

5. Mercantilism and Economic Nationalism

“If time is brought into the [mainstream trade] theory at all, and usually it isn’t, this typically takes the form of allowing countries to gradually accumulate capital, breed new workers, or become better educated as a result of the voluntary decisions of rational, free individuals. The summit of unpleasantness attainable in such models is the use of tariffs, quotas and other trade policy instruments that will benefit some individuals or groups (and possibly nations) but lower the utility of other domestic or foreign residents.

[I]f only life were like this...the greatest expansions of world trade have tended to come not from the bloodless atonement of some fictional Walrasian auctioneer but from the barrel of a Maxim gun, the edge of a scimitar, or the ferocity of nomadic herdsman” (Findlay and O’Rourke 2007: xviii)

INTRODUCTION:

1. Mercantilism - the pursuit of wealth and power
2. Classical Mercantilism after Smith
 - interstate inequality and competition
 - trade as a part of broader state strategy
3. Hegemonic Stability Theory
 - One leading state ensures (imposes?) free trade
4. New Trade Theory
 - From liberal tradition but
 - a) incorporates time/history and distance
 - b) has consequences for policy

Mercantilism was an economic theory and practice, dominant in Europe from the 16th to the 18th century, that promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers. It is the economic counterpart of political absolutism.

- To be a mercantilist is to be in favour of your state being in power

• **Mercantilism**

The liberal caricature

‘a popular notion ... that wealth consists in money, or in gold and silver...A rich country, in the same manner as a rich man, is supposed to be a country abounding in money’ (Adam Smith, 1776 [The Wealth of Nations])

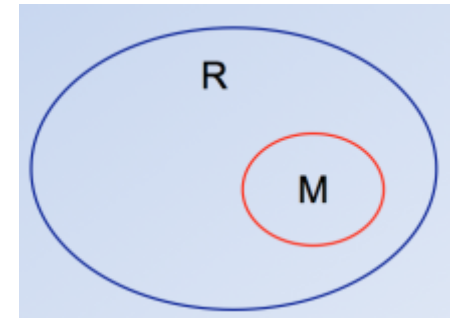
- Riches are defined by resources & thus money made
- ‘old economic theory that money is the only form of wealth’ (OED 1982)

‘...Today, it is an economic philosophy and practice of government regulation of a nation’s economic life to increase state power and security. Policies of import restriction and export promotion follow from this goal’ (Balaam and Veseth 2001)

- The subtlety of early mercantilist theory and practice
- ‘an imaginary organon...The German sympathisers...were in favour of some measure of national autarchy, of state management, and above all of state building’ (Schumpeter 1954/1994, 335-6)
- And the enduring (mercantilist) prejudice in favour of a trade surplus

Realism & Mercantilism:

- **Realism** ‘A theory of state behaviour that focuses on national interests as a determinant of state behaviours’ (Balaam and Veseth 2001)
- Realists acknowledge but do not necessarily support government intervention
- Mercantilists support government intervention, including trade policy (this is usually anti-free-trade but not necessarily anti-trade)



• ***Classical Mercantilism after Smith***

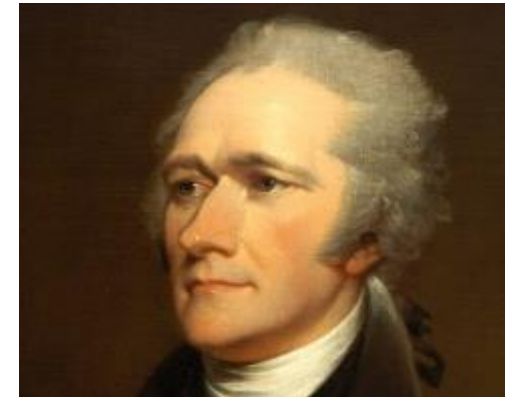
1. **Alexander Hamilton** *Report on Manufactures* (1791)

Advantages of industry

1. Division of labour
2. Machinery more applicable to industry
3. Extra employment, especially of women and children
4. Promotes immigration
5. Greater scope for the diversity of talents
6. Multiplies the objects of enterprise
7. Increases demand for agricultural products

Means to achieve this

- Trade policy: import duties and prohibitions; prohibition of materials exports
- [What we might now call] Industry policy: encouragement of new inventions and discoveries; regulation of manufactured commodities; facilitating financial circulation; facilitating transport of commodities



GLOSSARY:

<u>Word/Terminology</u>	<u>Definition</u>
Aristocracy	Aristocracy (Greek aristokratía, from aristos "excellent," and κράτος kratos "power") is a form of government that places power in the hands of a small, privileged ruling class. The term derives from the Greek aristokratia, meaning "rule of the best"
Endowment	A financial asset donation made to a non-profit group or institution in the form of investment funds or other property that has a stated purpose at the bequest of the donor. Most endowments are designed to keep the principal amount intact while using the investment income from dividends for charitable efforts
Rational egoism/self-interest	Rational egoism (also called rational selfishness) is the principle that an action is rational if and only if it maximizes one's self-interest . The view is a normative form of egoism
Comparative Advantage	You can produce a good at a lower opportunity cost
Absolute Advantage	A country with absolute advantage is more productive and efficient at making a product than any other country ∴ More of product than any other country (Not necessarily at a lower opportunity-cost)
Protectionism	The economic policy of restraining trade between states (countries) through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow fair competition between imports and goods and services produced (According to proponents)
Unanimity	Agreement by all people involved; consensus
Margin Buying	Buying with borrowed money (Credit)
Deflation	Lowering of prices; cutting of workers, resources etc.
Mercantilism	An economic theory and practice, dominant in Europe from the 16th to the 18th century, that promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers. It is the economic counterpart of political absolutism
Laissez-Faire	Economic system where there is minimal government intervention
Joint stock companies	Companies that finance large economic missions (With credit) + Spread risk of international trade
Industrial Capitalism	Joyce Appleview: "An economic system that relies on investment in machines and technology that are used to increase production of marketable goods"
Free Market	Market without restrictions (e.g. Free-trade)
Capitalism	A cultural system rooted in the need of private investors to turn a profit