

Mercantilism

A Particular Economic Mindset

Definition (Webster)

- **mercantilism**
- Function: *noun* Date: 1838
- An **economic system** developed during the decay of feudalism to unify and increase the power and especially the monetary wealth of a nation by a **strict governmental regulation of the entire national economy** usually through policies **designed to secure an accumulation of bullion, a favorable balance of trade, the development of agriculture and manufactures, and the establishment of foreign trading monopolies**

To put things in perspective, let me explain that mercantilism is an early form of capitalism, but it is not the free trade capitalism with which we are familiar. It is described sometimes as “state capitalism.” The state is in essence in bed with the capitalists, and the capitalists support the state.

Sir Thomas Mun

- **Mun was, one of the leading lights of mercantilism. The following quotes are from his tract *England's Treasure by Foreign Trade (1630)***

“The ordinary means to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value...

Although a Kingdom may be enriched by gifts received, or by purchase taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to increase our wealth and treasure is by Foreign Trade.”

Mun



Definition Developed

- Excerpt from "Article in the Concise Encyclopedia of Economics by Laura LaHaye."
- Mercantilism is economic nationalism for the purpose of building a wealthy and powerful state. ADAM SMITH coined the term "mercantile system" to describe the system of political economy that sought to enrich the country by restraining imports and encouraging exports. This system dominated Western European economic thought and policies from the sixteenth to the late eighteenth centuries. The goal of these policies was, supposedly, to achieve a "favorable" balance of trade that would bring gold and silver into the country and also to maintain domestic employment.

Bullion

- It helps to know that at that time wealth was thought of in terms of accumulated precious metals or bullion (gold and silver)
- This was supposed to exist in limited quantities.
- If your opponent got a hold of it, you lost out, as there was less for you.
- Wealth equals power. So if your enemy has more wealth he has more power than you.
- Hence you design a policies to make sure you have the majority of the bullion.

Ramifications?

- Most of the mercantilist policies were the outgrowth of the relationship between the governments of the nation-states and their mercantile classes. In exchange for paying levies and taxes to support the armies of the nation-states, the mercantile classes induced governments to enact policies that would protect their business interests against foreign competition; up to and including going to war.

In a world were accumulating gold and silver and constantly maintaining a positive balance of trade was seen as imperative to magnifying, not only a countries wealth, but its military power and its national security, trade is no longer simply an individual undertaking with consequences for those individuals involved, but part of the national struggle. For you see, should your balance of trade be negative for any length of time, and your bullion decrease, then your enemies would grow relative in power to you. That could put your existence and independence on the line. How else could you pay your armies and fund your wars? Could you then be conquered? Should you not then go to war to open new markets and acquire access to new goods for trade?

In such an atmosphere, just imagine much can be excused, even by supposedly moral people, as a necessary evil. For example you could you not justify fighting wars in distant places to control small tropical islands on which you could establish sugar plantations? Could you then possibly justify human slavery? After all, slavery made the sugar plantations function profitably, and having those plantations meant you had sugar, a valuable in-demand commodity to sell to generate bullion! Just as importantly it meant that you did not have to buy it from dastardly competitors and hemorrhage your precious bullion in the process. Having preserved and hopefully built your wealth (your stock of bullion) you now had the means necessary to pay your armies, and fight your wars, and remain powerful and independent. In that case, could society not justify away slavery, or the multiple other forms of horrendous actions taken to ensure the positive balance of trade and accumulation of bullion!

I am not arguing that mercantilism was the cause of slavery here, but I am wondering, and asking you to do the same, if such a mindset could attribute to

turning a blind eye to horrendous abuses.

Mercantilist Wars

- The most clear example of a mercantilist conflict are the first two of the Anglo-Dutch Wars, fought in two phases. The first phase was between 1652-1654 and the second was between 1665-1667.
- The Dutch had emerged out of the wars of religion as one of the, if not the, premier European naval power. They dominated trade in the Baltic and built the largest mercantile fleet in Europe.

Anglo-Dutch Mercantile War

- The Dutch Navy was able to push its competitors, including old allies such as the English out of the East Indies. They dominated the lucrative herring fishing off the east coast of England. They also circumvented English restrictions on trade with England's North American Colonies.
- Those along with competing aspirations to expand their overseas presence and possession led the two old allies to go to war.

End of Anglo-Dutch War

- After the 1688 Glorious Revolution in England which brought Mary and her husband William of Orange, the stadtholder of Holland (the de facto leader of the Dutch Republic,) to the English Throne, these Anglo-Dutch hostilities came to an end.
- William granted the English Navy many privileges to assure its loyalty.
- Many Dutch merchant elites moved their operations to London.
- Holland's economy stagnated while England's grew

Adam Smith

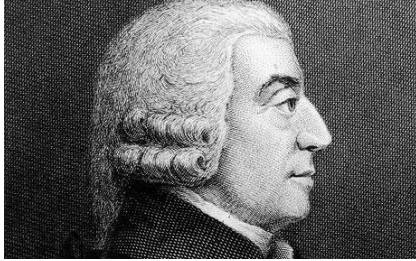
- The most serious blow dealt to mercantilist theory, and what many historians/economists regard as the nails in its coffin as a serious economic theory, came with the Publication of *The Wealth of Nations*, by Adam Smith, in 1776.
- HOWEVER.... See notes below

The heyday of mercantilism was the 17th century. By the 18th this theory was facing serious challenges from the advocates of free trade (what came to be known as the liberals – a far different usage of the word than we have today.) By the late 18th century countries like Holland, England, France, and the United States among others had abandoned full adherence to the principles of mercantilism. The famous HOWEVER, this does not mean that such attitudes about trade and wealth ever truly disappeared. In one form or the other aspects of mercantilist thought have always been with us, and they occasionally experience a global resurgence.

We should note that some commentators see quasi mercantilist beliefs behind the current trade disputes facing international trade in 2018.

Concerns over trade imbalances, mushrooming trade deficits, viability of local industries seen as important to national security...all such things raise reasonable concerns in a society, and sometimes might call for certain reasonable restrictions on absolute “laissez faire” free trade. As with all things the key word here is “reasonable.” Reasonable concerns and reasonable responses! The trick though is defining what is reasonable, and that answer is far beyond my capacity.

Adam Smith



Scottish economist and Philosopher. A leading light of the Scottish enlightenment.
Born 1723 and died 1790.