

## Chapter 1 : The Later Mercantilists: Josiah Child (1688-1753) and John Locke (1632-1704)

*Mercantilism is a national economic policy that is designed to maximize the exports of a nation. Mercantilism was dominant in modernized parts of Europe from the 16th to the 18th centuries before falling into decline, although some commentators argue that it is still practiced in the economies of industrializing countries in the form of economic interventionism.*

Colbertism French finance minister and mercantilist Jean-Baptiste Colbert served for over 20 years. Mercantilism arose in France in the early 16th century soon after the monarchy had become the dominant force in French politics. In 1664, an important decree banned the import of woolen goods from Spain and some parts of Flanders. The next year, a number of restrictions were imposed on the export of bullion. The height of French mercantilism is closely associated with Jean-Baptiste Colbert, finance minister for 22 years in the 17th century, to the extent that French mercantilism is sometimes called Colbertism. Under Colbert, the French government became deeply involved in the economy in order to increase exports. Protectionist policies were enacted that limited imports and favored exports. Industries were organized into guilds and monopolies, and production was regulated by the state through a series of more than one thousand directives outlining how different products should be produced. Colbert also worked to decrease internal barriers to trade, reducing internal tariffs and building an extensive network of roads and canals. He was less successful in turning France into a major trading power, and Britain and the Netherlands remained supreme in this field. Economic history of Canada France imposed its mercantilist philosophy on its colonies in North America, especially New France. It sought to derive the maximum material benefit from the colony, for the homeland, with a minimum of imperial investment in the colony itself. The ideology was embodied in New France through the establishment under Royal Charter of a number of corporate trading monopolies including La Compagnie des Marchands, which operated from 1664 to 1674, and the Compagnie de Montmorency, from that date until 1680. These were the first corporations to operate in what is now Canada. Mercantilist policies were also embraced throughout much of the Tudor and Stuart periods, with Robert Walpole being another major proponent. In Britain, government control over the domestic economy was far less extensive than on the Continent, limited by common law and the steadily increasing power of Parliament. With respect to its colonies, British mercantilism meant that the government and the merchants became partners with the goal of increasing political power and private wealth, to the exclusion of other empires. The government protected its merchants and kept others out through trade barriers, regulations, and subsidies to domestic industries in order to maximize exports from and minimize imports to the realm. The government had to fight smuggling, which became a favorite American technique in the 18th century to circumvent the restrictions on trading with the French, Spanish, or Dutch. The goal of mercantilism was to run trade surpluses, so that gold and silver would pour into London. The government took its share through duties and taxes, with the remainder going to merchants in Britain. The government spent much of its revenue on a superb Royal Navy, which not only protected the British colonies but threatened the colonies of the other empires, and sometimes seized them. The colonies were captive markets for British industry, and the goal was to enrich the mother country. British mercantilism thus mainly took the form of efforts to control trade. A wide array of regulations were put in place to encourage exports and discourage imports. Tariffs were placed on imports and bounties given for exports, and the export of some raw materials was banned completely. The nation aggressively sought colonies and once under British control, regulations were imposed that allowed the colony to only produce raw materials and to only trade with Britain. This led to friction with the inhabitants of these colonies, and mercantilist policies such as forbidding trade with other empires and controls over smuggling were a major irritant leading to the American Revolution. The other nations of Europe also embraced mercantilism to varying degrees. The Netherlands, which had become the financial centre of Europe by being its most efficient trader, had little interest in seeing trade restricted and adopted few mercantilist policies. The Habsburg Holy Roman Emperors had long been interested in mercantilist policies, but the vast and decentralized nature of their empire made implementing such notions difficult. Some constituent states of the empire did embrace

Mercantilism, most notably Prussia, which under Frederick the Great had perhaps the most rigidly controlled economy in Europe. During the economic collapse of the 17th century, Spain had little coherent economic policy, but French mercantilist policies were imported by Philip V with some success. Wars and imperialism[ edit ] Mercantilism was the economic version of warfare using economics as a tool for warfare by other means backed up by the state apparatus, and was well suited to an era of military warfare. A number of wars, most notably the Anglo-Dutch Wars and the Franco-Dutch Wars , can be linked directly to mercantilist theories. Mercantilism fueled the imperialism of this era, as many nations expended significant effort to conquer new colonies that would be sources of gold as in Mexico or sugar as in the West Indies , as well as becoming exclusive markets. With the establishment of overseas colonies by European powers early in the 17th century, mercantile theory gained a new and wider significance, in which its aim and ideal became both national and imperialistic. Mercantilism functioned as the economic counterpart of the older version of political power: The second school, supported by scholars such as Robert B. Ekelund , portrays mercantilism not as a mistake, but rather as the best possible system for those who developed it. This school argues that rent-seeking merchants and governments developed and enforced mercantilist policies. Merchants benefited greatly from the enforced monopolies, bans on foreign competition, and poverty of the workers. Governments benefited from the high tariffs and payments from the merchants. Whereas later economic ideas were often developed by academics and philosophers, almost all mercantilist writers were merchants or government officials. European trade exported bullion to pay for goods from Asia, thus reducing the money supply and putting downward pressure on prices and economic activity. The evidence for this hypothesis is the lack of inflation in the British economy until the Revolutionary and Napoleonic Wars, when paper money came into vogue. A fourth explanation lies in the increasing professionalisation and technification of the wars of the era, which turned the maintenance of adequate reserve funds in the prospect of war into a more and more expensive and eventually competitive business. Mercantilism developed at a time of transition for the European economy. Isolated feudal estates were being replaced by centralized nation-states as the focus of power. Technological changes in shipping and the growth of urban centres led to a rapid increase in international trade. Another important change was the introduction of double-entry bookkeeping and modern accounting. This accounting made extremely clear the inflow and outflow of trade, contributing to the close scrutiny given to the balance of trade. The goal of these thinkers was to find an economic system compatible with Christian doctrines of piety and justice. They focused mainly on microeconomics and on local exchanges between individuals. Mercantilism was closely aligned with the other theories and ideas that began to replace the medieval worldview. The mercantilist idea of all trade as a zero-sum game, in which each side was trying to best the other in a ruthless competition, was integrated into the works of Thomas Hobbes. This dark view of human nature also fit well with the Puritan view of the world, and some of the most stridently mercantilist legislation, such as the Navigation Ordinance of , was enacted by the government of Oliver Cromwell. In the English-speaking world its ideas were criticized by Adam Smith with the publication of *The Wealth of Nations* in and later by David Ricardo with his explanation of comparative advantage. Mercantilism was rejected by Britain and France by the mid-18th century. The British Empire embraced free trade and used its power as the financial centre of the world to promote the same. The Guyanese historian Walter Rodney describes mercantilism as the period of the worldwide development of European commerce, which began in the 15th century with the voyages of Portuguese and Spanish explorers to Africa, Asia, and the New World. Criticisms[ edit ] Adam Smith and David Hume were the founding fathers of anti-mercantilist thought. A number of scholars found important flaws with mercantilism long before Smith developed an ideology that could fully replace it. Critics like Hume, Dudley North and John Locke undermined much of mercantilism and it steadily lost favor during the 18th century. In , Locke argued that prices vary in proportion to the quantity of money. Mercantilists failed to understand the notions of absolute advantage and comparative advantage although this idea was only fully fleshed out in by David Ricardo and the benefits of trade. Thus if Portugal specialized in wine and England in cloth, both states would end up better off if they traded. This is an example of the reciprocal benefits of trade whether due to comparative or absolute advantage. In modern economic theory, trade is not a zero-sum game of cutthroat competition, because both sides can benefit from it.

Conversely, in the state exporting bullion, its value would slowly rise. Eventually it would no longer be cost-effective to export goods from the high-price country to the low-price country, and the balance of trade would reverse. Mercantilists fundamentally misunderstood this, long arguing that an increase in the money supply simply meant that everyone gets richer. Adam Smith noted that at the core of the mercantile system was the "popular folly of confusing wealth with money", that bullion was just the same as any other commodity, and that there was no reason to give it special treatment. They believe Mun and Misselden were not making this mistake in the 17th century, and point to their followers Josiah Child and Charles Davenant, who in 1695 wrote, "Gold and Silver are indeed the Measure of Trade, but that the Spring and Original of it, in all nations is the Natural or Artificial Product of the Country; that is to say, what this Land or what this Labour and Industry Produces. Their theories also had several important problems, and the replacement of mercantilism did not come until Adam Smith published *The Wealth of Nations* in 1776. This book outlines the basics of what is today known as classical economics. Smith spent a considerable portion of the book rebutting the arguments of the mercantilists, though often these are simplified or exaggerated versions of mercantilist thought. Those who feel that mercantilism amounted to rent seeking hold that it ended only when major power shifts occurred. While the wealthy capitalists who controlled the House of Commons benefited from these monopolies, Parliament found it difficult to implement them because of the high cost of group decision making. On the continent, the process was somewhat different. In France, economic control remained in the hands of the royal family, and mercantilism continued until the French Revolution. In Germany mercantilism remained an important ideology in the 19th and early 20th centuries, when the historical school of economics was paramount. He added that mercantilism was popular among merchants because it was what is now called rent seeking. Keynes also noted that in the early modern period the focus on the bullion supplies was reasonable. In an era before paper money, an increase in bullion was one of the few ways to increase the money supply. Keynes said mercantilist policies generally improved both domestic and foreign investment—domestic because the policies lowered the domestic rate of interest, and investment by foreigners by tending to create a favorable balance of trade. Keynes also supported government intervention in the economy as necessity, as did mercantilism. Paul Samuelson, writing within a Keynesian framework, wrote of mercantilism, "With employment less than full and Net National Product suboptimal, all the debunked mercantilist arguments turn out to be valid. Samuelson wrote that China was pursuing an essentially neo-mercantilist trade policy that threatened to undermine the post-World War II international economic structure. Mercantilism, which reached its height in the Europe of the seventeenth and eighteenth centuries, was a system of statism which employed economic fallacy to build up a structure of imperial state power, as well as special subsidy and monopolistic privilege to individuals or groups favored by the state. Thus, mercantilism held exports should be encouraged by the government and imports discouraged. Neomercantilism Neomercantilism is a 20th-century economic policy that uses the ideas and methods of neoclassical economics. The new mercantilism has different goals and focuses on more rapid economic growth based on advanced technology. It promotes such policies as substitution state taxation, subsidies, expenditures, and general regulatory powers for tariffs and quotas, and protection through the formation of supranational trading blocs.

*This system dominated Western European economic thought and policies from the sixteenth to the late eighteenth centuries. The goal of these policies was, supposedly, to achieve a "favorable" balance of trade that would bring gold and silver into the country and also to maintain domestic employment.*

Mercantilism replaced the older, feudal economic system in Western Europe, leading to one of the first occurrences of political oversight and control over an economy. At the time, England, the center of the British Empire, was small and contained relatively few natural resources. The Sugar Act of introduced high customs for sugar and molasses imported from outside of England and the British colonies. Great Britain was not alone in this line of thinking. Advocates of mercantilism believed the prosperity of a nation was reliant on its supply of capital, and global volume of trade was static. The result was a system of economics that required a positive balance of trade, with surplus exports. One notion behind mercantilism is the economic health of a nation could be assessed by the amount of precious metal, gold or silver it owned. The system advocated for each nation to strive to be economically self-sufficient, which meant the nation would have to increase domestic production and build new homes and industries. Advocates of mercantilism also saw that agriculture was important and should be promoted so a nation could reduce the need to import foods. They suggested a strong nation-state needed colonies and a merchant fleet, both of which could provide additional markets for goods and raw materials. Mercantilists also believed a large population was integral to the domestic labor force of a nation. Controlled production and trade: The expansion of the slave trade: This fostered the development of the slave trade in many colonies, including America. The colonies provided rum, cotton and other products heavily demanded by imperialists in Africa. In turn, slaves were returned to America or the West Indies and traded for sugar and molasses. Mismanagement of printed currency resulted in periods of inflation. Additionally, Great Britain was in a near-constant state of war. Taxation was needed to prop up the army and navy. It was argued that the state should franchise out the leading merchants in promising industries to create exclusive monopolies and cartels. These monopolistic corporations were to be controlled by the government and act as an arm of government interests. Citizens could invest money in mercantilist corporations in exchange for ownership and limited liability in their royal charters. They were granted "shares" of the company profit—the first traded corporate stocks. Its trade routes were protected by the Royal Navy and its high-ranking members became very influential in determining British foreign policy. Colbert had studied the previous theorists of a foreign-trade-driven economy and was in a unique position of authority to execute their ideas. He was also a devout monarchist and wanted an economic strategy to protect the French crown from a rising Dutch mercantile class. Colbert increased the size of the French navy on the premise that his country would have to take control of trade routes to increase its wealth. Even though his practices were ultimately unsuccessful, his ideas became hugely popular until the theory of free market economics was popularized. When Britain introduced the Sugar Act and Navigation Acts to force colonists away from foreign products, the plan backfired by angering the colonies and promoting dissatisfaction with British rule. The imposition of heavy taxes and restrictions frustrated American colonists and eventually contributed to the American Revolution. Defenders of mercantilism argued that the economic system creates stronger economies by bringing colonies and founding countries together. Colonies, creating their own products and obtaining others in trade from the founder, are independent of influence from hostile nations that may manipulate the colonies using trade restrictions. Mercantilist countries use state authority to increase state wealth. Founding nations would export the products of their manufacturing to the colonies. This system made the colony and founding nation more independent and served to enrich the state. Foreign imports were more expensive because all imports had to be shipped by British ships from Great Britain regardless of product origin. These disadvantages were, in the eyes of the colonists, outweighed by the benefits of affiliation with Great Britain. The decision to raise tax rates on the colonies changed how many colonists viewed the Empire. At this point, the benefits of independence became more attractive. The increases caused growing frustration among colonists and led to open rebellion. A boycott of British products began that dropped imports by a full

one-third. The Boston Tea Party added to the fierce resistance aimed at British policies. The lack of representation available to colonists led many to become hostile. In order to protect the mercantilist system, Great Britain pushed harder against the colonies, and the Revolutionary War eventually resulted from the mounting disagreements between the British Empire and American colonies. For example, if trade restrictions prevent a country with a highly skilled labor force from importing clothing, businesses might divert resources to its production. That clothing is relatively expensive to produce because of the high wages that a skilled labor force demands. The returns to the high-cost apparel will be lower than the returns from a more appropriate set of activities. Economic growth is dampened for the country with the trade restrictions, and another country with a low-skilled labor force loses an important potential market for its products, leading to lower growth there as well. In a free trade system, individuals benefit from a greater choice of goods for purchase at affordable prices. Mercantilism restricts imports, which reduces the choices available to consumers in the marketplace. Fewer imports mean less competition, and therefore, higher prices. Further, under a system of free trade, nations are more prosperous because they are not engaged in a zero-sum game. During the years when mercantilism was the primary economic system, countries were engaged in almost constant warfare. Mercantilism encouraged nations to fight over scarce resources rather than find ways to engage in mutually beneficial trade relations. Specialized production leads to economies of scale which, in turn, lead to higher productivity and economic growth. In a free trade system, businesses have incentives to be innovative. By creating more useful products, better production and distribution systems, and more efficient operations, businesses can grow and prosper. Today, mercantilism is considered an outdated philosophy. However, barriers to trade still exist to protect locally entrenched industries. For example, the United States adopted a protectionist trade policy toward Japan in the post-war period and negotiated voluntary export restrictions with the Japanese government, which limited the quantity of Japanese exports to the United States.

**Chapter 3 : Mercantilism - New World Encyclopedia**

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The doctrines of Mercantilism were articulated by a disparate collection of journalists, government officials, merchants and pamphleteers. Different countries, of course, face different challenges. Given that they were addressing their national governments on national issues, mercantilist writing tends vary by country. Profession was also a factor. English Mercantilists were frequently private businessmen, who sought to influence government by public pamphleteering for or against some parliamentary act or other, in which they or their company had a vested interest. As such, they operated and communicated somewhat differently from the courtiers and state officials of French Colbertisme or the comprehensive princely guidebooks of German Cameralism. While there are some pan-European features which are common among Mercantilist writers, there was great variety and no two mercantilists really had the same theory. There was no authoritative theoretical system or dogma. Unlike Scholastics, who obsessed with authorities, mercantilist writers rarely cited each other. Their argumentation came mostly from the intuition, observations and life experience of the writer, and the impressions of conversations that abounded in the popular press, coffee shops and palace foyers. In the 17th century, one of the urgent topics of political discussion, particularly in England and France, was the Dutch puzzle. The United Provinces of the Netherlands was a tiny country which had only come into existence in the 16th century after a revolt against its Spanish Hapsburg rulers. But it had managed to spectacularly transform itself almost overnight from a collection of poor, sleepy fishing villages into probably the wealthiest and most powerful country in the world, with an empire that stretched across the globe, from Nagasaki to New Amsterdam, from the Arctic Circle to South Africa, and whose citizens enjoyed probably the highest standard of living yet seen in history. The sudden and spectacular Dutch prosperity provoked the envy and puzzlement of her neighbors. Common sense, carried over from the first economists, suggested that the prosperity of a nation depended on its natural resources. But the tiny Netherlands had hardly any resources - a small population, very little land, virtually no gold, silver, iron ore, timber or other gifts of nature. Yet the Dutch somehow seemed to end up richer than England, France or Spain, countries which were several times larger, with much vaster resources. Nowhere did this disparity show itself clearly than in wartime. The monarchs of France, Spain, England and elsewhere routinely bankrupted themselves and taxed their subjects to the bone to eke out just enough revenues to raise an army or fleet, whereas the Dutch government never seemed to run out of money, always capable of mobilizing large armies and fleets quickly and almost effortlessly. Foreign commentators discussed how to emulate and challenge the Dutch example. These commentators were precisely those whom we collectively refer to as Mercantilists. As a result, the Dutch exported more "value" than they imported. This, the Mercantilists concluded, was why the Dutch were rich. It also explained also why the English, French et al were always cash-strapped - the Dutch were "stealing" their money via the trade balance. The policy conclusion in the royal courts of England, France, Spain, etc. Export as much as possible and import as little as possible. Make sure your exports are high-value goods - luxuries, manufactures which will bring in a lot of money. The Mercantilists expected - or demanded - that the government take an active role in this, and make "protectionism" a central part of government policy. Some Mercantilists went further. The Dutch had a head-start in manufacturing high-value goods, so Mercantilists also recommended that the government actively help out domestic private businessmen set up high-value import-substitution and export-oriented industries. The crown was urged to subsidize these industries, whether directly or indirectly. Infrastructure investment, like roads and ports, to facilitate the export trade, was to be encouraged. In order to minimize "destructive competition" at home, many Mercantilists believed that charter companies had a better chance of succeeding abroad if they were granted a charter with exclusive government-guaranteed monopolies over particular areas of industry and trade. Finally, and perhaps most ominously, the State was also called on to use its diplomatic and military muscle whenever it could - not only to promote domestic trade abroad, but, almost as importantly, to hamper the trade of foreign competitors. It should force other nations to give us

access to their raw materials and valuable resources for cheap, and prevent the sale of those commodities to our competitors. In sum, Mercantilists did not believe there were mutual gains from trade, where both exporters and importers benefited. Rather they saw it as a zero-sum game - exporters always win, importers always lose, so export as much as possible, import as little as possible. Trade was to be conceived as a kind of war -- a war of every nation against every other nation -- to see who could export the most and import the least. And the role of the State was to actively help out in this endeavor - legally, financially and militarily. Mercantilist measures were not usually advocated as a means of promoting domestic trade, industry or employment for their own sake, but rather to ensure a favorable balance of trade. The overriding objective remained to ensure an inflow of cash gold, silver from that favorable balance. As such, Mercantilists have been accused notably by Adam Smith of a "money fetish", of confusing cash with wealth, of imagining that the prosperity. This is only partially correct. Mercantilists were obsessed with money, yes. But the identification of money and prosperity was not always so simplistic. For Mercantilists, the "prosperity" of a nation was not defined as the well-being of its population, but often just of a narrow elite class, or even, in some literature, as a euphemism for the solvency of the State treasury. This difference in background between English-Dutch and French-German Mercantilists did not imply much difference in their economic doctrine. Both groups recognized the intimate, symbiotic relationship between the wealth of merchants and the power of the State: English Mercantilism is often divided into three phases: French Colbertisme is said to have lasted between 1661 and 1715, while German Cameralism had perhaps the longest time span, stretching from 1680 to 1806 and, through the hands of Neo-Cameralists, stretching even beyond 1806. At the heart of the Mercantilist system is an obsession with the positive feedback between growth and wealth accumulation: They recognized two basic preconditions for increasing enterprise: The Mercantilists proposed that activity rose whenever prices rose because they believed higher prices meant higher profits and interest rates fell thus easier credit. Both of these things occur, they noted, when the quantity of money in a country is increased. Money, in the those days, was gold and silver. Initially, this was thought to involve direct restrictions on the export of gold, a practice highly recommended by the Bullionist strain of Mercantilists, notably Thomas Milles and Gerald de Malynes. This brought the protest of the charter companies, notably the Society of Merchant Adventurers and the British East India Company, which traded extensively overseas and needed the gold export restrictions relaxed cf. He protested to the English Court that the Charter companies, by setting an exchange ratio for English currency below its intrinsic worth which had been so "wisely" decided upon the court were not only undermining royal authority and Divine justice, but by encouraging the exportation of specie were thus a "cancer" on the Commonwealth. He recommended even more draconian restrictions on export of specie as a way to fix the problem and "reflate" the economy. No friend to financiers, Malynes resurrected the old Scholastic arguments against usury, arguing that interest created an unnatural cost of credit and held back enterprise. Misselden and Mun admitted the benefit of specie inflow, but did not blame outflows on "evil financiers" and charter companies maintaining a separate exchange ratio for currency, but rather on the external balance of trade. Their recommendation was that the state can only stem the outflow of gold not by restrictions on gold movements, but rather by encouraging exports and discouraging imports. It cannot be stopped, but it can be encouraged in the right direction. The optimal formula had already been laid out years earlier by Jean Bodin: Another contribution of Mun was the recognition that perhaps rising prices were not all that desirable: This had not been recognized by Malynes or Misselden, who had argued repeatedly for the benefits of price inflation. The Mercantilists struggled with, but never actually resolved, the contradiction between the industry-stimulating but export-crippling price rises. Another concern was the possibility of rising prices and industry might also lead to rising wages that might cut into those profits and thus reduce output. The Mercantilists did not mince words on this: They believed that low real wages actually increased the productivity of laborers an effect later disputed and reversed by Cantillon and the Ricardians. The watershed in Mercantilist thinking was the work of William Petty. He began focusing attention on income distribution and the relative values of the contributions of "factors of production", which, for him, was basically labor and land. It was Petty that initiated the idea that rent on land was a surplus above wage payments. Petty used this to initiate the "labor theory of value" whereby the relative values of goods were determined by the relative

amounts of labor-time involved in producing them. He justified this equality of relative labor time and relative prices on the basis of arbitrage. He also used arbitrage reasoning to argue that the interest on capital would be equated with the rent on land but Petty did not really have a good, independent theory of capital. Thus, Petty anticipates many of the later Classical Ricardian doctrines. Mercantilism was given another twist in its "liberal" phase spearheaded by Nicholas Barbon. They were perhaps the first to recognize that international trade, far from being a zero-sum game, could be mutually beneficial to both parties. The theory of money was also given more careful consideration by John Locke, who formulated the concept of "velocity" and effectively initiated the Quantity Theory of Money. Mercantilist doctrine maintained itself throughout much of the 18th Century. The rise of the Enlightenment, however, changed things substantially. The Enlightenment economists also introduced the idea of "natural balance" of those flows, which effectively replaced the "growth obsession" of the Mercantilists with the "equilibrium obsession" of the Enlightenment economists. These new ideas were not immediately successful. The Physiocrats remained in the shadows of the French court, with the Colbertistes and anti-Physiocrats such as Forbonnais still maintaining their great influence on policy. Great Britain, on the dawn of its industrial revolution, was somewhat more receptive to the new doctrines, although it could still produce remarkable Mercantilists such as Sir James Steuart. Germany, for the most part, remained immune from the new theories, and safely in the hands of the Neo-Cameralists well into the 19th Century.

**Chapter 4 : Topic: Mercantilism | CosmoLearning Economics**

*This volume presents critical writings on the work of the later mercantilists. Sir Josiah Child was elected a governor of the East India Company in His reputation as an economist rests on his book 'A New Discourse of Trade' published in*

As this and other economic ideas arose throughout the nineteenth century, the mercantilist view was superseded. Nonetheless, many of the ideas and policies have not been forgotten, emerging again as circumstances changed. For example, the Great Depression of the early twentieth century created doubts about the efficacy and stability of free market economies, providing a new role for governments in the control of economic affairs. Definition Mercantilism was a political movement and an economic theory, dominant in Europe between and The term "mercantilism" was not in fact coined until , by Victor de Riqueti, marquis de Mirabeau , and was popularized by Adam Smith in In fact, Adam Smith was the first person to organize formally most of the contributions of mercantilists in his book *The Wealth of Nations* Niehaus No general definition of mercantilism is entirely satisfactory, since it was not as much a school of thought as a collection of policies intended to keep the state prosperous by economic regulation Rempel There, he listed nine principle rules: The "mercantile system" developed logically from the changes inherent in the decline of feudalism , the rise of strong nation-states , and the development of a world market economy. Generally, mercantilism holds the prosperity of a nation dependent upon its supply of capital, and assumes that the global volume of trade is "unchangeable. The following ideas, and the underlying principles, may be called mercantilism: The economic health or wealth of a nation can be measured by the amount of precious metal , gold , or silver , which it possessed. A favorable balance of trade is essential. Each nation should strive for economic self-sufficiency, increasing domestic production, and founding new home industries. Agriculture should be encouraged, reducing the need to import food. Tariffs should be high on imported manufactured goods and low on imported raw material. A merchant fleet is of vital importance, avoiding the need for foreign assistance in transporting goods and raw materials. Colonies should provide markets for manufactured goods and sources of raw material. A large population is important to provide a domestic labor force and to people colonies. The crown or state should be heavily involved in regulating the economy Rempel Later mercantilists developed a somewhat more sophisticated view. The period of "mercantilism" was one of religious and commercial warfare, and large revenues were needed to maintain armies and pay the growing costs of civil government. Mercantilist nations were impressed by the fact that the precious metals , especially gold , were in universal demand as the ready means of obtaining other commodities; hence, they tended to identify money with wealth , an economic theory known as bullionism. This tendency to identify money with wealth and, consequently, the theory of bullionism was attainable only under several conditions: Thriving agriculture should be carefully encouraged as it meant less of need to import foods and, above all, the prosperous farmers were providing a solid base for taxation Rempel Sea power was necessary to control foreign markets not only to carry the nations own trading goods but also adding the power and prestige to the nation Rempel Imposing of internal taxes of all kinds Rempel Obviously, state action, an essential feature of the mercantile system, was used to accomplish these purposes. Thus, under a mercantilist policy a nation sought to sell more than it bought so as to accumulate bullion. Besides bullion, raw materials for domestic manufacturers were also sought, and duties or tariffs were levied on the importation of such goods in order to provide revenue for the government. The state exercised much control over economic life, chiefly through corporations and trading companies. Production was carefully regulated with the object of securing goods of high quality and low cost, thus enabling the nation to hold its place in foreign markets. Treaties were made to obtain exclusive trading privileges, and the commerce of colonies was exploited for the benefit of the mother country. The bulk of what is commonly called "mercantilist literature" appeared in the 17th and 18th centuries in Great Britain. However, many British writers, including Mun and Misselden, were merchants, while many of the writers from other countries were public officials. Beyond mercantilism as a way of understanding the wealth and power of nations, Mun and Misselden are noted for their viewpoints on a wide range of economic matters Magnusson Mercantilist policies in England were effective in creating a skilled industrial population and a large shipping industry.

Through a series of Navigation Acts England finally destroyed the commerce of Holland, its chief rival. French finance minister and mercantilist Jean-Baptiste Colbert served for over 20 years. As a practical politician intent on the welfare of the middle class to which he belonged, mercantilism was the most convenient method of attaining his end. He prohibited the export of money, levied high tariffs on foreign manufactures, and gave liberal bounties to encourage French shipping. He purchased Martinique and Guadeloupe in the West Indies, encouraged settlement in Santo Domingo, Canada, and Louisiana, and established trading "factories" armed commercial posts in India and Africa. Colbert also tried to make certain that French manufacturers purchased raw materials only from France or French colonial sources, and provided France with a merchant marine of nearly three hundred vessels. He sought to promote the rapid growth of population by discouraging young people from taking holy orders, and instituted tax exemptions for families of ten or more children. One can notice the striking similarity of such comprehensive control to latter-day fascism. Both the mercantilist and the fascist would chain the economic system to national power. Both make a fetish of self-sufficiency. As the classical economists were later to point out, however, even a successful mercantilist policy was not likely to be beneficial, because it produced an oversupply of money and, with it, serious inflation. The mercantilist idea that all trade was a zero sum game, in which each side was trying to best the other in a ruthless competition, was integrated into the works of Thomas Hobbes. More modern views of economic co-operation, amidst ruthless competition, can be seen in game theory the folk theorems. Policies European economists between and are, today, generally considered mercantilists. However, these economists did not see themselves as contributing to a single economic ideology. Rather, its adherents embraced, in various degrees, parts of a set of commonly held theoretical beliefs or tendencies that were best suited to the needs of a particular time and state. Mercantilism developed at a time when the European economy was in transition. Isolated feudal estates were being replaced by centralized nation-states as the focus of power. This led to frequent military conflicts between nation-states whose governments supported strong military forces. These forces were no longer temporary armies raised to address a specific threat, but were full-time professional forces. During this period technological changes in shipping and the growth of urban centers led to a rapid increase in international trade. Landreth and Colander Trade policy The shift from payments in kind, characteristic of the feudal period, to a money economy was one key development. By the late fifteenth century, as regional, national, and international trade continued to blossom, European currencies expanded as well; circulation was more common, widespread, and vital. The early mercantilists recognized the seminal fact of this period. Money was wealth *sui generis*; it gave its holder the power to obtain other commodities and services. Precious metals, especially gold, were in universal demand as the surest means to obtain other goods and services. At the same time, the rise of more powerful European states with burgeoning bureaucracies, frequent dynastic wars that required larger and more expensive armies, and more lavish court expenditures exacerbated this fundamental need for money in the form of precious metals. Foreign trade, not domestic trade, was viewed as the preferred method for obtaining bullion, while manufacturing, which provided the goods for such trade, was, in the context of foreign trade, favored over agriculture. However, as mentioned above, agriculture was all-important because it minimized costly imports of foodstuff and, in addition, wealthy farmers provided a strong base for taxation. Mercantilism helped create trade patterns such as the triangular trade in the North Atlantic, in which raw materials were imported to the metropolis and then processed and redistributed to other colonies. Finally, the discovery of the New World by Columbus in 1492, and the discovery of the sea route to India by Vasco da Gama in 1498, provided fertile ground for obtaining such wealth, while creating an ever greater need for wealth to conquer and protect these colonies and their imperial trade. All of these factors ensured that the rising late medieval and early modern states embraced mercantilism as an economic theory that allowed them to adapt to and seek to exploit these shifting structures. The importance of the discovery of America and colonies generally cannot be stressed enough. New markets and new mines propelled foreign trade to previously inconceivable heights. The latter led to "the great upward movement in prices and an increase in the volume of merchant activity itself" Galbraith. Mercantilism focused on how this trade could best aid the states. Another important change was the introduction of double-entry bookkeeping and modern accounting. This accounting made extremely clear the inflow and

outflow of trade, contributing to the close scrutiny given to the balance of trade Wilson Prior to mercantilism, the most important economic work done in Europe was by the medieval scholastic theorists. The goal of these thinkers was to find an economic system that was compatible with Christian doctrines of piety and justice. They focused mainly on microeconomics and local exchanges between individuals. Mercantilism was closely aligned with other theories and ideas that were replacing the medieval worldview. Domestic policy Mercantilist domestic policy was more fragmented than its trade policy. Governments provided capital to new industries, exempted new industries from the rules imposed by guilds , granted titles and pensions to successful producers, and established monopolies over local and colonial markets LaHaye However, while Adam Smith portrayed mercantilism as supportive of strict controls over the economy, many mercantilists disagreed. The period was one of letters patent a type of legal instrument in the form of an open letter issued by a monarch or government, granting an office, right, monopoly, title, or status to a person or to some entity such as a corporation and government-imposed monopolies; some mercantilists supported these, but others acknowledged the corruption and inefficiency of such systems. Many mercantilists also realized that the inevitable result of quotas and price ceilings yielded black markets. One notion mercantilists widely agreed upon was the need for economic oppression of the working population; laborers and farmers were to live at the "margins of subsistence. Mercantilist ideas did not decline until the coming of the Industrial Revolution and of laissez-faire. Belief in mercantilism, however, began to fade in the late eighteenth century, as the arguments of Adam Smith and the other classical economists won favor in the British Empire among such advocates as Richard Cobden and to a lesser degree in the rest of Europe with the notable exception of Germany where the Historical school of economics was favored throughout the nineteenth and early twentieth century. Adam Smith and David Hume are considered to be the founding fathers of anti-mercantilist thought. However, a number of scholars found important flaws with mercantilism long before Adam Smith developed an ideology that could fully replace it. Critics like Dudley North, John Locke , and David Hume undermined much of mercantilism, and it steadily lost favor during the eighteenth century. Mercantilists failed to understand the notions of absolute advantage and comparative advantage"although this idea was only fully fleshed out in by David Ricardo "and the benefits of trade. For instance, Portugal was a far more efficient producer of wine than England , while in England it was relatively cheaper to produce cloth. Thus if Portugal specialized in wine and England in cloth, both states would end up better off if they traded. This is an example of absolute advantage. By imposing mercantilist import restrictions and tariffs instead, both nations ended up poorer. As bullion flowed into one country, the supply would increase and the value of bullion in that state would steadily decline relative to other goods. Conversely, in the state exporting bullion, its value would slowly rise. Eventually it would no longer be cost-effective to export goods from the high-price country to the low-price country, and the balance of trade would reverse itself. The importance placed on bullion was also a central target, even if many mercantilists had themselves begun to de-emphasize the importance of gold and silver.

**Chapter 5 : Mercantilism - Wikipedia**

*Mercantilism is an economic practice by which governments used their economies to augment state power at the expense of other countries. Governments sought to ensure that exports exceeded imports and to accumulate wealth in the form of bullion (mostly gold and silver).*

Europe, to Mercantilism was an economic "system" that developed in Europe during the period of the new monarchies c. Mercantilism was not characterized by the blind adherence to a single, precisely defined economic theorem. Rather, its adherents embraced, in various degrees, parts of a set of commonly held theoretical beliefs or tendencies that were best suited to the needs of a particular time and state. As such, mercantilism developed logically from the changes inherent in the decline of feudalism, the rise of strong national states, and the development of a world market economy. The shift from payments in kind, characteristic of the feudal period, to a money economy was one key development in this process. By the late fifteenth century, as regional, national, and international trade continued to blossom, European currencies expanded as well; circulation was more common, widespread, and vital. The early mercantilists recognized the seminal fact of this period. Money was wealth *sui generis*; it gave its holder the power to obtain other commodities and services. Precious metals, especially gold, were in universal demand as the surest means to obtain other goods and services. At the same time the rise of more powerful European states with burgeoning bureaucracies, frequent dynastic wars that required larger and more expensive armies, and more lavish court expenditures exacerbated this fundamental need for money in the form of precious metals. Foreign trade, not domestic trade, was viewed as the preferred method for obtaining bullion, while manufacturing, which provided the goods for such trade, was favored over agriculture. Finally, the discovery of the New World by Columbus in and the discovery of the sea route to India by Vasco da Gama in " also provided fertile ground for obtaining such wealth while creating an ever greater need for wealth to conquer and protect these colonies and their imperial trade. All of these factors ensured that the rising late medieval and early modern states embraced mercantilism as an economic theory that allowed them to adapt to and seek to exploit these shifting structures. Since mercantilism at base postulated increased royal control over both the internal and external economic policies of the state, it found easy acceptance among the "new" monarchies of the late fifteenth century and the sixteenth century. In Portugal , Manuel I ruled " and his successors embraced its tenets regarding bullion and colonies to help exploit their burgeoning Asian empire. In Spain both Charles I ruled " and Philip II ruled " , given the boon of New World precious metals, also found comfort in bullionism as well as the tenets calling for the exploitation of colonies for the benefit of the mother country. In England , Henry VIII ruled " and Elizabeth I ruled " adhered to some mercantilist principles in an effort that was, at least in part, designed to combat the threat of universal Habsburg Monarchy and Iberian dominance in the developing world market economy. During the age of Stuart absolutism James I ruled " and Charles I ruled " found it logical to accept the premise that the monarch should not only control the political and social hierarchy but should enjoy control over the economy as well. Oliver Cromwell " , after destroying Stuart pretensions in the Civil War , embraced both mercantilist warfare and the Navigation Acts in his commercial struggle with the Dutch. It was in France , however, that mercantilism found perhaps its greatest supporter in Jean-Baptiste Colbert " His family rose through the social hierarchy based on the time-honored expedients of wealth and venality of office. Utilizing family connections, Colbert entered the service of Michel Le Tellier in , soon after the latter became secretary of state in charge of military affairs. By the end of this decade of opportunity, Colbert had become baron de Seignelay, secretary of the orders of the queen, intendant general of the affairs of Mazarin, counselor of the king in all of his councils"not to mention a very wealthy man. Just as importantly, he had begun to create an apparatus for the implementation of his later policies by further enriching his family and arranging influential positions for a bevy of his brothers and cousins. Although Colbert never referred to the writings of Antoine de Montchrestien c. Mercantilism reached its apogee under Colbert not because he was a theorist but rather because he was a man of action who judged its tenets to be the only natural and logical way to achieve his most cherished goal: If the mercantile power of the burghers of

Amsterdam could be broken in both Europe and the lucrative Asian trade, France could prosper. Foremost among his particular tenets on mercantilism was the conviction that the volume of world trade was essentially static and that, to increase its share, France would have to win part of that controlled by its rivals. Just as importantly neither the French nor the English could "improve their commerce save by increasing this number, save from the 20, The bellicism inherent in such beliefs would in part culminate in the Dutch War of , a war Colbert supported. At the same time, in parts of England, Holland, and northwestern France the initial adherence to mercantilist principles created the very conditions that fostered antimercantilist sentiments. These developments would ultimately cause the destruction of merchant capitalism. In short, merchant capitalism reached a level within the mercantilist system where state intervention and direction of the economy was threatening and even preventing further expansion. The critical spirit toward existing Old Regime structures embodied in the intellectual revolution of the Enlightenment found its antimercantilist champions in the Physiocrats. This theory argued that the economy functioned best when its own "natural laws" were allowed to function without government intervention. In his *Political Discourses and Essays and Treatises on Several Subjects* , Hume also sought to refute some of the principal tenets of mercantilism, including confounding money with wealth and the blind acceptance of bullionism. At the same time his theories and those of other Physiocrats also encouraged colonies like British North America to reject the traditional dependence on their mother countries as defined by the mercantilist model while furnishing intellectual fuel for the industrial revolution then taking place in Great Britain. Colbert and a Century of French Mercantilism. New York , French Mercantilist Doctrines before Colbert. Translated by Mendel Shapiro. Ames Pick a style below, and copy the text for your bibliography. Encyclopedia of the Early Modern World. Retrieved November 11, from Encyclopedia. Then, copy and paste the text into your bibliography or works cited list. Because each style has its own formatting nuances that evolve over time and not all information is available for every reference entry or article, Encyclopedia.

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Economic Systems - 2. Mercantilism Mercantilism is an economic theory that holds that the prosperity of a nation is dependent upon its supply of capital, and that the global volume of international trade is "unchangeable. Mercantilism suggests that the ruling government should advance these goals by playing a protectionist role in the economy; by encouraging exports and discouraging imports, notably through the use of tariffs and subsidies. Domestically, this led to some of the first instances of significant government intervention and control over the economy, and it was during this period that much of the modern capitalist system was established. Internationally, mercantilism encouraged the many European wars of the period and fueled European imperialism. Belief in mercantilism began to fade in the late 18th century, as the arguments of Adam Smith and the other classical economists won out. Today, mercantilism as a whole is rejected by economists, though some elements are looked upon favorably by non-economists. Theory Most of the European economists who wrote between and are today generally considered mercantilists; this term was initially used solely by critics, such as Mirabeau and Smith, but was quickly adopted by historians. Originally the standard English term was "mercantile system". The word "mercantilism" was introduced into English from German in the early 19th century. The bulk of what is commonly called "mercantilist literature" appeared in the s in Great Britain. Themes also existed in writers from the German historical school from List, as well as followers of the "American system" and British "free-trade imperialism," thus stretching the system into the nineteenth century. However, many British writers, including Mun and Misselden, were merchants, while many of the writers from other countries were public officials. Beyond mercantilism as a way of understanding the wealth and power of nations, Mun and Misselden are noted for their viewpoints on a wide range of economic matters. Other than Von Hornick, there were no mercantilist writers presenting an overarching scheme for the ideal economy, as Adam Smith would later do for classical laissez-faire economics. Rather, each mercantilist writer tended to focus on a single area of the economy. Some scholars thus reject the idea of mercantilism completely, arguing that it gives "a false unity to disparate events". Smith saw the mercantile system as an enormous conspiracy by manufacturers and merchants against consumers, a view that has led some authors, especially Robert E. Ekelund and Robert D. Tollison to call mercantilism "a rent-seeking society". To a certain extent, mercantilist doctrine itself made a general theory of economics impossible. Mercantilists viewed the economic system as a zero-sum game, in which any gain by one party required a loss by another. While Adam Smith portrayed mercantilism as supportive of strict controls over the economy, many mercantilists disagreed. The early modern era was one of letters patent and government-imposed monopolies; some mercantilists supported these, but others acknowledged the corruption and inefficiency of such systems. Many mercantilists also realized that the inevitable results of quotas and price ceilings were black markets. One notion mercantilists widely agreed upon was the need for economic oppression of the working population; laborers and farmers were to live at the "margins of subsistence". The goal was to maximize production, with no concern for consumption. Extra money, free time, or education for the "lower classes" was seen to inevitably lead to vice and laziness, and would result in harm to the economy. The second school, supported by scholars such as Robert B. Ekelund, contends that mercantilism was not a mistake, but rather the best possible system for those who developed it. This school argues that mercantilist policies were developed and enforced by rent-seeking merchants and governments. Merchants benefited greatly from the enforced monopolies, bans on foreign competition, and poverty of the workers. Governments benefited from the high tariffs and payments from the merchants. Whereas later economic ideas were often developed by academics and philosophers, almost all mercantilist writers were merchants or government officials. European trade exported bullion to pay for goods from Asia, thus reducing the money supply and putting downward pressure on prices and economic activity. The evidence for this hypothesis is the lack of

inflation in the English economy until the Revolutionary and Napoleonic wars when paper money was extensively used. Mercantilism developed at a time when the European economy was in transition. Isolated feudal estates were being replaced by centralized nation-states as the focus of power. Technological changes in shipping and the growth of urban centers led to a rapid increase in international trade. Another important change was the introduction of double-entry bookkeeping and modern accounting. This accounting made extremely clear the inflow and outflow of trade, contributing to the close scrutiny given to the balance of trade. New markets and new mines propelled foreign trade to previously inconceivable heights. The goal of these thinkers was to find an economic system that was compatible with Christian doctrines of piety and justice. They focused mainly on microeconomics and local exchanges between individuals. Mercantilism was closely aligned with the other theories and ideas that were replacing the medieval worldview. The mercantilist idea that all trade was a zero sum game, in which each side was trying to best the other in a ruthless competition, was integrated into the works of Thomas Hobbes. The dark view of human nature also fit well with the Puritan view of the world, and some of the most stridently mercantilist legislation, such as the Navigation Acts, were enacted by the government of Oliver Cromwell. Mercantilist ideas were the dominant economic ideology of all of Europe in the early modern period, and most states embraced it to a certain degree. Mercantilism was centered in England and France, and it was in these states that mercantilist policies were most often enacted. Mercantilism arose in France in the early 16th century, soon after the monarchy had become the dominant force in French politics. In 1564, an important decree banned the importation of woolen goods from Spain and some parts of Flanders. The next year, a number of restrictions were imposed on the export of bullion. The height of French mercantilism is closely associated with Jean-Baptiste Colbert, finance minister for 22 years in the 17th century, to the extent that French mercantilism is sometimes called "Colbertism". Under Colbert, the French government became deeply involved in the economy in order to increase exports. Protectionist policies were enacted that limited imports and favored exports. Industries were organized into guilds and monopolies, and production was regulated by the state through a series of over a thousands directives outlining how different products should be produced. To encourage industry, foreign artisans and craftsmen were imported. Colbert also worked to decrease internal barriers to trade, reducing internal tariffs and building an extensive network of roads and canals. He was less successful in turning France into a major trading power, and Britain and the Netherlands remained supreme in this field. Mercantilist policies were also embraced throughout much of the Tudor and Stuart periods, with Robert Walpole being another major proponent. In Britain, government control over the domestic economy was far less extensive than on the Continent, limited by common law and the steadily increasing power of Parliament. British mercantilism thus mainly took the form of efforts to control trade. A wide array of regulations was put in place to encourage exports and discourage imports. Tariffs were placed on imports and bounties given for exports, and the export of some raw materials was banned completely. The nation aggressively sought colonies and once under British control, regulations were imposed that allowed the colony to only produce raw materials and to only trade with Britain. This led to friction with the inhabitants of these colonies, and mercantilist policies were one of the major causes of the American Revolution. One domestic policy that had a lasting impact was the conversion of "waste lands" to agricultural use. The other nations of Europe also embraced mercantilism to varying degrees. The Netherlands, which had become the financial center of Europe by being its most efficient trader, had little interest in seeing trade restricted and adopted few mercantilist policies. The Habsburg Holy Roman Emperors had long been interested in mercantilist policies, but the vast and decentralized nature of their empire made implementing such notions difficult. Some constituent states of the empire did embrace Mercantilism, most notably Prussia, which under Frederick the Great had perhaps the most rigidly controlled economy in Europe. During the economic collapse of the seventeenth century Spain had little coherent economic policy, but French mercantilist policies were imported by Philip V with some success. Mercantilism also fueled the intense violence of the 17th and 18th centuries in Europe. A number of wars, most notably the Anglo-Dutch Wars and the Franco-Dutch Wars, can be linked directly to mercantilist theories. The unending warfare of this period also reinforced mercantilism as it was seen as an essential component to military success. It also fueled the imperialism of this era, as each nation that was able

attempted to seize colonies that would be sources of raw materials and exclusive markets. During the mercantilist period, European power spread around the globe. Criticisms Adam Smith and David Hume are considered to be the founding fathers of anti-mercantilist thought. A number of scholars found important flaws with mercantilism long before Adam Smith developed an ideology that could fully replace it. Critics like Hume, Dudley North, and John Locke undermined much of mercantilism, and it steadily lost favor during the 18th century. In , John Locke made perfectly clear that prices vary in proportion to the quantity of money, but in general, the mercantilists did not put this together[citation needed]. Mercantilists failed to understand the notions of absolute advantage and comparative advantage although this idea was only fully fleshed out in by David Ricardo and the benefits of trade[citation needed]. For instance, suppose Portugal was a more efficient producer of both wine and cloth than England, yet in England it was relatively cheaper to produce cloth compared to wine. Thus if Portugal specialized in wine and England in cloth, both states would end up better off if they traded. This is an example of the reciprocal benefits of trade due to a comparative advantage. By imposing mercantilist import restrictions and tariffs instead, both nations ended up poorer. As bullion flowed into one country, the supply would increase and the value of bullion in that state would steadily decline relative to other goods. Conversely, in the state exporting bullion, its value would slowly rise. Eventually it would no longer be cost-effective to export goods from the high-price country to the low-price country, and the balance of trade would reverse itself. Mercantilists fundamentally misunderstood this, long arguing that an increase in the money supply simply meant that everyone gets richer. Adam Smith noted at the core of the mercantile system was the "popular folly of confusing wealth with money," bullion was just the same as any other commodity, and there was no reason to give it special treatment. They believe Mun and Misselden were not making this mistake in the s, and point to their followers Child and Davenant, who, in , wrote: Their theories also had several important problems, and the replacement of mercantilism did not come until Adam Smith published *The Wealth of Nations* in . This book outlines the basics of what is today known as classical economics. Smith spends a considerable portion of the book rebutting the arguments of the mercantilists, though often these are simplified or exaggerated versions of mercantilist thought. Those who feel that mercantilism was rent seeking hold that it ended only when major power shifts occurred. While the wealthy capitalists who controlled the House of Commons benefited from these monopolies, Parliament found it difficult to implement them because of the high cost of group decision making. On the continent, the process was somewhat different. In France economic control remained in the hands of the royal family and mercantilism continued until the French Revolution.

**Chapter 7 : mercantilism - Dictionary Definition : [www.nxgvision.com](http://www.nxgvision.com)**

*This volume presents critical writings on the work of the later mercantilists. Sir Josiah Child was elected a governor of the East India Company in*

**Chapter 8 : Mercantilism Questions including "What was the theory of mercantilism"**

*The new position of the laborer in a system of nationalism, a study in the labor theories of the later English mercantilists*  
*Item Preview.*