What is old is new again – the Mercantilism economic system

It seems like weekly (if not more often) we are hearing about tariffs, export taxes or other forms of protectionism in the United States and elsewhere.

Ironically, what is going on right now, has been witnessed in World trade in the past. It is the economic policy called Mercantilism. I am not going to make you an economic expert, but I do want to give you a couple of paragraphs on this so you can make some educated decisions on what might be coming and how this economic system played out in the past.

What is Mercantilism?

Mercantilism is an economy theory that emphasizes self-sufficiency through favourable balance of trade. It focuses on the accumulation of wealth and resources while maintaining a positive trade balance with other nations. It is considered a protectionist trade policy.[1]

This system of economic thought was developed in the 16th century and persisted to the 19th century and was used by all the major powers of that day. It has been considered an outdated economic theory which was replaced by the supply and demand forces of the market economy.

In general, major powers accumulated colonies (Canada being one of them) and the colonial master extracted raw materials to send back to the home county, where it would be refined into manufacturing goods. The goods would then be resold to the colonies, allowing mercantilist nations to accumulate wealth through a positive trade balance.

This system replies on government intervention to regulate international trade and protect domestic industries. There is a substantial use of tariffs and restrictions on imports in a mercantilism economy. Within the economy where mercantilism is practiced, domestic industries are supported by establishing monopolies and allocating capital to encourage growth. The entire design is to encourage self sufficiency and to limit the use of goods from other nations.

Why did mercantilism end? In the 18th century scholars began to evaluate trade policy and realized that wealth was not finite but could be created through the productive allocation of labour. There became a view, as presented by Adam Smith in Wealth of Nations that countries can increase their wealth and prosperity by engaging in free trade and

[1] Mercantilism - Overview, History, Mercantilist Ideology

specialization, focusing on their unique strengths and trading their surplus goods for those of other nations, especially if those neighbors are also prosperous and industrialized.[2]

This is a term that I learned in an economics class many years ago, learned everything I thought I had to for an exam and then promptly forgot everything as I never thought I would have to experience this or explain this ever again.

However….here we are.

What were the effects of Mercantilism compared to now?

We can see striking similarities;

Then	Now
- there was the creation of monopolistic trading companies like the East India Company and the French East India Company	- Donald Trump makes investments in Intel
- national champions were selected by government instead of the market choosing who has a better, cheaper product.	
- there were restrictions on where finished goods could be purchased lead to higher prices.	- we are seeing higher inflation as tariffs have their impact on finished goods.
- commercial rivalry did lead to military rivalry (i.e. friction between Britian and the American colonies contributed to the American Revolution).	- we are not seeing this directly yet
- to get around trade restrictions, there was wide spread smuggling	- we have not seen this yet but could if we see this from lower tariff nations/locations to higher tariff nations/locations

[2] What would Adam Smith say about Donald Trump's Trade Policies – Prof George Alogoskoufis

Source:
https://www.britannica.com/question/What-were-the-effects-of-mercantilism

Overall, Mercantilism was not developed by economists in the 16th to 18th century. It was developed by leaders who wanted to manage their economy generally for policies which would subsidize activities/companies where they had an interest. It effectively subsidized merchants and manufacturers who exported and put a wall around inefficient manufacturers who formerly had to compete with foreign rivals. [3]

The future

Now that we have looked at the past, what could lie ahead in the future?

In the past (the 16th to 18th century), mercantilism ended due to three major events;

1- There was peace in Europe – In 1815, a British led alliance defeated Napoleon at Waterloo and ended 3 centuries of war. One reason why economies were closed was colonial powers did not want their colonies to trade with others in order to help the government amass resources for military purposes and to deny resources to real or potential enemies. When peace was achieved and Europe stable, the miliary argument for mercantile policies faded.[4]
2- In that time period, many governments were changing from autocratic dynastic rule to more of a democratic rule. Although this was a slow process, allowing more democratic rule did lead to having modern entrepreneurs in industry, trade and finance to resent the previous favoured industry/people who were selected by autocrats.[5]
3- Finally, manufacturing changed – manufacturing up to the 1800 century (before the Industrial revolution) was characterize by small scale and the modern "factory" encompassing dozens or hundreds of works was just starting to come about.[6] The economies of scale in manufacturing was developed and larger companies could undercut competitors in many markets which made mercantilist barriers to trade either irrelevant or harmful.

[3] Mercantilism: A Lesson for Our Times?
[4] 02_Mueller_Chap1.indd - THE MODERN CAPITALIST WORLD ECONOMY: A HISTORICAL OVERVIEW – Jerry A Frieden
[5] 02_Mueller_Chap1.indd - THE MODERN CAPITALIST WORLD ECONOMY: A HISTORICAL OVERVIEW – Jerry A Frieden
[6] Industrial Revolution | Definition, History, Dates, Summary, & Facts | Britannica

But what about now? We know now how Mercantilism ended, but what about now? How will these policies end?

In my opinion, it always has been that the consumer, not the producer, that ultimately makes the rules and buys what they want. Government can interfere with production and make national champions or increase the price of goods due to tariffs, but ultimately the consumer makes the decisions on what they purchase and at what price. Just think if Canada decided to nationalize Blackberry and we were all forced to use Blackberries instead of iPhone or Samsung galaxy smart phones? The consumer determined that they wanted and now Blackberry does not make smart phones. We have to remember that it is the consumer that will make the choice, not the state, on what we buy and at what price. Ultimately, it is consumer choice which will ultimately demand the end of the Mercantilism policies.

If you have any questions or concerns, let me know.

Thank you

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