Principles of Political Economy, by David Ricardo
Chapter 7: On Foreign Trade

7.10

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.

7.11

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by regarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

7.12

In one and the same country, profits are, generally speaking, always on the same level; or differ only as the employment of capital may be more or less secure and agreeable. It is not so between different countries. If the profits of capital employed in Yorkshire, should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England, from the increase of capital and population, wages should rise, and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain, or Russia, where profits might be higher.

7.13

If Portugal had no commercial connexion with other countries, instead of employing a great part of her capital and industry in the production of wines, with which she purchases for her own use the cloth and hardware of other countries, she would be obliged to devote a part of that capital to the manufacture of those commodities, which she would thus obtain probably inferior in quality as well as quantity.
7.14

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.

7.15

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.

7.16

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.

7.17

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.20*

7.18

It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose. In that case,
the relative value of these commodities would be regulated by the same principle, as if
one were the produce of Yorkshire, and the other of London: and in every other case, if
capital freely flowed towards those countries where it could be most profitably
employed, there could be no difference in the rate of profit, and no other difference in
the real or labour price of commodities, than the additional quantity of labour required to
convey them to the various markets where they were to be sold.

7.19

Experience, however, shews, that the fancied or real insecurity of capital, when not
under the immediate control of its owner, together with the natural disinclination which
every man has to quit the country of his birth and connexions, and intrust himself with
all his habits fixed, to a strange government and new laws, check the emigration of
capital. These feelings, which I should be sorry to see weakened, induce most men of
property to be satisfied with a low rate of profits in their own country, rather than seek a
more advantageous employment for their wealth in foreign nations.

7.20

Gold and silver having been chosen for the general medium of circulation, they are,
by the competition of commerce, distributed in such proportions amongst the different
countries of the world, as to accommodate themselves to the natural traffic which would
take place if no such metals existed, and the trade between countries were purely a trade
of barter.

7.21

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. If the trade were
purely a trade of barter, it could only continue whilst England could make cloth so cheap
as to obtain a greater quantity of wine with a given quantity of labour, by manufacturing
cloth than by growing vines; and also whilst the industry of Portugal were attended by
the reverse effects. Now suppose England to discover a process for making wine, so that
it should become her interest rather to grow it than import it; she would naturally divert a
portion of her capital from the foreign trade to the home trade; she would cease to
manufacture cloth for exportation, and would grow wine for herself. The money price of
these commodities would be regulated accordingly; wine would fall here while cloth
continued at its former price, and in Portugal no alteration would take place in the price
of either commodity. Cloth would continue for some time to be exported from this
country, because its price would continue to be higher in Portugal than here; but money
instead of wine would be given in exchange for it, till the accumulation of money here,
and its diminution abroad, should so operate on the relative value of cloth in the two countries, that it would cease to be profitable to export it. If the improvement in making wine were of a very important description, it might become profitable for the two countries to exchange employments; for England to make all the wine, and Portugal all the cloth consumed by them; but this could be effected only by a new distribution of the precious metals, which should raise the price of cloth in England, and lower it in Portugal. The relative price of wine would fall in England in consequence of the real advantage from the improvement of its manufacture; that is to say, its natural price would fall; the relative price of cloth would rise there from the accumulation of money.

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7.34

Besides the improvements in arts and machinery, there are various other causes which are constantly operating on the natural course of trade, and which interfere with the equilibrium, and the relative value of money. Bounties on exportation or importation, new taxes on commodities, sometimes by their direct, and at other times, by their indirect operation, disturb the natural trade of barter, and produce a consequent necessity of importing or exporting money, in order that prices may be accommodated to the natural course of commerce; and this effect is produced not only in the country where the disturbing cause takes place, but, in a greater or less degree, in every country of the commercial world.

7.35

This will in some measure account for the different value of money in different countries; it will explain to us why the prices of home commodities, and those of great bulk, though of comparatively small value, are, independently of other causes, higher in those countries where manufactures flourish. Of two countries having precisely the same population, and the same quantity of land of equal fertility in cultivation, with the same knowledge too of agriculture, the prices of raw produce will be highest in that where the greater skill, and the better machinery is used in the manufacture of exportable commodities. The rate of profits will probably differ but little; for wages, or the real reward of the labourer, may be the same in both; but those wages, as well as raw produce, will be rated higher in money in that country, into which, from the advantages attending their skill and machinery, an abundance of money is imported in exchange for their goods.