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ON THE THEORY OF INTERNATIONAL TRADE

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INTRODUCTION

It can be said that the works* by Prof. G. Haberler and Prof. B. Ohlin have certainly been of epoch-making significance in the historical development of the theory of international trade. Almost at the simultaneously these professors, have substantiated the theory of international trade of the strength of the modern doctorine of economic equilibrium, as against the old theory of international trade which had been principally based on the Labour Theory of Value of the classical school. The writer formerly translated into Japanese the work by prof. Haberler. That Japanese version of mine, enjoying popularity among earnest specialists of Japan in this particular field, has done much toward developing the theory of international trade in Japan. However, the general indication is that a majority of specialists in Japan have felt doubtful about the conclusions of the modern theory of international trade. The reason is that the said conclusions, despite their novelty in form, have essentially been little different from those of the classical school.

What has been said above, however, does not mean that we are in favour of the nationalism held by both F. List and M. Manoilesco, considering that their nationalism has been in fact too much exclusively political to the neglect of economic theory.

What constitutes one of the great schools in the academic circles of Japan to-day is the group substantiating the theory of international trade on the strength of the Marxian political economy. As diametrically opposed to both Prof. Haberler and Prof. Ohlin, whose works were aimed to exclude the Labour Theory of Value from the classical theory, a majority of japanese specialists by resorting to the Marxian labour theory of value, are trying to criticize the classical theory of international trade and reach a new point of view. Now, the following

*G. Haberler: Der internationale Handel, 1933; english translation, 1936
B. Ohlin: Interregional and international trade, 1933

treatise might be considered representing the views held by one school of such a category in Japan. And he wants to point out that the various concepts of the Marxian political economy, about which accidental scholars may not be familiar, are widely known and quite popular here in Japan.

I. CRITISISM ON RICARDIAN THEORY

With regard to the theory of international trade there exist various kinds of schools, which start without exception from the Ricardian theory.* Let us also begin by commenting on the Recardian theory. In illustrating the theory of comparative cost, Ricardo gives the following arithmetical example.

	The hours of labour necessary for producing a unit of wine	The hours of labour necessary for producing a unit of cloth
Portugal	80	90
England	120	100

The above figures demonstrate the fact that in every sphere of production Portugal has a production power absolutely superior and in the production of wine relatively superior to England. As an other aspect of the picture, the figures mean also that in every sphere of production England has a production power inferior and in the production of cloth relatively superior to Portugal. The fact is possible only under the conditions that firstly, within a nation labour and capital are freely mobile and the conditions of production are equalized, while internationally labour and capital are not freely mobile and the conditions of production not equalized; and secondly, an international difference of production power depends upon the sphere of production; all in all, it presupposes the condition that between two nations production powers are different relatively as well as absolutely. Given such conditions, Ricardo says, it happens that commodities are exchanged between two nations, and by this international trade the two nations make profit respectively. Now, it can be easily understood that Portuguese wine costing 80 hours of labour for production is exported to England where wine costs 120 hours, but at a look it may seem a strange matter that English cloth costing 100 hours of labour for production is exported to Portugal where cloth costs only 90 hours. The fact is that, according to Ricardo, it is advantageous for Portugal to devote all its

* D.Ricardo: Principles of political economy and taxation (Gonner's ed.) Chap. 7

labour and capital to the production of wine, the production power of which is relatively superior, and export a part of it to England to import cloth for exchange; and also advantageous for England to devote all its labour and capital to the production of cloth, the production power of which is relatively superior, and export a part of it to Portugal to import wine in exchange. This statement has been explained by a subsequent expositor as follows:

Exchange-ratio of two commodities (relative value) in Portugal	1:8/9 or 1:40/45
Exchange-ratio of two commodities (relative value) in England	1:12/10 or 1:54/45

Let us suppose that as a result of the opening of trade the exchange-ratio (relative value) of two commodities between two nations is set at the average ratio of the respective nations, such as 1 to 1. Then Portugal, in exchange for one unit of wine, can now receive 45/45 unit of cloth, instead of only 40/45 unit as of before. In the same vein, 45/45 unit of cloth, in stead of 54/45 unit as before, will suffice for England to obtain 1 unit of cloth. Thus, as a result of the opening of international trade, it has come to pass that the social products can be increased with as much cost as heretofore, or, what is the same thing, increase in social products as heretofore can be made with less cost.

Now, firstly, should it be pointed out that, trade taking place between the two nations, in order that Portugal may specialized in producing wine and England in producing cloth, Portugal's value of the amount of labour embodied in a certain working time should be an internationally higher value (price) and England's value of the amounts of labour embodied in the same working time be an internationally lower value (price). It is of course through the prices of commodities that the division of labour is conducted in a capitalist society, and it is through nothing other than the prices of commodities that the advantage or disadvantage of specialization on a particular production can be known. And within a nation the amounts of labour embodied in the same working time have the same value (price), but the same is not true between the two nations which differ from each other in production power. This is what Marx called the Modified Law of Value, and by applying this theory we can overcome the first unreality of the Ricardian theory.

Of course, Ricardo also was not unaware that for trade actually to take place it is necessary for the difference of relative value to be transformed into that of absolute value. For its exposition, Ricardo cites the fact in the international difference of the value of money. What is the source, then, of an international difference in the value of money. If Ricardo had been loyal to his Labour Theory of Value, he ought to have reached an idea of difference in the amounts of labour necessary for producing money=gold. In that case, nevertheless, Ricardo breaking away from the Labour Theory of Value, has adopted the Quantity Theory of Money.

These circumstances have led to the birth not only of a theoretical handicap that eventually brings Ricardo to a dualistic stand, but also to a practical handicap that he regards the form of trade originally to exchange commodities for money :* C-M M-C in the same light with the form of barter: C-C. By applying in this case the Marxian theory concerning the value of money, we will be able to overcome the second unreality of the Ricardian theory.

For the third point, which is related to the foregoing two points, Ricardo, from regarding trade in the same light with barter, has drawn a conclusion that international trade, though increasing social products, has nothing to do with the rate of profit of a nation. As indisputably clear, this statement as well is extremely unrealistic. Trade in the capitalist communities takes place motivated by profit, and no theory neglecting this actual fact could be realistic in any sense. Prof. Haberler and Prof. Ohlin judged Ricardo's Labour Theory of Value as unrealistic on the ground that the theory admitted nothing more than the production element=labour, and such an unreality seems to have led to Ricardo's fallacious conclusion concerning international trade and rate of profit. As against this, according to Marx's Labour Theory of Value, the theory, by its logical development from value to price of production, will be able to keep up with the reality of capitalism and furthermore probe scientifically into the relationship of international trade to rate of profit.

II. MODIFICATION OF LAW OF VALUE

It was in 'K. Marx's Theorien über den Mehrwert,' as quoted by many people, that he employed the term of the modification of law of value.

"Profit kann auch durch Prellerei gemacht werden, dedurch, dass der eine gewinnt, wenn der andere verliert. Verlust und Gewinn innerhalb eines Landes gleichen sich aus. Nicht so zwischen verschiedenen Ländern. Und selbst die Theorie Ricardos betrachtet — was Say nicht bemerkt — können sich drei Arbeitstage eines Landes gegen einen eines

* C = Commodity, M = Money

anderen austauschen. Das Gesetz des Wertes erhaelt hier wensentliche Modifikationen. Oder wie sich innerhalb eines Landes qualifizierte Arbeit, komplizierte Arbeit zur unqualifizierten, einfachen verhaelt, so können sich die Arbeitstage verschiedener Länder verhalten. In diesem Falle beutet das reichere Land das aermere aus, selbst wenn letzteres durch den Austausch gewinnt, wie auch J. S. Mill in seinen 'Some unsettled questions etc.' entwickelt hat." *

The first problem in this case is just how it is that the exchange of three labour-days of a nation for one labour-day of an-other nation will be the modification of the law of value. As to the relationship between skilled and unskilled labours, multiplied and simple labour, within a nation, Marx describes as follows:

"Skilled labour counts only as simple labour intensified, or rather, as multiplied simple labour, a given quantity of skilled being considered equal to a greater quantity of simple labour. Experience shows that this reduction is constantly being made. A commodity may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definity of the latter labour alone. The different proportions in which different sorts of labour are reduced to unskilled labour as their standard, are established by a social process that goes on behind the backs of the producers, and, consequently, appear to be fixed by custom." **

As clearly seen from the above quotation, the very fact that three simple labour-days are exchanged for one multiplied labour-day, if it be within a nation, would mean rather the substantial realization of the law of value, not the modification of the law of value in the least. How is it that the fact, in the case between two nations, constitutes the modification of the law of value?

In the first place, worthy of note is the fact that the three labour-days and one labour-day just referred to by Marx with regard to international matters are concerned with neither concrete labour nor individual labour, but with the social average labour of respective nations. Following is Marx's description concerning the social average labour.

"Some people might think that if the value of a commodity is determined by the quantity of labour spent on it, the more idle and unskilful the labourer, the more valuable would his commodity be, because more time would be required in its production. The labour, however, that forms the substance of value, is homogeneous human labour, expenditure of one uniform labour-power. The total labour-power of society, which is embodied in the sum total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labour-power, composed though it be of innumerable individual units. Each of these units is the same as any other, so far as it has the character of the average labour power of society, and takes effect as such; that is, so far as it requires for producing a commodity, no more time than is needed on an average, no more than is socially necessary. The labour-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time." ***

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* K. Marx: Theorien ueber den Mehrwert, 3 Bd SS. 279-280

** K. Marx: Capital I (Translated by Samuel Moore and Edward Aveling) pp. 51-52

*** K. Marx: Capital I. pp. 45-46

Marx called the social average labour formed within a nation by the name of the national average labour. By saying that, as questioned above, three labour-days of one nation is exchanged for one labour-day of an-other nation, Marx should be considered to have meant such a national average labour. What is meant then by saying that national average labour of more than two nations act and react on one another just as do multiplied and simple labour within a nation. At first sight it may strike us as strange that national average labour, being generally abstract human labour and accordingly homogeneous, should co-exist by more than two in number, but on further consideration we are to learn the following fact.

Marx says, "Simple average labour, it is true, varies in character in different countries and at different times, but in a particular society it is given." *

That is the reason why though originally homogeneous as well as abstractly humane the national average labour of one nation is acting and reacting on that of an-other, just as multiplied and simple labour within a nation. This relationship develops itself in proportion as an international exchange of commodities is carried on. And therein it is that gradually is formed the abstract human labour on a world-wide scale, which Marx called universal labour. Notwithstanding the fact that universal labour is being formed in this way, however, the development of the commodity exchange on a world-wide scale will encounter various kinds of obstacles as compared with the home market. National frontiers will remain as ever,. and therefore the formation of the world-wide average labour can only be made by a round-about way that is through an international exchange of commodities national average labours of respective nations will act and react on one another. Despite the tendency of the world-wide average labour being formed, there still exists the national average labour. In this connection, Marx debates as follows:

"In every country there is a certain averge intensity of labour, below which the labour for the production of a commodity requires more than the socially necessary time, and therefore does not reckon as labour of normal quality. Only a degree of intensity above the national average affects, in a given country, the measure of value of the mere duration of the working time. This is not the case on the universal market, whose integral parts are the individual countries. The average intensity of labour changes from country to country; here it is greater, there less. These national averages form a scale, whose unit of measure is the average unit of universal labour. The more intense national labour, therefore, as compared with the less intense, produces in the same time more value, which expresses itself in more money." **

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* K. Marx: Capital I. p. 51

** K. Marx: Capital I p. 612

If the universal market were as completely established as the national market, there would be formed, where competition is carried to the full, a certain average intensity of labour, below which the labour for the production of a commodity would require more than the socially necessary time, and therefore would not be reckoned as the labour of normal quality. As things stand to-day, however, the universal market is not so complete. Though the world-wide labour average is being formed, on the other hand national labour averages are still in existence. Competition has not yet been carried to the full, and national averages exist forming a scale. If competition were carried to the full, national averages of respective nations would not be permitted to exist, and the value of a commodity be equally determined by the world-wide labour average.

Because of such a complicated structure of the universal market there arises the strange fact that when three labour-days of one nation are exchanged for one-day of the other nation, the labour is equivalent as seen in the light of the world-wide average labour and not equivalent as seen in the light of the national average labour. This means that the law of value is realized in substance on one hand and violated on the other hand. And such a relationship seems to be meant when Marx stated the modification of the law of value.

III. INTERNATIONAL VALUE EXPRESSED IN MONEY

Along with the gradual development of an international exchange of commodities, one commodity gold excluded from all other commodities will assume a universal equivalent form and become money. This is a universal money. How should the modification of the law of value be interpreted when the universal money is taken into account? Following is an attempt given to the consideration of this question.

The international difference of production power is of course existent in the case of the production of gold. For the production of a certain quantity of gold, the nation with higher production power costs only one labour-day while the nation with lower production power uses three labour-days. In other words this fact shows that in the same working time the nation with higher production power will produce greater quantities of gold while the nation with lower production power smaller quantities of gold. Gold is a commodity, and at the same time money. And as soon as gold becomes money, the values of all commodities will be expressed in the quantities of gold to be exchanged for them. As compared with the nation with lower production power, the nation with higher production power will produce in the same working time larger quantities of commodities of the same kind, which in turn will be exchanged for larger quantities of gold and thus have higher international values (prices). That the value of labour power, or the value of commodities of the nation with higher production power is internationally exchanged for a greater sum of money means that the relative value of money of the same nation is lower, and reversely that of the nation with lower production power is higher. Thus the values of commodities of different nations will come to be, even when they are not transacted internationally, compared with one another through the ratio of exchange for gold, that is, by receiving the expression of prices. The following statement by Marx can be considered to describe the fact mentioned above.

> " In proportion as capitalist production is developed in a country, in the same proportion do the national intensity and productivity of labour there rise above the international level. The different quantities of commodities of the same kind, produced in different countries in the same working time, have, therefore, unequal international values, which are expressed in different prices, i. e., in sums of money varying according to international values. The relative value of money will, therefore, be less in the nation with more developed capitalist mode of production than in the nation with less developed. " *

It need scarcely be specifically mentioned, but in a country producing no gold such a process as mentioned above is to be realized in a round-about way. In this respect Marx makes the following statement:

> "So much, however, is clear, that in countries producing gold and silver, certain quantities of labour-time are directly embodied in definite quantities of gold and silver, while in countries which do not produce gold and silver the same result is reached in a round-about way, by direct or indirect exchange of the commodities of these countries; i. e. a definite portion of average national labour is given for a definite quantity of labour-time, embodied in the gold and silver of the mine-owning countries. " **

It is only when interpreted by the above-mentioned theory that Ricardo's Theory of Comparative Costs too can be seen in its right perspective. As clear from what is mentioned hitherto, the same working time in both Portugal of higher production power and in England of lower production power will produce different quantities of commodities of the same kind, thereby causing internationally unequal values expressed by unequal sums of money. In the Portugal of higher production power, the relative value of money is lower, while in the England of lower production power it is higher. And for the reason that Portugal's superiority over England as to production in the sphere

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* K. Marx: Capital I, pp. 612-613

**K. Marx: Critique of political economy (Translated by N. I. Stone) p. 77

of wine is not the same as in the sphere of cloth, there emerges the situation that the price of wine is lower in Portugal, but on the contrary the price of cloth is lower in England. Ricardo's fallacy in this case rests in his attempt to explain the fact that the relative value of money varies with two nations, not from the standpoint of the production of commodities but from that of the quantity theory of money. Ricardo's Labour Theory of Value was not able to recognize the two-fold character of labour embodied in commodities, and accordingly to grasp rightly the form of value. In his theory of foreign trade, considering trade as barter and unable to explain the necessity of universal money in the light of trade itself, Ricardo tried to explain the international difference of the value of money in the light of the quantity theory of money. This is indeed due to the circumstances that Ricardo's Labour Theory of Value was not able to recognize the two-fold character of labour.

IV. MARKET VALUE — MARKET PRICE

So long as an international exchange of commodities takes place and the universal market is formed, it must be recognized that the international market value is established for the commodities to be internationally transacted. To the difference of the idea of this international value from that of Mill's international value, reference will be given later on, but now mention is made of Marx's exposition on the market value:

"We shall have to regard the market-value on one side as the average value of the commodities produced in a certain sphere, and on the other side as the individual value of commodities produced under the average conditions of their respective sphere of production and constituting the bulk of the products of that sphere." *

So long as the transaction of one commodity takes place internationally and the universal market is established for the said commodity, the international market value will be established in the sense of the average value of the said commodity produced in every nation. However, the international market value in the sense of the separate value of commodities, which are produced under the average conditions and constitute the majority of products in the sphere, it is hard to be established in the universal market where capital and labour are not free in mobility. The development of capitalism certainly has a tendency to activate gradually the mobility of labour and capital and balance the conditions of production, but at the same time is highly likely to hamper it as

*K. Marx: Capital III, p. 210

well. Therefore, even if the conditions of a nation happen to keep up with the average conditions of production, it may be almost due to a chance occurrence.

The singular part of the international market value is that within a nation, when competition is carried to the full, the separate value should keep up with the market value, while in the universal market, where competition is incomplete, even after the international market value is established there still remain the different conditions of production, and corresponding to them there exist the national average values. In this case, the modification of the law of value comes to the fore as the national value of every country deviating from the international market value.

The international market value becomes the center around which the international market price fluctuates. And the international price, once established, is in fact simultaneously the home market price of every nation. Producers in the nation with higher production power, being able on the whole to produce for the value lower than the international market price, will realize a surplus profit by means of the exportation for the international market price. On the contrary, producers of the nation with lower production power, being able to export owing to the higher relative value of money and nevertheless producing on the whole for the value higher than the international market price, cannot realize the value of a certain part of labour in their own country, and therefore will send products for nothing to a negotiating country. The same might be still recognized even when the said country is making profit by trade.

A short reference should be made hereby to the difference between the above-mentioned theory of international market value and Mill's theory of international value. Denying the validity of the Labour Theory of Value in the universal market, Mill tried to explain the determination of the international value by means of demand and supply. We, on the contrary, by recognizing the formation of the universal labour along with the development of an international exchange, and then regarding the said labour as a substance of the international market value, want to maintain the Labour Theory of Value to be realized in substance on the universal market. As distinguished from Mills theory, ours starts from the very equilibrium of demand and supply. By such a theory, though not by Mill's theory, it is possible to clarify the opposition between rich and poor nations, which reveals itself though their trade. This relationship, as Mill says, still exists when the two nations make profit by their trade.

V. PRICE OF PRODUCTION — MARKET PRICE

The international market value becomes the center around which the international market price fluctuates. Upon this point there is no need of exposition. The need occurs only when we take up the price of production in place of the market price. In this connection Marx says as follows:

"The statements referring to market-value apply also to the price of production, if it takes the place of market-value. The price of production is regulated in each sphere, and this regulation depends on special circumstances. And this price of production is in its turn the center of gravity around which the daily market-price fluctuate and tend to balance one another within definite periods." *

However, we are standing for the present on the premise that on the universal market the international mobility of capital does not take place, and therefore it must be regarded that the international market value is kept from transforming into the price of production.

"Competition first brings about, in a certain individual sphere, the establishment of an equal markef-value and market-price by averaging the various individual values of commcd ities. The competition of the capitals in the different spheres thus results in the price of production which equalises the rates of profit between the different spheres. This last process requires a higher development of capitalist production than the previous process."**

Within a nation, however the competition of capital takes place, and the value transforms itslef into the price of production. And here arises the question as to how the international trade alters the price of production and affects the profit rate of a nation. In the sphere of export production is conducted with the capital of average composition, the value will keep up with the price of production. As the export products of the nation with higher production power have the power of realizing higher prices on the universal market, the rate of profit in the line of the said sphere will be gradually on the increase. For this reason, the capital of other spheres will flow in, raising on the whole the average profit rate of the same country. Also in the sphere of production now conducted by the capital of average composition, the price of production rises above the value, as was generally explained by Marx. Our concern now arises in the case of the nation with lower production power. The price in the sphere of production in question of this nation will fall with the opening of trade, thereby starting the out-flow of capital to other spheres. And on the whole the average rate of profit will fall, and also in the sphere conducted with the capital of average composition the price of production falls below the value.

* K. Marx: Capital III p. 211
** K. Marx: Capital III p. 212

As the result, exportation will become possible in the relatively superior sphere, such as in English cloth as exemplified elsewhere by Ricardo.

The establishment of the international market value will thus result only in the rise of the average rate of profit and the rise of the price of production in the case of the nation with higher production power, and the descent of the average rate of profit and the fall of the price of production in the case of the nation with lower production power; entailing however no establishment of the market production price due to the formation of the average rate of profit on the universal market. The reason for it is found in our assumption that capital is internationally immobile. Therefore, when we say that the international market price moves centering around the price of production, the movement should be considered taking place centering around either the raised price of production in the case of the nation with higher production power or the fallen price of the production in the case of the nation with lower production power. The nation with lower production power will not only lower the average rate of profit, but sometimes not realize even a part of the cost-price, that part of value constituting the surplus profit of the nation with higher production power.

In this sense, Ricardo is mistaken in thinking that the international trade has nothing to do with the profit rate, and on this matter Marx states in the following way:

"The favored country recovers more labour in exchange for less labour, although this difference, this surplus, is pocketed by a certain class, as it is in any exchange between labour and capital. So far as the rate of profit is higher, because it is generally higher in the colonial country, it may go hand in hand with a low level of prices, if the natural conditions are favorable. It is true that a compensation takes place, but it is not a compensation on the old level, as Ricardo thinks." *

However, the statement does not mean to deny that the nation with lower production power as well is relatively making profit through trade. The fact is that the nation with production power of the higher or lower level, as clarified by the Theory of Comparative Cost, is relatively making profit through trade. By considering that trade is in essence barter, Ricardo came to grasp the said profit as the increase of social products, but it must be grasped, as already seen, not as the increases of social products, but as the ascent of the rate of profit. And the ascent of the rate of profit will entail the expansion of the scale of production as well as the higher degree of the organic composition of capital, causing then the large scaled descent of the rate

* K. Marx: Capital III pp. 279-280

of profit and further necessitating the larger scale of foreign trade. The circumstances concerned are described by Marx as follows:

> To the extent that foreign trade cheapens partly the elements of constant capital, partly the necessities of life for which the variable capital is exchanged, it tends to raise the rate of profit by raising the rate of surplus-value and lowering the value of the constant capital. It exerts itself generally in this direction by permitting an expansion of the scale of production. But by this means it hastens on one hand the process of accumulation on the other the reduction of the variable as compared to the constant capital, and thus a fall in the rate of profit. In the same way the expansion of foreign trade, which is the basis of the capitalist mode of production in its stage of infancy, has become its own product in the further progress of capitalist development through its need of an ever expanding market. Here we see once more the dual nature of these effects. (Ricardo entirely overlooked this side of foreign trade)" *

Nowadays those who are under the influence of Prof. Keynes, regarding as much too unrealistic Ricardo's theory of international trade which assumes the non-existence of the unemployed, and admitting their existence, have developed the theory of business cycle and employment relationship. It might be said therefore to be an attempt to make dynamic the theory of international trade. By resorting to some other method than this, that is, by emboding the theory of value in the theory of production price on the strength of the Marxian political economy, we have so far made an attempt to overcome the shortcomings of Ricardo.

VI. COMPARED WITH OTHER SCHOOLS

In the foregoing, we have attempted to substantiate the theory of international trade on the strength of the Marxian political economy. It goes without saying in this connection that the Marxian political economy is not of mere economic theorization, but serves to expose to light the law of movement in the capitalist society. The theory of international trade based on the Marxian political economy should therefore serve to expose the law of movement in the capitalist society incident to foreign trade. In the following an attempt will be made to demonstrate the above proposition through the comparison with other schools.

Ricardo's theory of international trade developed on the assumption of barter, passing through Mill, and was succeeded by the subsequent orthodox political economy under the name of the Theory of Comparative Costs as substantiating free trade. In the sense that free international trade gives occasion to the increase of the social products,

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* K. Marx: Capital III p. 278

which in turn raises the living standard of people, the 'welfare analysis' was able to remain to become the goal of a policy in the orthodox political economy. It was just the doctrine held by those who were called 'Neo-Classical School'. However, in the school called 'Modern Economic Theory', which came to the fore as against the Neo-Classical School, there has been excluded the 'welfare analysis' accompanying the theory of free trade of the orthodox political economy and after, and the Theory of Cmparative Costs, regarding itself no more than serving to clarify the theory of foreign trade, maintains to call itself a 'pure theory of international trade'. This might be said to be the theoretical change in the critical stage of capitalism where no longer the international trade has power to raise the living standard of people and even the lowering of the living standard of people (the reduction of real wage) should be brought about. In order to exclude the 'welfare analysis' from the classical school, the Modern Ecomomic Theory, excluding the Labour Theory of Value on which was based the Theory of Comparative Costs, advocated instead the subjective theory of value=doctrine of economic equilibrium.

However, the Modern Economic Theory itself does not maintain the need of excluding the Labour Theory of Value in such a political sense, and its way of exclusion is exceedingly theoretical. For example, Prof. Haberler and Prof. Ohlin, the two great stars who base the theory of international trade on the doctrine of economic equilibrium, criticize the Labour Theory of Value by saying that the theory, permitting labour alone for the element of production, is not applicable to the actual realities which comprise a number of production elements, and thus they are going to exclude the Labour Theory of Value from the Theory of Comparative Costs. Furthermore, by arguing that as the part played by the Labour Theory of Value in the theory of international trade is to serve only to determine the relative values of two commodities in two nations, only the theoretical manipulation to determine the relative values more effectively would be able to exclude easily the Labour Theory of Value, Prof. Haberler put in its place the opportunity cost theory and Prof. Ohlin uses or cites Prof. Cassel's General Equlibrium Theory.

Thus in Ricardo's Labour Theory of Value there exist the two ways of development, — one is the way that leads, as we have seen, to the Marxian political economy, and the other is the way that leads to the Modern Economic Theory. In the light of our views, then, what obstacles stand in the second way?

Firstly, in the arithmetical example put by Ricardo concerning the value-ratio of the two commodities of the two nations, if we dissolve the form of 80 : 90 120 : 100 into the form of 1 : 8/9 1 : 12/10, then we shall no longer have any standard by which to compare the difference of production power between the two nations. The resultant difficulty in the international comparison of production power will obscure the superiority of an advanced countiy over a backward country. The exchange-ratio of 1 : 12/10 will further receive the price expression through the ratio of exchange for gold, thereby enabling an international comparison, but for its premise the difference of the value of gold between the two countries must be determined in advance. And the value of gold, as is the case with other commodities, is determined by the amount of labour (measured by the time of duration of the social average labour) necessary for producing a certain amount of gold. All in all, in the Modern Economic Theory which treats the matter exclusively on the strength of the exchange-ratio of two commodities between two nations to the neglect of an international difference of the labour time necessary to produce a certain amount of commodities, is lost innevitablly existent in capitalism sight of a motif of the international opposition.

Secondly, while the classical school cites for the effect of international trade the increase of the amount of social products, the Modern Economic Theory shows the rise of the price of production elements. This rise of the price of production elements, if the prices of general commodities are unfluctuated, as the classical school claims, will occasion the increase of real income and raise the living-standard. Therefore, though the classical school and the Modern Economic Theory may seem to be opposed to each other, they are agreed in considering that the value of a commodity will generally be dissolved into incomes. They both lost sight of the fact that a part of the value of commodity should never fail to be turned into the accumulation of capital which is not to be dissolved into income. That is the reason why theirs is called a static theory. Thus, because of being static, they have overlooked the important question that the foreign trade in the capitalist societies will on one hand serve to raise the rate of profit and increase the amount of employment, and on the other hand to give birth on a larger scale to both the descent of the rate of profit and of employment.

Such above-mentioned shortcomings as contained in the Modern Economic Theoiy shows the need of retrospection even in the circles of the Modern Economic Theory. It is of course the Keynesean retrospection. Those who are retrospecting on the theory of international trade from the Keynesean standpoint regard as much too unrealictic the old economic theories which stand on the premise that unemployed are not existent, and maintain that the theory of international trade as well should start from the actual reality of unemployment and consider as to how to attain the full employment. The so-called theory of foreign trade multiplier seems to be studied from such a view-point. Such a Keynesean retrospection on the theory of international trade certainly must have been an attempt in introducing a dynamic point of view hitherto missing in the theory of international trade. However, the existence of depression or unemployment should be furnished as a given condition not from outside of économy, but within economy. It is no doubt on that account that the theory of the accumulation of capital should become a powerful weapon. And also the truly dynamic consideration of international trade may be considered impossible unless conducted with reference to such a theory of the accumulation of capital.