FACULTY OF JURIDICAL SCIENCES

Lecture-4

Characteristics of Mercantilism

Accumulation of Gold

Gold was associated with wealth and power. It not only allowed nations to pay for soldiers and expand the empire but also for its symbolism of wealth. Nations saw gold as protection against invasion and a lack of gold would inevitably lead to the nation's demise.
Gold mines were in short supply in colonist nations such as Great Britain, France, and Spain, so they relied on their colonist nations to provide its supply. By procuring raw materials from the colonies, it would convert them to final goods and sell them back for a profit in gold.

Belief that Wealth is Static

At the heart of mercantilism was the belief that wealth was static. As gold was rare, it was seen that there is only a limited supply. So importing more from one nation than it exported meant it was losing wealth. In other words, one nation could only benefit at another's expense.

Large Population

According to mercantilist theory, a large population was necessary in order to supply labor, markets, and an army to the nation. The larger the nation, the more wealth in could accumulate, and the bigger its army. So larger populations were associated with an increase in a nation's prosperity.

Positive Balance of Trade

Mercantilists believed that by exporting more than they imported, it would be able to acquire a net accumulation of wealth from other nations. However, by contrast, if the nation brought more goods from abroad, it was essentially sending gold, wealth, and power abroad.

Reliance on Colonies

Colonists relied on their colonies not only for raw materials but to ensure a net transfer of wealth and gold. In the long-term, this helped finance further expansion across the globe. More importantly, it helped the mother nation become self-reliant.

State Monopolies

The state had a monopoly in the fact that it was the only nation able to supply to its colonies – so it was only able to import or export to the mother country. This was because its mother nations relied on it for raw materials, whereby they were converted into final goods and sold back at a profit. The result was a net transfer in gold from the colonies, to the colonists.

Trade Barriers

Many empires enforced a ban on trade between its colonists, as well as that of other empires. For instance, when Britain had control over India, it was banned from trading with other colonies such as Australia or Canada. At the same time, many nations imposed tariffs to make imports more expensive and uncompetitive.
The aim was to suppress imports coming into the country, without completely eliminating the goods that it needs. However, nations managed to secure key resources from their colonies in order to ensure self-sufficiency.

Mercantilism involves

- Restrictions on imports – tariff barriers, quotas or non-tariff barriers.
- Accumulation of foreign currency reserves, plus gold and silver reserves. In the sixteenth/seventeenth century, it was believed that the accumulation of gold reserves (at the expense of other countries) was the best way to increase the prosperity of a country.
- Granting of state monopolies to particular firms especially those associated with trade and shipping.
- Subsidies of export industries to give a competitive advantage in global markets.
- Government investment in research and development to maximize the efficiency and capacity of the domestic industry.
- Allowing copyright/intellectual theft from foreign companies.
- Limiting wages and consumption of the working classes to enable greater profits to stay with the merchant class.
- Control of colonies, e.g. making colonies buy from Empire country and taking control of colonies wealth.

Examples of mercantilism

- England Navigation Act of 1651 prohibited foreign vessels engaging in coastal trade.
- All colonial exports to Europe had to pass through England first and then be re-exported to Europe.

- Under the British Empire, India was restricted in buying from domestic industries and was forced to import salt from the UK. Protests against this salt tax led to the ‘Salt tax revolt’ led by Gandhi.
- In seventeenth-century France, the state promoted a controlled economy with strict regulations about the economy and labor markets
- Rise of protectionist policies following the great depression; countries sought to reduce imports and also reduce the value of the currency by leaving the gold standard.
- Some have accused China of mercantilism due to industrial policies which have led to an oversupply of industrial production – combined with a policy of undervaluing the currency.

The End of Mercantilism

Democracy and free trade destroyed mercantilism in the late 1700s. American and French revolutions formalized large nations ruled by democracy. They endorsed capitalism.

Adam Smith argued against mercantilism with his 1776 publication of "The Wealth of Nations." He argued that foreign trade strengthens the economies of both countries. Each country specializes in what it produces best, giving it a comparative advantage. He also explained that a government that put business ahead of its people would not last. Smith's laissez-faire capitalism coincided with the rise of democracy in the United States and Europe.

In 1791, mercantilism was breaking down, but free trade hadn't yet developed. Most countries still regulated free trade to enhance domestic growth. U.S. Treasury Secretary Alexander Hamilton was a proponent of mercantilism. He advocated government subsidies to protect infant industries necessary to the national interest. The industries needed government support until they were strong enough to defend themselves. Hamilton also proposed tariffs to reduce competition in those areas.

Fascism and totalitarianism adopted mercantilism in the 1930s and 1940s. After the stock market crash of 1929, countries used protectionism to save jobs. They reacted to the Great Depression with tariffs. In the U.S., the 1930 Smoot-Hawley Act raised tariffs on more than 20,000 items. When other countries retaliated, global trade fell 66% by 1933, prolonging the depression.