

Lecture 2: Mercantilism

Classical economic thinking will take up much of our time, but it is definitely worthwhile to have a look at their forerunners. Here many of the core ideas of classical economics were put forward, even if in unfinished form, and some of their considerations would have deserved a more thorough treatment by subsequent contributors. Since there are many of them, each will be mentioned only briefly. V&G use many chapters on the mercantilists, but we shall more rather quickly through this, only emphasizing general ideas and some specific contributions of the individual authors.

As mentioned in SBD, most of the mercantilists considered particular aspects of policy making, and even the term 'mercantilism' was introduced only in its latest stage.

Thomas Mun is chosen in V&G more as a representative of the early mercantilism with its emphasis on the importance of a stable currency based on precious metals as well as the importance of government regulation of foreign trade. The overly primitive view on precious metals as the basis of all wealth is a later construction by the classical economists and was never by the authors of the period.

From the concern with the currency and with trade came naturally an interest in prices and values, and the ideas which were later to crystalize into a price and value theory appears in admittedly vague formulations.

John Locke and the quantity theory of money. V&G emphasize the contributions to price theory with the distinction between use value and exchange value. Other authors pay more attention to his development of the quantity theory of money, which in a crude version had been around already for centuries, and consider the price theory as a spin-off of the considerations about money. I comment a little further on this, see Lecture Note 2.

Dudley North is among the first to have a clear distinction between capital as a sum of money and capital in the form of physical investment. He is also a pioneer in his treatment of the credit market, where he also has notions pointing to supply and demand.

William Petty: First approach to a value theory. While the work of Locke is directed towards correcting mercantilist errors, other authors from this period introduce ideas which point in other directions, some of them laying foundations for the later theory

of value and prices. Petty, whose works date from the second half of the seventeenth century, was undeservedly forgotten until rediscovered by Marx.

Petty was among the first to pay attention to *division of labor*, the following citation in V&G p.30 is interesting in many respects, not only as a forerunner of a theory of allocation in an economy, but also for asking questions of a type which nowadays are overlooked ("... how they should come by it?").

The hypothetical example shows an economy with marked division of labor, but it does something more – it points to the need for studying how the surplus created by some of the sectors will be distributed among the other sectors. The simple answer to this, at least from our contemporary point of view, would be that this is done through the market mechanism. However, we are still far from understanding this market mechanism, so the question posed by Petty may still be a challenge for economic theorists. (A recent example is that of “bullshit jobs” – the widespread use in both public and private enterprise of employees, who even themselves cannot see any purpose of their function, cf. Graeber (2018)).

Running a little ahead, both with respect to the chronology and to V&G, we comment briefly on **David Hume**, mainly to discuss the specie-flow problem which was a major issue among late mercantilists, see the relevant section in Lecture Note 2. Hume can be considered as an early representative of the views subsequently expressed by Adam Smith. V&G treats Hume in their chapter 8, we skip the part of the chapter not dealing with Hume (but it can be recommended for additional reading).

We read: V&G, chapter 3-4, chapter 8, pp.77-81.

References:

Graeber, D., *Bullshit Jobs – A Theory*, Penguin Books, 2018.