The mercantilists strike back [1]

Written by **Anton Howes** [2] | Friday 18 January 2013

Professor Dani Rodrik at Harvard University has offered up a challenge for free market liberals [3]. He is openly, and unashamedly mercantilist: the very ideology that Adam Smith originally set out to defeat back in 1776. While rejecting the historical obsession with amassing precious metals, Rodrik proposes a mercantilist alliance of government with corporations towards common objectives like economic growth.

Swatting aside accusations of cronyism, he offers two reasons to be mercantilist. Firstly, he claims that it works: the recent Asian experience of modern economic growth suggests so, along with the fact that classical liberalism only became dominant in Britain around the 1840s, after it had already started to industrialise. But both of these claims are dubious at best. Regarding the Asian economies, most of them are experiencing catch-up growth, skipping stages of invention. For example, they needed only to import smartphone technology, rather than going through the painstaking process of inventing every single model of mobile phone from the clunky ancient ones to the iPhone. The adoption of capitalism they experienced was not the alliance of the state with business, but the openness to adopting ideas. Indeed, countries like Japan who have recently caught up now experience stagnation. The mercantilist structure does not seem to be quite so conducive to sustained, original innovation, and hence modern economic growth.

As for the British experience of the Industrial Revolution, the original technical innovators, Rodrik's claim does not imply that mercantilism is the better system. Just because the British state did not adopt a liberal attitude to innovation until the 1840s does not necessarily mean that pro-innovation liberalism was not already in action before the Establishment adopted it. If anything, the liberal view is the anti-Establishment view. It wasn't in state-subsidised or state-monopolised industries or businesses that the unprecedented innovation took place. If anything, the much-admired cotton industry of the time had to operate despite protectionist laws like the Calico Acts. Similarly, the invention and increasingly sophisticated application of steam power had almost nothing to do with the government whatsoever. We also have a useful comparison, as post-Revolutionary France was desperately intent on copying the British industrial experience. Yet despite massive subsidies, early attempts consistently failed.

Secondly, Rodrik says that under mercantilism, it is producers rather than consumers who are king. He claims that mercantilists subsidise liberals' vaunted consumption. The obvious question is "Why?" What is the purpose of production if not to satisfy someone's wants or needs? Even people who value work for work's sake are "demanding" the production of something that meets those values. What is the point of having an economy, of interacting and exchanging with others, if not to acquire value for yourself? This does not necessarily mean that you are some selfish miser, obsessed with money, but includes the whole panoply of values you can hold, from equality, to community, to family and to love. If Rodrik's mercantilist challenge is to have weight, he needs to explain what the point of production is, if not to satisfy demand.

blog comments powered by Disqus [5]

Source URL: http://www.adamsmith.org/blog/economics/the-mercantilists-strike-back

Links:
[1] http://www.adamsmith.org/blog/economics/the-mercantilists-strike-back
[2] http://www.adamsmith.org/taxonomy/term/5795
[3] http://www.project-syndicate.org/commentary/the-return-of-mercantilism-by-dani-rodrik
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com