. 686) of “exchangeable value” for “real value” to correct the suggestion that it was the “real,” or labor commanded, value of corn that had declined (a reading excluded by hypothesis; *WN*, p. 53).

Smith’s revisions were small indeed for the sweeping rebuttals that he provoked, but it must be admitted that his critics simply failed to take due account of the larger vision of growth that lay behind his corn law analysis. For his part, Pownall accepted Smith’s conclusion that growth must produce a rise in animal product prices relative to that of corn, but he turned this principle against Smith’s call for a removal of restraints on cattle imports, arguing that “free importation . . . must derange this scale of natural prices and must arrest this progress of improvement in its course” (Pownall, 1776, p. 359). Smith, of course, understood the difference between a relative price rise resulting from demand growth and one produced by supply restraints; and he recognized further that it was larger, not smaller, quantities of feeding stock that contributed to improvement since “the quantity of well-cultivated land must be in proportion to the quantity of manure which the farm itself produces.” Hence, import restraint, producing a “high price of lean cattle . . . is like a bounty against improvement” (*WN*, pp. 238 and 460). Anderson, by contrast, did not even acknowledge the demand-induced relative price shifts so important to Smith’s analysis of growth, an omission that undercuts his rebuttal to Smith’s claim that security of property right and not the



bounty was the source of Britain's growth. Such "general security," he objected, would have been of equal benefit to the manufacturer. Further, Smith's own recognition of a greater scope for the division of labor in manufacturing (*WN*, p. 676) implies that this "general security . . . ought to have lowered the price of every other manufacture in a much higher proportion than that of grain." Since this is contrary to the observed trend, in which "the price of almost every manufacture has increased considerably . . . while that of grain has decreased," Anderson (1777, p. 363) thought he had struck a telling blow. Smith, of course, would reply that the observed price trend simply confirms the prediction advanced in his digression on silver that the relative demand shifts accompanying economic advance ensure that a wide range of commodities, all exhibiting greater income elasticities of demand than those associated with grain, "should gradually exchange for a greater and greater quantity of food."

Finally, on what is, to modern eyes at least, the fundamental point at issue—the effect of bounties in misdirecting capital—Smith's critics could offer little more than the commonplace fear that grain, as "indispensably necessary," must be protected: "In other articles we trade merely for pleasure, or profit; in this we trade from necessity." To this was added, first, the simple mercantilist pretext that a bounty, by converting a trade deficit in grain to a surplus, increases the nation's capital and, second, the claim that by allowing the farmer a higher price in abundant years in return for lower prices in years of scarcity, the bounty "costs the community nothing," which last, of course, assumes the very point that must be proved (Anderson, 1777, pp. 338-41). With so little of substance advanced by his opponents, it is not surprising that Smith wrote after the publication of his second edition that he had "not thought it proper to make any direct answer to any of [his] adversaries" (*Corr.*, p. 250).<sup>12</sup>

## **Conclusion**

One cannot read Smith's contribution to the corn law controversy of his time without gaining a renewed appreciation for the superiority of his analytical powers. In its breadth, its coherence, and its subtlety of insight, his achievement towers above the work of his disputants. But the master has his failings as well. At some points we catch him shading his interpretation of the data to fit the polemical needs of the moment, and at others we find him, in the heat of controversy, pressing his case beyond its limits. Perhaps these failings had no significant influence on the outcome of the dispute. At any rate, those of his contemporaries who left behind published reviews of his corn law polemic overlooked most of its flaws, dissipating their energies instead on other, misdirected criticisms. Nevertheless, while granting Smith full marks for the superiority of his achievement, it must be admitted that in the pursuit of his polemical purpose, he was not immune to overstatement and inconsistency. Therein lies our lesson. We, who are so far removed from the intellectual battlefields of the eighteenth century, can hope to properly assess the meaning and significance of Smith's thought only as we remain cognizant of the influence those distant disputes had on his text: flaws introduced in the "heat of writing" remain long after the battle has ended.

### Notes

- <sup>1</sup> 12 Geo. III, c.71. See Barnes (1930, p. 41). For a review of the ancient proscriptions and the tensions arising in the eighteenth century as market institutions outgrew those restraints, see Westerfield ([1915] 1968, chap. 2).
- <sup>2</sup> Istvan Hont and Michael Ignatieff (1983, p. 21) overstate the case when they write that Smith's "endorsement of the role of grain merchants in rationing supply" was "to go further in justifying the ways of the invisible hand than anyone but the Physiocrats dared go," a slip that left them open to rebuttal by E. P. Thompson (1991, pp. 201; 275), who raised the obvious counter-example of Charles Smith (1766), whom we shall meet below. The statement is made all the more disconcerting by their acknowledgment on the preceding page that Parliament had already in 1772 issued a similar "endorsement"—or, at any rate, removed the ancient legal impediments to that role. The repeal act, however, is mis-identified as "13 George III. 43 (1772)." This act (which received the royal assent in 1773) is the law to which Smith refers in *WN* (pp. 541-2) as reducing the import duty on grain and reducing the price at which the export bounty ceases. See Barnes (1930, pp. 43-4).
- <sup>3</sup> The observation that Smith's defense of the corn dealers provoked little comment from his literary critics should not obscure the fact that the substitution of the modern, integrated, international market for the medieval conception of a narrowly localized trade in subsistence did not occur without periodic episodes of violence and widespread social unrest, outbreaks legitimized in the eyes of the participants by what Thompson has characterized as the "moral

economy of the crowd.” For an entrée to this important aspect of the story see Thompson (1991, chaps. 4-5).

- <sup>4</sup> Here is one of the points on which Smith’s argument exhibits a troubling capacity to adjust itself to the polemical needs of the moment. In his *Lectures on Jurisprudence*, he sought to assure his students that while it may seem that the rich man consumes a larger share of the nation’s produce than does the poor man, this is a matter of appearance only. Not only is it true that the rich man “has not a larger stomach than any ordinary plowman,” but even in his clothing, while certainly of a “greater variety” than his workman, he nevertheless “does not consume so much as an ordinary plowman.” This equality of consumption becomes apparent when we consider their respective life-time consumption patterns: the rich man “never exposes [his clothes] to be spoiled by the weather or rubbed and torn by hard labour,” and after he is finished with them, they are still fit for use by others, “whereas the plowman who has his cloaths continually exposed to all sorts of destruction wears considerably more” (*LJ*, pp. 194-5). This characterization of consumption levels as determined more by our common human condition than by income differences was retained in that famous passage in *TMS*, where we read that “The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, . . .” (p. 184). However, in *WN*, where the argument requires that non-food items exhibit the greater income elasticity of demand, we are told that when we “compare the spacious palace and great wardrobe of the one, with the hovel and the few rags of the other, [we] will be sensible that the difference between their cloathing, lodging and household furniture, is almost as great in quantity as it is in quality” (pp. 180-81). Apparently the differentially lower “wear and tear” imposed on their

possessions by the rich, so important to the argument of *TMS*, is, in *WN*, no longer considered sufficient to bring their non-food consumption into equality with that of the poor. Nevertheless, even in *WN*, when the argument requires it, Smith does not scruple to appeal to that very differential. In II.iii., which emphasizes the quality of durability in the definition of capital, we are told that the “man of fortune” whose “expenditure had been chiefly in durable commodities” follows a “mode of expenditure [that] is more favourable . . . to the opulence of an individual . . . [as it is] likewise to that of a nation” because “[t]he houses, the furniture, the cloathing of the rich, in a little time, become useful to the inferior and middling ranks of people” who purchase those goods “when their superiors grow weary of them” (pp. 346-7).

- <sup>5</sup> Modeled after an earlier act of 1673 (expiring in 1678), the 1689 act established a subsidy of 5s. per quarter of wheat exported when the price in the exporting port was below 48s. and the carrying vessel was British owned and at least two-thirds British crewed. Proportionate rates were also established for barley and rye. See Barnes, 1930, ch. 2.
- <sup>6</sup> Smith’s survey of the price history contains another point where his interpretation of the evidence seems to adjust itself to the needs of the current argument. In carrying that history up to his own time, Smith acknowledges that the “high price of corn during these ten or twelve years past . . . has occasioned a suspicion that the real value of silver still continues to fall in the European market.” There follows a long discussion to convince the reader that this is a transitory event masking a continuing long-run fall in the price level produced by a “gradual increase in the demand for silver” (*WN*, pp. 217-25). Nevertheless, Smith is at this point able to muster no more than a highly qualified conclusion: “That . . . the value of silver

has, during the course of the present century, begun to rise somewhat in the European market, the facts and arguments which have been alleged above, dispose me to believe, or more properly to suspect and conjecture; for the best opinion which I can form upon this subject scarce, perhaps, deserves the name of belief” (*WN*, p. 233; *cf.* pp. 52 and 227-8 ). All these doubts and qualifications fall away, however, in the “Conclusion of the Digression,” where the discussion returns to the polemic against the errors of the “popular notion.” The “high price of corn during these last ten or twelve years” is there summarily dismissed as “sufficiently accounted for from the badness of the seasons, without supposing any degradation in the value of silver” (*WN*, p. 258).

- <sup>7</sup> The exceptions occur either when the land is incapable of alternative use (as in the case of rice land, “a bog at all seasons,” p. 176) or when demand forces disturb the “natural proportion” (see pp. 78, 165-7, 172-5).
- <sup>8</sup> Smith does not tell us how the resulting rise in the general price level is to be financed, but if we could ask him, he would presumably reply that the subsidized exports produce the necessary inflow of precious metals “exactly in the same way as the absurd policy of Spain and Portugal” (O’Donnell, 1990, p. 108).
- <sup>9</sup> On this point as on others, Charles Smith broke with the other bounty advocates. In his view, public granaries would “become a very great discouragement to tillage, . . . as the farmer, seeing large quantities collected together in one view, might imagine corn would never bear a price for the future, and the fear of the market being spoiled by the magazines being opened

would prevent all private persons from keeping a sufficient quantity by them to carry on their business, and consequently the trade would decline” (C. Smith, 1766, p. 14).

- <sup>10</sup> Turning his attention to the renewal of the bounty in his own time, Horner lamented “another coincidence of circumstances” by which, since the “virtual repeal” of the bounty in 1773, the corn price had risen and the corn trade had shifted to a net import balance. With this reversal of the trends observed during the period of the bounty’s operation, those “who had been moved in favour of the bounty by the first part of this experience, . . . could not help feeling the second to be irresistible: if the original trial furnished a probable conclusion, this converse of the experiment, yielding the same result, seemed to establish it to demonstration” (1957, p. 98).
- <sup>11</sup> Smith could have replied that Pownall’s objection missed completely the key point of his passage, that the bounty, by encouraging exports, reduces carry-over stocks and thereby increases imports in years of poor harvests.
- <sup>12</sup> Ironically, Anderson stumbled on a principle that could have struck at the core of Smith’s model, but he never brought it to bear in his critique. At the end of the chapter devoted to that critique, Anderson appended a short consideration of the corn law as it applied to Scotland. There we find his earliest statement of what would later come to be known as the Ricardian extensive margin, complete with a recognition of its effect on the determination of rent. Smith’s theory of rent and his vision of the effect of growth on price relatives could not

have withstood Anderson's concept of gradations in the quality of corn land. However, there is no indication that Smith was aware of Anderson's discussion on this point.



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