Last lecture finished with presentation of mercantilist system. Political economy philosophy 16th – 18th century.

Not an individual philosophy or motive, such as profit maximization. Mercantilism followed by national governments. Granted (or sold) national trading monopolies. Then adopted policies to protect and further trading companies.

States (countries) sought bullion to finance military. Power and Plenty saw pursuit of wealth as zero–sum game. Countries willing to use force to protect their trade interests (use force to exclude foreign traders from routes)

What about gains–from–trade? Improvement for all trading parties? True when trade is voluntary. These exchanges were not necessarily voluntary, as Portuguese (da Gama) initial trades with India.

Adam Smith Wealth of Nations highly critical of mercantilism. Did not maximize economic efficiency. Distortion of resource allocation by pursuit of monopolies (rent seeking) and distortions from monopolies. Competition would produce greater economic efficiency and improve human welfare (well–being).

Today discuss Atlantic System: connected four continents by an ocean (Europe, North America, South America and Africa). Anglo–Dutch–French segment, a central Spain–Mexico zone, and Southern Luzo (Portugal–Brazil) zone. All tied with Africa.

Raw materials from New World (first) sugar and (second, esp Britain) cotton. Slaves from West Africa.

Manufactures: refined sugar, cotton textiles.

Model due to Darity and modified by Findlay

Britain produces manufactures with L,K and raw materials (intermediate input). Assume that labor is fixed. Capital is perfectly elastic with a constant price equal to the interest rate \( \rho \) (equal to rate of time preference, what consumers must be paid to forego consumption today).
Britain sends manufactures to Africa for Slaves.

Slaves exported to New World (America). Supply of slaves is increasing in the price of slaves. (Not infinitely elastic.)

New World has fixed land supply. Slaves produces intermediate material (R) which is exported to Britain.

Assume that slave Birth rates < Death rates, so need trade every period. Correct for Caribbean and Brazil sugar plantations. Slave mortality 2 to 5 percent per year. Populations were not reproducing, as the slave population did in North America.

Evidence Table 5.1 shows (highlighted) peak of slave trade in last part of 18th century, notice huge increase from 1750–1800.

British Terms of Trade with Africa 112 in 1750 and fell to 40 by 1800; which is to say that the relative prices of Slaves/Manu increased by a factor of 2.5

Sene–Gambia African terms of trade: 100 in 1680 to 475 in 1780. Slaves as share of total exports 55 (1680) to 86% in 1780.

Effect of Industrial Revolution: American ToT increased.

Shipments of Cotton: 189,000 pounds in 1791 to 21 million pounds in 1801 to 93 million in 1810.