

Mercantilism

An Outline

R. Larry Reynolds
Boise State University

MERCANTILISTS (about 1500 – 1800 or 1776)

The mercantilists were "Pamphleteers" rather than a school of thought. They had no systematic, comprehensive, consistent treatise, no leader, common method, or theory. Each "mercantilist" sought advantage for a specific, trade, merchant, joint-stock company or social group. "Protectionism" is often seen as a primary characteristic of Mercantilism.

The primary objective of Mercantilism was to increase the power of the nation state. One of the important aspects of national power or strength was wealth that was equated with specie. The states that followed a policy of mercantilism tended to see trade, colonialism and conquest as the primary ways of increasing wealth.

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I Historical background of Mercantilism

- A. Generally, Mercantilism is associated with the rise of the "Nation state."
- B. Feudal institutions were weakened by the increasing use of money and a greater reliance on exchange within the economy.
- C. The Protestant Reformation weakened the role of the church and consequently the civil role of the state was expanded
- D. There was a rise of Humanism (the concern for well-being of humans in the short term).
- E. 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
- F. The decline of feudalism and the Plague
 - The "Black Death" of 1346-61
 - restricted trade

- reduction in population
Population of England fell by about 1.5 million (out of a population of 3.5 to 5 million in 1346)
Result was more money per person but also more animals, land and goods per person, prices fell
Labour shortage pushed wages and earnings up
Less people with increased agricultural production (some problems with harvests and animals dying, but on average diets improved.
Labour became more mobile, masters on feudal estates had to "hire" labour. This led to the rise of "free" labour. If you couldn't hire workers, then you rent the land to others. Small farms with limited labour shifted to pasture and sheep rather than tilling the soil.
*Baa Baa, black sheep, have you any wool?
Yes sir, No sir, three bags full.
Two for my master and one for his dame
But none for the little boy who cries down the lane.*
- Increased production of wool; need industry and commerce to process and sell wool and textiles.
- strengthening of guilds leads to an emphasis on trade

I Major tenets of Mercantilism

- There was an emphasis on gold and silver as "wealth"
The "bullionists" opposed the exportation of any specie
Thomas Milles (1550-1627) ,
Thomas Culpeper (1578-1662),
Gerard de Malaynes (1586-1641)
[goal was to increase the stock of bullion]
Later the rigid policies on complete exportation of bullion or specie were relaxed.
- Acquisition of gold and silver through "favorable balance of trade," colonies or conquest
- Nationalism (militarism - strong army/navy) was an impetus for militarism to win and hold colonies or engage in conquest.
- Colonies to supply resources or gold – colonies were suppliers of resources and markets for finished goods.
- Trade policy tended to be to import raw materials, export finished goods. Goal was a favorable balance of trade i.e. exports > imports.
- Low wages, large population, educated workers, increased productivity, mobility of inputs domestically
- Regulations on international trade and technology
- Regulation and taxation of domestic economy
- Strong central government and taxation
- Goods transported by ships flying the country's flag, Monopolization of colonial trade, (ships and ports)

III Early Writers -

- Niccolo' Machiavelli (1469-1527)
 - Author of The Prince, 1512
 - Machiavelli's work is associated with the rise of nation state
 - Morality was necessary as guide to private actions
 - Politics should be free from ethical or theological influence
 - general postulate about human nature, self- interest
 - empirical bent [Bacon sees Machiavelli as predecessor]
- Jean Bodin (1530-1596)
 - Contributions to "quantity theory of money"
 - Accepted mercantilist position on balance of trade, but saw price inflation as result of inflow of specie
 - believed in supreme power of the state and natural law
- Antonio Serra (1580-1650)

- Serra was one of the first writers who constructed a systematic development of "Mercantilism." In 1613 he published, *A Brief Treatise on the Causes which make Gold and Silver abound in Kingdoms where there are no Mines* [written while in prison for trying to free Naples from Spanish rule]
- Agriculture and trade in manufactured goods most important source of wealth to a nation.

IV Representative Mercantilists

A. Thomas Mun (1571-1641)

- successful businessman, a director of East India Trading Company
- "A Discourse of Trade from England into the East Indies," (1621), "England's Treasure by Foreign Trade, or our Foreign Trade is the Rule of our Treasure," (written about 1628, published 1664)
- Defined doctrine of "favorable balance of trade."
- Argued favorable balance of trade was only means of increasing the wealth of England
- England's waste lands should be cultivated (no importation of food)
- money to be exported if greater could be earned sum earned (in East India Trading Company's interest)
- OK to export bullion because if not, prices would rise and reduce exports, 16th century Spain as example
- Trade "amongst ourselves will not enrich the commonwealth"

B. Gerard de Malynes (1586-1641)

- Master of the Mint (a position later held by Sir Isaac Newton in 1699), and Merchant
- Pamphlets
 - "A Treatise on the Canker of England's Commonwealth," (1601),
 - "The Maintenance of Free Trade," (1622),
 - "The Centre of the Circle of Commerce," (1623),
 - "Lex Mercatoria," (1622)
- Favored exchange control ["bullionist"]
- Opposed "usury"
- Just as a family will suffer a decline in wealth if purchases exceed income, so will a commonwealth
- Terms of trade, the relationship between prices of imports and exports
 - Banks could manipulate exchange rates for their own gain, prohibit export of bullion, need for control on exchange dealings of private financiers
- more money would increase prices and stimulate business
- regulation of quality of goods was necessary

C. Jean Baptiste Colbert (1619-1683)

- French – architect of "Colbertism" in France
- French Minister of Finance under Louis XIV
- "Bullionist," opposed exportation of bullion
- Four professions of importance to the nation,
 - agriculture, trade, army and navy
- saw colonies as markets and supplier of raw materials
- "fixed sum game" one nation gains only at expense of another
- Commerce was "continual and bitter war"
- Wanted to facilitate internal trade, uniform weights and measures, opposed tolls on internal trade, mandatory labour on roads
- never hesitated to use power of state
- Favored large population [father of 10 exempt from taxes], low wages, child labour
- contempt for business
- Monks, lawyers officials were "unproductive"

C. Sir William Petty (1623-1687)

Petty had many characteristics of a mercantilist, however his work is more systematic than most. His attempts to quantify economic and demographic characteristics and to apply empirical methods helped lay the foundation for Classical Economics.

- Petty was a self-made man. He was the son of a poor Hampshire clothier, Latin scholar at 12, and cabin boy at 14. He was put ashore in France with broken leg and was educated at the University of Caen (Jesuit). He studied medicine in Amsterdam, "brought back to life" a woman hanged in Scotland, was Secretary to Hobbes (who had been secretary to Bacon), MP, surveyor
- Had a strong interest in science, technology (some credit with WC)
- Example works: "*Political Arithmetik*," (about 1676), "*Quantulumcunque Concerning Money*," (1682)
- Empirical bent from Bacon-Hobbes
- Not a Cartesian, rather Empiricist
- "statistician" measurement, estimation and averages
 - Engaged in the analysis of masses of quantitative data,
 - Derived estimates from fragmentary and dubious data,
 - On basis of a 30% increase in exports from Ireland, Petty estimates the population of Ireland increased 30%
 - Population of London is estimated by number of burials times 30 or number of houses times 6 (based on death rate and number of people supposedly living in each house)
 - Population of England is population of London times 8

Petty as macroeconomist

- Considered induced effects of additional spending, early forerunner of "multiplier effect"
- public works to provide employment, "Now as to the work of these supernumeraries, let it be without expense of foreign commodities, and then it is no matter if it be employed to build a useless pyramid on Salisbury Plain, bring the stones at Stonehenge to Tower-Hill, or the like." (note a much later statement by Keynes)

Petty as microeconomist

- Theory of value is "Land and Labour"
 - "labour is the father and active principle of wealth as lands are the mother."
- "Doctrine of the Par," common yardstick of value is average man's daily requirement of food. Value of land can be converted into the value of labour, anticipates "opportunity cost"
- Some returns to land are costless, i.e. don't use up resources,
- interest is compensation for inconvenience, as prices rise, so will rents on better land
- implies backward sloping supply of labour

Petty as Mercantilist

- Not as dogmatic on "favorable balance of trade" as contemporaries, favored "freer trade"
- tax imported goods, low tax on imported raw materials
- opposed prohibition on export of money (not a bullionist)
- favored use of English shipping and fishing
- favored large population, increasing returns to gov't
- poll tax to get parents to send children to work
- no capital punishment, slavery
- unemployed work for state to build infrastructure, paid by taxes

Petty's monetary thought

- too much or too little money is prejudicial to trade
- England should have more money than other states, money as "fat"
- Estimate of appropriate amount of money related to "velocity" [pay periods]
- not enough money? found a bank!
- Too much money? melt it down

Petty as “forerunner” to Classical Economics

- Velocity
- Division of labour
- primitive differential theory of rent
- role of capital and increased productivity
- Labour theory of value and for land

V Those who Benefited from Mercantilism

- A. Rent seeking behavior [profits beyond those that are necessary to keep merchant capitalist engaged in trade]
- D. merchant capitalists, joint stock companies
- E. Monarchs, Kings, Queens
- F. Government officials

VI Was Mercantilism “correct?”

- A. Spain, Holland (Netherlands) and Britain were able to rule the world at different times using these policies
- B. Remnants of mercantilism in Japanese, American, EC trade policy

VII “Price specie-flow mechanism” and the Quantity theory of money

- A. Problem of maintaining a “favorable balance of trade as a long term policy
- B. Inflow of specie results in domestic prices rising, relative prices in foreign economy fall, since prices are relatively lower (to domestic buyers) in foreign countries, domestic buyers purchase more (increase imports). Foreign buyers are faced with higher relative prices in our economy so buy less (decrease exports) balance of trade automatically reverses

VIII Quantity theory of money

- A. Result of specie-flow problem in last half of 1500's
- B. Implies a “supply and demand for money”
- C. Prices are a function of the money supply
- D. Development of theory stretches over 300 years
- E. Nicholas Copernicus (1473-1543)
 - 1526 Copernicus wrote Monetae Cudendae
 - 1522 he offered an explanation to the Prussian Diet on the principles for a sound currency
 - “Money usually depreciates when it becomes too abundant.”
 - Not published until 1800's, so not much influence
 - Spanish experience in 16th century not cause of Copernicus' idea
- F. Martinus de Azpilcueta Navarrus (died 1586)
 - 1556 Navarrus published manual on moral theology with appendix on usury
 - Question was whether financiers could morally profit from variations in the value of money
 - “Money is worth more when it is scarce than where it is abundant”
 - Where money is scarce, goods and services have low prices
 - human need is reflected in prices {Aristotle}
- G. Jean Bodin (1530-1596) and the Quantity theory of Money (QTM)
 - Credited for stating the QTM in 1568 in a response to Malestroit
 - Navarrus and Bodin both students at University of Toulouse , “Multiple discovery?”
 - He sees 5 causes for increase in prices:
 - Abundance of gold and silver
 - Monopolies
 - Scarcity of goods [caused by exports and waste
 - Luxury for nobility
 - Debasement of coin