

Chapter Two: The Mercantilists (pg 13-32)

Historic Background

Rise of merchant capitalism

Decline of feudalism

The feudal “dues”

The rise of Nation-States, and Colonial Empires

Specism – Technological change in Warfare (Douglas North)

Economies of scale in violence

The rise of the nation state

The rise of the professional army, the shift from defense to offense

Tenants of Mercantilism

Bullionism: It was important to have gold and silver

Wealth was power, more wealth was more power

Wealth was measured in money, not land

The military needs of the day

Nationalism: The nation must be strong to trade

We can't all accumulate money (zero-sum view of trade)

Only the strong can compete – you need navies and trade ships

Example: “political lent” in England

Duty Free imports of raw materialism, and protectionism

Import your raw materials duty free, from your colonies

(so you are not giving money to your enemies)

High tariffs on manufactured goods

(so you are not giving money to your enemies)

Protect domestic industry, don't worry about the consumers

Colonization: acquire and exploit colonies

No country was raw material self-sufficient

But you still needed the raw materials

and you shouldn't buy them from your enemies

You need colonies to gain raw materials

And you need to monopolize that trade

So export finished goods to the colonies

Which they pay for with raw materials

Example: English Tobacco, Spanish Silver

Example: The navigation acts

Internal trade: create an internal free trade zone

A recognition that trade barriers like tolls and poor roads were bad

A desire for “rational” borders and boundaries, national policies

The end of many feudal dues and privileges

Example: the elba river

NOT a desire for unfettered free trade

Merchants liked monopoly grants

The Crown also liked monopoly grants

Strong Central governments

The above required a strong central government

The government could additionally promote internal development

Regulations, monopolies, subsidies, “best practices”, etc.
A belief in the “rationality” of government
Order came from design and power

Pro-Natalist: Large, hardworking populations a must

More people = more soldiers/sailors

More people = low wages

A large supply of workers would depress the cost of labor

Note they must be hard-workers though....

More (poor) workers would produce more goods for export

Would consume fewer exportable goods, and imports

Plenty of policies to promote hard work and discourage idleness

“Poor Laws”, the regulation of begging

Who Did the Mercantilists Seek to Benefit?

Benefited the Merchant capitalists, and the kings and government officials

Mercantilism is often modeled as an extreme form of rent seeking

Numeric Example: a monopoly on salt

It costs a fixed amount of money (\$100) to collect taxes on any one firm

Ten firms making salt will produce 10 tons of salt each, and can sell at a \$15 a ton/profit

So each firm earns \$150 (societies total profits = 1,500)

One monopolist firm will produce 50 tons of salt, and sell each ton at \$25 a ton/profit

It will earn \$1,250 (societies total profits = 1,250)

What is the optimal form of organization? A monopolist, or competition?

Government officials sold “rents”, and profited from them.

And the king taxed those rents

Mercantilism was NOT about maximizing society’s wealth

It was about maximizing the government’s revenue

So it sought to maximize TAXABLE wealth, not total wealth

Examples: English burial laws – linen or wool shrouds

Effectively, a producer subsidy combined with an inefficient death tax

French Textile rules – how to make anything (7 volumes)

Promoted best practices, and the bureaucrats who enforced them...

Effectively a system of monopoly rents and tax farming

Meringo Wool – the world’s best wool, from Spain

Open field laws for Sheppards, but...

wool could only be exported from xxx

a means of converting vegetables into wool into money

and taxing the wool three or four times....

But it also led to hunger and depopulation

How was Mercantilism Valuable or Correct for its Time

Bullionism was important for the new economies emerging in Europe
These economies required specie (money) to function.
Exchange can only occur if the money supply is sufficiently large
Example: $MV=PT$ during harvest
Absent developed banking – international trade required coin
(the book overstates this problem though)
A focus on money led to a focus on taxation – better public finance
The beginnings of “the money supply”, and learning about prices

Which Tenants of the Mercantilist School became Lasting Contributions

They emphasized the importance of international trade
They introduced the notion of balance of payments
Beyond this, they directly contributed almost nothing to modern economics

Indirectly, they

Changed attitudes towards merchants, and later towards production
Merchants were now valued, what they did was good
And soon the nobility lost its anti-business prejudices
Mercantilism promoted nationalism
Which helped consolidate the emerging nation-states
Central planning, uniform weights, internal trade, public goods
Mercantilism resulted in the modern corporation...
Kings created charter companies with monopoly rights
The chartered companies required huge financing
And thus was born the corporation

IMPORTANT NOTE:

*Mercantilism, while it has contributed little to economics
Has been, and is, hugely influential in international relations theory
IR theory and Economics have very different views of the world
The former is zero-sum, the later is positive sum
Many modern IR books present mercantilism as simply a different theory*

*Mercantilism is very attractive to those with a zero-sum perspective
And much of IR Theory, especially security issues, is about power
And Power is ALWAYS relative, thus it is zero-sum
Example: The Battle of Midway*

I Important Figures

Thomas Mun (British, 1571-1641)

Worked on Italian trade, then for East India Company
Argued individual bullion outflows were not bad,
Only the total flow mattered – I.E. balance of trade
Production and the accumulation of capital goods its important
Because they can increase exports, the real goal
Bring new land under cultivation, and new industries online
i.e. import substitution

Don't focus on bilateral trade, focus on multilateral trade
He thought internal trade could not enrich the nation
He recognized the role of "invisible trade"
Like remittances, gifts, costs of trade, etc.

Gerald Malynes (English xxx- 1641)

Born in Antwerp, returned home to Britain
A poor businessman, became a bureaucrat w/Br. Gov.
Defended the utility of Merchants, argued they were good and necessary
Argued the govt. should regulate the quality of exports
To promote the exports – modern day "brand loyalty"
Argued more money domestically would raise prices
And higher prices would stimulate business

Charles Davenant (British, 1656-1714)

Worked for the govt. on regulations, anticipated later laissez-faire doctrines
Still, argued for bullionism
Only fight domestic wars, all the money will be spent at home
Merchants could not be trusted, govt. regulation is needed
Saw that Wealth is composed assets, that are only measured in money
Mixed views on bilateral vs. multilateral trade

Jean Baptiste Colbert (French, 1619-1683)

Started poor, worked his way to great power "Colbertism"
Powerful, unscrupulous, ambitious – and very, very talented
Militarist, Nationalist, good finances = good military = good
Attempted to "rationalize" France, to promote internal trade
But always in a very centralized manner
Enforced feudal obligations to build roads, built canals
Tried to make everybody work, nuns were unpatriotic idlers
Pro-natalist, enough children and you were tax exempt
Hated businessmen, (greedy and unpatriotic), regulated them
He was hated, but very powerful, -- and again, a tremendous administrator

Sir William Petty (British, 1623-1687)

Started poor, became very rich – an example of the new upward mobility
Did many things in his life....
His mercantist views
Believed in more free trade than other mercantilists – to prevent smuggling
This is an example of early incentive theory, or tax incidence
Believed in large population – believed in a government "economy of scale"
Believed in forced work for the unemployed

Statistics

Petty was a pioneer statistician – "Political Arithmetick"
He was often wrong, and had some bad assumptions, but still...
Velocity – recognizes the rate at which money is exchanged is important
Division of Labor – not developed well, but he sorta understood it
Rent Theory – saw rent as the return to land (missed capital)
Capital was important – creating tools could raise later production

Labor theory of Value – the work used to produce a good was its value