THE RETURN OF MERCANTILISM

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Has mercantilism staged a came back? Are-not the commercial policies of various countries from 1930 uptil now very similar, if not identical, to those of the mercantilist era? These are the questions which every student of economic thought and policy encounters, and the purpose of this article is to stress the similarities between the present and the mercantilist commercial policies.

The policies followed during the present times remind us very strongly of those pursued during the period of mercantilism. According to mercantilist doctrine, exports were regarded as the source of a country's strength and imports as a cause of weakness. Exports were stimulated by bounties, by prohibiting the development of certain industries in the colonies and by building up colonial markets for the products of the mother country. Imports were restricted by tariffs or by regulation such as those which limited coastwise shipping to the vessels of the country concerned. But mercantilism, so it is supposed, had long been dead. Its reign had its best days during the sixteenth, seventeenth and the greater part of the eighteenth centuries. It is generally believed that under, the assault of Adam Smith, Ricardo, John Stuart Mill and others, its basic principles had been shown to be false. The belief that a nation could enrich itself by refraining to buy from foreigners and by pressing its products upon them had long ago been false — or so at least we thought. At any rate, economists and politicians for long decades had given lip service to the belief in free trade, but in the nineteen-thirties all this changed. Mercantilist policies were not only practiced — they once again became respectable. And there is, so it seems, good reason for adopting such policies, for to keep imports low and to raise exports seems, on the face of it, a sensible way to achieve prosperity.

In order to compare the present commercial policies with mercantilist tactics and in order to come to a conclusion regarding the revival of mercantilism, we must know a bit more about the mercantilist system of thought itself.

Mercantilism lacks the clear-cut meaning of an expression for purely scientific purposes. Certain sarcastic terms are used to describe a phenomenon by its opponents but these very terms, by some irony of fate, came in popular use.

Capitalism was first used by Marx to describe a certain state of society. The term 'mercantilism' was popularized by Adam Smith who was its bitter opponent. He treated it as a system of protection. Schmollar describes it as essentially a policy of economic unity. But, according to William Cunningham, mercantilism was the expression of a striving after economic power for political purposes. We may be inclined towards the last definition. After all, protection and economic unity were means towards an end — and that end-was political strength. Mercantilists therefore were obsessed by their desire for political power, of their countries and so they subordinated their economic actions to their political ends. New states were emerging with the collapse of feudalism in the sixteenth century. Therefore the financing of the recurrent national and dynastic feuds was always a problem. Tax system was very rudimentary and customs were still the principal source of revenue. The scholars and the politicians of that period thought that one man or a family could get richer and stronger by acquiring money and wealth from others, why not apply the same principle to nations in competition with each other. This, in fact, is a very simplified form of mercantilist notion of wealth. They intermingled the concept of money capital with that of real capital. Wealth, they thought, was comprised of gold, silver and mother precious metals. Wealth, therefore, was static in the universe and one nation could gain only at the expense of another. Those were the days of such a staunch nationalism that an individual was like a tiny part of a big whole, the Nation, The means of making a nation strong was to make it rich. War or international conflict was a natural outcome of the circumstances. Therefore, the paramount object of every mercantilist was to make his nation strong. But strength could be obtained by getting rich. Riches could be obtained by having a surplus balance of payments, by spending less gold on imports and by earning more gold through exports. Thus a nation must strive to accumulate as much gold as possible. Many ingenious methods were introduced to enforce this 'beggar thy neighbour' policy. Heavy tariff duties were imposed on imports, subsidies were given to exports and the movement of gold out of the country was strictly prohibited. Every effort was made to get new markets for exports to bring wealth and gold in the country and eventually to become powerful.

We have made a very brief survey of the mercantilist policies. Now, let us turn to the present day commercial policies. After 1930, one country after another raised tariffs, established quotas against imports and reduced the price of its own currency in terms of foreign currencies. In 1930, United States raised the tariff walls to a very great extent and depreciated the value of dollar in terms of other currencies. In 1932, United Kingdom abandoned free trade and imposed a general tariff against imports for the first time in almost a century and she also depreciated the value of pound, thereby making it more expensive for her Importers to buy foreign goods and cheaper for foreigners to buy her goods. All other countries followed suit. Each country eagerly tried to persuade foreigners to take its goods and each purchased commodities from foreigners with the utmost reluctance. All these policies still continue and it is thought more blessed to give than to receive in order to have a surplus balance of payments.

It is very easy to notice the striking resemblance of the present commercial policies with those of mercantilists. Mercantilists followed such policies to achieve political power for the nation and to make it rich at the expense of others. We must now try to probe into the factors that lead different countries to follow similar policies in the present times.

The most profound influence has been exerted on the present policies of the national Governments, by the concept of National Income. National Income depends upon the level of investment and the propensity to consume. This means that higher these determinants, the higher is the National Income. It is also known that exports are a component of investment and that an increase in exports brings about an increase in investment. Thus, an increase in exports by, suppose, Rs. 5 million may result in an increase in the National Income by Rs. 10 to 15 million depending upon the foreign trade multiplier effect. So we can raise the National Income by increasing our exports provided that domestic investment or propensity to consume does not fall. We can achieve the same result by cutting the imports. The reduction of foreign competition in the domestic markets, through the imposition of tariff, means that the propensity to consume will increase, since buyers will purchase more domestic goods when imports become difficult to get. Such an increase in the purchases of home produced commodities out of a given level of income will also raise National Income provided that the amount of investment in the export industries does not decrease. It appears than, that by reducing imports and by increasing exports we can bring prosperity, higher level of income and greater employment to our country. This notion is analogous, if not identical, to that of the mercantilists.

But mercantilists thought that one country could get rich only at the expense of another. Is it also the guiding principle of the present commercial policies? There are two ways of raising the National Income through the international trade. One is by increasing our exports; the second is by reducing our import. An increase in our exports means that the imports of other countries have increased. This means that the propensity to consume of foreign countries for their home produced goods has decreased by an increase in their imports. As a result, by increasing our exports we have raised our National Income, while other countries have suffered a decrease in their National Income. Now let us turn to the second way of increasing our National Income, *i.e.*, by a reduction in our imports. Let us suppose that, our country imposes a general tariff on imports. This tariff will persuade us to buy fewer foreign goods and will induce us to increase our purchases of home-produced import-competing goods. This will lead to an increase in the propensity to consume and hence an increase in employment and National Income. But what will be the repercussions of this act on other countries and what will be the effect of a decrease in our imports on our exports?

When we decrease our imports, the National Incomes of other countries will decrease due to a fall in their exports. This will result in lower demand for our exports. Secondly, with a reduced desire to buy from other countries, we require less currency than before. Hence the price of foreign currency expressed in our currency falls. This means that it becomes more expensive for them to buy our goods and hence our exports will fall. How much do we gain by an imposition of tariff depends upon the way our exports behave. If exports fall by as much as imports, income will not rise but if they fall less than a fall in our imports, our National Income will rise. It can be seen very easily that the addition in our National Income which we secure through restricting imports is obtained almost entirely at the expense of foreign countries. We can increase our National Income only when our propensity to consume increases enough to offset the decline in our exports. But this implies that foreign countries experience a larger decline in their exports than in their imports. Just as a larger reduction in imports than in exports means an increase in National Income so the reverse means a reduction in it. If we succeed in reducing imports by more than a fall in our exports, the additional income we thus create in this country is taken from foreign countries. Is it not very reminiscent of the old mercantilist doctrine? This was perhaps the guiding principle which induced national Governments to impose tariffs, create exchange controls, give subsidies to exports and negotiate bilateral trade agreements after 1930. That is why such measures have been called as ‘beggar thy neighbour’ policies.

Mercantilists insisted upon, the import of gold because it made a country rich. Let us see why do the present Governments insist upon keeping gold in the country and import as much of it as possible. Gold has a certain social prestige and Governments consider it as a highly liquid asset. The Governments may issue a specific amount of currency which is backed by gold. If our country imports gold from other countries, we pay them for it in our currency. But the Government could give them the required amount of our currency without taxing the people more and without getting loans from them and therefore without making any chance in the National Income. A specific amount of our currency will be issued by the central bank and gold will be bought by that. But what will the foreigners do with our currency? It will be used directly or indirectly to purchase our goods. Our exports will rise and this eventually will result in an increase of our National Income. Thus greater imports of gold mean greater prosperity for our country. Therefore, the imports of gold are very important and even if mercantilists stressed the importance of importing gold for some other naive reasons, they did it all the same. And here, we are once again very close to mercantilist policy.

The purpose of this article not to prove that the old mercantilists or the present commercial policies are the best policies to achieve prosperity. Free trade has its very great advantages. A country can achieve prosperity by expanding its investment at home and helping other countries also by the same act. Yet in a world where each country finds economic salvation in cutting its imports and pushing its exports, any country which refrains from doing so is at a disadvantage.

We are living in an age of conflict, where economic policies are subservient to political ends. The political anarchy on international scale during the inter-war period was very similar to that of mercantilist era. We still have conflicts and political blocs on an international scale. Gone are the days of free trade, international cooperation and *laissez faire*. We are once again living in an era of mercantilism which has definitely come back to the international economy.

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