

MERCANTILISM

Introduction:

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. In contrast to the agricultural system of the physiocrats or the laissez-faire of the nineteenth and early twentieth centuries, the mercantile system served the interests of merchants and producers such as the British East India Company, whose activities were protected or encouraged by the state. The most important economic rationale for mercantilism in the sixteenth century was the consolidation of the regional power centers of the feudal era by large, competitive nation-states. Other contributing factors were the establishment of colonies outside Europe; the growth of European commerce and industry relative to agriculture; the increase in the volume and breadth of trade; and the increase in the use of metallic monetary systems, particularly gold and silver, relative to barter transactions. During the mercantilist period, military conflict between nation-states was both more frequent and more extensive than at any other time in history. The armies and navies of the main protagonists were no longer temporary forces raised to address a specific threat or objective, but were full-time professional forces. Each government’s primary economic objective was to command a sufficient quantity of hard currency to support a military that would deter attacks by other countries and aid its own territorial expansion. 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.

Meaning:

Alexander Gray observes that mercantilism is a misleading and deceitful word. Different writers have defined mercantilism differently. According to Lekachman “mercantilism was a battle against hampering medieval thought and practice”. It was revolt against medievalism resolve to reconstruct economic life to a more rational scheme. To Edmund Whittaker mercantilism was the economic counterpart of political nationalism”. Heiman described it as the ideological justification of Commercial Capitalism. Thus mercantilist writers were essentially practical businessmen, merchants and administrators in various European countries like England, France, Italy, Germany, Scotland, and Spain etc. They left behind numerous works regarding contemporary national economic problems. They do not form a school of economists. So the ideas and policies which dominated the economic scene of England and a part of Europe between the close of the 16th century and the middle of the 18th century can rightly be called as mercantilism. Mercantilist writers put emphasis on foreign trade as a means of accumulating treasure and building a strong nation.

Important Economic Theories of Mercantilism:

Whereas the economic literature of scholasticism was written by medieval churchmen, the economic theory of mercantilism was the work of secular people, mostly merchant businessmen, who were privately engaged in selling and buying goods. The literature they produced focused on questions of economic policy and was usually related to a particular interest the merchant and

writer (in one person) was trying to promote. For this reason, there was often considerable skepticism regarding the analytical merits of particular arguments and the validity of their conclusions. Few authors could claim to be sufficiently detached from their private issues and offer objective economic analysis. However, throughout the mercantilism, both the quantity (there were over 2000 economic works published in 16th and 17th century) and quality of economic literature grew. The mercantilist literature from 1650 to 1750 was of distinctly higher quality, these writers created or touched on nearly all analytical concept on which Adam Smith based his *Wealth of Nations*, which was published in 1776.

The age of mercantilism has been characterized as one in which every person was his own economist. Since the various writers between 1500 and 1750 held very diverse views, it is difficult to generalize about the resulting literature. Furthermore, each writer tended to concentrate on one topic, and no single writer was able to synthesize these contributions impressively enough to influence the subsequent development of economic theory.

Secondly, mercantilism can best be understood as an intellectual reaction to the problems of the times. In this period of the decline of feudalism and the rise of the nation-states, the mercantilists tried to determine the best policies for promoting the power and wealth of the nation, the policies that would best consolidate and increase the power and prosperity of the developing economies. What is especially important here is the mercantilist assumption that the total wealth of the world was fixed and constant. These writers applied the assumption to trade between nations, concluding that any increase in the wealth and economic power of one nation occurred at the expense of other nations (the rest of the world). Thus, the mercantilists emphasized international trade as a mean of increasing the wealth and power of a nation. Using some modern game theoretic language, we may say, that they perceived economic activity and international trade in particular as a zero-sum game that is a game, where it is impossible for both players to win. So according to mercantilists, it is impossible to increase a global wealth of the world in effect of international trade. It is a very sad assumption, and modern economists do not share it. The goal of economic activity, according to most mercantilists, was production, not consumption, as classical economists would later have it. They advocated increasing the nation's wealth by simultaneously encouraging production, increasing exports and holding down domestic consumption. Thus, in practice, the wealth of nation rested on the poverty of the many members of society.

Third general point about mercantilism is their insistence on the notion of balance of trade. Balance of trade figures, also called net exports, are the sum of the money gained by a given economy selling exports, minus the cost of buying imports. A positive balance of trade is known as a trade surplus and consists of exporting more than one imports. A negative balance of trade is known as a trade deficit and consists of importing more than one export. As we know today, neither positive nor negative balance of trade is necessarily dangerous in modern economies, although large trade surpluses or trade deficits may sometimes be a sign of other economic problems. According to mercantilists a country should increase exports and discourage imports by means of tariffs, quotas, subsidies, taxes and the like in order to achieve a so-called favorable or positive balance of trade. Production should be stimulated by government interference in the domestic economy and by the regulations of foreign trade. Protective duties should be placed on manufactured goods from abroad; and the state should encourage the import of cheap raw materials to be used in manufacturing goods for export .

Criticisms of Mercantilism:

The following criticisms were levelled against mercantilism by the opponents:

1. The mercantilists exaggerated the importance of Commerce to the extent of depressing agriculture and other branches of human industry.
2. Undue importance was attached to gold and silver.
3. They were under erroneous belief that a favorable balance of trade alone would bring prosperity to the country.
4. Their idea about value, utility capital and interest were vague and imperfect.
5. They are narrow minded nationalists and not cosmopolitans. They could not conceive the ideas of mutually advantageous trade. However, we cannot dismiss their ideas as useless or impractical. The idea of nationalism, self-sufficiency and economic strength were the outcome of their policies. The mercantilist policy proved successful in France, England, Holland and Germany who were competing for colonial supremacy

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