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Historicising Ricardo's comparative advantage theory, challenging the normative foundations of liberal International Political Economy

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ABSTRACT
David Ricardo's theory of comparative advantage is now two centuries old, but it remains at the heart of economists' theories of international trade. It also continues to provide the underlying economic ethic for liberal International Political Economy (IPE). Ricardo's numerical illustration of the mutually shared gains from specialisation and trade involved complementary structures of comparative advantage being exhibited by a productively superior hypothetical 'Portugal' and a productively inferior hypothetical 'England'. Yet, the historical back-story of actual eighteenth-century trading relations between the two countries reveals Portugal's repeated struggles to meet its treaty obligations to the English in the context of the European quest for empire. Those difficulties persisted even when it harnessed its (less profitable) commercial trade to (much more profitable) slave trading practices. Ricardo's account of the purely mathematical logic of comparative advantage writes out of economic history the centrality of both imperial wars and African slavery to the early English and Portuguese experience of 'free' trade. Given this historical back-story, liberal IPE thus appears to be in urgent need of new normative foundations to decouple it from these highly illiberal economic processes.

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Introduction

The year 2017 marks the bicentenary of the first publication of David Ricardo's *Principles of Political Economy*. Ricardo clearly matters to International Political Economy (IPE), because students can open up pretty much any textbook and find him amongst the few economists identified by name as providing the subject field's essential roots. Yet, it is a very partial account that is presented there, one that differs markedly from the insistence of historians of economic thought that the *Principles* was immediately recognised as a fork in the road that presented the economics profession with a choice (Walter 2013: 7). Ricardo (1772–1823) is typically mentioned in the IPE textbooks in the same breath as Adam Smith (1723–1790), as if their respective economic theories can be read together as a single intervention separated only by time. By contrast, Ricardo specialists have long argued that to follow the Ricardian route, both theoretically and methodologically, meant renouncing large parts of the Smithian system as laid down just 40 years before (Schabas 2005: 113). The Ricardian alternative proved to be by far the majority choice. By the time its 50th anniversary was commemorated in 1826, Smith's *Wealth of Nations* was being read almost solely as a historical text that told the reader what the world looked like in a distinctly pre-Ricardian age (Black 1995: 69).

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Ricardo himself was conscious that this was the sort of break he was trying to achieve. In the Preface to the *Principles,* he discussed his objectives in the third person by saying: 'The writer, in combating received opinions, has found it necessary to advert more particularly to those passages in the writings of Adam Smith from which he sees reason to differ' (Ricardo [2004 (1817/1821)]: 6).

This sense of a radical rupture, however, is nowhere in evidence in what students are generally taught as the historical roots of IPE. The IPE textbooks tell us that Ricardo should be seen to have been merely '[b]uilding on Smith's pioneering ideas' (Gilpin 1987: 173), having 'further developed' (Gill and Law 1988: 5) 'in a systematic and coherent direction' (Krätke and Underhill 2006: 28) his more distinguished predecessor's founding thoughts. Ricardo 'followed Smith' (Balaam and Veseth 2005: 52), we are assured, 'extend[ing] his argument' (Frieden 2006: 30) in a way that we should expect not only from 'one of Smith's heirs' (Pettman 1996: 12) but more specifically from his immediate 'successor' (Barma and Vogel 2008: 25). Smith and Ricardo thus seem to be inextricably intertwined in the historical memory of IPE. They are typically presented alongside one another as part of a single 'liberal ancestry' (Phillips 2005: 9), as having 'established the central concepts that are now recognized as classical liberalism' (Goddard *et al.* 2003: 33), and as 'laying the foundations' for all subsequent normative defences of the liberal worldview (Strange 1994: 190).

Given the general tenor of Ricardo's treatment as Smith's comrade-in-arms, it is more than a little ironic that the only substantive part of the *Principles* that warrants explicit mention in the IPE textbooks is that where consensus reigns even there that Ricardo's theory significantly outstrips Smith's. Students first encounter Ricardo when being told how the political case for free trade experienced a mighty advance as his theory of comparative advantage replaced Smith's theory of absolute advantage. Smith believed that wherever a country had a basic cost advantage in producing a good, then, as a straightforward economic matter, there should be nothing to stop it supplying the whole of the world market.

> The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own cloaths, but employs a taylor … What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. (Smith [1981 (1776/1784)]: IV.ii.11, 12)

However, the IPE textbooks have been quick to point out – and rightly so – that Smith's theory of absolute advantage is merely 'a limited case of a more general basis for international trade' (Hiscox 2014: 104). It requires a world in which there are interlocking patterns of absolute advantage: you can produce one good for a lower unit labour cost than me, but I can produce another good for a lower unit labour cost than you. Ricardo's theory of comparative advantage, by contrast, relies upon a 'far weaker condition' (Williamson and Milner 1991: 19), whereby 'even the country with the absolute advantage in all tradable products might gain in total value of production if it turned out that there were differences in the internal production cost ratio between the countries' (Miller 2008: 44). The institutions of free trade, wrote Ricardo ([2004 (1817/1821)]: 133),

> are causes which operate on price, and never fail to be highly beneficial to consumers; since they enable them with the same labour, or with the value of the produce of the same labour, to obtain in exchange a greater quantity of the commodity to which the improvement is applied.

As Theodore Cohn (2012: 169) suggests when exploring the other side of the same argument, 'Ricardo's theory of comparative advantage is less intuitive and more powerful [than Smith's] because it indicates that trade is beneficial even in the absence of absolute advantage'. Whenever there is a difference in relative efficiency between countries in the production of multiple goods, the famous Chapter VII in the *Principles*, 'On Foreign Trade', suggests that there are overall gains to be made from the linked processes of specialisation and trade. Robert Gilpin perhaps captures the ensuing Panglossian assumptions best of all the IPE textbook writers. The world depicted by Ricardo, he writes, is one

> in which the most humble person and the most resource-poor nation can find a niche and eventually prosper. A fundamental harmony of interest among individuals, groups, and states is assumed to underlie the growth and expansion of the market and of economic interdependence. (Gilpin 1987: 22)

And, stated like this, who could object to wanting to imagine such a world into existence? Ricardo still provides the underlying economic ethic for liberal IPE because no subsequent theorist, it is frequently contended, has ever produced a better normative blueprint for the primary liberal cause of free trade.

It is therefore of some importance if it can be shown that all is not what it first seems with Ricardo's famous numerical example of the hypothetical 'Portugal' freely trading its wine for equally hypothetical 'English' cloth. The underlying economic ethic for liberal IPE is disrupted as soon as it is recognised that the textbooks' presentation of an essentially symmetrical trading relationship was anything but symmetrical in practice. The real England and Portugal already held defined positions in the hierarchy of international trade at the turn of the nineteenth century, but this owed nothing to the supposed natural manifestation of the mathematical logic of comparative advantage. Instead, they had been produced over time through a series of treaty obligations that reflected the balance of power within empire-obsessed seventeenth- and eighteenth-century Europe. Ricardo's original numerical example strategically misdescribes in Panglossian liberal terms a deeply unequal trading relationship created through highly illiberal means. Putting his theory of comparative advantage back into its proper imperial context promises to disturb many of the normative foundations of liberal IPE that are currently allowed to pass unchallenged. But before my argument can be built up in this way, it is first necessary to engage Ricardo's original numerical example directly.

Ricardo's original treatment of comparative advantage theory

Given economists' general commitment to the idea that knowledge progresses in linear fashion, one of the most remarkable aspects of Ricardo's theory of comparative advantage is its longevity. However, if you did not know of their lasting significance to the professional self-consciousness of economists, it would be quite possible to skip over the relevant passages from the *Principles* relatively unawares. The original exposition consists of no more than flashes of insight spread over a small section of a near 450-page book. Moreover, it is not something that Ricardo ever returned to in any of his subsequent writings. As a result of these two factors, the core aspects of the economic ethic of contemporary liberal IPE never come close to being comprehensively joined up in their original articulation. In fact, in an influential review published before the generally accepted start date of IPE, John Chipman went as far as to suggest that an altogether more important reality might have been obscured by later authors' eagerness to fill in the blanks on Ricardo's behalf. They thus stand accused of providing his largely inchoate observations on comparative cost theories of international trade with a law-like generality.

> It does not seem to have been recognized that Ricardo's own statement of the law is quite wanting, so much so as to cast some doubt as to whether he truly understood it; at best, his version is carelessly worded. (1965: 480)

The legendary status of the relevant part of the *Principles* thus does not follow from a fully worked out example that is so elegant it grabs the reader's attention and does not let it go. Indeed, it is noticeable how few economics textbooks teach the founding mathematical premise on which the demonstration of the logic of comparative advantage rests through Ricardo's original numerical example. The IPE textbooks have followed suit. Many eschew a numerical example altogether, preferring instead to try to win over students to the logic of comparative advantage using words alone. Those IPE textbook writers who do appeal directly to a numerical example often avoid Ricardo's use of 'Portugal' and 'England' (e.g. Grieco and Ikenberry 2003: 30–1, Kegley and Raymond 2006: 315, Miller 2008: 45–6), and even where this is not the case, they tend not to rely on Ricardo's original numbers (e.g. Gilpin 1987: 174, Crane and Amawi 1997: 7, Frieden 2006: 30, Dunn 2009: 185, O'Brien and Williams 2010: 102, Cohn 2012: 169, Hiscox 2014: 105).

Ricardo himself began his account with the following straightforward narrative statement:

> It is quite as important to the happiness of mankind, that our enjoyments should be increased by the better distribution of labour, by each country, producing those commodities for which by its situation, its climate, and its other natural or artificial advantages, it is adapted, and by their exchanging them for the commodities of other countries, as that they should be augmented by a rise in the rate of profits. ([2004 (1817/1821)]: 132)

The instinctive impression that this was Ricardo speaking with a normative rather than an analytical voice is immediately confirmed when he continued overleaf: 'Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each' ([2004 (1817/1821)]: 133). It is not until another two pages again that he offered some numbers by way of illustration of the logic of comparative advantage. Significantly, these numbers were in no sense empirically derived from what was known at the time about the pattern of trade between the real England and Portugal. Rather, they were chosen conveniently to allow the hypothetical 'English' cloth-makers and the hypothetical 'Portuguese' winemakers to confirm his personal preference for an end to trade restrictions.

'England may be so circumstanced', he wrote,

> 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. (Ricardo [2004 (1817/1821)]: 135)

Chipman (1965: 479) suggests that on its own – which is how it is introduced in the *Principles* – this is a *non sequitur*. No statement about what is or is not in 'English' interests is logically admissible until a parallel pair of numbers is added for 'Portugal'. The 'therefore' is entirely misplaced when 'England' is written about in isolation. The numbers '100' and '120' take on the meaning Ricardo immediately ascribed to them only after he chose to find in his 'Portugal' a trading partner that conveniently happens to have the opposite labour productivity characteristics to his 'England'.

> 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. (Ricardo [2004 (1817/1821)]: 135)

Under Smith's earlier theory, the double absolute advantage enjoyed by 'Portugal' meant that no trade could have taken place because it would have produced everything in this two economy/two good world.

Sophisticated economic data on productivity differentials were not available at the time to explicitly challenge Ricardo's numbers. It would therefore perhaps be overly churlish to say that they were simply plucked from the air indiscriminately. However, they *were* selected knowingly, so that he could make his chosen argument with the minimum possible fuss. It is not for nothing that Nobel Laureate and famed economics textbook writer Paul Samuelson (1969: 4) called them Ricardo's 'four magic numbers'. After all, there was enough evidence from the existing balance of trade figures to know without doubt that there was no substance to ascribing absolute advantage to his 'Portugal' if it was also meant to stand in for the actual Portugal. Indeed, in the marginal notes he made on Thomas Malthus's *Principles of Political Economy* between the publication of the second and third editions of his own *Principles*, Ricardo ([2004 (1820)]: 291) himself showed how the real England stood to gain annually from exchanging with Portugal 'the same quantity of hardware for wine which she gave last year', because its technological superiority in production granted to England ever more beneficial terms of trade. Britain (as it was from 1707) had a trade surplus with Portugal every year throughout the eighteenth century (Maxwell 2003: 81). The scale of that surplus really ramped up from the 1720s to the 1750s, at which stage it stood at 1.2 per cent of British GDP (Deane and Cole 1967: 279) or around one-eighth of total British export trade (Birmingham 2003: 74).

These years were particularly important because they coincided with the peak of extraction in Brazilian gold mining. British worsteds, bays and serges being exported to Portugal – the 'cloth' from 'England' in Ricardo's famous example – simply could not be paid for alone by the wine exports travelling in the other direction. Brazil, a Portuguese colony at the time, was responsible for a massive 40 per cent of the world's new gold reserves in the eighteenth century (DeWitt 2002: 4). It was this that was used to settle the trade deficit resulting from the inadequacies of the wine trade. Britain gained over £25 million in gold bullion from Portugal between 1700 and 1760 (Blackburn 1997: 484), which was handed over to pay down a trade deficit that had reached over £1 million per year by the late 1750s (Peet and Hartwick 2015: 50). The trade surplus that the British enjoyed and the Brazilian bullion it appropriated in recompense were significant drivers of its Industrial Revolution and also helped London to supplant Amsterdam as the leading global financial centre (Cypher 2014: 141).

In practice, then, Britain siphoned off the vast majority of the supposedly mutual gains from trade to be shared equally between 'England' and 'Portugal'. Yet, Ricardo stated very clearly that all it would take was for governments to cede to the logic of comparative advantage and then each participant in the increasingly sophisticated structure of global free trade would be made better off ([2004 (1817/1821)]: 132). This remains the normative fulcrum around which both liberal economic theory and liberal IPE revolve. A large part of the rhetorical power of the theory of comparative advantage – Samuelson's 'magic' by another name – rests on its promise that everyone will emerge a winner. There would seem to be something really rather reassuring about Gilpin's 'most humble person' and 'most resource-poor nation' benefiting from the simple application of brute economic force. Unfortunately, however, there is nothing in his original numerical example to prove that everyone will be better off by entering the Ricardian world. The fact that so many people in the intervening time have repeated verbatim Ricardo's claim in this regard says more about them wanting it to be true than it being demonstrably so.

The passages from the *Principles* in which Ricardo first outlined his thoughts about comparative advantage actually shift interchangeably between two very different economic principles. At its most basic, Ricardo modelled a two economy/two good world to show that, if 'England' and 'Portugal' specialised production consistent with their comparative advantage and then traded their surplus stocks, total production in the model world would increase. This claim is based on the economics of relative labour productivities, and it requires only elementary arithmetic skills to reproduce the mathematical proof. To turn this, however, into the argument that specialisation and trade will raise living standards on all sides of the trading relationship requires an undefended jump from the economics of relative labour productivities to the economics of the terms of trade. These are by no stretch of the imagination analogous entities, even if one allows the assumption smuggled in by Ricardo that the terms of trade are necessarily set at one unit of wine for one of cloth (Maneschi 1998: 53). The mathematical premise of Ricardo's numerical example still casts no light at all on how it might be possible to ensure the political equality in the terms of trade required for everyone to benefit as Ricardo said they would. It must have been clear for an observer as astute as Ricardo that, at the time the *Principles* was published, the actual trading relationship between England and Portugal was marked by accelerating political *inequality* in the terms of trade.

The Methuen Treaties between England and Portugal

Joan Robinson (1977: 1336) has long argued that what is usually portrayed as the universal truth of comparative advantage in both economics and IPE textbooks was actually Ricardo's description, albeit in highly abstract form, of the structure of early nineteenth-century British commercial interests. The theory has subsequently been treated with such reverence on the assumption that it captures an innate mathematical logic, but, even so, it would surely have been too much to have expected the *Principles* to have been populated with the standard generic mathematical notation that is so familiar today. 'England' and 'Portugal', 'cloth' and 'wine' could well be substituted with 'Country X' and 'Country Y', 'Good A' and 'Good B' to leave the essential characteristics of the

argument intact, yet it would have been a surprise to have witnessed Ricardo effect such a switch. To say that it was not normal to see economic theory expressed in standard generic mathematical notation in the early nineteenth century is something of an understatement, and nowhere in any of his work did Ricardo make his arguments in this way. But still, there would seem to be something specific about the names that he used in this instance to illustrate the significance of his chosen numbers.

The style in which the *Principles* was written is worthy of further examination. Many of its core arguments are not only illustrated numerically but are actually *made* in that manner. It is quite in keeping with this type of exposition that the numbers should be chosen conveniently to enforce the point under consideration. Yet, a close reading of the *Principles* shows that this style of reasoning is reserved overwhelmingly for when Ricardo wanted to discuss a general analytical category of use within economic theory, such as the quantity of labour per unit of production, the relationship between profits and the number of workers, rent as a proportion of the accumulated surplus, the cost of replacing fixed and circulating capital at different levels of profit, and the relationship between wages and the rate at which capital accumulates ([2004 (1817/1821)]: 15, 36, 49, 57, 101).

Something different seems to be apparent each time he moved away from this focus to discuss specific consumer goods on sale within the economy. Even though the argument continues to be made by means of illustration, the numbers tend to disappear and the reader is engaged at an altogether more concrete level of abstraction. Whenever he wrote, for instance, about 'deer and salmon', 'hats, stockings, and shoes', 'leather, salt, soap, and candles', 'linen, muslin, and cottons', he appears to have meant literally those products and not something that they could conceivably stand in for by way of an example (Ricardo [2004 (1817/1821)]: 30, 127, 234, 317). Furthermore, whenever he named a country as part of the illustration, the appeal is almost always to the conditions that actually existed for the production of a particular good in that country at that moment of time. Just as named products seem always to mean those exact products in the concrete, the same can also very definitely be said of his references to things like 'forests in Norway', 'the evils under which Poland and Ireland suffer', or the 'natural value [of gold] in Spanish America' (Ricardo [2004 (1817/1821)]: 68, 100, 195). When 'England' enters the analysis directly, it is, for instance, in relation to the comparative lack of corn that can be grown 'on land similarly circumstanced' there, or to a labourer in that country 'consider[ing] his wages under their natural rate', or to a certain 'policy [that] has been neglected' (Ricardo [2004 (1817/1821)]: 15, 97, 153). These are all decidedly 'real' examples.

The passages within the *Principles* that present the mathematical logic of comparative advantage theory must therefore be seen in this light. It could be argued that his choice of specific countries and goods to animate his theory is historically unimportant, because any two pairs chosen entirely at random would have allowed the same conclusion to have been drawn regarding the desirability of free trade. This, indeed, appears to be the approach that many of the IPE textbook writers, even if only unwittingly, have chosen to take. They have written out of their explanation of Ricardo's contribution to comparative advantage theory Ricardo's own example for ones that they believe will resonate more obviously in their students' minds. This might be the United States and Brazil, computers and shoes (Grieco and Ikenberry 2003: 30), China and the United States, grain and textiles (Miller 2008: 45), or Japan and the United States, cameras and computers (Kegley and Raymond 2006: 315). However, to treat Ricardo's choice of 'England' and 'Portugal', 'cloth' and 'wine' as historically unimportant is fundamentally out of character with the way in which the rest of the *Principles* was written. It is surely instructive when thinking of the concrete nature of the examples to which Ricardo routinely appealed that the third Methuen Treaty of 1703 institutionalised a structure of preferential trading that operated precisely between English cloth and Portuguese wine and that worked to Britain's advantage throughout the eighteenth century and on into Ricardo's day. Presumably, it would not be remiss to think that the reappearance of the same example in his work of 1817 was more than what would be a most remarkable coincidence. Today's IPE textbook writers might well use illustrations that bring the argument about comparative advantage theory up to date, but, by the same token, it was the particular detail of the third Methuen Treaty that provided Ricardo's early nineteenth-century British audience with a readily comprehensible example.

That said, however, there is not a single mention of the Methuen Treaties anywhere in the whole of Ricardo's works and correspondence. This not only includes the three editions of the *Principles*, but also all of his speeches in the House of Commons and all of his surviving letters. It is inconceivable that he was simply unaware of it. If a treaty had ever attained celebrity status, it was the third of the Methuen Treaties signed in quick succession in 1703, the one that dealt only with commercial matters relating explicitly to English cloth and Portuguese wine. It became part of the folklore of eighteenth-century Britain, having been enshrined in the public consciousness as a touchstone of the successes of the country's commercial policy (Nye 2007: 37). It was toasted in its youth as a patriotic measure by Whigs reluctant to allow a Tory Government to sign a more encompassing commercial treaty with the historic enemy, France (Duguid 2003: 12). It was also lamented in the UK Parliament in its dotage when the useful life of the laws passed to defend Portugal's privileged position on duties was deemed to have expired in 1813, just four years before Ricardo published the first edition of his *Principles* (Unwin 1991: 23).

For such an important treaty, it is surprisingly brief, comprising three short articles outlining how favourable import prices might be expected to increase the volume of trade between Portuguese wine and English cloth.[1] It also had a particularly inauspicious beginning. Sir Paul Methuen, English envoy to the King of Portugal between 1697 and 1705, had been given the responsibility by the English Government to conclude two prior treaties, largely negotiated in their provisional outline form by his father, John, guaranteeing a further political coming together of the two countries in return for enhanced English naval protection (Mayson 2013: 9). When Sir Paul was temporarily absent from the Portuguese royal court presenting his successes to the English Parliament, John, Lord Chancellor of Ireland and sometime Ambassador Extraordinary to Portugal, decided to push his luck. He unilaterally concluded the terms of a third treaty, this time unauthorised and exclusively commercial. His fortune held, however, and the resulting commercial treaty was signed on behalf of both monarchs on 27 December 1703, before being duly ratified by the English Parliament the following April (Mahan 1987: 208).

The treaty aimed in particular at the removal of so-called Portuguese 'pragmatics', restrictive practices taking the form of sumptuary laws that favoured home-produced cloth by making export penetration next to impossible for overseas cloth producers (Duguid 2003: 12). English clothiers, perhaps more than those of any other country, felt this exclusion really rather intensely. Their country's textile technology was second to none by this time, due to a conscious industrial strategy of promoting cloth production that stretched all the way back to the dawn of the Tudor era in the late fifteenth century (Cypher 2014: 142). This was specialisation on a large scale, but propelled in a completely different way to the pure mathematical logic that Ricardo attributed to the specialisation of the hypothetical 'England'. The comparative advantage in cloth production that the real England enjoyed at the time of the Methuen Treaties was rooted most obviously in the shift from producing heavier, lower quality broadcloth to producing lighter, higher quality worsteds (Peet and Hartwick 2015: 48). Conspicuous state support was relied upon to effect this change. Parliament released significant funds to bring to the English West Country Flemish and Dutch artisans who were already skilled in the new techniques (Bowden 2006: 27). They taught their English counterparts the expertise that would latterly allow them to specialise in the worsteds, and then the bays and the serges, that turn-of-the-eighteenth-century Portuguese 'pragmatics' kept out of their consumption markets.

The terms that John Methuen negotiated in the third treaty of 1703 forced those particular markets open. They guaranteed English cloth-makers permanent export access to first Portugal and then Brazil, because once opened, a combination of subsequent British commercial and military diplomacy ensured that they were never again shut (Nye 2007: 25). Sir Paul and John, it should be noted, were themselves from the most powerful family of Wiltshire clothiers, and their inherited business had felt the force of the previous regime of restrictive practices. Perhaps it was not altogether unexpected, then, that if the older Methuen was prepared to roll the political dice, it should be with the cloth interest uppermost in mind.

This really was a treaty for a two economy/two good world of subsequent Ricardian fame, because John had no intention of benefiting anyone other than English cloth-makers and in return he offered special dispensations to Portuguese winemakers alone. No mention was made of the wines that were also being imported into England in large quantities from both Spain and the Holy Roman Empire (Smyth 2004: 97). Interestingly, no mention was made either of exactly what level of duty Portuguese winemakers could expect to pay. English cloth-makers could expect largely unrestricted entry into the Portuguese market now that the wearing of foreign-made cloth was no longer prohibited (Magdoff 1978: 157). Yet, under the terms that the older Methuen had negotiated, Portuguese winemakers could be asked to pay any level of duty just as long as it was a discount of at least one-third on what French winemakers were paying.

In 1704 and 1705, the English Parliament passed, respectively, the One-Third Subsidy Act and the Two-Thirds Subsidy Act, in an attempt to lock-in the duty differentials between Portuguese and French wines. Having been promised a cost advantage on duties of at least 33 per cent, by the time the changes introduced by the Subsidy Acts had taken effect, Portuguese winemakers appeared to have done even better. By 1705, the duties that the English collected on Portuguese wine imports came to fractionally more than £25 per tun, on French wine imports to almost £55 per tun. But this did not disguise the fact that the duty on *all* wine had been raised by more than £3 per tun (Ludington 2013: 64). The English had acted immediately to exploit the most obvious loophole in the third Methuen Treaty, namely that no numerical upper limit had been stated for what Portuguese winemakers could expect to pay for access to the English market.

Far from the frictionless cost environment envisioned by Ricardo in the free trade relationship between his hypothetical 'England' and 'Portugal', Portugal paid more to export its wine to England under the supposed free trade third Methuen Treaty than it had done previously. Ricardo's 'England' responds automatically to the promptings of the competitive equilibrium contained within his numerical example of the logic of comparative advantage. Queen Anne's England, by contrast, played both sides of John Methuen's treaty to its own ends in order to create a doubly uneven playing field in its trading relationship with Portugal. So, how did things come to work out quite so badly for Portugal?

The Methuen Treaties and the War of Spanish Succession

Portugal had been the first of the European imperial powers to attempt, in the sixteenth century, to secure entrance to the Indian Ocean economy. These were trading routes originally established as a crown monopoly under the instruction of the Casa da Índia, the central counting house in Lisbon harbour set up under royal decree to handle all goods coming back to Portugal from South Asia (Ferreira 2015: 66). During its 60-year subjugation by Spain from 1580 to 1640, however, the Casa proved incapable of fending off incursions into its monopoly trading routes by the Dutch and English East India Companies (Lach and Van Kley 1993: 33). Its operations were systematically overhauled, so that by the middle of the seventeenth century, the Portuguese presence in the Indian Ocean economy had evolved, in Richard McIntyre's (1999: 249) words, into 'a kind of Mafia operation'.

It established colonial centres at Aden, Goa, Colombo and Malacca, bridgeheads which allowed the use of naval power to exercise an impressive degree of control over all goods that were being transported through the Indian Ocean and then westwards towards Europe. It no longer needed to control the imperial companies that were extracting economic value from South Asia as long as it was able to control access to the shipping routes on which the most successful of these companies depended. Portugal temporarily paid down its own trade deficit by seeking something akin to protection money to allow goods to be shipped to where they would command the highest price amongst Europe's social elites (Seavoy 2003: 16).

All of this, however, relied on Portugal being able to continually reproduce its former naval dominance. This meant in turn being able to maintain its activities at a significant distance away from home whilst also withstanding military threats along its own borders. As these threats began to

escalate following the dissolution of the Iberian Union under Spanish command in 1640, Portugal sought increasing sanctuary within the Grand Alliance of England, Ireland, Scotland, the Netherlands, Savoy, Aragon and the Holy Roman Empire (Hanson 1981: 264). Yet, this in itself was largely an admission that its navy was now no longer as dominant as England's, which assumed the lion's share of the policing role on behalf of the Grand Alliance. Thus, the colonial strategy for ensuring that the Portuguese balance of trade did not spiral out of control became ever more conditional on at least tacit English support even before such dependence was formally enshrined when the two countries signed the so-called Triple Treaties of 1642, 1654 and 1661 (Sideri 1970: 52).

The Methuen Treaties therefore merely accentuated the process that was already under way through which the English offered inducements to their political allies in Europe to begin to produce viable substitutes for what were often much better quality French goods. Portuguese winemakers had already for some time been taking cuttings from Bordeaux in an effort to replicate for the English consumption markets the lighter clarets traditionally associated with that region (Nye 2007: 37). Portugal's winemakers, who occupied a position of strength within the domestic political structure, assented to this arrangement in the hope that it would provide them with something approaching monopoly conditions at some stage in the future. Both the European wars of that period and the commercial diplomacy that was enacted to mitigate the chances of war had a market monopolising logic written into their very heart (Kiernan 1973: 265).

And war did arrive soon enough, provoked by the succession crisis following the death in 1700 of King Carlos II of Spain (Rowlands 2012: 21). The Portuguese and English royal families had been closely aligned since the marriage of Catherine of Braganza to Charles II in 1661. English political and military support had shortly thereafter been important to Portugal having the sovereignty of its own royal family recognised formally by Spain in the Treaty of Lisbon in 1668 (Ames 2000: 35). It was therefore something of a shock to the English when the Portuguese king, Pedro II, came out not in support of the English monarch's chosen successor to Carlos II but to the Bourbon claimant, Philippe, Duc d'Anjou (Chàvez 2002: 2). William III had led the Grand Alliance in backing the Archduke Charles of Austria, the son of Emperor Leopold I and therefore part of the Habsburg line of succession. It still remains somewhat unclear what direct claim the Habsburg pretender might be considered to have had on the Spanish throne, whereas Philippe's grandmother was a Spanish princess and blood relative of Carlos II (Lynn 1999: 266). She was also the deceased wife of the French king, Louis XIV, which explains why Philippe had such solid Bourbon backing. When Pedro II bowed to French pressure in 1701 to recognise Philippe's claim, the English responded by authorising the Methuens, well known within the Lisbon court due to their various emissary roles, to offer Pedro whatever inducements were necessary to talk the Portuguese around.

William did not live long enough to see the father-and-son team succeed in persuading Pedro to change his allegiance, but this is what he did in early 1703, by which time Anne was on the English throne. On the back of John preparing the way for the outcome that was wanted back in London, Sir Paul closed the agreement through which Pedro proclaimed Archduke Charles's right to the Spanish throne (Duguid 2003: 12). This shift from Bourbon to Habsburg loyalty was followed almost immediately by a second treaty that assured mutual military assistance between England, the Netherlands and Portugal as a means of protecting Portugal from expected Spanish reprisals. It also provided the Grand Alliance with a secure presence on the Iberian Peninsula from which it would have a greater chance of being able to contain more general Bourbon expansionism. Portugal's safe harbours became, in effect, joint possessions of the foremost members of the Grand Alliance (Harding 1999: 170). This entwined port sovereignty was important for Portugal's defence, but it also provided a physical foothold in the country for predatory-minded English merchants on top of the legal foothold that the mid-seventeenth-century Triple Treaties had already bestowed upon them. The scene was thus set for the further Anglicisation of the Portuguese economy.

Portuguese capital poured into viticulture upon the ratification of the third Methuen Treaty (O'Flanagan 2008: 196). The newly planted vines transformed the look of the countryside in the Oporto and Madeira regions to such an extent that they displaced investment in corn and other essential

foodstuffs (Mayson 2013: 27). If Portuguese wine production continued to have a distinctly domestic identity, however, its wine *trade* was dominated by English merchants. They arrived in Portugal *en masse* with both their money and their shipping capacity as soon as the cumulative effects of the bilateral treaties signed over the preceding fifty years reached a tipping point beyond which they enjoyed pretty much free rein to act as an authority unto themselves. The English wine merchants pushed back the internal frontiers of the Portuguese economy with abandon post-Methuen, establishing processing factories to cope with the transformation of so much of the countryside into steeply terraced vineyards (Unwin 1991: 21).

They also had ample support from their Whig backers in the English Parliament, who brought together the interests of English clothiers and wine merchants to prevent the terms of the third Methuen Treaty from being undone. Despite having been passed into English law in 1704 by a majority Tory government, in the popular imagination it crossed the House of Commons to become, as Charles Ludington (2013: 64) has described it, an 'icon' of Whig reluctance to accept anything other than an arm's-length relationship with France. Whig parliamentarians made the case for national sacrifice in continuing to abstain from the finest French claret for the sake of the greater good. The High Tory English palate, with the positive associations it placed on all things French but especially its wine, thus stood opposed to Whig commercial loyalty to the country's Portuguese ally. At the very least, this is how Whig politicians wanted to present the issue, and, as a consequence, the consumption of port became linked to a Whig outlook on international affairs (Smyth 2004: 92).

The third Methuen Treaty and the transatlantic slave trade

The conventional historiography's focus on questions of British taste shows that eighteenth-century trade between England and Portugal was anything but the free trade utopia implied by Ricardo's famous model. The English were clearly adept at defending a structure of comparative advantage that reflected something more than an innate mathematical logic. Even though the peace with France had been widely lauded as a triumph of Tory statecraft and the Prime Minister Robert Harley was strongly supportive of reactivating complementary commercial ties, it is interesting to note what happened to the overwhelmingly free trade Treaty of Utrecht when it was put before the House of Commons in 1713. Article VIII of the proposed treaty declared that: 'Both sides [i.e. Britain and France] to have the same Favour in Trade as any foreign Nation the most favoured'; and Article IX that: 'Goods from *France* to pay no more Duty than the like Goods from any other part of *Europe*' (cited in Janssen 1713: 316). This would clearly have been a dagger to the heart for Portuguese winemakers who had transformed their countryside dramatically in the previous ten years to make possible expanded production aimed solely at the English market. The Treaty of Utrecht was eventually rejected in favour of maintaining the trading structure embedded in the third Methuen Treaty (Adelman 2006: 17). In turn, it kept in place an important dimension of the transatlantic slave trade.

The Methuen Treaty, remember, tied Brazil to the trade between Portugal and England, because only the use of newly discovered gold resources from its Brazilian colony was enough to pay for the trade deficit between Portuguese wine and English cloth. Yet, the merchant ships that carried the gold to Portugal to facilitate the mother country's European trade were far from empty vessels for the remainder of their round trips. The newly hyper-powered Brazilian extractive industries were built upon slave labour. Portugal had previously appropriated Brazilian surpluses in the sugar industry to its own ends, where the plantations had been worked by slave labour (Solow 1987: 68). When the sugar industry declined, the new influx of slave labour from Africa was redirected towards the gold mines. The merchant ships that brought Brazilian gold to settle Portuguese commercial debts in Europe were simultaneously responsible for taking huge numbers of people from Portugal's African colonies to work in the gold mines as slaves (Magdoff 1978: 158).

The Portuguese historian A.H. de Oliveira Marques (1972: 1, 432) has made the following important observation: 'From the late 1600s [i.e. immediately pre-Methuen] to 1822 [the granting of its

independence] Brazil was the essence of the Portuguese Empire … [O]ne might even say that Brazil was the essence of Portugal itself'. This raises the intriguing proposition that Ricardo's hypothetical 'Portugal' was as close to the real Brazil as the real Portugal, albeit with gold replacing wine as the product of interest. Reasonably fresh in the collective British memory as Ricardo wrote the *Principles* were the banking crises of the 1790s in which only the interventions of London's gold merchants rescued the credit and the credibility of the Bank of England from the over-supply of paper money (Davis 2005: 2). It was certainly fresh enough in Ricardo's for him to write in the *Principles* about 1797 as 'the year of the restriction on the Bank payments in coin' ([2004 (1817/1821)]: 368). The secondary literature, meanwhile, notes how Portugal's economy at this time had been recast as little more than a 'transshipment center … to its empire in Brazil and Africa' (Cypher 2014: 140). The first Braganza king had proclaimed that 'Brazil is Portugal's milch cow', whereas the Brazilian historian Caio da Silva Prado preferred to say that Portugal had become 'a simple parasite of its colony' (both cited in DeWitt 2002: 4).

England had attempted to displace Portugal in both of these roles during the seventeenth century. A 1654 treaty extended to Brazil commitments that Portugal had made 12 years previously in return for English recognition of Portuguese freedom from the Spanish crown. This placed English commercial interests operating in nominally Portuguese jurisdictions above national law (Baronov 2000: 121). The English merchants could thus be seen as having formed a nation within a nation, enjoying sufficient physical distance from England that its laws could hardly be said to apply and having escaped entirely the legal influence of Portugal in either Europe or South America. The only concession that the English merchants had to make in return was the purely superficial requirement that their ships were registered for their Atlantic crossings at a Portuguese port (Brooks 2003: 108).

Neither Portugal nor Brazil could therefore do anything about the English merchants dumping excess supplies of Brazilian sugar onto the London commodity markets in the late seventeenth century (Klein and Luna 2010: 33). This had the effect of depressing the global price of sugar by around a half and exacting further treaty concessions from a Portugal now increasingly desperate to make good the ensuing collapse of its purchasing power. Brazilian gold was of much more value to the global economic aspirations of the English than was additional Portuguese import capacity paid for by profitable colonial sugar plantations. The shift in the use of African slave labour occasioned by the manufactured collapse in sugar prices became the primary means of cashing in on the Brazilian gold rush. Once inflows of Brazilian gold had helped to rectify the Bank of England's own financial problems, they then assisted the Bank's attempts to create stable conditions to underpin the geographically expansionary strategies of the City of London (Inikori 2002: 94). In particular, African slave labour in South America unwittingly served to prop up the activities of the British East India Company, because its profits had to be sourced through the flow of gold through the City in the absence of matching import demand for English goods from South and East Asia (Blackburn 1997: 484). By the time of the War of Spanish Succession, Brazil therefore already had the potential to be one of the lynchpins of what had become English pretensions to operate a truly global accumulation regime.

John Methuen's commercial treaty looks remarkably bland when written down on paper. But its text merely obscures a much harsher reality for the people all around the world whose lives were subjugated to making possible the bilateral trading relationship that the treaty envisioned. Ricardo's numerical example illustrating the logic of comparative advantage should be seen as little more than a corruption of the terms of the third Methuen Treaty. As a consequence, it also has the reality of African slave labour in Brazil embedded within it but hidden from view. To the homespun truth that numbers never lie, we can counter that they certainly do in this instance through Ricardo's omission of his numerical example's utter reliance, when translated into the practices of the time, on the transatlantic slave trade.

By the time that Ricardo was writing, Brazil had already become the largest single market for various aspects of British textiles (Baronov 2000: 140). Indeed, the noted Brazilian economist Celso

Furtado (1963: 91) has described eighteenth-century Portuguese dominions as a 'nearly unilateral market' for the British. The eighteenth- and nineteenth-century economic history of Portugal was all about the caretaker role played for first English and then British interests within its own dominions. The third Methuen Treaty did not mention Brazil by name, but this was of no consequence. There was no escape for Brazil from the clutches of Portugal's Grand Alliance partner once the deal had been struck. Portuguese mercantilism had kept Brazil economically subordinated prior to the War of Spanish Succession, but, after this point, its influence was simply replaced by that of British imperialism. Once again, Ricardo's numerical example of the logic of comparative advantage is entirely silent on this issue. What is treated today solely as a matter of mathematical logic wishes away so much of what it meant at that time to be trading 'freely'. Individual freedom was hardly an objective of imperially obsessed eighteenth-century European nations, and it certainly was not the experience of the slave labourers working the Brazilian gold mines.

Ricardo's original 'four magic numbers' example has lasted so long at least in part because of how mundane it appears to be. Read in its own terms, it contains no obvious outward sense about why it should have become such a totem for economic theory, let alone the later normative core of liberal IPE. It therefore matters, I argue, that it is possible to see beyond the banality of how the hypothetical 'England' and 'Portugal' are presented numerically. These are by no means innocent representations of an inbuilt logic through which everyone, merely by accepting arguments about specialisation and trade, can miraculously be made better off. Contrary to the way in which the IPE textbooks typically present it, there *is* no simple mathematical proof of the logic of comparative advantage to be found within the initial position that Ricardo ([2004 (1817/1821)]: 135) ascribed to his 'England' and 'Portugal'. At most, there is a mathematical façade behind which the actual historical social relations of production of the real England and Portugal are deliberately taken out of the equation. These were explicitly oppressive social relations of production based on slave labour and imperial policing of national hierarchies within the international division of labour.

Conclusion

It is difficult to pin down a definitive end point for John Methuen's commercial treaty. It slipped into obsolescence through the aggregated effects of a number of superseding decisions, rather than being struck from the statute books in a single decisive instant. The Anglo-Portuguese commercial treaty of 1810 turned Portugal into a *de facto* British protectorate following Napoleon's invasion three years previously (Elbl 2006: 31). This agreement conclusively opened the Brazilian market to the British after its ports had been made accessible to all friendly powers in 1808 (Smith 2013: 78). From this point on, the third Methuen Treaty no longer served the purpose of creating a Portuguese balance of trade deficit that could only be settled through the use of Brazilian gold, because that gold could now be appropriated by trading directly with Brazil. By 1813, the one-third duty differential that the Methuen Treaty locked in between Portuguese and French wines had been allowed to fall into abeyance (Stening *et al.* 2004: 125), completing the process that had begun when the 1786 Eden Treaty with France had first called Portuguese customs privileges into question (Lang 1979: 190). In 1831, the Whig Chancellor, John Spencer, signalled the reversal of more than a century of his party's reluctance to grant French producers a level playing field by legislating for a common duty on all European wines of a little under £58 per tun (Ludington 2013: 242). This was a far cry from the £25 per tun being paid by Portuguese producers after the passing of the One-Third and Two-Thirds Subsidy Acts of 1704/5, a real-terms increase of over 30 per cent.

John Methuen's commercial treaty should therefore be seen as having experienced a cumulative series of abrogation moments on the road to its eventual formal supersession. Many of these were discussed at length in Parliament at a time when Ricardo had already established his reputation as an important public commentator on economic affairs. It therefore did rather run counter to popular opinion to have said nothing at all about the third Methuen Treaty during its prolonged

death throes whilst nonetheless simultaneously immortalising exactly the same trading relationship between 'English cloth' and 'Portuguese wine' in outlining the logic of comparative advantage.

The lingering fondness that the treaty evoked came from the fact that it provided a decisive competitive edge to the English which, as the tone of the contemporary Parliamentary debates makes clear, was only very reluctantly relinquished. The favourable position that the English were able to engineer for themselves was in practice nothing to do with the natural playing out of a straightforward mathematical logic, as Ricardo's *Principles* implies it should have been. Rather, it was all about the use of political power to create commercial freedoms for some at the direct expense of a whole host of personal freedoms for others. The intrigue between Europe's warring royal houses provided a context in which the European embrace of free trade ran roughshod over the liberal treatment of peoples the world over. Ricardo's numerical example paints a Panglossian picture in which one might have to cede absolute advantage in the production of all goods but can still benefit from rising living standards when choosing the core liberal policy of specialisation and trade. As has been demonstrated, however, the benefits that the actual England was able to extract from its trading relationship with Portugal were historically produced well away from sites in which basic economic principles might be thought to operate. It was in this way that Portugal brought so much of the rest of the Lusophone world into the supposedly bilateral trade between its winemakers and English cloth-makers.

What are we to make, then, of the IPE textbooks that continue to treat Ricardo's theory of comparative advantage as the normative core of liberalism? Eulogies abound to Ricardo's demonstration that '[f]ree commerce makes nations efficient' (Balaam and Veseth 2005: 52) and that acting upon the logic of comparative advantage 'promotes efficiency … by definition' (O'Brien and Williams 2010: 151). Many in IPE have followed their economist colleagues in talking about not merely the theory but the 'law' of comparative advantage (e.g. Gilpin 1987: 22, 173, Hiscox 2014: 96). IPE students taking their first steps in the field are told that it was Ricardo who was responsible for 'the enduring argument' for free trade (Crane and Amawi 1997: 57) and that he 'so elegantly demonstrated [… that …] societal welfare is maximized when countries specialize' (Cronin 2003: 370). Perhaps, however, this is merely Ricardo ([2004 (1817/1821)]: 128) being taken at his word. At the very least, it should be noted that very few of the IPE textbook writers here cited would confess to having a normative stake in the liberal perspective that basic Ricardian theory underpins.

And what of those who *do* consider themselves normatively to be liberals? They are likely to have learnt the basic premises of liberal IPE from the textbooks that typically repeat unchallenged Ricardo's own claims about the secrets of economic development that comparative advantage theory unlocks. They are now also many in number. As Daniel Maliniak and Michael Tierney (2009: 15) have noted, around three-quarters of articles appearing in what they consider to be IPE's leading journals now bear the inflections of a liberal economic worldview of markets, trade and individual choice. The subject field remains something less than a liberal monoculture, but this is nonetheless still a very high proportion. It also requires for Ricardo to be read in a particular way. If it is to be the Ricardo of the *Principles*, armed only with an abstract account of the mutual gains promised by the logic of comparative advantage – that is, the person who conspicuously made the historical back-story inadmissible to the theory – then the generally unquestioning attitude to the normative basis of liberal IPE might be understandable. By contrast, greater attention to a suitably historicised Ricardo suggests that the same unquestioning attitude is no longer excusable. This latter Ricardo is nowhere in evidence in the text of the *Principles*, but, as the preceding pages have hopefully shown, it is not overly difficult to construct him.

Without doubt, teaching liberal IPE becomes a more difficult task the greater the dissent to the universalising principles that Ricardo claimed on behalf of his theory of comparative advantage. It would be such a comfortingly straightforward world if, as he argued, any combination of relative labour productivities led to higher societal welfare so long as everyone took the one simple decision to specialise and trade. However, the historical detail that allowed his numerical example to resonate

way back in 1817 gives rise to a much more complex story of decidedly illiberal means to ostensibly liberal ends. The normative foundations of liberal IPE, at least insofar as they are currently taught through the field's textbooks, require that these illiberal means are systematically overlooked in favour of a sanitised version of historical events that do not deserve such sympathetic treatment. The European embrace of commercial society in the eighteenth century cannot simply be divorced from the contemporaneous European embrace of the imperial economy. Ricardo's numerical example of the logic of comparative advantage between the hypothetical 'England' and 'Portugal' renders invisible the subjugation of whole peoples to the project of empire. Most poignantly, of course, this includes the slave labourers on whose backs was built the edifice of imperial 'free' trade between the real England and Portugal. The challenge is now to teach the normative foundations of liberal IPE in a way that faces up to this fact.

Note

1. Its essence is located in the first two of three articles, which read (Chitty 1824: 111):

   (1) His Sacred Royal Majesty of Portugal promises, both in His own name and that of His successors, to admit, for ever hereafter, into Portugal, the woollen cloths and the rest of the woollen manufactures of the Britons, as was accustomed till they were prohibited by the laws: nevertheless, upon this condition;

   (2) That is to say, that Her Sacred Royal Majesty of Great Britain shall, in Her own name and that of Her successors, be obliged for ever hereafter to admit the wines of the growth of Portugal into Britain; so that at no time, whether there shall be peace or war between the Kingdoms of Britain and France, any thing more shall be demanded for these wines, by the name of custom or duty, or by whatsoever other title, directly or indirectly, whether they shall be imported into Great Britain in pipes or hogsheads, or other casks, than what shall be demanded from the like quantity or measure of French wine, deducting or abating a third part of the custom or duty.

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