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Mercantilism versus the Market

It is a very common belief that a market economy presupposes a government system that maintains a climate favorable to business and lavishes private enterprise with incentives. Today, it is fashionable for some politicians—even some governments—to try to create such a climate, which they believe to be the essence of the market economy.

What they end up with is something known historically as **mercantilism**, a system that destroys the market, which is promoted, backed, and run by the beneficiaries of the system: trade unions, private entrepreneurs, businessmen, etc. The result is governments that are manipulated by pressure groups, similar to the corporatism of **fascism.**

Mercantilism is attractive because it promises economic protection to those whom it benefits.

It is understandable that, throughout history, the desire for security has led to the use of the coercive power of government as a means to avoid potential or real competition. The objective is to guarantee profits, jobs, or permanent success, all of which in a free market society would have to be earned on a daily basis. The abusive use of government is justified by rationalizations as to the need for expedience to promote general welfare, and by turning a blind eye to general principles in favor of pragmatism.

Thus a system emerges "democratically" based on casuistic legislation that grants privileges to exclusive groups—professional and business associations and unions. It grants oligopolistic privileges that characterize **mercantilism,** based on laws, regulations, executive dispositions, etc.

In the **market**, nothing is certain except (ideally) that the law applies to all equally in the protection of rights, but with no guarantee of results. Under **mercantilism**, people seek certainty of success through government intervention. In the **market**, success is achieved through daily competition to satisfy consumer needs. These needs are defined by the consumer's criteria (within his purchasing power), not by the entrepreneur. If the criteria are not met, the entrepreneur loses. The **market** implies constant uncertainty; it enforces continual re-adaptation to maintain leadership positions or market share. The **market** forces constant confrontation with the risk of failure. Bankruptcy, as a market phenomenon, has a social function: to limit losses to the amount of private investment risked, and also as an incentive to efficiency—to economize resources available to society in the form of private funds.

The most powerful and effective incentive for efficiency is fear of losing what you have earned: your house, a car, or a business diligently built through your (or your parents') sacrifice that is based on the credit and trust achieved by following rules of conduct approved by the community. Certainly, the incentive of profit is a very great factor in social efficiency. But I believe the incentive of avoiding loss is much greater. The proof is that few voluntarily choose the risks inherent in the speculative activity that characterizes the entrepreneur; for that reason the vast majority prefers a contractual income. Although it may be less, it is more secure. They prefer to sacrifice a bit of freedom in exchange for greater security.

It is important to emphasize that profit in the **market** is not obtained simply by adding it to the cost to determine the price. If that were so, there would be no risk of loss, or poor people. Profit in the **market** is **residual**, uncertain. You can lose, which in fact happens every day.

The entrepreneur profits when he produces something at a cost below **market** price, and he suffers a loss when the value of the social resources consumed in production are more valuable than the end product. The one who profits the most is the one who economizes the most resources. Paradoxically, the workers who earn most in a **market** economy are those who most reduce the cost of labor. On the other hand, in a **mercantilist** economy, the one who profits the most is the one who exploits others the most, because of laws that are protectionist or that encourage this.

Mercantilism is the economic system that existed in Europe in the sixteenth and seventeenth centuries, which we inherited from Spain. It has prevailed in Latin America since the colonial era and continues unabashedly. People want to see competition for everything that others buy and sell, but they want to control the market in which they sell (monopoly) and buy (monopsony). They want price ceilings for what they buy and price floors for what they sell.

Mercantilism, like **socialism** or **nationalism**, is based on what Hayek calls Rationalist Constructivism. It presumes that people can plan the economy the same way they plan a business, an army, a religious organization, or a government operation. They seek to achieve prosperity and justice (regrettably, in that order) by channeling the actions of citizens towards short-term objectives that they select. They enact laws that induce citizens to act or abstain from acting in ways they would not have done had they chosen freely. Without the coercion of law, their plan would fail, because people would act to achieve freely chosen objectives that do not necessarily coincide with the plans of the constructivist government. Therefore, a constructivist government, by nature, cannot respect the rights—the freedom—of people. Neither can it treat everyone equally, because it would lose control of the results. The **mercantilist** juridical regime is compelled to be casuistic, granting advantages to some at the expense of others. Survival is assured by privilege and license, not by right.

Adoption of the **market economy** has strong enemies. These include everyone who benefits from **mercantilism**, because if the scope of liberty were expanded to all citizens, the privileges and advantages enjoyed by various groups—starting with bankers, industrialists, and even union workers—would be endangered.

Those opposed to the **market economy** claim that the country is not ready (as if it were necessary "to be ready" to have the right to compete without coercion and privileges); that no pure market exists anywhere (as if any system were "pure"; if purity were a requirement to adopt a system, democracy would have to be rejected. Is it not enough for the system to be the best among imperfect options?); that governments should control the macroeconomy (it is a contradiction to control the macroeconomy in a **market economy**, since a **market economy** is possible only when the *market*, not the government, directs economic activity).

Opponents of the **market economy** have in their favor the confusion between **mercantilism** and **a market economy**, and the bad ethical aftertaste that socialists managed to create against capitalism.

We do not like to trust a system we can neither understand nor predict and which we consider anarchic for those reasons. It is unfortunate that a system founded on respect for freedom and consistent ethical principles faces such rejection.

It is enough to understand that the **market economy** is based on rule of law (not simply on legality); that it effectively enforces the respect for life, property, and contracts; that the **market economy** is based on the age-old **golden rule**, and that unlike **mercantilism**, it is neither planned nor designed. In a **market economy**, government intervention is directed not towards results, rather towards social interaction that is respectful, peaceful, and characterized by contracts that are mutually and freely consented to. This arduous and difficult task is one that **mercantilism** not only disregards but also prevents.

What needs to be understood is that a **market economy** is what happens under the rule of law that upholds the right to life, property, and the rights acquired through contracts freely entered into. Therefore, the relevant issue at hand is not the economy but the proper role and organization of government. In the end, it is a discussion about ethical norms of just conduct.

“The history of progress is not identifiable with the history of scientific progress, as has long been taught. It is identifiable rather with the history of law, with law conceived as a technology for the organization of human, economic, and social relations. Scientific progress is nothing more than one of its manifestations, a tangible reflection of the evolution of the juridical system.” **Jorge Bustamante**, “*La República Corporativa*” / “The Corporate Republic,” 1988.

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