

Mercantilism, the Unvanquished Foe of Liberty – Notes from Mises Circle presentation Colorado Springs, CO September 18, 2010, John P. Cochran

Perhaps one of the biggest delusions of good government is the ubiquitous public –private partnerships that entangle big government, big business, big labor and big charity. These are all existing aspects of a system of privileges and constraints - historically labeled as mercantilism.

1776 was a remarkable year in the movement to replace absolutism with classical liberalism, that I will portray as a revolt against mercantilism, which Rothbard has called the “economic aspect of absolutism [*Economic Thought Before Adam Smith: An Austrian Perspective on the history of Economic Thought* , Volume 1.1995, p. 213. See <http://mises.org/books/histofthought1.pdf> ].

1776 – Physical Revolt – American revolution – see Rothbard’s four volume *Conceived in Liberty* at <http://mises.org/resources/3006/Conceived-in-Liberty-Volume-1-A-New-Land-A-New-People> .

Intellectual revolt – Adam Smith’s *An Inquiry into the Nature and Causes of the Wealth of Nations*. [ <http://www.econlib.org/library/Smith/smWN.html> ]

For what follows – I, following Smith will focus on mercantilism as a “system of preference and restraint” per Osterfeld [*Prosperity versus Planning: How Government Stifles Economic Growth* - see <http://www.questia.com/read/80358765?title=Preface> ]

a subset of “Interventionism”. See Figure 2

Smith’s work is remarkable on 2 fronts –

- 1 . He gets the questions right – too many modern economists and critics ask the wrong question - they ask why are people poor – what causes poverty.  
Answer should be obvious – if not strip yourself naked and walk off onto the plains or into the beautiful mountains and see what the ‘bounty of nature’ provides you.

Man is born into poverty – in an insightful blog post [Café Hayek 27 Aug 2010 Don Boudreaux - <http://cafehayek.com/2010/08/no-resources-are-natural.html> ] makes the observation “nature supplies a wide variety of atomically and molecularly different things ... But none of these things is naturally a ‘resource ...’ Human creativity – human action- is needed to transform any substance found in nature into a resource.

See Figure 1 – Real per Capita England 110-1995 [Developed by Larry Wimmer , BYU, in Skousen’s *The Making of Modern Economics*. See <http://www.amazon.com/Making-Modern-Economics-Lives-Thinkers/dp/0765604809> ]

Smith asks what causes prosperity – how have some been able to escape from pattern of century after century of mass poverty for the majority of the population 90 to nearly 100% of the population. Why the surge in England beginning around 1776 – that for developed counties the numbers are almost

reversed – prosperity has increased and spread to where 90-95% prosper especially in historic terms – leaving a fringe less well off or even in poverty.

- 2 . He provides a correct answer - end mercantilism/absolutism - end the system of system of preference and restraint”

Smith from 1755 – Quoted by Dugald Stewart. From Edwin Cannan’s “Editors Introduction” to the *Wealth of Nations* published by Norman S. Berg, 1976. Page xliii.

Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about natural course of things. All governments which thwart the natural course ; which force things into another channel or which endeavour to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.

From *Wealth of Nations* [Norman S. Berg, 1976 publication, page 650-51]

It is thus that every system which endeavours, either by extraordinary encouragements, to draw a particular species of industry a greater share of capital of society than what would go naturally to it; or by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it; is in reality subversive of the great purpose which it mean to promote. It retards, instead of accelerating, the progress of society toward real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labour.

All systems of either preference or of restraint [mercantilism], therefore, being thus completely taken away, the obvious system of natural liberty establishes itself on its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and bring forth both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, attempting to perform which he must always be exposed to innumerable delusion, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employment s most suitable to the interest of society.

Keep in mind that mercantilism is a system of exchange and has much in common with what Osterfeld refers to in figure 1 as capitalism, which I would prefer to label, at least at the left most extreme, as the free economy (see the Firm in a Free Economy at <http://mises.org/daily/875> for a short discussion), the voluntary society that creates and transfer wealth through the economic mean of production, exchange, and gift. Mercantilism/intervention has much in common, at least superficially with a free economy, it is per Marx a system of commodity production; a mode of production based on private property and exchange of goods and services including labor, but unlike an unhampered market one where much of what is produced and how it is distributed is dominated not by the economic means- production , voluntary exchange and gift, but by the political means, the use of force, coercion and

fraud to determine winners and losers in the process. When compared to feudalism and other forms of absolutism it actually represents increased opportunities for production, exchange, and wealth creation, especially wealth for the politically connected. But as Smith as a system of restraint and privilege, freedom and wealth creation are limited relative to the more free economy.

Why is mercantilism an unvanquished foe?

It does create wealth – especially relative to non-market systems.

Often dramatically - modern versions: progressivism, industrial planning, indicative planning, examples often cited as modern successes – Japan, China

Kept in place by a favored elite – often, as even in the case of US revolution or elections, attempt to shed mercantilist policies of privilege or restraint result not in a change/reform of the system but a shift of whom is in charge with - not the system we were against it was how it was used. Now that the “good guys” are in charge the results will be good.

Business is often the major enemy of a free economy – See the Jeremy Wiesen, WSJ article in the list of suggested readings.

Counter arguments are too often of the “that which is seen versus that which is not seen” with the free economy alternative most often in the that which is not seen alternative.

The evils of mercantilism are often – Marx is the prime example [See Osterfeld 163-184 in Maltsev ed. *Requiem for Marx* at <http://mises.org/resources/3579>) attributed to free markets and not to the interventions- the restriction and privileges doled out by the elite in a mercantilist system. So unlike Smith who saw the restriction as factors that channeled human activity from the ‘natural course’ and saw the path to prosperity for all in the unhampered market, others view the inequities – attribute them to the market – and recommend use of the political means – force and coercion – as a corrective to the problems actually created by use of the same means - a key delusion of good government - the solution to any problem – either real or a imagined is – more government – replace ‘bad government’ with “good government”

We face enormous challenges today (see figure 3). Once again the problems created by a highly interventionist –mercantilist policy are being blamed on the market and market participants. Smith and, more clearly and more recently, Mises have provided a blueprint to a Free and Prosperous Commonwealth (For a more detailed discussion in today’s context see “A Free and Prosperous Commonwealth at <http://mises.org/daily/3373> ). How do we get there from here?

Problem : Mises’s and Hayek’s work on interventionism or planning have often been interpreted as arguing for no middle ground – interventionism puts on a “Road to Serfdom” if not reversed, but per Osterfeld (1992):

Markets – feasible economic system

Socialism or universal interventionism – not feasible – calculation and incentive problems

Mercantilism – mix of feasible and non-feasible = feasible - historically durable

Government intervention, whether mercantilist type restrictions and constraints or more blatantly socialistic: best of circumstances retard economic growth and restrict economic development; worst cases famine, starvation, and malnutrition ;

Often caste not class system – with ruling elite and ‘equally permanent’ underclass

Solution: Osterfeld

Enabling Environment: Wall of separation of political sphere and economic sphere

Restrict government activity to protection of person and property of individuals

Mises: [\*Liberalism: A Socio-Economic Exposition\*](#).<sup>[5]</sup>

Blueprint for and a defense of a social order based on voluntary social cooperation through a free market where the "sphere of the conduct of the affairs of state" is a "system of representative" but limited government. Government a key but limited role in this free and prosperous commonwealth.

In [\*Economic Policy: Thought for Today and Tomorrow\*](#), Mises argued that in this limited role, government "ought to do all the things for which it is needed and for which it was established."

Government ought to protect the individuals within the country against the violent and fraudulent attacks of gangsters, and it should defend the country against foreign enemies. These are the functions of government within a free system, within the system of the market economy. (p. 37)

Per Smith (W of N, p. 668-69)

“The first duty of the sovereign, therefore, that of defending the society from violence and injustice of other independent societies ...

And

The second duty of the sovereign, that of protecting, as far as possible, every member of society from the injustice or oppression of every other member of it ...”

Note: Classical liberal should be highly cautious on Smith’s third duty – “certain public works”

Solution:

Eliminate privileges and restraints

Reduce government to core functions:

Strategy:

Privatization – eliminate as much government activity as possible

Decentralization – handle all remaining government activity as locally as possible.

While we need to better document the existence of and failures of mercantilist policies and better establish the historical connection between movements towards free – more liberal society and economic development we should also keep in mind the ultimate defense of a free society is ethical or moral.

Range of possibilities from the minimal reform/reduction advocated by Brooks and Ryan (see suggested reading list) ‘even Hayek’ model to the Schultz *et al* “Principles of Economic Revival” to Mises’s concept of limited but necessary government while always keeping in mind the arguments of Rothbard, especially in *The Ethics of Liberty*. Compared to the CBO predicted (see figure 3) expansion of federal outlays to GDP to above 50% the Gwartney *et al* 15% target would be a panacea for liberty and prosperity.

Suggested guideline for use in evaluating reforms or proposals:

Paraphrasing Bastiat: How can any law be just that allows people to do as a group through government that which would be illegal, unethical, and immoral if done as individuals?


Suggested Reading:

Acemoglu, Daron. 2010. “What Makes a nation Rich? One Economist’s Big Answer” *Esquire*. See <http://www.esquire.com/features/best-and-brightest-2009/world-poverty-map-1209> .

Brooks, Arthur C. and Ryan, Paul. 2010. “The Size of Government and the Choice This Fall.” *The Wall Street Journal*, September 13, p. A 21.

Osterfeld, David. 1992. *Prosperity versus Planning : How Government Stifles Economic Growth*. New York and Oxford: Oxford University Press.

Osterfeld, David. “Marxism, Method, and Mercantilism.” In Yuri N. Maltsev ed. *Requiem for Marx*. Ludwig von Mises Institute, pp. 125- 188. See: <http://mises.org/resources/3579/Requiem-for-Marx>

1998 *Cato Journal* paper (vol. 18, no. 2, pp. 163–190), Gwartney, Holcombe, and Lawson examine "The Scope of Government and the Wealth of Nations." 

Also in 1998, Richard K. Vedder and Lowell E. Gallaway prepared a report for the Joint Economic Committee, then chaired by Jim Saxton, titled "[Government Size and Economic Growth](#)."

<http://www.house.gov/jec/growth/govtsize/govtsize.htm>

Cochran, John P. 2009. “A Free and Prosperous Common Wealth” at <http://mises.org/daily/3373>.

Mercantilism: Other suggested reading

Lavoie, Donald C. 1982. “The Development of the Misesian Theory of Intervention” with Comment by Murray N. Rothbard. In Israel M. Kirzner edited *Method, Process and Austrian Economics: Essays in Honor of Ludwig von Mises*. Lexington, MA: Lexington Books, D.C. Heath and Company, pp 169-83. See:

<http://mises.org/etexts/lavoie.mnr.pdf>

Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Edited with an introduction, notes, and marginal summary and enlarged index by Edwin Cannan. Dunwoody, Georgia: Norman S. berg, Publisher. 1976.

Schultz, George P, Boskin, Michael J., Cogan, John F., Meltzer, Allan, and Taylor, John B. 2010. "Principles of Economics." *The Wall Street Journal*, September 16, p. A 23.

Wiesen, Jeremy. 2010. "The U.S. needs Its Own Industrial Policy." *The Wall Street Journal*, September 13, p. A 19.

Wilcke, Richard W. 2004. An Appropriate Ethical Model for Business and a Critique of Milton Friedman's Thesis. *The Independent Review* 9, no. 2 (fall): 187-209. See <http://www.independent.org/publications/tir/article.asp?a=458>



The Government Cost Calculator is a unique service from The Independent Institute that enables any American to clearly understand three aspects of federal government spending.

First, the Government Cost Calculator helps you determine how much you will pay for various federal programs now and over the course of a lifetime. Second, it compares those tax payments to the forgone earnings that would have been possible if such funds were kept and invested in private, market accounts. Finally, the Government Cost Calculator enables you to see the difference between government expenditures and your tax payments, clearly illustrating the growing debt obligations you face in the future.

<http://www.mygovcost.org/>

# FIGURE 1

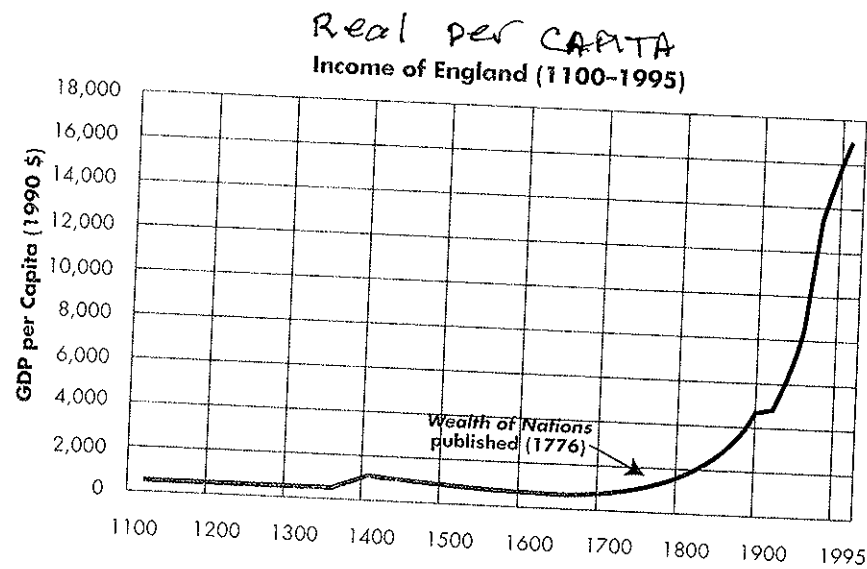


Figure 1.1 The Rise in Real per Capita Income, United Kingdom, 1100-1995

Courtesy of Larry Wimmer, Brigham Young University.

FROM: SKOUSEN, MARK. 2001. THE MAKING OF MODERN ECONOMICS: THE LIVES AND IDEAS OF THE GREAT THINKERS. M. E. SHARPE, P. 15

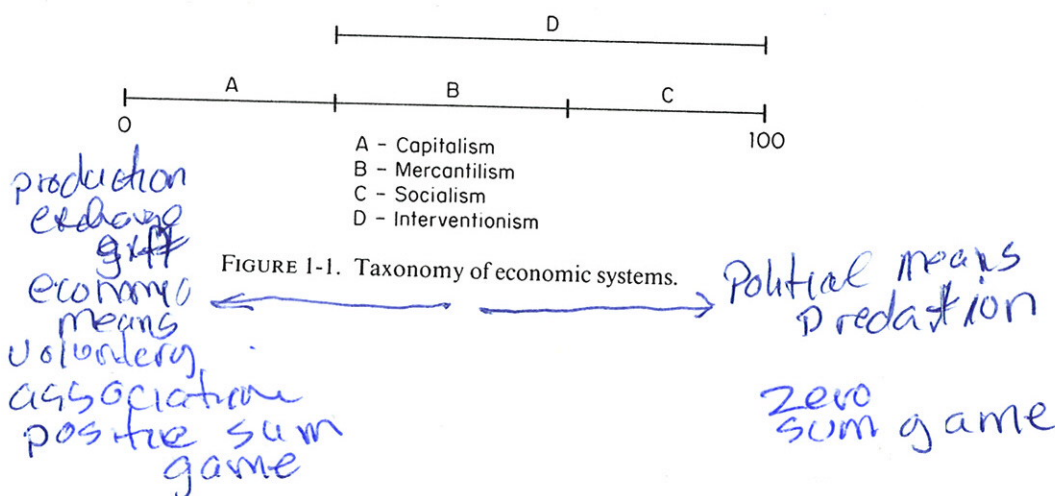


In short, today such terms as *socialism* and *communism* no longer mean non-market economies. Rather they are generally used to refer to nothing more than economies characterized by extensive government controls. Similarly, the terms *non-market* and *centrally planned* do not mean economies that are literally non-market or literally centrally planned—they refer only to economies characterized by extensive controls.

Unless otherwise noted, words such as *socialism*, *communism*, and *central planning* will, following current usage, refer to highly interventionist, or command, economies. The term *non-market* will be reserved for use when “no market” in its literal sense is intended. The terms *capitalism* or *market economy* will be used to

refer to those economies characterized by relatively little intervention. And mercantilism will be used to refer to those economies with a moderate amount of government control. The term *interventionism* will be used to cover both mercantilist and socialist systems.

Figure 1-1 shows these four concepts as a continuum, beginning with a pure market system and ending with the complete absence of the market. The cutoffs between capitalism, mercantilism, and socialism are admittedly somewhat arbitrary, especially in practice. One can legitimately disagree about whether an actual system or country is properly characterized as capitalist or mercantilist, or is more accurately placed in the socialist camp. Suffice it to say that the fewer the controls and the greater the reliance on the free market, the more capitalist the economy. Conversely, the more extensive the controls and the smaller the reliance on the free market, the more socialist the system.



FROM:  
OSTERELD, DAVID. 1992. PROSPERITY VERSUS  
PLANNING: HOW GOVERNMENT STIFLES ECONOMIC  
GROWTH. OXFORD UNIVERSITY PRESS. PP 8-9

FIGURE 2



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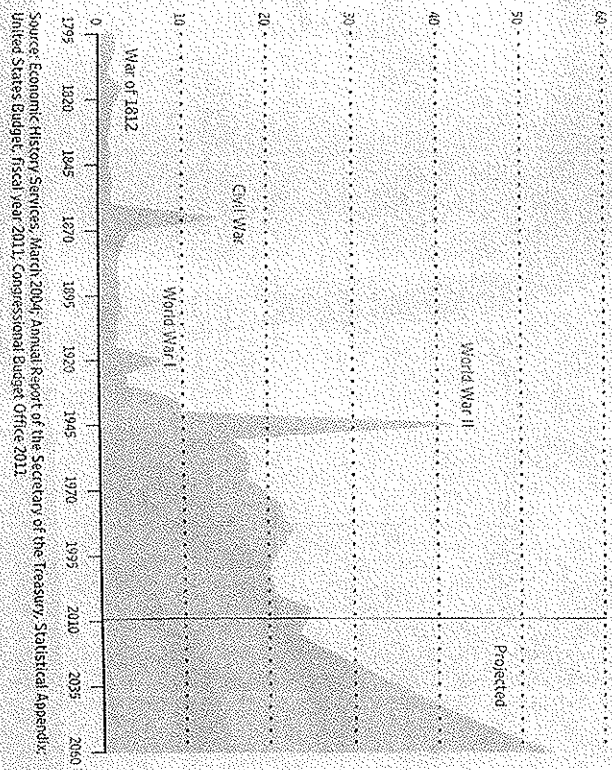
Thursday, September 16, 2010 A23

## OPINION

# Principles for Economic Revival

By George P. Shultz, Michael J. Boskin, John F. Cogan, Allan Meltzer and John B. Taylor

**The Cost of Washington**  
Federal budget outlays as a percentage of GDP



Source: Economic History Services, March 2004; Annual Report of the Secretary of the Treasury, Statistical Appendix; United States Budget, fiscal year 2011; Congressional Budget Office 2011.