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# From bounties on exportation to the natural and market price of labour: Smith versus Ricardo<sup>1</sup>

*Ferdinando Meacci*

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## 1. Introduction

Smith and Ricardo are still renowned for their common defence of the principles and policies of free trade. Ricardo's arguments, however, differ from Smith's not only in terms of the routes sometimes chosen for reaching the same conclusions but also, and more fundamentally, in terms of the different theories of value on which their different conclusions are based. These different theories lie at the roots of Ricardo's explicit or implicit criticisms sometimes of Smith's system of thought and sometimes of some specific arguments developed within this system. The issue of international trade does not escape these criticisms in any of these two dimensions. This can be noticed, first, in the most famous Chapter VII, *On Foreign Trade*, of Ricardo's *Principles* (1821) and, subsequently, in the more specific Chapter XXII, *Bounties on Exportation, and Prohibitions of Importation*. Unlike Chapter VII where Ricardo's criticisms are mostly implicit or indirect,<sup>2</sup> Chapter

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- 1 This article is the outcome of a paper first presented at the ESHET Annual Conference, Istanbul (Turkey), 19–21 May 2011 and at the STOREP Annual Conference, Minervino di Lecce (Italy), 9–11 June 2011. I wish to thank the discussants at these conferences and two anonymous referees of this journal for their useful insights, criticisms and suggestions.
- 2 Ricardo's explicit criticism of Smith's arguments is limited in this chapter to the impact of foreign trade on the rate of profit. But an implicit and more crucial criticism seems to descend (as indicated by Ricardo himself at the end of chapter XXII) from the distinction between *value* and *wealth* discussed by Ricardo in chapter XX in the context of some explicit criticisms of Smith's system of thought. On these different criticisms, see Meacci (2012).

XXII is specifically targeted at Chapter V, *Of Bounties*, Book IV, of the *Wealth of Nations* (1776 [1976]), and is intended to prove that:

Perhaps in no part of Adam Smith's justly celebrated work, are his conclusions more liable to objection, than in the chapter on bounties. (*Principles*: 304)<sup>3</sup>

The relevance of this subject has been confirmed by a number of scholars both in the years between the publications of the *Wealth of Nations* and of Ricardo's *Principles* and during the revival of Ricardian economics after Sraffa's publication of Ricardo's works (1951–1973). While in the period between the publications of those two great works the debate was mostly focused on the encouragement to the production of corn that the bounty was supposed to give,<sup>4</sup> after the publication of the *Principles* the debate received a new thrust by the idea that Smith's argument on bounties was not only in contrast with a wise policy measure, as maintained by the previous critics of that argument and denied by the previous supporters of that measure. It was also in contrast with Ricardo's alternative system of thought. Hence, the attention paid to this issue in the revival of interest on Ricardo's system (as such or as an alternative to Smith's) that took place in the twentieth century sometimes before and, more systematically, after Sraffa's publication of Ricardo's works. Thus, the issue of bounties eventually attracted the explicit or implicit attention of scholars mostly in the context of more general issues. Among these scholars are Hollander (1973, 1979, 1980, 1982, 1987 [1992]), O'Brien (1981, 2004), West (1982), O'Donnell (1990), Samuelson (1977, 1992), Gibbard (1994), Elmslie (2004), Hueckel (2000, 2009), Peach (1993, 2007, 2009), Harvey-Phillips (2011).

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3 Ricardo's first evaluation of this chapter is given in a letter sent to James Mill in 1816. This evaluation is linked in this letter to Ricardo's more general evaluation of Smith's system of thought as follows: 'In regarding Adam Smith, again, I find many opinions to question, all I believe founded on his original error respecting value. He is particularly faulty in the chapter on bounties' (*Works*, VII, 100). Sraffa (1951: xxxv–xxxvi) associates this 'original error' to what was to be called the 'adding-up theory of value' rather than to the principle of value as command of labour.

4 See, in particular, Pownall (1776 [1987]), Anderson (1777 [1968]), Malthus (1803 [1986], 1814 [1986]) and Horner (1804 [1957]). This view of the corn bounty had been shared by 'the best writers and statesmen of England' (Horner 1804 [1957: 97]) including Smith's earlier namesake Charles Smith, and was firmly established in the public mind when Smith came out with his heterodox conclusions. For a detailed discussion of these early criticisms, see Hollander (1979: Ch. 1) and Hueckel (2009). For a catalogue of the modifications of the text on bounties provided by Smith himself in subsequent editions of the *Wealth*, see Prendergast (1987).

The scope of this article is to contribute to this variegated stream of literature by focusing on Ricardo's criticisms and by figuring out Smith's possible counter-criticisms. Its implicit aim is to provide some insights for questioning or supporting the interpretations to be found in that stream. One of these interpretations, for instance, presents Smith's arguments on bounties as the 'basic Smithian model' (Hollander 1979: Ch. 1, 1987 [1992], Ch. 4; see also West 1982) *rather than* as an appendix to, or an implication of, such a model. Another interpretation brings back those arguments to the 'definitional relation' between the money price of corn and the value of silver (O'Donnell 1990: Ch. 6) *as if* any change in the money price of corn reflected a change in the value of silver. Still other interpretations regard Smith's attack on the 'mean and malignant expedients' of the mercantile system as if this attack were the 'connecting principle' behind Smith's arguments *rather than* one of the outcomes of Smith's principles (Hueckel 2000). Along parallel lines runs the interpretation by which Ricardo's 'corn model' *rather than* Ricardo's own theory of value is regarded as the 'essence' of his system of thought (O'Brien 1981, 2004: Ch. 2). Equally, though indirectly, related to the issue of corn and corn bounties are the interpretations based on Smith's and Ricardo's concepts and dynamics of real wages, as distinct from money wages, and of the 'natural' price of labour, as distinct from its 'market' and its 'necessary' price (Peach 1993: Ch. 3, 2007, 2009).

In an attempt to pave the way for coming to grips with these interpretations, the article starts by summing up Smith's arguments and Ricardo's criticisms. It will then proceed by singling out their respective flaws or ambiguities and by tracing them to the diverging foundations of their systems of thought. This article is thus divided in 12 sections. Section 2 presents the *status quaestionis* with a synoptic table of Smith's arguments and Ricardo's criticisms. Section 3 highlights what appears to be the core of Ricardo's criticisms as identified in box # 4 of the table. Sections 4 to 11 are then devoted to a number of counter-criticisms by a fictitious subject called *Smith redivivus* who defends himself against the most important of Ricardo's criticisms.<sup>5</sup> Starting from Ricardo's initial misunderstanding of *money* prices for *real* prices, these counter-criticisms are then developed by highlighting Ricardo's broader misunderstanding of the price of *labour* for the price of *commodities* as products of labour. Sections 8 to 11 are more generally

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5 For a previous use of this fiction, see the anonymous pamphlet entitled *My 'Two Capitals' Theory. An Interpretation by Adam Smith Redivivus*, London: The Cobden Club, 1911.

devoted to tracing these misunderstandings to Ricardo's neglect of the methodological difference between *vérité de raison* and *vérité de fait* as well as between the point of view of an *individual* and the point of view of *society*. The links between the flaws or ambiguities of all these criticisms and counter-criticisms and the basic principles of Smith's and Ricardo's systems of thought are highlighted in the final section.

## 2. *Status quaestionis*: Smith's and Ricardo's conflicting arguments

Smith's chapter on bounties is properly understood if one keeps in mind that it belongs to Book IV, *Of Systems of Political Economy*, and more precisely to the group of chapters devoted in that Book to the exposition and critique of Mercantilism. What is most important, however, for understanding this chapter is that Book IV belongs in turn to a system of thought the foundations of which are laid out in Book I (theory of value and distribution) and in Book II (theory of capital and growth) of the same work. Ricardo's criticisms of that chapter are in turn based, as much as many other criticisms of other parts of Smith's work, on the theory of value and distribution presented by Ricardo in the first chapter of his *Principles*. Before moving to a detailed examination of Smith's arguments and of Ricardo's criticisms, it may be helpful to sum them up as follows.

### 2.1 *Smith's arguments*

Smith argues that a corn bounty results in a higher money price of corn in the home market both in years of plenty and in years of scarcity. For bounties impose 'two different taxes upon the people': the explicit tax levied on taxpayers to raise the revenue necessary to pay the bounty and the implicit tax levied on consumers through the higher price of corn. In the case of corn, far from encouraging tillage as supposed by its supporters, a bounty will actually impede it. For it is the real price of corn, not the money price, that matters in determining the extent of tillage. Yet, what the bounty really does is that it increases the money price, not the real price, of corn and, given the real price of labour in terms of corn, the money price of labour as well as of all its products. Since, therefore, the money price of corn regulates that of all other commodities, the real effect of the bounty is not so much to raise the real value of corn but to degrade the real value of silver. This is advantageous to nobody in the home market, not even to those who are supposed to benefit from the bounty: the farmer will not be able to cultivate much better while the landlord will not be able to live much better.

## 2.2 Ricardo's criticisms

Ricardo's objection begins with the simple assertion that a bounty, if it raises the price of corn, either raises it in comparison with the price of other commodities, or it does not. If it does, then, contrary to one of Smith's claims, tillage of corn will indeed increase in the short run. If it does not, then the only inconvenience faced by the home consumer is that of paying the [explicit] tax. There is a further inconvenience, however. This occurs in the long run and descends from the cultivation of less productive lands enforced by the bounty and from the resulting increase in the natural price of corn and rent of land. Country gentlemen, therefore, have a permanent interest in bounties on corn (or in the prohibition of its importation) while farmers and manufacturers have only a temporary interest in bounties on the exportation of their respective products. The sole effect of bounties either on manufactures or on corn is to bribe their producers into diverting their capitals to an employment which they would not naturally seek.

## 2.3 Smith's and Ricardo's similarity

The most general similarity of Smith's and Ricardo's arguments resides in their common acknowledgement of, and in their common hostilities against, the 'injurious effects of the mercantile system'. But a difference within this similarity should also be observed. While, according to Smith, the social waste resulting from corn bounties is nobody's gain (not even the farmer's or the landlord's), according to Ricardo the long-run gain is only the landlord's. Thus, while Smith's opposition may be read as advice to an enlightened legislator who might benefit all his constituents, Ricardo's may be taken as a call to political arms in an inevitable conflict of class interests.

A detailed comparison between these arguments and criticisms is provided in the table below. Both the ones and the others gravitate towards row # 4 of this table. It is therefore from this row that our inquiry begins.

SMITH's arguments on bounties	RICARDO's reply	Reasons for RICARDO's reply
1 Bounties force trade into channels actually disadvantageous or less advantageous than those in which it would run of its own accord	Correct	This effect of bounties on exportation, both of corn and of manufactures, implies a pernicious distribution of the general funds of society

2	Bounties on manufactures raise not only their nominal but also their real price whereas bounties on corn raise only its nominal price and will retard, instead of advancing, the cultivation of land	Wrong	Bounties on manufactures raise for a time their market price though not their natural price whereas bounties on corn, if continued, will raise its natural price due to the worse quality of lands taken into cultivation
3	Bounties on corn impose two different taxes in every particular year: the tax needed to pay the bounty and the higher price of corn charged on the whole body of the people	Partly wrong	The first tax is unquestionable but the second tax implies a rise in the market price of corn which is liable to recede as capital is diverted from manufacturing to the growing of corn
4	Since bounties on corn affect not the real but only the money price of this special product and wage good, it follows that 'the money price of labour, and of everything that is the produce either of land or labour, must necessarily either rise or fall in proportion to the money price of corn'	Wrong	Smith's idea proceeds from his original error of thinking that the price of corn ultimately regulates wages and therefore also the price of all other commodities. This runs counter Ricardo's basic theorem that an alteration in the wages of labour results in an opposite alteration in the profits of stock and in no alteration in the relative values of these commodities
5	Bounties on corn discourage manufactures without rendering any considerable service to farmers and country gentlemen	Wrong	Country gentlemen have a permanent interest in bounties on corn while farmers and manufacturers have only a temporary interest in bounties on their respective products
6	The only effect of bounties is to lower the value of money in terms of the home-made commodities and thus to discourage every sort of industry in the home country	Wrong	The degradation in the value of money in a particular country, as distinct from the world at large, will produce an exportation of gold and silver until the relative values of foreign goods and home-made goods regain their usual level
7	The exportation occasioned by the bounty in years of plenty frequently hinders the plenty of one year from relieving the scarcity of another	Missing	

### 3. Ricardo's central criticism: the wage-profit inverse relationship

Before delving into Ricardo's criticisms of Smith's arguments it may be useful to note that, while Smith's attention is steadily focused on the distinction between money prices and real prices (to be highlighted in the following section), Ricardo starts his criticisms by focusing on the different distinction between the *temporary* and *permanent* effects of bounties (on corn or manufactures) as well as on the associated distinction between *natural* and *market* prices. He then proceeds by assuming, first, an unchanging and, later, a changing natural price of corn as if Smith were unaware of the necessity of distinguishing these concepts in the issue of corn bounties. Ricardo's central criticism, however, is focused on the 'common error' of Adam Smith and other writers who believe that 'because the price of corn ultimately regulates wages, therefore it will regulate the price of all other commodities' (*Principles*: 307–8). Ricardo's rejection of this 'error' is based on the wage-profit inverse relationship as defined by him according to the exclusive principle of value as labour embodied. This rejection lies behind Ricardo's main criticism of Smith's arguments. This criticism runs as follows (the symbol  $\surd$  is added to the original text and will be discussed below):

In considering a rise in the  $\surd$  price of commodities as a necessary consequence of a rise in the  $\surd$  price of corn, he [Smith] reasons as though there were no other fund from which the increased charge could be paid. He has wholly neglected the consideration of  $\surd$  profits, the diminution of which forms that fund, without raising the  $\surd$  price of commodities. If this opinion of Dr. Smith were well founded,  $\surd$  profits could never really fall, whatever accumulation of capital there might be. (*Principles*: 308)

This criticism is then developed in two different directions depending on whether prices are considered in terms of money (gold or silver) or in terms of each other (real terms). If prices are intended in terms of money and all money prices rise in proportion, Ricardo's conclusion is that commodities would then continue to bear the same value relatively to each other, the real profits of different trades would remain unchanged, and 'the whole rise in price of raw produce and of goods would be injurious to no other persons but to those whose property consisted of gold and silver'. If, on the contrary, prices are intended in real terms and if, under this assumption, the price of corn in terms of other goods is admitted to change, Ricardo's criticism is that, under this assumption, Smith could not maintain what he generally does, namely that the value of corn is constant to the extent that it can be used as an invariable measure of the value of all other things; and also that, if the price of corn were *not* admitted to change, Smith would contradict himself in that corn, whether 'obtained on rich, or



on poor land, with much labour, or with little, with the aid of machinery, or without', would always exchange for an equal quantity of other commodities (*Principles*: 308–9). This criticism is supported, rather than balanced, by Ricardo's acknowledgment that, in spite of his inaccuracies, errors and contradictions, Smith does provide 'a correct account of the nature of value' (*Principles*: 309) at least in the passage concerning the relative value of gold and silver in terms of other commodities. Here, Ricardo's implication is that this account is correct not only because it implies (in contradiction, Ricardo seems to think, with Smith's more general theory of value) that it is the relative amounts of labour embodied that determine the exchangeable value of commodities; but also because it reveals (in contradiction, Ricardo also seems to think, with Smith's view of corn as an invariable measure of value) that gold and silver are said to vary in exchangeable value because it is the labour embodied in them, not the labour embodied in the commodities exchanged for them, that is the source of the variation.

#### 4. Smith's counter-criticism # 1: money prices vs. real prices

The insertion of the symbol  $\surd$  in Ricardo's passage above was intended to draw the reader's attention to Ricardo's initial misunderstanding of Smith's argument. The inaccuracy of the reconstruction of this passage should be evaluated in the light of the necessary meaning of the term 'price' used in the first and most fundamental chapter of Ricardo's *Principles*. Although this term is often used with an explicit regard to the monetary medium (the pound sterling) in which price is expressed, yet both its size and its variations are dealt with in that chapter as corresponding to the size and variations of the *relative value*, or *real price*, of one commodity in terms of another. The (relative) values or (real) prices considered in this chapter as the object of its fundamental theorems are, therefore, the real, not the *money*, prices of commodities. That the size and variations of price discussed by Ricardo in that chapter be the size and variations of real prices, even when it is nominal prices that are said to rise or fall, is confirmed by Ricardo's general assumption of the constant value of precious metals as the 'sheet anchor on which all my propositions are built' (*Works*, Vol. VI, 348) which is reflected in his assumption of 'money made of gold' as an invariable measure of the value of other goods (*Principles*: 46).

Ricardo's reconstruction of Smith's arguments on bounties is best understood if what he writes in his own chapter on this issue is compared with what he should have written to be consistent with his chapter on value. Ricardo's own statement on bounties runs as follows (the

symbol  $\surd$  highlights the missing terms to be entered in the reconstruction below):

If, however, I have succeeded in shewing that it is not the rise in the *money* wages of labour which raises the  $\surd$  price of commodities, but that such rise always affects  $\surd$  profits, it will follow that the  $\surd$  prices of commodities would not rise in consequence of a bounty. (*Principles*: 303; italics added)

For this statement to be consistent with Ricardo's chapter on value, it should rather run as follows (words in italics have been altered or added): If, however, I have succeeded in showing that it is not the rise in the *real* wages of labour which raises the *real* price of commodities, but that such rise always affects *real* profits, it will follow that the *real* prices of commodities would not rise in consequence of a bounty. Had Ricardo expressed himself in this manner, he would have been consistent not only with his chapter on value, but also with the whole of Smith's arguments on bounties. For these arguments are confined to the realm of money prices (as distinct from real prices) and leads to the conclusion that bounties on corn raise the price of corn in terms of money (money price of corn) and not the price of corn in terms of labour or of any of its products (real price of corn). In this perspective, we may imagine *Smith redivivus* to formulate his response as follows: in his reconstruction of my arguments on bounties, Ricardo seems to be moved by a sort of *petitio principii*. For he tackles these arguments as if I were concerned with the same problems, or with the same approach to these problems, he is concerned with in his chapter on value. But what Ricardo is concerned with in this chapter are variations in the *real* prices, or *relative* values, of commodities in terms of each other whereas what I am concerned with in my chapter on bounties are variations in what I call sometimes *money* prices and sometimes *nominal* prices as two equivalent expressions that are repeatedly juxtaposed to *real* prices. The same applies to my treatment of profits. For the profits Ricardo has in mind while reconstructing my arguments on bounties are *real* profits whereas the profits implied in these arguments are *money* profits. I readily admit that I should have discussed this subject more explicitly but I thought that, once I said that the money prices of all commodities would increase in proportion to the initial increase in the money price of corn, it would have been easy for my readers to conclude that money profits would equally increase while real profits remain unchanged. My repeated use of the terms money/nominal prices in my arguments on bounties, I must now point out against my imprecise language, indicates that money is there regarded *as such* or as a *unit of account* rather than as 'made up of gold' (as Ricardo consistently says in his chapter on value) or of 'silver' (as I inconsistently say in my chapter on bounties). Even more importantly, my use of those terms in my

chapter on bounties indicates that the stock of money is there taken as a *constant* magnitude, regardless of whether it consists of gold, silver or paper money and of whether, in the latter case, paper money is convertible into bullion – as was the case in my times – or is not – as is the case in modern times. This assumption is unavoidable in those arguments for the simple reason that they are focused on the effects of an institution – the bounty – on the *money price of corn*; and not on the effects of a different event – such as the discovery of new mines, a change in the labour embodied in metallic money, or the printing of inconvertible banknotes – on the *corn price of money*, i.e. on the varying amount of corn that a given quantity of gold, silver or paper money would be exchanged for.<sup>6</sup> Thus, going back to Ricardo's conclusion at the end of section 6 of his chapter on value ('Adam Smith, and all the writers who have followed him, have, without one exception that I know of, maintained that a rise in the price of labour would be uniformly followed by a rise in the price of all commodities') (*Principles*: 46), I admit that this conclusion is indeed coherent with Ricardo's previous arguments in that very chapter; but I must object that it is nonetheless based on the misunderstanding by which the term 'price' is used in that conclusion without the required attribute of 'money' or 'real' and regardless of whether what is under discussion is my argument or his. The misunderstanding consists in believing that what I am dealing with in

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6 Ricardo's misunderstanding descends from his view of money as a commodity (gold or silver) the value of which is determined, like the value of any other commodity, according to the principle of labour embodied. This explains why Ricardo may be consistent with himself when dropping the term 'money' in front of the term 'price' in his reconstructions of my argument on bounties. But he is nonetheless inconsistent with this very argument (which is in turn unrelated to my statement on the value of gold and silver shared by Ricardo and discussed below) in that my argument implies that the purchasing power of money changes as a result of what happens not to the *supply* conditions of its material substance but to the *demand* for it resulting (whatever this material substance) from the increasing money price of corn, of labour and of all (home-made) commodities generated by the bounty. For a misleading account of the term 'nominal' used in my chapter (and re-used with a different sense by Ricardo and others), see the interpretation by which my changes in money/nominal price are intended, for instance, by West (1982: 310) as resulting from 'an alteration in the cost conditions of the monetary medium'. An even more misleading identification of the accounting medium with metallic money was committed by Pownall (1776 [1977]) at the very beginning of the controversies on the issue of bounties. The distinction between the 'money price of bullion' and the 'real value of bullion' was nonetheless known to, and practiced by, Ricardo (though not with regard to changes in the demand for the monetary medium) in his essay on the high price of bullion (see *Works*, III, 64).

my chapter on bounties (changes in money/nominal prices) is exactly what Ricardo deals with in his fundamental chapter on value (changes in real prices). Thus, Ricardo's use of the term price in his remarks on, or reconstructions of, my argument on bounties is *consistent*, I must admit, with the use he makes of that term in *his* chapter on value. But I must also point out, with some apologies for my imprecise language, that it is nonetheless *inconsistent* with the use I make of that very term in *my* own chapter on bounties.<sup>7</sup>

Furthermore, by arguing at the end of his chapter on value that 'wages are to be estimated by their real value, viz. by the quantity of labour and capital employed in producing them, and not by their nominal value either in coats, hats, money or corn', Ricardo adds a new and peculiar meaning to the terms 'real' and 'nominal' which are so crucial for understanding my chapter on bounties. For the term nominal is used in this passage to convey the idea of the commodities *exchanged* for labour while the term real is here used to convey the idea of the labour *embodied* in the commodities to be exchanged. Thus, when he comes to his criticisms of my chapter on bounties, Ricardo is forced to misunderstand the main arguments of this chapter either because of the different meanings he attaches to the same terms or because of the different assumptions he adopts when distinguishing the variations resulting from a change in the stock of money and those resulting, once this stock is given, from a change in the demand/supply of corn. This distinction is as necessary for understanding the problems discussed in his chapter on value as it is for understanding the problems discussed in my chapter on bounties.<sup>8</sup>

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7 Thus, the 'distinction between causes which affect the value of money and causes which affect the value of commodities' (as Sraffa puts it in his attempt to extend Ricardo's assumption of the 'invariability of the value of the precious metals' recalled above as the 'sheet anchor on which all my propositions are built'; see 1951, Vol. I, xxxiv, and 1951–1973, Vol. VI, 348) is a sheet anchor for my very propositions on bounties, provided that the value of commodities be intended as the *real* value of one product in terms of another and not as the purchasing power of the monetary medium, whatever its substance, over all available products.

8 In this connection, it is worth recalling that in Section VII of his chapter on value Ricardo writes that 'a rise in wages, *from an alteration in the value of money*, produces a general effect on price, and for that reason it produces no real effect whatever on profits' (*Principles*: 48–9; italics added). The consistency between this statement and Ricardo's chapter on bounties highlights the *inconsistency* between Ricardo's criticism and my own chapter on bounties if what was pointed out in a previous footnote is true, namely that Ricardo's 'alteration in the value of money' must be intended as an alteration in its *supply* conditions.

## 5. Smith's counter-criticism # 2: money as money vs. metallic money

We have seen above that Ricardo's misunderstanding on money price and real price goes hand-in-hand with his view of money as a medium made of precious metals to be exchanged according to the principle of labour embodied. This principle and that view lie behind Ricardo's praise, mentioned above, of that part of Smith's work where Smith is said to provide 'a correct account of the nature of value'. This praise, however, seems to conceal an even more fundamental criticism of Smith's system of thought. For what Smith is concerned with in the passage approvingly quoted by Ricardo (a passage that is actually devoted to the advantages and complications of paper money) is the real price of commodities (as distinct from their money price) as determined according to the only principle admitted by Ricardo, i.e. the principle of labour embodied, and not according to Smith's principle of labour command. This twofold implication of that praise explains the capital letters adopted (instead of the italics of the 1st and 2nd edition of the *Principles*) in Ricardo's quotation of Smith's statement that the value of gold and silver in terms of other goods 'DEPENDS IN ALL CASES' on the proportion between the quantity of labour embodied in each of these commodities (*WN*, II.2.105; see also *Principles*: 352).

Now the possible reaction of *Smith redivivus* to this explicit praise and implicit criticism might be put as follows: my discussion of changes in the money price of corn, of labour and of all other (home-made) commodities does not contradict either my argument on what determines the value of gold and silver or my more general theory of value. For, one thing is the value of gold and silver in terms of commodities according to the amount of labour embodied in each of them. Another thing is the variation (resulting from a bounty or any other human institution) in the price of corn in terms of a given stock of money (made of gold or silver). And still another thing is the relation between the quantity of labour embodied in commodities (including gold and silver) and the quantity of labour that any given commodity can command or exchange for. The consistency between the expression 'depends in all cases', highlighted by Ricardo, and other parts of my work is that, whatever happens to the value of paper money in terms of gold and silver or of other goods, the quantity available of gold and silver as much as the amount of labour required for their production is what it is when the bounty is established. This is consistent not only with my implicit assumption above that the stock of money (be it gold, silver or paper money) is given but also, more generally, with my very principle of labour command. For this principle must be regarded as a complement to the other and, in spite of its rejection by Ricardo, may be regarded as the foundation of those modifications of the principle of labour embodied called for by Ricardo himself in his chapter on value (with regard to commodities produced by the

employment of different proportions of fixed and circulating capitals or, given these proportions, by capitals of different durability). I will return to this foundation at the end of this discussion when I will move from the money and real price of commodities involved in my argument on bounties to the more crucial subject of the natural and market price of labour.

### **6. Smith's counter-criticism # 3: two wage-profit inverse relationships**

One of the consequences of Ricardo's misunderstanding of Smith's treatment of money and real prices in his chapter on bounties includes the manner in which Ricardo's view of the wage-profit inverse relationship affects his criticisms of that treatment. This view is strictly connected to Ricardo's crucial problem of the invariable measure of value. Thus, if we return to the passage fully quoted above from page 308 of the *Principles* and we focus on Ricardo's sentences that 'he [Smith] reasons as though there were no other fund [profits] from which the increased charge could be paid' and that 'if this opinion of Dr. Smith were well founded,  $\sqrt{\quad}$  profits could never really fall, whatever accumulation of capital there might be', we face again, though now at a much higher and more sophisticated level, the same misunderstanding encountered above. For not only is Ricardo's fundamental theorem of distribution concerned exclusively with the real price (or relative value) of one commodity in terms of another, but the wage-profit inverse relationship is discussed in his chapter on value exclusively in terms of the rise (or fall) of *real* wages and of the associated fall (or rise) of *real* profits. And, to be as precise as Ricardo is, it should here be added that such a relationship is eventually discussed in that chapter, along with the real wages and profits that it implies, in terms of the *shares* of the exchangeable *value* of the product appropriated by those who have participated in its production.

Given this context, a possible objection by *Smith redivivus* to Ricardo's criticisms may be put as follows: while misunderstanding my argument on bounties, Ricardo ignores that I have my own view of the wage-profit inverse relationship, although I never call it so, and that this view of mine is different from his.<sup>9</sup> I must, however, acknowledge that

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<sup>9</sup> Not only is my view of this relationship put forward in the context of that competition-of-capitals doctrine which is rejected by Ricardo, but this doctrine rests on a theory of value different from his. Besides, my theory of value is not the only framework in which my competition-of-capitals doctrine finds its proper place. Another and most important framework is my theory of capital (see Meacci 2006). This theory, which was never rejected and was indeed defended by Ricardo on many controversial points, has been rather neglected in the revival of interest on the classical theory of value and distribution following Sraffa's work.

our diverging views have an element in common and that the neglect of this element is the very source of Ricardo's misunderstanding. This element is that the wages and profits involved in that inverse relationship are for both of us *real*, rather than *money*, wages and profits. Our difference stems from the different meanings we attach to the term 'real' used in this connection. While, according to Ricardo, the wages and profits of the inverse relationship are essentially the *shares* of the exchangeable *value* (determined according to the principle of labour embodied) appropriated by the owners of the labour and capital employed in the production of a particular or aggregate product, my view of that relationship is based on the changing *amounts* of the 'necessaries, conveniences and amusements of human life' (or 'riches', as Ricardo calls them in a chapter devoted to criticize a different part of my work)<sup>10</sup> given in exchange for labour or, which is the same, commanded by labourers in the labour market. Ricardo's view, however, coincides with mine (to the detriment, it must be acknowledged, of the consistency of his theory) when, after admitting in his chapter *On Wages* that the demand for labour may well exceed its supply even 'for an indefinite period', he comes to the conclusion that in these circumstances wages increase (above their natural level) and profits fall (below their natural level) not in his sense, i.e. as *shares* of *value* intended as labour embodied, but in mine, i.e. as the *amounts* of *riches* received by labourers in exchange for their labour. For it is only in the long run that, according to Ricardo, the price of labour intended in *his* sense (and its share of the value produced intended in the same sense) is expected to rise while the quantity of riches given in exchange for it is expected to fall (or not to rise at all). The surprising result of this way of reasoning is that my principle of labour command, which is rejected by Ricardo from the outset, re-enters his system of thought through the window of the variations of the market price of labour. According to my principle, on the contrary, the price of labour, whether natural or market price, is defined, and its variations are determined, in terms of the wage goods exchanged for labour as a result of the demand for, and supply of, it in the labour market, and not in terms of the amount of labour embodied in these goods.

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10 This is Chapter XX, *Value and Riches. Their Distinctive Properties*. This chapter, I must now point out, is another instance of Ricardo's inability to come to grips with my failures by eliminating them from *within* (i.e. in consistency with my entire system of thought) rather than from the *outside* (i.e. in consistency with his own and alternative system).

### **7. Smith's counter-criticism # 4: money/real vs. market/natural prices**

The discussion above has shown that the wage-profit inverse relationship is intended by Smith and Ricardo not only in two different senses. It is also presented or used by them in the context of two different horizons: the short run and the long run. These different meanings and horizons interact in the systems of thought of our two authors not only with their common distinction between market price and natural price (a distinction shared by Ricardo along with his completely different view of the natural price of labour) but also with the difference (implicit in some parts of Smith's work but rejected by Ricardo) between the natural and market price of *labour* as labour and the natural and market price of commodities as *products of labour*. While the interaction with the natural/market price distinction is examined in this section, the other interaction will be tackled in the remaining part of the article.

The natural/market price distinction is most often used by Ricardo in support of his discussion of the temporary/permanent effects of the bounty. When engaging in this discussion, Ricardo focuses on two different effects depending on whether the commodity on which the bounty is established is a raw material (such as corn) to be produced under diminishing returns or a manufacture. These effects are said to coincide in the short run if, with a bounty on corn and no diminishing returns to land, capital is diverted from manufactures to agriculture until the rising supply of corn brings its market price down to its old level corresponding to a constant natural price. But they are said to differ in the long run if, with a continued bounty on corn and diminishing returns to land, the supply of corn rises until the market price of corn is fixed at the higher natural price enforced by the law of diminishing returns.

The possible reaction of *Smith redivivus* to the arguments concerning these two effects might be put as follows: in his criticisms of my chapter on bounties, Ricardo seems to neglect that my argument is focused on the money/real price distinction and not on the, otherwise more important, natural/market price distinction. While the former is essentially concerned with *what* is given in exchange for a given commodity, the latter is rather concerned with *whether* the resulting price is determined by occasional or permanent forces. The point worth making here is that *both* money prices and real prices may be *either* market prices or natural prices and that my argument on changing money prices resulting from the bounty holds true regardless of whether the unchanging real prices are market prices or natural prices. Thus, my objections to Ricardo's twofold argument above may be structured as follows.



### 7.1 First

Ricardo's praise of my treatment of natural and market price (*Principles*: 91) is far-fetched (see my own qualms at the end of Chapter IV, Book I, along with the title and content of Chapter VII which should have been lengthened into '*Of the Natural and Market Price of Commodities and Labour*'). He is not to think therefore that I had forgotten this subject when writing my chapter on bounties. For this chapter is centred on the money/real price rather than on the natural/market price distinction if only because 'in any period of improvement' both natural prices (of corn, labour and any commodity) and natural profits must be taken as given while market prices and market profits, however different from their natural levels, are governed by – and gravitate towards – these very levels. Natural prices and natural profits cannot be affected, therefore, by any proportional change in money prices and money profits whatever may happen (as Ricardo justly points out) to the resulting short-run variations of market prices and market profits. Thus, when I argue that the price raised by a corn bounty is the money, not the real, price of corn, and when I relate this rise to an increase in the worldwide demand for home-made corn, I mean something which Ricardo neglects and on which, however, he would agree; namely that the money price that is to rise is nothing but one of all possible market prices of corn while it is irrelevant whether the real price that is to remain constant is its natural price. I concede, however, that my argument would be better understood if the system of prices that I assume as a starting point for assessing the effects of a bounty were a system of natural prices, i.e. a system that, given the different causes and effects of variations in nominal as distinct from real prices and in market as distinct from natural prices, neither a bounty nor, as I say in that chapter, 'any other human institution' would be able to affect.

### 7.2 Second

When observing that I invariably suppose the corn bounty to act only on the quantity actually produced without being any stimulus to further production, Ricardo appears to neglect two distinct aspects of this argument. One of these aspects relates to my idea above that changes in the money price of corn should not be regarded as changes in its real price. For, in spite of my ambiguities, the real price of corn I am talking about in the arguments criticised by Ricardo is not to be *intended* as the price of one particular commodity in terms of another. Neither is this price to be intended as *determined* according to the principle of labour embodied (which I also share, as I said before, though not 'in all cases' as misleadingly quoted and intended by Ricardo). Rather, the real price of corn is intended in that chapter as the price of this commodity in terms of the amount of labour

that it can purchase or command while its size is determined according to the principle of demand (for labour in exchange for corn) and supply (of corn in exchange for labour). Once the period of improvement is given, the 'ordinary or average price' of corn for labour (of labour for corn) resulting from the operation of those two principles becomes the *natural* price (either of corn or of labour) of that particular stage. Those two principles govern the determination of the corn price of labour (labour price of corn) not only (as Ricardo implies in his chapter on wages) when it comes to the *market* price of labour; but also (though this is denied by Ricardo in consistency with his peculiar theory of value) when it comes to the *natural* price of labour.

The other aspect of my argument relates to the short run as distinct from the long-run effects of bounties. Now I admit that I should have dealt with these different scenarios more carefully by distinguishing the problem of the logical consistency of my arguments from the problem of the temporary or permanent effects of bounties. Had I done so, both the similarities with Ricardo's argument and mine as well as the groundlessness of some of Ricardo's criticisms would have appeared more evident. Take for instance the short-run. This is the perspective in which I place my discussion not only of the effects of the corn bounty when 'years of plenty' are turned by the vagaries of the seasons into 'years of scarcity'. This is also the perspective adopted by Ricardo when he deals with the reversible variations resulting from any discrepancy between the market and natural price of corn. In this sense Ricardo's criticism can be easily incorporated into my own argument.<sup>11</sup> For it should not be forgotten that my argument is

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11 For instance, when Ricardo argues at the beginning of his criticisms that the rise in the market price of corn resulting from the introduction of the bounty 'would produce no effect whatever on its natural price' because 'to grow corn would neither require more labour nor more capital', he maintains something on which my very argument rests. For my qualification 'in a given stage of improvement' simply implies that the natural price of corn (or of any other commodity) is what it is regardless of the variations promoted by any human institution (such as the bounty) in the associated market price. Our difference on this minor issue is that while Ricardo speaks of changes in market prices as real prices, I only speak of changes in money prices while keeping silent on market prices. But my argument may be lengthened in Ricardo's direction without any internal contradiction if one assumes that the variations in money prices may be momentarily *perceived* by farmers as variations in the real (market) price of corn and in the associated real (market) profit. In this case, as argued by Ricardo, they will increase the production of corn till the price of corn and the profits would return to their initial levels. For an interpretation of my argument as a 'legitimate long-run model', a 'comparative-static' model or simply a 'model', see respectively Samuelson (1992), Hollander (1987 [1992]) and Hueckel (2009).

essentially structured in *static* or abstract terms and is not strictly concerned, therefore, with the *dynamic* perturbations resulting from the bounty: its main purpose is to attack a policy measure on the basis of my general principles without considering the path along which the economy returns to its departure point once these principles have been violated.<sup>12</sup>

## 8. Smith's counter-criticism # 5: money vs. real price of *corn*

The short-run vs. long-run view of the effects of bounties serves as an introduction, both in Smith's and in Ricardo's arguments, to the issue of the class interest of manufacturers, farmers and landlords. Thus, Smith's recurring idea that landlords are much less suitable than manufacturers to understand their interests is now focused on their imitation of the manufacturers' support for the establishment of bounties on the exportation, or of high duties on the importation, of their own products. Hence, Smith's memorable explanation of why landlords are liable to misunderstand their interests especially when it comes to the bounties on corn. Starting from the different impact exerted on money prices by bounties on corn as distinct from bounties on manufactures, this explanation runs as follows:

The *nature* of things has stamped upon corn a real value which cannot be altered by merely altering its money price. No bounty upon exportation, no monopoly of the home market, can raise that value. The freest competition cannot lower it. Through the world in general that value is equal to the quantity of labour which it can *maintain*, and in every particular place it is equal to the quantity of labour which it can maintain in the way, whether liberal, moderate or scanty, in which labour is commonly maintained in that place. (WN, IV.5.23; italics added)

What is the proper meaning of the terms 'nature' and 'maintain' in this crucial part of Smith's chapter on bounties? If they were intended in

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12 As for the long-run scenario, our arguments fall apart for still different reasons. For instance, while I conclude that the final/indirect tendency of the corn bounty is to cut either corn consumption per head (if money wages do not incorporate the tax and price increases argued above) or manufacturers' demand for labour (if money wages rise enough to incorporate those increases), thereby restraining either the population or the industry of the country or both, Ricardo's reaction is centred on his law of diminishing returns to land and on the resulting rise in the natural price of corn intended in his sense. This is the reason why, in his view, country gentlemen have a permanent interest while farmers and manufacturers have only a temporary interest in the establishment of the bounty.

the physical or biological sense and if the 'real value of corn' were intended accordingly, Ricardo would be right in objecting that this has nothing to do with exchangeable value, the main concern of political economy.<sup>13</sup> But, if asked about this terminological obscurity, *Smith redivivus* might reply as follows: I admit that some misunderstandings may result from my use of the apparently innocuous expression 'real price of corn' in contrast with the expression 'money price of corn' on which my argument on bounties is focused. But I must repeat that, whatever the money price may be (this is something that belongs to the realm of money, be it gold, silver or paper money), it is the *real* price of corn, regardless of whether this is a market or a natural price, that is at stake in my argument. I also admit that, especially in my chapter on bounties and even in my following retraction of the words used in the passage above,<sup>14</sup> I am often unclear about whether the real price I am talking about is a natural or a market price. But now I seize the opportunity to point out that the terms 'nature' and 'nature of things' are used in my passage above to convey less the idea of a physical constraint than the idea of a natural, as distinct from a money or market, price of corn. Neither is the verb 'to maintain' that I also use in that chapter to be strictly intended in a physical sense. I will return to the economic, rather than physical, nature of this constraint and to the different meanings of the verb 'to maintain' that appears in my text and of the verb 'to feed' that is used by Ricardo in its place. For now, I will defend my ambiguous terminology by arguing that it foreshadows Sraffa's idea of a *basic commodity* (Sraffa 1960). Corn (the vegetable food) was to my mind the only basic commodity of my age, i.e. the commodity which, once exchanged for labour in the constant quantities required by the subsistence wages of my time, was to enter into the production of any other commodity. However easy, therefore, it may be to misunderstand

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13 Hence, Ricardo's agreement with Buchanan's remark that 'in asserting that nature has stamped a real value on corn, which cannot be altered by merely altering its money price, Dr. Smith confounds its value in use with its value in exchange', the reason being that 'a bushel of wheat will not feed more people during scarcity than during plenty; but a bushel of wheat will exchange for a greater quantity of luxuries and conveniences when it is scarce, than when it is abundant' (*Principles*: 314–5; see also Malthus 1803). Smith's supposed confusion on this aspect of the issue will be tackled below.

14 I still remember that, in a letter sent to Holt in October 1780, I confessed that the sentence on the 'nature of things' used in the first edition of my work was certainly too strong, and had escaped me 'in the heat of Writing'. As I wrote in that letter, 'I ought to have said that the nature of things had stamped upon corn a real value which could not be altered merely by altering its Money price. This was all that the argument required and all that I really meant'.

the terms ‘nature’ and ‘nature of things’, I do not repent using them in the twofold meaning by which they convey at the same time both the concept of a price of corn unaffected by any institution or vagary of the seasons, and the concept of corn as the main basic commodity of my century, though not of the centuries to come.

### 9. Smith’s counter-criticism # 6: *vérité de raison* vs. *vérité de fait*

Whatever the immediate meanings of the terms ‘nature’ and ‘maintain’ adopted by Smith, the statement above conveys a message that goes beyond these very terms. To get to the most general implications of that statement, one should start from a criticism that is as implicit in Ricardo’s chapter on bounties as it is explicit in his Chapter XXVIII:

Dr. Smith’s error throughout his whole work, lies in supposing that the value of corn is constant; that though the value of all other things may, the value of corn never can be raised. Corn, according to him, is always of the same value because it will always feed the same number of people. In the same manner it might be said, that cloth is always of the same value, because it will always make the same number of coats. What can value have to do with the power of feeding and clothing? (*Principles*: 374)

Two considerations deserve to be made in this connection. One concerns the *part* assigned to corn in the *basket* of wage goods. The other concerns the *role* played by corn in the *market* for labour. As for the part of corn in the wage basket, Ricardo objects that ‘corn, though an important part, is only a part of the consumption of the labourer’. As for the role played by corn in the labour market, this is rendered by Ricardo’s use of the verb ‘to feed’ in the passage above as if it were synonymous with the verb ‘to maintain’ adopted by Smith in his previous passage.

To these objections *Smith redivivus* might object as follows: while saying that corn, though an important part, is only a part of the consumption of the labourer, Ricardo seems to forget, or to find a contradiction with, what I acknowledge elsewhere, namely that ‘corn, or whatever else is the common and favourite vegetable food of the people, constitutes, in every civilised country, the *principal* part of the subsistence of the labourer’ (*WN*, I.11.124; italics added). Without going into a dispute over whether corn is the principal or only a part of the subsistence of the labourer and granting that the term subsistence here stands for subsistence wage, I will limit myself to pointing out that Ricardo fails to frame his criticism in terms of the distinction between *vérité de raison* and *vérité de fait*. The neglect of this distinction is responsible not only for Ricardo’s misunderstanding, discussed above, between money as money and money made up of gold or

silver but also, I must now admit, for my own arguments on corn.<sup>15</sup> For these arguments are mostly framed in terms of the *actual* conditions of the corn/labour market of my century rather than those of any *possible* time to come. This more advanced approach, however, can be nonetheless derived from the principles of my theories of value and capital set out in Book I and Book II of my work. Thus, my answer to Ricardo's question above 'what can value have to do with the power of feeding and clothing?', is the same as his, i.e. *nothing*. Except that in my thought the 'power of feeding and clothing' reveals the power of food and cloth to *command* labour, or be exchanged for it, in the labour market. Furthermore, I must recall that in my passage above I continue by arguing that the quantity of corn purchased by a labourer with his money wage must be 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' (*WN*, IV.5.12; italics added). If these words are considered in the light of the theories of my Book I and II as well as of my maxim on the 'narrow capacity of the human stomach', quoted and shared by Ricardo in one of his arguments (*WN*, I.11.59; *Principles*: 217), one should conclude that the liberal, moderate or scanty wages mentioned above correspond to a small, medium or high proportion of corn in the basket of wage goods, depending on whether the 'circumstances of the society' are advancing, stationary or declining; i.e. on

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15 The neglect of that distinction seems also to affect the criticisms initially raised by Malthus [1803, 1814] in the context of a further misunderstanding of my arguments. These criticisms, based as they are on the 'lagged relationships' between price and output variations and on the 'relative price effect' resulting from corn as one of the components of the wage basket, were planned to weaken or to deny the validity of my arguments either in the *long run* or *in practice* (for a diverging account of these criticisms, see Hollander 1979; Gibbard 1994). While I have already objected above to the criticisms of my treatment of the long-run effects of bounties, I can now point out that the evaluation of the bounty as a policy measure belongs in turn to the realm of what holds *in practice* (for a given country, in a given period) as distinct from what holds *in theory* (for any country, in any period). Thus, my eventual assessment of the new system of corn laws, i.e. that 'with all its imperfections, we may perhaps say of it what was said of the laws of Solon, that, though not the best in itself, it is the best which the interests, prejudices and temper of the times would admit of' (*WN*, IV.5.92), is perfectly in accordance not only with the theoretical core of my chapter on bounties but also with my idea that the evaluation of actual policy measures, including retaliations between governments, does not belong so much to the 'science of a legislator' (which is the ultimate framework of that chapter) as to 'the skill of that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs' (*WN*, IV.2.39).

whether the demand for labour exceeds, is equal to or falls short of its supply from period to period. This however implies what Ricardo cannot accept (due to his different view of natural prices), namely that the natural price of labour is liable to increase to the liberal levels of my imagination as the accumulation of (free) capital as command of productive labour advances and society moves from one stage of improvement to another.

#### 10. Smith's counter-criticism # 7: the point of view of an *individual* vs. the point of view of *society*

If the natural price of labour is liable to increase from one stage of improvement to another, what about the natural price of corn? In terms of what should the price of labour be intended to increase once it is maintained, as Smith repeatedly does and Ricardo correctly recalls, that the value of corn is constant both within a given stage of improvement and from one stage to another? In terms of what is the value of corn constant? To answer these questions in connection with Smith's and Ricardo's chapters on bounties, one should start from two crucial passages to be found in two different chapters of Book I of Smith's work. One is concerned with the wealth of an individual as his 'power of purchasing', i.e. as 'a certain command over all the labour, or over all the produce of labour which is then in the market' (WN, I.5.3). The other passage is directly concerned with the constant value of corn and states that 'equal quantities of corn will, in every state of society, in every stage of improvement, more nearly represent, or be equivalent to, equal quantities of labour, than equal quantities of any other part of the rude produce of land' (WN, I.11.123).

If asked about whether there is any link between these two passages as well as between them and his chapter on bounties, *Smith redivivus* might reply as follows: going back to my arguments on the value of corn over two centuries after the publication of my work, I feel I must re-start from the distinction, mentioned above, between *vérité de raison* and *vérité de fait* in order to combine it with the further distinction between the point of view of an *individual* and the point of view of *society*: while the former distinction is necessary for coming to grips with my ultra-dated and odd idea of the constant value of corn, the latter is necessary for grasping the un-dated and ever-lasting aspect of my system of thought.

##### 10.1 First

The ambiguity on the *vérité de raison* and *vérité de fait* underlying my treatment of corn as the principal part of the subsistence wage of my times

disappears when it comes to my treatment of corn as the standard commodity by which to measure the value of all other things. In this particular connection, my mistake did not arise from confusing a *vérité de raison* (a commodity to be used as an unchanging standard for measuring changes in the value of any other commodity cannot change in its own value) with a *vérité de fait* (which commodity may be thought to perform this function as an easy proxy in the actual world). For in Chapter V, Book I, of my work I make it clear that what is true *in theory*, namely that labour ‘is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places’ (WN, I.5.17), need not correspond to what is helpful *in practice*. From this different standpoint, we have to take note that the greater part of people understand better what is meant by a quantity of a particular commodity (‘a plain palpable object’, as I say in that chapter) than by a quantity of labour (which, as I also say in that chapter, is ‘an abstract notion’) (WN, I.5.5). My only mistake consisted in identifying corn as such a commodity as if both the labour embodied in it and the labour commanded by it did not change from period to period.

### 10.2 *Second*

I must confess that my ambiguities on corn and on its exchangeable value reach a climax if the second passage quoted above is considered in the light of the first; and especially if both passages are then considered in the light of my chapter on bounties. When, however, I write in Chapter V of Book I that the wealth of an individual is greater or less precisely in proportion to ‘the quantity either of other men’s labour, or, what is the same thing, of the produce of other men’s labour, which it enables him to purchase or command’, I am not confusing what I clearly distinguish elsewhere, i.e. labour as labour and commodities as products of labour. For what I am dealing with in that chapter, and even more so in the ambiguous passage just quoted, is the kind of power conveyed by wealth to its individual owners. When one adopts this standpoint, it is indeed irrelevant whether the object commanded is labour or the goods produced by labour. The fact is that my ambiguous language does indeed conceal what a careful reader can nonetheless discern as one of the foundations of my system of thought. This is the distinction between the point of view of an *individual* and the point of view of *society*. Now I acknowledge that I should have been more explicit on this distinction. Had I done so, the difference between wealth from the point of view of an individual and wealth from the point of view of society would be easier to grasp. It would then become clearer to everybody that, when one turns from the former to the latter point of view, the concept of wealth



as whatever is possessed by an individual changes into the concept of wealth as the 'necessaries, conveniences and amusements of human life' annually available in a country. What this wealth eventually purchases or commands in the economy as a whole cannot be but the labour on sale in the labour market either in the sense of *productive* labour to be employed in the (simple or enlarged) *reproduction* of this very wealth, or in the sense of *unproductive* labour to be employed in its final and barren *consumption*.

### 11. Smith's final counter-criticism: constant vs. rising corn price of labour

The considerations above can now be used to provide an answer to the question asked at the beginning of the previous section: in terms of what can the price of labour be intended to increase if the value of corn is supposed to be constant? There must be some consistency, yet to be found, between the two parts of this question if Smith's *vérité de raison* is to hold within his system of thought.

The answer might be provided by *Smith redivivus* as follows: I admit that the value of corn supposed constant is ambiguously conceived in my work sometimes in terms of the labour embodied in its production and sometimes in terms of the labour it commands in the labour market. And I also admit that, if taken in the second sense, my view of the constant value of corn is even more ambiguous than if taken in the first. For I should have made it clear that, if the amount of labour *maintained* (in the sense of Ricardo's 'fed') by one unit of corn may indeed be thought to remain constant from one period to another, the amount of corn *commanded* by one unit of labour in the labour market must instead be thought to increase if the periods under discussion are periods of improvement, i.e. when the accumulation of capital (of which I speak so widely in Book II) brings about a permanent increase in the demand for labour (compared to its supply).

Now, apart from our different views of the constant value of corn as a *vérité de fait*, the sense of labour embodied implies what is evident from my passage on the value of gold and silver discussed above, namely that I fully concur with Ricardo on the theory of the value of one commodity (be it corn or any product of labour) in terms of any other. I radically take issue with him, however, when the study of the value of one commodity in terms of another and from the point of view of their individual owners is extended to the study of the value of all commodities taken together (or 'taken complexly', as I say in *WN*, I.6.17; II.2.2) and, more particularly, to the study of the value of labour in terms of the wage goods exchanged for it in the economy as a whole. In terms of what should this value be determined? While Ricardo's answer would be: in terms of the total amount of labour *embodied* in all its products, my

answer is: in terms of the amount of labour to be *commanded* by, or *exchanged* for, wage goods in the context of the reproduction of national wealth. Hence, my final answer to the question I raised at the beginning of this section. In some parts of my work I have argued that the value of corn (in terms of other commodities) is constant while in other parts I have argued that the value of labour (in terms of corn and of wage goods in general) rises as one moves from one stage of improvement to another. The consistency within this apparent contradiction is that what rises is, in these circumstances, first the power of labourers to command more and more corn than is actually needed by their survival; and secondly their power to command, given the narrow capacity of the human stomach, more and more wage goods different from, and more sophisticated than, this necessary amount of corn. The fact is that any commodity can be intended either as something possessed by one individual and exchanged for any other thing possessed by another individual (in proportions essentially determined by the principle of labour embodied); or as all the commodities possessed by all individuals taken together and exchanged for labour (directly, if they are wage goods, or indirectly, if they are not) in proportions determined by the law of demand – of labour in exchange for wage goods – and supply – of wage goods in exchange for labour. The point of view of society is necessary for determining the size and variations of the price of labour in this sense. When it comes to this point of view, the only principle left for explaining the size and variations of this real price (wage rate) is the principle of value as *command* of the labour on sale in the labour *market*. These exchanges and exchangeable values outline the frontier along which the wage-profit inverse relationship (in my sense and not in Ricardo's) can be seen at work under conditions of competition between those who purchase labour, on the one hand, and those who sell it, on the other. The accumulation of (free) capital and the resulting increase in the demand for labour (compared to its supply) ensure that the natural price of labour (in my sense and not in Ricardo's) is liable to rise indefinitely in terms of the wage goods, starting from corn, exchanged for it. Given a particular stage, this price is what it is, whatever the effect of a bounty or any other institution on the money or market price of corn and on the money or market price of labour, as argued or implied in my chapter on bounties.<sup>16</sup>

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16 The transition from one to the other of the two points of view mentioned above as well as the transition across the variations in the value of corn in terms sometimes of silver and sometimes of labour (intended sometimes in terms of labour embodied and sometimes in terms of labour command) can be detected across the pages and between the lines of my important (but inappropriately titled, I must admit, from the vantage point of the chapter on bounties) 'Digression concerning the Variations in the Value of Silver during the course of the Four last Centuries' (WN, I.11.96–176).

## 12. Concluding remarks

Smith's arguments, Ricardo's criticisms and the counter-criticisms of *Smith redivivus* on the subject of bounties have been examined above in two contexts. One was concerned with the specific issue under discussion. The other was concerned with the general principles underlying such a discussion. The interaction between these two contexts has provided some insights for evaluating not only the modern interpretations of these arguments and criticisms but also, through the principles from which they descend, the ultimate consequences of the free trade policies equally advocated by our two conflicting authors. At the core of this interaction is the possibility of a sustainable increase in the demand for labour and of the resulting increase in its natural price (in Smith's sense, not in Ricardo's).

Concerning the bounty on corn in particular, we have seen that Ricardo's reconstruction of Smith's arguments is based on the misunderstanding by which Smith's money/nominal prices of corn, labour and (home-made) commodities are intended by Ricardo as relative values, or real prices, of commodities in terms of each other. Ricardo's reconstruction of Smith's argument thus seems to be based, via a diverging view of the stock of money in terms of which the variations in the money price of corn must be expressed, on the *petitio principii* by which this reconstruction is indeed consistent with Ricardo's approach to the problems of value, as set out in the first chapter of his *Principles*, but is nonetheless inconsistent with Smith's specific approach to the problem of bounties. This approach deserves to be studied not only *in theory* (as done, however misleadingly, in some modern interpretations) but also *in practice* (which is the only sense appealing to 'that insidious and crafty animal, vulgarly called a statesman or politician' who is called upon to establish or abolish in any country and at any time the 'mean and malignant expedients' of the mercantile system).

Concerning the general principles of the two systems of thought, we have seen that Ricardo's criticisms essentially descend from his own view of the wage-profit inverse relationship based as this is on the exclusive principle of labour embodied. Thus, while Ricardo's view of that relationship is concerned with *shares* of the *value* produced according to this principle, Smith's view is rather concerned with the *amount* of *riches* (wage goods) exchanged for labour according to the principle of labour command. By moving from one argument, criticism and counter-criticism to another, we have argued above that Ricardo's criticisms (and sometimes Smith's own arguments) are weakened, rather than strengthened, by some neglect of the methodological distinction between *vérité de raison* and *vérité de fait* as well as between the point of view of an *individual* and the point of view of *society*. And we have also seen that Smith's grave ambiguities on the notions

and real price (or relative value) of *labour* as labour and of *commodities* as products of labour are worsened, rather than improved, by Ricardo's idea that the natural price both of labour and of its products is determined according to the exclusive principle of labour embodied.

Concerning the interaction between the two contexts above, our conclusion is that the 'basic Smithian model' (Hollander 1979) is *not* to be found in Smith's chapter on bounties. For this chapter is nothing but an appendix to that 'model'. The true 'basic Smithian model' is rather to be found in the theories of value and capital set out, respectively, in Book I (mostly chapters V–VII) and in Book II (mostly chapters I–III) of the *Wealth of Nations*. The counter-criticisms of *Smith redivivus* figured out above are intended to defend Smith's arguments on bounties by tracing them to his 'basic model' notwithstanding all their ambiguities and in spite of all the complaints (raised by some against Smith and turned by others against Ricardo) that Smith 'tended to neglect frictions in the economic system in his applications to trade policies, reasoning in terms of the immediate relevance of the long run' (see, in one sense, Hollander 1979: 65; 1982: 226; and, in the other sense, O'Brien 2004: 49). The most general outcome of this conclusion is an implicit endorsement of Campbell and Skinner's (1976: 59) view of Smith's 'consistent inconsistency'; i.e. of something that 'rarely damaged the central analysis and was indeed usually introduced as a means of support for it... The inconsistencies appear only in the detail' (see also Hueckel 2009: 234).

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**Abstract**

The scope of this article is to examine the foundations of Smith's arguments and of Ricardo's criticisms on the issue of bounties on exportation. These criticisms are examined in the light of the counter-criticisms provided by a fictitious subject called Smith redivivus. These counter-criticisms highlight Ricardo's neglect of the differences between *vérité de raison* and *vérité de fait* and between the points of view of an individual and of society behind Smith's treatment of money vs. real, temporary vs. permanent and natural vs. market price of labour as labour and of commodities as products of labour.

**Keywords**

Smith, Ricardo, bounties, labour, wages