Following in John Methuen's Early Eighteenth-Century Footsteps: Ricardo's Comparative Advantage Theory and the False Foundations of the Competitiveness of Nations

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Abstract

The question of whether nation states should compete has traditionally been recast by economists to mean whether a system should be constructed to allow every country to specialise its production where it has maximum comparative advantage. Understood in this way the answer to the question is always 'yes'. The authority figure cited as justification for the positive response is David Ricardo, who first proposed a mathematical example designed to illustrate the theory of comparative advantage in 1817. Generations of economics students have been taught variants of this example ever since as indisputable proof of the wisdom of a country concentrating on making goods in which it has a relative productivity advantage before then freely trading its surplus. Here, however, I argue that Ricardo's mathematical example is far from an innocuous description of a universally-applicable abstract economic logic. The numbers mask a much darker history of trade between Ricardo's two illustrative countries, England and Portugal. His theory of comparative advantage redescribes a supposedly free trade relationship he would have been only too well aware already had been created to systematically favour the English. The underlying historical story is a dystopian mix of Europe's warring royal dynasties, gunboat diplomacy enacted by the strong on the weak, English economic imperialism, a grab for a greater share of the slave trade and the forced appropriation of Brazilian gold bullion itself mined using slave labour. This, for fear of understatement, is not a happy tale.

Following in John Methuen's Early Eighteenth-Century Footsteps:
Ricardo's Comparative Advantage Theory and the False Foundations of the Competitiveness of Nations

> In his 1817 book *Principles of Political Economy and Taxation*, Ricardo developed the principle of comparative advantage as we know it today …. Although economists often disagree on questions of policy, they are united in their support of free trade. Moreover, the central argument for free trade has not changed much in the past two centuries. Even though the field of economics has broadened its scope and refined its theories since the time of …. Ricardo, economists' opposition to trade restrictions is still based largely on the principle of comparative advantage.
>
> (Gregory Mankiw 2014: 55)

> [Comparative advantage theory is] a universally valid analysis underlying the argument for free trade. Time, place, and circumstance are irrelevant thereto. Whether a country is rich or poor, big or little, old or new, with or without high standards of living, agricultural, industrial, or mixed, makes no difference. It is a matter of mathematics, quite independent of environment, that there is an inherent gain in the specialization along the lines of comparative competence which unshackled trade tends to develop. There is no possible refutation of this analysis.
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> (Frank Dunstone Graham 1934: 58)

Introduction

Try to imagine the world of 1817. The impact of technology on the way that daily life was lived; scientific explanations of the relationship between human beings and nature; the structure of government; the prevailing system of morals; the role of religion within society: all of these things, and many more besides, are completely unrecognisable from the world we inhabit today. Force yourself to try to think of anything that was exactly the same then as it is now and it could well be that your mind returns a blank. This is the context in which we should understand the respect that the economics community continues to pay to David Ricardo's theory of comparative advantage which was first published in 1817. The theory is by no means elaborated in any great depth, with flashes of insight being scattered over a ten-page section of a near 450-page book but without ever coming close to being fully joined up. Yet for the subsequent two centuries it appears that no training in the ways of the academic economist is considered complete if often wildly deferential tribute is not paid to Ricardo's presumed farsightedness in having solved for all time the question of why free trade is to be preferred.

What makes this perhaps doubly surprising is that economists are so frequently criticised for their tendency to tell their own disciplinary history in overly linear form (Tabb 1999: 22). Intellectual progress is maintained in this perspective by bad theory constantly being replaced by good theory in a process of iterative disciplinary advance. It is not for no reason, then, that the Nobel Laureate George Stigler has concluded that: "The economics of 1800, like the weather forecasts of 1800, is mostly out of date" (Stigler 1969: 218). Ricardo's theory of comparative advantage therefore looks like an early nineteenth-century time capsule sitting uncomfortably in the midst of a discipline that goes out of its way to emphasise its ultra-modern credentials. However, the defence of free trade within academic economics continues to have its origins in Ricardo's algebraic expressions of hypothetical 'English' and 'Portuguese' economies.

The much more recent fascination with the competitiveness of nations has exactly the same intellectual origins, with the logic of the former re-emerging also as the logic of the latter. The question, 'should nation states compete?', might therefore usefully be reworded as, 'should we continue to pay such homage to Ricardo's 1817 theory?'. Nations are today advised to compete so that they can get a better perspective on where their comparative advantage lies and how they can therefore be expected to cash-in the benefits from specialisation and trade to the greatest possible extent as an enhancement of their competitiveness. As Paul Krugman (1994: 32) suggested in his famous 1994 *Foreign Affairs* article, competitiveness is not a concept that most card-carrying economists will embrace, due to its lack of measurable purchase. However, competitiveness continues to cast such a long shadow over contemporary political debates because it sounds as though it is an economic concept as it is always used in discussions of economic policy. For that it needs to thank its proximity in formal style to Ricardo's classic concept of comparative advantage. Ease of use of that concept is one of the yardsticks by which economics students demonstrate to both themselves and their teachers that they are becoming comfortable with the language and, indeed, with the very mindset of their subject field (Kishore 2014: 19). The assumption that competitiveness discourse represents a natural way to talk about the economy follows directly from the manifestation of that comfort.

It should maybe therefore not come as a surprise to find Gregory Mankiw (2014: 55) using his best-selling economics textbook not only to report the reverential approach that his profession generally takes to Ricardo's theory but also to talk up the psychological rewards that its individual members continue to experience when falling in line with this established consensus. Ricardo's one great gift to his successors, we are told, is that he removed from his subject field's collective consciousness any doubt about where its practitioners should position themselves on the question of free trade. The ability to repeat Ricardo's algebraic expressions of what a hypothetical 'England' had to gain from free trade with a hypothetical 'Portugal' – and vice versa, it should be noted – has become an indelible part of what it is to be an academic economist. Knowing how to replicate the competitive equilibrium solution from the logic of comparative advantage theory has become a genuine Kuhnian exemplar acting as a gatekeeper of training within the field (Kuhn 1977: 297-8; see also Kuhn 1970: 119-26). It does its job not by provoking discussion of the broader structure of the underlying argument but by teaching the introductory student how to force other questions into a competitive equilibrium solution (see Barnes 1982: 17-8; Margolis 1993: 7). Comparative advantage theory thus has to be accepted as an unequivocal fact if it is to be used subsequently to unlock further secrets of the economic universe.

Paul Samuelson, one of Mankiw's predecessors as the author of the world's best-selling economics textbook, provides an instructive example of how tight a grip this idea exerts. He recalls an exchange with a social science sceptic, the mathematician Stanislaw Ulam, to provide just a single example from anywhere in the social sciences of a proposition that was both true and non-trivial.

Samuelson records himself as having had to pause to think for a while whether there was a better answer than 'comparative advantage' – thirty years, in fact, by his own account – before deciding that there was not and, as a consequence, latterly offering it as his retort to Ulam. "That it is logically true", he wrote when finally delivering his answer, "need not be argued before a mathematician; that it is not trivial is attested by the thousands of important and intelligent men who have never been able to grasp the doctrine for themselves or to believe it after it was explained to them" (Samuelson 1969: 683). Samuelson (with William Nordhaus 2010: 433) used his own textbook to say that Ricardo's comparative advantage theory is the "unshakable basis for international trade".

It would therefore be of some importance – for the case for free trade, for the alignment of economics around competitive equilibrium solutions and for competitiveness discourse more generally – if it turned out that none of this is true. That is the position that I will be attempting to derive as the paper progresses. At the very least, I will try to show that Ricardo's hypothetical 'England' and 'Portugal' were not so hypothetical after all. The algebraic expressions are hypothetical only insofar as they offer the glimpse of a symmetrical trading relationship that was anything but symmetrical in practice. The real England and Portugal already held a defined position in the hierarchy of international trade that appeal to the hypothetical 'England' and 'Portugal' served merely to obscure. Those positions owed nothing to the supposed internal economic logic of comparative advantage, but were produced historically through a series of treaty obligations that reflected the balance of power within imperially-obsessed seventeenth- and eighteenth-century Europe. Frank Graham (1934: 58) might very well have declared them to be simply "a matter of mathematics, quite independent of environment", as was seen in one of the quotes with which the paper began. Moreover, it might also have suited his purposes, as a founding member of the Mont Pèlerin Society (see Lester 1950: 586), to have treated the competitive solution thus implied as a natural phenomenon arising from brute economic logic. However, it is my contention that Ricardo's original algebraic expressions act as a convenient misdescription of the historical production of a deeply unequal trading relationship. Its apparent banality acts only to obscure that misdescription, and certainly not to correct it.

In order to pursue this argument, the paper now proceeds in three stages. In the first section I outline Ricardo's original treatment of comparative advantage theory. It can be shown quite easily that Ricardo's algebraic expressions are nothing other than an idealism that wishes away the social relations of international production. In the second section I try to restore those social relations through an analysis of the multiple treaties signed between England and Portugal that culminated in the third of the three Methuen Treaties of 1703. This ensured that Portuguese wine would gain access to the English consumption market at a fraction of the tariff cost imposed on French wine, but only in return for granting largely unrestricted access to the Portuguese consumption market for English cloth. Wine and cloth just so happened to be the products that Ricardo allowed into his two-good model of the trading relationship between the hypothetical 'England' and 'Portugal'. In the third section I look at how the Methuen Treaty had entered both popular and political culture in Britain in the century between its signing and Ricardo publishing his *Theory of Political Economy*. In particular, I focus on how this acted to deflect attention from the slave trading that increasingly acted as the stimulus to allow the trading relationship envisioned in the Methuen Treaty to operate.

Ricardo's Original Treatment of Comparative Advantage Theory

The passages in which Ricardo first built the case for free trade around comparative advantage theory appear in Chapter VII, 'On Foreign Trade', of his *Theory of Political Economy*. Richard Peet (2009: 81) has called them the "ten pages that changed the world". Yet if you did not know how much significance has subsequently come to be vested in those passages, it would be possible to pass them by almost completely unawares. The legendary status does not come from a fully worked out example that is so elegant it grabs the reader's attention and does not let it go. Indeed, Mankiw is merely the latest in a line of textbook authors who does not use the hypothetical 'England' and 'Portugal' at all when trying to get students to work through an example of the logic at play in comparative advantage theory. His example enlists Robinson Crusoe and Friday collecting coconuts and catching fish as the characters in his two economy/two good model (Mankiw 2014: 54). Even where 'England' and 'Portugal' do appear in the exposition it is hardly ever alongside the precise terms of Ricardo's original algebraic expressions. Some other ratios of production possibilities are deemed more appropriate in driving home the logic of comparative advantage theory and are therefore used instead. Despite frequent assertions that Ricardo's original treatment reduces to a simple mathematical fact, it is surely of interest that Ricardo's original mathematically-oriented explanation is hardly ever repeated in full. Besides, by modern standards at least, it is almost certainly an exaggeration to think of this as a mathematical explanation. There is a strong hint of an argument couched in mathematical logic, yes, but it is difficult to say that there is any real mathematics here. There are numbers, and these are used to promote algebraic expressions which have a single free trade solution routinely presented today as a competitive equilibrium, but there is no real mathematics.

Instead, Ricardo began 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" (Ricardo 2004 [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 in the following terms: "Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each" (Ricardo 2004 [1821]: 133). It is not until another two pages again that he offered some numbers by way of illustration that could form the basis of an algebraic expression to capture the essence of comparative advantage theory.

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 'England' and its cloth makers and the hypothetical 'Portugal' and its wine makers to confirm his personal preference for a system of unrestricted trade. "England may be so circumstanced," he wrote, "that to produce the cloth [for trade with 'Portugal'] 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 [1821]: 135). The numbers that Ricardo plucked from the air for his 'England' are important in two ways. First, the relative labour inputs required in cloth and wine making suggest that 'England' needs to find a partner with the opposite characteristics, which he just so happened to impose on his 'Portugal'. Second, his 'England' is still provided with an ostensible incentive to trade, even though, as we shall see, the carefully selected numbers show his 'Portugal' to have an absolute advantage when producing both wine and cloth. "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 2014 [1821]: 135).

Sophisticated economic data on productivity differentials were not available at the time to explicitly challenge Ricardo's numbers. However, 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. 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% 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 whopping 40% 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). In today's terms that is £4.5 billion and £180 million respectively on a massively less productive economy and a massively more restricted trade sector than we are now used to. There is little wonder, then, that Celso Furtado (1963: 91) has described eighteenth-century Portugal and the Portuguese dominions as "a fast-expanding and nearly unilateral market" for the British. 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).

What Ricardo saw in the algebraic expressions of the trading positions of the hypothetical 'England' and 'Portugal' the economics textbooks now celebrate as a universal competitively-produced equilibrium (Cohn 2015: 44). Indeed, in all but the most critically-minded introductory guides to the subject field the repetition of the basic logic of his example has elevated it to foundational status for the whole way of thinking like an economist. But what should be made of the fact that the convenient choice of numbers to depict an economically weak 'England' and an economically strong 'Portugal' appears to act as cover for an actual trading relationship built on a direct role reversal? We can maybe overlook the fact that the hypothetical 'England', with its 11% productivity disadvantage in cloth making and its 50% productivity disadvantage in wine making, would not have been able to export anything in practice to the hypothetical 'Portugal' in the absence of gold flows that Ricardo's original treatment explicitly ruled out as an assumption of the model (Ricardo 2004 [1821]: 137). We can maybe also overlook the fact that, as Carlo Cipolla (cited in Magdoff 1971: 159) has argued: "It was fortunate for England that no Indian Ricardo arose to convince the English people that, according to the law of comparative costs, it would be advantageous for them to turn into shepherds and to import from India all the textiles that were needed". Taken together, though, they can be trusted to show that Ricardo's own numerical example does not support the conclusion he drew from it.

He argued very clearly that the situation which the economics textbooks have latterly come to describe as the competitive equilibrium embedded in comparative advantage theory will necessarily make everyone better off (Ricardo 2014 [1821]: 132). Once solved, the algebraic expressions made possible by his numerical example do show that total production within the two economy/two good world will increase. The reader has been left for nearly two hundred years, however, with having to take Ricardo's word for the fact that this automatically translates into increased real incomes on all sides of the trading relationship. There is nothing in the algebraic expressions themselves to say why this is likely to be so (Peet and Hartwick 2015: 48). Whether or not gains are equitably shared is a matter of the terms of trade, whereas Ricardo's numbers speak only to relative labour productivities. These are not analogous entities in any way, shape or form. The terms of trade which ensured that the real England could appropriate Brazilian bullion as settlement for Portuguese trade deficits was conditioned by British naval dominance, security guarantees and imperial power (Wallerstein 2011: 166). The terms of trade which ensured that the same real England did not have to cede comparative advantage in textiles to India had identical origins (Bayly 1988: 1).

It is impossible to escape the conclusion that in giving the two countries in his numerical example the names of 'England' and 'Portugal' Ricardo tried to present as a universal equality an actual relationship that he was only too well aware worked systematically in the real England's favour. Portugal had had its burgeoning textile industry all but extinguished by the competition that it was forced to endure from much better resourced English (and then British) counterparts in the early eighteenth century (Robinson 1978: 103). It had then had to watch as the dynamic implications of these initial arrangements were allowed to create ever widening economic fortunes between the two as the century progressed. The inability to export enough wine to pay for its cloth imports would have limited this inequality were it not for the discovery of previously unimaginable new sources of Brazilian gold at the start of the eighteenth century (Eakin 1998: 23). The original treatment of the logic of comparative advantage therefore appears to be little more than a crude masking agent for continued British privilege. Joan Robinson (1977: 1336) has consequently argued that what most economics textbooks wish to portray as the absolute truth of comparative advantage theory was actually Ricardo describing the structure of early nineteenth-century British commercial interests. She was concerned that he had tried to capture a process whose essence necessarily evolves through time but had chosen to do so via comparison of two entirely static equilibrium positions (Harcourt 1979: 94).

Some of the most exaggerated claims made on behalf of Ricardo's theory celebrate its ahistoricity. Trust in the impersonal properties of the international marketplace, we are told, and the same result of mutual benefits will arise regardless of context. However, the movement between one solution of whether to trade and another is necessarily a historical process. Prices and wages did align in 1817 in such a way as to provide Britain with a comparative advantage in cloth production and Portugal in wine production, but this was not the pure market 'England' and 'Portugal' that Ricardo chose to write about. As Harry Magdoff (1971: 162) suggests: "In one sense, prices and wages undoubtedly do reflect the exchange of equivalents. But these equivalents are the products of a specific historical process. They are far from God-given, eternal, and immutable". In the case of early nineteenth-century European trading partners, they were "created in the context of colonialism, war, nationalist rivalries, and military power" (Magdoff 1971: 158). The historical back-story therefore has to be reinserted into Ricardo's comparative advantage theory if we are to better understand both it and its implications for competitiveness discourse today.

The Methuen Treaties between England and Portugal

There does not appear to be a single mention of the 1703 Methuen Treaties signed by the English and Portuguese governments in any of Ricardo's written work, parliamentary speeches or correspondence. It is inconceivable that he was simply unaware of it. If a treaty had ever attained the status of *cause celebre* it was the third of these three treaties, 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; it became enshrined in the public consciousness as a touchstone of the successes of the country's commercial policy; it was defended 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; and it was lamented in its dotage when it was superseded having come to the end of its useful life in 1813, just four years before Ricardo published the first edition of his *Theory of Political Economy*. It also appears in full, before being criticised at length, in Adam Smith's *Wealth of Nations* (see Smith 1981 [1776/1784]: IV.vi.3-IV.vi.19). And we know – from his own words, no less – just how closely Ricardo had studied the text of that book before writing his own classic theoretical exposition, describing himself as "a great admirer of the work of Adam Smith" (Ricardo 2004: 246; see also Ricardo 2004: 98, 100). Yet still the third 1703 Methuen Treaty received not a single mention in any of Ricardo's recorded public utterances. This is despite the fact that the two goods mentioned explicitly in its conditions are exactly the same two goods as Ricardo has his hypothetical 'England' and 'Portugal' trading in an attempt to demonstrate the presumed mutual benefits of free trade. Surely this has to be more than what would be a most remarkable coincidence?

For such an important treaty, it is surprisingly brief, and 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 negotiate two prior treaties guaranteeing a further political coming together of the two countries in return for enhanced English naval protection (Mayson 2013: 9). His father John, Lord Chancellor of Ireland and Ambassador Extraordinary to Portugal in the early eighteenth century, decided to push his luck during Sir Paul's temporary absence from the country by unilaterally negotiating the terms of a third, exclusively commercial treaty, but without having sought the authority to do so. His fortune held, and the commercial treaty was signed on behalf of both monarchs on December 27th 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 cloth producers, perhaps more than those of any other country, felt this exclusion really rather intensely. Their country’s textile technology was second to none at 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 (Peet 2009: 90). This was specialisation on a large scale, but not one arising from the market forces made manifest in the numerical example provided by Ricardo of the hypothetical ‘England’ (see Cypher 2014: 142). 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 shift. 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 skills that would latterly allow them to specialise in the worsteds, and then the bays and the serges, that Portuguese ‘pragmatics’ kept out of their consumption markets at the turn of the eighteenth century.

The terms that John Methuen was able to negotiate 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). The Methuens, it should be noted, were themselves originally from a family of clothiers who had felt the force of the previous regime of restrictive practices (Ramsay 2013: 115). Perhaps it was not altogether unexpected, then, that if the older Methuen was prepared to roll the political dice then it should be with the wool interest uppermost in mind. The final Methuen Treaty reduced to one simple premise which demonstrates the centrality of the wool interest very clearly (cited in Smith 1981 [1776/1784]: IV.vi.4-IV.vi.5).

> Art. I
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> 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 British, as was accustomed, till they were prohibited by the law; nevertheless upon this condition:
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> Art. II
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> 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 for the like quantity or measure of French wine, deducting or abating a third part of the custom or duty.

This is not just the essence of the treaty; it is pretty much the treaty in its entirety save for an additional passage entitling Portugal to re-impose its 'pragmatics' if at any time it did not receive its duty advantage over France. This really was a treaty for a two economy/two good world, because it is solely about English cloth and Portuguese wine. No mention was made of wines which at the turn of the eighteenth century were also being imported into England in large quantities from both Spain and the Holy Roman Empire (Smyth 2004: 97). No mention was made either of exactly what level of duty Portuguese wine makers could expect to pay. English cloth makers could expect largely unrestricted entry into the Portuguese market under the terms that Methuen had negotiated, thus ending the previous system through which, to protect domestic producers, the wearing of foreign-made cloth in Portugal had been prohibited (Magdoff 1971: 157). Yet Portuguese wine makers 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 wine makers were paying at the same time.

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 under the terms negotiated by Methuen a cost advantage on duties of at least 33%, by the time the changes introduced by the Subsidy Acts had taken effect the differential was over 50%. 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 obvious loophole in the Methuen Treaty arising from the fact that no upper limit had been stated, either in numerical or percentage terms, to what Portuguese wine makers could expect to pay for market access across national borders.

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 algebraic expression of its comparative advantage in labour productivity. Queen Anne's England, by contrast, played both sides of the third Methuen Treaty to its own ends in order to create a doubly uneven playing field in its trading relationship with Portugal.

Despite what would have been entirely understandable grievances at this treatment, Portuguese capital nonetheless poured into viticulture (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 it displaced investment in corn and other essential foodstuffs (Mayson 2013: 27). The wine trade, though, was dominated by English wine merchants who arrived in Portugal with their money and their shipping capacity as soon as the third Methuen Treaty persuaded them that it would be lucrative to do so. This was in direct contrast to Ricardo's "men of property" who we are told, for the sake of his comparative advantage theory, are "satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations" (Ricardo 2004 [1821]: 136). 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).

So, how did things come to work so badly for Portugal? What was it about its situation that meant it allowed for its contextual economic weaknesses to be institutionalised in the third of the three Methuen Treaties?

Portugal had been the first of the European imperial powers to attempt, in the sixteenth century, to secure entrance to the Indian Ocean economy. In Richard McIntyre's (1999: 249) words, this evolved into "a kind of Mafia operation" as a response to burgeoning European balance of payments deficits with traders from across Asia and the Middle East. 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. This enabled Portugal to pay down its own debts by seeking the equivalent of protection money if it was to allow the continuation of the trade on which elites throughout Europe had come to depend (Seavoy 2003: 16). All of this, though, relied on the ability of Portugal to reproduce its naval dominance, which in turn was conditional on it finding ways of circumventing military threats closer to home. As these threats began to escalate during the seventeenth century, it sought increasing sanctuary within the Grand Alliance (Hanson 1981: 264). In particular, the Portuguese navy was now no longer as dominant as the English navy (Hattendorf 2002: 118). So the colonial strategy for ensuring that the Portuguese balance of payments did not spiral out of control became ever more dependent on at least tacit English support.

In the latter half of the seventeenth century, as Harry Magdoff (1972: 102) shows in his historical study of European imperialism, the terms of the colonial rivalry between England and France changed in such a way as to accentuate this dependence. Where once Portugal had been economically reliant on France, from that time onwards it increasingly danced to the English tune. The Methuen Treaties 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 wine makers 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 wine makers, who occupied a position of strength within the domestic political structure, assented to this arrangement in the hope – or even the expectation – that it would provide them with something approaching monopoly conditions. 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 royal family had been closely aligned with the English since the marriage of Catherine of Braganza to the English king, 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 therefore came as 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 a Grand Alliance of England, Ireland, Scotland, the Netherlands, Savoy, Aragon and the Holy Roman Empire in backing the Archduke Charles of Austria. It still remains somewhat unclear what direct claim the Archduke 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 Pedro change his allegiance, but this is what he did in early 1703, by which time Anne had succeeded to the English throne. Sir Paul Methuen had succeeded in getting Pedro to renounce the goal of a universal Bourbon monarchy by becoming a signatory to a document proclaiming Archduke Charles's right to the Spanish throne (Francis 1966: 225). This was followed almost immediately by the declaration of mutual military assistance between England, the Netherlands and Portugal (Beilenson 1969: 238). This provided the Grand Alliance with a secure presence on the Iberian peninsula as a means of containing 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 significant foothold in the country for predatory-minded English merchants. The third Methuen Treaty of 1703, John's purely commercial treaty, set the scene for this to subsequently become something far more than just a potential opening.

What Lies Lurking Behind Ricardo's Numbers?

John Methuen's commercial treaty reached a very rarefied position not usually reserved for a simple agreement for one country to privilege one imported good in return for another country not discriminating against its exports. It managed to set the terms for much of Britain's eighteenth-century foreign policy and, in this way, it secured a place in the popular imagination. The third of the Methuen Treaties was passed into English law in 1704 by a majority Tory government, but in political folklore 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.

The political pamphleteers and leading novelists of the day, Jonathan Swift and Daniel Defoe, both took up the Tory cause of a *rapprochement* with France immediately upon cessation of the War of Spanish Succession (Hill 2012: 298). Each of them wished to liberate the palate of Britain's social elites by reacquainting it with the luxury French items that had been blocked from crossing the Channel during the preceding hostilities. Yet neither wanted to be seen in any way anti-Portuguese, even though Portugal's wine makers would clearly have taken a hit if their favoured policies had been introduced. Both of them consequently placed a Portuguese hero in their most famous novel: *Gulliver's Travels* in Swift's case, *Robinson Crusoe* in Defoe's. They chose to make them men of indisputable character in early eighteenth-century terms, in a clearly deferential allegorical nod to the role that Portugal had played within the Grand Alliance (Duguid 2003: 22). Still, though, Whig politicians were able to mobilise wider public fears that going back to the pre-war commercial status quo with France would see the return of historic trade deficits and a corresponding loss of both bullion and power to France (Aston 2015: 70). Better the devil you know, they argued, especially as Portugal had signed itself into a clearly inferior bilateral position through the third of the Methuen Treaties.

All of this came to a head in the political struggle over whether the British would ratify the Treaty of Utrecht in 1713. This was another treaty to be put before a Tory-controlled government. The peace with France had been widely lauded as a triumph of Tory statecraft, and because the Prime Minister Robert Harley was strongly supportive of reactivating complementary commercial ties, it was widely accepted that the bill to pass the Treaty of Utrecht into law would receive relatively uncontroversial passage (Claydon 2015: 23). But Harley had not reckoned with the negative reaction that arose when it became clear that the Treaty of Utrecht would negate the third Methuen Treaty negotiated only ten years before. The offending parts of the treaty were Articles VIII and IX. Article VIII 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 wine makers who had transformed their countryside dramatically in the previous ten years to make possible expanded production aimed solely at first English and then British consumption markets. Given that the historical literature records the generally casual approach of the Harley Government to reneging on the commitments to its Portuguese allies, this might not have mattered terribly much had it not been for the fact that merchants from his own country had invested heavily to assist that expansion (Rich 1967: 356).

The wool interest also mobilised strongly against anything that would grant French wine makers parity with Portuguese wine makers (Fowler 2010: 233). This was not out of a particular sense of empathy for the burgeoning Portuguese viticulture, nor yet for a fondness for the sense of hostility with France that the unequal treatment served to prolong, but out of pure self-interest. Portugal had made it clear that it would retaliate by re-imposing restrictive entry to British cloth if the Treaty of Utrecht was allowed to overwrite the existing arrangements established by the Treaty of Methuen (Mayson 2013: 71). The Whigs took up the wool interest's case with gusto, asking for national sacrifice in continuing to abstain from the finest French claret for the sake of the greater good. It was in this way that Whig politics became associated with the further Anglicisation of port drinking in preference to wine drinking. Not everyone was happy, as is shown by the free trader economist John Ramsay McCulloch's (1833: 82) complaint that: "The beverage that was forced upon us by necessity, has become congenial from habit". Queen Anne had bought for her court in December 1703 eight pipes of red port and two of white (Ludington 2013: 90). But this was only out of recognition of the Methuen Treaty, not as a question of taste. Successful Whig politics did not require the British to actually like Portuguese wine, only that they would think of their drinking preferences in the context of the broader priorities of national economic policy.

Despite government backing, the Treaty of Utrecht was eventually voted down in the House of Commons by 194 to 185. The secondary literature suggests that it was in this moment that John Methuen's purely commercial treaty first became intertwined with political folklore. Saving the third Methuen Treaty from extinction at the hands of the Treaty of Utrecht seems to have been more important to the hold it was able to exert on the popular imagination later in the eighteenth century than the original signing of the Treaty (Duguid 2003: 34). That passed largely without fanfare, to the point at which many of the accounts of the time conflate John's influence on the commercial treaty and Sir Paul's on the political treaties as if there was only one Methuen involved (Francis 1966: 48). However, the rejection of the Treaty of Utrecht locked in the terms of the third Methuen Treaty, propelling it from its "previously tenuous" position to the status of "bedrock" of British commercial policy (Ludington 2013: 76). Locking in the results of John's initial freelance negotiation simultaneously locked out French wine and the Portuguese threat to use renewed sumptuary laws to limit the export penetration of British cloth makers (Nye 2007: 37).

Much of the eighteenth-century folklore surrounding the Methuen Treaty revolved around suppositions of the development of British taste. The conventional political historiography of eighteenth-century drinking preferences has it that the Tories only sought economic as well as military peace with France on the grounds of their desire for fine wines (Smyth 2004: 92). The High Tory English palate, with the positive associations it placed on all things French, thus stood opposed to English loyalty to its 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 (Kronenberger 2010: 92). Cyrus Redding, a near contemporary of Ricardo's, a wine writer and editor of the Tory *New Monthly Magazine* that satirised the manners of the lower middle classes (Dart 2012: 21), ridiculed Whig support for the Methuen Treaty as a "gin merchant's job" (cited in Duguid 2003: 35).

However, 1703 was far from the start date for these seeming political differences in taste. Embargoes on French wines had been in existence between 1678 and 1685 and, after a brief hiatus, again between 1689 and 1695 (Miller 2014: 80). The rise of Iberian wines amongst English smart society occurred particularly as a result of the Exclusion Crisis of 1679-1681. This was a period of great division between the Tories and the Whigs (Harris 2014: 3). The Whigs wished to exclude Charles II's heir presumptive, his brother James, from acceding to the thrones of England, Scotland and Ireland because of his Catholic faith. The Tories, by contrast, opposed the exclusion, but when they could not muster a majority in Parliament they were powerless to prevent lingering tensions surrounding the future king's religion from being translated into severe restrictions on importing French goods (Holmes 1986: xv). The turn towards Iberian wines thus started pre-Methuen, largely because of temporary absences of alternatives.

However much the literature focuses on questions of taste, though, much of this appears to be a front for a significantly darker underbelly to the story as a whole. The Methuen Treaty tied Brazil to the trade between Portugal and England, because only the use of newly discovered Brazilian gold resources was enough to pay for the trade deficit between Portuguese wine and English cloth (Hornborg 2011: 141). 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 extractive industries were built upon slave labour, and the merchant ships that brought Brazilian gold to settle Portuguese commercial debts in Europe were also responsible for taking huge numbers of people from Africa to work in the gold mines as slaves (Magdoff 1971: 158). 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. John Methuen's commercial treaty looks remarkably bland when written down on paper. But the text in all of its banality merely obscures a much harsher reality for the people whose lives were subjugated to making possible the trading relationship that the treaty envisioned. Ricardo's algebraic expressions through which he illustrated the logic of comparative advantage theory are, of course, little more than corruptions of the terms of the third Methuen Treaty. They also, as a consequence, have the reality of African slave labour in Brazil embedded within them but hidden from view.

By the time that Ricardo was writing, Brazil had already become the largest single market for various aspects of British textiles (Baronov 2000: 140). The eighteenth- and nineteenth-century economic history of Portugal and Brazil was all about the caretaker role played for first English and then British interests. The third Methuen Treaty did not mention Brazil by name, but this was of no consequence. There was no escape from the clutches of Portugal's supposed ally once the deal had been struck. Portuguese mercantilism had kept Brazil subjugated prior to the War of Spanish Succession, but after this point it was simply replaced by British imperialism (Smith 2005: 167). Once again Ricardo's algebraic expressions through which he illustrated the logic of comparative advantage theory are 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'. Just as the African slave labour on which the whole of the historical trading relationship depended was forced to disappear from the analysis in favour of a wholly ahistorical mode of exposition, so it was too with the imperial structure of accumulation that led to the use of African slave labour in the first place.

One of the sources of strength of Ricardo's original 'England' and 'Portugal' example is, perhaps somewhat counter-intuitively, just how mundane it is. It is presented in understated, almost even accidental terms in the *Theory of Political Economy*. There is no obvious outward sense there about why it has become such a totem for economic theory. Yet its rhetorical power, we might say, rests in the fact that on surface appearance there is no obvious reason why it should have any rhetorical power at all. It therefore matters, I argue, that it is possible to see beyond the banality of the way in which the hypothetical 'England' and 'Portugal' are presented. These are by no means innocent representations of an inbuilt logic through which everyone, if that logic is acted upon, can magically be made better off. Hopefully the preceding pages have given a lie to one of the claims with which the paper began. There *is* no mathematical proof of the logic of comparative advantage theory contained within the initial position that Ricardo (2004 [1821]: 135) ascribed to his 'England' and 'Portugal'. At most, there is a mathematical façade behind which 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

Ricardo might not have seen fit to mention any of the Methuen Treaties, but John Ramsay McCulloch, the leading Ricardian of a later generation of nineteenth-century British economists, certainly did. He railed against the system of mutual preferential treatment, suggesting – somewhat contrary to the historical record, to say the least – that in practice Portugal was able to claim most of the benefits. It had received certainty that its wine would always be more lightly taxed than that of other countries, but initially the English and then latterly the British had only received assurances that the prior structure of Portuguese 'pragmatics' would be removed. No reciprocal guarantee was bargained by Methuen that a further treaty might give other countries' cloth makers a competitive edge through removing even further taxes. "A more improvident bargain on our part could not have been entered into", wailed McCulloch (1833: 81). "And in return for this pitiful boon we bound ourselves 'for ever hereafter' to drink inferior wine bought at a comparatively high price!" The true Ricardian solution of the genuine free trade existing between his hypothetical 'England' and 'Portugal' was the only thing that would have kept McCulloch happy.

This would appear to be one of those occasions, though, in which abstract economic theory points in the opposite direction to public opinion. A sombre note was struck when John Methuen's commercial treaty was finally rendered redundant a mere four years before Ricardo published his *Theory of Political Economy*. Long-lasting effects had resulted from the way in which the Methuen Treaties had captured the popular imagination at the time of its near repeal at the hands of the Treaty of Utrecht. They passed into obsolescence with a collective sigh and a heavy heart, lamented in a manner that it is difficult to envisage for any commercial treaty today. The fondness that they evoked, even as they slipped well past their sell-by date, came from the fact that they provided a decisive competitive edge to the English which, having subsequently inherited it, the British were yet to relinquish. This favourable position was nothing to do with the natural playing out of market forces, as is implied by the ability of the hypothetical 'England' and 'Portugal' to trade freely with one another in Ricardo's famous comparative advantage example. Rather, it was all about gunboats, the slave trade, intrigue between Europe's warring royal houses and trading off commercial rights for military protection. In short, the situation was historically produced well away from sites in which basic market logic is so often thought to operate.

And with that I return to where I began, to conclude with some observations about how Ricardo's theory of comparative advantage relates to modern-day competitiveness discourse. There is a certain irony, at the very least, that Ricardo's theory today tends to stand in for a competiveness discourse that economists are unlikely to appeal to directly. Ask an economist what they make of the idea of the competitiveness of nations and they are most likely to tell you that what you are really talking about is the structure of comparative advantage. Krugman's message about the need to steer well clear of competitiveness discourse has obviously struck a chord with his fellow economists (see Krugman 1994: 39). However, this conscientious objection actually hides something far more interesting. Krugman has instructed the economics profession to avoid talking explicitly about competitiveness on the grounds that it is a fundamentally uneconomic concept, and its members have responded by seeking sanctuary instead in the early nineteenth-century theory of comparative advantage that their disciplinary training has drummed into them is an economic concept *par excellence*. Yet the preceding pages have hopefully demonstrated that Ricardo's account of the free trade equilibrium between the hypothetical 'England' and 'Portugal' is a really rather blatant misdescription of the way in which the real England had used its political muscle to subordinate the real Portugal. Indeed, it is difficult not to suspect that this misdescription was deliberately embraced as a means of further cementing the real England's privileged position (see Robinson 1977, 1978).

What we can say for sure is that the competitive edge over Portugal that England was able to lock in through the Methuen Treaties was anything other than the result of market forces. And yet the idea that markets provide the backdrop for countries to specialise economically in what they do best is the only thing that lends the competitiveness discourse even the smallest suggestion that it might be a genuinely economic discourse. Perhaps we should know better given the reluctance of economists to openly talk the language of competitiveness. But still the suspicion lingers that for as long as a link can be made between the very different ideas of national competitiveness and comparative advantage then the former can appropriate the intellectual credibility that is traditionally vested in the latter. The centrality of Ricardo's comparative advantage theory to economists' sense of what it means to be a member of their subject field should not be underestimated (McIntyre 1999: 249). It has become so much a part of the discipline's self-understanding that other, seemingly related, concepts are able to free ride upon it. It is therefore wholly destructive of the whole competitiveness idea if it can be shown that there are good reasons to doubt the provenance of its foundational economic concept.

This, I hope, is what I have at least tentatively been able to show in the preceding pages. If I have been in any way successful in this endeavour, then it should have placed the question, 'should nation states compete?', in a completely different context. The only truly respectable answer to that question from within mainstream economics is 'yes, but only on condition that the competition being envisioned equates to the competitive equilibrium of comparative advantage theory'. Here, however, I have argued that such a competitive equilibrium does not exist, or at least not within the famous example that Ricardo used of the mutual benefits of trade enjoyed by his hypothetical 'England' and 'Portugal'. These benefits were entirely illusory, a product of the numbers that were conveniently chosen to allow him to make his normative case for free trade in apparently neutral mathematical form. But nobody should be fooled by this, irrespective of how loudly the economics textbooks proclaim that the insights of comparative advantage theory are indisputable mathematical facts. England and Portugal had the trading relationship they did in Ricardo's time not because of the free play of some benign structure of market forces, but because of an oppressive power politics built upon imperial ambitions and slave labour. Naïve proponents of competitiveness discourse should thus beware. The economic logic of claims about competitiveness is identical to the economic logic of comparative advantage theory. However, this has been nothing more historically than a cover for promoting the interests of the economically strong at the expense of the interests of the economically weak.

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