Chapter XIII.

Of International Trade.

§ 1. Cost of Production not a regulator of international values. Extension of the word "international."

Some things it is physically impossible to produce, except in particular circumstances of heat, soil, water, or atmosphere. But there are many things which, though they could be produced at home without difficulty, and in any quantity, are yet imported from a distance. The explanation which would be popularly given of this would be, that it is cheaper to import than to produce them: and this is the true reason. But this reason itself requires that a reason be given for it. Of two things produced in the same place, if one is cheaper than the other, the reason is that it can be produced with less labor and capital, or, in a word, at less cost. Is this also the reason as between things produced in different places? Are things never imported but from places where they can be produced with less labor (or less of the other element of cost, time) than in the place to which they are brought? Does the law, that permanent value is proportioned to cost of production, hold good between commodities produced in distant places, as it does between those produced in adjacent places?

We shall find that it does not. A thing may sometimes be sold cheapest, by being produced in some other place than that at which it can be produced with the smallest amount of labor and abstinence.

This could not happen between adjacent places. If the north bank of the Thames possessed an advantage over the south bank in the production of shoes, no shoes would be produced on the south side; the shoemakers would remove themselves and their capitals to the north bank, or would have established themselves there originally; for, being competitors in the same market with those on the north side, they could not compensate themselves for their disadvantage at the expense of the consumer; the amount of it would fall entirely on their profits; and they would not long content themselves with a smaller profit, when, by simply crossing a river, they could increase it. But between distant places, and especially between different countries, profits may continue different; because persons do not usually remove themselves or their capitals to a distant place without a very strong motive. If capital removed to remote parts of the world as readily, and for as small an inducement, as it moves to another quarter of the same town--if people would transport their manufactories to America or China whenever they could save a small percentage in their expenses by it--profits would be alike (or equivalent) all over the world, and all things would be produced in the places where the same labor and capital would produce them in greatest quantity and of best quality. A tendency may, even now, be observed toward such a state of things: capital is becoming more and more cosmopolitan; there is so much greater similarity of manners and institutions than formerly, and so much less alienation of feeling, among the more civilized countries, that both population and capital now move from one of those countries to another on much less temptation than heretofore. But there are still extraordinary differences, both of wages and of profits, between different parts of the world.

Between all distant places, therefore, in some degree, but especially between different countries (whether under the same supreme government or not), there may exist great inequalities in the return to labor and capital, without causing them to move from one place to the other in such quantity as to level those inequalities. The capital belonging to a country will, to a great extent, remain in the country, even if there be no mode of employing it in which it would not be more productive elsewhere. Yet even a country thus circumstanced might, and probably would, carry on trade with other countries. It would export articles of some sort, even to places which could make them with less labor than itself; because those countries, supposing them to have an advantage over it in all productions, would have a greater advantage in some things than in others, and would find it their interest to import the articles in which their advantage was smallest, that they might employ more of their labor and capital on those in which it was greatest.

It might seem that a special theory of value is required for international trade, as compared with domestic trade, for the particular reason that in the former there exists *no free movement of labor and capital* from one trading country to another. But we shall see that no new theory is necessary. As before pointed out,(258) commodities exchange for each other at their relative costs wherever there is that free competition which insures perfect facility of movement for labor and capital. It has been usually assumed that capital and labor move freely as between different parts of the same country, but not between different countries. This, however, is not consistent with the facts. We saw that there were non-competing industrial groups within the same nation. Mr. Mill here, in a pointed way, suggests this, when he speaks of "distant places." The addition, therefore, made to Mr. Mill's exposition by Mr. Cairnes(259) is, that the word "international" (in default of a better term) should be applied to those conditions either within a country, or between two countries, which, because of the actual immobility of labor and capital from one occupation to another, furnishes a substantial interference with industrial competition. The obstacles to the free movement of labor and capital which produce the conditions called "international" are: 1. "Geographical distance; 2. Difference in political institutions; 3. Difference in language, religion, and social customs--in a word, in forms of civilization." These differences exist between Maine and Montana; or even between two adjoining States, Ohio and Kentucky, one a free and the other an old slave State. Labor and capital have not in the past moved freely even across Mason and Dixon's line. There is, therefore, no treatment of international trade and values separate from the laws of value already laid down concerning non-competing groups, since there is also no free competition between all the industrial groups within a country.

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§ 2. Interchange of commodities between distance places determined by differences not in their absolute, but in the comparative, costs of production.

As I have said elsewhere(260) after Ricardo (the thinker who has done most toward clearing up this subject),(261) "it is not a difference in the *absolute* cost of production which determines the interchange, but a difference in the *comparative* cost. It may be to our advantage to procure iron from Sweden in exchange for cottons, even although the mines of England as well as her manufactories should be more productive than those of Sweden; for if we have an advantage of one half in cottons, and only an advantage of a quarter in iron, and could sell our cottons to Sweden at the price which Sweden must pay for them if she produced them herself, we should obtain our iron with an advantage [over Sweden] of one half, as well as our cottons. We may often, by trading with foreigners, obtain their commodities at a smaller expense of labor and capital than they cost to the foreigners themselves. The bargain is still advantageous to the foreigner, because the commodity which he receives in exchange, though it has cost us less, would have cost him more."

This may be illustrated as follows:

Articles England. Sweden. interchanged. Cotton. 10 days' labor 15 days' labor produces *x* yds. produces *x* yds. Iron. 12 days' labor 15 days' labor produces *y* cwts. produces *y* cwts.

Here England has the advantage over Sweden in both cotton and iron, since she can produce *x* yards of cotton in ten days' labor to fifteen days in Sweden, and *y* cwts. of iron in twelve days' labor to fifteen days in Sweden. The ship which takes *x* yards of cotton to Sweden, and there exchanges it, as may be done, for *y* cwts. of iron, brings back to England that which cost Sweden fifteen days' labor, while the cotton with which the iron was bought cost England only ten days' labor. So that England also got her iron at an advantage over Sweden of one half of ten days' labor; and yet England had an absolute advantage over Sweden in iron of a less amount (i.e., of one fourth of twelve days' labor). It is to be distinctly understood that by difference in *comparative cost* we mean a difference in the comparative cost of producing two or more articles in the *same country*, and not the difference of cost of the same article in the different trading countries. In this example, for instance, it is the difference in the comparative costs in England of both cotton and iron (not the different costs of cotton in England and Sweden) which gives the reason for the existence of the foreign trade.

To illustrate the cases in which interchange of commodities will not, and those in which it will, take place between two countries, the supposition may be made that the United States has an advantage over England in the production both of iron and of corn. It may first be supposed that the advantage is of equal amount in both commodities; the iron and the corn, each of which required 100 days' labor in the United States, requiring each 150 days' labor in England. It would follow that the iron of 150 days' labor in England, if sent to the United States, would be equal to the iron of 100 days' labor in the United States; if exchanged for corn, therefore, it would exchange for the corn of only 100 days' labor. But the corn of 100 days' labor in the United States was supposed to be the same quantity with that of 150 days' labor in England. With 150 days' labor in iron, therefore, England would only get as much corn in the United States as she could raise with 150 days' labor at home; and she would, in importing it, have the cost of carriage besides. In these circumstances no exchange would take place. In this case the comparative costs of the two articles in England and in the United States were supposed to be the same, though the absolute costs were different; on which supposition we see that there would be no labor saved to either country by confining its industry to one of the two productions and importing the other.

It is otherwise when the comparative and not merely the absolute costs of the two articles are different in the two countries. If, while the iron produced with 100 days' labor in the United States was produced with 150 days' labor in England, the corn which was produced in the United States with 100 days' labor could not be produced in England with less than 200 days' labor, an adequate motive to exchange would immediately arise. With a quantity of iron which England produced with 150 days' labor, she would be able to purchase as much corn in the United States as was there produced with 100 days' labor; but the quantity which was there produced with 100 days' labor would be as great as the quantity produced in England with 200 days' labor. By importing corn, therefore, from the United States, and paying for it with iron, England would obtain for 150 days' labor what would otherwise cost her 200, being a saving of 50 days' labor on each repetition of the transaction; and not merely a saving to England, but a saving absolutely; for it is not obtained at the expense of the United States, who, with corn that cost her 100 days' labor, has purchased iron which, if produced at home, would have cost her the same. The United States, therefore, on this supposition, loses nothing; but also she derives no advantage from the trade, the imported iron costing her as much as if it were made at home. To enable the United States to gain anything by the interchange, something must be abated from the gain of England: the corn produced in the United States by 100 days' labor must be able to purchase from England more iron than the United States could produce by that amount of labor; more, therefore, than England could produce by 150 days' labor, England thus obtaining the corn which would have cost her 200 days at a cost exceeding 150, though short of 200. England, therefore, no longer gains the whole of the labor which is saved to the two jointly by trading with one another.(262)

The case in which both England and the United States would gain from the trade may be thus briefly shown:

Articles United States. England. interchanged. Corn. 100 days' labor 200 days' labor produces *x* bus. produces *x* bus. Iron. 125 days' labor 150 days' labor produces *y* tons. produces *y* tons.

The ship which carries *x* bushels of corn from the United States to England can there exchange it for at least *y* tons of iron (costing England 150 days' labor, since *x* bushels in England would cost 200 days' labor), and bring it home, gaining for the United States the difference between the 100 days' labor in corn, paid for the *y* tons of iron, and the 125 days which the iron would have cost here if produced at home. In this case the United States has an advantage over England in both corn and iron, but still an international trade will spring up, because the United States will derive a gain owing to the less cost of corn as compared with the cost of iron. Our *comparative* advantage is in corn. England, also, by sending to the United States *y* tons of iron, gets in return for it *x* bushels of corn. To produce the corn herself would have cost her 200 days' labor, but she bought that corn by only 150 days' labor spent on iron. England's *comparative* advantage is in iron. Then both countries will gain.

Mr. Bowen(263) gives an instance of international trade where one country has the advantage in both of the commodities entering into the exchange: "The inhabitants of Barbadoes, favored by their tropical climate and fertile soil, can raise provisions cheaper than we can in the United States. And yet Barbadoes buys nearly all her provisions from this country. Why is this so? Because, though Barbadoes has the advantage over us in the ability to raise provisions cheaply, she has a still greater advantage over us in her power to produce sugar and molasses. If she has an advantage of one fourth in raising provisions, she has an advantage of one half in regard to products exclusively tropical; and it is better for her to employ all her labor and capital in that branch of production in which her advantage is greatest. She can thus, by trading with us, obtain our breadstuffs and meat at a smaller expense of labor and capital than they cost ourselves. If, for instance, a barrel of flour costs ten days' labor in the United States and only eight days' labor in Barbadoes, the people of Barbadoes can still profitably buy the flour from this country, if they can pay for it with sugar which cost them only six days' labor; and the people of this country can profitably sell them the flour, or buy from them the sugar, provided the sugar, if raised in the United States, would cost eleven days' labor.... The United States receive sugar, which would have cost them eleven days' labor, by paying for it with flour which costs them but ten days. Barbadoes receives flour, which would have cost her eight days' labor, by paying for it with sugar which costs her but six days. If Barbadoes produced both commodities with greater facility, but greater in precisely the same degree, there would be no motive for interchange."

It may be said, however, that in practice no business-man considers the question of "comparative cost" in making shipments of goods abroad; that all he thinks of is whether the price here, for example, is less than it is in London. And yet the very fact that the prices are less here implies that gold is of high value relatively to the given commodity; while in London, if money is to be sent back in payment, and if prices are high there, that implies that gold is there of less comparative value than commodities, and consequently that gold is the cheapest article to send to the United States. The doctrine, then, is as true of gold, or the precious metals, as it is of other commodities.(264) It may be stated in the following language of Mr. Cairnes: "The proximate condition determining international exchange is the state of comparative prices in the exchanging countries as regards the commodities which form the subject of the trade. But comparative prices within the limits of each country are determined by two distinct principles--within the range of effective industrial competition, by cost of production; outside that range, by reciprocal demand."(265)

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§ 3. The direct benefits of commerce consist in increased Efficiency of the productive powers of the World.

From this exposition we perceive in what consists the benefit of international exchange, or, in other words, foreign commerce. Setting aside its enabling countries to obtain commodities which they could not themselves produce at all, its advantage consists in a more efficient employment of the productive forces of the world. If two countries which traded together attempted, as far as was physically possible, to produce for themselves what they now import from one another, the labor and capital of the two countries would not be so productive, the two together would not obtain from their industry so great a quantity of commodities, as when each employs itself in producing, both for itself and for the other, the things in which its labor is relatively most efficient. The addition thus made to the produce of the two combined constitutes the advantage of the trade. It is possible that one of the two countries may be altogether inferior to the other in productive capacities, and that its labor and capital could be employed to greatest advantage by being removed bodily to the other. The labor and capital which have been sunk in rendering Holland habitable would have produced a much greater return if transported to America or Ireland. The produce of the whole world would be greater, or the labor less, than it is, if everything were produced where there is the greatest absolute facility for its production. But nations do not, at least in modern times, emigrate *en masse*; and, while the labor and capital of a country remain in the country, they are most beneficially employed in producing, for foreign markets as well as for its own, the things in which it lies under the least disadvantage, if there be none in which it possesses an advantage.

The fundamental ground on which all trade, or all exchange of commodities, rests, is division of labor, or separation of employments. Beyond the ordinary gain from division of labor, arising from increased dexterity, there exist gains arising from the development of "the special capacities or resources possessed by particular individuals or localities." International exchanges call out chiefly the special advantages offered by particular *localities* for the prosecution of particular industries.

"The only case, indeed, in which *personal aptitudes* go for much in the commerce of nations is where the nations concerned occupy different grades in the scale of civilization.... The most striking example which the world has ever seen of a foreign trade determined by the peculiar personal qualities of those engaged in ministering to it is that which was furnished by the Southern States of the American Union previous to the abolition of slavery. The effect of that institution was to give a very distinct industrial character to the laboring population of those States which unfitted them for all but a very limited number of occupations, but gave them a certain special fitness for these. Almost the entire industry of the country was consequently turned to the production of two or three crude commodities, in raising which the industry of slaves was found to be effective; and these were used, through an exchange with foreign countries, as the means of supplying the inhabitants with all other requisites.... In the main, however, it would seem that this cause [personal aptitudes] does not go for very much in international commerce."(266)

In brief, then, international trade is but an extension of the principle of division of labor; and the gains to increased productiveness, arising from the latter, are exactly the same as those from the former.

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§ 4. --Not in a Vent for exports, nor in the gains of Merchants.

According to the doctrine now stated, the only direct advantage of foreign commerce consists in the imports. A country obtains things which it either could not have produced at all, or which it must have produced at a greater expense of capital and labor than the cost of the things which it exports to pay for them. It thus obtains a more ample supply of the commodities it wants, for the same labor and capital; or the same supply, for less labor and capital, leaving the surplus disposable to produce other things. The vulgar theory disregards this benefit and deems the advantage of commerce to reside in the exports: as if not what a country obtains, but what it parts with, by its foreign trade, was supposed to constitute the gain to it. An extended market for its produce--an abundant consumption for its goods--a vent for its surplus--are the phrases by which it has been customary to designate the uses and recommendations of commerce with foreign countries. This notion is intelligible, when we consider that the authors and leaders of opinion on mercantile questions have always hitherto been the selling class. It is in truth a surviving relic of the Mercantile Theory, according to which, money being the only wealth, selling, or, in other words, exchanging goods for money, was (to countries without mines of their own) the only way of growing rich--and importation of goods, that is to say, parting with money, was so much subtracted from the benefit.

The notion that money alone is wealth has been long defunct, but it has left many of its progeny behind it. Adam Smith's theory of the benefit of foreign trade was, that it afforded an outlet for the surplus produce of a country, and enabled a portion of the capital of the country to replace itself with a profit. The expression, surplus produce, seems to imply that a country is under some kind of necessity of producing the corn or cloth which it exports; so that the portion which it does not itself consume, if not wanted and consumed elsewhere, would either be produced in sheer waste, or, if it were not produced, the corresponding portion of capital would remain idle, and the mass of productions in the country would be diminished by so much. Either of these suppositions would be entirely erroneous. The country produces an exportable article in excess of its own wants from no inherent necessity, but as the cheapest mode of supplying itself with other things. If prevented from exporting this surplus, it would cease to produce it, and would no longer import anything, being unable to give an equivalent; but the labor and capital which had been employed in producing with a view to exportation would find employment in producing those desirable objects which were previously brought from abroad; or, if some of them could not be produced, in producing substitutes for them. These articles would, of course, be produced at a greater cost than that of the things with which they had previously been purchased from foreign countries. But the value and price of the articles would rise in proportion; and the capital would just as much be replaced, with the ordinary profit, from the returns, as it was when employed in producing for the foreign market. The only losers (after the temporary inconvenience of the change) would be the consumers of the heretofore imported articles, who would be obliged either to do without them, consuming in lieu of them something which they did not like as well, or to pay a higher price for them than before.

If it be said that the capital now employed in foreign trade could not find employment in supplying the home market, I might reply that this is the fallacy of general over-production, discussed in a former chapter; but the thing is in this particular case too evident to require an appeal to any general theory. We not only see that the capital of the merchant would find employment, but we see what employment. There would be employment created, equal to that which would be taken away. Exportation ceasing, importation to an equal value would cease also, and all that part of the income of the country which had been expended in imported commodities would be ready to expend itself on the same things produced at home, or on others instead of them. Commerce is virtually a mode of cheapening production; and in all such cases the consumer is the person ultimately benefited; the dealer, in the end, is sure to get his profit, whether the buyer obtains much or little for his money.

E converso, if for any reason, such as a removal of duties, capital should be withdrawn from the production of articles consumed at home, and imported commodities should entirely take their place, the very importation of the foreign commodities would imply that an increased corresponding production was going on in this country with which to pay for the imported goods. The capital thus thrown out of employment in an industry in which we had no comparative advantage (when competition became free) would necessarily be employed in the industries in which we had an advantage, and would supply--and the transferred capital would be the only means of supplying--the commodities which would be sent abroad to pay for those, which by the supposition are now imported, but were formerly produced at home. The result is a greater productiveness of industry, and so a greater sum from which both labor and capital may be rewarded. Whenever capital, unrestrained by artificial support, leaves one employment as unprofitable, it means that that employment is naturally, and in itself, less productive than the usual run of other industries in the country, and so less profitable to both labor and capital than the majority of other occupations.

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§ 5. Indirect benefits of Commerce, Economical and Moral; still greater than the Direct.

Such, then, is the direct economical advantage of foreign trade. But there are, besides, indirect effects, which must be counted as benefits of a high order. (1) One is, the tendency of every extension of the market to improve the processes of production. A country which produces for a larger market than its own can introduce a more extended division of labor, can make greater use of machinery, and is more likely to make inventions and improvements in the processes of production. Whatever causes a greater quantity of anything to be produced in the same place tends to the general increase of the productive powers of the world.(267) There is (2) another consideration, principally applicable to an early stage of industrial advancement. The opening of a foreign trade, by making them acquainted with new objects, or tempting them by the easier acquisition of things which they had not previously thought attainable, sometimes works a sort of industrial revolution in a country whose resources were previously undeveloped for want of energy and ambition in the people; inducing those who were satisfied with scanty comforts and little work to work harder for the gratification of their new tastes, and even to save, and accumulate capital, for the still more complete satisfaction of those tastes at a future time.

But (3) the economical advantages of commerce are surpassed in importance by those of its effects which are intellectual and moral. It is hardly possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar. Commerce is now, what war once was, the principal source of this contact. Such communication has always been, and is peculiarly in the present age, one of the primary sources of progress. Finally, (4) commerce first taught nations to see with goodwill the wealth and prosperity of one another. Before, the patriot, unless sufficiently advanced in culture to feel the world his country, wished all countries weak, poor, and ill-governed but his own: he now sees in their wealth and progress a direct source of wealth and progress to his own country. It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it. And it may be said without exaggeration that the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race.