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Paper: CC-8- Rise of the Modern West-II

Module: **Mercantilism and European economics**

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Module: Va. Mercantilism and European Economics

Content

5a.1 Concept of Mercantilism

The term 'Mercantilism' broadly refers to that group of ideas and practices in the economic sphere by which the nation states of Europe sought to increase its own power, wealth and prosperity in the period from 1500 to 1800 A.D. It was in a way the economic counterpart of political absolutism. The measures used by governments to influence their economies included tariff laws, industrial regulation, trade wars, tax laws and currency manipulation. Mercantilism contained many interlocking principles and was not a unified principle or ideas. Precious metals, such as gold and silver, were deemed indispensable to a nation's wealth. It was believed that trade balances must be 'favourable', meaning an excess of exports over imports. Colonial possessions should serve as markets for exports and as suppliers of raw materials to the mother country. **Maurice Dobb** described mercantilism as 'a system of state regulated exploitation through trade…essentially the economic policy of an age of primitive accumulation". **Eli Heckscher** interprets the economic policy of this period as a tendency towards the economic unification of the nation state. **Murray Rothbard**, belonging to the Austrian school of economics, described mercantilism as “a system of statism which employed economic fallacy to build up a structure of imperial state power, as well as special subsidy and monopolistic privilege to individuals or groups favoured by the state. Thus, mercantilism held exports should be encouraged by the government and imports discouraged”.

It may be noted here that the term was not in common use during the prevalence of the system. To the men who lived at the time of its prevalence it was less evidently a system with definite aims. It was referred to as **commercial system** or **mercantile system** in England. It was also known as ‘**restrictive system’** because of impositions of numerous restrictions and regulations on commerce. In France it was known as ‘**Colbertism**’ after its finance minister Colbert and in Austria it was called ‘**Cameralism**’. It was also denoted as **‘bullionism’** because of the overemphasis given to the possession of gold and silver by the nation states. Mercantilist thinkers did not form a homogenous group, advocating a fixed line of thought and policy. They were statesman, merchants and administrators from different countries who left behind a number of pamphlets and papers regarding economic problems. Afterwards when these documents were analyzed, many economists found that there is certain uniformity in these ideas and policies, and therefore, grouped them together as mercantilist. Notable contemporary writers of treatises on mercantilism, such as **Thomas Mun** in England, **Jean-Bapiste Colbert** in France, and **Antonio Serra** in Italy- never, however, used the term themselves. The term was given currency by **Adam Smith** in his book ‘Wealth of Nations’ (published in 1776) who was a strong critic of it.

5a.2 Salient Features of Mercantilism

- The primary objective of the principles of mercantilism was to augment the power, wealth and prosperity of a nation state by regulating the nation’s economy.
- It was the economic counterpart of political absolutism.
- Precious metals, such as gold and silver were deemed indispensable to a nation’s wealth. If a nation did not possess mines or have access to it, precious metals should be obtained by trade.
- It was believed that trade balance must be favourable, ie, exports should exceed imports. Since commerce helps a nation to export surplus goods and bring back bullion, it must be aided. Merchants must be protected abroad, favourable treaties should be negotiated and new markets opened up. For distant trade, the nations must aid and protect chartered companies with monopolies. High tariffs should be imposed on exports and imports from foreign countries.
- It was believed that there was more or less a fixed volume of international trade and policies of the state should be to get the largest share of it.
- Each nation should attempt to be self-sufficient and in order to achieve it must produce its own manufactured goods and encourage and develop its industries in a regulated manner.

- Agriculture must be developed to reduce dependency on other nations for food and raw materials like wool, flax, silk and hemp. This would in turn breed strong and sturdy peasants who would supply the nation with soldiers and sailors.
- A nation state should aspire to be a formidable sea power to protect its foreign trade and enhance the country's prestige.
- It encouraged acquisition of colonies. Colonial possessions should serve as markets for exports and as supplier of raw material to the mother country. Manufacturing was forbidden in colonies, and all commerce between colony and mother country was held to be a monopoly of the mother country.
- A strong nation, according to this theory, was to have a large population, for a large population would provide a supply of labour, a market and soldiers.
- Human wants were to be minimized, especially for imported luxury goods, for they drained off precious foreign exchange. Sumptuary laws were to be passed to make sure that wants were held low. Thrift, saving were regarded as virtues, for only by these means could capital be created.

5a.3The Background of the rise of Mercantilism

Towards the close of the middle ages the idea of nationality became very distinct. The renaissance, the fall of feudal nobility in Western Europe, the beginning of the age of geographical exploration and the reformation that followed, greatly contributed to it. The spirit of nationality made the nations conscious of themselves as separate political, religious, and economic entities.

When a nation became fully developed in this way it became equally conscious of the existence of other nations, and it was disposed to view them as potential enemies. The aim of the nation was to preserve its independence. For this purpose the activity of its people in every direction had to be regulated and controlled. The freedom of action which in later times was regarded as the right of the individuals was subordinated to the necessities of the state. Private interests could not be permitted to take precedence of considerations affecting the well-being of the nation as a whole. The direction of direction of political and economic affairs in the interest of the nation, which the circumstances of the time seemed to demand, was impossible without an authority sufficiently strong to exercise control. This authority was monarchial in character, and powerful despotism which prevailed in most countries of Europe from the 16th to 18th centuries favoured the rise of principles and ideas of mercantilism.

5a.4 Mercantilism and European Economics

In the period from 16th to 18th centuries most countries of Western Europe- Portugal, Spain, Holland, France, England, Italy and also Germany –employed the principles of mercantilism in the economic sphere. Portugal applied this policy in its spice trade. In Spain the colonial trade was the monopoly of the state. 'Casa de Contructacion' regulated all colonial trade. Anybody willing to trade with Spanish colonies had to take licence from it. The Spanish monarchy encouraged the growth of industries in order to reduce the quantum of imports. The 'Mesta', the sheep rearing organization insisted on the production of wool to the neglect of cotton goods, industrial manufacturing and agricultural production. Such a policy adversely affected Spain as it increased her dependence on foreign lands for food and manufactured goods.

The Dutch mercantilism was characterized by its object to facilitate trade. There the loose confederation of states could not impose strict control on economic activities. There the merchants were powerful who followed mercantilist economy. The Netherlands, unlike other contemporary states, leived almost no custom duty on imports, for it realized that multilateral international trade was in its own interest. In Holland, bullionism or hoarding of bullions too was minimized as the Dutch economists realized that it served no constructive purpose, except as a reserve behind credit instruments. Her proactive measures resulted in the replacement of Antwerp by Amsterdam as the main centre of exchange and commercial activities. The Dutch government was ever ready with her navy to protect mercantile interest. In 1645, for instance, the Dutch fleet compelled Denmark to conclude a commercial treaty with Holland. The East and the West India Companies- with the political, economic and military support of the Dutch government- enforced their monopolies not only against foreigners but also against private Dutch merchants. The government controlled the Mediterranean and Levant trade. By the mid 17th century, because of the onslaught of the English, French and Portuguese, the Dutch trade suffered.

In England, political unity and stability enabled enforcement of nationalist mercantilist regulations quite early on. The Tudors adopted measures for protection of the industries, encouraged the import of raw material and prohibited export of bullion. The navy was strengthened for both trade and defence. The new merchants and mercantile organizations got monopoly rights to trade. The Statute of Artificers (1563) strengthened and generalized the system of apprenticeship. A series of poor laws were passed to provide relief to the poor. A protective tariff was created to preserve the English market for English producers. To protect her trade interest the English fought the Dutch several times to reduce competition. She also concluded treaties with Spain (the Utrecht treaty, 1713) and Portugal (Methuen treaty, 1702) to protect her trade interest. The Corn Law of 1689 subsidized the export of corn. The English government increasingly attempted to make trade balance more favourable with colonies like India.

In France too certain aspects of mercantilism was pursued by the government. The government passed laws prohibiting export of bullion to foreign countries. Industrial production and foreign trade were encouraged for the purpose of increasing the bullion reserve. Louis XI encouraged fairs at Lyons extraction of mineral resources. To give impetus to industries, the French government subsidized industries like glass, sugar, woolen, silk and textile. The import of luxury goods was restricted. Trade organizations were set up to trade with North Africa and Canada. Richelieu favoured strengthening of the navy and acquisition of colonies. During the reign of Louis XVI the mercantile policy took full shape in France under the guidance of its finance minister Colbert. New industries were set up and the French East India Company was founded to monopolize overseas trade.

Germany, which was fragmented into several states, too followed principles akin to mercantilism. It was known as Camerialism. In Prussia mercantilist ideas were taken up by Frederick William as a part of his policy to establish it as a strong force in Germany.

By the advent of the 19th century, the mercantilist principles were undermined. Critics pointed out that if every nation attempted to export more than it imported it would be the end of international trade. Again, they overlooked the fact that the laws of demand and supply apply to gold and silver also. If the quantity of a precious metal increased in a country and other circumstances remained unchanged, they became cheaper. It was also felt that that emphasis on self-sufficiency discouraged the principle of division of labour and afforded a lower attainment of standard of living. It resulted in the triumph of the principle of *laissez-faire* and the 'policy of power' was replaced by a 'policy of plenty'.

5a.5 Effects of Mercantilism

- Mercantilism gave great impetus to imperialism of this era. Since colonies were viewed as sources of gold and valuable essential commodities and market, the nation states were keen to acquire as many colonies as possible. The European powers, often under the aegis of monopolistic companies, such as the Dutch East India Company or the British Hudson Bay Company (Canada), carried out colonial activities around the globe.
- Since colonies were regarded as existing for the benefit of their mother countries, the colonized parts of North America, South America and Africa were involuntarily involved with mercantilism and were required to sell raw materials only to their colonizers and purchase finished goods only from them.
- Its rigid notions of favorable trade balance often caused commercial rivalry and even wars between nations. The Anglo-Dutch wars and Franco-Dutch wars are a case in point.
- Restrictions on where finished goods could be purchased led in many cases to burdensome high prices for those goods.
- The constraints of mercantilism caused friction between Britain and her American colonies and were greatly responsible for out-break of the American Revolution.
- Adam Smith, a strong critic of the mercantilist policies, opined that this type of economy has low rate of growth, the wealth is concentrated in the hands of few, majority of people have no development and the economic growth is hampered.

5a.6 Suggested Readings

George. W. Southgate, *English Economic History*, The Aldine Press, London

Meenaxi Phukan, *Rise of the Modern West*, Trinity, New Delhi

en.wikipedia.org › wiki › Mercantilism

www.britannica.com › *topic › mercantilism*