3

Mercantilism: A Lesson for Our Times?

Mercantilism has had a "good press" in recent decades, in contrast to nineteenth-century opinion. In the days of Adam Smith and the classical economists, mercantilism was properly regarded as a blend of economic fallacy and state creation of special privilege. But in our century, the general view of mercantilism has changed drastically: Keynesians hail mercantilists as prefiguring their own economic insights; Marxists, constitutionally unable to distinguish between free enterprise and special privilege, hail mercantilism as a "progressive" step in the historical development of capitalism; socialists and interventionists salute mercantilism as anticipating modern state-building and central planning.

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 that exports should be encouraged by the government and imports discouraged. Economically, this seems to be a tissue of fallacy; for what is the point of exports if not to purchase imports, and what is the point of piling up monetary bullion if the bullion is not used to purchase goods?

But mercantilism cannot be viewed satisfactorily as merely an exercise in economic theory. The mercantilist writers, indeed, did not consider themselves economic theorists, but practical men of affairs who argued and pamphleteered for specific economic policies, generally for policies which would subsidize activities or companies

[Reprinted from ***The Freeman*** (November 1963): 16–27.]

in which those writers were interested. Thus, a policy of favoring exports and penalizing imports had two important practical effects: it subsidized merchants and manufacturers engaged in the export trade, and it threw up a wall of privilege around inefficient manufacturers who formerly had to compete with foreign rivals. At the same time, the network of regulation and its enforcement built up the state bureaucracy as well as national and imperial power.

The famous English Navigation Acts, which played a leading role in provoking the American Revolution, are an excellent example of the structure and purpose of mercantilist regulation. The network of restriction greatly penalized Dutch and other European shippers, as well as American shipping and manufacturing, for the benefit of English merchants and manufacturers, whose competition was either outlawed or severely taxed and crippled. The use of the state to cripple or prohibit one's competition is, in effect, the grant by the state of monopolistic privilege; and such was the effect for Englishmen engaged in the colonial trade.

A further consequence was the increase of tax revenue to build up the power and wealth of the English government, as well as the multiplying of the royal bureaucracy needed to administer and enforce the regulations and tax decrees. Thus, the English government, and certain English merchants and manufacturers, benefited from these mercantilist laws, while the losers included foreign merchants, American merchants and manufacturers, and, above all, the *consumers* of all lands, including England itself. The consumers lost, not only because of the specific distortions and restrictions on production of the various decrees, but also from the hampering of the international division of labor imposed by all the regulations.

Adam Smith's Refutation

Mercantilism, then, was not simply an embodiment of theoretical fallacies; for the laws were *only* fallacies if we look at them from the point of view of the consumer, or of each individual in society. They are not fallacious if we realize that their aim was to confer special privilege and subsidy on favored groups; since subsidy and privilege can only be conferred by government *at the expense* of the remainder

of its citizens, the fact that the bulk of the consumers lost in the process should occasion little surprise.[1]

Contrary to general opinion, the classical economists were not content merely to refute the fallacious economics of such mercantilist theories as bullionism or protectionism; they also were perfectly aware of the drive for special privilege that propelled the "mercantile system." Thus, Adam Smith pointed to the fact that linen yarn could be imported into England duty free, whereas heavy import duties were levied on finished woven linen. The reason, as seen by Smith, was that the numerous English yarn-spinners did not constitute a strong pressure-group, whereas the master-weavers were able to pressure the government to impose high duties on their product, while making sure that their raw material could be bought at as low a price as possible. He concluded that the

> motive of all these regulations, is to extend our own manufactures, not by their own improvement, but by the depression of those of all our neighbors, and by putting an end, as much as possible, to the troublesome competition of such odious and disagreeable rivals. . . .
>
> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. . . . But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.

[1]"The laws and proclamations . . . were the product of conflicting interests of varying degrees of respectability. Each group, economic, social, or religious, pressed constantly for legislation in conformity with its special interest. The fiscal needs of the crown were always an important and generally a determining influence on the course of trade legislation. Diplomatic considerations also played their part in influencing legislation, as did the desire of the crown to award special privileges, *con amore*, to its favorites, or to sell them, or to be bribed into giving them, to the highest bidders. . . . The mercantilist literature, on the other hand, consisted in the main of writings by or on behalf of 'merchants' or businessmen . . . tracts which were partly or wholly, frankly or disguisedly, special pleas for special economic interests. Freedom for themselves, restrictions for others, such was the essence of the usual program of legislation of the mercantilist tracts of merchant authorship." Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper and Bros., 1937), pp. 58–59.

> In the restraints upon the importation of all foreign commodities which can come into competition with those of our own growth, or manufacture, the interest of the home-consumer is evidently sacrificed to that of the producer. It is altogether for the benefit of the latter, that the former is obliged to pay that enhancement of price which this monopoly almost always occasions.
>
> It is altogether for the benefit of the producer that bounties are granted upon the exportation of some of his productions. The home-consumer is obliged to pay, first, the tax which is necessary for paying the bounty, and secondly, the still greater tax which necessarily arises from enhancement of the price of the commodity in the home market.[2]

Before Keynes

Mercantilism was not only a policy of intricate government regulations; it was also a pre-Keynesian policy of inflation, of lowering interest rates artificially, and of increasing "effective demand" by heavy government spending and sponsorship of measures to increase the quantity of money. Like the Keynesians, the mercantilists thundered against "hoarding," and urged the rapid circulation of money throughout the economy; furthermore, they habitually pointed to an alleged "scarcity of money" as the cause of depressed trade or unemployment.[3] Thus, in a prefiguration of the Keynesian "multiplier," William Potter, one of the first advocates of paper money in the Western world (1650), wrote:

> The greater quantity . . . of money . . . the more commodity they sell, that is, the greater is their trade. For whatsoever is taken amongst men . . . though it were ten times more than now it is, yet if it be one way or other laid out by each man, as fact as he receives it . . . it doth occasion a quickness in the revolution of commodity from hand to hand . . . much more than proportional to such increase of money.[4]

[2]Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), p. 625.

[3]See the laudatory "Note on Mercantilism" in chap. 23 of John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, 1936).

[4]Quoted in Viner, *Studies in the Theory of International Trade*, p. 38.

And the German mercantilist F.W. von Schrötter wrote of the importance of money changing hands, for one person's spending is another's income; as money "pass[es] from one hand to another . . . the more useful it is to the country, for . . . the sustenance of so many people is multiplied," and employment increased. Thrift, according to von Schrötter, causes unemployment, since saving withdraws money from circulation. And John Cary wrote that if everyone spent more, everyone would obtain larger incomes, and "might then live more plentifully."[5]

Historians have had an unfortunate tendency to depict the mercantilists as inflationists and *therefore* as champions of the poor debtors, while the classical economists have been considered hard-hearted apologists for the *status quo* and the established order. The truth was almost precisely the reverse. In the first place, inflation did not benefit the poor; wages habitually lagged behind the rise in prices during inflations, especially behind agricultural prices. Furthermore, the "debtors" were generally not the poor but large merchants and quasi-feudal landlords, and it was the landlords who benefited triply from inflation: from the habitually steep increases in food prices, from the lower interest rates and the lower purchasing-power of money in their role as debtors, and from the particularly large increases in land values caused by the fall in interest rates. In fact, the English government and Parliament was heavily landlord-dominated, and it is no coincidence that one of the main arguments of the mercantilist writers for inflation was that it would greatly raise the value of land.

Exploitation of Workers

Far from being true friends of laborers, the mercantilists were frankly interested in exploiting their labor to the utmost; full employment was urged as a means of maximizing such exploitation. Thus, the mercantilist William Petyt wrote frankly of labor as "capital material . . . raw and undigested . . . committed into the

[5]Quoted in Eli F. Heckscher, *Mercantilism*, 2nd ed. (New York: Macmillan, 1955), 2, pp. 208–9. Also see Edgar S. Furniss, *The Position of the Laborer in a System of Nationalism* (New York: Kelley and Millman, 1957), p. 41.

hands of supreme authority, in whose prudence and disposition it is to improve, manage, and fashion it to more or less advantage."[6] Professor Furniss comments that "it is characteristic of these writers that they should be so readily disposed to trust in the wisdom of the civil power to 'improve, manage, and fashion' the economic 'raw material' of the nation. Bred of this confidence in statecraft, proposals were multiplied for exploiting the labor of the people as the chief source of national wealth, urging upon the rulers of the nation diverse schemes for directing and creating employment."[7] The mercantilists' attitude toward labor and full employment is also indicated by their dislike of holidays, by which the "nation" was deprived of certain amounts of labor; the desire of the individual worker for leisure was never considered worthy of note.

Compulsory Employment

The mercantilist writers realized frankly that corollary to a guarantee of full employment is coerced labor for those who don't wish to work or to work in the employment desired by the guarantors. One writer summed up the typical view: "it is absolutely necessary that employment should be provided for persons of every age that are able and willing to work, and the idle and refractory should be sent to the house of correction, there to be detained and constantly kept to labor." Henry Fielding wrote that "the constitution of a society in this country having a claim on all its members, has a right to insist on the labor of the poor as the only service they can render." And George Berkeley asked rhetorically "whether temporary servitude would not be the best cure for idleness and beggary? . . . Whether sturdy beggars may not be seized and made slaves to the public for a certain term of years?"[8] William Temple proposed a scheme to send the children of laborers, from the age of four on, to public workhouses, where they would be kept "fully employed" for at least twelve hours a day, "for by these means we hope that the rising generation will be habituated to constant employment." And another writer expressed his amazement that parents tended to balk at these programs:

[6]Quoted in ibid., p. 41.
[7]Ibid.
[8]See ibid., pp. 79–84.

> Parents . . . from whom to take for time the idle, mischievous, least useful and most burdensome part of their family to bring them up without any care or expense to themselves in habits of industry and decency is a very great relief; are very much adverse to sending their children . . . from what cause, it is difficult to tell.[9]

Perhaps the most misleading legend about the classical economists is that they were apologists for the *status quo*; on the contrary, they were "radical" libertarian opponents of the established Tory mercantilist order of big government, restrictionism, and special privilege. Thus, Professor Fetter writes that during the first half of the nineteenth century, the

> *Quarterly Review* and *Blackwood's Edinburgh Magazine*, staunch supporters of the established order, and opponents of change in virtually all fields, had no sympathy with political economy or with *laissez-faire*, and were constantly urging maintenance of tariffs, expenditures by government, and suspension of the gold standard in order to stimulate demand and increase employment. On the other hand the *Westminster's* [journal of the classical liberals] support of the gold standard and free trade, and its opposition to any attempt to stimulate the economy by positive government action, came not from believers in authority or from defenders of the dominant social force behind authority, but from the most articulate intellectual radicals of the time and the severest critics of the established order.[10]

Southey Favors Nationalization

In contrast, let us consider the *Quarterly Review*, a high Tory journal which always "assumed that the unreformed Parliament, the dominance of a landed aristocracy . . . the supremacy of the established church, discrimination of some sort against Dissenter, Catholic, and Jew, and the keeping of the lower classes in their place were the foundations of a stable society." Their leading writer on economic problems, the poet Robert Southey, repeatedly urged government expenditure as a stimulant to economic activity, and attacked England's resumption

[9]Ibid., p. 115.
[10]Frank W. Fetter, "Economic Articles in the *Westminster Review* and their Authors, 1824–51," *Journal of Political Economy* (December 1962): 572.

of specie payments (return to the gold standard) after the Napoleonic Wars. Indeed, Southey proclaimed that an increase in taxes or in the public debt was never a cause for alarm, since they "give a spur to the national industry, and call forth national energies." And, in 1816, Southey advocated a large public works program for relief of unemployment and depression.[11]

The *Quarterly Review*'s desire for stringent government control and even ownership of the railroads was at least frankly linked with its hatred of the benefits that railroads were bringing to the mass of the British population. Thus, where the classical liberals hailed the advent of railroads as bringing cheaper transportation and as thereby increasing the mobility of labor, the *Quarterly*'s John Croker denounced railroads as "rendering travel too cheap and easy—unsettling the habits of the poor, and tempting them to improvident migration."[12]

The arch-Tory, William Robinson, who often denounced his fellow Tories for compromising even slightly on such principles as high tariffs and no political rights for Catholics, wrote many pre-Keynesian articles, advocating inflation to stimulate production and employment, and denouncing the hard-money effects of the gold standard. And the Tory, Sir Archibald Alison, inveterate advocate of inflation who even ascribed the fall of the Roman Empire to a shortage of money, frankly admitted that it was the "agricultural class" that had suffered from the lack of inflation since resumption of the gold standard.[13]

Controls Under Elizabeth

A few case studies will illustrate the nature of mercantilism, the reasons for mercantilist decrees, and some of the consequences that they brought to the economy.

One important part of mercantilist policy was wage controls. In the fourteenth century, the Black Death killed one-third of the laboring

[11] See Frank W. Fetter, "Economic Articles in the *Quarterly Review* and their Authors, 1809–52," *Journal of Political Economy* (February 1958): 48–51.

[12] Ibid., p. 62.

[13] See Frank W. Fetter, "Economic Articles in *Blackwood's Edinburgh Magazine*, and their Authors, 1817–1853," *Scottish Journal of Political Economy* (June 1960): 91–96.

population of England, and naturally brought sharp advances in wage rates. Wage controls came in as wage-ceilings, in desperate attempts by the ruling classes to coerce wage rates below their market rates. And since the vast bulk of employed laborers were agricultural workers, this was clearly legislation for the benefit of the feudal landlords and to the detriment of the workers.

Textiles vs. Agriculture

The result was a persistent shortage of agricultural and other unskilled laborers for centuries, a shortage mitigated by the fact that the English government did not try to enforce the laws very rigorously. When Queen Elizabeth tried to enforce the wage controls strictly, the agricultural labor shortage was aggravated, and the landlords found their statutory privileges defeated by the more subtle laws of the market. Consequently, Elizabeth passed, in 1563, the famous Statute of Artificers, imposing comprehensive labor control.

Attempting to circumvent the shortage caused by previous interventions, the statute installed forced labor on the land. It provided that: (1) whoever had worked on the land until the age of 12 be compelled to remain there and not leave for work at any other trade; (2) all craftsmen, servants, and apprentices who had no great reputation in their fields be forced to harvest wheat; and (3) unemployed persons were compelled to work as agricultural laborers. In addition, the statute prohibited any worker from quitting his job unless he had a license proving that he had already been hired by another employer. And, furthermore, justices of the peace were ordered to set maximum wage rates, geared to changes in the cost of living.

The statute also acted to restrict the growth of the woolen textile industry; this benefited two groups: the landlords, who would no longer lose laborers to industry and suffer the pressure of paying higher wage rates, and the textile industry itself, which received the privilege of keeping out the competition of new firms or new craftsmen. The coerced immobility of labor, however, led to suffering for all workers, including textile craftsmen; and to remedy the latter, Queen Elizabeth imposed a minimum wage law for textile craftsmen, thundering all the while that the wicked clothing manufacturers were responsible for the craftsmen's plight. Fortunately, textile employers and workers persisted in agreeing on terms of employment below the artificially-set wage rate, and heavy textile unemployment did not yet arise.

Enforcing Bad Laws

The programs of wage controls could not cause undue dislocations until they were stringently enforced, and this came to pass under King James I, the first Stuart king of England. Upon assuming the throne in 1603, James decided to enforce the Elizabethan control program with great stringency, including extremely heavy penalties against employers. Rigorous enforcement was imposed on minimum wage controls for textile craftsmen, and on maximum wage decrees for agricultural laborers and servants.

The consequences were the inevitable result of tampering with the laws of the market: chronic severe unemployment throughout the textile industry, coupled with a chronic severe shortage of agricultural labor. Misery and discontent spread throughout the land. Citizens were fined for paying their servants more than ceiling wages, and servants fined for accepting the pay. James, and his son Charles I, decided to stem the tide of unemployment in textiles by compelling employers to remain in business even when they were losing money. But even though many employers were jailed for infractions, such Draconian measures could not keep the textile industry from depression, stagnation, and unemployment. Certainly the consequences of the policy of wage controls was one of the reasons for the overthrow of the Stuart tyranny in the mid-seventeenth century.

Mercantilist Practices in Colonial Massachusetts

The young colony of Massachusetts engaged in a great many mercantilist ventures, with invariably unfortunate results. One attempt was a comprehensive program of wage and price controls, which had to be abandoned by the 1640s. Another was a series of subsidies to try to create industries in the colony before they were economically viable, and therefore before they would be created on the free market. One example was iron manufacture. Early iron mines in America were small and located in coastal swamps ("bog iron"); and

primarily manufactured, or "wrought," iron was made cheaply in local bloomeries, at an open hearth. The Massachusetts government decided, however, to force the creation of the more imposing—and far more expensive—indirect process of wrought iron manufacture at a blast furnace and forge. The Massachusetts legislature therefore decreed that any new iron mine must have a furnace and forge constructed near it within ten years of its discovery. Not content with this measure, the legislature in 1645 granted a new Company of Undertakers For An Iron Works In New England, a 21-year monopoly of all ironmaking in the colony. In addition, the legislature granted the company generous subsidies of timberland.

But despite these subsidies and privileges, as well as additional large grants of timberland from the town governments of Boston and Dorchester, the Company's venture failed dismally and almost immediately. The Company did its best to salvage its operations, but to no avail. A few years later, John Winthrop, Jr., the main promoter of the older venture, induced the authorities of New Haven colony to subsidize an iron manufacture of his at Stony River. From the governments of New Haven colony and New Haven township, Winthrop was granted a whole host of special subsidies: land grants, payment of all costs of building the furnace, a dam on the river, and the transportation of fuel. One of Winthrop's partners in the venture was the deputy-governor of the colony, Stephen Goodyear, who was thus able to use the power of government to grant himself substantial privileges. But again, economic law was not to be denied, and the ironworks proved to be another rapidly failing concern.

Debtors' Relief A Scheme to Aid the Rich

One of the most vigorously held tenets of the dominant neo-Marxist historians of America has been the view that inflation and debtors' relief were always measures of the "lower classes," the poor farmer-debtors and sometimes urban workers, engaging in a Marxian class struggle against conservative merchant-creditors. But a glance at the origins of debtors' relief and paper money in America easily shows the fallacy of this approach; inflation and debtors' relief were mercantilist measures, pursued for familiar mercantilist ends.

Debtors' relief began in the colonies, in Massachusetts in 1640. Massachusetts had experienced a sharp economic crisis in 1640, and the debtors turned immediately to special privilege from the government. Obediently, the legislature of Massachusetts passed the first of a series of debtors' relief laws in October, including a minimum-appraisal law to force creditors to accept insolvent debtors' property at an arbitrarily inflated assessment, and a legal-tender provision to compel creditors to accept payment in an inflated, fixed rate in the monetary media of the day: corn, cattle, or fish.

Further privileges to debtors were passed in 1642 and 1644, the latter permitting a debtor to escape foreclosure simply by leaving the colony. The most drastic proposal went to the amazing length of providing that the Massachusetts government assume all private debts that could not be paid! This plan was passed by the upper house, but defeated in the house of deputies.

The fact that this astounding bill was passed by the *upper* house—the council of magistrates—is evidence enough that this was not a proto-Marxian eruption of poor debtors. For this council was the ruling group of the colony, consisting of the wealthiest merchants and landowners. If not for historical myths, it should occasion no surprise that the biggest debtors were the wealthiest men of the colony, and that in the mercantilist era a drive for special privilege should have had typically mercantilist aims. On the other hand, it is also instructive that the more democratic and popularly responsible lower house was the one far more resistant to the debt relief program.

Paper Money Inflation

Massachusetts has the dubious distinction of having promulgated the first governmental paper money in the history of the Western world—indeed, in the history of the entire world outside of China. The fateful issue was made in 1690, to pay for a plunder expedition against French Canada that had failed drastically. But even before this, the leading men of the colony were busy proposing paper money schemes. The Rev. John Woodbridge, greatly influenced by William Potter's proposals for an inflationary land bank, proposed one of his own, as did Governor John Winthrop, Jr., of Connecticut. Captain John Blackwell proposed a land bank in 1686, the notes of which would be legal tender in the colony, and such wealthy leaders of the colony as Joseph Dudley, William Stoughton, and Wait Winthrop were prominently associated with the plan.

The most famous of the inflationary land-bank schemes was the Massachusetts Land Bank of 1740, which has generally been limned in neo-Marxist terms as the creation of the mass poor farmer-debtors over the opposition of wealthy merchant-creditors of Boston. In actuality, its founder, John Colman, was a prominent Boston merchant and real-estate speculator; and its other supporters had similar interest—as did the leading opponents, who were also Boston businessmen. The difference is that the advocates had generally been receivers of land grants from the Massachusetts government, and desired inflation to raise the value of their speculatively-held land claims.[14] Once again—a typically mercantilist project.

Keynes Wouldn't Learn

From just a brief excursion into mercantilist theory and practice, we may conclude that Lord Keynes might have come to regret his enthusiastic welcome to the mercantilists as his forbears. For they were his forbears indeed; and the precursors as well of the interventions, subsidies, regulations, grants of special privilege, and central planning of today. But in no way could they be considered as "progressives" or lovers of the common man; on the contrary, they were frank exponents of the Old Order of statism, hierarchy, landed oligarchy, and special privilege—that entire "Tory" regime against which *laissez-faire* liberalism and classical economics leveled their liberating "revolution" on behalf of the freedom and prosperity of *all* productive individuals in society, from the wealthiest to the humblest. Perhaps the modern world will learn the lesson that the contemporary drive for a new mercantilism may be just as profoundly "reactionary," as profoundly opposed to the freedom and prosperity of the individual, as its pre-nineteenth-century ancestor.

[14]See the illuminating study by Dr. George Athan Billias, "The Massachusetts Land Bankers of 1740," *University of Maine Bulletin* (April 1959).