

The rise of a mercantilist economic system history essay



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The rise of a mercantilist economic system in Europe forged a unified relationship between government and its people by superseding feudalism and developing a merchant class that bridged the gap between the peasant and ruling classes. Britain, France and Spain, in particular, reaped the rewards of mercantilism by forming a powerful array of nation states. Although mercantilism stands in stark contrast with the principles of a free-market economy, it was nonetheless the driving force behind European imperialism from the 15th through the 18th centuries. The emergence of a merchant class developed a link between power and wealth. Mercantilism in Europe helped to centralize power, replacing the feudal arrangement of yesteryear. As critics like Adam Smith would point out, mercantilism was not without its drawbacks. The only two countries that corralled enough wealth to be considered hegemonic, the United States and Britain, did so in the nineteenth century, well after the fall of mercantilism. Smith opined that economies should be self-regulating, and that mercantilism, through its rigid governmental constraints, prevented economies from truly flourishing. Despite an abundance of critics, the mercantilist economic system undoubtedly had a tremendous impact on Europe and the rest of the globe. Mercantilism was the foundation from which capitalism was born.

European mercantilism first emerged in the latter part of the Renaissance in about 1595 and didn't fade away until the late 1800s. Queen Elizabeth I, desperate to quell the powerful Spanish Empire, ordered her Admiralty to reform foreign trade. Her reforms proved highly effective as England would go on to become the most powerful imperial empire in world history. England exploited the mercantilist economic system of importing precious metals and

raw materials in exchange for manufactured goods. The French would later mimic England's economic system. Mercantilist countries used the rule of law to attain a positive balance of trade through their colonies. Stiff tariffs were imposed on imports and colonies were restrained in their ability to manufacture goods. Instead they were forced to purchase products from their mother countries. For example, gold and silver were extracted from the colonies and shipped to European merchants, greatly enriching Europe. "The power of the state depended on the amount of gold and silver in its coffers, because this international currency made it possible to build ships and pay for armies." (A Concise History of Economic Thought, Vaggi & Groenwerth, 2003). Beginning in the 16th century, control over land, and trade routes became the most important part of collecting wealth for the most powerful countries.

The growth of the mercantile system of Europe was largely spurred by the general discontent people had with the Roman Catholic Church. Mercantilism was, to a large extent, spawned by the Reformation. The lifestyle regulations imposed on Catholics allowed for very little self-actualization; a source of great embitterment for the masses who were fed up with the feudal system. Mercantilism brought upon the rise of the merchant class, a transfer of wealth that brought with it a sense of hope for much of Europe. The spread of alternatives to hard-line Catholicism like the Anglican Church coincided with the growth of mercantilism.

In the 1600s England began to notice the Spanish becoming a rising power, due in

large part to their influence in colonial America. England knew that whoever maintained

the strongest blend of colonial influence and military strength would control the all-

important trade routes and foreign territories. England, in an effort to squelch rising

countries, began to strengthen their control over colonies, demanding that all trade go

through them. The growing sense of competition between world-powers fueled the spread

of mercantilism. The major players in this face-off were England, France, Holland and

Spain. England reigned supreme as the victorious imperial power thanks to dominant

military wins over Portugal and Spain in the sixteenth century, then Holland in the

seventeenth and France in the eighteenth century.

One of the major objectives of mercantilist countries was to create a bond between the powerful aristocracies and the rising merchant classes. The purpose of this

alliance was to damage the economies of competing nations. Mercantilist theory

suggested that government should enact a wealth-collecting agenda by protecting against

foreign imports. Prior to the rise of mercantilism, the military was only formed during

specific times of conflict. During the era of mercantilism, however, armies and navies

became full-time enterprises as conflict had become a way of life. Gold and silver were

the means by which goods and services could be obtained, and funding a strong military

was an essential part of the equation. The merchants were willing to finance their

governments in exchange for protection against foreign competition. Large central

government and mercantilism go hand-in hand: the merchants needed the government and

vice-versa. Mercantilist theorists believe that the net total of global wealth was already

established, and that countries vied for a greater stake in the pie by exchanging

manufactured goods for precious metals. The concept of, “ buy low, sell high” was

paramount towards collecting national wealth. The acquisition of non-coined gold and

silver, or bullion, was considered the benchmark for economic growth. The growing

wealth of European countries, namely England, France and Spain, had a “ trickle-down”

effect on their economies. Merchants would become wealthier through mercantilism, and,

to a lesser extent, the lives of the labor forces improved thanks to better job security.

The transfer of bullion funneled from the colonies of the Americas proved to be a major boon for European mercantilism. Mercantilist writers believed all trade to be a zero sum game, for every transaction there is a winner and a loser, mercantilists sought to handicap the game in order to promote economic success nation-wide. Mercantilism was a Machiavellian, Puritanically dark world view that promoted a general feeling of intense nationalism and ill-will toward competing countries and the colonies they governed. Governments would go as far as to damage entire monetary

systems and limit civilian wages in order to reduce imports, and hurt other countries' economies. When mercantilist countries did import goods, it was preferred that they deal in raw materials that could be processed and sent abroad in order to acquire more capital. Importing low cost, raw materials to be completed and converted into higher cost, manufactured goods and bartered for precious metals was a lucrative process for merchants. Extractive industries, like agriculture, gave way to manufacturing or processing material businesses. Precious metals had the strongest purchasing power for commanding goods and services. " During the sixteenth century, the flows of precious metals from the American Colonies of Spain produced high inflation in Europe, but for the mercantilists gold and silver were the substance and the definition of both private and national wealth."(Vaggi & Groenwegen, A Concise History of Economic Thought, 2003) As competition in the New World intensified, England began to tighten the screws on her colonies. " Mercantilists were acutely aware of the linkage between politics and economics; they believed that power and wealth were closely related, and that both were legitimate goals of national policy." (Theodore Cohn, Global Political Economy, 2005) Although many countries became rich because of the wealth transferred from the New World, not every country capitalized as much as it could have.

Between 1647 and 1715, the French attempted to mimic the British, but thanks to

extreme inefficiency, they fell short. Jean Babtiste Colbert was one of the most well-

known proponents of mercantilism. Colbert served as finance minister of France, under

King Louis XIV in the seventeenth century. The French used the British mercantilist

economic system of as a model for their political economy. Colbert inherited a perilous

French economy on the brink of bankruptcy and enabled King Louis to embark on a

series of aggressive military campaigns. The term “colbertisme” was coined by Colbert to

describe the method of protecting infant industries. During his 18 years as minister of

finance, Colbert issued a total of 150 edicts designed to regulate the guild industry.

Colbert’s successful use of mercantilism was essential in financing the reign of Louis

XIV. The “Sun King’s” reign featured a powerful military force, but the French economy,

particularly its agriculture, was over-taxed and stagnant.

Thomas Mun was one of the leading mercantilist authors during this time. His

most influential works were a pair of pamphlets *A Discourse of Trade* and, later,

England's Treasure by Foreign Trade. Mun was the director of the East India Company,

a monopolistic British charter founded in 1600 that supplied a wide array of goods,

ranging from cotton to opium. "According to Mun, monetary movements and the

exchange rate depend on the condition of the trade balance: the inflows of precious

metals reflect the existence of a positive balance of trade and vice versa." (Vaggi &

Groenwegen, *A Concise History of Economic Thought*, 2003) Government-imposed

monopolies were inherently corrupted; the use of black market dealings were an

inevitable byproduct of price ceilings and quotas.

As noted above, colonial powers competed vehemently for control over the North American territories they ruled over. England's greed would cause tensions to boil over, eventually spurring the American Revolution. The initial Navigation Act of 1651, a bill enacted by the Oliver Cromwell-led Parliament,

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was designed to gain control over foreign exchanges between the English colonies and other countries. Under the bill, all trade flowing in and out of England or her colonies had to be shipped using British ships. The Dutch, who had been thriving thanks to their free-trade market, were crushed and sent to economic ruin thanks to Cromwell's protectionist policies. Not only did the Navigations Acts seize control of transnational commerce, it also disabled competing countries from profiting from freight and shipping services. " The mercantilists discovered that it was the whole current account balance that mattered, not just the exchange of commodities." (Vaggi & Groenwegen, A Concise History of Economic Thought, 2003) British colonial mercantilism was oppressive by nature; American colonies were banned from the global economy and were treated as little more than pawns.

The prosperity of mercantilist economies was contingent on the aid of a strong

centralized government that regulated foreign and domestic trade.

Mercantilist economies

became immensely wealthy by coercing a positive trade surplus. It was thought that a

country could be strengthened by regulating commercialism by discouraging imports,

and maintaining a positive flow of exports. Governments began placing tariffs, quotas

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and even prohibitions on imports in order to protect domestic business. New businesses

would be encouraged with generous tax breaks. " As for the trade part of the balance of

payments, the government must favour the sale of raw materials abroad because they will

be purchased with precious metals, hence adding to the stock of national wealth" (Vaggi

& Groenwegen, A Concise History of Economic Thought, 2003) Improved tools and

technologically advanced products were not allowed to be exported to foreign markets in

order to maintain superiority over competing states. The same was true of talented

workers, who were prohibited from emigrating to other countries, just as foreign

diplomats hypocritically recruited other businessmen to come to their home countries.

One of the sharpest critics of European mercantilism was economist Charles

Davenant, who believed England would become more prosperous if government

discontinued their policy of intervening in foreign trade. In 1690, Davenant published An

Essay on the East-India Trade, which outlined his belief that a liberal foreign trade

policy would increase England's exports thanks to a larger market. "

According to

Davenant, this increase in the stock of money leads to lower interest rates and to higher

prices of land. The increase in the value of landed estates brings about a rise of rent and

of tax revenue. As a result of a freer trade every section of the population is better off, but

the starting point of the whole story is still the successful export trade of England."

(Vaggi & Groenwegen, A Concise History of Economic Thought, 2003)

Davenant's

theories, revolutionary for the time, caused vast condemnation in Europe, who believed

the risks of an expanded market outweighed the rewards. Ultimately, no alternate system

capable of challenging the nationalistic balance of trade theories of mercantilism

emerged, and mercantilism continued.

Mercantilism began to fade in the 18th century, ending not with a bang, but with

a whimper. Adam Smith, a Scottish Oxford graduate, was a revolutionary economist in

the mid to late 1700s who was responsible for coining the term mercantilism.

One of

Smith's major points of contention with mercantilism, as was outlined in *The Theory of*

Moral Sentiments, was his distaste for heavy-handed governmental control of the

economy. Smith, who despised mercantilism invented the metaphor, "invisible hand"

which stood for a natural, self-regulation that functioned because of the essential tenets of

a free-market economy: self-interest, competition, economic characteristics
he believed

were possible without governmental intervention. In 1776, Smith wrote in
Wealth of

Nations: " It is not from the benevolence of the butcher, the brewer or the
baker, that we

expect our dinner, but from their regard to their own self interest. We
address ourselves,

not to their humanity but to their self-love, and never talk to them of our own
necessities

but of their advantages." His writings were the basis of " laissez-faire"
capitalism, in

which industry is free from the shackles of government. Smith believed in
the natural

order of the economy, whereby, rather than have the government fix prices
and regulate

trade, the economy should be a self-sufficient machine that dictates the
price of

commodities. " When the price of any commodity is neither more nor less
than what is

sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock

employed in raising, preparing, and bringing it to market, according to their natural rate,

the commodity is then sold for what may be called its natural price." (Adam Smith,

Wealth of Nations, 1776) The brilliance of Smith was not in his ability to produce

revolutionary economic theories of his own; his greatness was embodied in his ability to

assemble existing concepts into a system.

The fundamental problem with mercantilism is its refusal to account for the value

of all economic activity. Maintaining a positive balance of trade is not the only indicator

of economic health. To the contrary, as has been proven in the United States meteoric

growth despite a negative balance of trade since the 1970s, a positive balance of trade

means very little, and often leads to inflation. Mercantilism, though largely debased

today, played an essential role in the rise of the middle class. Without the spread of

mercantilism in Europe, it's impossible to project how the world might look today. It's

possible that, without mercantilism, we would still be living in a feudal, caste-like system

comprised of only governmental elitists and a the peasant class, with very little in

between. Mercantilism gave rise to the middle class, the largest group in the West.

Open Side Bet Tracking

Kevin Fox-

NFL: Week 13 Game (\$20, W), Vikings+3. 5 over Sains W \$15 Colts-7 over Ravens (\$10, W) Paid?

NBA: Blazers+4. 5 over Magic (\$10, W) Paid?

MISC: James+Stephen 3-Point Shootout, over Elliot+Kevin (\$5, W) Paid?

Total: (+ \$60) Paid?

Joey Leoni-

NFL: Men of Menlo Fantasy Football Money (\$100, W) Paid?

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Total: (+100) Paid?

Dominic Diricco

NFL: Men of Menlo Fantasy Football Money (\$50, W) Paid?

Total: (+\$50) Paid?

Kevin Meehan-

NFL: The Sunday Special Fantasy Football Money (\$100, L)

Total: (-100) Paid?

Isaac Baron-

MISC: (In Progress) Most Makes of 5-3's, Isaac must Win at least 8/10, I=

3Wins, J= 1 Win (\$100, T)

Total: (\$100 Pending) Paid?

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