



Of Its Own Accord: Adam Smith on the Export-Import Bank

Daniel B. Klein¹

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This article assembles quotations by Adam Smith regarding bounties—subsidies paid to producers for their productions, usually for export. Policies of export subsidization are still with us. One of the agencies involved in export subsidization in the United States, the Export-Import Bank (“Ex-Im”), might, however, be approaching its dissolution. As of August 2015, its charter had closed, and going forward Ex-Im is supposed to limit its activities to managing and winding up its existing deals, not embarking on new ones. But, many lawmakers and interest groups seek to restore Ex-Im to full operation. Recent discourse concerning Ex-Im is examined by an article in the current issue of this journal (de Rugy, Daza, and Klein 2015). The quotations presented here suggest, perhaps, what Smith would say about Ex-Im. The export subsidies that Smith treated were bounties paid directly to exporters, whereas those of Ex-Im principally take the form of subsidized credit. But the form does not much affect most of Smith’s analysis of export subsidization.

In a 1780 letter, Smith (Corr., 251)² writes of “the very violent attack I had made upon the whole commercial system of Great Britain.” In *The Wealth of Nations*, Smith said that the “commercial” (or “mercantile” or, nowadays, mercantilist) policy is notionally based on the idea that “wealth consisted in gold and silver,” possession of which would be augmented by the nation’s “exporting to a greater value than it imported.” “Its two great engines for enriching the country, therefore,

1. George Mason University, Fairfax, VA 22030.

2. When citing Smith’s works, I follow the Glasgow Edition abbreviations. My page-paragraph notation, such as WN 450.35, means page 450, paragraph 35, of *The Wealth of Nations*. And WN 463–465.24–30 means pages 463 to 465, paragraphs 24 to 30.

were restraints upon importation, and encouragements to exportation” (WN, 450.35). The very idea that wealth consists in gold and silver, Smith explained, is wrongheaded. Gold and silver are “utensils,” like pots and pans: “it would be absurd to have more pots and pans than were necessary for cooking the victuals usually consumed [in a country]. ... [T]o attempt to increase the wealth of any country, either by introducing or by detaining in it an unnecessary quantity of gold and silver, is as absurd as it would be to attempt to increase the good cheer of private families, by obliging them to keep an unnecessary number of kitchen utensils” (WN, 439–440).

The good cheer of private families, or wealth of nations, Smith concludes, is ill served by mercantilist schemes. At the close of Book IV of *The Wealth of Nations*, Smith concludes:

It is thus 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.

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. (WN, 687.50–51)

Smith allowed exceptions to such maxims, but passages like the foregoing capture Smith’s drift. In *The Wealth of Nations* he uses the expression “of its own accord” (or “of their own accord”) 28 times. Leaving private enterprise to proceed of its own accord was the position that Smith propounded on the matter of bounties.³ “Such

3. On the idea that certain interventions were justifiable because they favored British production of goods necessary for defense, Smith embraces the idea as justifying the Navigation Acts (WN, 463–465.24–30), which favored British ships and crews, not by awarding them bounties but by obstructing and burdening non-British ships and crews. Smith raises the idea of export bounties for British sailcloth and gunpowder

are the liberal principles,” said Dugald Stewart shortly after Smith’s death, “which, according to Mr Smith, ought to direct the commercial policy of nations” (Stewart 1980/1793, 317).

Smith explains why bounties are usually given only for exports:

[I]t is not the interest of merchants and manufacturers, the great inventors of all these expedients, that the home market should be overstocked with their goods, an event which a bounty upon production might sometimes occasion. A bounty upon exportation, by enabling them to send abroad the surplus part, and to keep up the price of what remains in the home market, effectually prevents this. Of all the expedients of the mercantile system, accordingly, it is the one of which they are the fondest. (WN, 517.25)

Smith suggests that Britain’s export bounty on a good had the effect of shunting some portion of the supply of that good to foreign markets, driving up the price faced by the British consumer:

The corn bounty, it is to be observed, as well as every other bounty upon exportation, imposes two different taxes upon the people; first, the tax which they are obliged to contribute, in order to pay the bounty; and secondly, 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, 508.8)

Some of Smith’s analysis makes specific claims about effects and incidences of bounties, claims criticized by David Ricardo⁴ and others. But Smith also argues with looser, more robust claims. Supposing that a bounty were necessary to make it worthwhile for a merchant to produce the goods subsidized, then, Smith says, “if the bounty did not repay to the merchant what he would otherwise lose upon the price of his goods, his own interest would soon oblige him to employ his stock in another way” (WN, 505–506.3). “The effect of bounties, like that of all the other expedients of the mercantile system, can only be to force the trade of a country into

(WN, 522–523.36–37), as well as internal bounties on the inland transport of coal (WN, 874.12). Although Smith respectfully acknowledges the defense argument for specific bounties, he by no means says that such an argument provides sufficient justification, but rather seems, even in the cases of sailcloth, gunpowder, and inland transport of coal, to lean against bounties. So, in an age of sea power and perpetual conflict, Smith endorsed Britain’s obstructing and burdening of non-British ships and crews, but his opposition to awarding bounties is really quite entire.

4. See Ricardo’s *Principles* chapter 22, “Bounties on Exportation, and Prohibitions of Importation” (Ricardo 2004/1817, esp. pp. 307–318).

a channel much less advantageous than that in which it would naturally run of its own accord” (WN, 506.3).

In comparing alternative arrangements, Smith considered what Ronald Coase (1960, 44) calls “the total effect,” including the political, moral, and cultural effects. He drew a contrast between, on the one hand, the endeavor to regulate the industry and commerce of a great country “upon the same model as the departments of a publick office,” bestowing “upon certain branches of industry extraordinary privileges” and laying “others under as extraordinary restraints,” and, on the other hand, “allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice” (WN, 664.3). The broader background to *The Wealth of Nations* is *The Theory of Moral Sentiments*, which subtly illuminates moral and cultural advantages of the liberal plan.

Market failure was an integral part of Smith’s political economy, but no less so was government failure. Smith treated the two impartially. Government privileges, such as bounties, require a conference between the government and the private parties who enjoy such privileges, for only the latter have some local knowledge of the local situation: “What is the species of domestick industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him” (WN, 456.10). Smith warned that creating and organizing interest groups, for example “to give such bounties to favourite manufactures” (WN, 523.37), works to create “a conspiracy against the public” (WN, 145.27). “[I]hough the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary” (ibid.).

Smith held that “in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer” (WN, 660.49). But he pointed out that “the producer” was really *certain privileged producers*: “In the mercantile regulations, ...the interest of our manufacturers have been most peculiarly attended to; and the interest...of some other sets of producers, has been sacrificed to it” (WN, 662.54). He emphasized that intervention on behalf of “industry” is intervention on behalf of *particular complexes of industry*, a point that applies to the Export-Import Bank: “It is the industry which is carried on for the benefit of the rich and the powerful, that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent, is too often neglected, or oppressed” (WN, 644.4).

Intervention and privilege creates and empowers interest groups, but it also breeds a political culture of delusion and hubris:

The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it. (WN, 456.10)

When social affairs are governmentalized, politics becomes central, and the players organize themselves into factions, as is plain in battles over the Export-Import Bank. The governmentalization of social affairs draws all players into factional politics, impelling each player to become a “party-man.” This is a moral tragedy for society at large:

A true party-man hates and despises candour; and, in reality, there is no vice which could so effectually disqualify him for the trade of a party-man as that single virtue. The real, revered, and impartial spectator, therefore, is, upon no occasion, at a greater distance than amidst the violence and rage of contending parties. To them, it may be said, that such a spectator scarce exists any where in the universe. Even to the great Judge of the universe, they impute all their own prejudices, and often view that Divine Being as animated by all their own vindictive and implacable passions. Of all the corrupters of moral sentiments, therefore, faction and fanaticism have always been by far the greatest. (TMS, 155–156.43)

Government privileges are inherently corrupting, for every member of society “has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it” (TMS, 234.17). “That bounties upon exportation have been abused to many fraudulent purposes, is very well known” (WN, 517.25):

The bounties which are sometimes given upon the exportation of home produce and manufactures...have given occasion to many frauds, and to a species of smuggling more destructive of the publick revenue than any other. In order to obtain the bounty or drawback,⁵ the goods, it is well known, are sometimes shipped and sent to sea; but soon afterwards clandestinely relanded in some other part of the country. The defalcation of the revenue of customs occasioned by bounties and drawbacks, of which a great part are obtained fraudulently, is very great. (WN, 882.28)

Smith explained that certain kinds of fraudulence flatter foolish pride:

5. A drawback is repayment, in whole or only in part, of duties that the exporter had previously paid on inputs.

Heavy duties being imposed upon almost all goods imported, our merchant importers smuggle as much, and make entry of as little as they can. Our merchant exporters, on the contrary, make entry of more than they export; sometimes out of vanity, and to pass for great dealers in goods which pay no duty; and sometimes to gain a bounty or a drawback. Our exports, in consequence of these different frauds, appear upon the customhouse books greatly to overbalance our imports; to the unspeakable comfort of those politicians who measure the national prosperity by what they call the balance of trade. (WN, 883.29)

In 1778 Smith became a customs commissioner, enhancing his knowledge of the frauds and mischief, and leading to additions for the 1784 (third edition) of *The Wealth of Nations*. Among the additions were, as stated by Ian Simpson Ross, “analysis of the ill-advised attempt to promote the herring fishery through the bounty system” and “similar exposure of the bad effects of the corn bounty” (Ross 2010, 379). “It is difficult,” Ross says, not “to see the message about the detrimental effect of most economic legislation intensified in the third edition” (ibid.). Amid the new material, Smith explained that bounties are not always paid according to amount produced: “the bounty to the white herring fishery is a tonnage bounty; and is proportioned to the burden of the ship, not to her diligence or success in the fishery; and it has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty” (WN, 520.32).

In his “Conclusion on the Mercantile System,” Smith offers the following one-sentence paragraph: “It is unnecessary, I imagine, to observe, how contrary such regulations are to the boasted liberty of the subject, of which we affect to be so very jealous; but which, in this case, is so plainly sacrificed to the futile interests of our merchants and manufacturers” (WN, 660.47).

Every intervention, such as an export bounty, Smith said, “introduces some degree of real disorder into the constitution of the state, which it will be difficult afterwards to cure without occasioning another disorder” (WN, 472.44). “[I]n what manner the natural system of perfect liberty and justice ought gradually to be restored, we must leave to the wisdom of future statesmen and legislators to determine” (WN, 606.44). Here Smith suggests a distinction between, on the one hand, enlightened political economy, “considered as a branch of the science of a statesman or legislator” (WN, 428), which, in Smith’s view, authorizes the maxims of the liberal plan, and, on the other hand, the art of enlightened politics, where the practicality and repercussions of a reform are often in doubt and one must take care not to make the best the enemy of the good. The art of judging particular reform tactics, Smith suggested, “does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly

called a statesman or politician, whose councils are directed by the momentary fluctuation of affairs” (WN, 468.39). Smith is not necessarily sneering at “that insidious and crafty animal,” for he would, I believe, apply that appellation also to enlightened politicians, of which he knew many. Smith makes the distinction to clarify that his own discourse is concerned with the former realm of thought (the science of a legislator), not the latter (the art of enlightened politics). “Some general, and even systematical, idea of the perfection of policy and law, may no doubt be necessary for directing the views of the statesman. But to insist upon establishing, and upon establishing all at once, and in spite of all opposition, every thing which that idea may seem to require, must often be the highest degree of arrogance” (TMS, 234.18).

However, in the discussion in *The Wealth of Nations*, Smith nonetheless proceeds to dip into the art of enlightened politics. He emphasizes (e.g., at 472.44) that since interventions create disorders that, thereafter, are very hard to correct or undo, do not fall into them in the first place! But, given that such disorders enmesh the statesman, Smith seems to suggest that the art of enlightened politics will, nonetheless, focus on quite radical liberalization (WN, 468–472).

Moreover, on our subject of export subsidies, we have Smith’s own private advice to an insidious and crafty animal of very great eminence, William Eden.⁶ In a letter dated 3 January 1780, amidst war with France and Spain and the American conflict, Smith advises Eden on “very obvious methods” by which Britain’s fiscal situation can be improved “without laying any new burthen upon the people:”

The first is a repeal of all bounties upon exportation. These in Scotland and England together amount to about £300,000 a year; exclusive of the Bounty upon Corn which in some years has amounted to a sum equal to all the other bounties. It will probably amount to a very considerable sum this year. When we cannot find taxes to carry on a defensive war; our Merchants ought not to complain if we refuse to tax ourselves any longer in order to support a few feeble and languishing branches of their commerce. (Corr., 245)

6. Regarding Eden’s political eminence, I quote from the biographical note provided by Ernest C. Mossner and Ian Simpson Ross, editors of Smith’s correspondence: “William Eden (1744–1814), M.P. 1774–93;... Lord of Trade 1776–82; Commissioner for Conciliation with America 1778–9; Secretary to Lord Lieutenant of Ireland 1780–2; envoy to France on special commercial mission 1785–8; Ambassador to Spain 1788–9, and to the United Provinces 1789–93; President of the Board of Trade 1806–7; cr. Baron Auckland 1789. In France Eden negotiated a commercial treaty named after himself, whose provisions were based on the arguments advanced in WN IV.iii.c.12 that France would provide a better market than the American colonies. The chief beneficiaries, as Smith had predicted, proved to be British industry and the French vineyards” (Corr., 239 n.1).

Even in the realm of practical politics, Smith called for “repeal of all bounties upon exportation.” Indeed, at the time of the letter Smith was a customs commissioner, and hence was himself a sort of statesman, an insidious and crafty animal.

Incidentally, in the letter to Eden, Smith says the following about prohibitions on imported goods:

Prohibitions do not prevent the importation of the prohibited goods. They are bought everywhere, in the fair way of trade, by people who are not in the least aware that they are buying them. About a week after I was made a Commissioner of the Customs, upon looking over the list of prohibited goods, (which is hung up in every Customhouse and which is well worth your considering) and upon examining my own wearing apparel, I found, to my great astonishment, that I had scarce a stock, a cravat, a pair of ruffles, or a pocket handkerchief which was not prohibited to be worn or used in Great Britain. I wished to set an example and burnt them all. I will not advise you to examine either your own or Mrs. Edens apparel or household furniture, least you be brought into a scrape of the same kind. (Corr., 245–246)

Smith saw that effecting better policy required better politics, which required improvement in wisdom and virtue. All levels of the moral project find integration in his thought. “[W]hat civil policy can be so ruinous and destructive,” he asked, “as the vices of men? The fatal effects of bad government arise from nothing, but that it does not sufficiently guard against the mischiefs which human wickedness gives occasion to” (TMS, 187.1). Of such mischiefs, many of the most awful, Smith taught, find empowerment in departures from the liberal plan.

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About the Author



Daniel Klein is the editor of *Econ Journal Watch*, a professor of economics at George Mason University (where he leads a program in Adam Smith), the JIN Chair at the Mercatus Center at GMU, a fellow of the Ratio Institute in Stockholm, and the author of *Knowledge and Coordination: A Liberal Interpretation* (Oxford University Press, 2012). His email address is dklein@gmu.edu.

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