Mercantilism

I. Three Questions
II. Strategies for Success
   A. Domestic
   B. International
III. Strengths and Weaknesses
Major Mercantilist Thinkers

Alexander Hamilton (1755-1804)  Friedrich List (1789-1846)
Mercantilism: How does the economy work?

- Accepts CAPITALISM as optimal economic system
- Argues that functioning of markets NOT NEUTRAL
- Market outcomes determine the relative wealth and power of states in international politics
- States must focus on the distribution of gains (‘relative gains’) from economic activity (Liberals emphasize ‘absolute gains’)
- State must take action to tip market outcomes in their favor!!!
Mercantilism: What is the purpose of the economy?

- Wealth translates into power (economic and military)
- Main purpose of national economy is to increase state power
- Gauge success in relative terms (i.e., US trade deficit with China)
Mercantilism: What is the relationship between politics and economics?

- Economics is subordinate to politics
- Economics a tool to be used for larger international political struggles
- Structures of the international economic system are largely determined by the interests of the major economic powers
Mercantilism: Basic Arguments

(1) International politics about the struggle for power among states
(2) Economics an inherent part of larger political struggles
   POLITICS AND ECONOMICS ARE INSEPARABLE
(3) Key question for IPE is how economics affects state power
Strategies for Success: Domestic

- Emphasis on the structure of the economy (producing the ‘right stuff’)
- Need for high value-added industries
- Created advantage through *industrial policies* aimed at altering structure rather than size of economy (i.e., production subsidies; R&D aid, etc.)
US Economic Structure by GDP

- Agro: 1.1%
- Industry: 22.1%
- Services: 76.8%

US Economic Structure by Employment

- Agro/Forestry/Fishing: 0.7%
- Manuf/Mining/Transport: 20.3%
- Services/Professional/Technical: 79.0%

Source: CIA World Factbook
Strategies for Success: International

- Make sure state gains relatively more from international exchange than other states
  - Terms of Trade: relative value of the goods a country export versus the goods a country imports
  - Trade Balance: Value of exports minus imports

- Trade Protections
  - Autarky (self-sufficiency)
  - Strategic Trade (selective protection)
  - Tariffs, Import Quotas, Export Subsidies, Voluntary Export Restraints (VERs), Non-Tariff Barriers, and so on

- Investment Controls (FDI and portfolio)
Mercantilism: Strengths

- Highlighting Inequality of Market Interaction
- Connecting State Power to Market Structure
- Examples of Success – Japan and East Asian ‘Tiger Economies’
Mercantilism: Weaknesses

- Power v. Efficiency
- Who Gains?
  - Rational Choice Theory
  - Rent-Seeking Behavior
- Defining Key Industries
  - Failures – Latin America; India
  - Japan’s long stagnation

The Ambassador car
Indian protected markets at their worst
Mercantilism: Three Answers

**How does the economy work?**
- Capitalist markets that tend to benefit the more powerful

**What is the economy for?**
- To promote the power of the state

**What is the relationship between power and economics?**
- Politics and economics are inseparable