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How David Ricardo Has Been Misunderstood: The Case of Jacob Viner

Hisao Fukudome

I

The aim of this essay is to examine Jacob Viner (1892–1970)’s view of ‘the doctrine of comparative costs’,¹⁾ thereby correcting his misunderstanding of David Ricardo’s theory of foreign trade.

In Chapter 7, ‘On Foreign Trade’ of *On the Principles of Political Economy and Taxation* (1817), David Ricardo (1772–1823) observes that “The quantity of wine which she shall give in exchange for the cloth of England, is not determined by the respective quantities of labour devoted to the production of each, as it would be, if both commodities were manufactured in England, or both in Portugal.”²⁾

According to this statement, ‘the labour theory of value’, when it concerns domestic and foreign trade, is demonstrated in two different ways, that is, positively and negatively. The positive way is: The quantity of wine which shall be given in exchange for the cloth is determined by the respective quantities of labour devoted to the production of each, if both commodities are manufactured in England, or both in Portugal. The negative one is: The quantity of Portuguese wine which shall be given in exchange for the cloth of England, is not determined by the respective quantities of labour devoted to the production of each, as if both commodities were manufactured in England, or both in Portugal.

The point is that ‘the labour theory of value’ can be applied only within a country, and cannot be applied between countries. It is definitely correct to say with Ricardo that “the same rule which regulates the relative value of commodities in one country, does not regulate the relative value of the commodities exchanged between two or more countries”,³⁾ and that “the difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.”⁴⁾

1) Jacob Viner, Chapter 8 ‘Gains From Trade: The Doctrine of Comparative Costs’ of *Studies in the Theory of International Trade*. (Harper & Brothers, Publishers, 1937. Reprinted 1957 by Augustus M. Kelly Publishers), pp. 437–526

2) David Ricardo, *On the Principles of Political Economy and Taxation*. (*The Works and Correspondence of David Ricardo*, edited by Pierro Sraffa with the collaboration of M. H. Dobb, Cambridge University Press, 1951–55. Volume1.), pp. 134–135.

3) Ricardo, op. cit., p. 133.

4) Ricardo, op. cit., pp. 135–136.

Ricardo's frame of mind is that the labour employed in the production of commodities creates the value of the commodities, and that the quantity of value added to the commodities by labour varies greatly, depending on the countries where the condition and manner of labour are variously different from country to country. From this standpoint, Ricardo analyzes foreign trade from a dual point of view, which consists of *labour as the substance of value* and *price as the form of value*. In other words, he examines foreign trade not only on the level of the labour which is necessary to produce a commodity, but also on the level of the value (or price) which the labour devoted to the production of the commodity represents.

II

David Ricardo analyzes foreign trade from a dual point of view consisting of labour and value (or price). But Jacob Viner fails to understand this important fact, and looks at foreign trade from only a single point of view consisting of labour, and confuses labour with value. Consequently, Viner overestimates Ricardo's doctrine of comparative costs, while he underestimates Adam Smith's theory of foreign trade and gives it such a derogatory name as 'the eighteenth-century rule'. As will be shown below, Viner's view, which has been accepted world-wide as the right interpretation of the classical theory of foreign trade, is arguably a cunning misapprehension of Smith's and Ricardo's theories.

With regard to Adam Smith (1723–1790), Viner states as follows: "In the beginnings of free-trade doctrine in the eighteenth century the usual economic arguments for free trade were based on the advantage to a country of importing, in exchange for native products, those commodities which either could not be produced at home at all or could be produced at home only at costs absolutely greater than those at which they could be produced abroad. Under free trade, it was argued or implied, all products, abstracting from transportation costs, would be produced in those countries where their real costs were lowest. The case for free trade as presented by Adam Smith did not advance beyond this point."⁵⁾ By reading these sentences, we discern the essence of free-trade doctrine developed by the English classical school in the eighteenth century, whose representative master is Adam Smith: that the absolute priority of price is an indispensable condition for a commodity to be exported and imported, and that all exportable commodities will be produced in those locations where their absolute prices are lowest.

Concerning David Ricardo, I will introduce Viner's quotation from, and comment on, Ricardo's essential statements.

Firstly, Viner mentions both 'the eighteenth-century rule' and 'the doctrine of comparative costs', and quotes Ricardo's numerical explanation: "Many of the classical economists, both before and after the formulation of the doctrine of comparative costs, resorted to this eighteenth-century rule as a test of the existence

5) Viner, op. cit., pp. 439–440.

of gain from trade. Ricardo incorporated it in his formulation of the doctrine of comparative costs.”⁶⁾

“Though she [i. e., Portugal] could make the cloth with the labor of 90 men, she would import it from a country where it required the labor of 100 men to produce it, because it could be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth.”⁷⁾

Secondly, on the basis of the above quotations, Viner concludes as follows: “This explicit statement *that imports could be profitable even though the commodity imported could be produced at less cost at home than abroad* was, it seems to me, the sole addition of consequence which the doctrine of comparative costs made to the eighteenth-century rule. Its chief service was to correct *the previously prevalent error that under free trade all commodities would necessarily tend to be produced in the locations where their real costs of production were lowest.*”⁸⁾

III

In Viner’s concluding sentences, I find out two wrong statements, which are shown in italics. The first wrong statement is “This explicit statement *that imports could be profitable even though the commodity imported could be produced at less cost at home than abroad.*” He holds this part is a correct interpretation of Ricardo’s view, but it is wrong, as detailed later.

The second wrong statement is “*the previously prevalent error that under free trade all commodities would necessarily tend to be produced in the locations where their real costs of production were lowest.*” He argues that the underlined part is erroneous. But I am convinced that it is correct, as detailed later.

How this view of Viner’s is wrong can be aptly demonstrated by Ricardo’s following statement: “Thus, cloth cannot be imported into Portugal, unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot be imported into England, unless it will sell for more there than it cost in Portugal.”⁹⁾

Regarding the same kind of commodities, if the price of the commodity produced in the home country is lower than that of the commodity produced in the foreign country, it is absolutely impossible for the foreign commodity to be imported into the home country. This is a fundamental fact underlying market-economy. Everyone knows that a commodity, more expensive than a rival one, cannot be bought and sold. In consequence, Ricardo’s statement mentioned above is nothing but an essential point of the undeniable truth in market-economy.

6) Viner, op. cit., p. 440.

7) Viner, op. cit., p. 440. (Originally, Ricardo, op. cit., p.135). Viner has changed the British spelling of *labour* into the American *labor*.

8) Viner, op. cit., p. 441. (Italics mine.)

9) Ricardo, op. cit., p. 137.

According to Ricardo, and considering my above comment, we cannot agree with Jacob Viner that *imports could be profitable even though the commodity imported could be produced at less cost at home than abroad*. Viner's assumption is contradictory to the fact that the absolute priority of price is an indispensable condition for a commodity to be exported and imported. I must say Viner's first statement is wrong, not correct.

On the other hand, the statement *that under free trade all commodities would necessarily tend to be produced in the locations where their real costs of production were lowest*, is compatible with the essential truth in market-economy. Therefore, this statement, which is terribly depreciated as erroneous and given a derogatory name like 'the eighteenth-century rule' by Viner, is completely correct in reality. Here, I must say that it is Viner himself that is wrong, not the English classical school in the eighteenth century.

IV

Why and How does Viner fail to understand Ricardo's theory ? Why and How is Viner led to a wrong conclusion?

The reason is that Viner fails to understand the important fact that Ricardo analyzes foreign trade from a dual point of view consisting of labour and value (or price), looking at foreign trade from only a single point of view consisting of labour. Consequently Viner confuses labour with value (or price, cost). In order to clarify Viner's mistake, I will compare Ricardo's statement with Viner's interpretation of the statement.

Ricardo states as follows: "This exchange might even take place, notwithstanding that the commodity imported by Portugal could be produced there with less *labour* than in England."¹⁰ Viner interprets this statement as follows: "that imports could be profitable even though the commodity imported could be produced at less *cost* at home than abroad."¹¹

On the essential point of *labour* and *cost*, Ricardo states that "the commodity imported by Portugal could be produced there [i. e., in Portugal] at less *labour* than in England." Viner interprets this as meaning that "the commodity imported could be produced at less *cost* at home [i. e., in Portugal] than abroad [i. e., in England]."

The difference seems to be just a difference between *labour* and *cost*, but in reality it is the expression of an extremely sharp conflict of views on the value of the commodities.

On Ricardo's view, I repeat my previous comment made at Section I: the labour employed in the production of commodities creates the value of the commodities, and the quantity of value added to the commodities by labour varies greatly, depending on the countries where the condition and manner of labour are variously different from country to country. In consequence, under some circumstances it may be possible that the price of the cloth of England becomes lower than that of the cloth of Portugal. In the famous example given

10) Ricardo, op. cit., p. 135. (Italics mine.)

11) Viner, op. cit., p. 441. (Italics mine.)

by Ricardo, as shown later in detail, in the foreign trade market, the cloth of England which requires the labour of 100 Englishmen, is actually lower in price than the cloth of Portugal, which requires the labour of 90 Portuguese. From this standpoint, Ricardo examines foreign trade not only on the level of the labour which is necessary to produce a commodity, but also on the level of the value (or price) which the labour devoted to the production of the commodity represents.

On the other hand, Viner looks at foreign trade only on the level of the labour, and mistakes labour for value (or price, cost). Consequently, he takes it that the price of the cloth of England, the produce of 100 Englishmen, is higher than that of the cloth of Portugal, the produce of 90 Portuguese.

To sum up, Viner's view of international trade is that international trade depends on a difference in the comparative, not in the absolute, cost of producing commodities, whereas the basic principles of market-economy are: "Every transaction in commerce is an independent transaction",¹²⁾ and the absolute priority of cost (or price) is an indispensable condition for a commodity to be sold and bought in market, to be exported and imported in international trade. Viner's contention is decidedly incompatible with these basic principles, and contradicts itself. In short, the comparative priority of cost (or price) of the commodity becomes effective only on the condition that the commodity has the absolute priority of cost (or price). Without this absolute priority, there is no possibility for the commodity being exported and imported.

V

Jacob Viner also refers to David Ricardo's *Notes on Malthus's "Principles of Political Economy"*, written in 1820 to answer Malthus (1766–1834). It is for strengthening his argument that international trade depends on a difference in the comparative, not in the absolute, cost of producing commodities.

His reference consists of eight lines. The first four lines, which I mark (X), is Viner's introduction of Malthus's statement on foreign trade between Europe and America. The second four lines, which I mark (Y), is Ricardo's comment on Malthus's statement.

(X) Malthus had credited as a factor contributing to the prosperity of the United States her ability to sell "raw produce, obtained with little labor, for European commodities which have cost much labor." To this, Ricardo replied¹³⁾

(Y) It can be of no consequence to America, whether the commodities she obtains in return for her own, cost Europeans much, or little labor; all she is interested in, is that they shall cost her less labor by purchasing them than by manufacturing them herself.¹⁴⁾

12) Ricardo, op. cit., p. 158.

13) Viner, op. cit., p. 441.

14) Viner, op. cit., p. 441. Originaly, David Ricardo, *Notes on Malthus's "Principles of political economy"*. (*The Works and Correspondence of David Ricardo*, Cambridge University Press, 1951-55. Volume II.), p. 383. In (X) and (Y), Viner has changed the British spelling of *labour* into the American *labor*.

Viner interprets these quotations in his favour. Viner’s assumptions are that Malthus discusses the comparison between higher cost of European commodity and lower cost of American commodity, and that Ricardo disregards the question of absolute difference of cost between Europe and America, paying his attention only to the difference of cost between the imported commodity and the native commodity. Based on this interpretation, Viner asserts “that imports could be profitable even though the commodity imported could be produced at less cost at home than abroad”, and makes this assertion his fundamental point of view on international trade. This interpretation of Viner’s is decidedly beside the point, however.

First of all, Malthus discusses the comparison of the quantity of labour, not the height of cost, between European commodity and American commodity. Ricardo knows distinctly that the labour theory of value cannot be applied to two or more countries, in this case between Europe and America. Therefore it is quite natural for Ricardo to state as follows: “It can be of no consequence to America, whether the commodities she obtains in return for her own, cost Europeans much, or little labour.” Furthermore Ricardo knows clearly that the labour theory of value can be applied only within a country. Thus it is highly reasonable for him to say: “All she [i. e., America] is interested in, is that they shall cost her less labour by purchasing them than by manufacturing them herself.”

Secondly, considering the circumstances of foreign trade of America in the early nineteenth century, it is obvious that the influential exporting commodities were cotton and tobacco as shown in the table below, and they had not their counterparts, their rival commodities in Europe. America was continuously increasing their exports year by year. Therefore, there is no need for Ricardo to consider price competition among those commodities.

Table1: Exports of U. S., (Millions of Dollars)¹⁵⁾

	1802-04	1860
Vegetable foods	13	27
Cotton	6	191
Tobacco	6	15
Animal products	3	20
Fish products	2	4
Forest products	4	13
Manufactures	2	37
Total of these items, omitting decimals	36	307

From the above-mentioned facts, I assert that Ricardo’s *Notes* advances the argument in conformity with the truth of market-economy, but that Viner’s inference is its exact opposite.

15) Clive Day, *History of Commerce* (Fourth Edition, 1938) p. 530.

VI

Now, I proceed to set forth my own view of Ricardo's numerical explanation on 'the theory of the comparative costs of production', which is, in Viner's words, 'the doctrine of comparative costs'.

First, I quote three paragraphs from Ricardo's *On the Principles of Political Economy and Taxation*, which I mark [A], [B] and [C].

[A] England may be so circumstanced, that to produce the cloth may require the labour of 100 men for one year; and if she attempted to make the wine, it might require the labour of 120 men for the same time. England would therefore find it her interest to import wine, and to purchase it by the exportation of cloth.¹⁶⁾

[B] To produce the wine in Portugal, might require only the labour of 80 men for one year, and to produce the cloth in the same country, might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place, notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England. Though she could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth.¹⁷⁾

[C] Thus England would give the produce of the labour of 100 men, for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.¹⁸⁾

In reading Paragraphs A, B and C, we must pay attention to three points. Both the first and the second point concern English grammatical rule included in Paragraphs A and B.¹⁹⁾

16) Ricardo, op. cit., p. 135.

17) Ricardo, op. cit., p. 135.

18) Ricardo, op. cit., pp. 135–136.

19) In 1974, Professor Kenzo Yukizawa took notice of this English grammatical rule in his essay, "Ricardo Hikakuseisanhisetsu no Genkeirikai to Henkeirikai." (Kenzo Yukizawa, "Ricardo's 'Comparative Cost' Theory as it was".) In: *Shogakuronsan: Journal of Commerce* (The Society of Business and Commerce in Chuo University), Vol.15, No.6, pp. 25–51.

The first point is the fact that Ricardo has added the definite article *the* to *cloth* and *wine* to make *the cloth* and *the wine*. Consequently, *the cloth* and *the wine* are considered to mean *a definite quantity of cloth* and *another definite quantity of wine* that are actually traded at the same price, in the international trade market.

The second point is the fact that Ricardo has expressed the manufacture of English wine and Portugal cloth in the subjunctive mood, as follows: “if she [i. e., England] attempted to make the wine, it might require the labour of 120 men for the same time”, and “though she [i. e., Portugal] could make the cloth with the labour of 90 men, she would import from a country where it required the labour of 100 men to produce it, ...”. The subjunctive past sentence expresses the supposition which is contrary to the present fact. Therefore, in Ricardo’s numerical example concerned, wine is not made in England, and cloth is not made in Portugal, in actuality.

Thus considered, *the cloth of England requiring the labour of 100 men for one year* and *the wine of Portugal requiring the labour of 80 men for one year* have won the position of exporting commodities and have got the same value. This interpretation will lead to a conclusion shown below as *the third point*. On the basis of this interpretation, I represent as *W-unit the quantity of the cloth* that is traded for *the quantity of the wine* marked *X-unit*.

The third point is the fact that with regard to Paragraph C, Ricardo has illustrated that “The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians.” This illustration means that *the cloth of England, the produce of the labour of 100 Englishmen* is at the same price with *the wine of Portugal, the produce of the labour of 80 Portuguese* in the international trade market, and that *the cloth of England* and *the wine of Portugal* respectively have the highest productive advantage and the lowest level of value among the same sort of commodities.

From these discussions, let me assume that *W-unit English cloth* and *X-unit Portugal wine* are traded, for example, at the price of £4000, in the international trade market. Because domestic trade follows ‘the labour theory of value’, *W-unit Portugal cloth* becomes worth $£4000 \times 90/80 = £4500$, and *X-units English wine* $£4000 \times 120/100 = £4800$. Thus, I illustrate Ricardo’s two-country and two-commodity example in two ways. One is based on the quantity of labour, and the other on the quantity of value (or price), as shown below. It is clear that the cloth of England which requires the labour of 100 Englishmen, is actually lower in price than the cloth of Portugal which requires the labour of 90 Portuguese, in the foreign trade market.

Table2: the quantity of labour necessary to produce

	W-unit cloth	X-unit wine
England	100men	120men
Portugal	90men	80men

Table3: the quantity of value which the labour expresses

	W-unit cloth	X-unit wine
England	£4,000	£4,800
Portugal	£4,500	£4,000

In the same manner, Ricardo’s two-country and two-commodity example will be extended, for example, to four-country and four-commodity example, as shown below.

Table4: the quantity of labour necessary to produce

	W-unit cloth	X-unit wine	Y-unit corn	Z-unit cotton
England	100men	120men	140men	160men
Portugal	90men	80men	100men	110men
Russia	84men	78men	60men	102men
India	138men	150men	129men	120men

Table5: the quantity of value which the labour expresses

	W-unit cloth	X-unit wine	Y-unit corn	Z-unit cotton
England	£4,000	£4,800	£5,600	£6,400
Portugal	£4,500	£4,000	£5,000	£5,500
Russia	£5,600	£5,200	£4,000	£6,800
India	£4,600	£5,000	£4,300	£4,000

Putting Paragraphs A, B and C together with the above Tables, we definitely recognize that Ricardian model of the theory of comparative costs is grounded on the dual point of view, which consists of *labour as the substance of value* and *price as the form of value*.

One appreciable result derived from close observation of the tables shown above is that the absolute advantage of price is indispensable for the commodity to be exported from the home country to the foreign country, or to be imported from the foreign country to the home country. This proposition is completely consistent with Ricardo’s statement cited in Section III of this essay: “Thus, cloth cannot be imported into Portugal, unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot be imported into England, unless it will sell for more there than it cost in Portugal.”²⁰⁾ At the same time, this proposition is perfectly consistent with the so-called ‘the eighteenth-century rule’: “under free trade all commodities would necessarily tend to be produced in the locations where their real costs of production were lowest.”²¹⁾

On the other hand, this proposition is absolutely inconsistent with Viner’s statement cited above: “that imports could be profitable even though the commodity imported could be produced at less cost at home than abroad.”²²⁾ From these considerations, I infer that Ricardo specifies the commodity, which is the lowest in price among the same kind of commodities, as the exportable one on the ground of its absolute advantage in the international price competition.

Another appreciable result derived from the tables concerns the commodities which cannot be the

20) Ricardo, op. cit., p. 137

21) Viner, op. cit., p. 441.

22) Viner, op. cit., p. 441.

lowest in price among the same kind of commodities, and accordingly cannot be exported. Whether they can or cannot exist in the international competition depends on the degree of their comparative disadvantages to their respective countries' comparative advantage commodities. If they succeed in overcoming the disadvantages by technological development, they can survive. But if they fail, they are forced to disappear out of the market. The countries which have no lowest commodities will be so circumstanced that they have no exportable commodities to pay for the imported commodities, and they are troubled with unbalanced foreign trade, and money instead of exportable commodities must be paid in exchange for the imported commodities.

To summarize Ricardo's numerical explanation, first, the strong exportable commodities occupy the central positions on the ground of the absolute priority of value (or price) among the same sort of commodities, and shape the standard measure of value (or price) in the international trade market. Second, the weak non-exportable commodities are positioned according to the comparative priority of labour in relation to other domestic commodities. In this framework, 'the theory of comparative costs of production' can be expressed as the superstructure, which has been erected on the substructure named 'the eighteenth-century rule'.

Despite the prevailing view among the economists concerned, I would argue that the Ricardian theory on international free trade depicts not only the world of peaceful coexistence for mutual benefit, but also the world of cut-throat competition and the survival of the fittest, where the strong prey upon the weak and the weak fall prey to the strong.²³⁾

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23) I would like to thank Professor Matsuji Tajima, who read the earlier versions and suggested numerous stylistic improvements. All remaining errors and inadequacies are, of course, mine.