

## Mercantilism: An Economic School of Thought of Early-modern Era

Md. Abdul Hye

Lecturer, Department of History, Sunamganj Govt. College, Sunamganj, Bangladesh

\*Corresponding Author

Md. Abdul Hye

Email: [ahyeju@gmail.com](mailto:ahyeju@gmail.com)

**Abstract:** This article poses a broad view of mercantilism which is an important school of thought in economics at the early modern age. Based on literature review, the article tries to analyze the rationale and causes behind the development of mercantilism and its relevancy to contemporary world. In addition, it discusses on the main features of mercantilism so that the reader can relate the idea with contemporary economic school of thought.

**Keywords:** Mercantilism, Economic Thought, Laissez-faire, Colbertism

### INTRODUCTION

Mercantilism is an economic system i.e. economic ideas and policies which developed between the middle age and the rise of 'laissez faire' economic system from 16<sup>th</sup> to 18<sup>th</sup> century. It is a system by which the national acting in the economic sphere sought to increase its own power, wealth and prosperity. The system expresses the view that 'trade' determines the wealth of a nation. Thus, mercantilism serves the interest of a nation as Professor Edmund Whittaker describes it 'as the economic counterpart of political nationalism' [1]. It includes 'a national economic policy aimed at accumulating monetary reserves through a positive balance of trade, especially of finished goods' [2]. Mercantilism can be generally referred 'largely a reflection of the rise of commercial capitalism' [3]. The system prevailed over Europe e.g. England, France, Germany, Spain, Portugal and Russia. This school of thought is not a core economic doctrine rather 'a collection of temporary expedients- a thing of shreds and patches' [4]. The idea of Mercantilism is a generic term and was given by different scholars in different names through their own interpretation as *Mercantile system*, *Commercial system*, *Colbertism*, *Restrictive system* etc.

### BACKDROP OF THE RISE OF MERCANTILISM

There were various factors responsible for the rise of mercantilism in Europe in the middle age.

Firstly, about the beginning of 16<sup>th</sup> century religious and intellectual awakening were tremendous, the Reformation and the Protestantism spread the ideas of individualism and personal freedom. The corruption of Churches led the people, slowly and gradually, from 'divine right' to personal freedom. The rise of protestant religion provided a new approach to divine right (Christianity) and rational concept of religion, laying considerable emphasis on the monetary aspects

of life and thus Kings became powerful as they were the head of the worldly affairs. Besides Protestantism, Renaissance and Humanism played a dominant role in shaping the creation of new ideas based on worldly affairs rather than spiritual life. Renaissance provided a strong breakthrough against medievalism where people began to disbelieve the promised pleasures of spiritual world and laid emphasis on the achievement of real happiness through economic activities in this Earth.

Secondly, economic and political factors existed in Europe in late 15<sup>th</sup> century influenced the promoting of mercantilist thought which included the downfall of feudalism, lack of state organization, rise of free labor class, competition and development of exchange economy. As mercantilists were interested in practical problems of making a 'strong state', more money was needed for a King to maintain a huge army and the whole art of war centered on money i.e. gold, silver etc. Thus, the mercantilist idea had been spread that the money and not the courage was the main factor of influence of war to gain more power.

### ESSENCE OF THE SCHOOL OF THOUGHT

Mercantilism flourishes on the reminiscence of feudalism in Europe existed in the middle age. Through the wave of Renaissance and other intellectual awakening in Europe during the middle of the 15<sup>th</sup> century, the features of middle ages (darkness) were faded away. At the same time nationalism became a strong force as Europe changed greatly as result of the Renaissance, the Reformation and the Geographical discoveries. These factors tended towards a fundamental political change which resulted in the emergence of strong nation states like England, France, Germany and Spain etc. King became powerful as each nation state wanted to preserve its independence and considered the other nations as its political rival. The political teachings of Machiavelli (1469-1527)

influenced the thought of the ruler to create a strong and powerful state, mainly, through foreign policy, as mercantilists do, to regulate the political and economic activity of the people. According to the political teachings of Machiavelli, 'power (the Lion) and deception (the fox) are the two essential means for the conduct of foreign policy' [5].

As Mercantilism was not a scientific doctrine, a complete mercantilist, in fact, never exists. It had many spokesmen who elaborated the discipline through their views, actions and policy suggestions which are generally described as mercantilist theories. The forerunner of mercantilist school, flourished during 15<sup>th</sup> century, were Jean Baptiste Colbert and Antoine De Montchretien of France, Sir Thomas Mun, Sir William Petty and Sir Josiah Child of England.

The core of mercantilist ideas was 'to make a country strong' [6] and the role of exchange of money led to the expansion of trade to accumulate precious metal of gold and silver. The more the accumulation of precious metal the stronger the army would be and more powerful the country be.

Trade became the most important occupation of mercantilist ideas and it must be conducted and regulated in such way that gold and silver come into the country. To implement the idea there must be needed 'a favorable balance of trade' [7] which means an excess of exports over imports. Thus, mercantilists demanded, argued by Eric Roll, 'a state strong enough to protect the trading interest and to break down the many medieval barriers to commercial expansion' [8]. As mercantilism was a phase in the history of economic policy, 'state intervention was an essential part of mercantilist doctrine' [9] for building up of nation-states through using monetary, protectionist and economic devices by the state.

It can be summarized with the following features, as mercantilists a) gave importance only for national advantage; b) laid great emphasis on national policies for increasing the stock of precious metals; c) aimed maximum exports and minimum imports; d) sought favorable balance of trade by direct promotion of exports and restrictions of imports; e) aimed, ultimately, the creation of a strong and powerful state.

The mercantilists are the patrons of promoting trade to acquire 'favorable balance of trade', so it is the merchant class who were the beneficiaries of mercantilist school. The mercantilist school of thought developed in the changing economic, political and societal circumstances prevailing during the middle age. Each nation-state tried to strengthen its power through bolstering its army to combat with others for

strengthening its position in the distant colonies. So mercantilist arguments were important for prevailing circumstances in Europe.

## RELEVANCY OF THE THOUGHT IN CONTEXT OF CONTEMPORARY WORLD

Patronizing trade, protectionism and government intervention are some of the reminiscence of mercantilist idea. Trade was strictly regulated by government in mercantilism. The now Newly Industrial Countries (NICs) of south-east Asia had adopted the policy of protectionism during 1950s and 1960s which was realized by the 16<sup>th</sup> century mercantilists. The NICs followed the 'infant industry argument' of classical theory which helps to protect infant industries of developing countries from 'the adult one' of developed countries. One of the arguments in 'development economics' which became a distinct discipline after post world war period suggest that the 'state have to play an active role in developing countries because of market failure' [10]. The mercantilist idea of protectionism and government intervention is still prevailing in various forms though the main idea was opposed to the now dominant idea of 'laissez-faire' economy. Paul Krugman rightly says 'economic fallacies never die –at best they slowly faded away' [11]. Economists, sometimes, 'find close relationship between mercantilism and state-socialism today' [12].

## CONCLUSION

Mercantilists developed a sort of macro-economic approach to the problems of the society. Mercantilism was an economic policy bound up with political doctrine or nationalism. The mercantilists overestimated the importance of commerce and underestimated the relative importance of agriculture in an economy. The idea of gaining, in trade, of one nation was loss for another is proved wrong as 'trade is no longer a zero-sum game rather a win-win game' [13] as proved by classical economist David Ricardo in his Comparative Advantage theory. The mercantilists' idea of promoting favorable balance of trade was not flawless but this idea paved the way for many western nations for their transformation from 'commercial capitalism' to 'industrial capitalism'. The mercantilists' ideas are powerful even today, in the words of Eric Roll, 'down to the present day they all reappear from time to time in various guises as symptoms and weapons of economic conflict' [14].

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