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THE DAY OF THE MERCHANT*

by

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And so, my fellow Americans: ask not what your country can do for you – ask what you can do for your country.†

John F. Kennedy (1961)

This paper is an occasion to formulate a comment on economic thought in the context of a "national order." The nation, from the vantage point of the present, is such a commonplace form of social organization that we hardly give the institution passing consideration as to its effects on our thought patterns and behavior. And, yet, the nation, the arrangement of the human species in national groups having more or less distinct national interests, has played a profound role in shaping our impressions about the world, or worlds, in which we reside. The influence of the nation in molding our thoughts about the nature of our economic world is perhaps no more apparent than in the development of mercantilism, a form of economic organization cultivated in a soil of nationalism. My particular concern in this paper is to examine, in a broad brush-stroke fashion, the principal elements of economic thought in this order of mercantilism.

The paper has four parts. First, I should like to begin with a brief description

of what I am referring to as the national order. In such a depiction we will find some of the elemental properties of the loam giving rise to the mercantilist view of the economic world. Second, it will be useful to visit for a bit with one Thomas Mun – a seventeenth-century English merchant, stalwart citizen of a national order, and able proponent of mercantilism. Our visit with Mun will afford a bit of insight into the life of this representative of the national order. Third, we will examine the economic thought of Mun. Here, we will see how a patriotic merchant is inclined to shape economic doctrine. And, finally, I will end this exercise with a comment on the visible remnants of mercantilism in modern economic doctrine.¹

I. The National Order

It is in the Europe of 1600, give or take a hundred years, where we find the budding modern national order. The Western World is, at this time, an order of sovereign nation states, an order comprised of an England, a France, a Netherlands, a Portugal, a Spain, and a host of other lands yet remaining to be formed into their current shapes. Each state in this order has its hallowed chunk of the earth's territory with its varied natural endowments. Each nation, furthermore, has its population invariably patriotic in temperament. Each country, as well, has its own more or less unique culture, that mix of economic, political, and social institutions and ideals which serve not only to organize and carry out the multitude of tasks involved in life's work, day-in and day-out, but also to form some sense of national unity, national purpose, national interest. And, as an important part of its culture, each nation is under the governance of a largely hereditary monarchy and feudal nobility whose combined authority in shaping the national program of the day is little short of absolute and nothing short of righteous. The order of the Western World in these early modern times is, to a

noticeable extent, the order of the righteous and revered nation, in fact, an order of several of them in the same European neighborhood.

This national order, we may observe with an ample interval of confidence, is not exactly, or even in the main, an order of serenity. It is not an environment wherein subsets of a pacific species are content to reside side-by-side, given over to some sort of humanistic will to live and let live in a right neighborly manner. On the contrary, it is an order of apparent division and discord. It is an environment of peoples patriotic to the homeland, but it is a patriotism that implies a certain callousness, if not belligerence, toward the neighbor, the foreigner beyond the national borders. It is an atmosphere of perhaps enchanting cultural variety, but at the same time, one of disputed property rights, of language barriers, of religious dissent, and of righteous customs alongside pagan ways, all making for cultural misunderstanding and conflict. And it is a milieu wherein monarchs, together with their loyal subjects, find themselves engaged in a continuous international rivalry, a rivalry for more territory, more wealth, more power, or more of anything else serving the security of the nation, the aggrandizement of the nation, or some whim of The Majesty. It is an environment weighted in the ethnocentric direction, a landscape that pits the interests of one nation against the interests of other nations, the civilized homeland against barbarian foreigners, the loyal citizen serving the public good against strangers who are hardly ever up to anything good.

This ecosystem bent toward nationalism makes it something of an imperative that a given state have some sort of national policy aimed at achieving whatever happens to be in the national interest. And in an atmosphere of rivalry, no interest, or policy, is likely to be of greater importance than that of promoting the strength of the nation itself. The well-

being of the population, the security of the national territory, the grandeur of the country, even the very survival of the state as an independent sovereignty, all depend on the nation's arsenal of strength. And the strength of the nation, in turn, is reckoned in two dimensions: first, in the nation's military prowess, and, second, in the loyalty of the citizenry to the country and its head of state. The strong military is required, not only for defensive purposes, to repel, foreexample, a foreign power that has become, for some reason, exceedingly unneighborly all of a sudden, but importantly also, for the more offensive purpose of securing sparsely populated and heretofore uncivilized, not to mention unlooted, territories in the Far East and West, in the New World. And a patriotic citizenry is required for the reason that the strength of the nation is not just derived from The Majesty's power and righteousness, but, as well, from numbers united in pursuit of the same righteousness. The destiny of the ship of state would certainly be altered in a wayward direction with a mutinous crew on board, while an indifferent crew would likely render the sloop dead in the water. Thus, the defender of the nation's cause is accorded the mantle of hero; the fellow who performs his sundry civic duties with little question and otherwise behaves himself is the good citizen; and the one who does the homeland harm is the rascal prone to treason or the enemy, both unworthy chaps in any nation, subject to all manner of the most severe discrimination. The strength of the nation, this primary national interest and object of national policy, is, thus, bound up in a firm military and a patriotic citizenry under the watchfuleye and thumb of a savvy Majesty counseled by a Court of Nobility. The national order, therefore, may also be seen as the order of the nation hell bent on maximizing its own strength, preferably at some expense to the might of the foreigner.

This order, the world of the revered nation pitted against rivals in a race for national survival and national pride, is the approximate environment giving rise to mercantilism, a doctrine weighted in the direction of bringing economic activity into the fold of serving the interests of the nation. For a look at the particulars of this doctrine, let us turn to the world of Thomas Mun, a merchant with sufficient public spirit, pecuniary interest, and contemporary analytic skill to be considered a patriotic political economist of the national order.

II. The Life of Thomas Mun (1571-1641)

Little in the way of detailed information about the life of Mun has survived for our inspection.² He was born the third son into a rather well-heeled, although largely unheralded, London family probably in 1571, a fact that makes him a younger contemporary of William Shakespeare. Thomas's stepfather, the paternal figure in his life from age four, was a mercer, or textile merchant, of sufficient means and reputation to have been a director of the East India Company. This was the Company chartered by Queen Elizabeth I in 1600 to effect trade with the East Indies, a modest chunk of earth and sea stretching from South Africa to Japan. The directorship meant that the acting father was one of twenty-four London merchants selected to oversee and take part in the operations of the Company. It is not improbable that the directorship, from the point of view of the elder, represented an agreeable opportunity to be of service to The Majesty in making a quick pound for himself, a lesson apparently not lost on the stepson.

Although nothing specific is known about Thomas's formal education, his vocational pursuits suggest competence in the commercial arts, which in his case included some facility in Latin and navigating on the high seas as well as in business skills. The

bulk of his earlier apprentice years seems to have been spent in commercial ventures in Italy and the Levant. The latter is the Middle English term for the Orient, and, in his day, referred to the area now encompassing much of Turkey, Syria, and Lebanon. One of his ventures in this period involved his receipt of an interest-free loan of forty-thousand crowns for one year from Ferdinand I, the de'Medici Grand Duke of Tuscany, to acquire and merchandise Turkish wares in Italy. The venture is merely suggestive of Thomas's business acumen, showing an inclination and perhaps an ability to move in circles of higher and wider finance than those of a common local merchant. What is not known of the venture is the number of crowns that Thomas pocketed in the deal.

In 1612 Mun was back in London where, at the over-ripe age of forty-one, he married one Ursula Malcott. The couple settled in the parish of St. Helen's, Bishopsgate, at the time a neighborhood of rich merchants including, though some years earlier, Sir Thomas Gresham, the founder of the Royal Exchange. The marriage, in this environment of commercial intercourse, was however sufficiently other businesslike to produce a son, John, and two daughters, Anne and Mary.

In the twenty-six years from 1615 until his death at age seventy in 1641, Thomas, following in the tracks of his stepfather, was one of the twenty-four directors of the East India Company. These years were spent, it is reported, in active promotion of the Company's sundry interests. That his own interests were also served in this period is indicated in the fact that he was, at the time of his death, a wealthy man in the material sense, with land holdings and sufficient cash to be in a position to extend a presumably immodest loan to the civil war chest of His Majesty, Charles I, before the latter lost his head.

International merchant that he was, it was quite natural that Thomas should also have a complementary interest in the commercial policies of the England of his day. This interest led him, on various occasions, to take the time to argue his views on such matters in writing. This writing is significant for our purposes, in that it gives expression to the nature of mercantilism.

III. The Political Economy of Mun

The doctrine of the merchant is sketched out in a short volume probably written somewhere around 1630, but published posthumously in 1664. The title of the work is *England's Treasure by Forraign Trade*.³ Thomas's son, John, saw to the publication of the manuscript, and included the following fond remembrance of the author in his dedication of the treatise:⁴

He was in his time famous amongst Merchants, and well known to most men of business, for his general Experience in Affairs, and notable Insight into Trade; neither was he less observed for his Integrity to his Prince, and Zeal to the Common-wealth: the serious Discourses of such men are commonly not unprofitable.

Thus, in addition to being gainful, the author, at least in his son's estimation, was a well-known, learned, and patriotic man of commerce with some integrity.

The title of the profitable discourse points us in the direction of two essential elements of mercantilist thought: first, that the treasure of the nation is a matter of utmost importance and concern in the realm; and, second, that such treasure is to be got through trade with other nations. The particular meaning of these kernels of thought may be flushed out of what Mun has to say within his treatise.

Early on in the discourse, and with all due immodesty, Thomas is apparently compelled to establish, at least to his own satisfaction, his high station in society:⁵

. . . the Merchant is worthily called *The Steward of the Kingdoms Stock*, by way of Commerce with other Nations; a work of no less *Reputation* than *Trust*, which ought to be performed with great skill and conscience, that so the private gain may ever accompany the publique good.

The merchant is nothing less than the keeper, or manager, of the nation's riches in foreign trade. Private gain is, of course, a legitimate reward for his efforts, but only so long as it is earned in service to the public good. If great skill yields private gain, the honed conscience must see to it that such gain is not so excessive as to be beyond the communal good. Here we have the essence of a patriotic merchant, a man of commerce driven at least as much by civic duty as by private gain, or so he says.

From on high, Thomas then boldly professes the rule which is to govern the commerce of the nation:⁶

Although a Kingdom may be enriched by gifts received, or by purchase taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to encrease our wealth and treasure is by *Forraign Trade*, wherein wee must ever observe this rule; to sell more to strangers yearly than wee consume of theirs in value.

His statement of the rule of commerce is followed up with a numerical illustration:⁷

For suppose that when this Kingdom is plentifully served with the Cloth, Lead, Tinn, Iron, Fish and other native commodities, we doe yearly export the overplus to forraign Countries to the value of twenty two hundred thousand pounds; by which means we are enabled beyond the Seas to buy and bring in forraign wares for our use and Consumptions, to the value of twenty hundred thousand pounds; By this order duly kept in our trading, we may rest assured that the Kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in so much Treasure; because that part of our stock which is not returned to us in wares must necessarily be brought home in treasure.

And the argument for the rule is capped off with a homely analogy:⁸

For in this case it cometh to pass in the stock of a Kingdom, as in the estate of a private man; who is supposed to have one thousand pounds yearly revenue and two thousand pounds of ready money in his Chest: If such a man through excess shall spend one thousand five hundred pounds *per annum*, all his ready money will be gone in four years; and in the like time his said money will be doubled if he take a Frugal course to spend but five hundred pounds *per annum*; which rule never faileth likewise in the Commonwealth. . . .

The enrichment of the kingdom, therefore, centers on the acquisition of treasure, which comes in the nation, as in the household, from ever observing the rule of commerce.

The wealth of the nation, according to the doctrine of the merchant, is measured by the quantity of treasure within the borders of the kingdom. The wealthy country is the one bulging at the seams with gold and silver coin and bullion. And the source of this wealth is in the proximity of a favorable balance of trade, annually exporting an aggregate of goods having a greater market value than that of all goods imported during the year. This favorable balance, or foreign trade surplus, yields the desired net inflow of gold and silver, thereby increasing the wealth of the nation.

The monetary conception of wealth as well as the rule of commerce, it should be noted, are central among the axioms giving shape to the mercantile system, the economy made subservient to the nation. The favorable balance of trade, in the mind of the mercantilist, was the instrument to accumulate a ready reserve of liquid purchasing power which could be drawn upon in a time of national need. The Majesty may well find it necessary or desirable at some point in time to employ the services of a mercenary army or a navy for some defensive or more bellicose reason. And the purchasing power reserve, a portion of which could be taxed, borrowed, or otherwise confiscated, would come in mighty handy on such occasions. Thomas makes the point this way:⁹

. . . for although *Treasure is said to be the sinews of the War*, yet this is so because it doth provide, unite & move the power of men, victuals, and munition where and when the cause doth require. . . .

Thus, in the ready reserve of treasure, the merchant found a fund vital to the strength of the nation, a fund necessary to ensure the security of the national cause. The metallic treasure, in the mind of the merchant, was the wealth of the nation itself, something on which the very well-being of the country depended.¹⁰

Now, if the nation's liquid reserve of purchasing power were to be enlarged by annually running a favorable balance of trade with other countries, how was this trade balance to be achieved? The obvious answer, provided by Mun, is, ". . . *to encrease the exportation of our commodities, and to decrease our Consumption of forraign wares.*"¹¹

And, to accomplish these ends, Thomas serves up a mix of particular proposals which may be seen as relating to employment, production, and consumption in the domestic economy. These proposals may be seen, also, as further elements giving the mercantile economy its more-or-less distinctive shape.

In the area of employment, Mun is insistent that idle resources be put to work, both land and labor. In the case of land, he proposes:¹²

. . . although this Realm be already exceeding rich by nature, yet might it be much encreased by laying the waste grounds (which are infinite) [!] into such employments as should no way hinder the present revenues of other manured lands, but hereby to supply our selves and prevent the importations of Hemp, Flax, Cordage, Tobacco, and divers other things which now we fetch from strangers to our great impoverishing.

And idle labor might well be employed in fishing:¹³

The Fishing in his Majesties seas of *England, Scotland* and *Ireland* is our natural wealth, and would cost nothing but labor, which the *Dutch* bestow willingly, and thereby draw yearly a very great profit to

themselves by serving many places of Christendom with our Fish, for which they return and supply their wants both of forraign Wares and Mony, besides the multitude of Mariners and Shipping, which hereby are maintain'd. . . . Our Fishing plantation likewise in *New-England, Virginia, Groenland, the Summer Islands* and the *New-found-land*, are of the like nature, affording much wealth and employments to maintain a great number of poor, and to encrease our decaying trade.

If not in fishing, the poor could be put to work in mining, manufacturing, shipping, or some other employment useful to the nation.

On the matter of production, the domestic economy ought to cater to the needs of foreigners, but, of course, at a price advantageous to the homeland:¹⁴

In our exportations we must not only regard our own superfluties, but also we must consider our neighbors necessities, that so upon the wares which they cannot want [supply themselves], nor yet be furnished thereof elsewhere, we may . . . gain so much of the manufacture as we can, and also endeavour to sell them dear, so far forth as the high price cause not a less vent in the quantity. But the superfluity of our commodities which strangers use, and may also have the same from other Nations, or may abate their vent by the use of some such like wares from other places, and with little inconvenience; we must in this case strive to sell as cheap as possible we can, rather than to lose the utterance of such wares.

Moreover, the arts of manufacturing and commerce qualify for particularly careful maintenance in the domestic economy:¹⁵

. . . in all things we must endeavour to make the most we can of our own. . . . And forasmuch as the people which live by the Arts are far more in number than they who are masters of the fruits, we ought the more carefully to maintain those endeavours of the multitude, in whom doth consist the greatest strength and riches both of King and Kingdom: for where the people are many, and the arts good, there the traffique must be great, and the Countrey rich.

The farmers, "masters of the fruits," are presumably left to fend, as best they can, for themselves apparently without particular encouragement. And goods destined for export should even be delivered to strangers in domestic ships:¹⁶

The value of our exportations likewise may be much advanced when we perform it our selves in our own Ships, for then we get only not the price of our wares as they are worth here, but also the Merchants gains, the charges of ensurance, and freight to carry them beyond the seas.

Finally, insofar as consumption is concerned, the domestic population is advised to cinch up its collective belt and make due on as little as possible in both foreign and domestic wares. Reduced consumption of foreign goods would lead to decreased imports:¹⁷

We may . . . diminish our importations, if we would soberly refrain from excessive consumption of forraign wares in our diet and rayment [clothing], with such often change of fashions as is used, so much the more to encrease the waste and charge; which vices at this present are more notorious amongst us than in former ages. Yet might they easily be amended by enforcing the observation of such good laws as are strictly practised in other Countries against the said excesses. . . .

And reduced consumption of domestic goods would make for increased exports:¹⁸

The frugal expending likewise of our own natural wealth might advance much yearly to be exported unto strangers; and if in our rayment we will be prodigal, yet let this be done with our own materials and manufactures, as Cloth, Lace, Imbroderies, Cutworks and the like, where the excess of the rich may be the employment of the poor, whose labours notwithstanding of this kind, would be more profitable for the Commonwealth, if they were done to the use of strangers.

The loyal subject had best get by on as little as possible, strive for an ever lower standard of living!

Toward the end of his volume, Mun makes it abundantly clear that the English of his day could stand some improvement in their habits related to employment, production, and consumption:¹⁹

The endeavours of the industrious Dutch do give sufficient testimony

of this truth, to *our great shame, and no less perill*, if it have not a timely prevention: for, whilest we leave our wonted honourable exercises and studies, following our pleasures, and of late years besotting our selves with pipe and pot, in a beastly manner, sucking smoak, and drinking healths, until death stares many in the face; the said Dutch have well-neer left this swinish vice, and taken up our wonted valour, which we have often so well performed both by Sea and Land, and particularly in their defense, although they are not now so thankful as to acknowledge the same. The summ of all is this, that the general leprosie of our Piping, Potting, Feasting, Fashions and mis-spending of our time in Idleness and Pleasure . . . hath made us effeminate in our bodies, weak in our knowledg, poor in our Treasure, declined in our Valour, unfortunate in our Enterprises, and contemned by our Enemies. I write the more of these excesses, because they do so greatly wast our wealth. . . .

For the good of the realm, the English had better end this beastly squandering of wealth, follow the ungrateful Dutch back to the old virtues of hard work and parsimony, and leave the pleasures in life to the stranger!

In sum, the merchant's program for a favorable balance of trade is a sweeping program for an economic order to serve the nation. First, the resource base available for production is to be fully employed; idle land and fainéant labor is to be brought into the production process for the good of the country. Second, production in the domestic economy is to be of service to the foreigner so as to maximize exports; the arts of manufacturing and foreign commerce, including shipping, are the particularly promising prospects for great "traffique" and a rich country, and are, therefore, to be encouraged; and exports are to be priced so as to maximize the treasure flowing into the realm. And, third, the common folk of the nation are to be held to a standard of living reeking frugality; ostentatious or otherwise excessive consumption is a disservice to the wealth of the nation to the extent that it stimulates imports and dampens exports. The plan of the merchant is thus one making the entire economy subservient to the nation. The patriotic agents of production and

consumption must all do their part to achieve the desired foreign trade surplus and the consequent influx of ready money so important to the security of the homeland surrounded by ungrateful rivals.

With our examination of the political economy of Mun more-or-less complete, we are now in a position to collect some thoughts on the nature of the economic doctrine in the order of the merchant.

First of all, it should be clear that mercantilism is a doctrine that places the interests of the nation, if not above all other possible interests, at least in a position of primacy among the more important ones. The world of the merchant is something of an oligopoly. It is not so much an order of rival firms driven to secure their respective shares of a given market. But it is an order of rival nations, each driven to secure at least its share of whatever is seen as contributing either directly or indirectly to the strength of the nation – land holdings, military prowess, exclusive commercial rights, riches, and the like. And an environment that attaches overriding importance to the maximization of national power is, by definition, an atmosphere of nationalism, of thriving patriotism toward the homeland. Mercantilism is, thus, grounded in an environment of nationalistic fervor. It is, after all, the economic program of the patriotic merchant operating in an oligopolistic order, an order of rivals competing with one another for the world's available stock of national strength. So the doctrine of the merchant is an economics of a patriotic sort.

In saying that the merchant's program is a patriotic economics, it does not necessarily follow that the merchant, himself, was entirely, or even in the main, driven by an altruistic motive. Thomas would perhaps prefer to have us believe, along with his son, John, that his economics was work done in the public interest, all in the line of his civic

duty to his Prince. This view, however, circumvents the more fundamental fact that Thomas was a merchant. He was a businessman engaged in commerce with the ungrateful foreigner, not so much for civic reasons as for private gain. And in this context, it is more than plausible that he should not only promote an economics favorable to a foreign trade that would put ready money in his own pocket, but also dress that economics in a patriotic garb. The increased commerce, at the margin, would certainly make for greater private gain; and the patriotic dress would ensure an incrementally more sedate lifestyle than that of a trader whose loyalty was suspect like a common pirate.

And this would seem to suggest that Mun was something other than a dispassionate observer of economic activity. He was not so much a man of science seeking an understanding of the behavior of *homo æconomicus*, either for its own sake, or to come up with a program to improve the well-being of the species. Rather, he was a promoter, an advocate, of an economic environment conducive to his own material betterment. And his interest in the nation, his patriotism, was probably a residual interest thrust on him by the fact that he was a resident of a national order. Science, like piracy, is at times a difficult interest to pursue in an environment of nationalism. If Mun had been primarily an advocate of his own private interests, then the mercantilism of Thomas may be seen as little more than a defense of the merchant, not of Venice, but of London.

The second mark of mercantilism, we may observe, is its peculiar conception of wealth. It is probably incorrect to say that wealth in the mind of the merchant was wholly precious metallic. Thomas's claim, for example, that fish in the Majesty's seas are part of the "natural wealth" of the nation would seem to admit forms of wealth beyond the monetary sort. However, if such non-pecuniary wealth forms were a noticeable part of the

mercantilist rhetoric, we may safely say, at the same time, that they were given precious little emphasis as such. The bulk of the merchant's doctrine was one leaning heavily toward a monetary conception of wealth. The economic well-being of the nation was reckoned in terms of the stock of ready money in the realm. And the source of such wealth was found in a firm adherence to the rule of commerce and its subsidiary axioms. If the position of the merchant on the wealth of the nation was not one suggesting that only money matters, it was certainly one holding that little else in the end mattered quite so much.

And, finally, the doctrine of the merchant is an argument implying a rather centralized form of economic organization. The rule of commerce embodies the singular objective of national economic policy, which is to continuously run the favorable trade balance. The realization of this objective requires all-out production and employment in the realm. While the enterprise having a product destined for export is worthy of encouragement by subsidy and monopoly privileges, the import industry is to be discouraged through quotas, duties, and outright prohibitions. And domestic consumption is to be kept in check, not only by limitations on imports, but also by sumptuary legislation restricting consumption of enumerated domestic and foreign goods. The economy of the merchant is not an apparatus wherein economic agents are encouraged to pursue their own private interests in a largely decentralized environment. It may be an economy of private enterprise, but it is one pressed into service of the nation.

IV. The Remnants of Mun's Economic Thought

One final question is neither irrelevant nor unpatriotic to the topic here under consideration. What remains of this national economic doctrine in our present-day

thoughts about the economic world in which we reside? Imbedded in this question are two interrogatives: What remains of the national order? And what remains of Thomas's patriotic economics?

That the world of today is, in countless details, different from the seventeenth century realm of Thomas Mun is surely obvious. The broad knowledge revolution of the last three hundred years has profoundly transformed the world technologically and culturally. The technological shift is reflected, for example, in the transition from a world powered by human muscle and draft animals to one driven largely by the internal combustion and electrical engines. And the cultural shift is reflected in the evolution of attitudes, institutions, and processes that, at the margin, seem to be grounded less in dogma, or superstition, or sheer authority aimed at ensuring the welfare of privileged subsets of humanity, and more in analyses of the world undertaken to understand the species and its environs. The world with the computer, indoor plumbing, regression analysis, and all the rest, is, indeed, a much different place.

Yet the equally obvious constant within this panorama of change is the fact that the species continues to reside in a national order, an order of nations separated by their land holdings, their patriotic populations, and their distinct cultures. The map is drawn somewhat differently today, and the economic and political power centers have shifted a bit since Mun's day. But the world remains an oligopoly, an order of rival nations, each striving more to serve its own national interests at the expense of the other country than to get along in a neighborly manner. In fact, any international cooperation present in this order is perhaps not so much born out of any widespread appreciation that there are mutually beneficial gains to be realized from additional increments of cooperation, but

rather from a recognition of the potentially severe marginal costs of added instances of conflict. Thus, with the exception of the occasional traitor or the perfectly detached chap, we are all more-or-less loyal citizens, consenting captives, of our respective righteous nations. And this quality is of fundamental economic importance for the reason that it shapes, in not so subtle ways, how we are inclined to look at our economic world and how we are expected to behave in it. In the national order, we are not infrequently harped at to be patriotic in our consumption by purchasing only domestically produced goods, even when foreign counterpart goods of higher quality are available at lower prices. In the same order, domestic industry is also ordinarily expected to toe the patriotic line in its employment practices by using homegrown labor and homemade capital even in spite of the possibility that in certain industries substitutable foreign resources may be more attractive in terms of their marginal products and their prices. And while we show only an occasional and remote concern for what may be happening to output, employment, and average price levels in the international arena, we are always preoccupied, sometimes paranoid, with the behavior of our own gross domestic product, unemployment rate, and consumer price index. All of this is only to the point that our species does, indeed, continue to reside in a national order, and this fact stamps much of our current economic thought and behavior with an indelible mark of nationalism.

If the national order is alive and well in the modern world, what remains of mercantilism? Are there evident remnants of the merchant's conception of wealth, the rule of commerce, and the policies following from them in our current economic thought? The correct answer to this question seems to be perhaps no in one sense, but then apparently yes in another sense.

In the first instance, we may observe that the tenets of mercantilism are not exactly centerpiece axioms within current conventional economic wisdom. One would be hard pressed to find an economist today arguing that the welfare of a nation is primarily a function of the stock of ready money within the national borders. Money is immensely useful, of course, in an economy as a medium of exchange and as a store of value, whether denominated in pounds, dollars, yen, or some other currency, including bullion. And changes in the money stock can be expected to affect aggregate levels of production, income, employment, and average price levels within an economy. So the economic well-being of a population is not a matter entirely independent of monetary considerations in a money economy. But to say that the welfare of a people is largely reducible to having a cash reserve available for a bellicose day is to attach too much weight to money as a determinant of national well-being and too little weight to other determinants of welfare, such as the volume and composition of production relative to the preferences of the population for various types of output, including national defense.

Secondly, economists are hardly inclined to see treasure derived from foreign trade as the sinews of war. Such a view overstates international trade as a source of treasure for any national purpose in many of today's economies. The view, furthermore, overlooks other, surely more lethal, sinews of military preparedness, like modern armaments activated with the push of a button and a labor force highly skilled in pushing buttons. And, from a somewhat different perspective, it is difficult to see how treasure can be claimed to be the sinews of war any more that it can be considered the sinews of just about anything else, even an aggressive shopping spree by a patriotic woman on the loose in a mall.

And, thirdly, while the merchant's rule of commerce and its tributary policies might be seen as a strategy to achieve certain short-term interests of the nation, as in improving its immediate cash flow position, they may be seen, as well, as a strategy imposing severe costs on the nation in the long-run. The strategy essentially rests on two propositions. The first is that the domestic population in its economic activity is to be of service in real terms, not so much to itself, but to the foreigner. The domestic product must be made to flow out of the realm in ever increasing quantities. And, then, at the same time, the foreigner must not be permitted to be of service in real terms to the domestic population. The foreign product must be made to flow into the realm in ever decreasing quantities. The certain consequence of these propositions, other things equal, is that the domestic population would eventually end up working itself to death, although it must be conceded that, in monetary terms, it would be a "rich" demise.

This grossly overstated consequence is, however, merely a figurative result of Thomas's policies. The twin propositions are far too perishable to produce this effect in a literal way. To expect a national population to be interested in serving itself primarily in monetary terms and only secondarily in real terms for very long is, in retrospect, a dubious reading of the material interests of a people in relation to what must ultimately weigh heavily in their material well-being, the real product available to them and their levels of consumption. The policies of Thomas, moreover, fly against the international exchange mechanism that operates over time to equalize trade balances between a given nation and the aggregate of its trading partners. An influx of money into an economy running a favorable balance of trade, other things equal, will drive up prices of commodities produced in this economy, making the production of this nation less attractive to foreigners.

Similarly, an outflow of money from an economy running an unfavorable trade balance will drive down output prices in this economy, making its produce more attractive to strangers. The directional result of these monetarily driven price fluctuations is to bring the two economies back toward some state of balance in their respective trade volumes and monetary flows. And a final difficulty with the merchant's program is that it contains a set of policies, which can be expected to lead over time to an order of nations economically isolated from one another by trade barriers. In a world where several nations are simultaneously seeking to maximize exports and minimize imports, the erection of import barriers by one nation will invariably lead to the erection of similar retaliatory barriers by other nations. The result of this process of trade barrier erection is a world of nations carrying out their economic activities in isolation, independent of one another. Each nation in such a world is a self-sufficient unit producing the whole of its product and consuming nothing but what it produces. It is rather equivalent, though on a larger scale, to a family or household unit living on what it alone is able to produce. And it is a world devoid of trade, save that carried on by thieves or contraband runners. To paraphrase a tautology on a familiar bumper sticker, when trade is outlawed only outlaws will be traders. And a not insignificant byproduct of this system of economic isolation is that it denies to the world the material gains, in the form of greater production or lower cost of production, to be realized from the alternative system of specialization and unimpeded trade based on absolute and comparative advantage. If, for example, industry in France is able to produce wine at a lower comparative cost than industry in Great Britain, and, at the same time, British industry has the ability to produce cloth in greater comparative abundance than France, then the two nations will certainly have the capability to produce more of both

goods and, therefore, enjoy higher levels of consumption of the two goods in a system of specialization and trade than could ever be achieved through a regime of production and consumption in self-sufficient isolation. Barriers to trade such as tariffs, quotas, and prohibitions only negate these economies of specialization and trade, these avenues to greater output and consumption per unit of resource cost.

Thus, the modern plutologist is not, at least in the rhetoric of the discipline, inclined to embrace much of the merchant's doctrine as an intellectual foundation for either understanding or managing an economy today. And yet, that there is not much of a mercantilist macroeconomics (or microeconomics) constructed on an assumption of nationalism in the current crop of textbooks on the principles of economics does not mean that Thomas's doctrine has disappeared altogether from our economic thought. For, more than occasionally, one encounters fragments of economic expression suggesting the presence of the ghost of the merchant in our midst.²⁰

Consider, as a case in point, the remarkable remarks of Ronald Reagan in a 1985 speech entitled, "U. S. Trade Policy: Free and Fair Trade."²¹ The circumstance occasioning this presidential policy statement was the then developing, and now infamous, unfavorable trade balance of the United States in the international marketplace.

American imports of goods and services exceeded exports by some \$59 billion in 1984, and then by \$79 billion in 1985.²² The economy, alas, was operating in a manner contrary to Thomas's rule of commerce. In monetary terms, treasure was being permitted to flow out of the economy at an increasing rate; the system was hemorrhaging dollars. And in real terms, the foreigner was being permitted to be of service to the American consumer (Majesty forbid) to a greater extent than Americans were serving their neighbors

in the world economy. Here was a clear problem requiring the attention of the Chief Executive, whose remarks appear to be only 90 percent pure mercantilism of the Mun sort.

The President's opening comments are a blend (cloud might be a better term) of neoclassical free trade rhetoric and a touch of mercantile insight imbedded in patriotic sentiment, all to the point of establishing the righteousness of recent American trade policy:²³

. . . let me say at the outset that our trade policy rests firmly on the foundation of free and open markets, free trade.

I, like you, recognize the inescapable conclusion that all of history has taught, the freer the flow of world trade, the stronger the tides for human progress and peace among nations. I certainly don't have to explain the benefits of free and open markets to you. They produce more jobs, a more productive use of our nation's resources, more rapid innovation and a higher standard of living. They strengthen our national security because our economy, the bedrock of our defense, is stronger.

I'm pleased that the United States has played the critical role of insuring and promoting an open trading system since World War II and I know that, if we ever faltered in the defense and promotion of the worldwide free trading system, that system will collapse, to the detriment of all.

The free trade rhetoric aside for the moment, the world of Ronald differs from that of Mun in one fundamental respect in language only: By Thomas's account, treasure was the sinews of war; in the President's world, the economy is apparently the sinews of national defense.

Moreover, if the merchant is not the worthy steward of the kingdom's stock in Reagan's domain, business is not far from it, as the following passage suggests:²⁴

. . . may I say right here to the leaders of industry that my admiration for business in the United States is stronger than ever.

You know, sometimes in Washington there are some who seem to forget what the economy is all about. They give me reports saying that the economy does this and the economy will do that. They never talk about business. And somewhere along the way these folks in Washington

have forgotten that the economy is business. Business creates new products and new services. Business creates jobs. Business creates prosperity for our communities and our nation as a whole. And business is the people that make it work. From the C.E.O. to the workers in the factories.

I know, too, that American business has never been afraid to compete. I know that, when a trading system follows the rules of free trade, when there is equal opportunity to compete, American business is as innovative, efficient and competitive as any in the world.

While all are thus virtuous within the nation, or at least all but the forgetful folks in Washington, the same cannot be said of the strangers in the outside world.

The foreigner, probably no more grateful than in Mun's day, is the antagonist in the President's script. Even allies are all too often prone to maintain trade barriers and use other unfair trade practices against the United States.²⁵

When domestic markets are closed to the exports of others, it is no longer free trade. When governments subsidize their manufacturers and farmers so that they can dump goods in other markets, it is no longer free trade. When governments permit counterfeiting or copying of American products, it is stealing our future and it is no longer free trade. When governments assist their exporters in ways that violate international laws, then the playing field is no longer level and there is no longer free trade. When governments subsidize industries for commercial advantage and underwrite costs, placing an unfair burden on competitors, that is not free trade.

Then he names a few of the villains, citing their restrictive policies: Korea has a "law that prohibits fair competition for U. S. insurance firms"; Brazil has a "law restricting the sale of U. S. high-technology products"; Japan has "restrictions on the sale of U. S. tobacco products" and "prohibitions on imports of our leather and leather footwear"; and the European Common Market has restrictions on the import of American canned fruit.²⁶

These discriminating trade arrangements are apparently enough to drive a patriotic Executive mad.²⁷

I will not stand by and watch American businesses fail because of unfair trading practices abroad. I will not stand by and watch American workers lose their jobs because other nations do not play by the rules.

The situation clearly calls for action to achieve a more level playing field, whatever that might be.

And what policy measures does Mr. Reagan call for? First, he wants to set in motion governmental machinery to look for, and act on, these unfair trade practices of foreigners.²⁸

. . . I have instructed Ambassador [Clayton] Yeutter [the United States Trade Representative] to maintain a constant watch and to take action in those instances of unfair trade that will disadvantage American businesses and workers.

And to the same point:²⁹

. . . I am today directing that a strike force be established among the relevant agencies in our Government whose task it will be to uncover unfair trading practices used against us and develop and execute strategies and programs to promptly counter and eliminate them.

Second, he calls for the creation of a loaded loan fund:³⁰

I have directed the Secretary of the Treasury [James Baker] to work with the Congress to establish a \$300 million fund that will support up to a billion dollars in mixed-credit loans. These funds will counter our loss of business to trading partners who use what, in effect, are subsidies to deprive U. S. companies of fair access to world markets.

We will counter your governmental subsidies of industry and dumping on our market, says the President, with our own program of public subsidies and dumping on your market.

Third, he wants the foreigners to strengthen their respective currencies relative to the dollar:³¹

A major factor in the growth of our trade deficit has been the combination of our very strong economic performance and the weak economic performance of our major trading partners over the last four

years. This has limited our exports and contributed to the weakening of other currencies relative to the dollar, thereby encouraging additional imports by the United States and discouraging our exports.

But yesterday I authorized Treasury Secretary Baker to join his counterparts from other major industrial countries to announce measures to promote stronger and more balanced growth in our economies and thereby the strengthening of foreign currencies. This will provide better markets for U. S. products and improve the competitive position of our industry, agriculture and labor.

We would be a whole lot better off, in monetary terms, if we could only get the weak economies of our trading partners working again—to produce a falling dollar. In this bit of analysis, the Washington forgetful might be inclined to wonder, if the American economy has been performing so strongly and the foreign economies so feebly in recent years, why has the American consumer at the same time revealed a decreasing preference for domestic automobiles and an increasing preference for foreign cars? This, of course, is only a trifling question about a trifling industry. But then, too, the slight of memory may also wonder just how high a falling dollar really is on the lists of national interests of, say, a Margaret Thatcher, a Helmut Kohl, a Francois Mitterrand, or a Yasuhiro Nakasone. Fourth, Mr. Reagan is insistent that Japan open itself up to American products:³²

I have ordered the Secretary of State [George Schultz] to seek time limits on negotiations under way to open up markets in specific product areas in Japan.

This is an aside of little consequence, but apparently agreement between two nations on at least some commercial matters is an inverse function of the quantity of time allowed for negotiations. And, finally, he wants to bring to a speedy end the piracy and counterfeiting of American goods by foreigners:³³

I've instructed the United States trade representative to accelerate the negotiations with any and all countries where the counterfeiting and piracy of U. S. goods has occurred to bring these

practices to a quick end.

And I look forward to working with the Congress to increase efforts to protect patents, copyrights, and trademarks and other intellectual property rights.

It seems that some types of property of an intellectual sort are uniquely American and off limits to foreigners.

And, as a final note, the President confirms his own amazingly flexible intellect when he reiterates his opening theme in his concluding remarks:³⁴

But I do not want to let this discussion pass without reminding all of our ultimate purpose – the expansion of free and open markets everywhere.

Maybe a raging fire, too, can be extinguished if it is doused with enough gasoline!

What are we to make of the President's cumulous remarks on trade policy? In the first place, the fact that a trade deficit is widely perceived as a problem requiring discrete repair, rather than a periodically recurring episode to be expected in a changing international economy, suggests the presence in our psyche of an inclination to look at our economic experience through a mercantilist monocle. In a world without Thomas's rule of commerce or something very much like it, a trade deficit loses much of its sound and fury, and becomes little more than just another unarousing number. So when the President points to the trade deficit as a problem in need of corrective public action, he is to some extent echoing our collective fetish for national treasure. We want our Toyotas and BMWs; but, in the exchange, we also want to hang onto our dollars, apparently for dear life.

Secondly, the President's contention that international commerce is a game being played out on a tilted field, with the foreigner engaging in unfair trade practices, is an even

more substantial admission that the modern world has a mercantilist quality. That foreign governments are inclined to restrict imports from the United States is precisely the sort of inclination to be expected in the world of the merchant. That foreign governments should engage in the policy of subsidizing their export industries is likewise a policy to be expected in the merchant's order. And there is certainly nothing amercantilist in the foreign practices of dumping goods on the American market, or of counterfeiting American products. These practices are merely an indication that the merchant's doctrine of today is recommending additional policy tools beyond those codified by Mun to serve the interests of the nation. Subsidized dumping, from the perspective of the loyal merchant in search of quick public and private revenue, may well be seen as a perfectly patriotic strategy to increase the nation's share of a given market and its treasure, while undermining those of the foreigner. Under certain conditions, the strategy can even be expected to work. And the practice of counterfeiting suggests just how little real respect some foreign merchants have for the private property of others, and are willing to enlist the skills of the common thief to serve the interests of the righteous nation. The role of theft in economic development through the ages is probably not statistically or otherwise insignificant.

Third, if the President's solution to the trade deficit problem is to be found in the more level playing field of free and fair trade, it is apparently a free trade doctrine of a rather different sort, only half classical at most. From the vantage point of the American economy (no other vantage point matters quite so much in his national order), it is a doctrine that requires unfettered commerce in the export direction only, and not in the import direction. The President's specific policy directives are nearly all aimed at weeding out trade barriers and other unfair trade practices in the foreigner's back yard. In the whole

speech, there is not even so much as a hint that the United States might be a touch unfair to the foreigner in its current trade practices. And there is nothing in the way of an offer to move the neighborhood of nations toward an environment of more libertarian commerce by reducing or eliminating some native American impediments to trade. There are no overtures to reduce "voluntary" restraints on Japanese car imports; no offers to eliminate quotas on steel, textiles, and sugar; no proposals to reduce tariffs on Canadian lumber.³⁵ But, then, these omissions are understandable. It is just not good business to allow the foreigner unrestricted access to the American consumer anytime. And it would be positively unpatriotic to suggest movement in this direction at a time when treasure, which is supposed to be continuously flowing into the nation, is instead gushing out of the realm. This free trade doctrine is one that the merchant of London would likely have embraced as good vintage mercantilism had the doctrine been around in his time. In fact, the President's entire trade policy speech seems to boil down to this message aimed at the ungrateful foreigner: As long as you continue to use the policies of the merchant to serve your pecuniary interests in commerce, we Americans will do the same in the commercial field of battle.

My purpose in dragging out and looking at this one-act play of the President was neither to pan Mr. Reagan's acting nor to argue that this performance is deserving of an award from some academy. Rather, my intent was to simply point out that this trade policy speech can be made to look like a fine mercantilist tract without stretching in the least either what the President has to say or the primary axioms of the London merchant. If Mun, himself, could have been present at the performance, he would probably have let out a hearty "Bravo!" at its conclusion, if it were not for one small detail to which he probably

would have taken exception. The source of America's trade problem, in the mercantilism of Reagan, resides in the unfair practices of the foreigner, and the problem will be corrected when the stranger is made to straighten up and trade fairly; the source of the difficulty, in the mercantilism of Mun, would have been found in the idleness and beastly excessive diet and fashion, not of the foreigner, but of the native, who must be made to work hard for that ever lower, but enriching, standard of living. Aside from this difference, it seems clear enough that the doctrine of the merchant continues to thrive even in our world, if only in high places, off campus.

Notes

*A somewhat different version of this paper was published under the title "The Merchant and Mr. Reagan: The Case of a Half-Classical Trade Policy," *The American Journal of Economics and Sociology*, 62 (July 2003), 567-582.

†*Inaugural Address of John Fitzgerald Kennedy President of the United States Washington, D. C., January 20, 1961*, House Document 190, 88th Congress, 2nd Session.

¹ A hefty qualification is in order concerning the extent of this excursion into the nature of mercantilism. The term, mercantilism, is rather commonly used in the literature oneconomic thought to represent a heterogeneous amalgam (if there is such a thing) of ideas and policies on trade which flowered in Europe with the decline of feudalism and the rise of the modern nationstate. This paper is merely a glimpse at some of the ideas of Thomas Mun, one among others who happened to think on paper in the vein of this broad doctrine. More comprehensive statements on the nature of mercantilism appear in Alexander Gray, *The Development of Economic Doctrine* (New York: John Wiley & Sons, 1931), pp. 65-95; Eli F. Heckscher, "Mercantilism," in H. W. Spiegel, ed., *The Development of Economic Thought* (New York: John Wiley & Sons, 1952), pp. 31-41; and Jacob Viner, "Mercantilism," *International Encyclopedia of the Social Sciences* (New York: Macmillan, 1968), v. 4, pp. 435-443. The really serious student, however, will not be satisfied until he or she has plowed through Eli F. Heckscher, *Mercantilism* (2nd Edition; London: Allen and Unwin, 1955), 2 v.

² The following items were patriotically used in piecing together this biographical fragment on Mun. A. L. Hardy, "Mun, Thomas," *Dictionary of National Biography* (London: Oxford University Press, 1959-60), v. 13, pp. 1183-1186; and R. W. K. Hinton, "Mun, Thomas," *International Encyclopedia of the Social Sciences* (New York: Macmillan, 1968), v. 10, pp. 560-561.

³ Thomas Mun, *England's Treasure by Forraign Trade* (New York: Augustus Kelley, 1965 [1664]). This volume, as well, carries the only imperfectly redundant subtitle, *Or The Ballance of our Forraign Trade Is The Rule of our Treasure*. In addition to this work, Mun also wrote *A Discourse of Trade from England unto the East Indies* (New York: Augustus Kelley, 1971 [1621]). This latter title is a defense of England's trade in the East Indies.

⁴ Mun, *England's Treasure by Forraign Trade*, pp. iv-v. Incidentally, John Mun, the son, was able to get by as a "country gentleman" apparently on his inheritance.

⁵ *Ibid.*, p. 1.

⁶ *Ibid.*, p. 5.

⁷ *Ibid.*

⁸ *Ibid.*, pp. 5-6.

⁹ *Ibid.*, p. 70.

¹⁰ Mun's ready reserve of treasure, it should be noted, is not an idle uncirculating cash reserve, but rather a reserve that is to remain in circulation, serving the national cause of the day. Mun even went so far in this regard as favoring the export of bullion largely on the grounds that such exports would retrieve raw materials and goods from foreign lands which could then be processed and exported from the homeland at higher prices, and thus fetch even more treasure for the nation. Thomas drives this point home in an agrarian illustration: ". . . if we only behold the actions of the husbandman in the seed-time when he casteth away much good corn into the ground, we will rather accompt him a mad man than a husbandman: but when we consider his labours in the harvest which is the end of his endeavours, we find the worth and plentiful encrease of his actions." *Ibid.*, p. 19.

¹¹ *Ibid.*, p. 7.

¹² *Ibid.*

¹³ *Ibid.*, pp. 9-10. The Summer Islands to which Mun refers here are probably those located off the coast of the North West Highlands of Scotland, near the mouth of Loch Broom.

¹⁴ *Ibid.*, p. 8. This passage seems to suggest that Mun had a handle of sorts on the idea of price elasticity of demand.

¹⁵ *Ibid.*, p. 12.

¹⁶ *Ibid.*, pp. 8-9.

¹⁷ *Ibid.*, p. 7. The "good laws" reference here seems to be a clear appeal for sumptuary legislation, laws aimed at regulating consumption of various commodities, and, in this instance, imported ones.

¹⁸ *Ibid.*, p. 9.

¹⁹ *Ibid.*, pp. 72-73.

²⁰ One might even be inclined to see the ghost of the merchant among the ranks of consulting and corporate economists who, in spite of much of their education to the contrary, spend at least some of their professional time estimating optimal tariff rates for employers seeking protection from foreign competition. This does not necessarily mean that these economists have flushed down a commode all that they were taught in school about the virtues of free trade, and replaced this bit of conventional wisdom with a view approximating Mun's conception of the world of trade. After all, this is probably only a case of a few practitioners of the economic art temporarily selling some of their wares to the merchant for ready money for their own chests.

²¹ Ronald Reagan, "U. S. Trade Policy: Free and Fair Trade," *Vital Speeches of the Day* (October 15, 1985), 2-4. This speech was delivered in Washington, D. C., I suppose, in some room at the White House on September 23, 1985, to selected business and Congressional leaders and members of the President's Cabinet. We may presume that the speech represents not just the views of the President on the subject, but those of his closest and most trusted economic advisors and perhaps a speech writer, as well.

²² The trade deficit numbers given here are nominal net exports of goods and services (exports minus imports) for the respective years. It might be added that the deficit has continued on its upward path, reaching \$105 billion in 1986 and \$120 billion in 1987. Council of Economic Advisors, *Economic Report of the President* (Washington, D. C.: U. S. Government Printing Office, 1988), Table B-1, p. 249.

²³ Reagan, p. 2.

²⁴ *Ibid.*

²⁵ *Ibid.* Dumping refers to the practice of offering a good for sale on a market for a price which is below the cost of producing the good. The practice is used in international trade circles as a strategy to increase a given nation's share of a particular market at the expense of other nations' shares of the same market. The tactic, when coupled with a governmental subsidy to make up the difference between the selling price of the good and its cost of production, is an attractive strategy for an exporting firm in a given nation when: (1) rival firms are unable to match the dumping firm's selling price; and (2) the dumping nation's taxpayers are either unaware, or do not mind, that they are paying a portion of the price of the good for the foreigner.

²⁶ *Ibid.*, p. 3.

²⁷ *Ibid.*

²⁸ *Ibid.*

²⁹ *Ibid.*

³⁰ *Ibid.*

³¹ *Ibid.*

³² *Ibid.*

³³ *Ibid.*

³⁴ *Ibid.*

³⁵ Milton Friedman, "Outdoing Smoot-Hawley," *The Wall Street Journal*, April 20, 1987, p. 22.