must be ventured. One difficulty in any discussion upon international trade lies in the common usage of the words 'favourable' and 'adverse' in connexion with the balance of trade. To the extent that these words connote a theory of trade which postulates the advantage of a credit balance in international trade we can discern the influence of mercantilist tradition. The commercial application of the doctrine that, in trade as in charity, it is more blessed to give than to receive, had, of course, it greatest significance in the effect of trade upon the movement of gold; and belief in the advantage of a national system of trade organized in such a way that it promotes an influx of gold is still lively. For many reasons, but chiefly because they concentrate attention upon the mere physical volume of incoming and outgoing commodities, such theories of trade must be disregarded. Movements of goods in international trade are merely the outward and visible signs of the operation of factors hidden deeply and often inextricably in the fabric of national finance and industry; and it is rather upon the operation of the factors causing the movement of goods between countries that we must focus attention.

The first approach to 'the complex problem of world trade by way of the relatively simple problem of the exclusive trade between two countries' was made by Ricardo; and Marshall took this a stage further by emphasizing the individual transactions of which the fabric of international trade is built, and by stressing the specialized function of the merchant in selecting those goods for international exchange which offer the best chance of profit.[1] The merchant's work consisted in establishing an equilibrium in trade by exchanging what the population of a country produced for what they wanted. International trade was thus recognized as pure barter; and, from the merchant's point of view, all he wants to know is 'whether the prices for the things which he has to sell, i.e. the country's exports, are high relatively to the things which he looks to bring back. If they are he does not care so long as there is no appreciable change in relative price-levels between the completion of his sales and the settling of his terms of purchase.' From this arose the concept of the *barter terms* of international trade; although Mill's *Theory of International Demand* recognized that the ratio at which

[1] See Marshall, *Money, Credit, and Commerce*, Chap. VI.