

## MERCANTILISM

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### Contents

1. History of Mercantilism
  2. The British Context
  3. Mercantilism as a Doctrine
  4. Power and Protection
  5. Protection and Underdevelopment
- Bibliography  
Biographical Sketch

### 1. History of Mercantilism

The concept "mercantilism" designates a system of economic policy as well as an epoch in the development of economic doctrines during the seventeenth and eighteenth centuries before the publication of Adam Smith's pathbreaking *The Wealth of Nations*. The bulk of what is commonly known as "mercantilist literature" appeared in Britain from the 1620s up until the middle of the eighteenth century. Among the first mercantilist writers we find Thomas Mun and Edward Misselden in the 1620s, while James Steuart's *Principles of Political Oeconomy* (1767) is conventionally thought of as perhaps the last major "mercantilist" work. Most of the mercantilist writers were businessmen, merchants and government officials. They wrote mainly about practical things concerning trade, shipping, the economic effects of tariffs and protection of industries, etc.

The concept "mercantilism" first appeared in print in Marquis de Mirabeau's *Philosophie Rurale* in 1763 as *systeme mercantile* although it was used by other Physiocrats as well during the same period. In France during this period the concept was utilized in order to describe an economic policy regime characterized by direct state intervention in order to protect domestic merchants and manufacturers in accordance with seventeenth century Colbertism. However, the main creator of "the mercantile system" was Adam Smith. According to Smith the core of the mercantile system -- "the commercial system" as he called it -- consisted of the popular folly of confusing wealth with money. Although practical in orientation, the mercantilist writers proposed a principle: namely, that a country must export more than it imported which would lead to a net-inflow of bullion. This was the core of the much discussed so-called "positive balance of trade theory".

The main architect of the mercantile system of economic thinking, according to Adam Smith, was the English writer and tradesman, Thomas Mun (1571-1641). Moreover,

Smith argued that behind these ideas stood a mercantile special interest which used the idea of a positive balance of trade in order to promote a protective trade policy in general, including duties on imports, tariffs, bounties, etc. According to Smith, the mercantile system implied a giant conspiracy on behalf of master manufacturers and merchants in order to exploit the public and the consumers. This view on mercantilism as a policy of rent-seeking developed by special interest has in recent times been further elaborated by economists inspired by positive and public choice theory, especially Robert E Ekelund and Robert D Tollison who have defined mercantilism as “a rent-seeking society”.

From Smith onwards, the view of the mercantile system, or simply mercantilism, as state *dirigism* and protectionism in order to support a special interest with the aid of the positive balance of trade, was carried further by classical political economy. In France Auguste Blanqui and in Britain J R McCulloch were most influential in creating this image of mercantilism. In the 1830s Richard Jones argued that the seventeenth century had seen the emergence of a protective trade system which built on "the almost romantic value which our ancestors set upon the possessions of the precious metals"(Richard Jones). Hence mercantilism was based on the King Midas folly and could be described as a mere fallacy. Certainly, already Hume and others before him had used a simple specie-flow argument to correct this mistake: a net-inflow of bullion must certainly mean a relative rise of prices, which through the export and import mechanism will tend to correct itself. Hence, Smith and his followers were only happy to draw the conclusion that the argument for protection and against free trade was based on a mere intellectual mistake.

During the nineteenth century this viewpoint was contested by the German historical school which preferred to define mercantilism as state-making in a general sense. Hence the doctrines of mercantilism were no mere folly. In short they were the rational expression of nation-building during the early modern period. The definition of mercantilism as a process of state-making during a specific historical epoch first appeared in a series of articles published 1884-1887 by the German historical economist Gustav Schmoller. “Mercantilism” was the term he used to designate the policy of unity and centralization pursued by especially the Prussian government during the seventeenth and eighteenth centuries. Hence also mercantilism expressed the economic interest of the state and viewed economic wealth as a rational means to achieve political power. With his roots among older German historicists such as Wilhelm Roscher and Friedrich List, Schmoller argued that the core of mercantilism consisted of *dirigist* ideas propounding the active role of the state in economic modernization and growth. The much-debated balance of trade theory was perhaps misguided as a theory. However, it was rational in a more general sense in its emphasis regarding the pivotal role of protectionism and infant industry tariffs in order to create a modern industrial nation.

These two widely different definitions of mercantilism are certainly not easy to reconcile. However, an attempt was made by the Swedish economic historian Eli Heckscher who, in his massive *Mercantilism* (1931), attempted to present mercantilism as a system both of economic thought and of economic policy. In this broader school of economic doctrine he very much accepted Adam Smith’s description. He agreed that the balance of trade theory was at the core of the mercantilist doctrine. Moreover, he agreed

that it was based on a folly, as was subsequently revealed by modern thinking, such as Hume's expounding of the specie-flow mechanism. He explained the core of the positive balance of trade theory by pointing at what he believed was a distinct "fear of goods" dominating the popular mind during the seventeenth century. This fear of goods and love of money was, according to him, an expression of the transition which took place during this period from a barter economy to one based on money (gold and silver).

However, Heckscher also regarded mercantilism as a system of economic policy. And as such its logic was -- as the historical economists emphasized -- nation-making. Hence, with the goal of national power the mercantilists developed a number of nationalist economic policy tools, including tariffs. The British Navigation Acts, as well as the establishment of national standards of weights and measurements, and a national monetary system could be viewed as outcomes of the same mercantilist policies.

It is not easy to grasp in Heckscher's synthesis how the two components of mercantilism -- economic theory and policy -- relate to each other. Certainly, this left scope for grave misunderstandings. Thus, for example, by Jacob Viner from Chicago, Heckscher was unfairly and wrongly interpreted as a follower of Schmoller and as such a defender of mercantilism against the liberal free trade doctrine of Adam Smith. Viner emphasized that the main characteristic of the mercantilists was their confusion of wealth with money. In contrast to Heckscher's more complicated picture, he portrayed them as simple bullionists.

Another response to Heckscher became common in the heated discussion which took place over mercantilism in the 1950s and 60s. Already in 1939 A.V. Judges had vigorously rejected the notion of a particular mercantilist doctrine or system. Mercantilism had neither a common theoretical core nor any priests to defend the gospel, he stated. His rejection of mercantilism as a coherent system was later taken up by a number of British economic historians. For example D C Coleman denounced outright the usefulness of mercantilism as a description both of economic policy and of economic theory; it was "a red-herring of historiography". Its main problem was that it gave a false unity to disparate events and ideas. Hence mercantilism was not a school of economic thinking and doctrine, as opposed to, for example, the Physiocratic school of the eighteenth century.

Thus, it is certainly correct that mercantilism was no finished system or coherent doctrine in the sense in which it was used in the nineteenth and twentieth centuries. However, while "mercantilistic views" mainly appeared in pamphlets which dealt with economic and political issues of the day, it does not necessarily imply that economic writers during the seventeenth and early eighteenth centuries composed economic texts without some common aims, views and shared concepts in order to make intelligible the complex world of economic phenomena. Hence, it is perhaps useful to note that the mercantilist writers shared a common vocabulary to argue specific political and economical viewpoints. On the other hand, Coleman amongst others was certainly right when he stressed that commentators such as Schmoller and Heckscher overemphasized the systematic character of mercantilism as a coherent system both of economic ideas and economic policy more or less directly stemming from its doctrines.

Moreover, Smith and his followers without doubt helped to confirm a view of the mercantilist writers which made them more "old-fashioned" than they actually were. Thus rather than being opposed to Smith, writers of this branch can to a large extent be regarded as forerunners to both him and the liberal school. Any direct knowledge of their texts will suggest that they were not totally devoted to *dirigisme*. Moreover, their methodology and demand and supply analysis formed the nucleus of modern theorizing later on.

## 2. The British Context

Thus mercantilism was mainly a British literature of pamphlets and books which for the most part dealt with practical political economic policy between 1620 and 1750. Moreover, the underlying issue dealt with in this literature was the question of how to achieve national wealth and power. In the bulk of this literature these two goals were looked upon as identical. To some extent this was perhaps not anything which distinguished the generation after Mun from its predecessors, or indeed, from much later "schools" of economic writers. This general agenda can be traced in English, Italian, French etc., economic texts from the sixteenth century onwards. From that point of view Italian writers such as Giovanni Botero (1544-1617) and Antonio Serra (1580-?), as well as Spanish writers such as de Vitorias, de Soto, de Azpilcueta and Luis de Ortiz during the sixteenth century, were perhaps the first "mercantilists". Neither were such ideas absent in later economic writing and thinking, including the German historicists from List, as well as the "free trade imperialists" in Britain during the nineteenth century. Hence, for example, the recommendations that a state should try to keep as much money as possible within the country, or to organize its foreign trade so that the net export of manufactured goods might be maximized, were common maxims from at least the early sixteenth century.

However, in the English discussion from the 1620s onwards we can also detect other topics. The Dutch example showed that economic wealth could be achieved by increased international trade and a large population, as well as more manufactories utilizing increased division of labor. Moreover, increases in trade and manufacture could only be accomplished by propounding sound laws and by the establishment of effective institutions. Thus, most writers were unwilling to put their sole faith in the self-equilibrating forces of the market place in order to achieve wealth and growth. On the other hand, as many argued, too much interference in the laws of supply and demand could be as harmful as too little.

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### **Biographical Sketch**

**Lars Magnusson** has held the chair in Economic History at the University of Uppsala since 1992. He has written extensively on general Swedish and international economic history, especially on industrialization and the history of economic ideas. He is currently also research director at the National Institute for Working Life in Stockholm, Sweden where he directs projects on the rise of the new economy and its effect on the labor market. His works include *Mercantilism: the shaping of an Economic Language* (Routledge 1994) and *An Economic History of Sweden* (Routledge 2000).