

INTERNATIONAL TRADE

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PREFACE

THIS volume is divided into three parts. Part I takes up the theory of international trade. It restates views commonly held, with some amplifications and corrections. Part II is directed to ascertaining how far the actual commerce between nations proceeds in accord with that theory — how far the abstract conclusions are verified in the observed phenomena. Part III examines the characteristics of international trade between countries not having the same monetary standard; the previous Parts having been concerned with trade between countries having the same (gold) standard.

Part I follows in the main the lines of analysis and exposition which Ricardo initiated. The theorems are presented in a numerical form similar to that which he was the first to use. And not merely is Ricardo's method of exposition followed; the deduced conclusions are of the same kind as his. No part of that remarkable man's work was more original than his brief but pregnant analysis of international trade, and none has dominated the course of subsequent discussion so largely. His loyal disciple, the younger Mill, began the task of supplementing and enlarging the Ricardian theory; subsequent writers have elaborated and refined still further; yet always — so far as they have done anything constructive, — on the same fundamental lines.¹ I cannot pretend to have made any contribution of large significance in this part of the field; tho I hope that something in the way of enrichment may be found. The task of preparing a systematic statement has led not merely to the repetition and elaboration of propositions well understood, but also to some conclusions which previous writers seem to have ignored.

¹ See the remarkable comments on the literature of the subject, both mathematical and non-mathematical, by Edgeworth, in his essays on International Values, printed in Volume 2 of his Collected Papers. Compare with this the rounded and searching treatment of the same literature, old and new, by Professor J. W. Angell, in his book on The Theory of International Prices, a book which unfortunately did not reach me until the text of the present volume had been completed.

It is the simpler and more fundamental aspects of the theory which have been chiefly dealt with. Some refinements that bulk large in the literature of the subject have been disregarded. I have directed attention to the leading principles, and with a view to their practical significance rather than their theoretical nicety. More especially, those have been developed for which there seemed to be a possibility of applying the processes of test and verification undertaken in the second Part. Some intricate and much discussed elaborations of theory, especially on the play of demand and on the effects of import and export taxes, have been almost entirely ignored.

To the conversant reader an explanation is due, and perhaps an apology, for the simplicity of Part I and for the way in which the illustrative figures are used. The procedure followed can hardly be dignified by calling it mathematical, since only the simplest operations in arithmetic are carried on. My inability to use the methods of higher mathematics prevents me from following beyond the initial stages the elaborated treatment which has been applied to the subject by a long succession of 19th century writers. The excuse which I would offer for handling the problems in ways that must seem elementary to the mathematical economists is two-fold. First, with the tools at my command I have tried to grapple with parts of the subject at large which do not seem to have received attention from those better equipped; and thereby perhaps something has been added to the theoretic framework. And second, I have some hope that the very simplicity of the computations and illustrations of this book will contribute to their practical significance. In order to come as close as possible to actuality, the theoretic conclusions have here been worked out in terms of prices and money incomes. By thus pushing them to the stage of concreteness and verisimilitude, they have been made more amenable to test, verification, correction.

In Part II, which takes up these processes of verification, I have departed farther from the beaten track. The pure theory of international trade constitutes only the initial stage toward the ascertainment of the things we wish in the end to know. Such indeed is the case with the whole of the pure theory of economics, which can be called "the" theory rather than "a" theory, solely on the ground that no other has been put forward which is generalized, consistent, intellectually satisfactory. After all, what we wish to attain is not a neat logical structure, but an understanding of the actualities. We

must inquire whether the facts conform to the elaborated theorems; must make sure that nothing has been forgotten in the premises, nothing has been erroneous in the reasoning. It is incumbent on the economist to follow a procedure similar to that used in the natural sciences. The physicist or biologist who believes that he has hit on a generalization which conforms to the regularities of the external world uses it merely as a working hypothesis. He proceeds to test it by observation and experiment. The economist should do the same for his hypotheses. In economics this task is more difficult than in most natural sciences, because the economist is debarred from the method which has proved in them by far the most serviceable, that of experiment. He cannot experiment; he can resort to observation only. Observation, however, he must utilize to the utmost — thru history, description, statistics. In so doing he may or may not find confirmation of his hypotheses. Quite probably he will find partial confirmation only; he will have occasion, to a greater or less extent, for revision, amendment, restatement.

The task of verification and correction has constituted the most laborious and difficult portion of this book. Yet I am well aware that much more remains to be done, and can only hope that others will carry the same sort of inquiry to better fruition. The difficulties which I have encountered have been due in no small part to the inadequacy of the available data, and especially to the lack of statistical material put together in such way as to throw light on the validity of the theoretic conclusions. Something will be gained if I have succeeded in calling the attention of statisticians to the problems that arise and to the sort of information that is needed. In every direction — not only from the statisticians, but from the historians, annalists, men of affairs — economic science needs more and more of well sifted material, for the confirmation (or confutation, as the case may be) of its hypothetical generalizations.

In Part III, which deals with international trade under dislocated exchanges, I have unfortunately been compelled to confine myself in the main to theoretic reasoning. Even more than for Part II, the statistical material, abundant tho it is, does not dovetail with the theoretic frame work. Little of it is in such form that the hypotheses can be either substantiated or overthrown. I am aware, however, that not all that is available has been here examined; further patient research might have made possible substantive results of greater scope. A wish to present for the consideration of the expert certain

new trains of thought must serve as a further excuse for my failure to carry out to the full the same method of treatment in this Part as in the preceding.

A more important restriction of the scope of the book is the elimination of all discussion, or nearly all, of the controversy about protection and free trade. On this matter I have said so much elsewhere that it seemed otiose to go into it again.¹ The intellectual problems raised by it are much simpler than many others in the subject at large; while the historic and descriptive aspects are quite too extensive for full treatment in the present book. Some ways in which the general theory of international trade bears on the controversy regarding protection are considered in one place or another, especially in Chapters 13 and 16.

Finally a word may be said on another limitation of the scope of the book. It is strictly an inquiry on a particular phase of the system of private property and capitalistic enterprise. It assumes that system to exist, for good or ill, and examines merely in what way it works. There is no attempt to evaluate this phase of it, or any other; to consider how far it is satisfactory or in what ways it might be mended. I have abundant sympathy with those who question whether the situation as thus laid bare by cold-blooded analysis is satisfactory. What we see is the working of international trade thru the medium of money payments, and of money movements this way and that; thru shifting prices and incomes, slow and painful adjustments, friction and uncertainty and waste motion; obscure forces with which men struggle blindly and unavailingly. But these unwelcome features appear in every part of the existing economic and social organization. The whole capitalistic system is on trial; and not least, its monetary machinery. It is not at all inconceivable that international trade should be conducted thru a process quite different from that now in use and examined in these pages. There might be direct and conscious barter between nations, in place of that veiled barter which so mystifies the ordinary man. Speculations of this kind are beyond the scope of the present volume, which accepts the world as it is and simply examines in what way trade is now carried on between the several countries.

¹ I refer the reader to my *Tariff History of the United States* (8th ed., 1923); *Some Aspects of the Tariff Question* (2nd ed., 1916); and the volume of collected papers entitled *The Tariff, Free Trade and Reciprocity*.

I have to express my indebtedness to two of my colleagues, Mr. Edwin Frickey and Mr. H. D. White, for most helpful aid and advice in revising the manuscript and correcting the proof sheets. The Bureau of International Research of Harvard University and Radcliffe College, under a grant from the Laura Spelman Memorial Foundation, has made appropriations for research on special problems and for clerical service which have greatly facilitated my work. I hope that the results as here presented will be found to justify the enlightened policy of thus aiding scientific research.

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