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Mercantilism In Retrospect: Foundations And Fractures Towards Capitalism

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Abstract:
This study examines the transition from mercantilism to the onset of capitalist thought, highlighting Europe's economic policy changes and social transformations from the 16th to the 18th centuries. The investigation reveals how mercantilist policies, focused on the accumulation of precious metals and trade surpluses, faced questioning for their limitations in promoting sustainable economic development. Discontent with mercantilist practices, such as state monopolies and competition restrictions, encouraged the emergence of a new capitalist class. These agents were fundamental in introducing liberal economic ideas, advocating for trade freedom, reducing the state's role in the economy, and promoting innovation. The research concludes that the decline of mercantilism facilitated the emergence of capitalist precursor practices and illustrates the complexity of economic and social change, clarifying the factors that drove the evolution towards a new economic paradigm.
Key Word: *Mercantilism; Accumulation of Precious Metals; Trade Surplus; State Monopolies; Protectionism.*

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I. Introduction

At the dawn of modernity, Europe witnessed an unprecedented economic and social transition, evolving from mercantilism to the beginnings of capitalist thought. This article aims to unravel the complex dynamics that characterised this change, highlighting the transformations in economic policies and the social revolutions between the 16th and 18th centuries. By examining how mercantilism, with its emphasis on the accumulation of precious metals and the maintenance of trade surpluses, gave way to a system that valued trade freedom, production, and innovation, we intend to elucidate the mechanisms behind the emergence of capitalism.

This study's rationale stems from the need to understand the roots of the economic system that dominates in the contemporary world. By exploring the transition period from mercantilism to capitalism, this work seeks to provide insights not only on the evolution of economic theories and commercial practices but also on the changes in social structures and the conception of the state's role in the economy. This understanding is crucial for appreciating the driving forces that shaped modern economic development and the challenges we face today.

Therefore, the primary objective of this article is to analyse the fundamental changes in economic policies and social structures that facilitated the transition from mercantilism to capitalism. In particular, the study will focus on the growing discontent with the limitations of mercantilism, the emergence of a new class of capitalists, and the adoption of liberal economic ideas. Through this examination, we seek to highlight how the rejection of mercantilist practices and the gradual acceptance of capitalist principles reflect an evolution in the understanding of the economy, society, and the state, offering valuable lessons for the present and future of the global economy.

II. Brief History

The earliest mercantilist writings, which emerged in Europe in the 16th century, coincided with a period of heightened commercial activity, notably between the metropolises and their colonies. In this era, production was intrinsically linked to foreign trade, leading to a specialisation in manufacturing and craftsmanship to meet the specific demands of the international market, Heckscher (1931).

Kennedy (1987) points out that mercantilist economic policy initially emphasised the accumulation of precious metals, a practice known as bullionism, considering this accumulation as essential for the wealth and power of a nation. Subsequently, the emphasis shifted towards achieving trade surpluses, aiming to export more than it imported. This change reflects an evolution in mercantilist strategies, recognising that favourable foreign trade contributes significantly to national enrichment beyond possessing precious metals—this commercial focus aimed primarily at wealth accumulation, reflecting the economic dynamics of the time.

The directive of the first stage of mercantilism guided the increase in the amount of gold and silver resources, termed bullionism, and even punished those responsible for evading these metals. This goal and the significant influx of gold from the Americas contributed to increased inflation in Europe. Stearns (2013) reports that the arrival of gold enriched merchants and generated high inflation by increasing the amount of money in circulation.

Hébert (2007) clarify that the second stage was oriented towards seeking a favourable balance in the Trade Balance for the generation of nations' wealth. This approach involved promoting exports and limiting imports through policies such as customs tariffs and subsidies for local production. It aimed at capital accumulation but also stimulated the development of national enterprises, Humberman (1982).

Braudel (1982) emphasises that the rise of the bourgeois class, represented predominantly by merchants, is directly linked to mercantilist policies, which valued trade and the accumulation of wealth as pillars of economic power. Wallerstein (1974) notes that the primacy of merchants was due to manufacturing being conducted in the artisanal mode of the late Middle Ages. Thus, the industrial bourgeoisie did not yet exist. The prevailing system was craft guilds, with workers owning their tools and producing collectively without the appropriation of surpluses. Also, in the agricultural sector, techniques were traditional, with production still rooted in the feudal system, where landowners appropriated surpluses.

Commercial monopolies, underpinned by the power of the absolutist state, functioned as mechanisms of control and economic expansion, bolstering the position of bourgeois merchants on the global stage. This environment provided a firm foundation for the flourishing of commercial capitalism, the precursor to industrial capitalism.

Mokyr (1990) argues that the technological progress experienced during mercantilism sowed the seeds for the Industrial Revolution and significantly contributed to the erosion of the mercantilist system itself. The historical trajectory of this technological progress, derived from mercantilism, laid the groundwork for large-scale production practices and the emergence of new organisational structures, paving the way for the creation of modern enterprises. Furthermore, this technological legacy propelled an era of innovations that would not only facilitate the development of industrial capitalism but also challenge the foundations of mercantilism, radically transforming economies and societies. As technologies advanced, allowing for more efficient production and broader trade, the rigidity of mercantilist practices, focused on state control and the accumulation of precious metals, became increasingly unsustainable, culminating in a gradual transition towards economic systems that valued free enterprise and innovation.

III. Theoretical Framework

According to Magnusson (1994), prevalent between the 16th and 18th centuries, mercantilism does not constitute an economic school per se but rather a mosaic of economic practices and policies implemented by rising nation-states in Europe. These practices aimed to strengthen the state's power and wealth through control over trade and the economy, seeking a positive balance between exports and imports. Mercantilism was characterised by commercial policies that included high import tariffs, subsidies for local industries, accumulation of precious metals, and the promotion of colonies as sources of raw materials and markets for national products. The common goal was to strengthen the nation-state, viewing national wealth as a means to military and political power. This set of practices reflects a phase in economic history where international trade and capital accumulation were primarily seen as tools for expanding state power rather than mechanisms to promote general welfare or economic development based on the free market.

Irwin (1996) states the valuation of international trade in mercantilist policies was a guiding principle for the economic strengthening of European nations. Profit was to be obtained through exchanges for mercantilists. Therefore, the accumulation of wealth through a positive trade balance is the mercantilist strategy, reflecting an economic view where a nation's prosperity is measured by the amount of its treasure.

In line with mercantilist thinking, one nation's gain corresponds to the loss of another, Allen (2011). This zero-sum competition principle was central to international trade, leading nations to relentlessly pursue a larger global market share. Expanding global market presence was not just a matter of prestige or power; it was essential for a state's economic survival. From this perspective, each country sought to maximise its exports and minimise imports to accumulate the largest amount of precious metals, mainly gold and silver.

This mercantilist understanding of international trade fostered an atmosphere of aggressive competitiveness among nations. European governments adopted policies to secure commercial advantages over their neighbours, from imposing protectionist tariffs to granting commercial monopolies to national companies. Colonial expansion was partly an extension of this logic, with European empires establishing colonies worldwide not only as trading posts but also as sources of raw materials and captive markets for their manufactured goods.

The premise that trade was a win-lose game led to policies that, although aimed at strengthening national economies, often resulted in economic conflicts and, sometimes, military ones. Nations constantly searched for new markets and trade routes, sparking rivalries that shaped international politics for centuries. This mercantilist principle, centred on the quest for an expanded presence in the global market, defined not only nations' economic strategies but also their interactions with each other, underscoring the perception at the time that international trade was an economic battlefield.

This emphasis on accumulating precious metals and achieving a trade surplus is fundamental to mercantilist theory. It stems from the notion that a nation's wealth comes from the total profits accumulated by its residents, primarily through international trade. The control of economic activity, production, and trade was imposed to restrict the outflow of wealth. Among these guidelines, the establishment of strict navigation policies stands out. These were designed to monopolise maritime trade in favour of the nations themselves. By requiring all trade with the colonies to use national ships or transit through national ports, these laws strengthened the merchant navy and increased revenue for the national treasury from taxes on traded goods. This approach not only reinforced national security by developing a powerful navy but also ensured that the economic benefits of foreign trade directly bolstered the state's economic strength.

As De Vries(1976) notes the absolutist government's actions enabled control over trade and the financing of sizable trading companies to boost national wealth. The state dismantled feudal trade barriers and executed public works to facilitate transportation. Governments also provided financing to large commercial companies that, through monopolies, generated income for both the businesses and the government itself. Moreover, it was a governmental directive to exploit the colonies to reinforce monopolistic practices and increase wealth accumulation.

Such government actions also impacted citizens' activities. There was control over domestic consumption and currency circulation, and even guidance on paying for imported goods with domestic products. This control aimed at achieving a trade surplus to reduce the outflow of currency from the country.

Given the above, the absolutist government played a crucial role in the rise and support of the commercial bourgeoisie, adopting practices aimed at maximising national wealth. These governmental practices were based on mercantilist principles, as demonstrated by the works of several theorists of this stream, who advocated protectionist trade policies and the strengthening of the absolutist state to implement these economic policies.

The measurement of wealth through trade surplus and precious metals came from a concept of value. These authors distinguished three concepts of value:

- the natural value, which refers to the cost of producing a good
- the exchange value, or the market price of the good
- the intrinsic value, which corresponds to the use value of the commodity

The idea that the market determines the value and, consequently, the prices of goods connects these three ideas.

The mercantilist conception that wealth is generated in trade relegates the productive sector to a secondary plane, a perspective deeply rooted in the ideology of the mercantile bourgeoisie of the time (Landes (1998). This emerging class, consisting of merchants and financiers, saw international trade and the accumulation of precious metals as a means of personal enrichment and a strategy to strengthen the nation-state. This ideology reflects the belief in the superiority of trade as a driver of economic growth and the importance of a positive trade balance, where exporting more than importing becomes an indicator of national prosperity.

The mercantile bourgeoisie had a significant influence on state policies at the time. These policies, founded on mercantilist ideology, sought to protect the interests of the mercantile bourgeoisie. However, this emphasis on trade and wealth accumulation through external means underestimated the role of the productive sector. Thus, mercantilist ideology, while reflecting the economic and social conditions of the time and serving the interests of the mercantile bourgeoisie, also sowed the seeds for questioning its basic premises.

The government sponsored the mercantile bourgeoisie, which reciprocated with the king by imposing import tariffs, creating state monopolies, levying direct and indirect taxes, and demanding commercial licences and colonial fees. This allowed the government to appropriate the surpluses of the mercantile bourgeoisie.

Enabling both internal and external trade to justify the valuation of precious stones. In other words, it contributed to the expansion of trade because precious stones provided a comparative advantage to their possessors. Metals were fundamental for expanding international trade because they were widely accepted as a means of payment. Over time, the development of economic theories that valued production, innovation, and the domestic market challenged the mercantilist perspective, paving the way for a more complex and nuanced understanding of the economy.

IV. Transition to Capitalism: The End of Mercantilism and the Rise of the Liberal Economy

The decline of mercantilism can be attributed to various factors that collectively contributed to the transition towards more liberal economic systems and the rise of industrial capitalism. Mercantilist policy, with its focus on protectionist practices and state intervention in the economy, began to be questioned as it generated discontent among different economic groups. State favouritism towards specific economic agents through monopolies, subsidies, and grants created an environment of inequality and dissatisfaction among those who did not receive such benefits.

The waning of mercantilism is deeply linked to the emerging conflict between the mercantile bourgeoisie and the nascent industrial bourgeoisie. As the Industrial Revolution progressed, the industrial bourgeoisie began to establish itself as a new economic force, seeking fewer trade restrictions and greater market freedom. This emerging class saw mercantilist policies favouring foreign trade and imposing barriers to imports as an obstacle to the growth of industrial production and the expansion of domestic markets. The tension between these two economic groups highlighted the limitations of mercantilist policies in adapting to the changes brought by industrialisation. Thus, the economic power struggle between the mercantile bourgeoisie, beneficiaries of the old protectionist policies, and the industrial bourgeoisie, who demanded a more open and liberal economy, significantly contributed to the decline of mercantilism and paved the way for the adoption of more liberal economic principles, marking the transition to industrial capitalism.

Gaining monopolies and subsidies from certain capitalists led to market imbalances, where some became extraordinarily wealthy at the expense of the general population's welfare. This concentration of wealth and power sparked criticism and opposition, not just from disadvantaged merchants but also from thinkers who began to question the very foundations of mercantilism. Discontent with these practices resulted in the disregard and circumvention of established monopolies, with free traders seeking ways to navigate around the commercial restrictions imposed by the state.

The growth of manufacturing, which displaced the previous guild corporations, exacerbated this contestation and market competition scenario. Many merchants transformed into producers, expanding the productive base and fostering competition. This nascent process of industrialisation began to shape a new class of capitalists interested in a more accessible and dynamic market where arbitrary state interventions did not limit competition.

Alongside the economic transformation emerged liberal economic theory, which proposed revolutionary ideas about trade freedom, the limitation of the state's role in the economy, and the importance of market competition. Thinkers like Adam Smith argued against mercantilist practices, defending that nations' wealth stemmed not from the accumulation of precious metals but their capacity for production and free trade.

These combined factors eroded the foundations of mercantilism, paving the way for developing economic practices based on liberal principles. Critics of the mercantilist system's inefficiencies and injustices, along with recognition of the advantages of free trade and competition, culminated in the gradual abolition of mercantilist policies and adopting a new economic paradigm that emphasised freedom, innovation, and entrepreneurship.

V. Conclusion

The mercantilist era, characterised by intense commercial practices and economic policies centred on accumulating wealth through foreign trade and colonial exploitation, paved the way for the development of the capitalist system. Although initially effective in strengthening nation-states and consolidating the power of European metropolises, mercantilist strategies began to show their limitations as the world moved towards industrialisation and liberal economic thought. The transition from mercantilism to capitalism was not just a change in economic policies but reflected a profound transformation in social structures, production relations, and worldviews.

A series of interconnected factors influenced the decline of mercantilism and the rise of capitalism. Manufacturing expansion and the emergence of more accessible markets drove the development of a new class of capitalists, challenging economic practices based on state monopolies and protectionism. Additionally, the unhappiness that mercantilist policies caused among various economic groups highlighted the system's flaws and injustices, leading to a wider examination of the tenets of the political economy of the time.

Liberal thinkers, such as Adam Smith, were crucial in criticising mercantilism's limitations and formulating a new economic theory that valued free trade, the limitation of the state's role in the economy, and the importance of market competition. These ideas contributed to dismantling mercantilist policies and provided the theoretical basis for developing more dynamic and innovative economic practices characteristic of industrial capitalism.

Therefore, the transition from mercantilism to capitalism represents a crucial moment in economic history. It marks the end of an era focused on wealth accumulation through foreign trade and state control over the economy. In its place, a new economic paradigm emerged that emphasised freedom, innovation, and entrepreneurship. This new paradigm not only transformed economic structures but also had profound social and cultural impacts, shaping the development of modern societies.

At this crucial moment in economic history, the industrial bourgeoisie emerged, an ascending group that would challenge mercantilist conventions and shape the future of the global economy. Distinct from the mercantile bourgeoisie, whose wealth and influence originated predominantly from trade, speculation, and financial activities, the industrial bourgeoisie found their economic base in producing goods. Technological advancement and the growing adoption of mass production methods fostered this new social and economic class, defining the characteristics of the Industrial Revolution.

The rise of the industrial bourgeoisie symbolised a paradigmatic shift, not only in economic practices but also in the conception of how wealth was generated. The industrial bourgeoisie promoted the idea that true wealth derived from the ability to produce goods efficiently and innovatively. This group invested in factories, machinery, and work processes. It advocated for economic reforms favouring free trade and reducing trade barriers, aiming to expand their markets and facilitate access to raw materials.

Thus, the emergence of the industrial bourgeoisie not only marked the beginning of a new economic era but also represented a direct challenge to the mercantilist status quo, catalysing debates and reforms that would gradually pave the way for modern industrial capitalism. This transition period was characterised by intense political and economic struggles as different groups sought to shape national policies according to their interests. The result was a fundamental transformation of the economic bases of societies, which moved from protectionist mercantilism to a more open and dynamic system centred on industrial production and free trade.

Therefore, the history of mercantilism and its replacement by capitalism illustrates the complex interaction between economic theory, political practices, and social changes, emphasising the dynamic nature of economic evolution. Reflecting on this period, the forces that led to mercantilism's fall and capitalism's emergence continue to influence economic development to the present day, demonstrating the importance of adapting to economic and social changes for continuous progress.

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