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Lecture 2

1. International trade in the global political economy – overview
2. Mercantilism
3. Neomercantilism
3. International trade and balance of payment statistics

Under p. 1

Mercantilism vs liberalism?

Q: Who is the winner?

A: Nobody yet.

▶ Interventionist theories

- Mercantilism
- Neo mercantilism

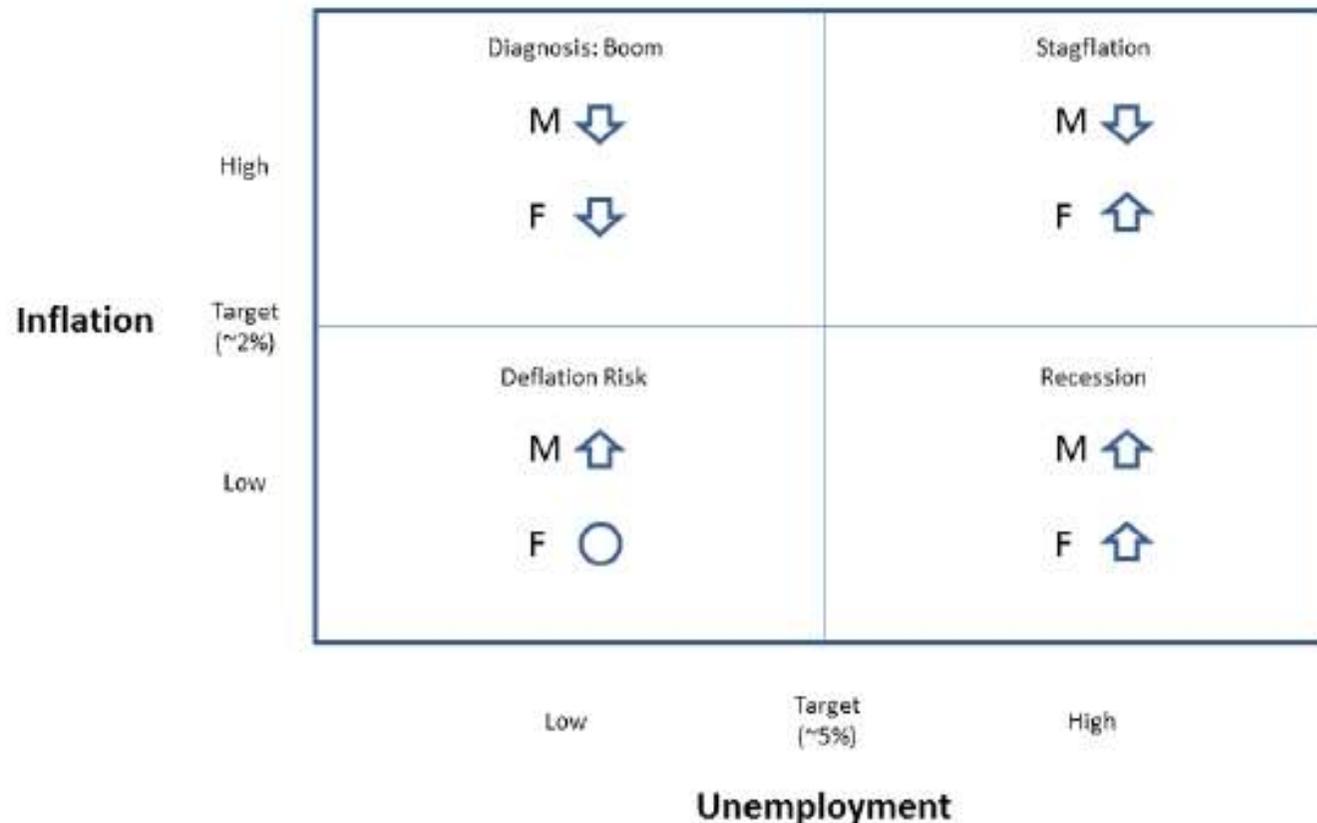
▶ Free-trade theories

- The theory of Absolute advantages
- The theory of Comparative Advantages



Interventionism in contemporary economic policy (dirigisme, functionalism, socialism, sustainable development, etc.)

Intervention Strategy Matrix



Key

- M=Monetary Policy; F=Fiscal Policy
- The up arrow indicates stimulus measures, while the down arrow indicates austerity measures. The circle means no action.
- Monetary policy stimulus may involve interest rate cuts or money supply expansion and is controlled by central banks.
- Fiscal policy stimulus may involve spending increases or tax cuts and is controlled by governments.

Economic liberalism

(A World Bank study, which used data from 80 countries over four decades, confirms that open trade boosts economic growth and that the incomes of the poor rise one-for-one with overall growth. All things being equal, countries with open economies tend to grow faster than those that trade less)

- International trade allows a country
 - to specialize in the manufacture and export of products that it can produce efficiently
 - import products that can be produced more efficiently in other countries



We are leaving in a time of a transition from markets with national regulations to a global market with supranational regulations

2. Mercantilism

The underlying principles of mercantilism included

- (1) the belief that the amount of wealth in the world was relatively static;
- (2) the belief that a country's wealth could best be judged by the amount of precious metals or bullion it possessed;
- (3) the need to encourage exports over imports as a means for obtaining a favorable balance of foreign trade that would yield such metals;
- (4) the value of a large population as a key to self-sufficiency and state power;
- (5) the belief that the crown or state should exercise a dominant role in assisting and directing the national and international economies to these ends.

Jean-Baptiste Colbert (1619–1683)



French finance minister and mercantilist [Jean-Baptiste Colbert](#) served for over 20 years



The Mercantilist Argument for Colonial Expansion



Source: Philip Dorf, *Our Early Heritage: Ancient and Medieval History*, Oxford Book Company (adapted)

As such, mercantilism developed logically from the changes inherent in the decline of **feudalism**, the **rise of strong national states**, and the development of the international trade.

High tariffs, especially on **manufactured goods**, are an almost universal feature of mercantilist policy. Other policies have included **forbidding colonies to trade with other nations**; monopolizing markets with **staple ports**; banning the export of **gold and silver**, forbidding trade to be carried in **foreign ships**, **subsidies on exports**; promoting manufacturing **through research** or direct **subsidies**; **limiting wages**; **maximizing the use of domestic resources**; **restricting imports** through non-tariff barriers to trade.

Q: Can you give examples for similar practices in our time?

British free-trade imperialism,

3. Neomercantilism (realism)

Realism-Mercantilism

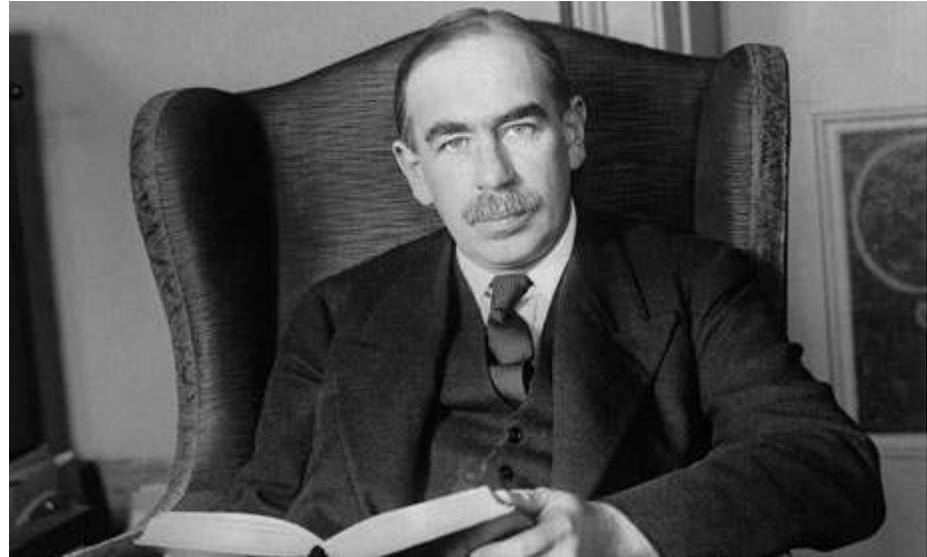
- Government regulates economy to increase power and security
- Economy subordinate to needs of state
- Trade: Relative gains more important than absolute gains
- International politics as zero-sum game
- Neomercantilism



John Maynard Keynes argued that encouraging production was just as important as encouraging consumption, and he favoured the "new mercantilism".

Keynes also noted that in the early modern period the focus on the bullion supplies was reasonable. In an era before paper money, an increase in bullion was one of the few ways to increase the money supply and stimulate economic growth!

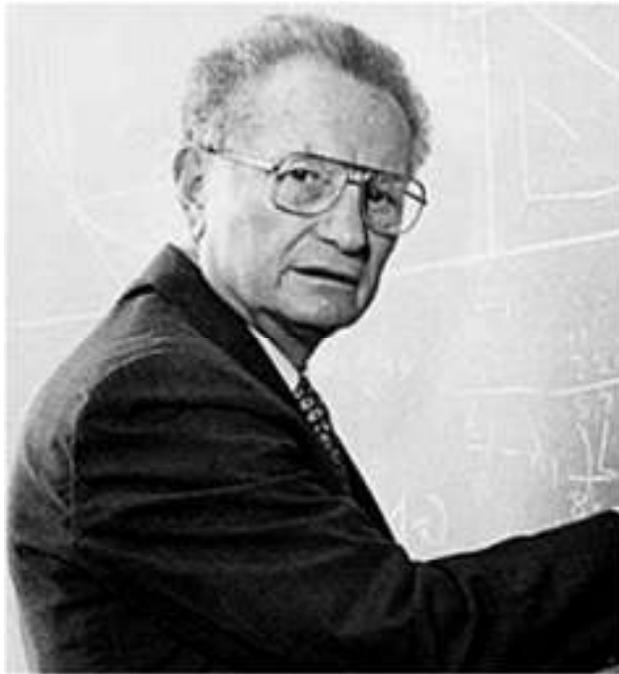
Keynes and other economists of the 20th century also realized that the balance of payments is an important concern.



Keynes said also that mercantilist policies generally improved both domestic and foreign investment—domestic because the policies lowered the domestic rate of interest, and investment by foreigners by tending to create a favorable balance of trade.

The similarities between Keynesianism (and its successor ideas) and mercantilism have sometimes led critics to call them neo-mercantilism.

Indeed, the great economist Paul Samuelson, writing within a Keynesian framework, defended mercantilism, writing, "With employment less than full and Net National Product suboptimal, all the debunked mercantilist arguments turn out to be valid."



Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas.

- Paul Samuelson

Q: What do you know about the so called "Casino economy"

4. International trade and balance of payment statistics

Account for the rest of the world

1.25. The rest of the world (ROW) account is structured according to two principles:

- a) The transactions with the domestic economy are recorded from the perspective of the rest of the world;
- b) All transactions between the domestic economy and the rest of the world are recorded twice, as receivable in the accounts of the domestic economy and as payable in the rest of the world account or vice versa. For example, current transfers receivable from the rest of the world in the accounts for the domestic economy is recorded as current transfers payable to the rest of the world in the rest of the world account.

1.26. Imports and exports are a special case. Thus:

- a) The item imports of the domestic economy in the rest of the world account is in fact the exports of the rest of the world and the item exports of the domestic economy are the imports of the rest of the world;
- b) The item imports in the rest of the world account represents the receivable created by the exports of goods and services from the rest of the world. Conversely, exports in the rest of the world account represents the payable created by the imports of the rest of the world.

1.27. Since the rest of the world account is a counterpart of the domestic economy, the net lending (+) of the domestic economy is the net borrowing (-) of the rest of the world and vice versa.

TABLE T1.2. SIMPLIFIED ACCOUNT OF THE REST OF THE WORLD

		Uses	Resources
	Imports		10
Less	Exports	15	
Plus	Compensation of employees and property income receivable from ROW	4	
Less	Compensation of employees and property income payable to ROW		1
Plus	Current transfers receivable from ROW	1	
Less	Less current transfers payable to ROW		2
Plus	Capital transfers from ROW	1	
Less	Capital transfers to ROW		1
Equals	Net borrowing of ROW	- 7	
	Financial accounts	Assets	Liabilities
	Changes in financial assets	0	
Less	Changes in financial liabilities		7
	Money		3
	Loans		4
Equals	Net borrowing of ROW		- 7

The more exports - more accumulated wealth

Q: Does this remind us of mercantilism?

Goods and services account

1.28. The goods and services account has the following characteristics:

- a) It brings together the total supply and total uses of goods and services;
- b) It is balanced in itself and does not have a balancing item;
- c) Resources are recorded on the right side and uses on the left.

TABLE T1.3. GOODS AND SERVICES ACCOUNT

	Uses	Resources
Output of goods and services		100
Imports of goods and services		10
Intermediate consumption	40	
Final consumption	40	
Gross capital formation	15	
Exports of goods and services	15	
Total	110	110

If we look at the global economy - the result is also aligned and the difference is always zero.

Q: Does this remind us of mercantilism?

ST/ESA/STAT/SER.F/85

Department of Economic and Social Affairs
Statistics Division

Studies in Methods
Handbook of National Accounting

Series F, No.85

NATIONAL ACCOUNTS: A PRACTICAL INTRODUCTION

United Nations
New York, 2003