

STUDIES IN THE THEORY OF INTERNATIONAL TRADE

BY

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STUDIES IN THE THEORY OF
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E R R A T A

- p. 255, fourth line from bottom of main text: "incomplete" should be "complete."
- p. 293, last line: "lending" should be "receiving."
- p. 329, line 15: "unweighted average ratio" should be "unweighted geometric average ratio."
- p. 341, line 20: "import duties" should be "revenue import duties."
- p. 343, second line from bottom: "imported" and "native" should be transposed.
- pp. 344-353: "duties on imports" should be "revenue duties on imports" throughout.
- p. 350, line 16: "numerically" should be "algebraically."
- p. 353, lines 13 and 15: "English and German" should be "German and English."
- p. 364, line 19: "adjusting" should be "disturbing."
- p. 371, line 4: "average ratio" should be "geometric average ratio."
- p. 429, line 13 "with one negligible exception" should be "with only one substantial exception."
- p. 462, line 1: "e" should be "c."
- p. 470, line 1: " $(Om \times Or)$ units" should be " $(Om \times mr)$ units."
- p. 523, line 8: "productive combination" should be "combination of products."
- p. 539, Chart XII: origin of E curve should be at 15 on y axis instead of at 10. 
- p. 548, footnote 24, lines 18-19: "The slope with respect to OX of the tangent to OE at a " should be "The slope with respect to OX of the vector Oa ."
- p. 574, line 18: "which E would have been willing to pay" should be "which G would have been willing to pay."

To
F. W. TAUSSIG,
Teacher and Friend

Preface

In this book I first endeavor to trace, in a series of studies of the contemporary source-material, the evolution of the modern "orthodox" theory of international trade, from its beginnings in the revolt against English mercantilism in the seventeenth and eighteenth centuries, through the English currency and tariff controversies of the nineteenth century, to its present-day form. I then proceed to a detailed examination of current controversies in the technical literature centering about important propositions of the classical and neo-classical economists relating to the theory of the mechanism of international trade and the theory of gain from trade. The annual flow of literature in this field has become so great in the last few years, and the claims on my time and energy from other unfortunately unavoidable activities of a quite divergent sort have been so heavy, that the completion of this book and the rendering of full justice to the recent literature have proved to be incompatible objectives. I hereby present my sincere apologies to the substantial number of economists who have in recent years made valuable contributions to the theory of international trade which are here either wholly neglected or treated more summarily than they deserve.

This book is not presented as a rival to, or substitute for, the excellent textbooks on the theory of international trade which are at last available. The main contributions of a good textbook are usually its contribution to general synthesis of doctrine, its illustrative material, and its restatement in compact, simplified, and systematic form of materials familiar to scholars. My objectives have been, rather, to resurrect forgotten or overlooked material worthy of resurrection, to trace the origin and development of the doctrines which were later to become familiar, and to examine the claims to acceptance of familiar doctrine. Since, until recent years, it was at first almost solely English writers, and later almost solely English and American writers, who were responsible for the development of the theory along the classical lines, there is but little reference to writings by Continental economists antedating the War. While my main objective in writing this book

was that it should prove a useful supplement, for both teachers and students, to the textbooks on the theory of international trade, I hope that the extensive discussion of early monetary theories will make it of interest also to students of monetary and banking theory.

Acknowledgments are due to the University of Chicago Press and to the editors and publishers of *Weltwirtschaftliches Archiv* for their kind permission to include in this book the material which appeared in my articles "English theories of foreign trade before Adam Smith," *Journal of Political Economy*, XXXVIII (1930), 249-310, 404-57, and "The doctrine of comparative costs," *Weltwirtschaftliches Archiv*, XXXVI (1932, II), 356-414. Both articles, however, and especially the latter, have been substantially revised, recast, and extended, in the process of incorporation in this book.

My heaviest intellectual indebtedness is to Professor F. W. Taussig, who first aroused my interest in the field of international trade as long ago as 1914, who has done much by his writings and oral discussion to sustain it since and to set the mold for my thinking, and to whose teachings I have remained faithful in my imperfect fashion. As a gesture of gratitude in this connection, I have taken the liberty of dedicating the book to him. To Professor Bertil Ohlin's persistent refusal willingly to accept the same mold for his thinking in this field, and to his consequent persistent refusal to agree with me, I am also greatly indebted, for it has forced me repeatedly to think problems through more thoroughly than I would otherwise have done, and to revise—and perhaps even upon occasion to abandon—doctrines to which I was disposed to cling as long as it was still possible to do so without violating the intellectual decencies. I am greatly indebted also to a long line of able and sceptical students, who have pointed out my errors to me in the hope, not always realized, that I would find ways of correcting them. I am especially indebted to the following students, past and present, who have at one time or another accepted the responsibility of assisting me in checking my references, in meeting the physical burden of using libraries, and in keeping my errors of fact and analysis within the accustomed limits of tolerance: Leroy D. Stinebower, Michael L. Hoffman, Virginius F. Coe, Henry J. Wadleigh, Lily M. David, Benjamin F. Brooks, Arthur I. Bloomfield. The charts were drawn

for me by Y. K. Wong, who has once more been patient with my mathematical ineptitude while refusing to make concessions to it. My thanks are due also to the Social Science Research Committee of the University of Chicago, who provided the funds which enabled me to recruit the aid of these students and also furnished the typing facilities.

JACOB VINER.

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Chapter I

ENGLISH THEORIES OF FOREIGN TRADE, BEFORE ADAM SMITH: I

All antient or scarce Pieces may justly be esteem'd curious and valuable, either on account of their own intrinsick Perfection, or out of respect to the great Names which they go under or purely on account of their relation to the Times and nice Conjectures in which they were compos'd: and tho mean and inconsiderable in the stile and manner of writing, in comparison with some modern Composures, may yet deserve to be perpetuated and transmitted to Posterity, if they manifestly discover the Seeds and Principles from which the greatest Events, and perhaps Revolutions in Church and State, have taken their rise. These Characters, singly or all together, have been our Rule in the present Collection.—The Phenix: or, A Revival of Scarce and Valuable Pieces No where to be found but in the Closets of the Curious, II (1708), preface, iii-iv.

I. INTRODUCTION

A study of the theories of foreign trade before Adam Smith must of necessity consist of an examination of the mercantilist doctrines with respect to foreign trade and of the contemporary criticisms thereof. It is a common impression that they have already been sufficiently studied, but the economic historians and the economists of the German historical school have been almost alone in studying the mercantilists, and they have generally been more interested in the facts than in the ideas of the mercantilist period, have often based sweeping generalizations as to the character of mercantilist doctrine on what they found in a handful of the mercantilist writings, have displayed neither interest in, nor acquaintance with, modern economic theorizing with respect to monetary and trade process, and have almost without exception shown a tendency to defend the mercantilist doctrines by reasoning itself of decidedly mercantilist flavor. The severe critics of mercantilist doctrine have generally been economic theorists of the

English classical-school tradition, and they have usually relied on Adam Smith's account plus the vague mass of nineteenth-century tradition for their information as to the contents of mercantilist doctrine.

The present study, is therefore, primarily an inventory of the English ideas, good and bad, with respect to trade prevalent before Adam Smith, classified and examined in the light of modern monetary and trade theory. Its aim is rather to discover and explain the divergencies of doctrine than to formulate inclusive and simple formulas descriptive of mercantilist doctrine *en masse*, formulas which are almost necessarily half-truths at best or empty. It is based on a careful study of such of the actual economic literature of the period as was available to me, and its findings will be supported by as much of the evidence derived from that literature, in the form of quotations and references, as space limitations permit.

No attempt will be made to compare in detail the results of this investigation with the findings of other modern commentators on English mercantilism, but those who are sufficiently interested to make such comparisons for themselves will find, I believe, that the differences as to fact and interpretation are numerous and of some importance, and that new information is presented on a number of points.¹ To keep the study within manageable proportions, the doctrines of the period with respect to the fisheries,

¹ A. Dubois, *Précis de l'histoire des doctrines économiques*, 1903, and Br. Suviranta, *Theory of the balance of trade in England*, 1923, were helpful, although I cannot accept many of the latter writer's interpretations and appraisals. Except for a few special studies to which reference is made at appropriate points no other secondary studies were of much help to me. E. Lipson, *Economic history of England* (3 vols., 1929-1931, and especially vol. III [1931], Ch. IV, "The mercantile system"), appeared after this study had been published in its original form. It contains a great mass of valuable material and relates the doctrines to the historical conditions much more completely and authoritatively than I could do. Lipson in the main presents a defense of the mercantilist doctrines against their modern critics, although more moderately than is usual for economic historians. To me most of his defense appears insubstantial, or unsubstantiated by the evidence, or irrelevant, and I have not felt obliged to modify my appraisal because of what he has written. It seems to me especially that he relies too strongly on citations from a few contemporary critics of the prevailing views, such as Davenant, Barbon and North, and from writers after 1690, as evidence of what was prevailing doctrine from say 1550 to 1750. E. Heckscher has recently published in Swedish a two-volume account of the mercantilist doctrines on the Continent as well as in England (*Merkantilismen*, Stockholm, 1931, 2 vols.) whose English translation (*Mercantilism*, 1935, 2 vols.) became available too late to permit of my profiting extensively from it in the revision of my orig-

population, and colonies will be ignored even when they are closely related to the general foreign-trade theories.

II. "MERCANTILISM" AND "BULLIONISM"

In the English economic literature prior to Adam Smith, the most pervasive and the most emphasized doctrine is the importance of having an excess of exports over imports. To this doctrine and the trade regulations which it inspired, Adam Smith, following the usage of some of the Physiocrats,¹ gave the name of the "commercial" or "mercantile" system, which later became, with the aid of the Germans, the now familiar "mercantilism."² Many writers, however, assign "mercantilism" only to the period after about 1620, and distinguish with varying degrees of emphasis between the "bullionist" doctrines of the earlier period and the "balance-of-trade" doctrines of the later period. The grounds most commonly given for distinguishing between the two periods are as follows: (1) that, before 1620, stress was put on the importance of a favorable balance in each transaction of each merchant, whereas in the later period the emphasis was on the aggregate or national balance of trade; (2) that, before 1620, concern about the state of the individual balances was due to anxiety that the country's stock of bullion be *not reduced*, whereas in the later period there was anxiety that it be *increased*; (3) that, before 1620, the chief economic objective of trade policy was to protect the national currency against exchange depreciation, whereas after 1620 this was a minor objective, if a matter of concern at all; (4) that, in the early period, the means advocated and employed to carry out the objectives of the prevailing trade

inal study. It is a work of the highest quality on both the historical and the theoretical sides, and I am happy to find that where we are dealing with the same topics there is no substantial conflict of interpretation or appraisal. I have reviewed Heckscher's book in *The economic history review*, VI (1935), 99-101.

¹ Cf. Oncken, article on Quesnay, *Handwörterbuch der Staatswissenschaft*, 2d ed., 1901, VI, 280.

² If Adam Smith intended the name to be used as a contrast to the physiocratic system, he had considerable justification. Just as the physiocrats claimed that agriculture alone (or extractive industry alone) was productive, so many of the English mercantilists claimed that foreign trade was the only source of wealth, and many of them, while not taking so extreme a position, arranged activities in the order of their contribution to the wealth of the country with foreign trade in the first rank.

policy were close regulation of the transactions of particular individuals in the exchange market and in coin and bullion, while in the later period the policy recommended and put into practice was to seek the objective of a greater stock of bullion indirectly by means of regulation of trade rather than directly through restrictions on exchange transactions and on the export of coin and bullion.

The actual course of official policy seems to give no strong support to this chronological contrast between the bullionist and the balance-of-trade doctrines. In the earlier period, it is true, regulation of the foreign trade and exchange transactions of the merchants had been stricter and more detailed than it subsequently became. But the outstanding changes in legislation and in administrative practice extended over a long period, and all of any importance occurred long before 1620 or did not occur until long after. The institution of the Staple, which served as an instrument of regulation of individual transactions, finally expired with the loss of Calais in 1558, although it had already been moribund. The Statutes of Employment, requiring foreign merchants to pay for the English commodities which they bought, in part at least, in coin or bullion, had become inoperative long before the end of the sixteenth century. The Royal Exchanger, with his control over exchange transactions, went out of existence practically, if not legally, when Burleigh, in the reign of Elizabeth, refrained from exercising his prerogative of nominating the holder of the office, although Charles I attempted unsuccessfully to revive the institution as late as 1628. The restrictions on the export of coin and bullion had been relaxed during the reign of Elizabeth. They were more strictly enforced, as far as gold was concerned, in the reign of James I, in accordance with a proclamation of 1603, but even stricter regulations were laid down by Charles I in 1628, and it was not until 1663 that gold and silver bullion and *foreign* coin could be freely exported, and not until 1819 that *English* coin or bullion derived therefrom could be legally exported. In other words, the "bullionist" regulations were either repealed or had become obsolete long before 1620, or persisted and even were strengthened long after 1620. Prohibitions and customs duties on imports and exports imposed for trade regulative purposes originated centuries before 1620, and although the customs system was revised during the reign of

James I, and again by Walpole in the 1720's, in order that it might more effectively serve the purpose of procuring a favorable balance of trade, it continued until late in the nineteenth century to be a medley of provisions of miscellaneous character serving in unascertainable proportions the largely contradictory purposes of fiscal needs, trade regulation, special privileges to favored individuals or groups, and foreign diplomacy.

If, however, the dividing line be set at about 1560, instead of about 1620, the contrast may be made with respect to actual trade regulation that such devices as the Staple, the Royal Exchanger, and the Statutes of Employment had been important in the first period, and were repealed or permitted to become inoperative in the later stage. For the earlier period also, it can be said that there was much more concern about the menace to the national stock of bullion from the operations of brokers and merchants in paper exchange than there was in the later period, and on this question 1620 serves fairly well as the approximate date at which doctrinal controversy cleared away many of the older illusions about the consequences of unregulated exchange transactions. No attempt will be made here to examine the bullionist reasoning with respect to the exchanges, of which an excellent summary has been given by Tawney.³ In the controversy over the exchanges at the beginning of the seventeenth century, the new views which were expounded chiefly by Misselden and Mun won a definitive victory over the old views as presented by Malynes and Milles, and in the later literature a spokesman for the older views is only rarely to be encountered. Perhaps for the first time, a matter of economic policy was made the occasion for a war of tracts, and the tracts seem, moreover, to have exerted an immediate and traceable influence on government policy. But commentators who have not explored the earlier literature nor examined carefully the later literature have applied to the entire contents of these tracts what was true only, if at all, of their arguments with respect to paper exchanges, and have attributed to Misselden and Mun priority with respect to doctrines which were already old and established and to Malynes and Milles final utterance of doctrines which still had a long life to live.

³ In his Introduction to his reprint of Thomas Wilson, *A discourse upon usury* [1572], 1925, pp. 60-86; 134-69. Cf. also E. R. A. Seligman, article on the Bullionists, *Encyclopaedia of social sciences*, III (1930), 60-64.