

things exchanged in international trade always adjusts itself to bring demand to the exact level of supply. It is this fluctuating ratio of exchange that must now be kept in mind.

The next advance in the theory of international trade is due to Taussig, who distinguishes the *ratio* at which international barter in goods takes place from the *relative advantage* or disadvantage of the barter to any one country compared with similar previous exchanges.¹ Just as one bidder at auction will buy better than another, so will a country acquire its purchases in one year more cheaply in terms of its own labour than in another year. Taussig thus distinguishes between the *net barter terms of trade*, i. e. the ratio measured by price at which one country exchanges its products for those of another, and the *gross barter terms of trade* which take into account both the value and advantage of the trade. As labels for the ideas which they are meant to convey the words 'net' and 'gross' are not ideal; and, indeed, may even be misleading. In default of better, however, they must continue to serve; but it will be necessary to examine their connotation a little more fully. The *net barter terms of trade* merely denote the basis on which goods exchange for goods without regard for any other consideration whatsoever. The *ratio of exchange* and that alone is the central fact to be kept in mind. This idea of exchange ratio with reference to the complex of international trade is something of an abstraction; but as a measure of the advantage of barter it is nevertheless very useful in theoretical discussion of the conditions upon which trade will result between two countries, and of the range within which the exchange of goods will be possible. In considering the net barter terms of trade nothing enters into discussion except the monetary conditions governing the sale and purchase of merchandise; and its application will be clear to all who are familiar with Professor Taussig's writings on the subject of international trade.

Gross barter terms of trade, on the other hand, have reference to the total recorded value of goods exchanged for all reasons, e. g. in exchange for other goods, as the visible tokens of borrowed capital, as payment for interest on that borrowed capital, for freight, insurance, or other services. The *aggregate* of these transactions is the aspect which has real significance because

¹ Taussig, *International Trade*, pp. 113 *et seq.*