Lecture 2: Mercantilism

Classical economic thinking will take up much of our time, but it is definitely worthwhile to have a look at their forerunners. Here many of the core ideas of classical economics were put forward, even if in unfinished form, and some of their considerations would have deserved a more thorough treatment by subsequent contributors. E&H split the treatment of forerunners in slightly unusual way, mainly according to their degree of 'capitalist' thinking, the latter considered as the decisive step towards modern economic theory. The mercantilists (which as H&E mention is concept introduced much later, mainly as a criticism) were concerned more about administration than about a description of economic behaviour.

You don't need to memorize details, of the many authors mentioned you may concentrate on the following:

Thomas Mun (1571–1641) is often mentioned as the typical representative of the early mercantilism with its emphasis on the importance of a stable currency based on precious metals as well as the importance of government regulation of foreign trade. The overly primitive view on precious metals as the basis of all wealth is a later construction by the classical economists and was never by the authors of the period.

From the concern with the currency and with trade came naturally an interest in prices and values, and the ideas which were later to crystalize into a price and value theory appears in admittedly vague formulations.

John Locke (1632–1704) and the quantity theory of money. Some textbooks emphasize the contributions to price theory with the distinction between use value and exchange value. Other authors pay more attention to his development of the quantity theory of money, which in a crude version had been around already for centuries, and consider the price theory as a spin-off of the considerations about money. I comment a little further on this, see Lecture Note 2.

Dudley North (1641–1691) is among the first to have a clear distinction between capital as a sum of money and capital in the form of physical investment. He is also a pioneer in his treatment of the credit market, where he also has notions pointing to supply and demand.

William Petty (1623–1687) has a first approach to a value theory, E&H treat him only in the next chapter, but chronologically he belongs to the early period of mercantilism, so we do it here. While the work of Locke is directed towards correcting mercantilist errors, other authors from this period introduce ideas which point in other directions, some of them laying foundations for the later theory of value and prices. Petty, whose works date from the second half of the seventeenth century, was undeservedly forgotten until rediscovered by Marx.

Petty was among the first to pay attention to *division of labor,* here is a citation (taken from Vaggi and Groenewegen (2003):

> If there be 1000 men in a territory, and if 100 of these can raise necessary food and raiment for the whole 1000. If 200 men make as much commodities as other nations will give either their commodities or money for, and if 400 more be employed in the ornaments, pleasure and magnificence of the whole; if there be 200 governours, divines, lawyers, physicians, merchants and retailers, making in all 900, the question is, if there is food enough for this supernumerary 100 also, how they should come by it?

The text is interesting in many respects, not only as a forerunner of a theory of allocation in an economy, but also for asking questions of a type which nowadays are often overlooked (”... how they should come by it?”).

The hypothetical example shows an economy with marked division of labor, but it does something more – it points to the need for studying how the surplus created by some of the sectors will be distributed among the other sectors. The simple answer to this, at least from our contemporary point of view, would be that this is done through the market mechanism. However, we are still far from understanding this market mechanism, so the question posed by Petty may still be a challenge for economic theorists. (A recent example is that of “bullshit jobs” – the widespread use in both public and private enterprise of employees, who even themselves cannot see any purpose of their function, cf. Graeber (2018)).

Another important contribution of Petty is the reduction of value to land and labour, a forerunner of the long debate among the subsequent authors. According to Petty, a production process requires labor L_0, natural resources T_0 (land), and commodities which have been produced in the previous period. But these latter commodities have again been produced using labor L_{-1}, natural resources T_{-1} and commodities. Proceeding in this way, the value of the production today could be successively decomposed into value from labor and value from natural resources, giving an expression

$$p = \sum_{t=0}^{\infty} L_{-t} + \sum_{t=0}^{\infty} T_{-t}$$

for the value p, thus decomposing value into labor and land. Petty did not attempt at a further reduction (for example to a pure labor theory of value as in Marx), this was left for later contributors.

E&H comment on **David Hume** (1711–1776), mainly to discuss the specie-flow problem which was a major issue among late mercantilists, see the relevant section in Lecture Note 2. Hume can be considered as an early representative of the views subsequently expressed by Adam Smith.

We read: E&H, chapter 3, chapter 4, pp.72-75.

References:

Graeber, D., Bullshit Jobs – A Theory, Penguin Books, 2018.

Vaggi, G. and P.Groenewegen, A Concise History of Economic Throught from Mercantilism to Monetarism, Palgrave Macmillan, Hampshire, 2003.