

Mercantile system essay sample



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The period of so-called mercantilism appeared in European nation states from sixteenth to eighteenth century. This system was accepted with the same unquestioning with which the early Christians believed in miracles and many of the present-day American businessmen believe in the tariff¹.

Looking closer at this period we see that the beginning of the system are in the times of the second logistics which took part from the middle of fifteenth to middle of seventeenth century.

A significant change occurred in the way the countries were ruled and as well in the minds of common people. The medieval state with its lack of centralized power did not depend upon a rich treasury. The king got his revenues from the crown domains and his civil service paid for itself.

Municipalities and other local government units had possessed extensive powers of economic control and regulation. They levied tolls or tariffs on goods entering and leaving their jurisdictions. Local guilds of merchants and artisans fixed wages and prices and otherwise regulated working conditions².

The modern centralized state was a more complicated affair. The policies of economic nationalism represented a transfer of these functions from the local to the national level, where the central government attempted to unify the state economically as well as politically. The old knights disappeared and hired government officials or bureaucrats took their place. The question then became where was this money to be found? The period of mercantilism is mostly characterized in obtaining as much bullion as possible. This was not only on the state level. It laid so much stress upon the importance of owning

wealth that “ being rich” came to be regarded as the sole virtue of the average citizen.

The economic policies of nation-states in the period of Europe’s second logistic had a dual purpose: to build up economic power to strengthen the state, and to use the power of the state to promote economic growth and enrich the nation. The profit and power ought jointly to be considered. Above all, however, the states sought to obtain revenue, and frequently their need for revenue led them to enact the policies that were detrimental to truly productive activities.

The sole base of mercantilism led to growing economic nationalism. In practice, the mercantilism worked as follows: to get the largest surplus of precious metals a country must have a favorable balance of export trade. If you can export more to your neighbor than he exports to your own country, he will owe you the money and will be obliged to send you some of his gold. Hence you gain and he loses.

The period of mercantilism started not only economic nationalism but economic imperialism as well. The great discoveries, such as the discovery of “ New World” by Christopher Colombo and the round trip around Africa by Vasco de Gama, which collide with the beginning of the mercantile system, led to great exploitation of the colonies. A colony became merely a reservoir of gold and silver and spices, which was to be tapped for the benefit of the home country. The Asiatic, American and African supply of precious metals and the raw materials of these tropical countries became a monopoly of the state, which happened to own that particular colony. No outsider was ever

allowed within the precincts and no native was permitted to trade with a merchant whose ship flew a foreign flag. Mercantilism fueled colonialism under the belief that a large empire was the key to the wealth³.

The various ideas about economic policy that flourished in the early modern period are often referred to as mercantilism or as to mercantile system. The term was coined by the economist Adam Smith in 1776, from the Latin word *mercari*, which means “to run a trade”, from *merx*, meaning commodity. Solely critics, such as Smith, initially used it. These ideas stemmed from bullionism, a theory that precious metals equal wealth.

In the Middle Ages most feudal lords, especially sovereigns owned a “war chest” which was literally a huge armored chest in which they accumulated coins and bullion to finance both anticipated and unexpected hostilities⁴. By the sixteenth century the methods of government finance were somewhat more sophisticated, but the preoccupation with plentiful stocks of gold and silver persisted. This gave a rise to a crude form of economic policy known as bullionism.

Bullionism was the belief that the economic health of the nation could be measured by the amount of precious metals, gold or silver, which it possessed. The rise of money economy, the stimulation produced by the influx of bullion from America, the fact that the taxes were collected in money, all seemed to support the view that hard money was the source of prosperity, prestige and strength. Bullionism dictated a favorable balance of trade. That is for the nation to have a gold on hand at the end of the year, it

must exports more than it imports. Exports were later defined to include money spent on freight, insurance and or travel⁵.

Each nation tried to achieve economic self-sufficiency. Those who founded new industries should be rewarded by the state. Thriving agriculture should be carefully encouraged. Domestic production not only precluded imports of food, but farmers also provided a base for the taxation. Regulated commerce could produce a favorable balance of trade. In general, tariffs should be high on imported manufactured goods and low on imported raw material.

Sea power was necessary to control foreign markets. A powerful merchant fleet would obviate the necessity of using the ships of another nation and becoming dependent on foreign assistance. In addition, a fleet in being could add to a nation's prestige and military power.

Colonies could provide captive markets for manufactured goods and sources of raw material. A large population was needed to provide a domestic labor force to people in colonies. Luxury items are to be avoided because they took money out of the economy unnecessarily. State action was needed to regulate and enforce the above policies. One might add that there was nothing logical or consistent about mercantilism and that it displayed, in fact, enormous variation.

Gold and silver had been a rare commodity in the middle ages. The average man never saw a gold piece as long as he lived. Only the inhabitants of the large cities were familiar with the silver coins. The discovery of America and exploitation of Peruvian mines changed all of this. The center of trade was transferred from the Mediterranean to the Atlantic seaboard. The old

commercial cities of Italy lost their financial importance. New commercial nations took their place and gold and silver were no longer a curiosity. Through Spain, Portugal, England and Low Countries precious metals began to find their way to Europe. Gold and silver were considered as actual wealth. It was believed that the country with the largest supply of cash in the vaults of its treasury and its banks was at the same time the richest country. And since money meant armies, it followed that the richest country was also the most powerful and could rule the rest of the world.

Adam Smith's invisible hand and liberal theory of economics gradually put an end to the dominance of mercantilism. Liberalism and mercantilism were fundamentally at odds on one key issue. Mercantilism stated that all the world's people must compete for the world's limited wealth. Adam Smith believed that wealth and trade was a non-zero-sum game, which essentially means that because needs are different, two parties involved in the transaction could each actually gain, because the exchanged items were more valuable to their new owners. Bullionism dictated that gold was gold-period. Thus, what one party gained, the other party had to give up (i. e. the zero-sum game assumption). Smith felt that gold was really nothing more than a yellow rock that was valuable only because there wasn't much of it. Most economists now agree with Smith⁶.

When I studied at my home university the general economic theory, the history of economy was mentioned only very briefly. The period of Europe's second logistics was mentioned only very briefly and named mercantilism. Mercantile system was considered to be some kind of hinder to free trade because it promoted export and hindered import to get a favorable balance

of trade. When looking closer at this period there is couple of things to be mentioned to get a deeper view of what was really happening at that time.

First of all when considering mercantilism as something good or bad, we have to take a look, where it came from. Mercantile system was firstly mentioned by Adam Smith in his epochal Inquiry into the Nature and Causes of the Wealth of Nations in 1776. Adam Smith was a liberal economist (among with David Ricardo, T. R. Malthus, etc.) and like this great supporter to free trade and to limitation of the role of the government in economic life. According to Smith, there were three main roles of government:

- * To protect the independent society from the attack and oppression from another independent society
- * To protect each individual in the society from attack and oppression from each other member of the society
- * To build and maintain the items of general interest, such as roads, public toilets, public buildings, etc.

Anything beyond this was considered to be protective and against the principle of natural liberty. For more than a century after Smith published his Wealth of the nation, the term mercantile system had a pejorative connotation⁷. In the later part of the nineteenth century, however, a number of German historians and economists, notably Gustav von Schmoeller, radically reversed that notion.

For them, nationalists and patriots living in the wake of the unification of Germany under Prussian hegemony, merkantilismus was above all a policy of

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state making (Staatsbildung) carried out by wise and benevolent rulers, of whom Frederick the Great was the principal exemplar. In Schmoeller's words, mercantilism "in its innermost kernel is nothing but state making-not state making in a narrow sense but state making and national economy making at the same time⁸."

When looking at the sentence below we have to take into consideration that Prussia in that time was pretty close to police state and that this notion was done under strong influence of those days political situation, but for me personally a word policy of state making sounds better and more accurate than mercantilism.

The period of mercantilism has its bad and its good sides just like any other period in the history and nowadays. It is true that the policy in some states resulted in heavy burden for living for common people (with Spain as the best example), it made the natives in the colonies the victims of a most shameless exploitation, it exposed the citizens of the home country to an even more terrible fate. It helped in a great measure to turn every land into an arm camp and divided the world into little bits of territory, each working for its own direct benefit, while striving at all times to destroy the power of its neighbors and get hold of their treasures.

On the other hand, the mercantile system undoubtedly encouraged the development of young industries in certain countries where there never had been any manufacturing before. It built roads and dug canals and made for better means of transportation. It demanded greater skill among the

workmen and gave the merchant a better social position, while it weakened the power of the landed aristocracy⁹.

The period of mercantilism can't be seen only from the liberal point of view. As mentioned in previous text, the beginning of mercantile era collides with the Europe's second logistics. As was mentioned in book from Rondo Cameron, each period, in which the growth of the population occurred, was accompanied with economic growth. It is not random that something like this happened in mercantile period.

As an example I can mention the policy of Jean-Baptiste Colbert (1619-1683), which led to increase of the population in France. Colbert established that all workers who married under the age of twenty were exempt from taxes (tailles and other public charges) for a period of five years and four years if they married at twenty-one. The very same advantages were extended to older workers who had ten children, including those who died in combat.

As of July 1667, all workers who had ten children could receive a pension of 1, 000 pounds a year, and 2, 000 pounds a year, if they had twelve children. After 16 years of such regime, from 1667 to 1683, the French population had reached a level of 20, 000, 000, the largest national population in all of Europe. The policy was called Colbert's " revenge of the cradles" (revanche des berceaux). The same policy was established in the French colony of Canada¹⁰.

In England mercantilist policies were effective in creating a skilled industrial population and a large shipping industry. Through a series of Navigation Acts, initially designed to cut Dutch carrying trade, England did promote the

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growth of the English merchant marine and maritime trade. These acts were admired even by the father of liberalism, Adam Smith (but on the grounds of national defense).