

# Editorial

## From the myth of capitalist economies to the reality of mixed economies

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The period of transition from feudalism to capitalism is also reflected in the passage from the pre-industrial to the industrial stage. For several centuries, feudalism and capitalism coexisted, while the latter expanded throughout Europe and the world, based on the main protectionist and free-trade movements of the 18th and 19th centuries. Mercantilism was one of the first economic schools that were promoted from the end of the 15th century until the 18th century by the new monarchies of England, France, Spain, Portugal, and Germany, consisting of a series of policies to promote the protection and expansion of European foreign trade.

From these nations, the idea was created that state intervention was fundamental to achieve the objectives of the people (regardless of how and/or who defined them). In England, commercialism was inspired by William Petty, Tomas Mun and James Steward, among others, who promoted protectionism through naval charters and exclusive trade with England. In France, colbertism was led by Jean Baptiste Colbert, Monchetrien, Jean Bodin, the Duke of Sully, among others, who considered that the wealth of the nation depended on the accumulation of gold and the development of the maritime industry. In Spain and Portugal bullionism was promoted by Thomas Milles and Gerard de Malynes, who were clear that the wealth of these kingdoms depended on the monopoly of the accumulation of gold coming from the Americas. In Austria and Germany cameralism was studied by Johann Mathias Puechberg, Johann Heinrich Gottlob von Just and Robert Owen, who considered it necessary to promote import substitution policies and consolidate a strong and autarkic State (Cameron and Neal, 2014).

The central idea of mercantilism was that the power of the monarch depended on the wealth of the country measured by the accumulation of gold capacity; therefore, the fastest way to get rich was through foreign trade. The States formed at the time legislated in favor

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of commercial interests, prohibiting or taxing imports and exports of products, discriminating and establishing exclusive trade, granting monopolies for the manufacture of certain products or the exploitation of certain areas, colonizing territories mainly in the continents of America, Africa, and Asia in order to obtain economic benefits, both in Europe and outside it. The main objective of mercantilist policies was to obtain positive balances of payment that would allow the accumulation of gold within the country (Feliu and Sudrià, 2013).

Mercantilist policies were characterized by discrimination and inefficiency, which made products more expensive, slowed down international trade, and provoked wars. In addition, the increased tax burdens, while military expenditures and the luxuries of the rising bureaucratic class augmented, which led to great revolts that initiated the process of abolition of absolutism, starting with the revolution in Great Britain in 1680, when power was controlled by parliament concerning the approval of new taxes and the management of the budget. The final abolition of feudalism and absolute monarchy and their replacement by parliamentary capitalist regimes has its antecedents in the Constitution of the United States of America (1787) and the French Revolution (1789). The legal implementation of capitalism in the rest of the European continent was a parsimonious process that took place throughout the first two-thirds of the 19th century (Feliu and Sudrià, 2013).

Rationalism directly criticized the feudal economic system, considering that reason should be the guiding principle of all human activity and that, therefore, rational behavior is based on natural laws that should be complemented, but not contradicted, by means of positive laws. Among the main theorists of this current -which also created the theoretical framework for the consolidation of states- we find René Descartes, Thomas Hobbes, John Locke, Jean-Jacques Rousseau, David Hume and Montesquieu (Feliu and Sudrià, 2013). They were joined in the 18th century by a current of economic thought called physiocracy, represented by François Quesnay and his disciple, Jacques Turgot, and later by the father of the classical school, Adam Smith, who considered that economic activity was also regulated by natural laws represented by personal and business freedom, the right to property and the free market and, therefore, acting in accordance to these, the maximum economic profit and economic growth could be achieved (Cameron & Neal, 2014).

While for the physiocrats wealth depended on the agricultural sector, which enriched the three main social classes of society (peasants, artisans, and landowners), for the classics the wealth of nations depended on the division of labor and specialization in production in those sectors where they had absolute advantages and/or comparative advantages. These two schools had in common the idea that the market should function without state intervention, since they doubted that corrupt governments would intercede for the good of society rather than for their own interests. It is here where the idea of free enterprise

that gives rise to economic liberalism is born, which considers - in opposition to mercantilism and its state interventionism - that the market might function better without state intervention; while the physiocrats promoted the policy of *laissez-faire et laissez-passer*, which meant letting companies do without taxes or state restrictions for their creation and production, as well as letting products pass through the internal and external market freely without taxes (Cameron and Neal, 2014).

However, the person who contributed most to economic liberalism was Smith, an economist who considered that selfishness was the force that led human beings to compete for the creation of better products, through technical progress derived from specialization, causing the most competitive companies to displace the less competitive ones, in a market that would function freely. Here the price system shows the preferences of consumers, who finally buy the best products and services that, in sum, would improve the welfare of society as a whole, thanks to an invisible hand that would bring the forces of supply and demand to equilibrium (Smith, 1776).

Nevertheless, Smith's reasoning was not echoed by all 19th-century social thinkers, whose concerns focused on the serious inequalities in the distribution of land and income, misery and unemployment in which the working classes lived. Although some 19th-century writers, such as Victor Hugo and Charles Dickens, described in their novels the precarious situations of the working classes, some social theorists, such as Karl Marx, Sismondi, and Robert Owen, developed theories that, in addition to explaining the reality they perceived, suggested proposals to better reorganize society; these authors attributed the ills of society to the private ownership of capital. What for Adam Smith was a virtue, for them was a defect.

For example, Marx was one of the most influential advocates of the idea that the State should intervene in the control of the means of production. Sismondi attacked the idea that economic equilibrium led to full employment and happiness, was a critic of *laissez-faire*, and a promoter of the need for government intervention in regulating progress and welfare, while strongly criticizing liberal economics in terms of social justice and crises. For Owen, the solution lay not in the hands of the state or private enterprise, but in the formation of smaller groups of people cooperating in mutual interest (Stiglitz and Rosengard, 2015). In 1915, the Russian Vladimir Lenin argued that imperialism was the last stage of capitalism, and strongly defended the control of resources and production factors by the state (Cameron and Neal, 2014).

During the 20th century, private property and free enterprise on the one hand, and state control of the means of production on the other, would be the opposing principles that would continue to guide international economic policy. The first half of the 20th century was marked by three international events that profoundly changed the perception of the

state: the Great War also known as the First World War, the Great Depression of 1929, and the Second World War. John Maynard Keynes -initially a promoter of free trade-, after the Great Depression, when unemployment in the United States (US) reached 25% and production fell by a third from its 1929 peak, changed his position, firmly believing that the State should and could intervene on certain occasions, such as in the event of economic depressions. Thus, the Keynesian school aimed at a welfare state that could be achieved with government intervention, increasing public spending as a strategy to generate public employment that would pull the US economy out of the crisis, and stimulate aggregate demand, savings, and, consequently, investment (Keynes, 1934).

In the first decades of the 21st century, the countries of the former Soviet Union, the former Iron Curtain, and even China have been transitioning and adapting to a market system, which has implied a fundamental transformation of the role of the state in these economies. In Western countries, the economic role of the state has also changed gradually and in response to economic developments throughout the century. There is now a widespread view that markets and private enterprises are the keys to an economy's success, while the state plays an important role as a complement to the market. This has led to a new consensus that the state should gradually reduce its size, facilitating the free market and the privatization of public companies. These have been some of the main arguments of neoliberal economists such as the Nobel Prize-winning economist Milton Friedman, one of the most fervent critics of state interventionism. Certainly, the purpose of the role of the state is currently a source of great controversy and varies from one country to another and even within the same country (Stiglitz and Rosengard, 2015).

The various crises of the last century have been the justification for the State to find arguments to intervene in economic activities in order to address all the "market failures", among which are mainly: imperfect competition, public goods, externalities, incomplete markets, information failures, and unemployment. As well as market failures, state limitations or "state failures" are also recognized, among which we find: limited information, limited control of private enterprises, limited control of bureaucracy, and limitations imposed by political processes, all of which result in public programs with negative consequences that were never planned. Friedman believes that the state failures are sufficient reasons for it to refrain from trying to address market failures (Stiglitz and Rosengard, 2015).

Thus, together with the previous crises, the 1979 oil crisis, the 2008 financial crisis, and, more recently, the global crisis generated by the SARS-Cov-2 virus, which causes the COVID-19 disease, have once again placed the boundaries between public and private activities at the center of the debate, highlighting how most Western countries operate under mixed economy models where many activities are carried out both by the State

(through public companies) and by private companies. Nobel Prize-winning economist Joseph Stiglitz and economics professor Jay Rosengard propose, from the point of view of progressive capitalism, that to achieve a balance between the public and private sectors, the State can correct market failures, acknowledging the limitations of both (market and State failures) and promoting joint action between the two.

In this sense, it is possible to state that we are facing mixed economies, where four main questions are outlined from the public sector: 1) What is to be produced? That is, what is the proportion of public and/or private goods. 2) How are they to be produced? That is, what is related to the combination of factors. 3) For whom is it to be produced? That is, for the taxpayers, and among these, which are the most benefited and harmed groups. 4) Finally, how are these decisions made? That is, to study the independent political processes and whether or not public decisions are collectively taken within these processes. According to the above, it is possible to determine the cases in which the State is more efficient than the market, or vice versa, both in the allocation of resources and in the production of goods and services, whether public or current (Stiglitz and Rosengard, 2015).

The recent crisis has generated controversy, for example, between those who argue that the private sector is more efficient in the production of vaccines to deal with Covid-19 and those who argue that vaccines should be considered a public good, which can be produced and supplied by the State more efficiently through public health services, given the inefficiency of the market in supplying vaccines after two years of the beginning of the pandemic. One of the objectives of this issue and the *Revista Finanzas y Política Económica* is precisely to contribute to this debate.

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