Chapter XI

ON FOREIGN TRADE

The views of both Ricardo and Malthus on the subject of foreign trade are closely related to their respective views on the possibility of a general glut. Ricardo believes that it is out of choice that capital enters into foreign trade whereas Malthus suggests that the same takes place out of necessity. As has been explained elsewhere, in the Ricardian system there is no limit to the profitable employment of capital except that put by the rise of money wages on account of the increasing difficulty of production and the consequent rise in the price of corn. This clearly indicates that capital enters into foreign trade just as it flows to a more profitable employment anywhere in the country. The investment of capital into foreign trade brings greater profits to those capitalists who first engage themselves in this sector. This attracts capital from other employments and the larger profits soon subside to the general rate of profits in the economy. It follows that the entry of capital into foreign trade does not permanently raise the rate of profits. There is, however, one exception to this and that is the case of importation of cheap corn and other necessaries. Since profits depend upon money wages which in their turns depend upon price of necessaries it follows that if foreign trade consists of importation
of cheap corn and other wage-goods, money wages will fall and profits will rise. Ricardo writes:

"If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market at a reduced price, profits will rise. If, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise; but if the commodities obtained at a cheaper rate, by the extension of foreign commerce, or by the improvement of machinery, be exclusively the commodities consumed by the rich, no alteration will take place in the rate of profits."¹

This does not, however, mean that Ricardo sees on benefits in foreign trade except that importation of cheap corn and other necessaries increases the rate of profits. On the contrary he is a resolute free trader. In fact one of the

¹ Works and Correspondence of Ricardo, Vol.I p.13.2.
most important contributions of Ricardo to the subject lies in his exposition of the benefits which accrue from the specialisation of different countries in the production of different commodities or, in other words, the territorial division of labour. According to Ricardo the pre-eminent advantage of foreign trade is that it leads to the abundance and cheapness of commodities which is beneficial to all the countries involved. He says:

"It is quite as important to the happiness of mankind, that our enjoyment should be increased by the better distribution of labour, by each country producing those commodities for which by its situation, its climate, and its other natural or artificial advantages, it is adapted, and by their exchanging them for the commodities of other countries, as that they should be augmented by a rise in the rate of profits." 2

Again he says:

"Under a system of perfectly free commerce each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity,

2. Ibid., p.132.
and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically; while, by increasing the general mass of production, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determine that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.  

Malthus agrees with Ricardo that foreign trade leads to abundance and cheapness of commodities. But he emphasises foreign trade from a different standpoint. According to Malthus it is primarily to overcome the lack of will to purchase the domestic goods that these are exchanged for more wanted foreign goods. Foreign trade, therefore, affects the distribution of commodities better adapted to the wants and tastes of society. This leads to greater market value of the whole produce which is extremely necessary for the avoidance

3. Ibid., pp.133-134.

of a general depression and the continued increase of industry and wealth. In the opinion of Malthus it is this effect of foreign trade which is most important. He says:

"It will readily be allowed that an increase in the quantity of commodities is one of the most desirable effects of foreign commerce; but I wish particularly to press on the attention of the reader that in almost all cases, another most important effect accompanies it, expressly rejected by Mr. Ricardo, namely, an increase in the amount of exchangeable value. And that this latter effect is so necessary, in order to create a continued stimulus to productive industry, and keep up an abundant supply of commodities, that in the few cases in which it does not take place, a stagnation in the demand for labour is immediately perceptible and the progress of wealth is checked."\(^5\)

Again he says:

"But what I which specifically to state is, that the natural tendency of foreign trade, as of all sorts of exchanges by

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\(^5\) Ibid., pp.454-455.
which a distribution is effected better suited to the wants of society, is immediately to increase the value of that part of the national revenue, which consist of profits, without any proportionate diminution elsewhere, and that it is precisely this immediate increase of national income arising from the exchange of what is of less value in the country, for what is of more value, that furnishes both the power and will to employ more labour and occasions the animated demand for labour, produce and capital, which is a striking and almost universal accompaniment of successful foreign commerce; whereas, a mere abundance of commodities falling very greatly in value compared with labour, would obviously at first diminish the power of employing the same number of workmen, and a temporary glut and general deficiency of demand could not fail to ensue in labour, in produce, and in capital, attended with the usual distress which a glut
It follows that according to Malthus the important effects of foreign trade are first, that it increases the quantity of commodities and therefore, increases the sum of utility, and secondly and more important, that it gives greater market prices to the commodities produced and therefore increases the sum of value.

Ricardo disputes this opinion. He contends that foreign trade adds to the aggregate of utility but it does not add to the quantity of value. Accordingly Ricardo's chapter 'On Foreign Trade' begins with the following words:

"No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments. As the value of all foreign goods is measured by the quantity of the produce of our land and labour, which is given in exchange

6. Ibid., pp. 460-461. Malthus also says "Mr. Ricardo always views foreign trade in the light of means of obtaining cheaper commodities. But this is only looking to one half of its advantage, and I am strongly disposed to think, not the larger half... Taking therefore a very different view of the effects of foreign commerce on exchangeable value from Mr. Ricardo, I should bring forward the extension of markets as being, in its general tendency, pre-eminently favourable to that increase of value and wealth which arises from distribution." Ibid., pp. 461-462.
for them, we should have no greater value, if by the discovery of new markets, we obtained double the quantity of foreign goods in exchange for a given quantity of our's."

Elsewhere Ricardo writes:

"...all trade, whether foreign or domestic, is beneficial, by increasing the quantity, and not by increasing the value of productions."

It may be pointed out that on the issue whether the expansion of foreign trade arises out of a choice or a necessity the practical experience of the advanced capitalist countries of the world favours the opinion of Malthus. In fact the whole theory of colonisation is based on the proposition that imperialist countries brought the colonies into their domination because they wanted to invest their capital into more profitable avenues of employment and to exploit the colonies through the process of foreign trade. Indeed this proposition has been criticised on the ground that it was possible for the United

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8. Ibid., p.319. In chapter XXI Ricardo says: "We manufacture commodities, and with them buy goods abroad, because we can obtain a greater quantity than we could make at home." Ibid., p.295.
Kingdom to maintain the high rate of economic development even after her colonies got independence. But this view could be tenable only if the foreign trade relations of the United Kingdom with her former colonies were not maintained intact within the framework of what is known as Commonwealth Countries. Professor Gunnar Myrdal has gone to the extent of suggesting that the cumulative causation with reference to foreign trade led to the cumulative expansion of developed countries on the one hand and cumulative contraction of the underdeveloped countries on the other. The theory of stagnation developed by Professor Alvin Hansen is based, among other things, on the limitation of the frontiers. This also indicates that the expansion of foreign trade is more on account of necessity than on account of choice.