Easy Essays on Economics

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Concise Coverage of Complex Concepts

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For Tressa, Chloe and Luke

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Value Theory

From the time of Aristotle to the late eighteenth century, two overarching themes regarding the theory of value were woven through the fabric of economic history; the notion of purchasing power, what one good is worth compared to another or a monetary standard of measurement, and the idea of human subjectivity with respect to valuation.

Pre Sixteenth Century

The Greeks viewed what is now known as economics as a subset of law and ethics, not a distinct social science. Economics was not acknowledged as discipline worthy of study because its existence was neither recognized nor comprehended. With respect to the concept of value, the Greeks did not favor an academic approach; rather they preferred a more pragmatic method. Their self-imposed limitation of relegating the study of value to law and ethics contributed to their lack of a cogent understanding of the topic. They unknowingly limited the palette with which they had to paint.

Although the Greeks' study of economics was flawed, they made significant contributions to the science. Aristotle played a major role in this regard. He posited that demand was a key element in determining value, but more specifically as it relates to exchange value, the precursor to the phrase "purchasing power". To Aristotle, following the law and ethics line of thinking prevalent during this period of time, equality of exchange value was necessary in order to consummate an equitable, ethical and legal transaction. He felt that a ratio could be established between two items; for example two bushels of corn was equivalent to one stack of wood. He conjectured that items of value have actual and trade uses; for example, a hammer could be used to drive nails and it could be also be used in a trade or barter transaction. Aristotle held that the utility, or the degree of an item's functionality, provided the basis of its value. He clearly understood that societal demand for a good or service played a key role in ascertaining its value.

Furthering his ethical bent, Aristotle deemed what he termed an involuntary exchange, a transaction that took place if a participant made a profit. Conversely, a voluntary exchange resulted in equality so that neither party received a greater amount than with which he started; all under the auspices of justice (Sewall, 1901, p. 3). The aforementioned ratio of exchange was predicated upon the background and skills of the person producing the product. This ratio could obviously be used in barter transactions effectively, but if there was not a desire for barter and there were mutually exclusive products involved, there had to be another way to arrive at an equitable outcome. The other way was the use of money in the transaction or a "single universal standard of measurement" (Sewall, 1901, p. 4). Money effectively became the barometer of demand for reciprocated products and services rendered and it enabled men to calculate and compare things with regard to their value. In essence, money was the manifestation of the value that was determined by the associated societal demand for an item. Adhering to ethical constraints, Aristotle was a staunch opponent against the concept of lending money. He considered it to be unethical to be a lender and make a profit from selling money. After all, once the money was loaned it was sold in Aristotle's mind, so he erroneously reasoned that one could not charge for the use of something that they had previously sold.

The Romans were neophytes when it came to a basic theory of value as, in their minds, society's admiration or reverence for an item solely established its value. This esteem-based thought process lent itself to the idea of demand determining price. The more people that admired an item, the more the item was valued and subsequently the higher the price charged. The price was predominantly paid using money to consummate a successful exchange, as barter transactions were not as common as they had been in previous periods of history. The Romans did not appreciate the difference between price and exchange value which obstructed their ability to grasp the concept of profit.

The barbarian economy, which displaced the capitalistic economies of Greece and Rome, caused a regression to a far more primitive economic system. The barbarians did not use money to complete transactions and negotiating during the trade process was unacceptable. Compensation for a worker's labor was based upon birth rite and emphasized one's social status in society. Value was not determined by the quality of the item or the esteem it garnered, but instead it was based upon who made the product. The worker's innate talents, abilities or time spent were simply overlooked and not a factor in calculating value.

After the barbarians, the use of money proliferated once again and replaced the previously espoused natural economy. Indicating true economic advancement, producers of product became market specialists rather than generalists. Individuals, who, in the past, would have made the necessities of life for themselves, were now in the position of being able to purchase these things instead. The best way for these individuals to acquire merchandise was to possess money. The best method to acquire money to purchase merchandise was to retreat from being a jack of all trades and a master of none. The most efficient way to accomplish the procurement of desired things was to purchase those things with the fruits of one's own labor specialty. The professional trader and foreign merchant was an offshoot of this labor specialization phenomenon. It was virtually impossible, due to the distances traveled to bring the goods to market, to know the social status or class of the producer of the product, so that dynamic was less of a value-determining factor compared to this idea during the barbarian times.

The Christian Theologians were adamantly against wealth-building, particularly the concept of trading because, in their minds, nothing new was being created and profit was the only motive. There are noticeable similarities between the Christian Theologians' and the Greeks' views regarding the concepts of justice and equality. The Christian Theologians deemed it to be immoral to have profit motives, paralleling Aristotle's thoughts on involuntary exchange.

St. Augustine differed with the Christian's hardline stance regarding wealth by indicating that it was okay for laypersons to have riches as long as these riches were used for good purposes that were beneficial to society. As time went on, the Church realized that it was in an uphill battle regarding its stance and acquiesced by outlining situations where trading would be allowed. Heeding the prior wisdom of Aristotle, the church was conflicted in that it wanted to embrace the money economy, but it was concerned about the perceived ethical ramifications and dangers that profit-seeking entailed.

Christian Theologians, similar to the Romans, utilized a measurement of admiration for an item to ascertain value. Unlike some of today's modern schools of economic thought, the Christian Theologians felt that an individual did not have the ability to establish value; rather it was the society as a whole that had this unique capability. Regressing to the barbarian period somewhat, the Christian Theologians thought that the social status of the producer of the product had an influence on value and the amount of labor that has been put into the manufacture of the product has a bearing on value as well.

Aquinas, following Aristotle's ethical thoughts, specified that mark-ups were not appropriate and obtaining goods on sale was not just. It was not proper for one to make a profit or to buy something at a discount. Aquinas differed from the Romans regarding his thoughts of worth and price, bifurcating the two concepts by clearly articulating that what things are worth are not necessarily at the price for which they sell.

The canonists were proponents of ascribing value to the inherent qualities of an item. They felt that market value was not a good indicator of true value. Aquinas agreed with the canonists regarding a "just price" or "true value" but went against this idea somewhat when he stated that disclosure of faulty merchandise by a seller to a buyer was not required as long as the item being sold was "useful" overall, no one got hurt and the usefulness was "recognized" by both parties in a transaction (Sewall, 1901, p. 17). Aquinas recognized what is now known as the law of supply and demand and its impact, along with utility, on value and price. He incorrectly sided with the Christian

Theologians on the idea that individuals do not have the ability to assess value; rather this is society's talent. Expanding on the idea of the individual's ineptitude regarding value assessment, he conjectures that an individual's personal fulfillment received from consuming a good or service had no bearing on value as it was understood that the amount of labor that went into producing the item warranted the value-driver moniker instead.

The canonists expanded on Aristotle's view that an item has two uses, actual and trade, as they suggested that money had two purposes; it measured value and became the means to gauge the increased wealth of its possessor. "The value of money was the nominal value of coins" (Sewall, 1901, p. 29). The inherent value of coins was considered to be the value of the precious metals from which they were made.

Time Value of Money

Aquinas incorrectly theorized that there was not a good reason for an increase in the price charged for an item if time passed between the time of the sale of an item and when the item must be paid for (Sewall, 1901, p. 22). This clearly displayed that Aquinas did not recognize or perhaps comprehend the concept of the time value of money. It is clear to us today that receiving money in the future requires one to forgo using it today, and thereby one misses out on the opportunity to earn interest on the funds which would be available in the future. This must be compensated for by providing a rate of return on the funds commensurate with the going rate of interest one could earn if investing the funds today. The canonists also inaccurately surmised that nothing was lost with the passage of time if one had loaned funds because the person would be no worse off once they received repayment (Sewall, 1901, p. 23).

Sixteenth & Seventeenth Centuries

The philosophers of this time were followers of Aristotle and they too considered that ethics played an important role in economics. An exchange-based market grew during this period as the considerable migration of peoples after the Crusades contributed to this phenomenon. The more people that moved to new industrialized areas, the larger these markets and trading within these markets became. Increased exchange was inevitable as specialist artisans, similar to the specialist period that followed the barbarians, marketed their products in order to obtain money to buy products they wanted and required, but otherwise did not manufacture themselves. Money provided purchasing power to those who possessed it. Then more money flowed into the economic system and production ramped up even further with the discovery of new silver mines (Sewall, 1901, p. 46). Exchange value was considered to be subjective and intrinsic or natural value, objective as it was innate.

Unlike Aristotle, the empiricists recognized economics as a distinct discipline particularly with respect to the concept of value. In their view, value was not only involved in ethics but also played a role in economics. Grotius viewed need as the primary driver of value and sided with Aristotle in that desire was directly a determinant of value. Additionally, the abundance of necessities caused devaluation in these items as they were in high supply (Sewall, 1901, p. 38).

Puffendorf was ahead of his time, as he realized that a metal standard existed for the valuation of money, not unlike the gold standard that arose a few centuries later. He, like Grotius, espoused Aristotelian viewpoints with respect to the importance of ethical contractual agreements. Mun supported protectionism and the advanced idea of establishing a personal budget, similar to what a certified financial planner would recommend for his client today.

Differing with the canonists and Aristotle, but aligning his beliefs with Puffendorf, Davanzati supposed that the value of money was not predicated on the quality of the metals of which it was made, but rather on broad-based societal acceptance to utilize money in exchange transactions (Sewall, 1901, p. 54). He thought that a precise mathematical formula could not be developed for the relative values of goods because there were simply too many variables. Perhaps the economy could be a dynamic, open, complex, adaptive, exogenous system, not a closed-ended, endogenous system as many had previously thought. Economics may have its roots in biology and evolution, not nature and physics, as was commonly believed. It is possible that this portion of Davanzati's work could have been a precursor to the theory of complexity economics developed in the twentieth and twenty-first centuries. In addition to his unrealized foray into the field of complexity economics, he also espoused ideas that aligned with the Austrian School's train of thought; specifically with the notion that the subjectivity of individuals influences value more than the objective or innate characteristics of an item.

Foreshadowing the future philosophy of Adam Smith, value being driven by scarcity or abundance was a common theme during this period. Both Montanari and Barbon agreed with Davanzati's theory about individuals' wants and needs determining value in exchange. Barbon erred when he posited that the value of metal coins was attributable to what type of stamp or marking was on the coin rather than the value of the material used to make the coins (Sewall, 1901, p. 61).

Locke had a different viewpoint regarding value than Davanzati, Barbon and Montanari in that he suggested that intrinsic value was related to the utility of an item and market value was related to the concept of exchange value (Sewall, 1901, p. 62). Very importantly, Locke brought in the concept of interest rate fluctuations and their relationship to the current supply of money. That said, Locke mistook money for capital and therefore trailed Barbon's more accurate thoughts on value. Barbon correctly interpreted that interest received for a loan was not a "payment for money", rather it was a payment for the use of capital (Sewall, 1901, p. 66).

Seventeenth Century to The Wealth of Nations in 1776

The political economy, the precursor to economics, was birthed during this time, prior to Adam Smith publishing *The Wealth of Nations*.

Petty thought purchasing power determined value as well as natural, intrinsic value. He went so far as to determine that an approximation of the market value, which he termed "ex-trinsic", of land could be calculated by averaging all real estate transactions made during a particular period of time (Sewall, 1901, p. 72). This is quite advanced as it is strikingly similar to the concept of fair-market-value, or "FMV", used in real estate transactions today. The FMV, in Petty's terms, was the ability of the real estate to produce product (i.e. corn, wheat, etc.) and was a result of assessing value by appraising similar transactions that took place. As an offshoot of this, the intrinsic value of commodities is the amount of land (and labor utilized) to bring the commodity to market (Sewall, 1901, p. 73). Another advanced idea of Petty's was the idea of an increased money supply creating inflation using his corn and silver example.

Both Locke and Petty differed from Barbon regarding their theories of value in that subjectivity entered into the equation, as man played a role by eliciting his admiration or esteem for a good or service.

The physiocrats were the economists of the day and they placed importance on the significance of real estate in determining wealth and driving economic activity. The fact that economics became the resultant subject of study occurred somewhat by accident in that the physiocrats continually ran into economic issues when studying social happenings, which was their initial primary focus. Traditional economics can trace some of its roots to the physiocrats as a commonly used term in traditional economics today, equilibrium, can be linked to the science of physics. The physiocrats felt that their agrarianist beliefs were superior to the mercantilist's ideas of protectionism and accumulation of precious metals. Quesnay, one of the leading physiocrats, deemed that that the true value of an item was derived from its natural state, objectively, which was in conflict with the future Austrian School's theory regarding the ability of the individual to subjectively determine value. The physiocrats also incorrectly assumed that labor in manufacturing did not create riches; rather it simply facilitated alterations of matter from one state to another (Sewall, 1901, p. 82).

Cantillon, who Rothbard called "the father of modern economics", thought that the quantity and quality of labor used in the production of an item contributed to its value (Rothbard, 1995, p. 345). Cantillon took an Austrian view as he felt personal preferences had an impact on value. He also was the first to separate economics from ethics and politics (Rothbard, 1995, p. 348). The influence of the opinions of man and the supply and demand prevalent in the marketplace caused exchange values to exhibit swings from their natural or innate values (Sewall, 1901, p. 84).

Le Trosne established two new terms, "value at first hand" and "subsequent value" (Sewall, 89). In the case of farming, for example, the first term related to the value created by the farmer of raising cattle. The second term was the value created by the butcher by bringing food to market. Le Trosne discounted the value-added by the butcher and said that the farmer's labor was the only labor that actually added value or created wealth. For Le Trosne, production was value, plain and simple. This conflicted with the Smithian line of thinking that was prevalent shortly thereafter, as the butcher, who strived to increase his personal wealth by increasing his capacity and production was, in essence, increasing a benefit to society as long as society placed a value on his craft (Smith, 1776, Book I, Chapter II, 27).

Turgot could have been an early Austrian in that he thought that value was caused by human emotion toward an item. He clearly viewed value as being related to human psychology, as man's admiration for an item drove its value. Turgot utilized qualitative analysis but advanced quantitative analysis of the subject of value greatly by hypothesizing that man valued things by using a percentage of his entire valuation capability; in other words, if man had the capacity of 100% valuation ability, one item may encompass 1% of his valuation total (Sewall, 1901, p. 101). Furthering this quantitative bent, he postulated that man would not assign a greater significance (percentage of a man as whole) of an item than the effort (or cost) necessary to acquire it.

Galiani's value involved a melding of utility and scarcity versus abundance (International Encyclopedia of the Social Sciences, 1968). Subjectivity created different measures of utility which in turn drove value.

Abbe de Condillac shed light on the concept of cost and how it relates to value. He considered cost not to be an amount of value, but rather as an indication that value existed. If there were costs involved in the production of an item, he felt that this was a sign that there was value. Unlike Turgot or Galiani, Condillac theorized that utility and man's desire to acquire an item were the true catalysts of value. Embracing the future Austrian theory of subjectivity, Condillac thought that humans valued things accordingly depending upon how critical it was for them to obtain an item for the utility it provided. This idea was more psychological and based on human action, perhaps foreshadowing Ludwig von Mises's *Human Action*.

Steuart's theory of value was predicated on abundance, demand, market competition and the intelligence of the consumer (Sewall, 1901, p. 115). Steuart's consideration of demand as a simple function if there is little or no competition, but a compound function if competition is fierce was extremely advanced and far ahead of his time. In fact, the terms supply and demand were first used by Steuart in his Inquiry into the *Principles of Political Oeconomy* in 1767.

Price Theory

To the Greeks, price was directly related to quality. The Romans did not endeavor to determine how prices were derived and specifically discounted the individual's impact on price and paid more attention to society's influence. Ethics were less paramount with the Romans as justice was not sought-after as it was with Aristotle, the Greeks and the Canonists when pursuing the concept of price (Sewall, 1901, p. 7). Continuing their ethical bent, the Greeks brought about the concept of refunds on goods that were sold at an unfair price.

The Christian Theologians advocated that there should be price-fixing by the authorities, particularly with respect to the abundant essential items of the day. In practice this became difficult for the authorities to accomplish because it was challenging to actually know what constituted the "just price". Realizing this problem, the Christian Theologians resolved to attempt to figure it out (Sewall, 1901, p. 14). Thomas Aquinas was tasked with this issue and Aristotle's influence resonated with him regarding the relationship between ethics, value and price. According to Aquinas, price should never exceed value. However, there was no relationship between value and price. Aquinas stated that one can mark-up a product and sell it at a higher price than the price that he paid to acquire the item as long as he has shipped the item to another geographic locale and/or he has experienced difficulty or danger during the transfer process. This is an example of an operating expense or a cost of doing business which directly impacts the price to the end purchaser. He is quick to point out however that mark-ups beyond actual costs incurred are not permissible, as pure profit is not an option. A seller should only make as much as someone with his status in society should make (Sewall, 1901, p. 20).

The church maintained that lending was wrong and Aristotle supported this by positing that money was a "consumptible" and therefore once spent was considered consumed, as opposed to a "fungible", something that is not consumed, such as raw land (Sewall, 1901, p. 22). This is where Aristotle missed the mark with an improper classification, as money is obviously fungible because it is not consumed; rather it is used to purchase "consumptibles" in an exchange for value, but continues to exist thereby providing the new owner of the funds with new found purchasing power. Aquinas erroneously agreed with Aristotle regarding lending money when he conjectured that once money was loaned it was considered a sold item and to ask for money for use of an item after it had been sold was unethical (Sewall, 1901, p. 22).

St. Bernard felt that civic entities should determine prices, not the markets themselves. The determinants of price that should be evaluated by the powers that be are utility, abundance or scarcity and the costs associated with bringing the item to market (Sewall, 1901, p. 27).

Nider created a five-pronged approach to ascertain price involving improving the human condition, increasing demand or societal appreciation, protection against loss, service of the seller and reasonable and customary pricing (Sewall, 1901, pgs. 27, 28).

Unlike Aquinas and the canonists, Buoninsegni clearly comprehended the time value of money as he recognized that a greater payment should be made if considerable time elapsed between the sale and the payment.

Scaccia and Puffendorf estimated that prices had upper, middle and lower boundaries within which they could fluctuate (Sewall, 1901, p. 37). Puffendorf, like Buoninsegni, understood the time value of money in transactions and he agreed with Barbon regarding the cost of inputs, the time spent manufacturing and the skill of the artist were all influential in determining price.

Cantillon mistakenly equated cost with price, as he posited that the buyer pays the cost of an item at the market (Sewall, 1901, p. 84). He disagreed with Locke that price depended on the supply of an item and the current supply of money because he said that one could always travel to a distant land to increase the supply of an item of abundance (Sewall, 1901, pgs. 85, 86).

Quesnay thought that price, not value, was directly correlated to an item's scarcity or abundance or the size of a given market. Condillac, on the other hand, was very careful not to substitute the word price for value. Need determined value, and therefore existed before price was ever determined via exchange. Condillac adamantly disagreed with the physiocrats and Turgot when he considered that the concept of trading could increase the wealth of nations and an individual's personal net worth.

Maintaining his foothold on supply and demand theory, Steuart indicated that prices were established by exchange.

Summary and Conclusions

Granting that the majority of this essay focused on value, it is imperative to note that value and price are inexorably linked via the concept of exchange. When buyers and sellers consummate a transaction, driven by their value perceptions, they each make known the price they are willing to pay or accept for an item or service. Although none of the aforementioned scholars were able to provide a completely accurate explanation of value, their contribution to the future study of value created a vital foundation from which to build. The viewpoints regarding value that have been expressed over the centuries and the resultant conflicting perspectives have played a large role in the theoretical underpinnings of the different schools of economic thought that exist today.

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CHAPTER 2

MERCANTILISM: THE KEY POINTS OF THE MERCANTILIST THINKERS

Overview

The majority of the European scholars, considered economists today, were mercantilist thinkers during the period from the sixteenth century to the time of Adam Smith, in the late eighteenth century. Historians have debated why the mercantilist philosophy was able to maintain such a long-lasting foothold for over 250 years (Ekelund and Hebert, 1997, p. 61). First, perhaps it was because it was a simple concept for the masses to grasp and the populace was ill equipped to analyze the system to the point of uncovering its illogical flaws. Second, some historians, such as Robert B. Ekelund, have conjectured that mercantilism was an ideal system for the traders and bureaucrats that created it in the first place. The traders profited from the numerous blockades, prohibitions of imports and the exploitation of laborers. The public administrators were the beneficiaries of taxes on foreign investment and remunerations from the traders. Thirdly, European countries had a craving for manufactured goods from the Far East and therefore reduced their supply of gold to acquire these items. This reduction of the money supply essentially caused deflation during this time period, as prices dropped dramatically and actually did not increase at any level of significance until the Revolutionary war. This inflationary consequence was a result of the introduction of paper money into the economy to fund the British war effort. Fourth, as a result of the proliferation of wars, a strong military was required to maintain dominance commercially. Maintaining large stocks of gold reserves provided the power to advance militarily.

The bulk of the mercantilists were in England during the early 1600s. Mercantilism evolved because the economy in European countries was changing rapidly as decentralized leadership became more nationally centralized. International trade proliferated due to advancements in manufacturing and distribution techniques. Thomas Mun was thought by Smith to be one of the key architects of the mercantilist way of thinking. Smith went so far as to suggest that Mun's *Treasure by Foreign Trade* (1664) formed the foundation or blueprint of the mercantilist system (Magnusson, 2003, p. 47). Smith viewed mercantilism as a scheme by producers and traders against the common populace.

Interestingly, most of the mercantilist thinkers focused on one particular area, of what would later be called the economy, that in the future would fall under the mercantilist umbrella (Landreth and Colander, 2002, p. 44). Unlike Smith who focused his writing on the entire field of what later become classical economics, the individual mercantilist scholars wrote about various ideas but did not integrate them into a single predominant concept. Only after the mercantilist period did scholars from other schools of economic thought assimilate all of the mercantilist ideas into a body of work of which they classified as mercantilism.

Primary Tenets

The Austrian lawyer and scholar Philipp Wilhelm von Hornick, in his *Austria Over All, If She Only Will* of 1684, detailed a nine-point program of what he deemed effective national economy, which sums up the tenets of mercantilism comprehensively (Ekelund and Hebert, 1997, p. 40, 41):

That every inch of a country's soil be utilized for agriculture, mining or manufacturing–
A nation aspiring for economic dominance should develop its homeland. Specifically, land should be used to produce crops and foodstuffs to be used at home as well as to increase exports. Additionally, land should be utilized for manufacturing products that require components found in the mother country, further insulating the nation from outside requirements. Mining of natural resources, particularly precious metals such as gold and silver, was paramount. After all, the thinking of the day was that there was a limited supply of these types of materials so letting them out of your possession was frowned upon.

That all raw materials found in a country be used in domestic manufacture, since finished goods have a higher value than raw materials–
Utilize the natural resources of the mother country to their highest and best use. The mercantilists believed this was manifested through the skilled manufacturing of assembled products which could be sold at home or exported abroad.

That a large, working population be encouraged–
The prevalent thought was the larger a country's population, the greater the country's wealth. This goes along with the theme of dominance that was pervasive during the mercantilist period. A large population not only provided economic expansion and dominance, it provided military supremacy as well. Interestingly, although a large populace was stressed, mercantilists did not have great respect for the everyday worker, as they often lived at bare bones, subsistence levels. Discretionary income which, in turn, provided leisure time or even education for the poorer citizens was viewed by the mercantilists as indolent and damaging to the overall economy (Ekelund and Hebert, 1997, p. 46).

That all export of gold and silver be prohibited and all domestic money be kept in circulation–
The protectionist viewpoint manifested itself with respect to a nation's stance regarding the hoarding of precious metals.

That all imports of foreign goods be discouraged as much as possible–
A country must discourage imports so that a healthy balance of trade was achieved. Additionally, the advent of double-entry bookkeeping and modern accounting enabled countries to calculate the balance of trade more accurately and contributed to its close scrutiny (Wilson, 1963, p. 10).

That where certain imports are indispensable they be obtained at first hand, in exchange for other domestic goods instead of gold and silver–
If an import is deemed critical to the home country, the home country should do everything in its power to purchase the import via barter or exchange rather than in exchange for precious metals, such as gold and silver. Precious metals were to be stockpiled as this was a sign of both economic and military power.

That as much as possible, imports be confined to raw materials that can be finished [in the home country]–
If you are importing only raw materials, purchase prices are lower and significant margins can be obtained if the home country utilizes its artisans to create, assemble and potentially export the finished product. This margin created a net "win" for the home country when considering its effect on the balance of trade.

That opportunities be constantly sought for selling a country's surplus manufactures to foreigners, so far as necessary, for gold and silver–
Whenever possible, if a manufacturer had excess capacity for production or excess inventory on hand, these things should be utilized to produce more product and to sell more inventory to foreign nations in order to obtain precious metals.

That no importation be allowed if such goods are sufficiently and suitably supplied at home–
The mercantilists felt that imports should be discouraged if the home country had the ability to produce and provide its citizens similar products.

Smuggling
A by-product of mercantilism was that it created a black market and enabled a proliferation of smuggling activity. A prime example of this occurred during the British blockades of France during the 1790s. In fact, the French prohibition of British goods did nothing more than give birth to an extensive

system of smuggling (Heckscher, 1918, pg. 40). Determined to satisfy the public's desire for British manufactured goods, smugglers created expansive illegal trafficking networks throughout the country. Just as extensive and complex income tax law elicits tax fraud today, the blockade incited criminal activity and enabled a proliferation of outlawed trade.

Unification and Power

An important emphasis of the mercantilist propagators was not necessarily economic unity; rather it was economic power (Heckscher, 1936, p. 45). It is important to note that Heckscher limited his studies to only Great Britain and France, although other European countries were experiencing a similar phenomenon during this time. Schmoller somewhat differed with Heckscher in that he thought unification was, in fact, the major purpose of mercantilism. Aligning with Schmoller' s thesis, mercantilism appears to have been a success with respect to the unification of foreign trade; however, domestic trade is another story, as it achieved limited success under the auspices of mercantilism (Haley, 1936, p. 347, 348). While attempting to be a green shoot of new economic growth, mercantilism actually promoted the advancement of some of the antiquated ideas of the middle ages. One of these ideas was the guilds, or collections of merchants who assembled into organized groups to gain an advantage, not unlike the union activity of today.

Trade

The economists of the day stressed dominance over cooperation and saw that this was the only way to economic prosperity for their country. The way that dominance was attained was via a healthy balance of trade in their favor. More specifically, the concept of maximizing exports while minimizing imports was viewed as a key ingredient to achieve economic dominance. Today this would be viewed as an isolationist or protectionist policy. Modern China could be cited as an example of a country with an economic policy with respect to foreign and domestic trade which, to this day, still embraces the underlying tenants of mercantilism. The Chinese consistently achieve a healthy balance of trade due to their protectionist policies.

The scholars of the mercantilist period incorrectly posited that there was a limited supply of international trade so that trade was viewed as a "zero-sum" game was a common misperception. The ends justified the means; in that the end, the wealth of the country was favored over the wealth of the individual citizen and the means to national wealth was incenting individuals to advance the wellbeing of the mother country. Government intervention into economic activity was favored by the mercantilists over the laissez-faire economists who believed that individuals were automatically economically incented in a culture of liberty. This could be viewed as foreshadowing the Keynesian philosophy of government involvement in various economic policies in the future.

Although he advanced the mercantilist ideals significantly, Heckscher missed the mark with respect to colonialism's impact on mercantilism, as he decided, intentionally or unintentionally, to not devote much in the way of writing on the subject (Haley, 1936, p. 350). In fact, colonialism was a major contributor to the success of mercantilism. More specifically, America made a significant impact as Great Britain had a new abundant resource for goods and precious metals. The sheer size of the American colonies facilitated a tremendous increase in foreign trade for England. Due to this circumstance, Great Britain had the most extensive colonial empire over those of Russia, Spain, France and those of the Far East.

Summary and Conclusions

Smith's '*The Wealth of Nations*, espousing free trade and open markets, was the death nail to the mercantilist system. Perhaps the Austrian economist, Murray Rothbard, best summed up mercantilism and its lack of long term viability and faults in his *The Logic of Action II* when he articulates:

Mercantilism, which reached its height in the Europe of the seventeenth and eighteenth centuries, was a system of statism which employed economic fallacy to build up a structure of imperial state power, as well as special subsidy and monopolistic privilege to individuals or groups favored by the state. Thus, mercantilism held exports should be encouraged by the government and imports discouraged (Rothbard, 1997, p. 43).

However, as mentioned previously regarding China, mercantilism may not be completely dead. At first blush, it is possible that China is utilizing a sort of nouveau-mercantilism with their protectionist policies, as the United States has had a trade deficit with China for over 25 straight years. Conceivably it is likely that this is not the case however because, although the Chinese are largely dependent upon exports to the United States, at the same time the United States is largely dependent upon "exporting" large amounts of debt to China, effectively neutralizing the balance of trade.

Irrespective of whether or not mercantilism as a whole or simply partial tenets of the philosophy exist or are practiced today, modern economic science could not have developed as thoroughly without mercantilism being part of its evolutionary process.

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