Mercantilist Reasoning in Economic Policy Making

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> "It's not for its own sake that men desire money, but for the sake of what they can purchase with it."
>
> Adam Smith (1776)

Introduction and Definition

Mercantilism represents, more than anything else, the economic strategies widely promulgated by the European nation states[1] in the early capitalist era – circa 1500 to 1850 – and arguably by a number of Asian states in the 20th and 21st centuries. Classical economics was both a reaction to mercantilism, and a synthesis of the thinking that underpinned both the mercantile and agricultural systems of capitalism, as they were understood in late 18th century Europe. Thus the mercantilist pre-economists were writers – commonly but not always businessmen – who lived in Europe during this era, and to a greater or lesser extent supported the political strategies adopted.

Today the term "mercantilism", if recognised at all, is understood as "fallacious thinking in macroeconomics", and can be used as a way of tarring a one's doctrinal opponents.[2] The following paragraph from Landreth and Collander (p.45) effectively defines "mercantilism for us:

> *The goal of economic activity, according to most mercantilists, was production - not consumption, as classical economics would later have it. For the mercantilists, the wealth of the nation was not defined in terms of the sum of individual wealth. They advocated increasing the nation's wealth by simultaneously encouraging production, increasing exports, and holding down domestic consumption. Thus, the wealth of the nation rested on the poverty of the many. Although the mercantilists laid great stress on production, a plentiful supply of goods within a country was considered undesirable. High levels of production along with low domestic consumption would permit increased exports, which would increase the nation's wealth and power. The mercantilists advocated low wages in order to give the domestic economy competitive advantages in international trade. Also, they believed that wages above a subsistence level would result in a reduced labor effort: higher wages would cause laborers to work fewer hours per year, and national output would fall. Thus, when the goal of economic activity is defined in terms of national output and not in terms of national consumption, poverty for the individual benefits the nation.*

Thus mercantilists regarded liquid and internationally realisable financial claims (in the then form of gold or silver),[3] rather than consumable goods and services, as national wealth. Because such wealth was achieved by running balance of trade surpluses,[4] then it was the role of the "statesman" to facilitate the creation of conditions in the domestic economy – and its associated empire, if any – that would enable his nation to prevail over others in a contest for export supremacy.

Some of the mercantilist writers were little more than business lobbyists. Others wrote with a considerable degree of sophistication. Schumpeter (1954), who otherwise damns the mercantilist writers with faint praise, noted that almost all of their errors of reasoning were detected by other mercantilist writers before the development of classical economics. While mercantilist literature can be regarded as a longstanding debate, rather than a set of fallacies, mercantilist policies can be regarded as nothing but fallacious, if applied universally. Keynes (1936, p.335) explicitly noted that their good ideas, of which there were many, generally promoted the well-being of the nation-state rather than the global economy as a whole. Hence the enduring label of mercantilists as economic nationalists.

Mercantilist policymaking never died. Indeed some policies introduced in the 19th century that were strongly supported by classical economists – such as the British adoption of free trade – were, it has been argued (Rankin 1999), adopted for mercantilist reasons, namely to maintain a dominance in foreign trade that had been won under much more restrictive trade policies.

Mercantilist fallacies can be as applicable to domestic strategising as to international economic pursuits, although governments play a different role. Whereas on the international stage, governments were (and still are) leaders in rivalrous economic games of competitive advantage (Brewer 1997, p.14), in the domestic economy governments are law-makers and referees, and participate generally as a counterweight to private activity. However, strategies pursued by many households and firms in domestic economies are in essence the same as strategies pursued by mercantilist governments, with the same potential to create systemic failure.

Mercantilism has been linked in the modern mind with the concepts of imperialism (O'Brien 1996), protectionism (Economist 1990), and rent-seeking (Ekelund and Tollison 1997). While mercantilist strategies may include all three, none grasps the essence of mercantilism. Certainly, in its internationalist context, mercantilism can be characterised as "economic nationalism" or, more extremely, "economic warfare". Better is the phrase "beggar-thy-neighbour" – or the less common "beggar-thy-competitor" (Steil 1994) – which suggests rivalrous ambitions rather than any particular means of achieving those ambitions.

Historical Context

From the 1490s, European maritime nations, through the advanced use of Chinese (Winchester 2008) and Arabic technologies (gunpowder, compass, printing, sailing into the wind), laid claim to the whole world. Before that time Europe was a land of princes who indulged their passions for conquest and influence (Machiavelli 1532; Hirschman 1977). Late medieval economic development in southern Europe, Flanders and the Baltic littoral left Europe in a state of substantial money shortage, given its reliance on commodity money. European expansion from 1492 coincided with a state of chronic shortages of gold and silver, which meant that European trans-oceanic venturers seemed to want little else other than those monetary metals.

Political practices developed in the 16th century whereby each European nation would do whatever it believed it had to, to gain a share of this "treasure", which was particularly abundant in the Americas. While the eastern hemisphere was richer in spices, less rich in gold, the powers that claimed the east – Portugal and later the Netherlands – were easily able to acquire gold from the sale of spices purchased in the "east indies". Trade, free or imposed, became the method of choice to acquire gold and silver. As that century progressed, monetary shortages were substantially eased, though were not eliminated as westerners developed an increasing taste for products from Asia (Becker 2010). Also in the 16th century, the schism in the Catholic Church created the new protestant variants of Christianity; variant denominations which emphasised both frugal lifestyles and the idea of success as being the accumulation of wealth, and commerce (Hirschman's "interests) as being a recipe for peace. These new churches were, to a greater or lesser extent, "puritan".

A 20th century African historian, Mazrui (1986, p.217), saw Europe as being ideally placed to develop these values which underpinned the emergence of capitalism. He wrote of "the frozen ecology of capitalism" in Europe, a place in which life was inherently difficult in the absence of hard work, but with sufficiently productive land to reward substantial fixed capital accumulation. Further, Europe had a topography that was not conducive to the development of river-based civilisations such as those of Asia. Mazrui also noted the importance of the northern European winter, which gave opportunities to pursue productive non-agricultural activities. A forerunner of such geographical determinism was Montesquieu (1748), an important writer in 18th century France, discussed widely in Hirschman (1977).

Puritan values, which took hold most strongly in the late 16th and 17th centuries in the Netherlands, Germany and Sweden, also became influential in Great Britain and France. They were especially influential among the first settlers of New Amsterdam (New York) and New England, across the

Atlantic. It was in the early 17th century – a century which had a substantial zero-sum quality about it – that mercantilist writing appeared in substance, much of it being an apology for the practices that emerged in the previous century. The late 16th century appeared as a golden age – literally and metaphorically – as Europe descended into 30 years of civil war. The "bible" of English mercantilism was *England's Treasure by Forraign Trade* published posthumously by Thomas Mun in 1664.

The growth of European imperialism, and of Europe itself, owed much to the growth mindset implicit in mercantilist thought. Further, the unique opportunity for expansive growth enabled countries to become more wealthy while their populations became increasingly impoverished. Mercantilism was a recipe for success for merchant elites in a specific time and place.

The 18th century emerged in Europe as an age of expanding mercantilist empires, in which land and labour in the Americas were exploited ruthlessly to maintain the competitive advantages of the European maritime powers, while also creating the markets required to dispose of the growing supplies of European-manufactured goods. At the same time, especially in the third quarter of the 18th century, Europe looked to China – as the greatest mercantile empire of all if the accumulation of precious metals was to be used as the principal criterion of success – and certainly as a necessary future market for European goods. Successful mercantilism meant successful marketing, while keeping labour costs ruthlessly low.

In the third quarter of the 18th century, the two defining metaphors of mercantile capitalism and of classical economics were coined in Scotland. Adam Smith first used the metaphor of the "invisible hand" in his first major work: "The Theory of Moral Sentiments". In 1767 James Steuart wrote his "Principles of Political Economy", commonly seen as the intellectual pinnacle of the mercantilist project. Steuart's metaphor was the "statesman" as a ship's helmsman, navigating his ship in the same trade winds as his rivals, in a race of national economic growth (Urquhart 1996). The same metaphor is easily applied to the cold war era of the 1950s and 1960s; an era that included the space race and many technological by-products that came to be incorporated in consumer products and productive processes of the later 20th century.

Smith and Steuart were themselves like rival intellectual statesmen of their age (Anderson and Tollison 1984). Smith never mentioned Steuart in his 1776 magnum opus,[5] The Wealth of Nations. Here, Smith repeats his invisible hand metaphor, in Book IV, the section of the Wealth of Nations devoted to the demolition of the mercantile system. As is always the case, however, Smith's new direction in European economic thought represents a synthesis of the clashing intellectual currents that preceded it. For us, the essence of Smith's breakthrough was the concept of consumer sovereignty; that consumers rather than producers drive the market economies of nations, and of the world as a whole. Smith's approach was cosmopolitan rather than nationalist.

Mercantilist practices – expansive corporate strategies and sympathetic government policies – almost certainly drove the capitalist system and global economic development in the last quarter of the last millennium, as a kind of 'race to the top'. Loser nations, like failed firms, might rise again. To writers like Olson (1982), defeat in war – economic or military – might be a blessing in disguise, allowing the break-up of "distributional coalitions" that served as conservative oligarchies.

For the second half of the 20th century, Koo (2009) describes an "Asian US-dependent formula for economic growth" that was "simple: make good products, sell them to the US, and get rich". This represents the same mercantilist approach, with getting rich meaning the accumulation of US Treasury Bills, which are the nearest equivalent to gold in the contemporary world economy. In the 21st century, it is China that has most dramatically pursued this "vendor finance" (Cable 2009, pp.97,149) route to national wealth, as a country in which business and governance are bound more tightly than most, and in which there has been and continues to be clear direction from a statesman in the fullest tradition of James Steuart. Ferguson (2009) imagines a single country, "Chimerica", in which one half produces a substantial proportion of the goods consumed in the other half.

The legacy of historical mercantilism is mixed. Economic and population growth rates faster than any known to have existed before, combined with substantial resource depletion, waste disposal problems, and labour exploitation. Despite two centuries of substantial economic growth made possible by the prior emergence of merchant capitalism, there are possibly more poor people than ever in the world today. Most importantly, the 21st century is emerging as the first century in which the social and physical limits to input-driven economic growth will impose themselves on us. The race to the top threatens to become the race to the bottom as each nation looks to fragile foreign markets to enable them to productively employ expanding labour forces.

Current Mercantilist Practice and Rhetoric

Economic policy debates today largely reflect the assumptions that underpin a mantra that remains little more than recycled mercantilism.[6] The balance of rhetoric varies, being more protectionist in some countries than others. The aspects of mercantilism that are more often presented are the commitments to increased production and decreased consumption; the latter under the guise of increased saving. Modern economics, as a professional discipline that is traced back to Adam Smith, has failed in its agenda of supplanting the reasoning that underpinned the mercantilist system. Further, with fewer economists studying the history of their discipline or economic history, mercantilism is a concept with little depth of meaning in even trained professional minds.

The areas of greatest concern are those of international trade and finance, economic growth and labour supply. Also mercantilism emphasised the advantages of manufacturing over agriculture as the basis for national prosperity (Ghosh 2010 p.26). As such, the mercantile system evolved into the industrial system. Economies of scale through large externally-focussed joint-stock trading companies with monopoly privileges and state military support[7] became the forerunners of modern multi-national and trans-national companies.

In discussing our international economic relations, we commonly hear terms such as "favourable balance of trade" (to mean a current account surplus, with the implication that a big surplus is more favourable than a small surplus), "competitive advantage" and "export-led growth". The underlying idea is that exports enrich a country, while imports impoverish it. Thus, if you ask a group of students what is the principal benefit of international trade, and give "to increase imports" as one of the possible answers, usually that will be the least popular answer. Students come into economics' classes with strong mercantilist pre-conceptions, and usually leave our classes with only a slightly less strong mercantilist mind-set.

Competitive advantage is a theory of business rivalry popularised by Porter (1985), and adapted to rivalry between nations (Porter 1990), as if the economic success of nations was to prevail in win-lose struggles with other nations. Business leadership, through businesses' chief executives, forms a close analogue with the political leadership of a statesman. Indeed, in the United States, where both James Steuart and Adam Smith were both very strong influences at the time its constitution was developed, the executive branch of government closely fits Steuart's concept of a statesman.

Unlike competitive advantage, the concept of comparative advantage – like market competition in general – emphasises that all may benefit from balanced exchanges[8] of goods and services; exchanges that reflect the relative endowments and productivities of each nation. It is desirable that countries with accumulated current account deficits attempt to run surpluses, and export-led growth may be appropriate strategies for them. But such strategies are futile – indeed potentially destructive – unless countries with accumulated current account surpluses agree to run deficits. Otherwise one indebted country can only reduce its debts by raising the debts of other indebted countries; beggar-thy-neighbour.

This situation is even more strange than is commonly depicted. If one group of countries has intentionally and successfully accumulated current account surpluses over many years, and another group has accumulated deficits over the same period, then which group is the more prosperous? If we assume that both groups have the same combined GDP, then clearly the surplus group have more claims on future goods and services. Just as clearly the deficit group has had possession of or enjoyment of more present and past goods and services, and therefore more real wealth and a higher standard of living; a higher gross national expenditure (GNE). Further, if the surplus group continue to successfully achieve surpluses, then the deficit group will continue to enjoy higher living standards. The surplus group can only realise their potential for higher living standards by importing from the deficit group. In the meantime, it is likely that the deficit group will have specialised in the production of non-tradables, and hence the surplus group will find little to buy from the deficit group. The surplus group will fear the idleness of their own labour forces if they commit to spending their accumulated surpluses.

The problem is very clear in the 21st century if we look at two sets of dichotomous countries: Japan and New Zealand (Koo 2009, p.205), and Greece and Germany. The former example are two countries connected by the Yen carry trade (Koo 2009, p.198) and floating exchange rates, whereas the latter are bound together by the fixed Euro currency. There are two classical mechanisms that theoretically regulate the balance of payments between creditor and debtor nations – the price-specie flow mechanism for fixed exchange rates and the floating-rate mechanism. Both mechanisms are comprehensively undermined by international capital flows, leading to massive credit-debt imbalances between nations in 1913, 1929 and 2008 (Wade 2009). Part of our difficulty in resolving these imbalances is that we use the phrase "surplus countries" as equivalent to "creditor countries", thereby making it difficult to conceive of creditor countries as deficit countries.

The correct non-mercantilist solution to the New Zealand Japan problem is for New Zealand to have a heavily depreciated exchange rate and Japan to have a similarly appreciated exchange rate, enabling Japan to buy a wide range of unreciprocated goods and services from New Zealand. Likewise the correct classical solution for Greece and Germany, within the fixed-exchange-rate Euro zone, is for Germany to have substantial inflation,[9] and Greece to have substantial deflation.[10] In both cases these solutions will not happen, because both Japan and Germany pursued successful mercantilist trade surplus policies and are unlikely to abandon their commitments to these objectives.[11] Further, in both cases, freedom of movement of labour would see substantial outflows of labour from New Zealand and Greece in the event of the prescribed classical policies. The historical reality of mercantilist trade practices has been periodic systemic rebalancing, through debt-default, warfare, or global inflation (or a mixture of these).

In the financial world, mercantilism is widely practiced through what is popularly known as "investment". Economists know that investment is a form of expenditure; the acquisition of *new* capital goods. It's a well-kept secret from the public at large. To the wider public, and financial journalists in particular, investment is simply the purchase of a financial asset; essentially what economists call saving. If there are few profitable opportunities to invest in the production of new capital goods, then we "invest" by buying existing assets – real estate, shares, bonds, commodities – creating price bubbles in those asset classes. Or we invest by – through intermediaries – lending indirectly to lower income households, enabling them to run the deficits needed to offset the accumulating surpluses of the "investing classes". To advocate that households which have been running substantial surpluses for many years continue to save more is a mercantilist message, just as is the message within surplus countries to keep running (even expanding) their surpluses. Messages from policymakers about saving and investment need to be much more nuanced to be beneficial. Debts can only be cleared if credits are also cleared.

This is the same mercantilist process, albeit between households and institutions, that exists between nations. Nations that we are used to labelling "surplus" are nations that "invest" in what become the deficit countries by providing those countries with the financial means to acquire goods and services from the surplus countries. It's not new. The Netherlands, France and Great Britain invested widely throughout the world in previous centuries. In that era, compared to the present, a greater proportion of those financial outflows were genuine economic investments, which facilitated growth in many but by no means all recipient countries. The British-financed railways in India served substantially as conduits through which British exports would reach their markets, displacing textile products which Britain had previously imported from India.

In modern debates, the issue of productivity is not clearly distinguished from that of economic growth. Whether growth is good or bad depends on whether or not the benefits of extra output exceed the cost of producing that output; obvious to any economist but not to the wider public. In the mercantilist system, however, more production of saleable goods and services is always good, and whatever marketing devices are effective are therefore beneficial in the race to sell more than one's rivals. The marketing industry is, substantially, a mercantilist enterprise.[12]

Productivity on the other hand represents a ratio of outputs to inputs. Productivity can be raised in several different ways, some of which involve reduced factor inputs. In the mercantilist view, the only form of productivity growth that is supported is that in which both inputs and outputs expand, with outputs expanding faster. Further, economic growth with negative total factor productivity growth is acceptable. Mercantilism emphasises the growth of inputs: labour, capital, and the more intensive extraction of natural resources. Mercantilist growth represents the antithesis of sustainable growth. While mercantilism focuses on extensive growth,[13] rather than growth of GDP *per capita*, growth races, such as that between New Zealand and Australia,[14] are mercantilist through their focus on increased labour force participation rates.[15] Indeed mercantilist writers feared that a "backward-bending labour supply" curve – as described by Landreth and Colander (2002) – would quickly render a nation uncompetitive if wages were to rise to above-subsistence levels.[16]

If increased labour force participation rates – strictly, increased supply of the factors of production – are consistent with increased living standards, meaning that the marginal benefits exceed the marginal costs, then economic policies infused with mercantilist reasoning will be harmless and may be beneficial. But at some point in the growth process the societal costs of extra sacrifice must exceed the societal benefit arising from extra output. Arguably, this point has already been reached, at least in developed western societies. Beyond such a point, economic progress is achieved by either holding labour force participation rates constant, or encouraging them to fall. At the very least economists should be contesting the assumption which infuses much contemporary public policy, that labour force participation rates should increase even at times of high unemployment. *The Economist* (2011), however, in arguing for a pensionable age of 70, takes the mercantilist position that a high labour force participation rate is good, and that a higher participation rate is even better:

> *Some fret that there will not be enough jobs to go around. This misapprehension, known to economists as the "lump of labour fallacy", was once used to argue that women should stay at home and leave all the jobs for breadwinning males. Now lump-of-labourites say that keeping the old at work would deprive the young of employment. The idea that society can become more prosperous by paying more of its citizens to be idle is clearly nonsensical. On that reasoning, if the retirement age came down to 25 we would all be as rich as Croesus*

Television New Zealand's Corran Dann and Petra Bagust raised the conundrum succinctly[17] with these comments:

> *It's like the whole premise of capitalism in western society at the moment is built on consumerism; we've got to buy things that we don't need so that will keep people in jobs – employed – so that they can buy things that they don't need.*

So if we're going to shift that, if we accept that we're going to run out of things, how do we shift without suddenly putting a whole lot of people out of work?

A mercantilist solution would be to seek an external market for these extra goods – even a black hole in the southern ocean – while reducing the cost of labour so that our nation can outsell its rivals in that external market. A solution drawing on neoclassical principles would seek to conserve inputs, including labour, especially as the societal benefits of additional consumption are clearly quite small. While it can be argued that the marginal benefits of economic growth would be raised if global incomes were distributed more equitably, mercantilist solutions clearly raise the level of inequality, thereby further diminishing those marginal returns. It is possible to reduce labour force participation rates and to reduce inequality, but not under present income distributing institutions[18] such as the labour market and prevailing tax-benefit structures.

A neoclassical 'conservation of labour' approach may be mirrored with respect to non-renewable natural resources, favouring the conservation of non-renewable resources in normal times. It is more efficient over time to use non-renewable resources with low marginal costs of extraction in those times when marginal benefits are highest. Our goal could be to make our economies supply-elastic, by conserving resources at times when they are less urgently required. Under a mercantilist regime, resources are exploited as part of the dynamic of winning the race to produce more than one's rivals. The mercantilist growth dynamic holds little in reserve.

A universal theme of mercantilism – historical and contemporary – is the depredation of consumption and the exhortation of production. Under this view, it is productive to make a coffee espresso machine, but it is unproductive and hence wasteful to consume a cup of coffee in a café. One prominent commentator in New Zealand who makes strong distinction between productive and unproductive activities is Hickey (2011a) who in an *NZ Herald* commentary, asserted that:

Most of the money now being borrowed is simply being spent by consumers on trips to The Warehouse, the cafe, the pub, the supermarket and the casino. None of it is boosting our production and reducing consumption.

Here we have a classic expression of the view that production is the pathway to wealth, while consumption represents the road to poverty. Hickey gives a number of recession-survival tips (Clifton 2011, Hickey 2009) including "Never buy more than one espresso coffee a week", "Always holiday in New Zealand" and "Never buy a new car". Mercantilist sentiment, and puritan frugality, is alive and well in New Zealand. While critical of Chinese mercantilist practices, for example maintaining an artificially low exchange rate in order to run indefinite trade surpluses, Hickey explicitly advocated a mercantilist policy on Radio NZ (Hickey 2011b) "to do as China and others have done, which is become mercantilists, who actually store up [hoard] foreign assets".

One extraordinary comment was made early in 2011 on Radio New Zealand by economics and business commentator Rod Oram:[19]

> *If … we're lost as a country. If collectively we can't learn something new, then we might as well give up … the game's over.*

Here we see the idea of what it means for a country that's conceived of as a company, to be a loser. In June 2011 many people are saying similar things about Greece. The analogy clearly fails when we consider that, in a losing country, life goes on. Economic life is not a race, nor a game. It's simply housekeeping, and getting maximum enjoyment from available resources.

A useful account of a non-mercantilist future, inspired by Keynes, is given by Skidelsky (2009, p.100)

> *As the returns from investment fall, the domestic aim of policy should switch to reducing income inequalities (raising the 'propensity to consume') and increasing leisure time, with shorter working hours and more frequent holidays. In the golden age of capital saturation, with the economic problem solved, people would learn to live 'wisely, agreeably, and well'. This was Keynes's answer to the question: What is economic growth for?*

Conclusion

The debates about economic policy which infuse our journalism continue to uncritically apply mercantilist objectives that, through their contradictions, may lead us into pursuing objectives that heighten the risks of systemic failure. We can however conceive of a non-mercantilist approach to global economic welfare by applying the neoclassical efficiency rule at the global level: produce to the level (and only to the level) in which marginal global benefit equals marginal global cost. Achievement of this criterion may require the use of fewer labour and other inputs globally, although not in every country. Creditor countries in particular may enjoy past successes by working less, not more.

Impediments to the removal of mercantilist policy objectives include cultural attitudes to work and thrift that persist from the mercantilist era, and the requirement of increasing labour supply to offset the tendency of increasingly capital-intensive economies to become more unequal. It will require new ways of understanding how incomes should be distributed – for example through the development of the concept of public equity – to create the non-mercantilist ideal of prosperous nations inhabited by prosperous people.

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Notes

[1] "States" is used in the activist sense here, in that they are ruled by wilful "statesmen".

[2] For example Humphey (1999) who classes as mercantilist Keynes and any number of economists who became sceptical about classical monetary theory.

[3] Or financial claims that could be realised as imports of gold or silver.

[4] Strictly, and in today's language, surpluses on the current account of the balance of payments. Mercantilists were happy to accumulate gold and silver by any practical means; not only merchandise trade.

[5] The online edition of the Encyclopedia Britannica, in its entry on James Steuart, states: "One of Adam Smith's main goals in writing *The Wealth of Nations* was to refute Denham. As Smith wrote in a letter, "Without once mentioning [Denham's book], I flatter myself that every false principle in it will meet with a clear and distinct confutation in mine." Had Smith mentioned him, Denham's work might be better known today." "Denham" is "Sir James Steuart Denham", more commonly known as Sir James Steuart.

[6] Export more, import less; save more, consume less; work harder and longer; accept lower wage rates; reduce company taxes; tread water on environmental costs that relate to export industries.

[7] For example the East India Companies of the Netherlands, France and Great Britain.

[8] Balanced exchange means that surpluses and deficits roughly balance *over time*. There is nothing intrinsically wrong with deficits or surpluses.

[9] Inflation is actually much harder to achieve by monetary means than is commonly believed, thanks to liquidity preference; witness both the experiences of the Great Depression and Japan's great recession (Koo).

[10] The failure of this mechanism, which always worked better in theory than in practice, may have been the single most significant factor in the Great Depression of the 1930s. Skidelsky noted (p.100): "The US's accumulation of gold through its current account surplus had forced other countries on the gold standard to deflate their economies". We see a remarkably similar scenario within the Eurozone today.

[11] Over the last decade, Germany's *real* exchange rate has fallen rather than risen against Greece's, by virtue of lower inflation in Germany.

[12] One of the historical extremes was the British colonisation of Hong Kong, to keep up (and ultimately expand) the sales of British opium (manufactured in India) to China. In this case the marketing was conducted by British warships, in what became known as the Opium War. The hard sell component of marketing is mercantilist; any associated transfers of useful information are not.

[13] This means that mercantilist thought tended to favour rapid population growth.

[14] The former project of the 2025 Taskforce (Brash 2011); while the terms of reference make effusive use of the word "productivity" the goal is to close the income gap with Australia. The criteria for success included any method of raising *average* incomes per capita, of which raising productivity was given emphasis. The emphasis of the investigation appears to have been to raise labour productivity, where labour productivity meant more output per worker, rather than more output per hour of labour supplied. The government appeared to lose interest in the project when it became apparent that workers interpreted "rising incomes" to mean rising "wage rates". In a mercantilist system, rising average incomes are coincident with, and in part the result of, falling wage rates.

[15] For labour force participation rates, read labour years supplied relative to working age population. A standard fulltime worker, or unemployed person, counts as 1. A person working half a year fulltime or all year halftime counts as 0.5. Thus, labour force participation rates can increase due to persons working for pay (or seeking paid work) some hours where previously they worked none; or working or seeking to work more hours per week, more weeks per year, or more years per life-time. An effective proxy is to count persons working over 30 hours per week as a 1, and persons working fewer hours as a 0.5.

[16] Prasch (2008, p.88) shows how labour supply curves do indeed tend to be negatively sloped, though not in a straightforward way.

[17] Television New Zealand's *Breakfast* programme, 9 June 2011.

[18] See my paper "Basic Income Flat Tax and Public Property Rights" (Rankin 2011), which explores the opportunities we have to reduce inequality through the development of the concept of public equity.

[19] Radio New Zealand's *Nine to Noon* programme, 22 February 2011