


A scroll of aged, yellowish parchment with a slightly textured surface and irregular, torn edges. The scroll is unrolled, showing a central rectangular area. The word "Mercantilism" is written in a bold, black, serif font, centered horizontally and vertically on the parchment. The scroll is set against a white background, which is itself framed by a blue border at the top and bottom.

Mercantilism

Mercantilism (16th – mid 18th centuries)

- The word comes from the Latin word *mercari*, which means "to run a trade"
- Name coined by later economists, including Adam Smith
- Mercantilist writers were businessmen, people engaged in commerce
 - Keep in mind that there is not really any one "mercantilist" theory
 - Individual writers were usually seeking some sort of policy that would help them in their businesses
- Most Mercantilists were British

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- The 'Commercial Revolution' which took place between 1450 and 1750 brought a revolutionary change in the economy of Europe.
 - Many countries of Europe encouraged the intervention of state in commercial activities for the increase of national wealth and power.
 - This gave birth to 'Mercantilism' which played a vital role for the economic prosperity of a country.

This Mercantilism created a milestone in the field of European Economy.

Mercantilism

Mercantilism is a pre-classical economic thought, dominant in Europe from the 16th to the 18th century, that promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national power.

This economic doctrine suggests that prosperity is reached by promoting manufacturing. The aim is to increase exports and restrict imports, thus accumulating gold and precious metals, relevant as a sign of wealth.

Mercantilism m

- An economic theory that states that the world has only a **fixed amount of wealth** and to increase a country's wealth, one country had to take some wealth from another.

Mercantilism (continued)

- Mercantilism represented the elevation of commercial interests to the level of national policy



What happens in Mercantilism?

Historical Background of Mercantilism

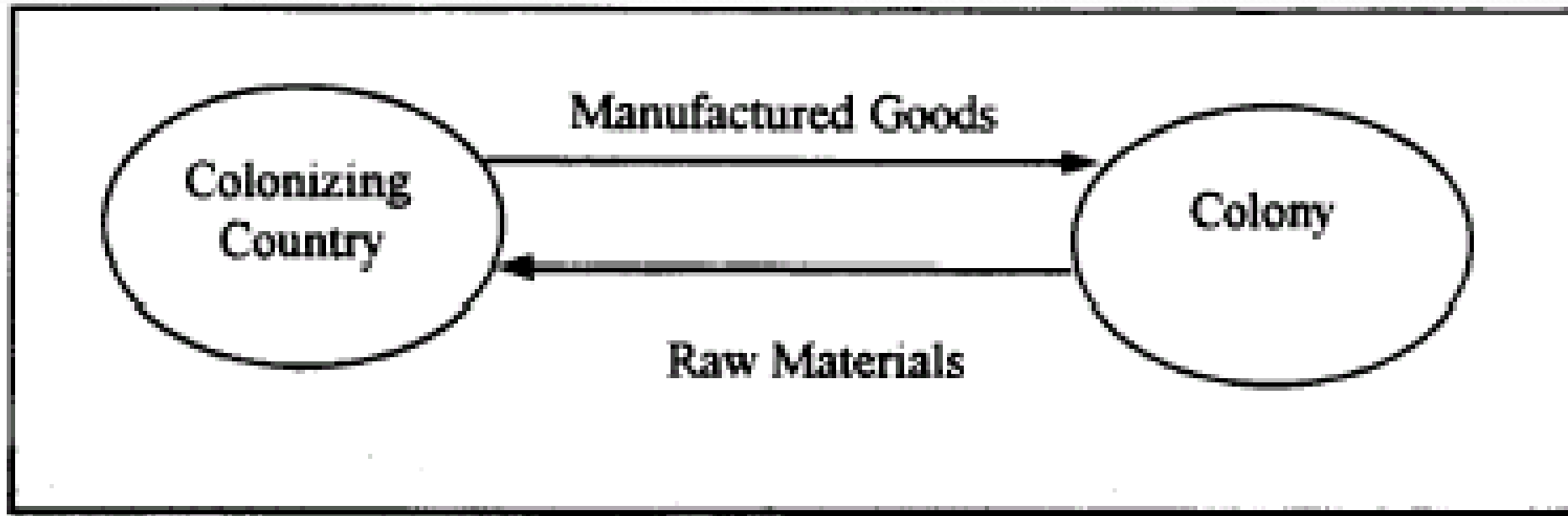
- Generally, Mercantilism is associated with the rise of the “Nation state.”
- Feudal institutions were weakened by the increasing use of money and a greater reliance on exchange within the economy.
- The Protestant Reformation weakened the role of the church and consequently the civil role of the state was expanded
- There was a rise of Humanism (the concern for well-being of humans in the short term).

□ The decline of feudalism was influenced by changes in technology

- “enclosure movement” and the commercialization of agriculture
- Increasing use of money in the economy reduced the role of barter and reciprocity, people wanted to sell or work for money
- nailed horse shoe, harness, stirrup, horse collar, heavy plough
- three-field system [1 field winter crop, 1 field spring crop, third lying fallow] extended area peasant could farm by 1/8, 50% increase in output
- rise of mechanical power [water, wind] used in textile and mining
- urbanization

- rise of markets and fairs
- gunpowder
- improvements in navigation, shipping, transport
- moveable type, (standardization, mass production and marketing of books in a variety of languages)
- mechanical clocks, mechanisms, instruments, Increased skills of craftsmen who made machines

Mercantilism



Mercantilism

Low or no taxes on imports of raw materials

Government helps home industry grow

High taxes on imports of finished products

Use of staple ports

No use of foreign ships for foreign Trade

No exportation of precious metals

High taxes on exports of raw materials

No taxes on exports of finished goods

Colonies banned from trading with other nations

Causes of the Rise (emergence)of Mercantilism

- **Mercantilism grew due to several reasons. At first, the Renaissance did not accept the religious doctrine of Medieval Europe. It explained 'Materialism' as one of the mediums of human happiness. So, everybody dreamt to lead a happy and prosperous life. This gave birth to Mercantilism.**
- **Secondly, the Fall of Feudalism was another cause for the rise of Mercantilism. With the fall of feudalism, the fate of agriculture was doomed. This encouraged the small-scale industries. The towns and guilds wanted the increase of these industries. They wanted to export the surplus of these productions. This led to the rise of Mercantilism.**

- **Thirdly, the Reformation Movement encouraged the merchants. The results of the Reformation Movement carried on by Martin Luther in Germany and Henry VIII in England were far reaching. They condemned the unnecessary intervention of Pope in Political and Economic affairs except religion.**
- **Martin Luther opposed the Pope so much so that he was issued 'Bull of excommunication' by the Pope. However, Luther did not bend before it. In a similar vein Henry VIII of England did not obey Pope and brought reformation in the Church of England.**

All these activities encouraged the merchants to take up their business independently. This encouraged Mercantilism.

- **Fourthly, the Guilds and Banking System gave great impetus for the growth of Mercantilism. The guilds acted as distribution centres and exported the surplus to outside countries. This encouraged the international trade which was well-regulated by the banking system.**

Thus, Mercantilism grew out and out.

- **Fifthly, the Geographical Discoveries encouraged Mercantilism. The sea voyage of Columbus, Vascodagama, Magellan and others encouraged Mercantilism.**

- **Sixthly, Political Patronage established Mercantilism on sound footing. The kings wanted to reduce the power of the feudal Lords and Barons.**

So, they encouraged the merchants for trade. Henry, ‘the Navigator’ of Portugal and Henry VIII and Queen Elizabeth of England patronised sailors. Their patronage established Mercantilism on sound footing.

- **At last, Scientific Invention and Discoveries helped a lot in the growth of Mercantilism. The telescope invented by Galileo helped the merchants in their journey. The Mariner’s Compass also helped the merchants a lot to determine direction inside the deep sea. These inventions made merchants confident for maritime trade which galvanised Mercantilism**

Major Tenets (features or characteristics) of Mercantilism

- ❖ There was an emphasis on gold and silver as “wealth”
The “bullionists” opposed the exportation of any specie
- ❖ Acquisition of gold and silver through “favorable balance of trade,” colonies or conquest
- ❖ C. Nationalism (militarism - strong army/navy) was an impetus for militarism to win and hold colonies or engage in conquest.
- ❖ D. Colonies to supply resources or gold – colonies were suppliers of resources and markets for finished goods.
- ❖ E. Trade policy tended to be to import raw materials, export finished goods. Goal was a favorable balance of trade i.e. exports > imports.

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- ❖ F. Low wages, large population, educated workers, increased productivity, mobility of inputs domestically
 - ❖ G. Regulations on international trade and technology
 - ❖ H. Regulation and taxation of domestic economy
 - ❖ I. Strong central government and taxation
 - ❖ J. Goods transported by

The Mercantilists' View on Trade

- In the 17th century a group of men (merchants, bankers, government officials, and philosophers) wrote essays on international trade that advocated an economic philosophy known as **Mercantilism**.
- In their view, a country becomes rich if it exports more than it imports.
- The surplus in trade balance will result in an inflow of precious metals; gold and silver.
- The more precious metals means a richer and more powerful nation.
- Countries have to do their best to increase exports and restrict imports.

Mercantilism

- This practice of **regulating** colonial trade for the profit of the mother country was called **mercantilism**
- The colonies were expected to **produce** what England needed and to **buy** everything that they needed from England



EUROPE

THE NETHERLANDS

ENGLAND

FRANCE

SPAIN

NORTH AMERICA

LABRADOR

Hudson 1610

La Salle 1679-1682

Champlain 1615

St. Lawrence R.

Ohio R.

Arkansas R.

Red R.

MEXICA EMPIRE

Tenochtitlán (became Mexico City in 1521)

Cortés 1519

Narváez & Cabeza de Vaca 1528-1536

St. Augustine (1565)

Ponce de Leon 1513

Cuba

Hispaniola

Balboa 1510-1513

Orinoco R.

Pizarro 1531

INCA EMPIRE

Lima (1535)

SOUTH AMERICA

ATLANTIC OCEAN

PACIFIC OCEAN

CANARY IS.

Menéndez de Aviles 1565

Columbus 1492-1493

Columbus 1502

Vespucci 1499

Columbus 1498

Raleigh 1585-1586

Verrazano 1524

Ayllón 1526

Hudson 1609

Cabot 1497

Cartier 1535

Gilbert 1583

Frobisher 1576

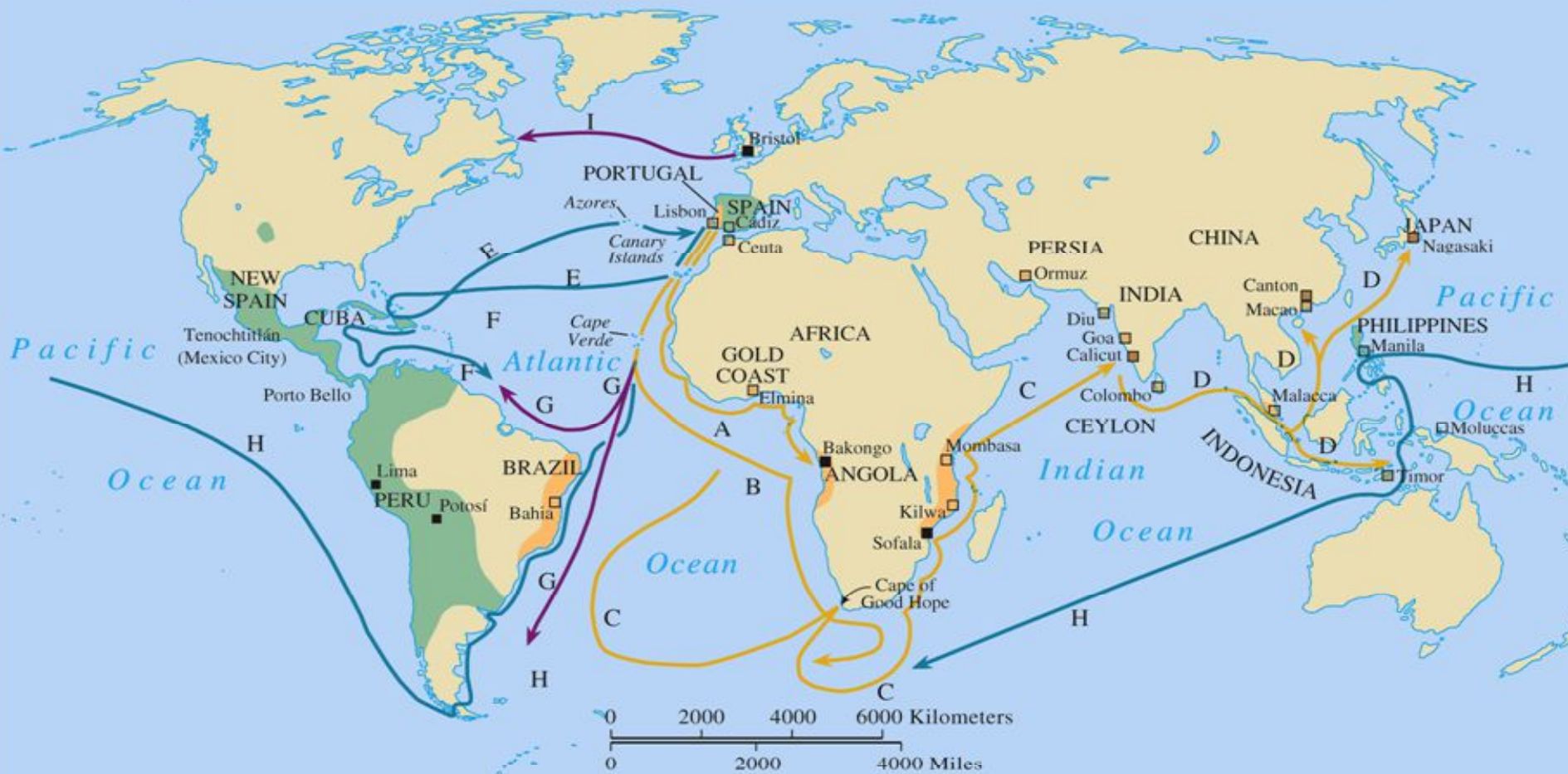
Treaty of Tordesillas, 1494

- ← Dutch
- ← English
- ← French
- ← Spanish

0 750 1,500 miles
0 750 1,500 kilometers

Principal Voyages of Exploration

- | | |
|---|--|
| A Portuguese expeditions, 1430s–1480s | F Columbus's three successive voyages, 1493–1504 |
| B Dias, 1487–1488 | G Voyages attended by Vespucci, 1499–1502 |
| C da Gama, 1497–1499 | H Magellan–del Cano, 1519–1522 |
| D Portuguese voyages to the Orient, 1509–1514 | I Cabot, 1497 |
| E Columbus's first voyage, 1492 | |



 Areas under Spanish control	 Spanish trading cities	 Spanish routes
 Areas under Portuguese control	 Portuguese trading cities	 Portuguese routes
	 Independent trading cities	 Other routes

Characteristics of Mercantilism:

- **Foreign Trade:**

At first, the merchants put emphasis on foreign trade. They knew that gold and silver are not plentifully available in many countries. They wanted to procure gold and silver from other countries by sailing their own products to them. This was in fact, one of the great characteristics of Mercantilism.

- **Emphasis on Money:**

Money, 'brighter than sun-shine and sweeter than honey' was another feature of Mercantilism. The merchants had understood that for the development of trade, money is needed. So, they discarded 'barter'. They had felt that "Money is what money does". So money economy promoted Mercantilism.

- **Profit and Interest:**

Moore, a notable economist had advised to charge interest on principal when money was lent. It increased the amount of money inside a country. On the other hand, it also inspired a trader to work hard for the repayment of money what he had borrowed and also encouraged him to be rich. Thus, profit and interest became two sides of Mercantilism.

- **Population:**

Mercantilism put emphasis on population. Devenant had opined that the real power of a country is its population. The presence of more population helps in the growth of industry which leads to more production. Samuel Fortre had advised that in case of need, the refugees are to be employed in different factories and given shelter in the country for more production.

Medium of Production:

- The exponents of Mercantilism put emphasis on ‘land’ and ‘labour’. In the language of Peltti “Labour is the father... as lands are the mother”. So, Mercantilism delivered a message that a country should be economically prosperous. By this, a country should be self-sufficient in production.

Regulation of Trade and Commerce:

- The merchants of Europe had devised means to regulate trade and commerce of a country. Every European Country framed laws to regulate its trade and commerce. By these laws, it was not possible to import goods from outside countries. This helped in exporting the surplus of the country.

- **Encouragement to Capitalism:**
- Mercantilism was meant to encourage capitalism. The capitalists invested their capital and made mercantilism more mobile. It was difficult on the part of Mercantilism to thrive without capital. This helped in the growth of trade and commerce.
- **The Golden Principles:**
- The 'Golden Principles' of Mercantilism contained its chief characteristics. Those principles were self-dependency, industry, mine, commerce, naval power, colony, unity etc. Being guided by these principles, colonialism reached the pinnacle of success.

Criticism against Mercantilism

- 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 favourable 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.

Important Mercantilist Writers

Sir William Petty (1623-1685)

Petty is regarded as the founder of political economy. He is remembered for his contribution in the field of statistical methods and economic theory. He had a quantitative bent of mind. He was the first to develop a fact finding approach on economic enquiry. As a statistician Petty confined himself only to the employment of quantitative data and used simple average as the statistical technology. His most famous work was the *Treatise of taxes and contributions* (1662)

Thomas Mun (1571-1641)

He was born in England in 1571. He was a merchant by profession. His famous book is England's Treasure of Foreign Trade. Mun was responsible for shaping the trade policies of England during his time. He advocated the fundamental rule of International Trade. To him the rule of international trade should be “to sell more to strangers yearly than we consume of their in volume.” He was an ardent believer of nationalism and a strong govt. This according to him would be realized only by accumulation of treasure. He suggested imposition of heavy import duties on goods meant for domestic consumption and moderate duties on export. He also recognized the importance of taxation.

David Hume (1711 -1766) .

John Locke studied the effect of a once - for - all change in money supply on the price level. Hume dynamised Locke's argument by establishing a causal relationship between money supply and price level, Hume recognized the existence of proportionate relationship between money supply and price level, keeping volume of trade and velocity of money constant: He considered only the standard of value and medium of exchange function of money. He ignored the store of value function of money.

Richard Cantillon (1680 -1734)

Cantillon strictly followed Petty in his method and problems

Cantillon defined wealth as everything that gives satisfaction and labour and capital as the true source of wealth. Capital was regarded as a dependent factor produced jointly by land and revenue. In his discussion on value Cantillon's most significant contribution was in the field of money. He analysed the relationship between money supply and price level..

To sum up Cantillon's fame lies in his analytical contribution to the theory of value and money and his description of the circular flow of national income.