BECHLER’S INTERNATIONAL TRADE AND CAPITAL MOVEMENTS:
A COMMENT

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In his interesting paper published in this Journal Bechler considered the Mundellian equilibrium. Bechler’s main result is that Mundell’s description of an equilibrium, in which the efficiency of world production is sustained by international capital movements instead of international trade permits more than only one equilibrium solution. According to him there will be a large number of the Mundellian solutions because interest payments to the owners of foreign capital can be carried out in terms of cotton or steel or a large number of possible combinations of cotton and steel. The purpose of this note is to give a comment on this result. My argument is that the Mundellian equilibrium should be uniquely determined.

Suppose the host country levies a prohibitive tariff on steel so that its marginal cost must be higher than the international price, which in turn, raise the profit more than proportionally when the steel industry is capital-intensive. This is the Stolper-Samuelson tariff theorem. On the other hand, the Heckscher-Ohlin-Samuelson factor price equalization theorem tells us that factor prices are functions of commodity prices (that is, factor prices are absolutely equalized between countries), and also inversely commodity prices are functions of factor prices. Thus when the marginal cost of steel is higher by the prohibitive tariff, the profit is absolutely higher in the host country than abroad. Foreign capital moves in to obtain the absolutely higher profit, not just to obtain the relatively higher profit rate.

Bechler’s crucial assumption is that foreign capital incomes are repatriated in terms of steel. But what does this mean economically? In the Heckscher-Ohlin type of the theory of international trade we assume the world market is completely competitive. That is, we usually, for simplicity, assume there are only two countries, but each country can sell all commodities as much as she wants at given world market commodity prices. Especially in our discussion the world price ratio is assumed to be fixed for each country in the competitive market. Foreign capital owners send their capital to the host country in order to obtain the higher profit. If they receive the profit in terms of steel, they must sell it at a lower price than its marginal cost in the world market. Therefore the foreign capital owners never want to receive their capital incomes in terms of steel. As Bechler pointed out the imported capital has obviously been used for the expansion of steel production. But this does not mean that the foreign capital incomes are repatriated in terms of steel.

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Rather the host country has a comparative advantage in producing cotton and a disadvantage in producing steel. Therefore it may be reasonable to assume that foreign capital incomes are repatriated in terms of cotton. Therefore Bechler's main result stated above may be misleading. The Mundellian equilibrium is uniquely determined.