

The Wage Fund Theory and Gains from Trade in a Dynamic Ricardian Model

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Abstract

The theory of wage fund as the basic source of financial capital or credit is incorporated into a dynamic Ricardian trade model consisting of three classes of agents: the workers, the capitalist, and the producers of goods. We derive the modified golden rule based on a significantly different mechanism from the standard optimal growth framework. We show that, although international trade in a static setting in the wage fund framework has asymmetric distributional effects on the agents' welfare, those asymmetric impacts are nullified in the dynamic setting. In fact, trade liberalization is Pareto improving along the balanced growth path.