

Thomas Mun – a man more sinned against than sinning

Robert Murphy

Senior Sophister

Economic theorists throughout history have delighted in knocking the established doctrines, as a preparatory stage to supplanting them with their own (superior) ideas. Smith's target was the mercantile system and his scapegoat was Thomas Mun. Robert Murphy reassesses Mun's contribution to economic thought, and shows how Smith misinterpreted Mun for his own means.

Introduction

The book *England's Treasure by Forraign Trade* (1664), written by Thomas Mun, is regarded as a classic of English mercantilism, a doctrine that has received widespread criticism and condemnation. In this essay I shall demonstrate that Thomas Mun was an individual of considerable intellectual sophistication and that he made significant contributions to economic theory. I start by explaining why a number of commentators on mercantilism failed to acknowledge the analytical strength and principled side of *England's Treasure*. I then examine the proposals put forth, by Mun, to combat the trade crisis of the early 1620's. I argue that the self regulating price specie flow mechanism in no way qualifies as inconsistent, Mun's repeated calls for a balance of trade surplus. In fact, I shall argue that Mun conceptualised the self adjusting specie flow mechanism almost one hundred years prior to Hume. I conclude with a brief synopsis of Mun's contribution to economic thought.

Section One: Adam Smith's "mercantile system" and mercantilism

Although the term "systeme mercantile" first appeared in print in Marquis de Mirabeau's *Philosophie Rurale* (1763), Adam Smith was the first to describe the "mercantile system", in his *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), as a system of economic doctrines and policy practices in England during the period 1600 to 1776. The principle of the mercantilism system was a doctrine, or a popular fallacy to confuse wealth with money¹. The objective of the system was the accumulation of wealth, which was equivalent to the hoarding of specie. Wealth could be accumulated by a balance of trade surplus, which could in turn be promoted by government encouragement of domestic industries and protection from foreign imports. The "sole engine the mercantile system"² was

¹ Money took the form of precious metals such as gold or silver and was collectively known as specie.

² Adam Smith, (1776) Vol. IV viii c89, *An Inquiry into the Nature of the Wealth of Nations*.

said to be the "monopolising spirit of merchants and manufacturers"³ who "both invented and promoted this doctrine."⁴ Thomas Mun was the most prominent of the former.⁵

Smith's view of mercantilism "as an agglomeration of commercial interference's fortified by a monetary folly"⁶, was promoted further by classical political economy. As Magnusson (1994 p. 26) has noted, it became popular for economists such as Senior and Mill to ascertain that protectionism relied on the "childhood fancy" (Mill), that money was the only form of wealth. In France and Britain, Blanqui and J. R. McCulloch respectively, reinforced the notion of a mercantilism on the lines of Adam Smith. McCulloch was ready to admit that Mun's *England's Treasure* was "a considerable step in the progress to sounder opinions."⁷ However, Mun, could not help but fall victim to a popular delusion which was so "widely spread". McCulloch argued that "the wealth of individuals and states was measured, not by the abundance of their disposable products ... but by the quality of these metals actually in their possession"⁸. Furthermore, "Mr Mun lay no stress whatever on the circumstances of foreign commerce enabling us to obtain an infinite variety of useful and agreeable products, which it would have been impossible for us to produce at all, or to produce so cheaply at home."⁹

In section two I shall demonstrate that the association of Mun, as the founding father of the above economic doctrine, resulted from either complete ignorance of his writings, or from a blatant distortion of them. So why was it that Smith placed Mun as the founding father of the "mercantile system"?

The answer to the above is that Smith's writing on mercantilism is not an objective scientific inquiry into past economic writings. Rather, it must be viewed in terms

³ Smith, (1776) Vol. IV iii c89.

⁴ Smith, (1776) p. 460.

⁵ Smith never directly accuses Mun of the above fallacy. However, those who have read Smith seldom notice the distinction between harmful protectionism and the doctrine of Thomas Mun. Schumpeter, (1954) p. 361., claims that Smith instigated this connection "in such a way that his readers cannot help getting the impression which has in fact become very general."

⁶ A.V. Judges (1961) p. 38., "The idea of a mercantile state" in D.C. Coleman (ed) *Revisions in Mercantilism*.

⁷ J.R. McCulloch (1828) Vol. I p. xviii

⁸ McCulloch (1828), p. xii

⁹ McCulloch (1828), p. xviii

of Smith's "hypothetical" or "conjectural" history.¹⁰ While Smith singled out a number of mercantilist writers, for example Mun, whom he argued "were apt to forget their own principles in the course of their reasoning and fall into confusion." His main concern was to construct "an ideal account of historical evolution", and so, "historical evidence" and, indeed, economic writings were "of secondary importance in his grand design of a comprehensive system."¹¹ Indeed, it is probable that Smith's concern for Mun stemmed not from the economic philosophy present in *England's Treasure* per se, but more so from the fact that Mun's magnum opus was used as intellectual backing by supporters of protectionism in the political debates of the 1660's.¹²

Walter Bagehot noted "He (Adam Smith) wanted to show how from being a savage, (man) rose to be a Scotsman." In attempting this modest task Smith utilised his basic conceptual framework¹³, his four stage theory of economic development as set out in Book III¹⁴. Smith believed that there was a "natural order of things which must have taken place" in every growing society—the sequence broadly running from hunting to pasture to farming and finally to commerce.¹⁵

Although the "mercantile system," had reached the final stage of the development process, the interference of merchants, whom Smith alleges were "an order of men whose interest is never the same with that of the public", in economic activity, led Smith to view mercantilism as a perversion of his idea of natural liberty. That is, not only did such policies lead to a misallocation of scarce resources and thereby distort economic growth, but "more fundamentally, such policies conflicted with the obvious and simple natural liberty" an idea central to Smith's economic doctrine and laissez-faire policy advocacy.¹⁶

Hence, the "mercantile system", where monopolies and economic restraints were prominent features, must be shown to be fallacious. With this objective Smith

¹⁰ This term derives from Douglas Stewart and relates to a view of history not designed to give an accurate account of historic past, but to reveal the orderly unfolding of the process of chance.

¹¹ *Wealth of Nations*, Vol. I p. 55-56., ed. R.H. Campbell and A.S. Skinner, (1976):

¹² That Smith referred to Mun's magnum opus using the incorrect title, suggests that he was not especially familiar with Mun's work.

¹³ Meek (1971), p. 12.

¹⁴ Though probably developed earlier in 1750, and independently by Turgot, see Meek (1971).

¹⁵ Smith, (1776), p. 360.

¹⁶ Coats (1975), p. 219.

created a straw man, Thomas Mun, as the preacher of a false economic doctrine. Smith then set out to unveil the fallacy of this widely held doctrine not by reference to Mun's pamphlets. Instead he set out to demonstrate the damning consequences resulting from adherence to this doctrine. Why else did Smith devote, in its first edition of *The Wealth of Nations*, almost one quarter of Book IV to the mercantile system? Why else did Smith add a further chapter and several additional paragraphs in the enlarged third edition? Do these new additions contain new analysis of mercantilist pamphleteers? Do they contain any novel arguments? No they do not. Rather they represent new factual material, to an already tedious and long winded section, on duties, bounties and drawbacks from mercantilist restrictions.

The fact is that when analysing mercantilism Smith was, ironically, blinded by self interest. Economic circumstances of the period were secondary. The contrasting arguments of Mun, Malynes and Misselden were immaterial. Smith's sole concern lay in promotion of his economic theories and policy proposals. Is it then surprising that the analytical and principled side of England's Treasury went unnoticed? The blatant subjectivity of Smith's analysis is sufficient to discredit all classical interpretations of mercantilism, as "it [has] been the starting point of all subsequent explorations of mercantilism."¹⁷

Unfortunately, Smith is not the only theorist who was motivated by an ulterior motive when analysing mercantilism. Take, for example, the theorists, such as the German Protectionist List and the economic historian Gustav Schmoller, who instigated the first challenge to the classical view of mercantilism in the late nineteenth century. They were undoubtedly inspired by the fact that if they could show mercantilist ideas were rational for their time, then laissez-faire was not the universal language of economic sense. Hence, they argued that just as mercantilist policies were a rational response to seventeenth century problems, so too was their economics of protectionism appropriate for Germany's modern industrial society. In the 1930's Prof. Eli F. Heckscher strongly denounced the notion that mercantilist policies were rational, "there are no grounds what so ever for supposing that mercantilist writers constructed their [policies] out of any knowledge of reality however derived."¹⁸ Again, it may be argued that this outburst stemmed more from Heckscher's personal political beliefs¹⁹, than from

¹⁷ Coleman (1980), p. 776.

¹⁸ Heckser (1954), Vol II, p. 347.

¹⁹ See Rolf Henrikson, "Eli F. Heckscher the economic historian and economist," in Bo Sandelin (ed), *The History of Swedish Economic Thought* (1991), for an account of Heckscher's defence of laissez-faire and free trade.

evidence in his economic writings.²⁰ Keynes's re-appraisal is another example, as I shall demonstrate, of a theorist who is more concerned with promoting his own economic doctrine, than attempting an objective scientific inquiry into past economic doctrines.

John Maynard Keynes's *General Theory of Employment, Interest and Money* (1936) contains an economic message which, Keynes believed, would revolutionise the way the world views economic problems. Keynes was aware that his economic doctrine possessed the potential to instigate a "conservative revolution." Unlike Karl Marx, who believed that capitalist economics were inherently doomed, Keynes viewed the economy as an intrinsically unstable entity. This view was, of course, in direct conflict with the then widespread beliefs of the classical school, of which Keynes was once a "faithful pupil."²¹ In order to strengthen his challenge to the classical school, Keynes sought to demonstrate that the intellectual roots of his doctrine lay in the writings of his predecessors. It is for this reason that Keynes in chapter twenty-three of the *General Theory* presents an account of pre-Smithian economics.

Keynes challenges the classical school's claim that "the mercantilist argument is based, from start to finish on an intellectual confusion."²² He argues that "the early pioneers of economic thinking may have hit on their maxims of practical wisdom without having much cognisance of the underlying theoretical grounds."²³ Keynes presents what he believes to be "the element of scientific truth in mercantilist doctrine."²⁴ Which conveniently corresponds with Keynes's economic doctrine. The State's concern, in mercantilist times, with achieving a favourable balance of trade is comprehensible since it is "the only direct means at their disposable for increasing foreign investment and at the same time their only indirect means of reducing the domestic rate of interest and so increasing the inducement to home investment."²⁵ There are two caveats to the above in an open economy, which were overlooked by mercantilist writers. Firstly, if the domestic rate interest falls so low that the volume of investment stimulates employment to a point where wages and hence prices rise, then a balance of trade deficit will follow. Secondly, if the domestic rate of interest falls below interest rates available elsewhere then a capital outflow will result. Hence, since the initial increase in the money supply is offset by the capital outflow, the potential benefits

²⁰ Magnusson (1994, p. 33) notes that Heckscher's analysis of mercantilism has been used by members of the historical school to defend their philosophy.

²¹ Keynes (1936), p. 334.

²² *ibid.*

²³ *ibid.*, p. 340.

²⁴ *ibid.*, p. 335.

²⁵ *ibid.*, p. 336.

of a lower interest rate are lost. The Spanish economy in the fifteenth and sixteenth century, and Great Britain during the pre-war years of the twentieth century, are cited as respective examples. Keynes reaffirms that mercantilist doctrines contain "practical wisdom which the unrealistic abstractions of Ricardo first forgot and then obliterated."²⁶ Indeed, mercantilists writers along with Keynes were unwilling to allow the determination of the domestic rate of interest be "sacrificed to the operations of blind forces."²⁷

Keynes then examines, drawing copiously on Heckscher's Mercantilism, the reasons given by mercantilists for their recommendations. Firstly, "Mercantilists thought never supposed that there was a self-adjusting tendency by which the rate of interest would be established at the appropriate level."²⁸ Furthermore, it is claimed, they were aware that if the precious metals were diverted from circulation to treasure hoards, the advantages to the rate of interest would be lost. However, Keynes tells us that "in some cases (e.g. Mun) the objective of enhancing State power led them, nevertheless, to advocate the accumulation of state treasure."²⁹ In section two I shall demonstrate that this accusation is unfounded. Secondly, "mercantilists were aware of the fallacy of the cheapness and the danger of that excessive competition may turn the terms of trade against a country."³⁰ Thirdly, "mercantilists were originals of "the fear of goods" and the scarcity of money as causes of unemployment which the classicists were to denounce two centuries later as an absurdity."³¹ Keynes suggests that if either school was guilty of committing an absurdity, it was the classical school. As the "weakness of the inducement to invest has been at all times the key to the economic problem."³² Finally, Keynes notes "mercantilists were under no illusion as to the nationalistic character of their policies and their tendency to promote war."³³ He uses this also as the foundation for another attack on classical school's policies. As "intellectually their [mercantilists'] realism is much preferable to the confused thinking of contemporary advocates of an international fixed gold standard and laissez-faire in international lending, who believe that it is precisely these policies which will best promote peace."³⁴ Keynes concludes by noting the "extra-ordinary achievement of the classical theory was to overcome the beliefs of

²⁶ *ibid.*, p. 340.

²⁷ *ibid.*, p. 339.

²⁸ *ibid.*, p. 341.

²⁹ *ibid.*, p. 345.

³⁰ *ibid.*, p. 345.

³¹ *ibid.*, p. 347.

³² *ibid.*, p. 348.

³³ *ibid.*

³⁴ *ibid.*

the "natural man" and, at the same time, to be wrong."³⁵

This new interpretation of mercantilism by Keynes received immediate and widespread criticism. Not surprising Heckscher was one of the most zealous critics. Keynes responded to the charge of "glorifying imbeciles" by declaring "What I want is to do justice to schools of thought which the classicists have treated as imbecile for the last one hundred years, and, above all, to show that I ... have important predecessors."³⁶ A most noble goal indeed. However, if Keynes's main concern was to demonstrate that he had "important predecessors", why does he devote so little attention to the direct concern of Mun, Petty, or Law? After all Mun was the "founding father" of mercantilism and the latter writers were all concerned with how government intervention could stimulate economic prosperity. If Keynes's primary objective was to show he had important predecessors, why did he use Heckscher's *Mercantilism* as his sole source of reference? If Keynes's intentions were as stated, why did he quote from a source where "there is no risk that "the" choice of quotations has been biased in any way by a desire to illustrate their wisdom"?³⁷ Was Keynes safeguarding against subjectivity in his analysis? Hardly. Rather Keynes copiously drew from Heckscher's *Mercantilism* as he admitted these quotations were "more suitable for my purpose because Prof. Heckscher is himself an adherent,... of the classical theory."³⁸ The purpose was to denounce the classical school.

It is evident that a number of contributors to the literature on mercantilism possessed a broader agenda than "mere" scientific inquiry into past economic writings. Their objective being to score points against opposing economic doctrines or political philosophies. As A. V. Judges's definition of mercantilism notes, it is a "system conceived by economists for purposes of theoretical exposition and mishandled by historians in the service of their political ideas."³⁹ Given such an intellectual environment it is not surprising that the analytical and principled side of Mun's *England's Treasure* has largely gone unnoticed. In order to redress this, I now turn to Mun's writings and the circumstances in which they occurred.

Section Two: Thomas Mun and the trade depression of the 1620's

Both *A Discourse of Trade from England unto the East Indies* (1621), and *England's Treasure* (1664) were written "apropos of the depression of 1620."⁴⁰ It

³⁵ *ibid.* p. 350.

³⁶ Keynes (1973), Vol. XIII, p. 552.

³⁷ Keynes (1936), p. 341.

³⁸ *ibid.*

³⁹ Judges (1969), p. 59.

⁴⁰ Hinton (1955), p. 284.

is now well established that "Mun wrote with particular and immediate problems in mind."⁴¹ It is important to appreciate the impact the crises had on Mun. Not only does it challenge Heckscher's (1954 vol. II p. 347) criticism of mercantilist writers, it also implies that we must not expect Mun to have pushed his analysis "beyond the point where it was constructive."⁴² That is, Mun's objective was to formulate a possible solution to the depression, and not to participate in unproductive theorising. I will argue that, viewed in this light, Mun's "failure" to explicitly state and adhere to the self-adjusting mechanism of specie distribution should not be viewed as a criticism of his analysis. But first a look at the circumstances that provided the impetus to Mun's writings.

The depression of the 1620's led to a controversial debate, the main protagonists being Gerard de Malynes (fl. 1586-1641), Edward Misselden (fl. 1608-1654) and Thomas Mun (1571-1641). All three were broadly agreed that the cause of the depression was the outflow of specie, which resulted from an "unfavourable balance trade." But there was sharp disagreement as to why this occurred and what the appropriate remedies ought to be.

Malynes was deeply suspicious of usury and described it, in *Saint George for England Allegorically Described* (1601), as a wolf held by the ears "dangerous to keep and even more dangerous to abandon." In *A Treatise of the Cranker of England's Common Wealth* (1601), Malynes describes how common wealth suffers a decline if foreign purchases exceeds sales to foreigners. This problem is "the unknown disease." Malynes believed that the "efficient cause of the disease" were bankers who use their power to manipulate the rate of exchange for the sake of their own gain. These actions were said to result in a below par exchange rate. This resulted in England paying too much for imports and not receiving enough for her exports and so a specie shortage materialised. The problem, he argued, should be solved by government laws preventing England's exchange rate fluctuating below par.

Misselden, in *Free Trade or the Means to Make Trade Flourish* (1622), proposed to combat the depression by increasing the money supply. He argued that this could be achieved by "raising the coin", or by a depreciation, to which Malynes was opposed. Misselden believed a devaluation would attract coin into the country and prevent its exit. Malynes airs his opposition in *The Maintenance of Free Trade* (1622). The debate became particularly acrimonious as Misselden responded with the tract *The Circle of Commerce* (1623). Here Misselden introduced the concept of the "balance of trade" and denounced Malynes's proposed remedy, noting "Natural Liberty is such a thing as will not endure the

⁴¹ Supple (1954), p. 93.

⁴² Hinton (1955), p. 284.

command of anything; but God alone."⁴³ To which Malynes prominently responded with the tract *The Centre of the Circle of Commerce* (1623)

Mun's first pamphlet "A Discourse of Trade" (1621) was primarily dedicated to the defence of the East India Company, of which he served as a director, against the widespread accusations that it was responsible for the country's specie shortage. Mun also referred to the "real" forces which would strengthen England's position, namely "Industry to increase and frugality to maintain."⁴⁴ Mun's general case was expounded in the memoranda's he submitted to the Commission of Trade, which contain large portions of England's Treasure in both embryo and final form.⁴⁵ As a solution to the depression, Mun proposed the principle that "The ordinary means to increase our wealth and treasure is by forraign trade, wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value."⁴⁶ Denouncing Malynes's remedy, Mun noted the exchange rate reflects the movements of trade rather than the manipulations of bankers. The below par valuation of England's exchange rate was a result of and not a cause of the experienced balance of trade deficit. "That which causes an under or over valuing of moneys by exchange is plenty or scarcity there of." Malynes remedy was then unnecessary, if not worse than the existing Statute of Employment. Misselden's proposal for increasing the money supply would prove sterile also, since changes in the measure of value would only cause confusion. In addition, it would result in special benefits for Spain and furthermore foreign countries would follow suit as "it is a business without end." But more importantly Mun reiterated the fundamental balance of payments equation that specie flows must be determined by the excess of exports over imports, and therefore insisted that there could not be a sustained loss of gold and silver while there was a trade surplus, while none of the above proposals could prevent a monetary outflow in the face of a sustained deficit.

The concluding section of FO. 177 presents in embryo form chapter three of *England's Treasure*, where Mun lists ways in which a balance of trade surplus may be achieved. The most important being sufficiency in wares which were being imported, and the reduction of imports of luxury goods. Secondly, when exporting goods merchants should be aware of the buyers price elasticity of demand and how this will effect their total revenue. "In our exportations we must not only regard our own superfluity, but also we must consider our neighbours necessities, that so we may (besides the vent of the Materials) gain so much of the manufacture as we can, and also endeavour to sell them dear, so far forth as

⁴³ Misselden (1623), p. 112.

⁴⁴ Mun (1621), p. 2.

⁴⁵ See Supple (1954).

⁴⁶ Mun (1664), p. 5.

the high price cause not a less vent in the quantity. But the superfluity of our commodities which strangers use, and may also have the same from other Nations, or may abate their vent by use of some such like wares from other places, we must in this case strive to sell as cheap as possible we can, rather than to lose the utterance of such ware.⁴⁷ Thirdly, when transporting goods abroad, England should seek to "perform it ourselves in our own ships."⁴⁸ Here, Mun demonstrates his awareness of the importance services or invisible items have on the balance of trade.

Mun advises merchants that they "ought to esteem and cheerish those trades which we have in remote or far Countreys, for besides the increase of Shipping and Mariners" these markets provide potential to gain from arbitrage.⁴⁹ This is a point which McCulloch (1828 p. xviii.) obviously overlooked. Elsewhere in *England's Treasure* Mun develops this further by distinguishing between a particular and general balance of trade, the former representing relations with another country, the latter trade with the rest of the world. By noting that a particular balance may be "unfavourable." This reflects triangular trade relations, or other circumstances that turn out to be beneficial in the light of a favourable balance of trade. Mun stresses, export of wares, services and money should be encouraged. Furthermore, exports should be duty free. For example, if commercial policy was fashioned such that manufactured goods made from foreign materials were relieved of export duties, then this would increase exports and employment for the poor. In addition the increase in imports of the foreign raw materials would increase revenue from import duties, off-setting the loss of revenue from export duties. Finally, England must make the best of both "natural" exports, i.e. minerals and products of the soil, and "artificial" exports, i.e. the products of industrial manufacturer. The latter should be especially promoted since "We know that our own natural wares do not yield us so much profit as our industry."⁵⁰

Mun's analysis surpassed that of Malynes and of Misselden, by emphasising underlying the market factors. Mun's *England Treasure* implies the operation of market forces and the tendency to conceptualise the economy as system of related mechanisms. However, the burning question still remains, what was the ultimate end of the specie inflows which Mun was so eager to maximise?

Before answering this question, I shall first eliminate a number of proposed answers which clearly lack knowledge of Mun's writings. Firstly, despite classical theorists claims to the contrary, Mun did not confuse wealth with specie, nor was

⁴⁷ *ibid.*, p. 8.

⁴⁸ *ibid.*, p. 9.

⁴⁹ *ibid.*, p. 10.

⁵⁰ *ibid.*, p. 13.

he a monetary fetishist who was drawn by an irresistible attraction. Mun specifically denounced the "want of silver", in *A Discourse of Trade*, noting it "has been, and is, a general disease of all nations, and will continue until the end of the world; for poor and rich complain they never have enough." Secondly, regardless of the acquisition made by Keynes (1936 p. 344), Mun did not promote the accumulation of specie to serve as a store of wealth in the King's treasure chest. Although Mun discussed the notion of additions to the King's store, this was a purpose minimised by Mun and "his whole approach invites the conclusion that he introduced it mainly for the sake of completeness and his real concern was less with the king's treasure itself than with keeping it within proper bounds."⁵¹ Thirdly, neither was Mun possessed by the "fear of goods" characteristic of some mercantilists. In *A Discourse of Trade*, Mun protested "let no man doubt, but that money does attend merchandise, for money is the price of wares, and wares are the proper use of money."

In order to understand Mun's desire for specie inflows it is first necessary to appreciate that money in Mun's time is not equivalent to our present day concept. Money in the seventeenth century was viewed as both "capital and currency."⁵² If Mun sought a specie inflow in order to increase the domestic units of exchange circulating in the economy, then his continued calls for a balance of trade surplus are clearly self contradictory. As the self regulating mechanism of specie distribution recognises, it is impossible for any nation to maintain a permanently favourable balance of payments.⁵³ It has generally been accepted that Mun failed to integrate the three principles, all of which were in his writings, and so failed to uncover the self regulating mechanism of specie distribution.⁵⁴ While some other writers hold that what Mun had in mind was not, in fact, the quantity theory of money but the equation (identity) of exchange.⁵⁵ It is argued that when Mun wrote "It is a common saying, that plenty or scarcity of money makes all things dear" he saw it more as an empirical statement than as an analytical proposition, and therefore it was not integrated into his thought.⁵⁶

⁵¹ Spiegel (1992), p. 114.

⁵² Hinton (1955), p. 282.

⁵³ Since if any country enjoyed for some time a favourable balance of trade, the inflow of bullion would increase domestic prices (and depress them in the country from which the bullion came), thus decreasing exports and increasing imports. The balance of trade would become unfavourable, and bullion would flow back until equilibrium was restored at the new levels.

⁵⁴ See J. Viners, *Studies in the Theory of International Trade* (1937).

⁵⁵ Blaug (1990), p. 18.

⁵⁶ Gomes, L (1987), p. 105 in *Foreign Trade and the National Economy: Mercantilism and Classical Perspectives*.

Chapter four of *England's Treasure*, which is entitled "The Exportation of our Moneys in Trade of Mercandize is a means to encrease our Treasure," contains the seeds of an explanation as to why Mun was so eager to maximise the generation of specie. Here, Mun argues that the inflow of specie obtained from "an overbalance in the value of forraign wares" should be used as a form of liquid capital, "to enlarge our trade by enabling us to bring in more forraign wares, which being sent out again will in due time much encrease our Treasure."⁵⁷ Economic prosperity follows, or as Mun puts it "our treasure will increase" as "in this manner we do yearly multiply our importations to the maintenance of more Shipping and Mariners, improvement of his Majesties Customs and other benefits."⁵⁸ In addition Mun argues that additional specie or potential capital is generated since "our consumption of these forraign wares is no more than it was before, so that all the said encrease of our ready money sent out as is afire written, doth in the end become an exportation onto use offar greater value than our said money's were."⁵⁸ Mun did not feel that the surplus of specie should be circulated in the economy, as he felt "it is not the keeping of our money in the Kingdom, but the necessity and use of our wares in forraign Countries, and our want of their commodities that causeth the vent and consumption on all sides, which makes a quicker and ample trade."⁵⁹

Gould (1970, p. 29-30) points out that it is at this stage of his argument that Mun presents a conceptualisation of the self regulating specie flow mechanism, as the below quotation demonstrates;

"shall this [that is trying to keep a great store of money in the country] cause other Nations to spend more of our commodities than formerly they have done, whereby we might say that our trade is Quickened and Enlarged? no verily, it will produce no such good effect: but rather according to the alterations of times by their causes wee may expect the contrary; for all men doe consent that plenty of money in a Kingdom doth make the native commodities dearer, which as it is to profit t of some private men in their revenues, so is it directly against the benefit t of the Publique in the quantity of trade; for as plenty of mony makes wares dearer, so dear wares decline their use and consumption."⁶⁰

Acknowledging that the principle is not explicitly stated, Gould argues that the sense of the passage is certainly that it is vain to try to aim at a permanently favourable balance of trade. Gould further suggests that having arrived at the principle, Mun rejected it on the grounds that if the increased stock of bullion was

⁵⁷ Mun (1664), p. 15.

⁵⁸ *ibid*, p. 16.

⁵⁹ *ibid*.

⁶⁰ *ibid.*, p. 18

used as liquid capital to finance a greater volume of trade, domestic prices would not rise. That is, Mun was aware that financial surpluses to the public and private sectors, resulting from the current account surplus, must be met by a corresponding capital outflow, or balance of payments problems will occur. Hence, there was no contradiction in Mun's repeated calls for a balance of trade surplus.

Wilson (1958) argues that Gould's explanation does not stand up, and that Mun was inconsistent. Wilson's argument is that Mun remains inconsistent, as it is unlikely that he assumed "a constant re-export of an ever enlarged volume of specie inflow which is necessary to prevent domestic prices from increasing."⁶¹ However, as Gould (1958) notes, this ignores that the specific employment of specie was in exports if "the danger of inflation was more remote than, if it had been a case merely of exporting more English cloth."⁶² That Mun is consistent is further supported by the fact that "after the peace of Utrecht, English overseas trade, especially entrepot trade, expanded greatly, at the expense of the Dutch." and that "during this period, price level was stable and gently decreasing."⁶³

Another shortcoming present in Wilson's analysis is that he fails to address the issue as to why Mun wanted to attain a stock of bullion or liquid capital in the first place. Implicit in Wilson's analysis is the assumption that Mun sought to generate a greater stock of bullion purely for the sake of generating an even greater stock of bullion. As he argues that for Mun "such exports are justified solely on the ground that an even greater amount of specie will return through international trade in the goods so acquired."⁶⁴ However, the only possible explanation as to why Mun could desire the above, is that he was either a monetary fetishist, or sought to increase the King's store of treasure. I have demonstrated that neither of these desires may be attributed to Mun. So we may add Wilson's name to the long list of commentators who failed to appreciate the content of Mun's writings because, in the words of Mun, "they search no further than the beginning of the work, which mis-informs their judgements, and leads them into error."⁶⁵

From my reading of Mun I feel that his proposed solution to the depression of the 1620's may best be understood in the following manner. Methods, as earlier described, should be employed to achieve a balance of trade surplus. The surplus of bullion should be used as liquid capital to finance purchases of foreign goods for re-export, and this process should be repeated. In the short run, domestic

⁶¹ Wilson (1958), p. 62.

⁶² Gould (1958), p. 64.

⁶³ *ibid.*

⁶⁴ Wilson (1958), p. 62.

⁶⁵ Mun (1664), pp. 20-21.

consumption and exportation of native goods remains unchanged, so domestic prices are not inflated. In the short to medium term, employment in shipping and related services increases. Domestic industries discover potential export markets, and financiers and merchants make substantial profits.⁶⁶ Moving by a process of "continual and orderly change" to the long run, the economy is transcended to one with higher employment and increased consumer welfare. Mun cites the Italian province of Tuscanie as an example of how an economic unit can be transformed by similar policies as his own. A province that benefited substantially by Ferdinando the first's credit policies, as Mun notes "within . . . thirty years . . . a poor little town is now become a fair and strong City being one of the most famous places for trade in all Christendom" whose citizens "are much enriched by the continual great concourse of Merchants from all the States of their neighbour Princes, bringing them plenty of mony daily to supply their wants of said wares."

Conclusion

Ultimately, I believe that Mun's proposals to stimulate the economy out of its depression were indeed consistent, given the circumstances of the day. While some commentators may dispute this, it cannot be denied that Mun made a significant contribution to economic thought, and especially to the theory of international trade. He worked on the principles of elasticity of demand and the quantity theory of money. Mun recognised the casual relationship between exchange rates and the balance of trade, arguing that it was the multinational, and not the bilateral, balance of trade that mattered. Mun was probably the first to distinguish between visible and invisible items in the balance of trade. He was also the first to state the proposition that the current account trade surplus must correspond to the sum of financial surpluses of the private and public sectors. In addition, Mun foresaw the importance of industry for the development of economic nations. No doubt Mun possessed personal incentives in defending the East India Company, and was prone to oversimplify. However, as we have seen even "great economists" such as Smith and Keynes, themselves, were not exempt from such acts. One must thereby consent that Thomas Mun is a man "more sinned against than sinning."

Bibliography

- Coats, A. W. (1975) "Adam Smith and the Mercantile System" in Skinner A. S. & Wilson T. 1975 ed. *Essays on Adam Smith*, Clarendon Press, Oxford.
- Coleman D. C. (1980) "Mercantilism Revisited" in *Historical Journal* Vol. 23

⁶⁶ Mun (1664, p. 20) cites the example of demand for lead, cloth, and tin from the East Indies, which grew from export trade.

- Gould, J.** (1955) "The Trade Crisis of Early 1620's and English Economic Thought" in Rinan, I. ed. *Readings in the History of Economic Theory*, Reinhart & Wilson, London.
- Gould, J. D.** (1958) "Rejoinder" in *The Journal of Economic History* Vol. XVIII.
- Heckscher, E. F.** (1954) *Mercantilism* Vol. I-II, Allen Al Unwin, London.
- Hinton, R.** (1955) "The Mercantile System in the Time of Thomas Mun" in *The Economic Historical Review* Vol. VII No.
- Hutchison, T** (1988) *Before Adam Smith: The Emergence of Political Economy, 1662-1776*, Basil Blackwell, Oxford.
- Keynes, J. M.** (1936) *The General Theory of Employment, Interest and Money*, Macmillan, London.
- Magnusson, L.** (1994) *Mercantilism; The Shaping of an Economic Language*, Routledge, London.
- Meek, R. L.** (1976) "Smith, Turgot and the Four Stage Theory", in Skinner A. S. & Wilson, T. 1975 ed. *Essays on Adam Smith*, Clarendon Press, Oxford.
- Muchmore, L** (1970) "A Note on Thomas Mun's 'England's Treasure by Forraign Trade" in *The Economic History Review* Vol. XXIII No. 3.
- Mun, T.** (1621) A Discourse of Trade from England unto the East Indies
------(1664) "England's Treasure by Forraign Trade," in McCulloch, J. R. ed., 1952, *Early English Tracts on Commerce*, Economic History Society, Cambridge.
- Schumpeter, J.** (1954) *History of Economic Analysis*, Allen & Unwin, London.
- Spiegel H.** (1992) *The Growth of Economic Thought*, Duke University Press, London.
- Supple, B. E.** (1954) "Thomas Mun & Specie Flows" in *The Journal of Economic History* Vol. XVIII.