The Early Contributions in the Theory of International Trade: The Works of F.W.Taussig, F.D.Graham and J.Viner

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Abstract : The paper describes the contribution of three nineteenth and early twentieth century economists F.W.Taussig, F.D.Graham and J.Viner's life and contribution in the discipline, particularly, in shaping neoclassical as well as new trade theory.

Keywords : International trade theory, neoclassical theory, new trade theory, comparative advantage, basis of trade, balance of payments, customs union.
Discipline : Economics

The origins of the International Trade Theory lie in the years between 1776 and 1826, coinciding with the publication of Adam Smith's "Wealth of Nations" and David Ricardo's "Principles of Political Economy", respectively. The theory of free trade as formulated by Smith and Ricardo was based on the remarkable success of England in the respective fields of industry and trade during and after the industrial revolution.

One of the three basic questions facing international trade theory is why trade takes place. According to classical economists labour being the only factor of production, the difference in labour productivity is the basis of trade. Another basic question is why do countries gain by trade? According to classical economists, as long as cost conditions are different between two countries, at least one and probably both will gain by trading. These questions and answers are the essence of the classical theory of comparative advantage, associated with Robert Torrens, David Ricardo and John Stuart Mill. The classical theory of comparative advantage was based on the classical doctrine of comparative costs originally expounded by Ricardo and Torrens, in terms of time costs of labour or labour-hour. This analysis was rooted in the supply side analysis and according to the early 20th century utilitarians the Ricardian doctrine

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missed out the role of demand in the explanation of terms of trade in exchange. With the introduction of the concept of 'reciprocal demand' Mill provided some of the demand elements. After a few years Marshall further advanced the role of demand in terms of the offer curve construct which completed the Ricardian trade theory by determining the terms of trade.

Later on, the neoclassical theory associated with Marshall, Viner, Haberler, Edgeworth, Lerner, Leontief and Meade introduce the competing concepts of real cost (Viner,1932), opportunity cost (Haberler, 1937) and factor endowment approach (Ohlin, 1933, inspired by earlier works of Heckscher, 1919) as the determinants of comparative advantage; the last two approaches shadowed the first and later with important contribution by Samuelson emerged in the form of the Heckscher-Ohlin-Samuelson result.

Along the process of the development of the neoclassical trade theory, it was empirically found that a significant amount of trade occurs between similar countries with similar technology and factor endowment. According to the classical and neoclassical trade theories these countries have little difference to exploit, yet they seem to prosper from trading with each other. These inexplicable instances of trade challenged the beginning of the new trade theory which seeks to look for other reasons for trade occurring between similar countries yielding sizable gains from trade. This shift of emphasis from basis of trade between different countries to basis of trade between similar countries marks the break between traditional theory and new theory. According to modern theories, basis of trade lies in comparative advantage arising from increasing returns to scale with imperfect competition (especially oligopoly) and differentiated commodity (based on differences in quality or other varieties).

Another important characteristic of the international trade theory lies in its 'applied' nature as sometimes it is difficult to separate out the 'pure theory' from the 'policy' part. Again theory results in the applications in policy problems and historical developments and analysis of instruments of trade control and their effect, which is another important part in the subject matter of international trade.

Contribution of F.W.Taussig :

In this article let us probe into the writings and lives of some of the earlier generation trade theorists:

One of the early contributors of the trade theory was Frank William Taussig (1859-1940). He and his pupils Graham and Viner contributed greatly in shaping international economics as a subject. Taussig was famous for his contribution on theory, history and practices of international trade. According to Viner, Taussig's works in the theory of international trade can be characterized as 'a restatement and an elaboration of the English classical school'. According to Haberler (1969) his specific contributions were

(1) his synthesis of the scattered and unorganized classical materials into a unified and coordinated general theory of international trade;

(2) his revision of the classical doctrine of comparative costs dealing especially with problems arising from existence of different types of labour ("non-competing groups") and of interest costs, which always were a stumbling block for the labour theory of value;

(3) his analysis of the mechanism of international trade under non-metallic monetary standards; and

(4) his use of the theory of international trade in the interpretation of the industrial development of the United States. (Viner, 1936).

Taussig's Principles of Economics (1911) and his later book International Trade (1927) contains elaborate attempts at historical and statistical 'verification' of trade theories, which was very characteristic of his work. His discussions of the BOP mechanism is partly contained in International Trade (1927) and also in numerous articles. Taussig and his students first studied the transfer process and the adjustment mechanism in connection with the long term capital movements to countries such as United States (James W Angell and Frank Dunstone Graham), Great Britain (Norman J Silberling), Canada (Jacob Viner) and Argentina(John H Williams).

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He also worked extensively in the field of trade policy: his two important monographs The Tariff History of the United States (1888) and Some Aspects of the Tariff question (1915) contains detailed analysis of Tariff history and commercial policy.

Taussig was called the 'American Marshall' by Joseph Schumpeter, as, in as much, like Marshall, Taussig identified with the Ricardo-Mill tradition and tried to integrate the ideas of Marginalism with it. Like Marshall he was skeptical of the extensive use of mathematics in explaining concepts of economics, he preferred political economy more than economics. According to Schumpeter Taussig was 'among those few economists who realize that the method by which a society chooses its leaders, in what, for its particular structure, is the fundamental social function........is one of the most important things about society, most important for its performance as well as for its fate'. Taussig considered society as a combination of a structure as well as a struggle for power and priviledge where domination was instinctive. He presented these ideas in 'Principles' and provided a further analysis of the psychological basis of economic behaviour and the role of leadership in free market economy for the U.S in his 'Inventors and Moneymakers (1915-16)' and in 'American Business Leaders' with C.S Joslyn(1932).

Taussig was one of the foremost American economists in his time. He was the 1st chairman of the US Tariff Commission (1917-1919) and worked as member of several government commissions. He was the advisor to the then US president Woodrow Wilson.

Contribution of F.D.Graham :

Frank Dunstone Graham and Jacob Viner were two of his pupils who became famous for their important contributions in economic theory, especially in the field of international trade.

Frank Dunstone Graham (1890- 1949) is mainly known for his contribution in international trade theory. His doctoral dissertation under Taussig was International Trade under Depreciated Paper: United States 1862 -79(Harvard 1920, a condensed version appeared in QJE XXXVI pp-220-273); it was a testing by application of historical data of the balance of payment mechanism of the United States. During the 1920s and 30s he wrote on various subjects such as reparations, tariff and silver and monetary standard. His last book "the Theory of International Values" (1948) bears testimony of his long and devoted study of international trade theory.

His principal contribution comes in the form of the efforts to liberate the pure theory of trade from the assumption of two commodities and two countries-which was introduced by Mill.

In two articles in the Quarterly Journal of Economics (1923, 1932) and subsequently in his Theory of International Values (1948), Graham formulated and solved the problem of multi-country multi-commodity trade and used them not only to criticize classical and early neoclassical economists for wrongly projecting conclusions drawn from 2x2 model to the general context but also to establish new methods and propositions in trade theory and its application. Graham also dealt with increasing returns to scale and its effects on trade. The incompatibility of perfect competition with increasing returns to scale as a determinant of trade was recognised by him (1923).

Graham's model was rediscovered at the end of 1970s in the revival of thedebate between protectionism and free trade and reexamined by Krugman, Helpman, Ethier and Panagariya in the 1980s and was reformulated by Chipman (2000) and Bobulescu (2002).

Contribution of J.Viner :

Jacob Viner (1892-1970) was one of the leading economists of the twentieth century. In international trade there is a long overlapping body of doctrines referred to as the theory of international economic policy, which was his area of work.

According to Bloomfield (1992-) Viner's Studies in the Theory of International Trade (1937) still remains the classic reference book on the evolution of the theory of international trade and international monetary economics. It offers novel and penetrating theoretical insights even today; and it continues to be the definitive statement of the classical and neoclassical positions of trade."

His first book was Dumping : A problem in International Trade (1923). It was the most important work on the subject up to that time and remained so for many years. The pioneering study of the theory of the customs union was made by Viner in The Custom Union Issue (1950). Prior to this study, the customs unions were viewed always favourably and the reasoning behind this was that since free trade maximizes welfare and customs unions were a move towards free trade, they increase welfare though they may not maximize it.

Viner showed this conclusion to be incorrect. He introduced the key concepts of trade creation and trade diversion; the former concept is the replacement of high-cost domestic production of a union member by lower cost production of the other members and the latter is replacement of low cost non member production by high cost member production. Contrary to the earlier view, the net effect of the union as movement towards or against free trade will depend on which of the two phenomena predominated. Besides custom union and dumping, he wrote on a wide variety of subjects in the area of commercial policy, such as the most favoured nation clause, effects of tariff and import quotas, monopolies in raw materials and international buffer stock scheme, cost of protection, measurement of height of tariff, international cooperation on trade policies, and trade relation between market and command economies. His writings on international financial policies ranged over issues like exchange rate policy, international monetary reform and foreign lending policy.

His second book "Canada's Balance of International Indebtedness; 1900-1913 (1924) was his doctoral dissertation. It was one of the first detailed studies of international payment adjustment under fixed exchange rate regime, a pioneering work of its kind. His thorough and ingenious study showed that the terms of trade really played the role it was expected to play according to the classical model.

Conclusion :

By today's standard, at least, it may seem that the contributions of these early trade theorists, such as Taussig and Graham and Viner are comparatively few, and they no longer attract the attention they once did, but some of their ideas and concepts are actually absorbed in the mainstream theory, and some became obscure and washed away with the passage of time. Nevertheless, to understand the evolution of the theory of international trade it is essential to study the works of these early theorists, some of whom still are regularly consulted and cited. It also needs to be mentioned that there was another major contribution of them but of a different kind: it was the profound influence of their teaching on the students by the intellectual stimulus provided to many budding economists.

These pioneers of trade theory generated important economic knowledge which contributed greatly in shaping the standard theory and policy of international trade. Also, the time they lived in was a very important period in the history of human civilisation . The three events that happened at that time left their imprint on every sphere of human life and civilisation. The two world wars and the great depression in the intervening period contributed to every discipline of knowledge man has ever created, by their nature of sheer urgency. In the field of economics we find, during this period a huge transformation took place which changed the very nature of the discipline quite significantly, in which the works and ideas contributed by Taussig , Graham and Viner remain significant.

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