Capitalisms: Merchant, International, Economic, Democratic

Differentiation by Interpretation

Merchant Capitalism

From a mercantilist point of view, the aim for economic agents is to make as much money as possible. 'Made money' can be understood as the difference between income and spending, and income is essentially gained by selling stuff. (Selling is the 'mining' of merchant capitalism.

It follows that firms, households, countries and governments should all follow this edict, of output/income maximisation and that the more output this year compared to last year the better. Liberalism, however, constrains governments; they should aim to draw no more income than is necessary to maintain 'law and order', protect property rights, provide a bare minimum of 'collective goods' (collective enjoyments), and provide a bare minimum set of market failure offsets.

International Capitalism and Simple Market Economics

The International (Inter-Country) Economy

Economics is commonly regarded as very complex, too difficult and too nerdy, best left to the experts who we hope – fingers crossed – that we can trust, and can navigate the baffling language. And it's true that much of the work professional economists do is complex, because economies are complex human ecosystems.

Yet the core concepts are surprisingly simple and interesting; and charged with insights about humanity.

To make economics simple, we need to start big, not small. The international economy – at its core – is a performance with just one category of player: countries. The aim of the performance is to achieve 'wealth' – and problems emerge because 'wealth' is difficult to define. One common but false understanding equates wealth with the possession of money; or, more strictly, monetised assets.[1] Exchanges conducted under this set of presumptions are properly called 'merchant capitalism', a name shortened since the nineteenth century to 'mercantilism'.

The correct interpretation – 'economic capitalism' – understands wealth as consumable 'enjoyments' and the 'capitals' that produce those enjoyments. These capitals we may call 'machinery', and they include 'education' and 'nature'. We may attribute monetary values to wealth – 'consumables and machinery' – as a measuring device (like a thermometer) rather than as an indication that all that is wealth is able to be bought and sold.[2]

So, the capitalist economy can be understood as an ongoing performance. The most simple version is where countries are the participants (or players or actors), and where the object of the performance is to produce enjoyments for the benefit of all 200 or so participants.[3]

---

[1] 'Monetised assets' can be understood as any asset – financial or physical – that can be assigned a monetary value and can in principle be traded for money. In this context, money plus monetised assets, can be called monetary wealth.

[2] Exactly how these values may be assigned is a matter of 'accounting' rather than economics; indeed potentially complex accounting. We may content ourselves with the awareness that economic wealth can be measured.

[3] The 200 is based on the countries that exist in our present world. An interesting thought experiment would be to imagine a world with about 1000 countries, each with about eight million people. The question is, does the international economy depend on some countries being very large.

Countries may produce 'items' (goods and services; or, or our better understanding, consumables and capitals) on their own without participating in the capitalist performance; that is, without participating in the international economy. (Items could be – for example – bicycles, haircuts, a tunnel-boring machines, or learnings[4].) The most important finding of economics is that, by participating, total wealth (enjoyments and machinery) – for all countries and for each country – can be greater than by not participating.

The inter-country performance is one of trade, buying and selling. Trade exchanges may be simultaneous (barter trade), or trade over time (inter-temporal trade). One country, say Australia, produces an excess of items that it is comparatively good at producing, and exchanges that excess for items produced in other countries which they are comparatively good at producing.

The wealth – and welfare[5] – of the whole may be enhanced by complex barter; for example, exchanges involving three or more countries. Even this minimal complexity generates negotiation difficulties. It is here that money in the sense that economists understand the term – flow money, a medium of exchange – becomes a part of the negotiation process. Strictly, this circulating money only needs to exist for the duration of the negotiation between the participants of each barter; money can be understood as a barter-facilitating technology, and is itself a form of machinery. A system of money adds value to an economy; it facilitates the production of enjoyment.

Part of the negotiation process is the purchasing of existing assets, which transfers claims on the pie to the sellers of those assets.

For a simple example of complex barter, we may consider three participating countries. Country A (say, Australia) wants to buy (import) beans from Country B (say, Britain), which wants to buy carrots from Country C (say, Canada). Canada in turn wants to buy asparagus from Australia. Australia may pay for its purchases from Britain with newly created promises; each promise is a promise to deliver a certain amount of asparagus. In turn those promises – the credit of Australia – are paid by Britain to Canada, and then redeemed when Canada buys from Australia. This money – 'trade credits' or 'trade promises' – can be created as and when required, and is extinguished when the credits are returned to the issuing (ie promising) country (Australia in this case).

In this international (that is, inter-country) economy, buying items (enjoyments or machinery) is called 'importing', and selling such items is called 'exporting'.

This process of complex barter becomes an auction of sorts, when all countries become involved; Australia makes it known that it wants to import beans, and other countries competitively tender to export those beans to Australia. Other countries then tender to export items to the winner of the first tender. The complex barter finishes when Australia wins a tender to export asparagus.

In economic capitalism, the aim for Australians is to acquire particular items that they would like more of, and to pay by selling items produced to excess in Australia (eg asparagus) because Australia is comparatively good at making those items.

Balanced trade can be said to be trade in which all countries imports are 'paid for' by exports to other countries. All countries have a 'trade balance' of zero; and all countries are winners, gaining items (enjoyments and/or machinery) they valued more than the items they gave up. All money credits issued to facilitate the trade are extinguished.

---

[4] 'Learnings' is a quite recent word still used mainly by young people. It quite nicely expresses what students receive formally (and hopefully) – and all of us receive informally – rather the teacher-oriented word 'lessons'.

[5] Welfare can be understood as 'net enjoyment', given that, unintentionally or otherwise, 'unenjoyments' – negative enjoyments – do exist and are indeed produced.

Time-Shifted Trade, and Interest Rates – Finance Capitalism

We go back to our time-shifted 'complex barter' example. In year 0, Australia runs a balance of trade deficit, and Britain runs a surplus. In year 1, Britain runs a trade deficit, and Canada runs a trade surplus. In year 2, Canada runs a trade deficit, and Australia runs a trade surplus. While trade balances over the entire 3-year period, each year contained some unbalance. (If Britain was a mercantilist country, the year 1 and year 2 transactions would probably not happen. Rather Britain would be trying to extend the imbalance in future years, seeking to acquire more money by exporting beans to Australia every year.)

In this time-shifted scenario, the trade credits take on a deeper significance. They become bonds – 'financial instruments' as well as assets. These bonds ***may*** become interest-bearing; eg Australia agreeing to pay say 5% more asparagus for each year the credits are not redeemed.[6] Australia becomes a 'bond-seller'; a debtor. All countries are still winners, even if each transaction occurs a year after the previous one. Australia, who gets an enjoyment surplus in year 0 and an enjoyment deficit in year 2, acquired 'time' as well as beans. Canada, on the other hand, gets its enjoyment surplus in year 2 after having had an enjoyment deficit in year 0. Canada conceded 'time' and carrots in year 1, and acquired asparagus in year 2. It acquired more asparagus in year two – about 10% more in our example – than it would have got in year 0; Canada received 10% interest in return for its two-year wait.

Notice, however, the '*may*' in the previous paragraph. What if it was seen as a disadvantage to be first? Then, it might have been necessary for B to have paid interest to A (in year 0) to ensure that the first transaction went ahead. In this case the interest rate would have been negative.

As our simple international economy example shows, the interest rate is the price of time-shifted trade. Economists tend to think that this price will almost always be positive, because there is a presumption that enjoyment in the future is 'discounted', in other words the presumption is that, if a 'rational' player is offered an identical enjoyment either today or tomorrow (or next year), that they will always choose today. In reality, however, we do prefer to defer many of our enjoyments, in large part because we usually already have enjoyments scheduled for today. A hungry person will probably not defer the enjoyment of food today, but persons with well-stocked freezers may prefer to ensure that they have food in the future rather than more food today, and may be prepared to pay interest in order that their next delivery of supplies is delayed. High positive interest rates are actually an indicator of poverty; or at least of high present needs.[7]

Economic Capitalism

Described by modern (eg post 1776) economics.

Democratic Capitalism

Balancing the capitalisms private and public domains.

[6] 'Redeeming' here means some country importing asparagus from Australia.
[7] It's more complicated though. High interest rates may indicate a high 'demand' for new 'machinery'; machinery that can facilitate the production of future enjoyment.