

Mercantilist Theories of Money

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Context

Changes in economy of Europe, particularly Britain:

- Merchants have a larger role in an economy of increasing national and international trade.
- International trade is the fastest growth sector.
- Decline of feudal society and economy.

Changes in scholarship in general:

- Study of society is less religious and prescriptive, and more secular and descriptive.
- Scientific method: Systematic explanations for natural phenomena.

Money and Wealth

The accumulation of money is conducive to the creation of wealth.

- Malynes: Plentiful money allows people to avoid usury.
- Mun: Money allows merchants to fund international trade.

Mun's argument is valid because "fixed capital" has only been prominent since the Industrial Revolution. (Supple)

The Specie Flow Mechanism

David Hume's objection to a policy of money accumulation.

Gould disagrees about the validity of this.

- Theoretical objection: Money can be used as capital, so a country can avoid inflation if it continually expands its trade routes.
- Practical objection: The Netherlands enjoyed a large inflow of silver, but spent it on expanding trade to avoid inflation.
- Mindset of mercantilism: National interest rather than international co-operation.

The Interest Rate

First viewed as a necessary evil which should be regulated.

- Culpeper: Merchants struggle under usurious interest rates.
- Malynes: Merchants actively seek usurious interest rates to fund risky ventures.
- Usury laws do not restrict access to loanable funds because usurers are making “supernormal profits” .

Mun disagrees. The interest rate reflects the supply and demand of loanable funds. Trade and usury “rise and fall together” .

“Inner harmony” of mercantilism

What unites and distinguishes these authors?

- Mercantile priorities: Increasing trade and wealth rather than achieving a “moral” outcome.
- The interest of the state can overrule merchants’ self-interest. Laws may be needed to ensure a trade surplus and bullion inflow, even if they restrict merchant activity.
- Money has a real role in the economy. Increasing the money supply is a policy goal, and a trade surplus achieves this. (Keynes)

Future English economic thought

The government cannot improve trade, so it should only intervene when self-interest hurts the national interest.

Contrast with Continental economic thought: The state has a large role in economic development. (Colbertism in France, Cameralism in Germany)

“Trade hath in it such a kind of natural liberty in the course and use thereof, as it will not endure to be forced by any. If you attempt it, it is a thousand to one, that you leave it not worse than you found it.” (Misselden)