

Torrens' Thought on Foreign Trade

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1. Smith and Free Trade

Irwin points out the difference in the treatment of commercial policy before and after the publication of *Wealth of Nations*.

“ANY COMPARISON of the economics literature in the decades before and after the publication of Adam Smith's *Wealth of Nations* in 1776 reveals a sharp break in the treatment of commercial policy. ...While drawing upon the work of others, Smith created such a compelling and complete case for free trade that commercial policy could no longer be seriously discussed without contending with his views, and herein lies one of Smith's foremost

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contributions to economics.”⁽¹⁾

According to Irwin,⁽²⁾ Smith set up a specific criterion to evaluate the country-wide effects of various commercial policies: that is, the real annual revenue of society (or, the real value of a country's national income).

When assessing the effects of commercial policies, two concepts, ① opportunity costs, ② trade-offs between alternative activities under resource constraints, are important. As the amount of labour and capital is fixed in an economy at any given point in time, increasing the output in one sector can only come at the cost of using resources already employed elsewhere in the economy. What Smith insisted was that no regulation of commerce can increase the quantity of industry in any society, and that free trade permits the best allocation of society's resources.

The best allocation of society's resources under free trade is a static benefit in economic efficiency. What's more important is that free trade, dynamically, raises economic efficiency. Free trade opens a more extensive market which allows a more refined 'division of labour.' The more refined the division of labour is, the more improved the productivity is. Under the worldwide division of labour, a given amount of labour and capital can produce the greatest output (or, wealth).

The classical economists developed Smith's idea in theoretical detail. In this paper, I'll examine the evolution of Torrens' thought on foreign trade.

2. Torrens' Development of Smith's Idea

2.1. Wealth, Division of Labour, and Free Trade

(1) Wealth and the Source of Wealth

In *The Economists Refuted* (1808), Torrens defines wealth as the articles which supply our wants, and gratify our desires.⁽³⁾ According to him, the sources

(1) Irwin, Douglas A.: *Against the Tide — An Intellectual History of Free Trade*, Princeton University Press, Princeton 1996, p. 75.

(2) Irwin, Douglas A, *ibid.*, p. 76.

(3) Torrens, Robert: *The Economists Refuted and Other Early Economic Writings*, 1808, Augustus M. Kelley · Publishers, Fairfield 1993, p. 1.

of wealth are land and labour, and, since land is fixed, wealth can be augmented only by augmenting the productivity of labour.

“it is a self-evident proposition, that wealth cannot be augmented by any means different from those by which it is produced. Enquiring how our wealth may be augmented, is the same thing as enquiring how the sources of wealth may be rendered more productive. The first source of wealth is, the earth; but, as we cannot enlarge the dimensions of our globe, we have no way of augmenting wealth except by rendering the second source of it more copious; that is, in the other words, except by augmenting the productiveness of the labour which appropriates, prepares, and multiplies the articles of our use and desire.”⁽⁴⁾

We can, Torrens says, render labour more productive by ①the employment of capital, and ②the division of labour. Of the two, the division of labour, which becomes more refined under free trade, is one of the most important concepts in Torrens' thought.

Before dealing with foreign trade, we examine one question: Is agriculture the only source of wealth?

(2) Agriculture Is Not the Only Source of Wealth

Torrens rejected the opinion that agriculture was the only source of wealth. We can imagine a situation where a lot of commodities are produced without agriculture.

“Food, clothing, habitation, furniture —nay, many of the embellishments, and luxuries of life, might exist in considerable abundance, though agriculture should be quite unknown. Agriculture, therefore, cannot be the only source of wealth.”⁽⁵⁾

Manufacturing can create wealth, too. The manufacturer produces more wealth than he consumes.

(4) Torrens, Robert, *ibid.*, p. 7.

(5) Torrens, Robert, *ibid.*, p. 3.

“every article of wealth, that remains with the manufacturer, after he has given the land proprietor a just equivalent for the produce which he consumed, whilst at work, is an article of wealth created by manufactural labour.”⁽⁶⁾

(3) Trade Promotes the Division of Labour

Torrens follows Smith's idea: that is, free trade opens a more extensive market which allows a more refined division of labour. The merchant who carries trade raises the productivity of labour.⁽⁷⁾ Therefore, Torrens states, it is erroneous to classify the merchant as unproductive labourer.

In *The Economists Refuted* he divides trade into ①home trade, ②colonial trade, and, the focus of this paper, ③foreign trade. We will deal with colonial trade in 3.1. Regarding foreign trade, three subjects, for Torrens, are important: first, corn trade (2.2.), secondly, the doctrine of comparative advantage (2.3.), and thirdly, the division of the gains from foreign trade (3.1.~3.3.).

2.2. Free Trade in Corn

Torrens advocates free trade in corn for two reasons: ①it mitigates the fluctuation in the supply of corn, ②it offsets the effect of diminishing returns in agriculture.

(1) Free Trade in Corn Mitigates the Fluctuation in the Supply of Corn

In *An Essay on the External Corn Trade* (1815) Torrens says that “an agricultural country should extend perfect freedom to the internal trade in corn.”⁽⁸⁾ Because a bad harvest in one district might be offset by a good harvest in another district, the greater the trade area might be, the less the fluctuation

(6) Torrens, Robert, *ibid.*, p. 5.

(7) Torrens, Robert, *ibid.*, p. 20.

(8) Torrens, Robert: *An Essay on the External Corn Trade; Containing An Inquiry into the General Principles of that Important Branch of Traffic; An Examination of the Exceptions to Which These Principles Are Liable; and A Comparative Statement of the Effects Which Restrictions on Importation and Free Intercourse, Are Calculated to Produce upon Subsistence, Agriculture, Commerce, and Revenue*, London, Printed for J. Hatchard, Bookseller to the Queen, Opposite Albany, Piccadilly 1815, p. 3.

in the supply of corn could be.

“the same piece of ground will, in one year, present an overflowing harvest, and, in another, scarcely repay the expense of tillage.

Now, this inequality, in the productiveness of the seasons, is greater in a small, than it is in a large district.”⁽⁹⁾

Under the internal, or home, free trade in corn, Torrens states, corn dealers promote the interest of the public.

“Without intending to promote the interest of the public, corn dealers are necessarily led, by a regard to their own interest, to act in the manner most beneficial to the great body of consumers.”⁽¹⁰⁾

If the freedom is extended to the international trade in corn, the fluctuation in the supply of corn becomes least, because it is probably impossible that “in the same year, the harvest [fails] in all countries.”⁽¹¹⁾

(2) Free Trade in Corn Offsets the Effect of Diminishing Returns

in Agriculture

In agriculture the law of diminishing returns prevails. Because a greater quantity of labour and capital is thrown into a given amount of land, [or because less productive land is introduced to agricultural production], labour and capital become less productive. Therefore, it requires a greater quantity of labour and capital to raise the same quantity of corn.”⁽¹²⁾

In a growing economy, if too much labour and capital are absorbed into agriculture, the amount of labour and capital remaining for the production of other things might decrease.

In order to prevent this process proceeding, the importation of cheap corn

(9) Torrens, Robert, *ibid.*, pp. 1–2.

(10) Torrens, Robert, *ibid.*, p. 8.

(11) Torrens, Robert, *ibid.*, p. 25.

(12) Torrens, Robert, *ibid.*, pp. 66–67.

must be allowed.

2.3. The Doctrine of Comparative Advantage

Torrens had gradually grasped the gist of comparative advantage. We can discern three steps: ①*The Economists Refuted* (1808), ②the first edition of *An Essay on the External Corn Trade* (1815), and ③the fourth edition of *An Essay on the External Corn Trade* (1827).

(1) The First Step — direct or indirect production

In *The Economists Refuted* Torrens says that home trade gives rise to the home division of labour, and that foreign trade gives rise to the foreign division of labour.⁽¹³⁾

How much benefit does the foreign division of labour produce? Suppose the situation where, as for the procurement of lace, England has the alternatives of either ①manufacturing lace at home, or ②manufacturing, first, broad cloth at home, then exchanging it for lace produced in France. If England can acquire a greater amount of lace in the latter case than in the former, she gets a gain from the foreign division of labour.

“if I wish to know the extent of the advantage, which arises to England, from her giving France a hundred pounds worth of broad cloth, in exchange for a hundred pounds worth of lace, I take the quantity of lace which she has acquired by this transaction, and compare it with the quantity which she might, at the same expense of labour and capital, have acquired by manufacturing it at home. The lace that remains, beyond what the labour and capital employed on the cloth, might have fabricated at home, is the amount of the advantage which England derives from the exchange.”⁽¹⁴⁾

(2) The Second Step — it might be profitable to import the goods

which could be produced at less cost at home

⁽¹³⁾ Torrens, Robert: *The Economists Refuted*, pp. 31–32.

⁽¹⁴⁾ Torrens, Robert, *ibid.*, p.37.

We can find a evidence of the evolution of Torrens' thought on the foreign division of labour in the first edition of *An Essay on the External Corn Trade* (1815).

It might be profitable for England to import corn from Poland despite the fact that it could be raised at less expense of labour and capital in England than in Poland. According to Torrens, first, suppose that England can produce corn as cheaply as Poland.

“there are, in England, unreclaimed districts, from which corn might be raised at as small an expense of labour and capital, as from the fertile plains of Poland. This being the case, and all other things the same, the person who should cultivate our unreclaimed districts, could afford to sell his produce at as cheap a rate, as the cultivator of Poland”⁽¹⁵⁾

Under the condition, is it right to conclude that “if industry were left to take its most profitable direction, capital would be employed in raising corn at home, rather than in bringing it from Poland at an equal prime cost, and at a much greater expense of carriage”⁽¹⁶⁾? However obvious and natural this conclusion may appear at first sight, it might, Torrens says, be found entirely erroneous on a closer examination. Because if

“England should have acquired such a degree of skill in manufactures, that, with any given portion of her capital, she could prepare a quantity of cloth, for which the Polish cultivator would give a greater quantity of corn, than she could, with the same portion of capital, raise from her own soil,”⁽¹⁷⁾

England could derive a gain from exporting cloth and importing corn.

Furthermore, even when ‘the tracts of English territory should be superior to the lands in Poland,’⁽¹⁸⁾ namely, even when England could produce corn more

(15) Torrens, Robert: *An Essay on the External Corn Trade*, 1815, p. 263.

(16) Torrens, Robert, *ibid.*, p. 264.

(17) Torrens, Robert, *ibid.*, p. 264.

(18) Torrens, Robert, *ibid.*, p. 264.

cheaply than Poland, it might be beneficial for her to import corn from Poland.

- (3) The Third Step — a difference in the costs of production between
two countries

The last element exists in the fourth edition of *An Essay on the External Corn Trade* (1827). Torrens states:

“Though England produced all commodities for half the cost required to produce them in Poland, yet, between the two countries, no exchanges would take place.”⁽¹⁹⁾

What conditions are required for two countries to trade with each other? Torrens says that a difference in the costs of production between two countries provides the conditions for trade to take place.

“a difference in the cost of production between two countries, affecting commodities in each, not universally but partially, gives immediate occasion to an interchange of commodities. If, in Poland, the cost of producing cloth and iron, &c. &c. continued to be twice as great as in England, while the cost of raising corn fell to an equality with the cost of raising it in England, then Polish corn would be exchanged for English cloth and iron. Under these circumstances, a quarter of corn, in Poland, would be worth only half a bale of cloth, or half a ton of iron ; while, in England, it would be worth a whole bale, or a whole ton. A Polish merchant, after purchasing a quarter of corn for half a bale of cloth, might send the corn to England, and bring back, in exchange, a whole bale, thus realizing a profit of one hundred per cent, less the expense of carriage.”⁽²⁰⁾

Torrens was one of those who contributed to the establishment of ‘the doctrine of comparative advantage.’ However, this doctrine didn’t play an

(19) Torrens, Robert: *An Essay on the External Corn Trade*, fourth ed. London, Printed for Longman, Rees, Orme, Brown and Green, Paternoster Row 1827, p. 401.

(20) Torrens, Robert, *ibid.*, pp. 402–403.

important role in his thought. Moreover, his attitude toward free trade gradually changed from initially supporting unilateral free trade to a later position favouring mutually reciprocal free trade. Now let's focus on that change and turn to the question of how Torrens saw the gains from trade were divided.

3 Conversion (?) — Rejection of Unilateral Free Trade

Torrens' change of attitude towards free trade was a result of his study of the division of the gains from foreign trade.

It is well known that John Stuart Mill first published a complete account of how the gains from trade are divided in terms of reciprocal demands. As Thweatt has noted "John Stuart Mill first wrote it out sometime during 1829–30, but published it only in 1844 and later repeated it almost verbatim in his *Principles*."⁽²¹⁾

3.1. The Colonial Trade

However, Torrens' approach to the question of 'the division of the gains from foreign trade' was fairly different from J. S. Mill's, and he finally rejected unilateral free trade. In order to understand Torrens' idea, it is beneficial to study his argument regarding colonial trade.

In chapter 4 of *The Economists Refuted* (1808) Torrens deals with colonial trade. By establishing a territorial division of labour between a mother country and her colony, Torrens states, both the home, and the colonial producers augment, to a very astonishing degree, the productiveness of their labour. He, then, deploys a slightly premature argument.⁽²²⁾

"The colonial, like the home trade, confers a two-fold benefit. When England trades with an independent island, a part of the augmented wealth, created by the territorial division of labour which this trade establishes, goes to

⁽²¹⁾ Thweatt, William O.: James Mill and the Early Development of Comparative Advantage, in: *History of Political Economy* 8, Summer 1976, p. 209.

⁽²²⁾ Torrens, Robert: *The Economists Refuted*, pp. 25–26.

enrich foreigners. But, when England trades with Jamaica, the whole augmented wealth, created by the territorial division of labour, is the property of British subjects, and adds to the resources of the British empire.⁽²³⁾

This argument is repeated in *An Essay on the Production of Wealth*⁽²⁴⁾ (1821). But in this book, one factor is added: it is unlikely that a territorial division of labour between a mother country and her colony is suddenly interrupted.

“when a mother country and her colonies, particularly if they possess a commanding marine, interchange their surplus products, nothing short of a dismemberment of the empire can suspend their intercourse, or interrupt those divisions of employment by which they are enabled to make the most of the natural peculiarities of their soil, and of their acquired advantages in the application of labour.”⁽²⁵⁾

3.2. The Effect of Import Duties on the Value of Money

Another important element concerning ‘the division of the gains from foreign trade’ emerged in the fourth edition of *An Essay on the External Corn Trade* (1827): that is, the effect of import duties on the value of money.

According to Torrens, it is beneficial for a country which does not produce precious metals ①to import gold and silver duty free and ②to impose heavy duties on all other foreign commodities. By adopting this kind of commercial policy, the country gains a greater amount of the precious metals.

“While gold and silver are imported duty free, and while, at the same time, all other foreign commodities are either prohibited, or subjected to considerable duties on importation, the amount of money [namely, the precious metals] will be greater, and, by consequence, its value will be lower, than if an unrestricted and equal trade were established with other commercial

(23) Torrens, Robert, *ibid.*, p. 26.

(24) Torrens, Robert: *An Essay on the Production of Wealth*, 1821, Augustus M. Kelley·Publisher, New York 1965, pp. 228–232.

(25) Torrens, Robert, *ibid.*, pp. 231–232.

countries.”⁽²⁶⁾

Applying this argument to the relationship between two countries, Torrens reached an interesting result.

“it is obvious that, ... the free importation of Polish corn into England, while Poland prohibited the products of English industry, would occasion, in the English markets, some very considerable diminution in the quantity, and rise in the value, of the precious metals.”⁽²⁷⁾

As for the effect of import duties on the value of money, according to Torrens, the following three propositions are important.⁽²⁸⁾

1. High protecting and prohibiting duties, on the importation of foreign commodities, have the effect of increasing the supply, and of lowering the value, of the precious metals.
2. The country which draws to herself a more abundant supply of the precious metals, may be deprived of this more abundant supply, either wholly or in part, if she permits the importation, duty free, of foreign commodities extensively in demand, while the country producing such commodities refuses to act upon the principle of reciprocity, and receives only gold in return.
3. The subtraction of the precious metals, and the consequent fall in general prices, might be prevented by retaliating with a similar prohibitory system, or else diminished by imposing duties on the importation of foreign commodities coming from countries refusing to act on the principle of reciprocity.

3.3. Import Duties and Reciprocity

The above-mentioned arguments are repeated in the letters compiled into

⁽²⁶⁾ Torrens, Robert: *An Essay on the External Corn Trade*, fourth ed. 1827, pp. 397–398.

⁽²⁷⁾ Torrens, Robert, *ibid.*, pp. 416–417.

⁽²⁸⁾ Torrens, Robert, *ibid.*, pp. 423–424.

Letters on Commercial Policy⁽²⁹⁾ (1833) and *The Budget. On Commercial and Colonial Policy*⁽³⁰⁾ (1844). Here I deal with the second and the third letters in *The Budget*.

(1) Two Principles and Four Propositions

In the second letter of *The Budget*, two principles and four propositions concerning the value of money are presented.

The first principle is that superior efficacy in the labour which produces exportable articles, gives to a country possessing it a higher scale of general prices than that possessed by her neighbours.⁽³¹⁾

The second principle is that import duties upon the introduction of foreign commodities have an important influence in regulating the distribution of precious metals, and in determining the comparative scale of prices which any particular country is able to maintain.⁽³²⁾

Based upon these principles, Torrens presents the following four propositions.⁽³³⁾

1. When commercial countries receive each other's products duty free, then (the efficacy of labour being the same for each) precious metals will be distributed amongst them in equal proportions, and the general scale of prices will be the same in each.
2. When any particular country imposes import duties upon foreign country's products, while those other countries continue to receive the first country's products duty free, then such a country draws to herself a larger proportion of the precious metals, maintains a higher range of general prices than her neighbours, and obtains, in exchange for the produce of a given quantity of

²⁹ Torrens, Robert: *Letters on Commercial Policy*, London, Longman and Co., Paternoster Row 1833.

³⁰ Torrens, Robert: *The Budget. On Commercial and Colonial Policy. With An Introduction, in Which the Deductive Method, As Presented in Mr. Mill's System of Logic, Is Applied to the Solution of Some Controverted Questions in Political Economy*, London, Smith, Elder, and Co., No. 65, Cornhill 1844.

³¹ Torrens, Robert, *ibid.*, p. 25.

³² Torrens, Robert, *ibid.*, p. 25.

³³ Torrens, Robert, *ibid.*, pp. 28–29.

her labour, the produce of a greater quantity of foreign labour.

3. When any country is deprived of that command over precious metals which is due to the efficacy of her labour in producing articles for the foreign market, by the hostile tariffs of other countries, she may recover her due command over the metals, by imposing retaliatory and equivalent duties upon the importation of the products from the countries maintaining the hostile tariffs.
4. When, from foreign rivalry and hostile tariffs, a country begins to lose a portion of her former command over precious metals, and to experience a contraction of her currency, a fall in prices, profits, and wages, and a falling off in revenue, then, the lowering of import duties upon the products of countries retaining their hostile tariffs would aggravate the general distress, by occasioning a more rapid abstraction of the metals, and a deeper decline in prices, profits, wages, and in revenue, accompanied not by a diminution, but by an increase in the real extent of taxation.

(2) The Sound Principle of Commercial Policy

In the third letter of *The Budget*⁽³⁴⁾ Torrens prescribes 'the sound principle of commercial policy.' It consists of:

1. Opposing foreign tariffs by threatening with retaliatory duties,
2. Lowering import duties in favour of those countries which may consent to trade with us on terms of reciprocity.

Torrens states :

"In proposing to foreign powers to open our ports to their products, on the condition that their ports shall be equally open to British products, we should hold out to them a powerful inducement to act upon the principles of reciprocal freedom. But in removing restrictions on the importation of the productions of countries retaining hostile tariffs against us, we should not

⁽³⁴⁾ Torrens, Robert, *ibid.*, p. 50.

only relinquish the lever, which might move them to concession, but should be granting a bounty upon the continuance of restrictions on our trade.”⁽³⁵⁾

However sound Torrens’ ‘sound principle of commercial policy’ is, it is unclear (at least to me) whether he really favoured free trade based upon reciprocity or he finally recoiled from free trade altogether. Because he deployed a somewhat dubious argument concerning the colonial trade after he had prescribed ‘the sound principle of commercial policy.’

(3) A British Zollverein

As I mentioned in 3.1., Torrens stated in *An Essay on the Production of Wealth* (1821) that nothing short of a dismemberment of the empire could suspend the intercourse between a mother country and her colonies. This argument is repeated in the third letter of *The Budget*.

“the peculiar advantage which the colonial trade possesses over the foreign trade, consists in its greater security. A colonial trade may, at all times, be made a free trade. Here we can completely remove all those restrictions and prohibitions which prevent or obstruct that territorial division of employment which multiplies the power of production. Here no hostile tariffs can cause the produce of a given quantity of British labour to exchange for the produce of a less quantity of foreign labour”⁽³⁶⁾

Torrens’ prescriptions of the colonial trade consist of:⁽³⁷⁾

1. A complete integration of the United Kingdom and the British colonies (that is a formation of a British Zollverein),
2. An endeavour to open foreign markets for British goods, using the market of colonies as leverage. (that is, relying upon the principle of *reciprocity*, the markets of the colonies should be opened to the products of such foreign

⁽³⁵⁾ Torrens, Robert, *ibid.*, p. 62.

⁽³⁶⁾ Torrens, Robert, *ibid.*, pp. 65–66.

⁽³⁷⁾ Torrens, Robert, *ibid.*, pp. 64–65.

countries as may be induced to admit British goods on terms equally favourable, while retaliatory duties should be imposed in the ports of British colonies upon the products of countries retaining hostile tariffs against British goods.)

If we pay attention to the second part of Torrens' prescriptions, we can classify Torrens as an advocate of free trade based upon the principle of *reciprocity*. But if we emphasize the first part, another Torrens emerges. I cannot judge whether Torrens finally recoiled from free trade or not.

4. What Can We Learn from Torrens?

What can we learn from Torrens? I think we can learn at least three things.

First, Torrens' explanation of *the relationship between wealth, division of labour, and (foreign) trade* is one of the most excellent arguments developed by the classical economists.

Secondly, Torrens clarified the effect of import duties upon the value of money, therefore, upon *the division of the gains from foreign trade*.

Finally, I think, we can get a certain amount of insight into foreign trade policies based upon the principles of *reciprocity*.

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