Liberal Mercantilism

Blindspots

Whenever we look back into history, today's people wonder how people then could have had such beliefs about the world. And we see that the political establishments tended to reflect these widely held worldviews. Even science in the past reveals scientific 'truths' substantially different from those presently held.

The most common interpretation of this is 'the Whig interpretation of history' – that human ideas, knowledge, and economic development are subject to continuous improvement. This is the idea that any group of people always know more than their predecessors, and are necessarily more advanced than their predecessors. It is 'progressive' history.

Yet a careful look at the past suggests that many periods in the past – which were 'the present' once – were by no means more enlightened than periods before that. The founding fathers of the United States reached back to classical Athens for enlightened inspiration. And many of us still look to the New Testament of the Bible – also 2,000 years in the past – for moral guidance.

The problem of systemic anti-African racism is a comparatively recent phenomenon that can be traced to the Atlantic slave trade, and to the 'need' of the perpetrator group – Europeans in this case – to assuage their guilt by developing a supremacist ideology. While this racism blindspot has been waning since the 1940s, other blindspots have been waxing. The most influential economist of the twentieth century once said that 'politicians and the like today, are, unknown to them, in the thrall of some defunct economist.* Intellect has its fashions; fashions that stick around for generations.

Peoples in all times and all places have had their cultural blindspots; blindspots that typically reflect – and entrench – the different expediencies of the different times, and that compromise the intellectual development of each of those times. The study of history makes it possible for at least some people in the present to gain a sense of contemporary shared blindspots.

The most important capitalist blindspot may be called 'The Money Illusion'. While the genesis of this blindspot is at least 3,000 years, this blindspot has been integral to capitalisms as we have known them; that is, since the European emergence of capitalism in the second quarter of the second millennium of the common era (the years 1250 to 1500). It's an evolving blindspot that re-intensified its grip in the 1980s, after maintaining a less intense hold from the 1930s to the 1970s.

The money illusion is the essence of the pseudo-business-science known as 'mercantilism', a word that is short for 'merchant capitalism'. 'Mercantilism' was (and still is) to business science* what 'alchemy' once was to physical science. (The world's most famous alchemist, ever, was Sir Isaac Newton. Fortunately for humanity, Newton did not commit all his time in the pursuit of gold. [* business science can be understood as an analogue of social science, and has arguably been displacing social science – since 1980 – in our halls of academic learning.]

Nature as our most valuable machinery is a major economic blindspot.

[Dasgupta Review: Governments must embed nature into economic decision-making or risk disaster]

The Money Illusion

This is the idea that money – and its 'financial asset' derivatives – constitute wealth. Thus, a rich man is a man who has lots of money; and making money is the economic purpose of life.

As most economists understand – even the dour ones – the economic purpose of life is to create 'enjoyment', though most economists would use another expression, such as 'welfare' or 'living standards' or 'utility'. As such, people (though called 'consumers' or 'households') drive the capitalist market economy by *demanding* stuff. Firms respond, by producing or *supplying* the stuff people want, under conditions of 'scarcity'. Competition is principally a process of consumers competing with other consumers to buy scarce goods and services; economic life is an auction.

Under the money illusion, however, people are in essence *producers* (not consumers); and what they are impelled to make is *money*. The archetypal producer is a goldminer, with a pickaxe of gold-pan.

The capitalist economy thus becomes a production-centred system. People make money by making somethings, and then selling them. In a production-centred economy, it is buyers who are scarce, and therefore seller-producers must compete with each other – using every trick they can muster – to acquire money from scarce buyers.

To someone who is not an economist, the reality of the economy to them is the latter supply-centred system, not the economists' demand-centred version.

In the money-illusion world, money is inherently scarce, and must be won from the earth; hence the goldminer as an archetypical worker, and gold coins as the archetypical money. (Isaac Newton and the other alchemists wanted to fast-track this money-making process.) However, in practice, money was held by other people, and was most easily won by selling stuff (or labour) to those other people. Instead of mining the earth, most firms mined people; they mined their customers, they mined their workers, and the larger firms mined their shareholders.

So the money-illusion world is the real world, the real outcome of a fallacious belief that wealth is 'money' rather than 'living standards'; and has persevered as the world of business capitalism we are familiar with in our day-to-day lives, despite the best efforts of 250 years of economic thinking.

It is this kind of understanding of the economy that leads too many people to juxtapose 'the economy' with 'the people' – as we have seen in these days of the Covid19 pandemic – with the idea that people should be encouraged to go out and 'make money' with minimal regard to their personal health or to the health of others. In this view there is a direct trade-off between money and health, and that the impediment to wealth creation is the Covid19 restrictions rather than the Covid19 virus.

The strengthening of the money-as wealth illusion came in the 1980s, with the advent of 'neoliberalism', which was essentially a revival of economic liberalism which dates back to the late seventeenth century.

Merchant Capitalism

The period of capitalism's history from about 1500 to about 1750 preceded the industrial capitalism that arrived with the industrial revolution. Known to writers – such as Adam Smith – in the late eighteenth century called the, to them, familiar system the 'mercantile or commercial' system. Smith – a liberal 'political economist' – in his famous book … set out to debunk the mercantile system, also known as the world system of *merchant capitalism*. Writers in the following century created the word 'mercantilism' to describe this now intellectually discredited regime characterised by international commercial rivalry. Some writers called mercantilism 'war by other means'.

The mercantilist era can be characterised as the third quarter of the last millennium. And it had a lot of successes, in the sense that the highly developed world economy of the twentieth century could not have happened had the mercantilist era never occurred.

Few twenty-first century economists have any conception of mercantilism, and most of those who are aware of the concept believe that it was a flawed economic doctrine that was nevertheless a part of the early evolution of economics; a doctrine long consigned to the dustbin of intellectual history.

The reality is that mercantilism was a deep-seated mode of thinking, a system of public policy guided by the merchant interests of the time. The most familiar example in the twentyfirst century of pure mercantilism is the worldview of former United States' president, Donald Trump.

The central precepts of the systematised mercantilism are those of a commercial world dominated by large nation states which are in a state of perpetual rivalry with each other. The understood criterion of economic success was the accumulation of 'treasure', of precious metals from which 'specie' money (coins) could literally be made. To achieve this goal, a country (or empire) would need to run balance of trade surpluses; it meant that, for a country, selling goods to other countries represented the acquisition of national wealth, and buying goods from other countries represented a loss of wealth. In essence, money – or treasure – was a measure of wealth, and international trade was a form of warfare. The problem of precious metal scarcity could be overcome in part by more resources committed to gold and silver mining, but in the main part from plundering some distant part of the world that happened to have stores of these metals. Hence mercantilism is a globally expansionist system, and was the single biggest driver of the effective European conquest of the world that took place in the sixteenth century.

Mercantile capitalism was the world system of winners and losers that promoted the ideology of economic growth, and the drive for powerful countries to expand their territories. The peripheries of these expanding empires were set up as zones of exploitation; the aim was that the money made should be held in the centres – in places like Madrid, Lisbon, Paris, Amsterdam, Stockholm and London; held by the business elites, their sovereign emperors, and their aristocratic investors.

While the European (and American) intellectuals of the period 1550 to 1800 largely took the system for granted, a number of political economists of that time who have since been labelled 'mercantilists' were in fact doing their best to formulate critiques of the mercantile system. The most successful critique was that of the liberals – such as Adam Smith, and the French *Économistes*.

The historical truth is that mercantilism never went away, except in the minds of liberal economists. Corporate and political interests never rescinded the view that money – and its financial derivatives – constitute wealth. Politicians continued to – and continue to – formulate policies that would give their countries 'trade advantages'. Balance of payments surpluses continue to be understood as good – as indicators of national economic success – while deficits continue to be regarded as marks of failure. The countries most deeply committed to these views in recent times are those of Northwest Europe (not so much the United Kingdom) and East Asia.

The mindframe which supported mercantilism in the last millennium remains more powerful than ever, and was boosted by the Reformation – the rise of Protestant variants of Christianity – of the sixteenth century. Puritans – for example – became committed to not only making lots of money, but also to spending as little as possible of it. They saw virtue in running substantial personal financial surpluses, as well as expecting their governments to run surpluses if possible, and to avoid financial deficits at all costs.

Yet, by definition, all financial surpluses 'won' by one party must be offset by deficits 'lost' by another party. Mercantilism is inherently an unstable system of winners and losers; it is an approach to economic life, and not just a system of international capitalist relations. Further, when investigated properly, it is not so clear who are the winners. We remind ourselves that mercantilist success is gained by selling more goods and services than one buys; by enjoying less than one is entitled to enjoy. And mercantilist failure occurs by selling fewer goods and services than one buys; by enjoying more than one is entitled to enjoy.

Financial surpluses equate to enjoyment deficits, and financial deficits equate to enjoyment surpluses, by definition. New Zealand is an economically prosperous capitalist country that has (literally) enjoyed financial deficits for just about every year of its history. Mercantilism in New Zealand is largely confined to the realm of public finance; more about this topic later.

Once we understand that a wealthy life is a life of enjoyment – and in particular a life where one person's enjoyment does not adversely affect the enjoyments of others – we start to understand that mercantilism is based on an intellectual fallacy, the money illusion fallacy. That's why neither economists nor anyone else learns about mercantilism in their formal education; just as chemists and physicists are not taught about alchemy, and medical doctors are not taught about miasmas. Even if intellectual history was to become a compulsory school subject, it's not clear that we would come to understand mercantilism as anything more than an historical oddity; because it's actually unintellectual history.

The Mercantilist Mindset

In the mercantilist view of the world, firms behave like those gold-mining companies who see themselves as literally 'making money'. Thus the mercantilist business model is to mine their customers, mine the environment, mine their workers, and maybe to mine their shareholders. It means that the goods and services – enjoyments and machinery – produced are essentially byproducts of the mercantilist economy. A key part of the mining process is marketing; the use of hard-sell techniques which represent the mining of customers. Success is making money through making a sale.

The next part of the mindset is the miserly imperative to hang onto the money that your business has made; because wealth represents the accumulation of money. Thus the saving imperative is about the accumulation of wealth rather than investment in future enjoyment. And then a whole industry – the finance industry – emerges to both mine the mercantilist wealthy, and to stretch this monetary wealth through processes of compound interest, capital gain, leveraged borrowing, insurance derivatives, and other one-way (or at least loaded) bets (eg arising from self-fulfilling prophecies).

The finance industry does have a very important 'negotiating' role to play in the capitalist economy, but itself largely understands its role in mercantilist money-making terms; both making money from its customers and making money for its customers.

Economic Liberalism

Liberalism is the political philosophy that emphasises freedom from the dictates of governments, where governments, by their very nature, are understood as autocratic; in particular, 'sovereigns' were understood as despots.

In England, the liberal revolution came in two parts. In 1649, King Charles – who ruled as he understood through the principle of the 'divine right of kings' – was executed. The ensuing republic – under the leadership of Oliver Cromwell – was puritan rather than 'liberal' as we would understand the word today. When the monarchy was restored in 1660, it was on the basis of a new balance-point in the relationship between the monarch and the people; a 'permissive' era followed, noting that 'permissiveness' is at the core of the social liberalism that is central to middle-class western life today. The period from 1660 to 1685 – the reign of Charles II – was one of significant intellectual freedom, and was the period of the 'scientific revolution'.

In England, the new liberal direction was threatened in 1685 by the new king, James II. King James was overthrown in 1688 in what came to be known as the 'Glorious Revolution', and in which – through marriage to King James' acceptable daughter Mary – Dutch 'Stadtholder' (William of Orange) was installed as King of England (and Scotland). He was the first of the 'constitutional monarchs'.

The most prominent English intellectual of the period was John Locke, acknowledged ever since as the 'father' of political and economic liberalism. Locke's liberal project was anti-despotism, pro private property, and with a dogmatic commodity view of money that derailed the much more pragmatic banking view that was also emerging at this time (Felix Martin*). Thus, while developing important new ideas about 'bourgeois' liberty and property, Locke's eminence rather than arguments led to a perpetuation – within liberalism – of the conservative view of money; money – treasure – was reinforced in the new liberal mindset as wealth, just at the time that money – through banking innovations – was emerging as a social technology.

The result was that, to the present day, in western minds, money – while actually one thing, a technology – was almost universally believed to be another thing, wealth itself.

One of the important consequences was that money supply came to be seen as the determinant of the price level, and that inflation and deflation – like pain, important indicators of a number of conditions – could always be treated simplistically through the political control of the money supply. This monetarism became one of the central blindspots of economic liberalism. It was a particularly bizarre blindspot, because the practice of such policy required the very political despotism that liberalism had sought to overturn. It further created a blindspot in relation to the role of interest rates; downplaying their crucial importance in mediating between creditors and debtors, and upplaying their role in suppressing inflation or deflation.

Some of the other tenets of economic liberalism are:

- private property rights
- small government
- meritocracy
- rules-based international order
- strong enforcement of property rights and other rules
- balanced government budgets
- market discipline
- monetarism, commodity-like money
- permissive
- freedom to … (as distinct from 'freedom from')
- equality of opportunity
- inequality of outcome
- redistributive compensation
- Glorious Revolution (England, 1688)
- John Locke (philosopher)
- New Zealand Act Party

- globalisation, in the ideological rather than the technological sense
- mechanism that's largely self-adjusting, like clockwork
- predictable, in Newtonian sense

Liberal Mercantilism as a Fusion of an Ideology and a Fallacy

Mercantilism comes to us 'under the radar'; our thoughts are blindly infused by the money illusion. This happens – in some part – because economic liberalism is itself a product of the mercantilist era; liberal suppositions about money as a commodity persist alongside those suppositions by the business establishment of money as wealth.

Liberalism has become an ideology that is almost impossible for any self-respecting intellectual to oppose; a kind of benevolent medusa which always shows at least one smiley face that is beyond reproach. Yet 'neoliberalism' is widely criticised, though poorly understood; it represents one of the more hidden faces of our kindly medusa, the face of 1980s' liberalism. In New Zealand today, the still young Act Party leader – David Seymour – is unapologetically both liberal and neoliberal.

Liberal mercantilism is the predominant – indeed establishment – ideology of the early twentyfirst century. It buys into the money illusions of liberalism and mercantilism – that money is a commodity with a price, that money is inherently scarce, and that money is wealth – and does so in a way that is immune from contestability.

The epitome of modern liberal mercantilism is the European Union, and it is in this regard that I spotted my first reference to the 'liberal mercantilism' label.

The European Union is made up of countries which, historically, saw themselves as politico/economic rivals which would at times express that rivalry through warfare with war, as well as warfare without war. The Union, since the Eurozone crisis of the early 2010s, has matured into a fraternal empire that pursues mercantilist goals with respect to the rest of the world. In the 2010s the European Union succeeded in achieving annual current account surpluses, while also substantially reducing its overall public sector financial deficit to near zero.

Liberal mercantilism is that orthodoxy through which governments are expected to be both small – though with substantial rule-enforcing bureaucracies – and have balanced budgets; yet at the same time the private sectors are expected to be running financial surpluses. The net effect of satisfying these requirements is for countries to try to run current account (balance of payments) surpluses, the modern equivalent of the gold-yielding trade surpluses of the 1500 to 1750 period.

In other words the policy objective – a balance of payments surplus, an inflow of money through promoting exports and inhibiting imports – is no different from that of merchant capitalism. And it is as impossible for all countries to achieve this as it was in those centuries-old years.

For a few countries – especially 'anglo' countries like New Zealand – the practical realisation of balance of payments' surpluses was long abandoned. Private New Zealanders became spenders, and not afraid to borrow and spend. Yet the puritan mercantilist inhibition on spending pervades the government sector in New Zealand, just as it does in Europe; liberalism places particular opprobrium on government spending. The attitudes that favour saving over spending – accumulating money over deploying money, austerity over prosperity – remain ubiquitous. These attitudes lead to excessive private spending in deficit countries, and ultra-caution in public finance.

One Dimensional Politics

One key feature of liberal mercantilist orthodoxy is the formulation of its democracies along a linear political spectrum, from right to left. Political parties on the orthodox right emphasise low taxes, private property rights, a circumscribed role for government-provided or funded goods or services, minimal regulation, and balanced budgets. Political parties on the orthodox centre advocate a balance of government funded collective goods, regulation, private property rights, medium taxes, and balanced budgets. Political parties on the orthodox left advocate a high level of government funded collective goods and regulation, income redistribution, high taxes, and balanced budgets.

Liberal Democracies

Liberal mercantilism today represents a passive belief system. It’s a system of presumption that today unifies those polities we call 'liberal democracies' as completely as the Christian religion did in much of the previous century.

Democratic Capitalism