

Mercantilism is an economic theory that advocates government regulation of international trade to generate wealth and strengthen national power. Merchants and the government work together to reduce the trade deficit and create a surplus. Mercantilism—a form of economic nationalism—funds corporate, military, and national growth.¹ It advocates trade policies that protect domestic industries.

In mercantilism, the government strengthens the private owners of the factors of production. These four factors of production are:

- Entrepreneurship
- Capital goods
- Natural resources
- Labour

It establishes monopolies, grants tax-free status, and grants pensions to favored industries. It imposes tariffs on imports. It also prohibits the emigration of skilled labor, capital, and tools. It doesn't allow anything that could help foreign companies. In return, businesses funnel the riches from foreign expansion back to their governments.³ Its taxes pay for increase national growth and political power.

Mercantilism

- ❖ Mercantilism suggests that it is in a country's best interest to maintain a **trade surplus** -to export more than it imports
 - advocates government intervention to achieve a surplus in the balance of trade
 - Mercantilism views trade as a **zero-sum game** - one in which a gain by one country results in a loss by another
- ❖ Mercantilism is **problematic** and not economically valid, yet many political views today have the goal of boosting exports while limiting imports by seeking only selective liberalization of trade

Mercantilist Theory of Trade.

- 1500 - 1800
- Holland, France, Spain & England.
- Countries all wanted to export more than they imported.
- Industrialization & Capitalism Set the Stage for mercantilism.



Need for Self-Governing Nation.



Merchants Supported National Governments



1519 - defeated the Prince of India with 260000 Mercenaries.

- Mercantilism also worked hand-in-hand with the gold standards
- Democracy and free trade destroyed mercantilism in the late 1700's
- American & French revolutions formalized large nations ruled by democracy. They endorsed Capitalism
- Mercantilism involves restrictions on imports - tariff barriers, quotas or non-tariff barriers.

→ Accumulation of foreign currency reserves, plus gold & silver reserves (also known as bullionism)

In the 16th/17th century, it was believed that the accumulation of gold reserves (at the expense of other countries) was the best way to increase the prosperity of a country.

→ Granting of state monopolies to particular firms especially those associated with trade & shipping

→ Subsidies of export industries to give competitive advantage in global markets.

→ Government investment in research and development to maximize efficiency and capacity of the domestic industry.

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→ Allowing copyright/intellectual theft from foreign companies.

→ Limiting wages & consumption of the working classes to enable greater profits to stay with the merchant class.

→ Control of colonies, eg making colonies by from Empire country and taking control of colonies wealth.

→ Examples.

1) England Navigation Act of 1651

prohibited foreign vessels engaging in coastal trade.

Oliver Cromwell

All colonial export to Europe had to pass through England first - and then be re-exported to Europe.

- Colbertism - synonym of mercantilism.

- modern mercantilism.

undervaluation of currency, eg government buying foreign currency assets to keep the exchange rate undervalued and make exports more competitive. A criticism often levelled

at China

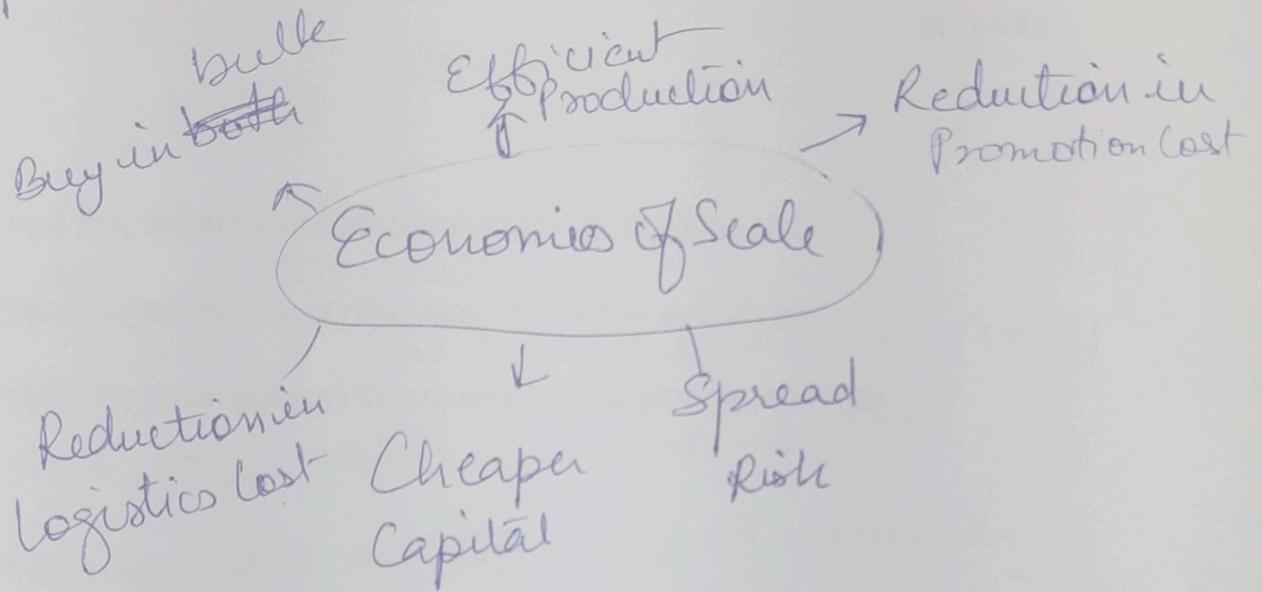
- Government subsidy of industry for unfair advantage. Again China has been

accused of offering state supported subsidies for industry, leading to

oversupply of industries such as steel

- meaning other countries struggle to compete.

- Economies of Scale from specialization possible under free trade.



Justification for neo-mercantilism.

Dumping.

Infant industry argument.

Tariff in response to domestic subsidies.

A surge of protectionist sentiment of US tariff on Chinese imports and US policies to 'Buy American'.

= Copyright-theft.

Criticisms of Mercantilism.

→ Adam Smith's "The Wealth of Nations" (1776)

- argued for benefits of free trade and criticised the inefficiency of monopoly.

- Theory of Comparative Advantage 1816 by David Ricardo.

mercantilism -
- Zero-sum-game (win-lose)

~~etc~~

- Mercantilism which stresses government regulation and monopoly tends to lead to inefficiency and corruption.

- It justified Empire building and the poverty of colonies to enrich the Empire country.

It leads to tit for tat policies - high tariff on imports leads to retaliation.

The growth of Globalisation & free trade made countries equal players.