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Mercantilist, Liberal and Marxist Responses to Economic Dilemmas

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1. Introduction

This essay aims to examine, briefly, the different responses to economic development dilemmas offered by the main theories of International Political Economy: Liberalism, Mercantilism and Marxism, and to analyse the role of the State in each of these theories.

2. The scope of International Political Economy

Political Economy suggests a focus on phenomena that lie at the crossroad of the fields of politics and economics. Its main goal is to seek explanations of how political power shapes economic outcomes and how economic forces influence political action. Primarily, International Political Economy concentrates upon activities taking place among international actors: states, multinational corporations, international organizations and even social movements. However, the field of analysis of International Political Economy is not confined to an international level.

Although much IPE work is taken up by a few internationally oriented empirical topics (trade, finance, investment, development) a significant portion of the field looks within particular countries to understand how domestic forces influences international action. The boundary between the international and the intranational is not rigidly fixed in the IPE literature.¹

The task of defining International Political Economy, therefore, is not easy. For some authors it refers primarily to the political basis of economic actions. The ways in which government policies affect market operations. For others, the principal preoccupation is the economic basis of political action, the ways in which economic forces shape government policies. One think is, however, in the centre of the debate: the role of the State. The role of the state is at the centre of all political science, international political economy is no exception.

3. Mercantilism and Liberalism: from *raison d'Etat!* to *laissez-faire!*

In the view of many authors, two competing visions have dominated the discussion of international trade for more than two centuries. One vision is Liberalism, which has been dominant in academic circles since the start of systematic thinking about economic policy. Another perspective is mercantilism, a flow of thought that has its origins in the mercantile policy of some European nations.

¹ Crane and Amawi (1997), p.4

Liberalism is the dominant theory of the prevailing international economic system and was first articulated in precise form by Adam Smith (1723-1790) in his work *An Inquiry into the Nature and Causes of the Wealth of Nations*. This school of thought was advanced by David Ricardo (1772-1823) years later and by Stuart Mill (1807-1873).

Liberalism defends that international trade should be conducted by private actors, free of governmental control. This argument is based on the thought *that the most important value to me maximized by the state is the consumption of its citizens, usually summarized by a nation's gross national product*.² The central meaning of its theory is often briefed by the French proclamation *laissez-faire!*

The liberal argument emphasizes how both the market and politics are environments in which all parties can benefit by entering into voluntary exchanges with others. If there are no impediments to trade among individuals, Liberals explain, everyone can be made as well off as possible, given the existing stocks of goods and services³. All participants in the markets, in other words, will be at their highest possible level of utility. Neoclassical economists, who are generally Liberals, believe firmly in the superiority of the market as a mechanism for allocating scarce resources.

Liberals therefore reason that the economic role of government should be quite limited. Many forms of government intervention in the economy, they argue, intentionally or unintentionally restrict the market and thereby prevent potentially rewarding trades from occurring.

The second perspective derives from Mercantilism, a flow of thought that has its origins in the mercantile policy of nations like England of the sixteenth century until the nineteenth. Probably the best known texts about Mercantilism are Alexander Hamilton's *Report on Manufacturers* and Friederich List's *The National System of Political Economy*, written in 1841, half a century after Smith's dead.

This and most other variants of Mercantilism emphasize the goals of national self-sufficiency, a favourable balance of trade, vitality of key industries and, behind all, the promotion of the power of the state.

² Moon, B. (2000)

³ Frieden and Lake (2000)

Early Mercantilist political economy asserts the centrality of politics. Economics is not separated from its political context, but instead is considered an important means of enhancing state power.

Mercantilists resolve the values dilemma by deemphasizing liberalism's focus on consumption and instead, stressing alternative values. They also resolve the state goals dilemma by elevating elements of national interest involving security and self-sufficiency above liberalism's emphasis on the desirability of interdependence and cooperation. In the words of Jacob Viner ⁴ mercantilism is "... a doctrine of extensive state regulation of economic activity in the interest of the national economy". Because the national interest include a multitude of different goals that must be judged by each nation in its particular circumstances, so, no universal policy advice is offered by mercantilists. Still, protection against imports and the promotion of exports is common to most versions. In the words of Crane and Amawi, Protectionism is the lasting contribution of mercantilism to the lexicon of International Political Economy⁵

Much of the early writing of both Mercantilism and Liberalism concerned the controversies surrounding the Corn Laws of England, a series of protectionist measures that regulated the trade of agricultural goods between the 15th and the 19th century.

*Their repeal in 1846 ushered in a period of free trade that represented the triumph of economic Liberalism over Mercantilism, which have dominated both economic theory and political practice in England for most of the previous three centuries.*⁶

However, the history of international trade reveals that the mercantilist inclination to regulate trade, particularly in order to protect domestic producers, has been somewhat more commonly adopted by nations than has the liberal policy of free trade. Perhaps it is more accurate to say that no nation has ever completely rejected or accepted either view.

⁴ Cited by Crane and Amawi, op cit, p.4

⁵ Crane and Amawi, op cit, p. 5

⁶ Moon, B. op cit, p. 46

The analysis of mercantilists tends to focus on collectivities instead of individuals; maximizing state power and wealth is the best means of ensuring public welfare. The central meaning of its theory is often briefed by the French proclamation *Raison d'Etat!*

Responses to Trade	
Mercantilism	Liberalism
Value Trade-Offs	
Trade should be regulated to achieve social justice, national economic development, stability and self-sufficiency.	Trade should be free to maximize efficiency, productivity, consumption and freedom.
Distributional Outcomes	
Trade should be regulated to shield consumers from high prices and to protect producers, landowners and workers from foreign competition.	Trade should be free so as to benefit the most efficient (i.e., industrialists).
Effects on the State	
Trade should be regulated to achieve state power and wealth, national security and autonomy.	Trade should be free to achieve interdependence and peace.

Source: Moon, B. (2000).

4. Early Marxism

Marxism, in the other extreme, was originated with the writings of Karl Marx (1818-1883), the severest critic of capitalism and its Liberal supporters. Marx saw capitalism and the market as creating extremes of wealth for capitalists and poverty for workers.

Marx was not primarily interested in international political economy. His most famous work examined the dynamics of the capitalist mode of production. He commented upon the expansion of capital internationally, especially through British colonialism, but his thoughts on the subject were not integrated in his general theory of capital.

Marx's episodic writing on International Political Economy centres on two themes: the dialectical interaction of international forces and the development of capitalism; and the internationalization of capital.

Marx has been interpreted as holding an underconsumptionist theory of imperialism. An often-quoted passage from the Communist Manifesto appears to bear this out: "The need of a constantly expanding market for

its products chases the bourgeoisie over the whole surface of the globe". This has been taken to mean that as capitalism develops, and the working class becomes more and more impoverished, domestic demand decreases. IN such circumstances, the accumulation of capital, which is dependent upon the realization of surplus value through the sale of commodities, is undermined. Thus, if accumulation is to continue, and the capitalism way of production is to survive, capitalism must seek overseas markets to sell their goods.⁷

For him, capitalism was a stage in the process of evolution, removed from the primitive agricultural economy and moving toward the inevitable elimination of private property and the class structure. For him, capitalism will ultimately expand and dominate the world. "The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls"⁸.

While the entire populace may have been better off than before, the capitalists were clearly expanding their wealth more rapidly than everyone else. Marx rejected the assertion that exchange between individuals' necessarily maximizes the welfare of the whole society. Accordingly, he perceived capitalism as an inherently conflictual system that should be replaced by socialism.

Marxists believe that classes are the dominant actors in the political economy. Specifically, they identify as central two economically determined aggregations of individuals or classes: capital or the owners of the means of production, and labour, or the workers.

Although Marx and Engels never put forward a unified presentation of the theory of the state, their conception of the state is a fundamental aspect of their outlook, and of what has since come to be called Marxism.

A glance at Marxist theory, and the practice of Marxist organizations, will reveal what appears to be a paradox. On the one hand, Marx and Engels and their followers claim to be vigorous opponents of the state, and insist that one of their most fundamental goals is the abolition of that

⁷ Crane and Amawi, op. cit, p. 83

⁸ Idem

institution. On the other hand, the vast majority of Marxist organizations has been, and continues to be, militant advocates of the drastic extension of the role of the state in society.⁹

Today, Marxists who study the international political economy are primarily concerned with two issues. The first is the fate of labour in a world of increasingly internationalized capital. The growth of multinational corporations and the rise of globally integrated financial markets appears weakened labours economic and political power.

⁹ Tabor (w/d).

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