

Theory of mercantilism

Business



Theory of Mercantilism Most of the European economists who wrote between 1500 and 1750 are today generally considered mercantilists; this term was initially used solely by critics, such as Mirabeau and Smith, but was quickly adopted by historians. Originally the standard English term was "mercantile system". The word "mercantilism" was introduced into English from German in the early 19th century. The bulk of what is commonly called "mercantilist literature" appeared in the 1620s in Great Britain. [6] Smith saw English merchant Thomas Mun (1571–1641) as a major creator of the mercantile system, especially in his posthumously published *Treasure by Foreign Trade* (1664), which Smith considered the archetype or manifesto of the movement. [7] Perhaps the last major mercantilist work was James Steuart's *Principles of Political Economy* published in 1767. [8] "Mercantilist literature" also extended beyond England. For example, Italy, France, and Spain produced noted writers of mercantilist themes including Italy's Giovanni Botero (1544–1617) and Antonio Serra (1580–? ; France's, Jean Bodin, Colbert and other physiocrats. Themes also existed in writers from the German historical school from List, as well as followers of the "American system" and British "free-trade imperialism," thus stretching the system into the 19th century. However, many British writers, including Mun and Misselden, were merchants, while many of the writers from other countries were public officials. Beyond mercantilism as a way of understanding the wealth and power of nations, Mun and Misselden are noted for their viewpoints on a wide range of economic matters. [9] Merchants in Venice

The Austrian lawyer and scholar Philipp Wilhelm von Hornick, in his *Austria Over All, If She Only Will* of 1684, detailed a nine-point program of what he

deemed effective national economy, which sums up the tenets of mercantilism comprehensively:[10] That every inch of a country's soil be utilized for agriculture, mining or manufacturing. That all raw materials found in a country be used in domestic manufacture, since finished goods have a higher value than raw materials. That a large, working population be encouraged. That all export of gold and silver be prohibited and all domestic money be kept in circulation.

That all imports of foreign goods be discouraged as much as possible. That where certain imports are indispensable they be obtained at first hand, in exchange for other domestic goods instead of gold and silver. That as much as possible, imports be confined to raw materials that can be finished [in the home country]. That opportunities be constantly sought for selling a country's surplus manufactures to foreigners, so far as necessary, for gold and silver. That no importation be allowed if such goods are sufficiently and suitably supplied at home.

Other than Von Hornick, there were no mercantilist writers presenting an overarching scheme for the ideal economy, as Adam Smith would later do for classical economics. Rather, each mercantilist writer tended to focus on a single area of the economy. [11] Only later did non-mercantilist scholars integrate these "diverse" ideas into what they called mercantilism. Some scholars thus reject the idea of mercantilism completely, arguing that it gives "a false unity to disparate events". Smith saw the mercantile system as an enormous conspiracy by manufacturers and merchants against consumers, a view that has led some authors, especially Robert E.

Ekelund and Robert D. Tollison to call mercantilism "a rent-seeking society". To a certain extent, mercantilist doctrine itself made a general theory of economics impossible. Mercantilists viewed the economic system as a zero-sum game, in which any gain by one party required a loss by another. [12] Thus, any system of policies that benefited one group would by definition harm the other, and there was no possibility of economics being used to maximize the "commonwealth", or common good. [13] Mercantilists' writings were also generally created to rationalize particular practices rather than as investigations into the best policies. [14] Mercantilist domestic policy was more fragmented than its trade policy. While Adam Smith portrayed mercantilism as supportive of strict controls over the economy, many mercantilists disagreed. The early modern era was one of letters patent and government-imposed monopolies; some mercantilists supported these, but others acknowledged the corruption and inefficiency of such systems. Many mercantilists also realized that the inevitable results of quotas and price ceilings were black markets.

One notion mercantilists widely agreed upon was the need for economic oppression of the working population; laborers and farmers were to live at the "margins of subsistence". The goal was to maximize production, with no concern for consumption. Extra money, free time, or education for the "lower classes" was seen to inevitably lead to vice and laziness, and would result in harm to the economy. [15] Infinite growth The mercantilists saw a large population as a form of wealth which made possible the development of bigger markets and armies. The opposing doctrine of physiocracy predicted that mankind would outgrow its resources.

Origins Scholars debate over why mercantilism dominated economic ideology for 250 years. [16] One group, represented by Jacob Viner, argues that mercantilism was simply a straightforward, common-sense system whose logical fallacies could not be discovered by the people of the time, as they simply lacked the required analytical tools. The second school, supported by scholars such as Robert B. Ekelund, contends that mercantilism was not a mistake, but rather the best possible system for those who developed it. This school argues that mercantilist policies were developed and enforced by rent-seeking merchants and governments.

Merchants benefited greatly from the enforced monopolies, bans on foreign competition, and poverty of the workers. Governments benefited from the high tariffs and payments from the merchants. Whereas later economic ideas were often developed by academics and philosophers, almost all mercantilist writers were merchants or government officials. [17] Monetarism offers a third explanation for mercantilism. European trade exported bullion to pay for goods from Asia, thus reducing the money supply and putting downward pressure on prices and economic activity.

The evidence for this hypothesis is the lack of inflation in the English economy until the Revolutionary and Napoleonic wars when paper money was extensively used. A fourth explanation lies in the increasing professionalisation and technification of the wars of the era, which turned the maintenance of adequate reserve funds (in the prospect of war) into a more and more expensive and eventually competitive business. Mercantilism developed at a time when the European economy was in transition. Isolated

feudal estates were being replaced by centralized nation-states as the focus of power.

Technological changes in shipping and the growth of urban centres led to a rapid increase in international trade. [18] Mercantilism focused on how this trade could best aid the states. Another important change was the introduction of double-entry bookkeeping and modern accounting. This accounting made extremely clear the inflow and outflow of trade, contributing to the close scrutiny given to the balance of trade. [19] Of course, the impact of the discovery of America cannot be ignored. New markets and new mines propelled foreign trade to previously inconceivable heights.

The latter led to “ the great upward movement in prices” and an increase in “ the volume of merchant activity itself. ”[20] Prior to mercantilism, the most important economic work done in Europe was by the medieval scholastic theorists. The goal of these thinkers was to find an economic system that was compatible with Christian doctrines of piety and justice. They focused mainly on microeconomics and local exchanges between individuals. Mercantilism was closely aligned with the other theories and ideas that were replacing the medieval worldview.

This period saw the adoption of the very Machiavellian realpolitik and the primacy of the *raison d'etat* in international relations. The mercantilist idea that all trade was a zero sum game, in which each side was trying to best the other in a ruthless competition, was integrated into the works of Thomas Hobbes. The dark view of human nature also fit well with the Puritan view of the world, and some of the most stridently mercantilist legislation, such as

the Navigation Acts, were enacted by the government of Oliver Cromwell.

[21] Policies

French finance minister and mercantilist Jean-Baptiste Colbert served for over 20 years. Mercantilist ideas were the dominant economic ideology of all of Europe in the early modern period, and most states embraced it to a certain degree. Mercantilism was centred in England and France, and it was in these states that mercantilist policies were most often enacted. France Mercantilism arose in France in the early 16th century, soon after the monarchy had become the dominant force in French politics. In 1539, an important decree banned the importation of woolen goods from Spain and some parts of Flanders.

The next year, a number of restrictions were imposed on the export of bullion. [22] Over the rest of the sixteenth century further protectionist measures were introduced. The height of French mercantilism is closely associated with Jean-Baptiste Colbert, finance minister for 22 years in the 17th century, to the extent that French mercantilism is sometimes called Colbertism. Under Colbert, the French government became deeply involved in the economy in order to increase exports. Protectionist policies were enacted that limited imports and favored exports.

Industries were organized into guilds and monopolies, and production was regulated by the state through a series of over a thousand directives outlining how different products should be produced. [23] To encourage industry, foreign artisans and craftsmen were imported. Colbert also worked to decrease internal barriers to trade, reducing internal tariffs and building an extensive network of roads and canals. Colbert's policies were quite

successful, and France's industrial output and economy grew considerably during this period, as France became the dominant European power.

He was less successful in turning France into a major trading power, and Britain and the Netherlands remained supreme in this field. [23] Great Britain In England, mercantilism reached its peak during the 1340-1789 Long Parliament government (1640-1660). Mercantilist policies were also embraced throughout much of the Tudor and Stuart periods, with Robert Walpole being another major proponent. In Britain, government control over the domestic economy was far less extensive than on the Continent, limited by common law and the steadily increasing power of Parliament. 24] Government-controlled monopolies were common, especially before the English Civil War, but were often controversial. [25] The Anglo-Dutch Wars were fought between the English and the Dutch for control over the seas and trade routes. With respect to its colonies, British mercantilism meant that the government and the merchants became partners with the goal of increasing political power and private wealth, to the exclusion of other empires. The government protected its merchants—and kept others out—by trade barriers, regulations, and subsidies to domestic industries in order to maximize exports from and minimize imports to the realm.

The government had to fight smuggling—which became a favorite American technique in the 18th century to circumvent the restrictions on trading with the French, Spanish or Dutch. The goal of mercantilism was to run trade surpluses, so that gold and silver would pour into London. The government took its share through duties and taxes, with the remainder going to merchants in Britain. The government spent much of its revenue on a superb

Royal Navy, which not only protected the British colonies but threatened the colonies of the other empires, and sometimes seized them. Thus the British Navy captured New Amsterdam (New York) in 1664.

The colonies were captive markets for British industry, and the goal was to enrich the mother country. [26] British mercantilist writers were themselves divided on whether domestic controls were necessary. British mercantilism thus mainly took the form of efforts to control trade. A wide array of regulations was put in place to encourage exports and discourage imports. Tariffs were placed on imports and bounties given for exports, and the export of some raw materials was banned completely. The Navigation Acts expelled foreign merchants from England's domestic trade.

The nation aggressively sought colonies and once under British control, regulations were imposed that allowed the colony to only produce raw materials and to only trade with Britain. This led to friction with the inhabitants of these colonies, and mercantilist policies (such as forbidding trade with other empires and controls over smuggling) were a major irritant leading to the American Revolution. Over all, however, mercantilist policies had a positive impact on Britain helping turn it into the world's dominant trader, and an international superpower[citation needed].

One domestic policy that had a lasting impact was the conversion of "waste lands" to agricultural use. Mercantilists felt that to maximize a nation's power all land and resources had to be used to their utmost, and this era thus saw projects like the draining of The Fens. [27] Mercantilism helped create trade patterns such as the triangular trade in the North Atlantic, in which raw materials were imported to the metropolis and then processed

and redistributed to other colonies. Other countries The other nations of Europe also embraced mercantilism to varying degrees.

The Netherlands, which had become the financial centre of Europe by being its most efficient trader, had little interest in seeing trade restricted and adopted few mercantilist policies. Mercantilism became prominent in Central Europe and Scandinavia after the Thirty Years' War (1618–1648), with Christina of Sweden, Jacob Kettler of Courland, Christian IV of Denmark being notable proponents. The Habsburg Holy Roman Emperors had long been interested in mercantilist policies, but the vast and decentralized nature of their empire made implementing such notions difficult.

Some constituent states of the empire did embrace Mercantilism, most notably Prussia, which under Frederick the Great had perhaps the most rigidly controlled economy in Europe. During the economic collapse of the seventeenth century Spain had little coherent economic policy, but French mercantilist policies were imported by Philip V with some success. Russia under Peter I (Peter the Great) attempted to pursue mercantilism, but had little success because of Russia's lack of a large merchant class or an industrial base.

Wars and imperialism Mercantilism was economic warfare and was well suited to an era of military warfare. [28] Since the level of world trade was viewed as fixed, it followed that the only way to increase a nation's trade was to take it from another. A number of wars, most notably the Anglo-Dutch Wars and the Franco-Dutch Wars, can be linked directly to mercantilist theories. Most wars had other causes but they reinforced mercantilism by clearly defining the enemy, and justified damage to the enemy's economy.

Mercantilism fueled the imperialism of this era, as many nations expended significant effort to build new colonies that would be sources of gold (as in Mexico) or sugar (as in the West Indies), as well as becoming exclusive markets. European power spread around the globe, often under the aegis of companies with government-guaranteed monopolies in certain defined geographical regions, such as the Dutch East India Company or the British Hudson's Bay Company (operating in present-day Canada).