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4. Mercantilism

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4. Mercantilism

Abstract

The rise of the national state and the expansion of Europe, which have just been described, were accompanied by the further development of commercial capitalism along lines already laid down in the later Middle Ages. The most notable fact about capitalism between 1500 and 1789 was its overall growth, not so much in the development of new techniques (at least not until the very end of the period) as in the wider use and elaboration of old ones. The New Monarchy and its successors afforded protection to businessmen and something resembling a national market. In addition, the government with its military and other needs sometimes provided business with its best customer. The expansion of Europe stimulated capitalism by greatly increasing the physical volume of trade. Beyond that, the larger stock of money, for which this expansion was primarily responsible, encouraged business by fixing a money economy more definitely on Europe, contributing to a rising price level, and making available a larger supply of capital in a convenient form. All in all, capitalism affected directly the lives of a considerably larger percentage of Europe's population in 1789 than it did in 1500, although most of the Continent was still definitely agricultural. Moreover, by 1789 the spirit of capitalism was much more commonly accepted than it had been three centuries earlier. Those who desired it could even find the profit motive now couched in religious terms. [*excerpt*]

Keywords

Contemporary Civilization, Mercantilism, Commercial Capitalism

Disciplines

Economic History | European History | History

Comments

This is a part of [Section IX: Early Modern Europe, 1500-1789](#). The [Contemporary Civilization](#) page lists all additional sections of *Ideas and Institutions of Western Man*, as well as the [Table of Contents](#) for both volumes.

More About Contemporary Civilization:

From 1947 through 1969, all first-year Gettysburg College students took a two-semester course called Contemporary Civilization. The course was developed at President Henry W.A. Hanson's request with the goal of "introducing the student to the backgrounds of contemporary social problems through the major concepts, ideals, hopes and motivations of western culture since the Middle Ages."

Gettysburg College professors from the history, philosophy, and religion departments developed a textbook for the course. The first edition, published in 1955, was called *An Introduction to Contemporary Civilization and Its Problems*. A second edition, retitled *Ideas and Institutions of Western Man*, was published in 1958 and 1960. It is this second edition that we include here. The copy we digitized is from the Gary T. Hawbaker '66 Collection and the marginalia are his.

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4. Mercantilism

The rise of the national state and the expansion of Europe, which have just been described, were accompanied by the further development of commercial capitalism along lines already laid down in the later Middle Ages. The most notable fact about capitalism between 1500 and 1789 was its overall growth, not so much in the development of new techniques (at least not until the very end of the period) as in the wider use and elaboration of old ones. The New Monarchy and its successors afforded protection to businessmen and something resembling a national market. In addition, the government with its military and other needs sometimes provided business with its best customer. The expansion of Europe stimulated capitalism by greatly increasing the physical volume of trade. Beyond that, the larger stock of money, for which this expansion was primarily responsible, encouraged business by fixing a money economy more definitely on Europe, contributing to a rising price level, and making available a larger supply of capital in a convenient form. All in all, capitalism affected directly the lives of a considerably larger percentage of Europe's population in 1789 than it did in 1500, although most of the Continent was still definitely agricultural. Moreover, by 1789 the spirit of capitalism was much more commonly accepted than it had been three centuries earlier. Those who desired it could even find the profit motive now couched in religious terms.

Capitalism itself was still primarily commercial in this period. However, it had begun to make some inroads on agriculture. This was especially true in England and the Low Countries, where there was considerable pressure to make efficient use of the available land, either by the raising of sheep or by large-scale farming. There was also a further application of capitalism to industry in the extension of the domestic or putting-out system. Before 1500 this had been confined largely to the processing of textiles in Italy and Flanders. Later it was extended to France, England, and Germany, where it was used to produce textiles, metalware, and other goods. In 1789 it was the most important method of organizing production in these industries, though as yet it had by no means eliminated the guilds.

Accompanying these developments -- the rise of strong national states, the expansion of Europe, and the growth of commercial capitalism -- was the rise of national economies, as

distinct from the local economies of the Middle Ages. A famous eighteenth century writer, Adam Smith (1723-1790), gave the name mercantilism to the economic principles which many rulers of the early modern period held and to the practices which they pursued. Although the word is misleading because there was more to mercantilism than an interest in commerce, the use of the term has persisted.

The basic purpose of mercantilism was to increase the production of goods and services within the national state, and to make it as nearly as possible a self-sufficient economic unit, in order to enhance its political and military power. The state could then receive more in taxes. If need be, it could throw more men into the field of battle and keep them there. In short, it could play a more prominent role in the European state system. "Trade is the source of public finance," wrote Colbert, "and public finance is the vital nerve of war." Mercantilism was as much political as it was economic.

goal - to increase the power of the state

The basic premise of mercantilism was that it was both necessary and desirable for the state to regulate certain aspects of the economy, in order thereby to make it more productive than it was believed an unregulated economy would be. Regulation was by no means a new idea, having been an accepted feature of the medieval economy. The difference was that now the monarch and his bureaucracy were involved, with a program that was national instead of local, and one that was more frankly secular than ever before.

In general, the middle class supported the program of mercantilism. They did so for many of the same reasons that for centuries had led them to support strong monarchy. Their interests and those of the monarchy happened to coincide again as they had in the past. Both king and bourgeoisie benefited from a strong national economy in which there were a minimum of monetary and other trade barriers and in which natural and human resources were put to advantageous use. While in practice mercantilism accorded only secondary consideration to the rights of individuals and while its regulations were frequently burdensome to the businessman, monarchs rarely interfered with the basic features of commercial capitalism (such as private enterprise) to the point of making middle-class cooperation impossible.

There was a tendency for mercantilists to believe that the power and wealth of a state were measured in terms of its stock of precious metals, not because these metals were considered desirable in and of themselves, but rather because of the power which they could obviously command. The validity of this belief, called bullionism, was enhanced by the fact that, during the early part of this period, Spain gave the appearance of having great wealth, which it was easy to attribute to her silver imports from the New World. A state's stock of precious metals could be increased by domestic mining, or by imports from colonial mines. There was, in addition, another way which

hire troops, talent, buy war materials

suggested itself. Measures could be adopted by the state which might result in a favorable balance of trade: an excess of exports of goods over imports of goods. The difference in value between exports and imports would then be made up by the payment of gold. Most states limited, and some forbade entirely, the export of gold.

There were many ways to encourage exports. The government could subsidize an industry which produced export goods, preferably manufactured items of high value. This subsidy might take the form of direct bounties, exemptions from taxes, or protective tariffs. If necessary, the state could encourage the immigration of artisans. On occasion, it could found new industries and, once they were established, turn them over to private enterprise. A nation might regulate the quality of export goods to assure that they could compete successfully in foreign markets; and it might, if necessary, curtail domestic consumption of these goods to guarantee an adequate supply for the export market.

Steps might also be taken to encourage domestic agriculture, with a view to increasing national self-sufficiency and therefore decreasing imports of commodities that could be produced at home. There were several reasons why the export of certain agricultural products might be forbidden: to keep raw materials in the country for use in domestic manufacturing and to prevent the selling abroad of a commodity, such as grain, which might be in short supply at home.

The government might decree a monopoly of the carrying trade for its own merchant vessels. This would serve two purposes. First, it would keep at home the profits of commerce and marine insurance. Second, it would increase the supply of trained sailors and promote a domestic shipbuilding industry, both important considerations now that many of Europe's wars were fought partly at sea.

A state might attempt to complement its own economy by developing colonies. Such colonies, it was hoped, would become sources of valuable raw materials and foodstuffs not available at home. At the same time, they would be markets for many types of finished goods. To this end, manufacturing in the colonies would have to be limited, or forbidden altogether. Stringent measures would be necessary to prevent other countries from sharing in colonial commerce, either by selling to the colonies or by transporting goods between them and the mother country. One way in which colonies could be developed was by chartering private companies and granting them a monopoly on trading with specified areas, sometimes with extensive powers of government as well. The English East India Company (1600) and the Dutch East India Company (1602) are famous examples of this method. Frequently the monarch or his court profited through participation in these companies.

*buy more and spend less - decrease imports, increase exports.
Invisible export - tourists (bring in money, not much going out)*

There were other policies which fell within the rationale of mercantilism, broadly construed. States tried to increase their population, by encouraging immigration or subsidizing large families. Either because of or in spite of these policies, the population of Europe doubled during this period, reaching about 200,000,000 by 1800. (Most states tried to improve the generally wretched transportation facilities by repairing roads and bridges and by digging canals. They often attempted to standardize weights and measures, eliminate internal tariffs, and provide a national coinage. Sometimes they tried to promote technical education.)

It must be remembered that this generalized program was more often tried than achieved. The features pursued and the success with which they met varied from one state to the next, and depended upon the ability and the ambitions of each particular ruler and his advisers. Even the most determined monarch found that there were limits to what he could accomplish.

(Portuguese and Spanish mercantilism were characterized by efforts to gear colonial empires to the service of the mother country.) In part because many of the internal features of mercantilism were not emphasized by her rulers, Spain declined when her colonial empire no longer provided large amounts of silver. In the absence of absolute monarchy, (Dutch mercantilism was bourgeois in inspiration and control.) Here, it was less political and more economic in its motivation than anywhere else on the Continent. (In both Prussia and Russia mercantilism had as its objective increasing the productivity of economies in land-based, backward states, the rulers of which had political ambitions which hitherto they and their predecessors had lacked the power to realize.)

In France mercantilism is particularly evident after the accession of Henry IV in 1589. Of several important French mercantilists, Jean Baptiste Colbert (1619-1683) is clearly the most significant. He has already been identified as the finance minister of Louis XIV. During almost a quarter century (1661-1683) he tried to coax along the French economy in innumerable ways. In the face of many obstacles he encouraged such industries as textiles, glass, metals, naval stores, and soap. This involved taking the initiative in establishing new works and regulating others already in existence. Working in cooperation with the guilds, which sometimes resisted his innovations, Colbert drew up standards for most industries and then tried to cajole his subordinates into enforcing them. Although his principal emphasis was upon industry, in a number of ways he also promoted agriculture. Colbert improved transportation facilities, joining the Atlantic and Mediterranean by a canal which was one of the great technological achievements of the age. He devised a series of law codes to facilitate the conduct of business. He created joint-stock companies to resuscitate earlier French colonial ventures or to found new ones: in the West Indies, the East Indies, the Baltic, and the eastern Mediterranean. He encouraged the French navy and merchant marine.

*Gobelins Tapestry Co. Protection destroys competition
Guilds were broken up.*

Colbert's measures were not by any means completely successful. He failed, for example, to standardize weights and measures and also to eliminate internal trade barriers. Nevertheless, his activities bespeak tremendous energy on his part. Since he made France for a time the most productive and powerful country in Europe, it is fitting that French mercantilism is often called Colbertism.

English mercantilism falls into two general periods. Until the middle of the seventeenth century, when a political revolution which will be discussed in the following section made the government more responsive to middle-class interests, the driving force was provided primarily by the desires of the monarch. There were regulations requiring Englishmen to eat fish on certain days, prohibiting the exportation of raw wool, regulating the textile industries, and requiring that goods be shipped in English vessels. During the second period many of the internal regulations were allowed to lapse. Emphasis was placed instead on integrating the colonies economically with the mother country and on promoting foreign trade.

There were two types of English colonial possessions. Those in Asia and in the West Indies attracted comparatively few English settlers. They were desired mostly for certain goods which the mother country did not produce: sugar, spices, or tea. The colonies in North America had a climate similar to that of the mother country. They appeared to be more valuable if peopled more heavily and if used to supply raw materials not available in England and as a market for English goods.

A brief summary of the major pieces of legislation enacted by Parliament for the purpose of regulating the colonial American economy will illustrate the important features of English mercantilism.

First, a series of navigation acts, passed between 1651 and 1696, was designed primarily to eliminate foreigners from colonial commerce. The earlier acts mark the beginning of English economic warfare against the Dutch. The Navigation Act of 1660 provided that all export or import trade with the colonies had to be carried in ships built and owned by Englishmen (including colonials) and manned by crews three fourths of whom were English. No foreign merchants could participate in this trade. The act also provided that certain enumerated articles (including sugar, tobacco, raw cotton, and indigo) could be exported only to areas under the English flag. For example, if Virginia tobacco was ultimately to reach France, it had to be sent first to England, where a duty would be paid before it could be reexported, and where an English merchant would make a profit from handling it. The Staple Act of 1663 provided that goods being shipped from Europe to America had to be landed first in the British Isles and a duty paid on them. Later acts extended the list of enumerated articles and tightened enforcement. Nevertheless, there was widespread evasion of the navigation acts.

Second, Parliament moved to protect planters in the British West Indies by a heavy duty on rum, molasses, and sugar imported into the English colonies from neighboring non-English islands. This Molasses Act (1733) was flouted continuously by smugglers who found it cheaper to buy from the French West Indies and bribe British customs officials. In 1764 the Sugar Act was passed, which prohibited the importation of rum, lowered the duty on molasses, and provided for much stricter enforcement than heretofore. As early as 1660, Parliament acted to protect Virginia planters by prohibiting the growing or curing of tobacco in the mother country, in spite of the fact that the climate was suitable.

Third, after 1705 Parliament offered bounty payments to encourage colonial production of naval stores, indigo, potash, and silk. To ensure that such goods would ultimately reach England, they were placed on the enumerated list.

Fourth, a series of acts was passed which were designed to limit colonial manufacturing. The Woolens Act (1699) provided that no wool or woollen cloth could be exported from the colony in which it was produced. The Hat Act (1732) limited the number of apprentices that a hatmaker could have and prohibited the export of hats from the colony in which they were produced. The Iron Acts of 1750 and 1757 represented the answer of Parliament to the demands of two different British interests. The processors of pig iron opposed any colonial iron industry. The manufacturers of iron goods, on the other hand, desired foundries in the colonies to supply them with cheap pig iron. The text of the Iron Act of 1750 indicates which interest won out:

Whereas the importation of bar iron from his Majesty's colonies in America, into the port of London, and the importation of pig-iron from the said colonies into any port of Great Britain, and the manufacture of such bar and pig-iron in Great Britain, will be a great advantage not only to the said colonies, but also to this kingdom, by furnishing the manufacturers of iron with a supply of that useful and necessary commodity, and by means whereof large sums of money, now annually paid for iron to foreigners, will be saved to this kingdom, and a greater quantity of the woollen, and other manufactures of Great Britain, will be exported to America in exchange for such iron so imported; be it therefore enacted by the king's most excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, that from and after the twenty-fourth day of June, one thousand seven hundred and fifty, the several and respective subsidies, customs, impositions, rates, and duties, now payable on pig-iron, made in and imported from his Majesty's colonies in America, into any port of Great Britain, shall cease, determine, and be no longer paid; and that from and after the said twenty-fourth day of June, no subsidy, custom, imposition, rate, or duty

Colonies were to produce the semi-finished products - mother country to ~~then~~ make the finished product.

whatsoever shall be payable upon bar-iron made in and imported from the said colonies into the port of London; any law statute, or usage to the contrary thereof in any wise notwithstanding.

IX. And, that pig and bar-iron made in his Majesty's colonies in America may be further manufactured in this kingdom, be it further enacted by the authority aforesaid, that from and after the twenty-fourth day of June, one thousand seven hundred and fifty, no mill or other engine for slitting or rolling of iron, or any plating-forge to work with a tilt hammer, or any furnace for making steel, shall be erected, or after such erection, continued, in any of his Majesty's colonies in America; and if any person or persons shall erect, or cause to be erected, or after such erection, continue, or cause to be continued, in any of the said colonies, any such mill, engine, forge, or furnace, every person or persons so offending, shall for every such mill, engine, forge, or furnace, forfeit the sum of two hundred pounds of lawful money of Great Britain. *

There can be no evaluation of mercantilism apart from the political developments which made it possible. If it be granted that the strong national state has been a desirable force in the modern world, then the program which most students believe successfully speeded up its economic development has been desirable, too. Nor can it be doubted that mercantilism contributed its bit to the many wars which plagued Western Civilization between 1500 and 1800. By suggesting that the wealth of the world and the amount of trade in it at any one time were fixed, mercantilism encouraged statesmen to believe that any improvement in their own country's situation of necessity had to be at the expense of one or more other powers.

Beginning in the eighteenth century, mercantilism was challenged and, temporarily at least, discredited. In general, its opponents were the very same persons who were now criticizing absolute monarchy, the spokesmen for the middle class which had for many years supported them both. That support was withdrawn when the middle class no longer felt that it needed the help of the absolute monarch and when mercantilism appeared to hinder rather than help its further development. However, many of the mercantilist regulations continued into the nineteenth century. And it would appear in more recent times, which have seen the revival of government control of economies for nationalistic ends, that mercantilism has not spoken its last word.

* Merrill Jensen, ed., American Colonial Documents to 1776 (Volume IX, English Historical Documents) (New York: Oxford University Press, 1955), pp. 416-417. Used with permission.