

Preface

The Ricardian trade theory is, and has always been, very important to us. It is fundamental to almost everything done in international trade theory. And the insights that can be derived from it even for the current discussion about globalization are invaluable. Here is a man, David Ricardo, who—200 years ago—had to be encouraged to write down his thoughts in a book on the principles of economics. What he wrote in the inconspicuous Chapter VII “On Foreign Trade” on a few pages is ingenious—also from today’s perspective.

Reducing the world economy to two countries (England, Portugal) and two goods (wine, cloth), and explicitly distinguishing between internationally immobile factors of production (capital, labour) and internationally traded goods, made it possible to study complex issues by simplification. It allowed David Ricardo to revolutionize the thinking about the determinants and the effects of international trade. By using a numerical example of countries’ labour productivities, he introduced the crucial distinction between absolute and relative differences in the countries’ abilities to produce goods. This established the concept of *comparative advantage*, an expression and wisdom most people are confronted with at some stage in their life.

One of us, Rolf, recalls his own experience:

When I studied economics at the University of St. Gallen I was intrigued by the Ricardian numerical example. In autarky, countries had to sacrifice quantities of one good in order to get more of the other good. With trade, they suddenly got more of both. This sounded a bit like magic. Many years later, when I was a Postdoc at Simon Fraser University, I took the graduate trade course offered by a Professor Jones from the University of Rochester. I was immediately fascinated of the way he was thinking about Ricardian trade theory (and international trade, in general). This was economics at its best. I remember how much I liked the “Augmented Ricardian Trade Model”¹,

¹Jones, R. W. (1980). Comparative and absolute advantage. *Swiss Journal of Economics and Statistics (SJES)*, 116(2), 272–288.

and I was eager to apply the Ricardian idea to my own research on home-market effects.²

Even though we also have been using other models in our research (Heckscher-Ohlin, Specific Factors, models with imperfect competition), the Ricardian concept was always there and affected our thinking about international trade. Examples of later work of ours on the basis of Ricardian trade theory are Jones and Ruffin (2007, 2008)³ and, in applying it to the demand side, Weder (2003).⁴ Thinking in terms of absolute and relative differences in international trade is so fundamental. And that is what David Ricardo emphasized in his elaborations on his numerical example 200 years ago. Thus, Ricardo gave us a lot of pleasure in our continuous discussion about trade—particularly also when one of us (Ron) regularly came to the University of Basel, teaching part of the graduate trade course.

Therefore, when the two of us realized, a few years ago, that in 2017 the Ricardian trade theory would become 200 years old, we immediately agreed that this should be celebrated. An international conference on Ricardian trade theory came to mind. We started to plan the conference in summer 2016 when we met at the University of British Columbia in Vancouver. The topics would have to include the main contribution of Ricardian trade theory, the reason for Ricardo's findings and the significance of the theory in today's research in international trade and discussion on globalization.

The conference "Celebrating 200 Years of Ricardian Trade Theory" was held on May 12, 2017, at the University of Basel in Switzerland. It was great. We all enjoyed the scholarly discourse. The contributions, comments and discussions are described in *Part II* of this book—in order to make these elaborations on the Ricardian trade theory also available to a broad audience. This part will be of particular interest to readers who have a profound knowledge in international trade theory or have made it their profession to study international trade issues. But the contents of many chapters in this part will also be accessible and fun to read for those who may, normally, be "scared off" by economic jargon.

We, however, also strongly believe that the Ricardian trade theory is so important that it deserves to be known by anybody who is interested in what is happening in the world economy. These are, for example, students who are at the beginning of studying issues in international economics or international relations,

²See, for example, Weder, R. (1995). Domestic demand, comparative advantage, and the pattern of trade. *Swiss Journal of Economics and Statistics (SJES)*, 131(3), 377–388 and Weder, R. (1995). Linking absolute and comparative advantage to intra-industry trade theory. *Review of International Economics*, 3(3), 342–354.

³Jones, R. W., & Ruffin, R. J. (2008). The technology transfer paradox. *Journal of International Economics*, 75(2), 321–328. Ruffin, R. J., & Jones, R. W. (2007). International technology transfer: Who gains and who loses? *Review of International Economics*, 15(2), 209–222.

⁴Weder, R. (2003). Comparative home-market advantage: An empirical analysis of British and American exports. *Review of World Economics*, 139(2), 220–247.

or practitioners who may have been exposed to fragments of the Ricardian trade theory but never really understood the value of the theory—in the sense: “Isn’t this the abstract concept of comparative advantage with two countries that, unrealistically, only use labour?” *Part I* of the book thus takes the reader back to the time when David Ricardo created the idea, presents the standard Ricardian trade theory as we know it in trade and discusses today’s important implications and applications.

In *Part III* of the book, we identify current challenges of globalization and discuss some of them in the light of Ricardian trade theory. We argue that even though 200 years have gone by since “On Foreign Trade” has been written, the world in which David Ricardo developed his fundamental ideas was not that different from today’s world economy. We still have different countries with their own sets of regulations and cultural preferences. There also is limited factor mobility between countries, particularly regarding the mobility of labour. Brexit—i.e. the exit of Britain out of the European Union (EU)—may be considered an example of this reality. In this part of the book, we also include David Ricardo’s original and path-breaking “On Foreign Trade”—i.e. Chapter VII of his *On the Principles of Political Economy and Taxation*, published on the 19th of April 1817 by John Murray Publishers in London.

Objectives of the Book

This book thus offers a comprehensive reflection on David Ricardo’s ingenious theory of international trade. It is divided into three parts.

Part I presents the “birthday boy”, his concept and the many applications and insights that can and have been derived from it, particularly in modern times. Part II explores important aspects of the Ricardian trade theory through the eyes and experience of leading experts on international trade theory, taking into account the latest research in the field. Part III discusses current challenges of globalization in the light of Ricardian trade theory and includes the original “On Foreign Trade” written and published by David Ricardo in 1817.

The book thus:

- Brings together relevant key features of the Ricardian trade theory and comparative advantage,
- Addresses a broad audience interested in the current and future development of international trade theory, including undergraduate and graduate students,
- Offers an intellectual journey from the emergence of the theory to its established standard version in the field of international trade and, furthermore, to its revival in the latest developments of research in international trade,
- Discusses these aspects among scholars in international trade theory and reflects on current challenges of globalization in the light of Ricardian trade theory.

An interesting feature of the book is that it includes the discussions held at the Scientific Conference that have been transcribed (Chaps. 8, 11, 14 and 18). This allows, to some extent, for an authentic replication of the questions and answers among the speakers, discussants and chairs at the conference on various aspects of Ricardian trade theory and international trade, in general.

Targeted Audience

The book brings together everything we believe is important on the subject of the Ricardian trade theory and which usually is scattered over many textbooks in economics and international trade, books about the history of economic thoughts, scientific articles in trade and, of course, David Ricardo's all-encompassing oeuvre. Anybody who is interested in Ricardian trade theory, in comparative advantage and in international trade, in general, should benefit from the book as a whole—or at least of some chapters.

The book can be used for teaching purposes for a number of different courses in economics, international trade and globalization. In particular, Parts I and III will be interesting to and accessible by a *broad audience, including undergraduate students in history, economics, business, political science and other disciplines*. Part II is more difficult and a result of a conference with academics and renowned scholars in international trade theory. It will be especially interesting for *graduate students and faculty members*, interested in the current and future development of trade theory. Those readers who find some chapters or sections in Part II difficult to read may always go back to individual chapters in Part I which provide the foundation of these elaborations. Thus, “*everything in one place*” was an important target when designing the book. In order to make the reading for a heterogeneous audience easy, we also cross-reference from chapters to chapters of the book.

We hope readers will join us in *celebrating 200 years of Ricardian trade theory* by going back to the origin, experiencing the standardization and further development of the theory and appreciating its implications and recent revival in research pursued in international trade. Fellow economists Bruno S. Frey and David Iselin recently edited a book with the provocative title “Economic Ideas You Should Forget”.⁵ We can assure you that David Ricardo's idea and thus Ricardian trade theory does not belong to this category. Also, it seems that, in the field of international trade, old and new theories are complementary and not substitutes. Or, as one of us, Ron, uses to say:

In trade, we try to get it right the first time.

⁵Frey, B. S., & Iselin, D. (Eds.) (2017). *Economic ideas you should forget*. Cham: Springer International Publishing.

Acknowledgements

This book would not have been possible without the contributions and dedicated support of a number of people. We would like to thank all of them for their engagement. We are particularly indebted to the following persons:

All our colleagues who wrote chapters for the book, presented and discussed papers at the conference or chaired sessions: Harris Dellas, Jonathan Eaton, Peter Egger, Bill Ethier, Simon Evenett, Thomas Gerber, Carsten Hefeker, Andrew Lee, Antonio Loprieno, Esteban Rossi-Hansberg, Roy Ruffin, Nicolas Schmitt and Scott Taylor. Without their compliance with the very tight deadline, the book would not have been ready on time.

Hermione Miller-Moser and Christoph Schweizer who spent much effort in transcribing presentations and discussions held at the conference in order that the authors of the chapters in this book could finalize them.

Master's students, doctoral students and Postdocs (in trade) at the University of Basel who supported us in the final editorial work (formatting texts, drawing figures, giving feedback to drafts): Dragan Filimonovic, Vera Frei, Rahel Fritz, Christian Rutzer, Till Schmidlin, Madeleine Schmidt, Christoph Schweizer and Timon Sutter. Only their big effort and excellent work during the last 2 weeks before the deadline allowed us to submit the manuscript on time.

We also would like to thank Daniel Diermann, Yvonne Mery, Peter Schnetz and Jesse Weder for making and supporting us in putting together the photographs used in this book and to Claire-Lise Dovat for making the photocopying of the 3rd edition (printed in 1821) of Ricardo's book (owned by the University of Basel Library) possible.

We thank Thomas Gerber and Till Schmidlin for their great support in organizing the conference at the University of Basel on May 12, 2017, and also in advertising the whole series of events described in Chap. 1 of this book. We also thank the sponsors of the scientific conference (the Stiftung Basler Kantonalbank zur Förderung von Forschung und Unterricht der Wirtschaftswissenschaften an der Universität Basel and the Faculty of Business and Economics) for their support.

Our thanks also go to Martina Nolte-Bohres, Katharina Wetzel-Vandai and Yulija Zeh who, as members of Springer International, found interest in our idea and gave us, together with their team, their professional support in making this book a successful project.

This book, particularly the chapters we wrote ourselves, also reflects the experience we made in teaching the material in undergraduate and graduate courses in international trade over the years. We thus are also grateful to our students who, with their questions and suggestions, made us think hard how to get across these important (Ricardian) ideas.

Finally, we would like to thank Kit and Katharina for their support and patience.

Rochester, USA
Basel, Switzerland
July 31, 2017

Ronald W. Jones
Rolf Weder

200 Years of Ricardian Trade Theory

Challenges of Globalization

Jones, R.W.; Weder, R. (Eds.)

2017, XX, 268 p. 40 illus., 35 illus. in color., Hardcover

ISBN: 978-3-319-60605-7