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INTERNATIONAL TRADE

**THE THEORY OF
INTERNATIONAL TRADE**

WITH ITS APPLICATIONS TO COMMERCIAL POLICY

BY

GOTTFRIED VON HABERLER

**ASSOCIATE PROFESSOR IN HARVARD UNIVERSITY;
MEMBER OF THE FINANCIAL SECTION AND ECONOMIC INTELLIGENCE SERVICE
OF THE LEAGUE OF NATIONS**

TRANSLATED FROM THE GERMAN

BY

ALFRED STONIER AND FREDERIC BENHAM

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PREFACE TO THE ENGLISH EDITION

I am very conscious of the various shortcomings of this book as published in German two years ago. Nevertheless I have agreed to the publication of an English translation without substantial changes from the German original, because I hope that, even in the present form, it will be of some use.

Apart from improvements in detail and statistical researches with a view to verifying and applying to concrete cases the general, theoretical statements, it seems to me that the theory of international trade, as outlined in the following pages, requires further development, in two main directions. The theory of imperfect competition and the theory of short-run oscillation (business cycle theory) must be applied to the problems of international trade. It will soon be possible to do this in a systematic way, since much progress has been made in both fields in recent years.

With regard to the first of these questions, there is the literature which centres around the two outstanding books, *Monopolistic Competition* by Professor E. Chamberlin and *Imperfect Competition* by Mrs. Joan Robinson. In the second field where further development is required, it is not so easy to refer to a body of accepted theory. But it seems to me that a certain measure of agreement as to the nature of the cumulative processes of general economic expansion and contraction is gradually beginning to emerge. By starting or reversing, accelerating or retarding these cumulative processes, changes in the international economic relations of a country may give an unexpected and perplexing turn to events, not predictable on the basis of a more rigidly static analysis. There is certainly a wide field of international economic problems which promises a rich crop if tilled with the aid of imperfect competition and business cycle theory. The theory of commercial policy, in particular, will profit therefrom.¹

Being occupied by work on a different subject, I have, unfor-

¹ Cf., e.g., G. Lovasz, "Schutzölle bei unvollkommener Konkurrenz" in *Zeitschrift für Nationalökonomie*, vol. 5 (1934).

tunately, had no time to revise the book thoroughly along the lines indicated above. I hope, however, to be able to do this on a later occasion.

During the last two years great progress has been made in the technique of Protection. Not only have tariffs been piled on tariffs and quotas on quotas; not only have the old methods been used much more boldly and unhesitatingly than before; but new devices have been invented: clearing and compensation agreements, export and import monopolies, discriminating exchange rates, methods of controlling tourist traffic and expenditure, stand-still agreements and so on, with an infinite number of variations in detail. Many interventionist measures, which seemed two years ago either technically impossible or so manifestly undesirable as to be quite out of the question, are to-day adopted without reluctance. I have tried elsewhere² to go a little more deeply into the details of the new commercial policy. In the present book I have confined the discussion for the most part to fundamentals. After all, the general principles and the technique of analysis have remained unaltered and are just as applicable to the new as to the old methods. If one has a firm grasp of these principles, it is comparatively easy to apply them to the new techniques of Protection.

Chapters I-VIII have been translated by Mr. Alfred Stonier (with assistance from Mr. Hugh Gaitskell), and Chapters IX-XXI by Mr. Frederic Benham. In translating they both have, I think, improved the original version and eliminated a number of inaccuracies. I am also indebted to Mr. Ragnar Nurkse, who has read the greater part of the manuscript and proposed many improvements. I have taken this opportunity of revising the whole manuscript and making a number of small changes in the text. The section on exchange control has been largely rewritten.

GOTTFRIED V. HABERLER.

GENEVA, August, 1935.

² *Liberale und planwirtschaftliche Handelspolitik*, Berlin, 1934.

PREFACE TO THE GERMAN EDITION.

(Abridged)

This book aims at a complete and systematic treatment of the main problems arising from international economic transactions. It attempts, especially, to give a thorough theoretical analysis of these problems. . . . I have not followed the traditional practice of beginning with the 'pure' theory, treating this as the dominating topic and the question of the monetary mechanism as subsidiary. On the contrary, I begin at once, in section B of Part I, with the exposition of the monetary problems: that is, of the mechanism which determines the exchange-value of a currency, equalises the balance of payments, and makes possible the transfer of unilateral payments. This is followed, in section C, by the 'pure theory.' Here I have endeavoured to combine all the valid and relevant doctrines into a systematic whole. For these doctrines are mostly not mutually exclusive, but, on the contrary, supplement one another, either covering different parts of the field, working on different levels of abstraction, or employing different methods of analysis.

I have also endeavoured to avoid the too common practice of placing the theory of international trade and the discussion of trade policy in quite separate compartments without any connection between the two. Instead, I have tried to apply the theoretical analysis to every question arising from trade policy. Indeed, any discussion of trade policy which attempts more than a mere account of the legal and administrative devices in force, or than a statement of the criteria by which the various policies should be evaluated must inevitably consist in the application of economic theory.

In the various places where facts have been cited, they have been introduced not for their own sake but in order to illustrate the argument. The only exception to this is section C of Part II, which attempts a systematic account of the various measures which have served as instruments of trade policy.

Some readers will doubtless be surprised that the policy of Free Trade, which is in glaring contrast to the policy actually adopted by nearly every country in the world, should be advocated in this book. The universality of Protection inspires an instinctive distrust of a theory whose conclusions are nowhere accepted in practice. Can a policy which is rejected with such unanimity be correct?

But this is not an argument. It would be absurd to expect economic science to reverse the verdict of its analysis, based upon accepted judgments of value, just because in practice it is consistently ignored. Nobody would dream of asking medical science to change its findings just because everybody followed some custom which it had pronounced injurious to health.

Nevertheless it cannot be denied that the principles stated in this book as 'economically correct'¹ have hardly ever been completely applied. The disagreeable task of having to declare current practice misguided, thereby provoking the accusation of unfruitful doctrinairism, is one which the present volume shares with most scientific writings on international trade. Economists are nearly as unanimous in favour of a liberal trade policy as are Governments in favour of the contrary. It is true that very few writers attempt the hopeless task of proving *a priori* that no case is conceivable in which the 'general welfare' would be promoted by some kind of intervention. Most economists, including the present writer, concede that cases are both conceivable and liable to occur in practice in which tariffs or other restrictions on international trade would be advantageous. At the same time, there is fairly general agreement among them that such cases are on the whole unimportant, so that a policy of complete Free Trade would diverge only slightly from the optimum. The vast majority of economists are convinced that the actual trade policies of nearly all countries are founded upon the crudest errors and have no shadow of justification. Upon this point there is surprising agreement of expert opinion not only among liberals but also among socialists.

¹ The meaning of this phrase is discussed in chaps. xiii and xiv.

PREFACE TO THE GERMAN EDITION

ix

The fact that nearly all economists unite in condemning Protection explains why some of them devote so much ingenuity to constructing hypothetical cases in which a tariff might be beneficial and why economic works give so much space to such cases. Exceptions are always more interesting, to the scientific mind, than mere illustrations of the general rule. . . . But experience has underlined the truth and wisdom of Edgeworth's judgment: "As I read it, protection might procure economic advantage in certain cases, if there was a Government wise enough to discriminate those cases, and strong enough to confine itself to them; but this condition is very unlikely to be fulfilled."

. . . I am very grateful to Dr. Erich Schiff, of Vienna, for his help with the statistical work.

G. H.

VIENNA, *May*, 1933.

CONTENTS

	PAGE
INTRODUCTION, - - - - -	3
1. The Problem of Definition, - - - - -	3
2. The Political Conception of Foreign Trade, - - - - -	6
3. Questions of Exposition, - - - - -	8

PART I

THEORY

A—THE MONETARY THEORY OF INTERNATIONAL TRADE

CHAP.	SEC.		PAGE
I.	INTRODUCTORY, - - - - -		13
II.	THE BALANCE OF PAYMENTS, - - - - -		16
	1. Classification of Items, - - - - -		16
	2. Different Senses of the Term, - - - - -		18
	3. Supply and Demand Analysis, - - - - -		19
	4. The Case of more than Two Countries, - - - - -		21
III.	THE GOLD STANDARD, - - - - -		23
	1. Definition, - - - - -		23
	2. The Gold Points, - - - - -		23
	3. Mercantilist Ideas, - - - - -		24
	4. The Classical Theory and Its Critics, - - - - -		26
IV.	INCONVERTIBLE PAPER CURRENCIES, - - - - -		30
	1. The ' Balance of Payments ' Theory and the ' Inflation ' Theory, - - - - -		30
	2. The Theory of Purchasing Power Parity, - - - - -		32
	3. Problems of Statistical Verification, - - - - -		38
V.	FURTHER DETAILS OF THE EXCHANGE-MECHANISM, - - - - -		41
	1. Preliminary Remarks on Monetary Theory in General, - - - - -		41
	2. Price-Stability <i>versus</i> Exchange-Stability, - - - - -		44
	3. Methods of Preserving Exchange-Stability (Gold-Bullion Standard, Gold-Exchange Standard), - - - - -		46
	4. Discount-Policy, - - - - -		48
	5. The Influence of Bank-Credit, - - - - -		51

CONTENTS

CHAP. SEC.	PAGE
VI. EXCHANGES DURING INFLATION, - - - -	54
1. The Significance of Static Analysis, - - - -	54
2. The Transition from One Equilibrium to Another. (Price-Levels and Exchange-Rates during Inflation), - - - -	55
3. Depreciation as Interpreted by the Balance-of-Pay- ments Theory and the Classical Theory respec- tively, - - - -	57
4. Statistics of the German Inflation, - - - -	61
VII. THE TRANSFER PROBLEM, - - - -	63
1. Introductory, - - - -	63
2. Raising and Transferring Payments. Creation of the Export Surplus, - - - -	65
3. The Rôle of Price-Changes in the Mechanism of Transfer, - - - -	66
4. Unilateral Payments and International Movements of Capital, - - - -	76
5. The Limits of Possible Transfer, - - - -	78
6. The Transfer Mechanism in Times of Crisis, - - - -	80
✓ 7. Exchange Control, - - - -	83
VIII. HISTORICAL ILLUSTRATIONS OF UNILATERAL TRANSFER, -	91
1. General Remarks, - - - -	91
2. The French Indemnity of 1871, - - - -	92
3. Canadian Imports of Capital 1900-1914, - - - -	96
4. German Reparations, - - - -	101
5. Inter-Allied War-Debts, - - - -	113
B—THE PURE THEORY OF INTERNATIONAL TRADE	
IX. INTRODUCTION, - - - -	121
1. The Problem Stated, - - - -	121
2. The Available Theoretical Systems, - - - -	122
X. THE THEORY OF COMPARATIVE COST, - - - -	125
1. The International Division of Labour and the Differ- ence in Production Costs, - - - -	125
2. Absolute and Comparative Differences in Production Costs, - - - -	127
3. The Order of Treatment to be followed, - - - -	131
4. Comparative Costs expressed in Money, - - - -	132
5. The Theory of Comparative Cost applied to more than Two Goods, - - - -	136
6. Costs of Transport, - - - -	140
7. Variable Costs of Production, - - - -	142

CONTENTS

CHAP. SEC.	PAGE
XI. SUPPLY AND DEMAND IN INTERNATIONAL TRADE,	xiii 145
1. Introductory,	145
2. Mill's Theory of International Values,	145
3. Marshall's Generalisation of the Theory of International Values,	150
4. The Relation between the Marshallian Curves and the Usual Supply and Demand Curves,	154
5. The Elasticity of Demand,	155
6. The Terms of Trade and their Statistical Measurement,	159
7. Statistical Illustrations,	167
8. The Direct Effect of International Trade upon Price and Sales,	169
XII. INTERNATIONAL TRADE AND GENERAL EQUILIBRIUM,	175
1. The Labour Theory of Value Discarded,	175
2. The Theory of Comparative Cost Restated, with Special Reference to Specific Factors,	182
✓3. The Influence of International Trade upon the Distribution of the National Income,	189
4. Decreasing Costs and International Trade,	198

PART II

TRADE POLICY

A—INTRODUCTION

XIII. THE SCIENTIFIC TREATMENT OF THE SUBJECT OF TRADE POLICY,	211
1. The Order of Treatment which will be followed,	211
2. Value-Judgments upon International Trade and upon Measures of Trade Policy,	213

B—THE CONSEQUENCES OF DIFFERENT SYSTEMS AND MEASURES OF COMMERCIAL POLICY, FREE TRADE AND PROTECTION

XIV. ARGUMENTS FOR FREE TRADE,	221
1. The Presumption that Free Trade is advantageous,	221
2. Other Arguments for Free Trade,	222
3. The Aims of Free Traders,	224

CHAP. SEC.		PAGE
XV.	THE EFFECTS OF TARIFFS, - - - - -	227
	1. The Direct Effects of a Particular Import Duty upon the Price and Sales of the Commodity, - - -	227
	2. The Indirect Effects of Duties, - - - - -	233
	3. Import Duties on Means of Production, - - -	235
XVI.	✓ GENERAL ARGUMENTS FOR TARIFFS, - - - - -	237
	1. Introductory, - - - - -	237
	2. Revenue Duties and Protective Duties, - - -	237
	3. Economic and Non-Economic Arguments for Tariffs,	239
	4. The Economic Arguments for Tariffs, - - - - -	241
XVII.	✓ PARTICULAR ARGUMENTS FOR TARIFFS, - - - - -	245
	1. Arguments which do not merit serious discussion, -	245
	2. The Protectionist Theory of Richard Schüller, - -	253
	3. Tariffs and Unemployment, - - - - -	259
	4. The Import of Means of Production as a Result of a Tariff, - - - - -	273
	5. Infant-Industry Tariffs, - - - - -	278
	6. The Dangers of an Unbalanced Economy which Exports Manufactures, - - - - -	285
	7. Emergency Tariffs and Tariffs to Ensure the Market,	289
	8. Tariffs as a means of Improving the Terms of Trade (' The foreigner pays the duty '), - - - - -	290
XVIII.	✓ DUMPING, CARTELS, MONOPOLIES, AND EXPORT BOUNTIES, - - - - -	296
	1. Introduction, - - - - -	296
	1. The Nature and Forms of Dumping, - - - - -	296
	3. The Theory of the Dumping-Price, - - - - -	302
	4. Economic Appraisal of Dumping, - - - - -	313
	5. Export Bounties, - - - - -	317
	6. Anti-Dumping Duties, - - - - -	322
	7. International Monopolies of Raw Materials and International Cartels, - - - - -	324
	✓ C—THE TECHNIQUE OF TRADE POLICY.	
XIX.	THE CONTENT AND FORM OF TARIFF LAWS AND THEIR APPLICATION. OTHER KINDS OF PROTECTION, -	337
	1. Introductory, - - - - -	337
	2. The Tariff Schedule and the Customs Area, - - -	337
	✓ 3. Specific and <i>Ad Valorem</i> Duties, - - - - -	341
	4. Sliding-scale Duties, - - - - -	343

CONTENTS

CHAP. SEC.	XV PAGE
<ul style="list-style-type: none"> 5. Import Prohibitions, Export Prohibitions, and Quotas, - - - - - 6. Other Protectionist Devices, - - - - - 7. Administrative Mitigations of Tariff Protection, - - - - - 8. The Concept of 'The Height of a Tariff' and the Methods of measuring it, - - - - - 	<ul style="list-style-type: none"> 346 349 353 355
<p>XX. COMMERCIAL TREATIES: THE FACTS, - - - - -</p> <ul style="list-style-type: none"> 1. Content and Form, - - - - - 2. The Content and Forms of the Most Favoured Nation Clause, - - - - - 	<ul style="list-style-type: none"> 360 360 362
<p>XXI. COMMERCIAL TREATIES: APPRAISAL OF THE VARIOUS SYSTEMS, - - - - -</p> <ul style="list-style-type: none"> 1. The Commercial Treaties of Free Trade Countries, - - - - - 2. The System of Rigid Tariffs, - - - - - 3. Tariff Treaties and the Principle of Exchanging Particular Tariff Concessions, - - - - - ✓ 4. The Dispute over the Most Favoured Nation System, - - - - - 5. Preferential Duties, - - - - - 6. Customs Unions, - - - - - 7. Tactical Considerations upon the Path to Free Trade, - - - - - 	<ul style="list-style-type: none"> 372 372 374 377 383 390 391
<p>INDEX, - - - - -</p>	<p>395</p>

INDEX OF NAMES

- Aftalion, 28
 Anderson, B., 80
 Angell, bibliography of classical literature, 3n, 26n
 — on factors producing international price discrepancies, 33
 — on the Garman inflation, 62n
 — on historical development of classical theory, 26n, 32n
 — on influence of bank-credit on exchange mechanism, 51n
 — on translation of comparative cost differences into money prices, 131n
 Anstiaux, 48n
 Arndt, 363n, 379n
 Ashley, 274
 Auld, 101n
 Anspitz, 123n, 154n
- Balogh, T., 70n, 82n, 259n, 261n, 269n, 270n, 272n
 Barnes, 317n, 343n
 Barone, E., method of weighing advantages and disadvantages of a tariff, 257
 — technique used by, 123, 170
 Basch, 83n
 Bastable, 26, 72, 122, 125n, 145n, 189n, 190n
 Bastiat, 247
 Beckerath, 208n
 Beckmann, 318n
 Benham, 44n, 203n
 Bergmann, 101n
 Beveridge, 259n, 261n, 268n, 269n
 Bismarck, 248, 290
 Black, A. G., 130n
 Black, John D., 130n
 Blake, William, 32n
 Blan, 83n
 Böhm-Bawerk, 175, 181n
 Bonn, M. J., 101n, 107n
 Bordes, Walré de, 62n
 Braun, M. St., 215n
 Brentano, Lujo, 111n, 243, 286
 Bresciani-Turroni, 62n
 Brüning, 110
 Budge, 55n
- Cabiati, 123n, 286n
 Cairnes, J. E., on advantages of international division of labour, 130n
 — non-competing groups, 4, 189n, 190, 191
 — as representative of classical theory, 26
 — on spread of effects of increase in amount of money, 55n
 — and theory of comparative costs, 122, 125n
 — on transfer problem, 66
- Cannan, 31n
 Carey, H. C., 278, 284n
 Carr, 52n, 53
 Carver, 170n, 195n, 201n
 Cassel, on effects of Free Trade on distribution of income, 226n
 — on effects of inflation on foreign exchanges, 31n
 — purchasing power parity theory, 32, 37, 38n
 Cavour, 366
 Chamberlin, 204n
 Clark, J. B., 181n, 189n
 Colm, 145n, 170n, 173n
 Condliffe, J. B., 89n
 Conte, R., 328n
 Costa, 328n
 Cournot, 304n, 316n
 Crawford, 365n
 Culbertson, 337n
 Cunyngnam, 123n
- Davenport, 177n
 Dawes, General, 105
 Diehl, 345n
 Dietzel, 226n, 243, 286, 289, 323
 Domeratzky, 328n
 Dulles, E. L., 62n
- Edgeworth, on distribution of tax incidence between home consumer and the foreigner, 291n
 — on laws of returns, 201n
 — on Mangoldt's theory, 145n
 — on Marshall's reciprocal demand curves, 152
 — method of treating international trade theory, 123n
 — on place of international trade theory in general theory, 8n
 — on terms of trade, 155n
 Edminster, 326
 Einzig, 24n
 Eucken, 75n
 Eulenburg, 140n, 183n
- Fanno, Marco, 49n, 82n
 Fay, 317n, 343n
 Feis, 51n
 Fischmeister, 345n
 Fisher, Irving, 40n
 Flux, 15n
 Friedheim, 84n
- Glier, 362n
 Goschen, 15n, 24n
 Graham, on arbitrage, 22n
 — argument for protection, 198ff
 — criticism of classical theory, 145n, 199ff
 — criticism of Marshallian analysis, 152n

- Graham, on determination of exchange-ratio, 149-150
 — exposition of classical theory, 122n
 — on the German inflation, 62n
 Green, 177n
 Gregory, 37n, 269n, 337n, 343n
 Greiff, 337n
 Gross, 345n
 Gruntzel, 337n
- Haberler, 40n, 72n, 188n, 363n
 Hafner, 347n
 Hahn, 31n, 43n
 Haight, F. A., 347n
 Hainisch, 345n
 Hamilton, Alexander, 274n, 278ff
 Hansen, 77n, 80, 201n
 Harms, 329
 Harrod, 44n, 125n, 201n, 306n
 Harvey, R. S., 301n
 Hawtrey, 43n, 49n, 51n, 80, 234n
 Hayek, 42n, 47n, 49n, 55n, 189n
 Heckscher, 25n
 Helfferich, 28n, 58ff, 350, 379
 Henningsen, 343n, 344n, 345n
 Hicks, J. R., 158n, 182n, 195
 Hilgerdt, F., 89n
 Hobhouse, L. T., 226n
 Hobson, 226n
 Hollander, 30n, 122
 Holtrop, 42n
 Hornbeck, 363n
 Hoover, President, 109
 Hughes, Charles Evan, 373n
 Hume, J., 26
- Iversen, 66n, 67n
- Johnson, E. A., 195n
- Kahn, R., 260n
 Kaldor, N., 195n, 207n
 Kaufmann, P., 183n, 317
 Kautsky, Benedict, 111n
 Kellenberger, 143n
 Keynes, argument for tariffs to restore external equilibrium, 240, 296ff
 — controversy with Ohlin on transfer problem, 67ff, 79n
 — on effects of rise in bank-rate, 49n
 — on effect of tariffs on exports, 261n
 — on flexibility of balance of payments, 31
 — on general arguments for tariffs, 246
 — on gold-exchange standard, 48n
 — on international mobility of short-term lending, 51n
 — method of treating monetary theory, 43n
 — on parallelism of international price movements, 35n
 — and price stabilisation policy, 45
 — on unemployment argument for tariffs, 242, 259n
- Knight, 144, 175, 177n, 178n, 179n, 181n, 190, 199n, 201n, 208n, 243n
 — on classification of factors, 190
 — criticisms of Graham, 199n, 201n, 208n
 — as equilibrium theorist, 175
 — on increasing returns, 144, 199n, 201n, 208n
 — on marginal productivity, 181n
 — on mobility of factors, 179n
 — on opportunity cost, 177n, 178n
 — on statics and dynamics, 243n
 Koopmans, 74n
 Koppe, 85n
- Lammers, C., 328n
 Landauer, 181n
 Landmann, 345n
 Laughlin, L., 29
 Lederer, 186n
 Lerner, 177n
 Lexis, 317n
 Lieben, 123n, 154n
 Liefmann, 329
 List, 278ff, 285, 285n, 286
 Lösch, 72n
 Lusensky, 363n
 Loucheur, 104, 328
- MacGregor, 208n, 327n
 MacGuire, 94, 101n, 111n
 Machlup, 31n, 47n, 48n, 68, 72n, 80n, 82n, 83n, 85n
 MacKenna, 105
 Mackenroth, 188n, 259, 274n
 Malthus, discussion with Ricardo, 19n, 27n, 28, 30, 32
 — on population question, 287
 — on price shifts in adjustments of balance of payments, 30n, 72
 — and transfer problem, 72
 Mangoldt, 145n
 Manuilescu, M., 196n, 198, 284
 Marshall, on American tariff policy, 284n
 — on decreasing costs, 201n, 207n, 208n
 — extension of theory of comparative costs, 137n, 145ff, 175
 — on indirect effects of discount policy, 49n
 — on infant-industry argument, 281n
 — on internal and external economies, 202n, 204n, 207n
 — on international equalisation of price levels, 32
 — on large-scale production, 204n
 — long- and short-run equilibrium, 179n
 — on non-competing groups, 191-192
 — "particular expenses" curve, 251n
 — quasi-rent on specific factors, 185
 — reciprocal demand and supply curves for illustrating international trade mechanism, 67n, 123, 123n, 153ff

Marshall, on shifting of duties on to foreigner, 291n, 293, 294
 — on sliding-scale duties, 344n
 — on terms of trade, 155ff, 159n, 161, 294
 Mason, 132n
 Mayer, 182n, 303, 304n, 317
 Méline, 286n
 Menger, 175
 Mering, 145n
 Mill, J. S., on cases of elasticity of demand less than unity, 157
 — equation of reciprocal demand, 134, 145
 — on incidence of import duties, 294
 — and infant-industry argument, 280-281, 285
 — on increasing mobility of capital, 4
 — as representative of classical theory, 26
 — and theory of comparative costs, 122, 123, 125n
 — and transfer problem, 66, 71, 73
 Mises, classification of factors affecting volume of monetary transactions, 42
 — on diffusion of effects of increase in volume of money, 55n
 — on effects of inflation on foreign exchanges, 31n
 — on gold-premium policy, 51n
 — on impossibility of increasing returns, 144
 — on influence of changes in bank rate on prices, 49n
 — on influence of stock of real capital on type of goods produced, 125n
 — on Schüller's tariff argument, 188n
 Morgenstern, 201n
 Moulton, 66n, 94, 101n, 111n
 Mun, Thomas, 25
 Myrdal, 216n

 Neisser, 42n
 Nicholson, 5, 8n
 Nogaro, 23n
 Notz, W. F., 301n
 Nurkse, R., 40n, 66n, 76n, 140n

 Ohlin, B., on applicability of theory of comparative costs to more than two goods, 131n, 137n
 — controversy with Keynes on transfer problem, 67ff
 — on Mancilesco's protectionist theory, 193n
 — method of treating international trade problems, 9n
 — mobility of factors in definition of international trade, 4n
 — on non-competing groups, 196n
 — on shifts of demand-curves as result of transfer, 159, 159n

Ohlin, on shifts of purchasing power as result of gold flows, 28
 Oldenburg, 285, 287

Page, T. W., 339n
 Pantaleoni, 123n
 Pareto, 3, 123, 175, 237n
 Pasvolsky, 66n, 101n
 Patten, S. N., 190n
 Pigou, 35n, 37n, 67n, 69n, 76n, 127, 159n, 189n, 195, 201n, 207n, 216n, 227n, 265, 274n, 281n, 291n, 306n, 323n
 — on loss of capital due to changes in distribution, 189n
 — on marginal demand curve, 306n
 — on national income, social product and volume of production, 216n
 — on price-changes in mechanism of transfer, 67n, 69n
 — on purchasing power parity, 35n, 37n
 — on real ratio of interchange, 159n
 — on "resources in general," 127
 — on "social" and "marginal net product," 207n, 265
 — on subsidies to industries with decreasing costs, 201n
 — on tariffs, 227n, 274n, 281n, 291n, 323n
 — on technical progress and labour's share of national income, 195
 — on transfer difficulties, 76n
 Plant, A., 122n, 296n, 297n, 298
 Plummer, A., 328n
 Pohls, 243, 285, 288
 Poschinger, 291n

Rae, 290
 Rathenau, 104
 Ricardo, on cost-equalising duties, 252n
 — criticism of export bounties, 321
 — discussions with Malthus, 19n, 27n, 31-32, 33n
 — on effect of currency changes on the exchanges, 31-32
 — on effects of prohibitive tariffs, 323
 — on gold movements, 27
 — and labour theory of value, 175-176
 — and measurement of quantity of labour, 192
 — on mobility of labour, 5
 — and purchasing power parity theory, 32n, 60n
 — on regional distribution of money, 29n
 — as representative of classical theory, 3, 26
 — and theory of comparative costs, 122ff
 — and transfer problem, 66, 71-74
 Riedl, 363n, 378n, 388n
 Robbins, 197n, 215n, 260n, 269n, 282
 Robertson, 67n, 158, 158n, 161n, 271n

Robinson, E. A. G., 208n
 Robinson, Jean, 201n, 204n, 313n
 Rogers, J. H., 62n
 Röpke, on effect of Free Trade on the working classes, 225n
 — on infant - industry argument, 281n, 284
 — on liberalism and interventionism, 225n
 — on optional utilisation of resources, 188
 — on purchasing-power argument for tariffs, 246-247
 Roosevelt, President, 373n
 Rueff, 67n, 70

Schams, 54n
 Schiff, 189n
 Schneider, 204n
 Schüller, B., on causes of international price discrepancies, 33
 — on decreasing costs, 20n
 — on effect of import duty on prices, 230, 292n
 — on effects of tariffs on distribution, 241
 — on elasticity of supply, 158n, 228n
 — on Most Favoured Nation agreements, 367, 378n
 — on preferential duties, 389n
 — protectionist theory of, 253ff, 263, 268, 273, 274n
 — technique used by, 123, 170
 — unemployed factors argument for tariff, 187-188
 Schultz, 156n, 227n, 292n
 Schumpeter, exposition of marginal productivity theory, 181n
 — on impossibility of increasing returns, 144, 203
 — on mercantilist doctrine, 25n
 — on methodological individualism, 71
 — on quantity theory of money, 28n
 — as representative of modern equilibrium analysis, 175
 — on technical progress, 202n
 — theory of dumping-price, 302

Seligman, 291n
 Seltzer, 179n
 Senior, 26, 66
 Shove, 206n
 Simon, Harr, 103
 Simpson, 252n
 Smith, Adam, on absolute cost differences, 128
 — criticism of export bounties, 321
 — on effect of tariffs on distribution of resources, 274
 — on history of export bounties, 317n
 — and international mobility of factors, 4-5
 — and labour theory of value, 126
 — as representative of classical theory, 3, 26
 Soltan, 105n
 Somary, 51n

Sommer, Louise, 363n
 Staebli, H., 123n
 Stamp, Sir Josiah, 269n
 Stuart, C. A. Veriju, 125n
 Sveistrup, H., 56n
 Sweazy, 252n
 Sziget, 296n

Tauszig, on complications of modern tariff schedules, 340n
 — on decreasing costs, 206n
 — distinction between net and gross harter terms of trade, 162-166
 — division between export and import goods, 34n
 — on dumping, 296n
 — on effect of tariffs on wages, 135n
 — as follower of classical theory, 3n, 4, 26
 — on immobility of factors in definition of international trade, 4
 — on infant - industry argument, 281n, 283
 — on influence of bank credit on exchange mechanism, 51n
 — on non-competing groups, 190ff
 — on preferential duties, 386, 386n
 — on statistical cost curves, 251n
 — on terms of trade, 68n, 74n, 159n, 161-167
 — on theory of comparative costs, 122, 125n, 132
 — on transfer problem, 158n, 163-165, 270
 — on triangular adjustments to capital imports, 99n
 — on unemployed factors argument for tariffs, 187n
 — on wage-level argument for tariffs, 250n

Tawney, 25n

Thornton, on individualistic nature of international exchange, 14n
 — as representative of classical theory, 26

— on transfer problem, 66, 71, 72

Tintner, G., 313n

Torrans, Colonel, 122

Trendelenburg, 339n

Vecchio, 131n

Vercata, St., 363n

Viner, on anti-dumping duties, 323n, 370-371

— on Canadian case of capital imports, 96ff

— on classical theory of transfer mechanism, 71n, 72n

— curves illustrating international trade mechanism, 154n

— on Customs Unions, 360

— on decreasing costs, 201n, 206n

— on dumping, 298ff, 315

— on Graham's theory, 189n

— on influence of bank credit on exchange mechanism, 51n, 52

INDEX OF NAMES

399

- | | |
|---|--|
| <p>Viner, on international monopolies in raw materials, 326n
 — on Manoilesco's protectionist theory, 198
 — on Mercantilism, 25n
 — on Most Favoured Nation principle, 363n, 366n, 370-371, 379n, 382
 — on net and gross terms of trade, 162n, 165
 — on non-competing groups, 196n
 — on opportunity-cost doctrine, 196n
 — on preferential duties, 385, 386n, 389
 — on price changes in mechanism of equilibrating balance of payments, 30n
 — on protectionist arguments, 280
 — on purchasing power parity theory, 37, 37n
 — on real cost theories, 122n, 196n
 — on statistical cost curves, 252n
 — on sugar bounties, 317n
 — on theory of comparative costs, 125n</p> | <p>Wagenführ, 329
 Wagner, 243, 286, 287
 Wallace, 326
 Walras, 175
 Weber, Max, 7n; 213, 285, 287
 Weiss, 201n
 Whale, P. B., 272n
 Wheatley, John, 32n
 Whitaker, 15n, 51n
 White, H. D., 67n
 Whittlesey, 83n
 Wicksell, 42, 49n, 181n, 195n, 282
 Wicksteed, 175, 181n
 Wiedenfeld, K., 327n
 Wieser, 175n
 Williams, J. H., 4n, 16n, 78n
 Wilson, R., 67n, 72n, 75n, 160n
 Wilson, Thomas, 25n</p> <p>Yntema, 75n, 123n, 155n, 158n, 296n, 303, 303n, 305n
 Young, Owen, 107</p> <p>Zapoleon, 35n</p> |
|---|--|

NAMES OF SUBJECTS

- Absolute cost differences, 127-128, 129
- Ad valorem* duties, 341-343
- Anti-dumping duties, 322ff
 - and Most Favoured Nation Clause, 370
- Anti-dumping legislation, 297
- Arbitrage operations, 22, 74n
- Arc elasticity, 156n
- Austro-Hungarian Bank, 46
- Average costs, difficulty of determining, 299
 - relation to marginal costs, 311-312

- Balance of international indebtedness, 19
- ⊖ Balance of payments, between districts, 8n, 29
 - dependence of, on exchanges, 31
 - effect of inflation on, 58
 - effects of tariffs on, 234, 249
 - and flight of capital, 85, 86
 - items in, 16ff, 25, 63-64
 - mechanism of adjustment of, 3, 8, 14, 24, 26ff, 55, 65, 133, 134, 138-139, 146, 153, 173, 249
 - necessity of equilibrium in, 137, 139-139
 - senses of, 18-19, 21
 - statistical computations of, 16
 - theory of the foreign exchanges, 31, 58, 66
- Balance of trade, as affected by war debts, 117
 - as distinct from balance of payments, 16, 25
 - of Germany (1924-31), 111-112
- Bank of England, effectiveness of rate of discount of, 50-51
 - embargo on foreign lending, 271
- Bank of International Settlements, 24, 52, 108, 108, 110
- Bank-money, 42
 - changes in quantity of, 43
- Bank-rate, definition of, 49
 - effects of changes in, 49ff, 66
 - regulation of short-term capital movements by, 81
- Bank-runs, 81, 86
- Barter terms of trade, 159n
 - distinction between "net" and "gross," 161ff, 167
- Belgium, war debt of, 103
- Bills of exchange, 15
- Black markets, 86
- Boycotts, 352
- British Empire, and preferential tariffs, 369-370
- Brussels Sugar Convention, 315, 317-318, 361
- Budget-deficits, 60
- Budget-inflation, 55

- Bullion system, 25
- Bulow Treaties, 375
- "Buy-British" campaign, 352

- Canada, balance of payments of (1900-1913), 52, 96
 - imports of capital by (1900-14), 96ff
 - and preferential duties, 369-370
 - terms of trade of (1900-15), 161
- Capacity to pay, of Germany, 105, 107, 109
- Capital, forms of "real" transfer of, 5, 140
 - mobility of, 4-6
- Capital balance, of Canada, 98
 - of Germany, 112
 - constituents of, 17
- Capital export, to Canada, 97
 - excessiveness of, 270-271
 - forms of, 17
 - and gross terms of trade, 164
 - as unilateral transfer, 63
- Capital goods, mobility of, 5, 179-180
 - *See also* Short- and Long-term investment abroad.
- Capital imports, effect of, on balance of payments, 276
 - by Germany (1924-31), 76ff, 112
 - as result of tariff, 274ff
- Capital movements, and theory of comparative costs, 140
 - *See also* Unilateral transfers
- Capital repayments, effects of, on balance of trade, 17, 63, 65
 - effect of, on gross terms of trade, 163, 164
- Capital transfer mechanism, illustrated by case of Canada, 96ff
- Caprivi Treaty, 375
- Cartels, conditions of formation of, 329
 - dumping by, 301ff
 - in international sphere, 327ff
- Cash ratios against bank money, 43
- Cash reserves, 48
- Central bank policy, 28, 48, 49-50, 51n, 81-2
- Central banks, and exchange rates, 15, 21n
 - holding of reserves by, 47-48
- ⊖ Classical theory, of international trade, 2ff, 96ff, 57-61, 121ff, 126, 189ff
 - of value, 122, 126
 - Classical views on trade policy, 121-122, 278
- Clearing agreements, 88-89
- Cobden Treaty, 374n
- Coffee Valorisation Scheme, 326
- Collectivism in France, 328
- Collectivist economy, 7, 8
- Commercial treaties, 362ff

- Commodity balance of trade, 16
 Commodity terms of trade distinguished from labour terms of trade, 162
 Comparative advantage, 129, 130, 133, 135, 137, 143, 257
 Comparative costs, doctrine of, 3, 9, 122, 125ff, 134, 151, 173, 221, 252
 — applied to more than two goods, 136ff
 — independence of labour theory of value, 175ff
 — introduction of variable costs into, 142ff
 — place of capital movements in, 140
 — as related to specific factors, 182ff
 — translation into money prices, 132ff
 Comparative disadvantage, 129, 143
 Comparative statics, 54
 Complementarity, 235
 Conservation of purchasing power, principle of, 70
 Constant costs, assumption of, in classical theory, 131, 132, 142
 Consumers' rent, limitations of concept of, 258n
 — reduction in, as result of tariff, illustrated diagrammatically, 268n, 258
 Consumption goods as "real" form of capital transfer, 5, 140
 Corn Laws, 343
 Cost curves, effect of shape of, on monopoly- and dumping-prices, 306ff
 Cost differences, doctrine of, 125ff
 Costs of production, ambiguity of concept of, 298
 — argument for equalisation of, by tariffs, 252-3
 Costs, theory of, 144, 201ff
 Credit balance, constituents of, 17
 Credit inflation, 55
 Credit-money, 42
 Creditor countries, effects of depression on, 168
 — trade balance of, 64-65, 68, 168
 Credit policy, and transfer payments, 68-69, 77, 78-79
 Currency, appreciation, 13n
 — depreciation, 13n, 54ff, 58
 — differences between countries, 6, 13ff
 — instability, 6
 — stabilisation after war, 48, 57, 104, 105
 Customs areas, 340
 Customs Unions, 368-369, 390-391, 392
 Dawes Agreement, 104-106, 109, 111
 Dawes Annuities, 105, 107
 Dawes Committee, 105
 Dawes Loan, 76, 106, 110
 Dawes Plan, 93
 Debtor countries, effects of depression on, 168
 — trade balance of, 64-65, 168
 Decreasing costs, effect of, on international trade, 198ff
 — possibility of existence of, 144
 — senses of, 201ff
 Deflation, in the depression, 45, 79
 — as result of removal of import duties, 234
 — and unemployment, 270
 Demand, effects of changes in, on exchanges, 37-38
 — effects of changes in, on terms of trade, 139-140, 165ff, 166
 — effects of increases in, on costs, 202
 Demand conditions as determinants of ratio of exchange, 134, 145ff
 Demand curves, shape of, 171
 — shifts in, as result of tariffs, 233, 238
 — shifts in, as result of transfer payments, 75, 75n, 139-140, 159
See also Supply and demand curves
 Demand for money, 42
 Deposits, effects of changes in volume of, 52
 Deposit-money, 42
 Depreciation, of the exchanges, 6, 30ff, 54ff
 — of the pound, 273
See also Currency
 Depression, effects of, on balances of trade, 167-169
 Devaluation in Germany, 90n
 — as means of regaining external equilibrium, 269-272
 Diminishing returns, *see* Increasing costs
 Direct burden of transfer payments, 68
 Discount policy, 48ff, 66, 81
 Discount rate, *see* Bank rate
 Discriminating freight-rates, 351
 Discriminating tariffs, 373, 379-380, 381
 Discrimination, 33
 Distribution of income, effects of Free Trade on, 225
 — effects of international trade on, 169ff
 — senses of, 216-217
 Distribution of resources, effect of tariffs on, 183, 260ff, 276
 Division of labour between persons, 130
See also International division of labour
 Domestic goods and internationally-traded goods, distinction between, 34-35
 Drawbacks, 236
 Dumping, advantages and disadvantages of, 314ff
 — conditions of, 33, 242, 301-2
 — forms of, 296ff
 Dumping-price, theory of, 302ff
 Duopoly, 308
 Duties, distinction between specific and *ad valorem*, 341-343
 — distinction between revenue and protective, 237-239

- Duties, effects of, in shifting supply and demand curves, 173, 229
 — general effects of, 227ff
 — illustrated diagrammatically, 229, 230, 231
 — refunds of, 354-355
 — shifting of, 291ff
See also Tariffs
- Ear-marking of gold, 24
- Elasticity of demand, effect of, on dumping-price, 312-313
 — and effect of duties, 227ff
 — effects of, on terms of trade, 148, 149, 155ff
 — for German exports, 67-68, 75, 75n
 — and incidence of duties, 292ff
 — magnitude of, for any country's export-goods, 157-158
 — meaning of, in reference to Marshallian reciprocal demand curves, 156
- Elasticity of supply, and effects of duties, 227ff
 — and incidence of duties, 292ff
 — effect of, on reciprocal demand curves, 157-158
- Embargo on foreign lending, 271
- Emergency tariffs, 289-290
- Emigration, 4
- Equalising tariffs, 252-253, 316, 318, 322, 371
- Equilibrium analysis, 175
- Exchange control, abolition of, in Austria and South American countries, 90
 — conditions of, 85-87
 — forms of, 83-84, 87-88
 — purposes of, 83-84
- Exchange-depreciation, as means of regaining external equilibrium, 271
- Exchange-dumping, 60, 300
- Exchange equalisation fund, 21n
- Exchange rates, determination of, 13ff, 19ff, 32, 35ff, 44
 — effects of changes of bank-rate on, 49-50
 — effects of fluctuations of, 45, 46
 — effects of inflation on, 30, 31, 54ff
 — under inconvertible paper, 30
 — methods of preserving stability of, 46ff
 — stabilisation of, 44ff
- Exchange-ratios, determination of, 126, 129, 132, 134, 145ff, 176ff, 197
See also Terms of trade
- Exchange restrictions, 6
- Export bounties, effects of, illustrated diagrammatically, 320ff
 — forms of, 321
 — history of, 317ff
 — as means of regaining external equilibrium, 272
- Export credits guarantee, 319
- Export duties, general effects of, 227ff
- Export-goods, magnitude of elasticity of demand for, 157-158
- Export-goods and import-goods, determination of division between, 137-139
- Export industries, deflationary effects of depression in, 158n
 — unemployment in, 268
- Export of capital, *see* Capital export, Short- and Long-term investment abroad
- Export premiums in Germany, 90n
- Export-prices and import prices, ratio between indices of, as measurement of terms of trade, 160, 161
- Export prohibitions, 346
- Export quotas, 327
- Export surpluses, creation of, for unilateral transfers, 64, 64n, 65ff, 72, 73, 74, 91, 110, 139-140
 — effects of depression on, 168
 — relation of, to gross terms of trade, 163
 — various reasons for, 164
- Exports, effects of tariffs on, 246
- External economies, 206ff, 265, 283, 284
- External equilibrium, conditions of, 269-270
 — means of restoring, 269ff
- Factor prices, effect of international trade on, 183ff, 222, 250-251
 — effect of international trade on, 183ff, 222, 250-1
 — effect of tariff changes on, 194
 — effect of technical progress on, 195-196
 — and transfer problem, 78
- Factors, classification of, 190
 — immobility of, as criterion of international trade, 4, 9
 — mobility of, between countries, 4ff, 127, 128, 190
 — mobility of, between industries, 179-180
See also Labour, Specificity, Mobility and Means of production
- Factor supplies, effect of, on nature of international trade, 193
- Factor terms of trade, *see* Labour terms of trade
- Financial crises, causes of, 81
- Financial crisis of 1931, 45, 80, 109
- Flight of capital, 82, 85, 86
- Foreign exchange market, 16
- Foreign investment, discrimination against, 271
See also Capital export
- Foreign trade, restrictions on, 24, 25
See also Tariffs and Duties
- France, balance of trade (1867-78), 95
 — creditor position in nineteenth century, 93-94
 — liabilities of, on war debts, 116
- Free capital, 180
- Free competition, assumption of, 126, 131, 187, 204, 211
 — effects of restrictions on, 223
 — and increasing costs, 144

- Free Trade, advantages of, even if one-sided, 375-376
 — arguments for, 143, 195, 221ff
 — effect of, on distribution of income, 225
 — and liberalism, 225
 — and nationalism, 225
 — nature of scientific judgment on, 213ff
 Free Trade zones, 353
 Free Trader, aims of, 224ff
 — definition of, 212
 French taxation (1869-73), 94
 French war indemnity (of 1871), 77, 92ff
 Frictions, as argument for tariffs, 242
- Gain from international trade, distribution of, 125, 139, 147, 166, 196
 — effect of transport costs on, 142, 149
 — measurement of, 163, 165
 General strike (of 1926), effect of, on gross terms of trade, 168
 General tariff, effects of, 248, 268, 269
 German Customs Union, 391
 German inflation (1914-23), 56-57, 58ff, 64n
 — statistics of, 60-61
 German mark, over-valuation of, 88
 — stabilisation of, 104, 105
 Germany, capacity to pay of, 105, 107, 109
 — elasticity of demand for exports of, 67-68, 75, 75n
 — exchange control in, 86-87
 — financial crisis (of 1931), 45, 86, 109
 — flight of capital from, 86, 105
 — imports of capital by (1924-31), 76ff, 106, 108, 111-113
 — increased export surplus of (after 1931), 169
 — introduction of gold standard by, 96
 — and Most Favoured Nation Clause, 367
 — premium on exports in, 90n
 — public works policy of, 87
 — and reparations payments, 65ff, 101ff
 — tariff policy of, 248, 285-286, 318, 325, 375, 381
 — terms of trade of (1929-31), 69; and (1924-32), 168-169
See also Reparations
 Gold, cost of transmitting, 24
 — distribution of, between countries, 24, 27, 47
 — Mercantilist attitude towards, 24, 25, 26
 Gold Bloc, difficulties of, 45
 Gold-Bullion standard, 47
 Gold clause in reparations agreement, 106, 108
 Gold-Exchange standard, 48
 Gold hoarding, 45
 Gold-inflation, 55
 Gold movements, to adjust trade balance, 18, 24, 71, 72, 75, 111, 113, 133, 138-139
 — to Canada (1900-13), 89
 — causes of, 23ff, 27ff, 46-47
 — decreasing role of, 52
 — effects of, 26ff, 36
 Gold premium policy, 51n
 Gold reserves, accumulation of, after inflation, 57
 — effects of transfer payments on, 79
 — and exchange rates, 21n
 — methods of holding, 47-48
 Gold standard, abandonment of, by England, 45, 48, 271
 — adjustment of balance of trade under, 27, 28-29, 36
 — definition of, 23
 — exchange stability under, 46
 — future prospects of, 46
 — introduction of, in Germany, 96
 — rules of, 79, 82
 Government interference, 26
See also Foreign trade, restrictions on
 Great Britain, abandonment of gold standard by, 45, 271
 — import surplus of (1920-32), 167
 — investment of, in Canada, 98
 — liabilities of, on war debts, 116
 — policy of price-stabilisation in, 45
 — post-war difficulties of, 269ff
 — terms of trade of (1880-1910), 161; and (1890-1910), 163-4; and (1920-32), 167
- Hoarding, of gold, 44
 — of foreign currency, 56
- Immigration, caused by tariffs, 277
 — restrictions on, 6
 Immobility of factors, as criterion of international trade, 4, 9
 Import duties, general effects of, 227ff
 — inflationary effect of, 234
 — deflationary effects of removal of, 234
 Import of capital, *see* Capital import
See also Duties
 Import-goods and export-goods, determination of division between, 137-139
 Import licences, 348
 Import licensing system in Germany, 90n
 Import monopolies, 345, 345n
 Import-prices and export-prices, ratio between, as measurement of terms of trade, 160, 161
 Import prohibitions, effects of, illustrated diagrammatically, 171-172
 — objects of, 249, 346
 Import quotas, and Most Favoured Nation Clause, 370
 — and planning, 349
 — and tariffs compared, 347-348

- † Import restrictions, effect of, on relative price levels, 38
 Import surpluses, causes of, 164, 165
 — effects of depression on, 168
 Income levels, adjustment of, by monetary mechanism, 138-139
 — ratio of, between countries, 134-136
 Inconvertible paper, determination of rates of exchange under, 30ff
 Increasing costs, as cause of international price differences, 33
 — effects of, on terms of trade, 161
 — tendency towards, 142, 203, 208
 Index numbers, limitations of, 40
 — as used for international comparison of price levels, 38ff
 — as used for measuring terms of trade, 161ff
 Indices of height of tariff, 357-359
 Indirect burden of transfer payments, 68, 166
 Indivisibilities, 144
 Industrialisation, effects of, 286ff
 Infant-industry argument, 198n, 207-208, 217, 243, 278ff, 385n
 Inflation, effects of different types of, 55-56
 — effects of, on exchange rates, 30, 31, 54ff
 — and purchasing power parity theory, 37-38
 — as result of import duties, 234
 — theory of the foreign exchanges, 31
 Inflation, effects of, on international mobility of capital, 6
 Instability of exchange rates, effects of, 45-46
 Inter-allied war-debts, see War debts
 Interest, origin of, 126
 Interest payments, effects of, on balance of trade, 17, 63, 65
 — effects of, on gross terms of trade, 164, 165
 Interest rates, effects of changes in, on flow of capital, 21n, 49-51
 — effect of transfers on, 77
 — tendency to international equality of, 5, 6, 50
 Internal economies, 203ff, 206
 International capital movements, and theory of comparative costs, 140
 See also Capital export
 International cartels, 327ff
 International Chamber of Commerce, 370
 International division of labour, 121, 125ff, 127-128, 130, 130n, 136, 139, 141-142, 221
 — cases where national income may be diminished by, 197, 199ff
 — and preferential duties, 387
 International indebtedness, of Canada, 96ff
 — of Germany, 111-113
 International monopolies, 325ff
 Internationally-traded goods and domestic goods, distinction between, 34-35
 International standard, necessity for, 46
 International trade, advantages of, 121-122, 129
 — need for special theory of, 3ff
 Inter-regional trade, 29
 Interventionism, 225, 349-350
 Inventions, 202n
 Invisible exports and imports, 16-17, 81

 Labour, effect of free trade policy on, 195
 — mobility of, 4-6, 126, 129, 132, 184-195
 Labour cost, as unit of measuring costs in classical theory, 126ff
 See also Labour Theory of Value
 Labour terms of trade, 162
 Labour Theory of Value, 122, 123, 126, 129n, 132, 137, 150, 176-177, 178n, 183, 225
 Lausanne Agreement, 109, 110
 League of Nations, 346, 357, 369, 368
 Liberalism, 225
 Liquidity, desire for, 45
 Loans to Germany, 76, 106, 108, 111-113
 Location of industry, effect of tariffs on, 274-275
 London Agreement, 104, 105
 London Ultimatum, 103, 104, 105
 Long-term investments abroad, forms of, 17
 See also Capital export

 MacKenna Committee, 105
 MacKenna duties, 358
 Macmillan Committee, 51n
 Macmillan Report, 258n, 268n, 269, 271n, 272n
 Marginal cost curves, use of, in monopoly and dumping analysis, 305ff
 Marginal costs, relation of, to average costs, 311-312
 Marginal net product, divergence between private and social, 207n, 265
 Marginal productivity of factors, effect of international trade on, 185
 Marginal productivity theory, 181-182
 Marginal revenue curve, as applied to monopoly price theory, 305ff
 Marginal utility theory in international trade, 8
 Market for foreign exchange, 15
 Marshallian reciprocal demand curves, 153, 155
 — relation of, to usual supply and demand curves, 154ff
 — shifts of, under unilateral transfers, 159
 Mass production, 135, 205, 284
 Match Trust, policy of, 314

- Means of payment in international trade, 15, 23
- Means of production, attraction of, from abroad by means of tariff, 273-274
- effect of import duties on, 235
- See also Factors
- Mercantilism, 24-26, 317, 321, 346, 392
- Methods of payment, 42, 43, 44
- Mobility of factors, between countries, 4ff, 127, 128
- in classical theory of value, 127, 129, 132
- between industries, 179-180, 194
- Monetary mechanism of adjustment of balance of payments, effects of, in shifting supply and demand curves, 173, 173-174n
- See also Balance of payments, mechanism of adjustment of
- Money, effects of changes in supply of, on exchange rates, 31, 37, 54ff; and on price levels, 43; and on gold movements, 46-47
- Money flows, 3
- See also Gold movements
- Money prices, translation of relative prices into, 129, 131, 132ff
- Money wages, see Wage levels.
- Monopolies, causes of other than tariffs, 224, 325
- and decreasing costs, 144, 204-205
- and dumping, 301ff
- fostered by state intervention, 326ff
- fostered by protection, 223, 224
- See also International monopolies
- Monopoly power, effects of foreign competition on, 198, 205
- effects of, on wage-rates, 196, 197
- Monopoly-price, theory of, 304ff
- Moratoria, on reparations, 104, 108, 109, 110
- on war debts, 109, 110
- Most Favoured Nation Clause, advantages of unconditional form of, 373
- and anti-dumping duties, 370
- attacks on, 377ff
- attempts to evade, 339, 387
- conditional and unconditional, 363ff
- content and forms of, 361, 362ff
- and import-quotas, 370
- as instrument of Free Trade policy, 372
- restrictions on and exceptions to, 369
- unilateral and bilateral, 367
- Napoleonic wars, 31
- National income, difficulties in defining, 216
- See also Distribution of income
- Need for money, 42
- Net advantages, 197
- Non-competing groups, 4, 189ff
- Note circulation of Germany in the inflation, 58ff
- Open-market operations, 50
- Opportunity-costs, 177n, 197
- Optimal capacity, 180
- Optimum size of firms, 130-131, 144, 204, 223
- Ottawa Agreement, 370
- Ouchy, Treaty of, 368, 374n
- Output, increase in through division of labour, 127-128, 130, 139
- Paris Agreement, 103
- Partial equilibrium analysis, 124, 172-173, 253, 293
- Patents, exploitation of by cartels, 330
- Payments in kind, of reparations, 103, 104
- Planned economy, 7-8, 349
- Point elasticity, 156n
- Political concept of foreign trade, 6
- Political stability, and international mobility of capital, 6
- Population, effect of decline in growth of, on rigidities, 194
- effect of industrialisation on, 287
- effect of tariffs on, 277
- Preferential duties, 232, 320n, 350, 369-370, 372n, 374n, 383ff, 392
- Premium on exports as result of exchange depreciation, 60
- Price differences between countries, causes of, 32ff
- effects of import restrictions on, 38
- tendency to equalisation of, 28, 34-35, 74
- Price-discrimination in international trade, 297, 303, 322n
- Price level, effect of changes in quantity of money on, 43
- stabilisation in England and Scandinavian countries, 44
- stabilisation policy, 43, 44ff
- Price levels, effect of changes in bank rate on, 49
- effects of gold flows on, 26
- international comparison of, 38ff
- of Canada, Great Britain and U.S.A. (1900-13), 100-101
- relation of, to balance of payments, 31, 32ff
- tendency to equalisation of, 32
- Price shifts, as mechanism of adjustment in international trade, 3, 26, 66ff, 71, 72ff, 78, 92, 100ff, 133, 146
- Price - stability versus exchange - stability, 44ff
- Prices, direct effects of international trade on, illustrated diagrammatically, 169ff
- effects of duties on, 227ff
- effects of dumping on, 302ff
- under monopoly, 304ff
- Producers' gain from tariff, illustrated diagrammatically, 258
- Production, effects of tariffs on, 233, 238, 245-246

- Production costs, international differences in, 125ff
 See also Costs of production
 Production indifference curves, 177n
 Productivity, effects of changes in, 47
 Proportional costs, 136
 Protection, classical attack on, 121-122
 — growth of, 391
 — increase of, in depression, 167-168
 — nature of scientific judgment on, 213ff
 — types of, other than tariffs, 346ff
 See also Tariffs
 Protectionist, definition of, 212
 Public works in Germany in 1933, 87
 Purchasing power, shifts in, 28, 29, 65ff, 70, 73, 169
 Purchasing power argument for protection, 246-247
 Purchasing power parity, statistical computation of, 61-62
 Purchasing power parity theory, limitations of, 32ff, 60
 — restatement of, 35ff, 60
 — statistical verification of, 38ff

 Quantity theory of money, 28, 55, 61
 Quasi-rents, 185
 Quota system, 347-348

 Railways, reparations tax on, in Germany, 108
 Ratios of exchange, *see* Terms of trade and Exchange ratios
 Raw materials, monopolisation of, 325ff
 Real costs, low level of, in United States, 135
 Real cost theories, 122n, 127, 128
 Real ratio of international exchange, 145, 169n, *see also* Terms of trade and Exchange ratios
 Real wages, reduction of, by means of tariff, 268-269
 Rebates, 319
 Reciprocal demand, equation of, 134, 138
 Reciprocal demand schedules, 150-152
 Reciprocal supply and demand curves, 123, 153
 — limitations on use of, 294
 Reciprocity treaties, 361, 365-367
 Reichsbank, 105
 Relative prices, determination of, 129, 137, 175
 Reparations, budgetary problem of, 65, 68
 — distribution of receipts from, 115
 — effect of, on balance of payments, 23, 66ff
 — effect of, on gross terms of trade, 164, 165
 — effect of, on net terms of trade, 68-70, 74, 75
 — form of payment of, 93, 103, 104, 105-106
 — influence of, on German inflation, 56
 — magnitude of, 58 103-104, 105-106
 — moratoria on, 104, 108, 109, 110

 Reparations, problem of transfer of, 8, 64, 64n, 65, 66ff, 101ff
 Reparations Agent, 106, 108
 Reparations annuities, 105-106, 107, 108, 113
 Reparations Commission, 102, 103, 104, 105, 108
 Reparations Conference, 103
 Reparations taxes, 68, 73, 77-78, 108
 Reserve regulations, 48
 Restriction schemes, 326ff
 Retaliatory tariffs, 243-244, 250, 381
 Revenue duties, 237-238
 Risk factor in international capital movements, 50, 85
 Rubber Restriction Scheme, 326
 Ruhr occupation, 104-105, 106

 Safeguarding duties, 359
 Sales, effects of duties on, 227ff
 — effects of international trade on, illustrated diagrammatically, 169ff
 Seasonal fluctuations and foreign exchange rates, 15
 Security prices, effect of changes in interest rates on, 50
 Services, 16-17, 165
 Shifts in demand, *see* Demand
 Shifts in purchasing power, 28, 29, 65ff, 70, 73
 Short-term investments abroad, effect of bank rate on, 49, 50, 51, 81
 — forms of, 17
 Short-term lending, international mobility of, 51n
 Sliding-scale duties, 343-345
 Soviet dumping, 300
 Specialisation, 130, 130n, 134, 139, 149, 197, 198, 199, 221, 223, 239
 Specific duties, 341-343
 Specificity of factors, 132, 175, 175n, 179, 179n, 182ff, 222, 264, 276, 282
 Speculation in foreign exchanges, 56, 64n
 Stabilisation of currency, 48, 67
 — of German mark, 104, 105
 Stabilisation of price level, 43, 44ff
 — in Great Britain and Scandinavian countries, 45
 Stability of exchanges, mechanism for effecting, 21, 21n
 Standard of living and international trade, 136
 Standstill agreements, 6, 84, 86
 State intervention, as cause of monopoly, 326ff
 State monopolies, 327
 — in import trade, 349
 Static theory, assumptions of, 202, 243, 243n
 — nature of, 54
 Sterling group, 45
 Stress Conference, 388
 Substitution costs, 142, 173, 176ff
 — cases of divergence of prices from, 197
 Substitution cost curves, 176ff, 203

- Supply curves, shape of, 171
- Supply and demand analysis, application of, to foreign exchanges, 19ff, 145ff
- Supply and demand curves, relation to Marshallian reciprocal demand curves, 154ff
- shifts in, as result of imposition of duties, 173
- shifts in as result of monetary mechanism of adjustment of balance of payments, 173, 173n, 174n
- effect of duties on, 229ff
- See also Demand curves*
- Tariff Commission of the U.S.A., 251-252, 297-298
- Tariff concessions policy, 374
- Tariff laws, forms of, 327ff
- Tariff schedules, 338-340
- Tariffs, capital losses argument for maintenance of, 183-185
- as condition for dumping, 301
- costs-equalisation argument for, 252, 385n
- diagrammatical illustration of effects of, 171-172
- distribution of effects of, 276-277
- dumping argument for, 298
- effect of changes in, on factor prices, 258ff
- effects of, on exports, 246
- effects of, in fostering monopolies, 223, 224, 331
- effects of, on reciprocal demand curves, 156
- effects of, on tendencies to specialisation, 198
- effects of, on transfer problem, 68, 79-80
- and formation of international cartels, 331-332
- general effects of, 227ff
- Graham's argument for, 198ff
- incidence of, 172
- infant-industry argument for, 198n, 207-208, 217, 243, 266, 278ff, 385n
- and insulation from trade-cycle, 267
- long- and short-run arguments for, 241ff
- as means of reducing real wages, 268-269
- measurement of height of, 354ff
- non-economic arguments for, 239-240
- purchasing-power argument for, 246-247
- Schüller's argument for, 253ff
- standard of living argument for, 136
- terms of trade argument for, 290ff
- types of, 337ff
- unemployed factors argument for, 187-189
- Tariffs, wages-differences, argument for, 134-135, 196n, 198, 250ff
- See also Duties and Protection*
- Taxation, effect of on comparative costs, 252
- by way of duties, 238
- Technical improvements and costs theory, 201-202
- effect of, on factor prices, 195-196
- effects of, on terms of trade, 161-162
- Technological unemployment, 266
- Terms of trade, as changed by process of adjustment of balance of payments, 139-140
- determination of, 145ff, 155ff
- effect of export bounties on, 320
- effects of increasing costs on, 161
- effects of technical improvements on, 161-162
- effects of tariffs on, 290ff
- as measurement of gains or losses from international transactions, 165-166
- statistical measurement of, 159ff
- and transfer problem, 68-70, 74, 74n, 75, 158-159
- Time element, 126
- Token-money, 41
- Total demand curves, 154n
- Tourist traffic, 5, 17
- Trade cycle, effect on relative export prices, 92
- unemployment due to, 267
- Trade cycle dumping, 311
- Trade cycle theory, and price stabilisation, 45
- Trade policy, classical attitude towards, 121-122, 278
- definition of, 212
- technique of, 211, 337ff
- Trade unions, and labour mobility, 194, 195, 197, 260n
- Transactions, determinants of volume of, 42
- Transfer, restrictions on, under Dawes Plan, 106, 107
- Transfer moratoria, 84, 86
- Transfer problem, 8, 28, 55, 63ff, 91ff, 158-159
- See also Unilateral transfers*
- Transport, effects of improvements in, 35
- Transport costs, effects of, 125, 131, 140-142, 250, 325
- effects of, illustrated diagrammatically, 171-172
- effects of, on price differences, 32, 33-34
- effects of, on real transfer of capital, 5
- effects of reduction in, 155
- Treaty of Versailles, 102, 105, 367
- Triangular trade, 21-22, 60, 69, 92, 99
- Tribute payments, 164
- Trusts, dumping by, 301ff
- See also Monopolies*

- Unemployment, as argument for tariffs, 259ff
 — due to rigidities, 187
 — as result of transfer-burden, 271
 — types of, 265ff
 Unemployment relief, and advantages of tariff, 265
 — and rigidities, 260, 260n
 Unfavourable balance of trade, meaning of, 16n, 18
 Unilateral transfers, and capital movements, 75ff
 — effect of, on interest rates, 77
 — effect of, on terms of trade, 68ff
 139, 158-159, 166, 270
 — and external equilibrium, 270
 — historical illustrations of, 91ff
 — mechanism of, 8, 63ff
See also Transfer problem
 United States, distribution of population of, 135
 — European war debts to, 116
 — and Most Favoured Nation Clause, 363, 364, 377
 — superior conditions of production of, 135
 — and Reciprocity Treaties, 366-367
 — tariff policy of, 251-252, 363ff, 372-373
 — trade of, with Canada, 98
- Variable costs of production, 142ff
 Valuation for customs purposes, difficulties of, 342
- Velocity of circulation of money, 42, 42
 46, 57, 61
 Volume of trade, effects of duties on 227ff
 — effects of international trade on illustrated diagrammatically 169ff
- Wage-levels, adjustment of, by monetary mechanism, 138-139
 — argument for tariff, 250ff
 — determination of ratios of, between countries, 133, 134, 150
 157
 — ratio of, as measurement of term of trade, 160
 — tendency to equalisation of, under international trade, 251
 Wage-rates, and changes in terms of trade, 270
 — effects of international trade on relative, 191ff
 — reasons for differences in, 196-197
 War debts, figures of, 103, 113ff
 — moratorium on, 109
 — and transfer problem, 66
 Webb-Pomarene Act, 301, 327
 Weighting of index numbers, 40
 World Economic Conference (1927), 340
- Young Annuities, 109, 116
 Young Loan, 76, 103, 110
 Young Plan, 64n, 93, 106-107, 109, 118
 Young Report, 113

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