# Mercantilism

**Mercantilism**, economic theory and practice common 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 powers. It was the economic counterpart of political absolutism. Its 17th-century publicists—most notably Thomas Mun in England, Jean-Baptiste Colbert in France, and Antonio Serra in Italy—never, however, used the term themselves; it was given currency by the Scottish economist Adam Smith in his *Wealth of Nations* (1776).

## What is mercantilism?

- 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).
- In mercantilism, wealth is viewed as finite and trade as a zero-sum game.
- Mercantilism was the prevalent economic system in the Western world from the 16th to the 18th century.

## Which countries practiced mercantilism?

The primary countries that employed mercantilism were of western Europe—France, Spain, Portugal, Italy, and Britain, as well as Germany and the Netherlands. Since colonies were regarded as existing for the benefit of their mother countries, the colonized parts of North America, South America, and Africa were involuntarily involved with mercantilism and were required to sell raw materials only to their colonizers and to purchase finished goods only from their mother countries.

## What were the effects of mercantilism?

- Mercantilism led to the creation of monopolistic trading companies, such as the East India Company and the French East India Company.
- Restrictions on where finished goods could be purchased led in many cases to burdensome high prices for those goods.
- Commercial rivalry tended to result in military rivalry as well, notably during the Anglo-Dutch Wars.

- Colonists seeking to get around the trade restrictions mandated by mercantilism resorted to widespread smuggling.
- The constraints of mercantilism were a cause of friction between Britain and its American colonies and were arguably among the elements that led to the American Revolution.

Mercantilism contained many interlocking principles. Precious metals, such as gold and silver, were deemed indispensable to a nation's wealth. If a nation did not possess mines or have access to them, precious metals should be obtained by trade. It was believed that trade balances must be "favourable," meaning an excess of exports over imports. Colonial possessions should serve as markets for exports and as suppliers of raw materials to the mother country. Manufacturing was forbidden in colonies, and all commerce between colony and mother country was held to be a monopoly of the mother country.

A strong nation, according to the theory, was to have a large population, for a large population would provide a supply of labour, a market, and soldiers. Human wants were to be minimized, especially for imported luxury goods, for they drained off precious foreign exchange. Sumptuary laws (affecting food and drugs) were to be passed to make sure that wants were held low. Thrift, saving, and even parsimony were regarded as virtues, for only by these means could capital be created. In effect, mercantilism provided the favourable climate for the early development of capitalism, with its promises of profit.

Later, mercantilism was severely criticized. Advocates of laissez-faire argued that there was really no difference between domestic and foreign trade and that all trade was beneficial both to the trader and to the public. They also maintained that the amount of money or treasure that a state needed would be automatically adjusted and that money, like any other commodity, could exist in excess. They denied the idea that a nation could grow rich only at the expense of another and argued that trade was in reality a two-way street. Laissez-faire, like mercantilism, was challenged by other economic ideas.