

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

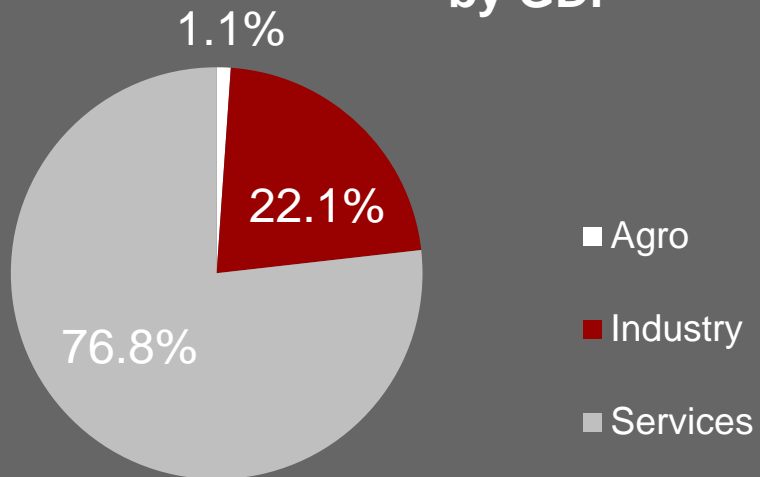
*POLITICS AND ECONOMICS
ARE INSEPARABLE*

- (3) Key question for IPE is how *economics* affects state power

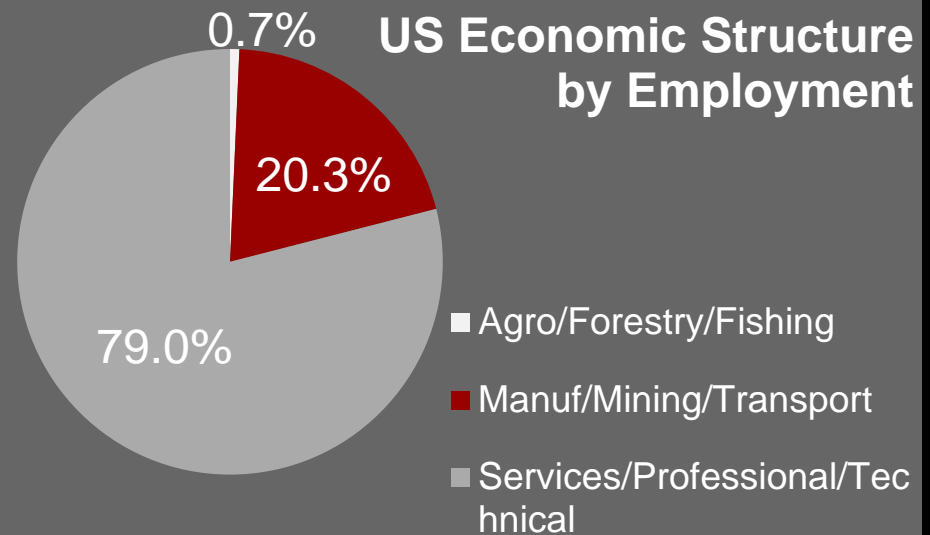
Strategies for Success: Domestic

- 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



US Economic Structure by Employment



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