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The Concept of Mercantilism

By LARS HERLITZ, GOTHENBURG

The historiography of mercantilism has been described as a series of disconnected still pictures which reflect the shifting viewpoints of economic thought.¹ However, historians have favoured different concepts of mercantilism not only in response to the shifts of economic science but also because they have held, explicitly or implicitly, different opinions on the problem of how economic ideas are formed and of the role they have played in historical development. The following re-examination of some of those 'stills' concentrate on such differences.²

I

The accumulation of capital was treated by Adam Smith as a crucial dynamic factor in the evolution of society. In his Glasgow lectures in the early 1760s, he was already speaking of the obstacles which stood in the way of capital accumulation in feudal society. The peasantry, he asserted, were subject to the arbitrary will of their lords, and lacked both the opportunity and stimulus to increase their wealth; the landowners lived a life of sloth and were continually at war with

¹ C. Wilson, 'Mercantilism: some vicissitudes of an idea', *Economic History Review*, 2nd. ser. x. (1957-8), p. 181.

² The historiography of mercantilism has been sketched by several of the modern scholars referred to below, e.g. by Viner, Coleman, Wilson and van Dillen. No complete account exists. A useful survey, particularly in respect of the earlier English literature, is contained in the commentary by A. V. Judges, 'The idea of a mercantile state', *Transactions of the Royal Historical Society*, 4th. ser. xxi (1939), pp. 41 ff.

one another; while, as to the merchants, they were, he said, 'oppressed by all ranks and were not able to secure the produce of their industry from rapine and violence'.³ Some time between his Glasgow lectures and the *Wealth of Nations*, Smith encountered the 'système mercantile' or 'système des commerçants' of the Physiocrats. This system had two features which are important for our purposes: a) it was inspired by sectional, unpatriotic mercantile interests; b) the economic consequences it produced were thoroughly destructive, and ruinous to an agricultural nation that had previously been flourishing.⁴ When the system was introduced in the *Wealth of Nations*, some important changes were made. As far as feature (a) was concerned, Adam Smith was in agreement with his predecessors: merchants and manufacturers conspiring together against the general interest had been the 'principal architects' of the system. On (b), however, Adam Smith dissented completely: he defended the system fully as to its results. In direct contradiction to the Physiocrats, Adam Smith insisted that the mercantile system—in contrast to the 'agricultural system'—'really and in the end' had managed to achieve its declared purpose of promoting the favoured forms of economic activity, commerce and industry, by channelling into them a larger portion of the capital of the society.⁵ In the *Wealth of Nations*, the accumulation of capital in commerce and industry is held to have played a decisive part in the transformation from feudalism to the modern bourgeois society. This transformation involved expanding markets for raw materials, the disbanding of feudal retainers and the ending of feudal ties, the growth of towns, the raising of merchants and important citizens to a status comparable with that of landowners (becoming their competitors on the land market), the establishment of order and good government, individual liberty and security. In an inspired passage Adam Smith distinguishes the parts played in this transformation by landowners on the one hand and merchants and industrialists on the other:

³ Adam Smith, *Lectures on Justice, Police, Revenue and Arms*, (ed. E. Cannan, Oxford, 1896), p. 220.

⁴ The term *système mercantile* occurs for the first time in print as a side-heading in Mirabeau, *Philosophie rurale*, (Paris, 1763). But even earlier, Quesnay, in his unpublished article 'Hommes' (1757), speaks of the maxims employed by merchants to influence governments in their own interest as a 'système des commerçants', which 'n'à pas pour objet le bien public'. *Francois Quesnay et la physiocratie*, (Paris, 1958), ii 555. Accounts of the devastating consequences of the system are legion in the physiocratic literature, e.g. *Maximes générales* viii, note; *op. cit.*, pp. 963 f.

⁵ Adam Smith, *Wealth of Nations*, (ed. E. Cannan, New York, 1937), pp. 625 f., 650. The physiocratic influence on Adam Smith's account of the mercantile system has, of course, frequently been noted. (Judges, *loc. cit.*, pp. 44 f.; Wilson, *loc. cit.*, pp. 182 f.) However, Adam Smith's defence of the system has not yet received adequate attention.

A revolution of the greatest importance to the public happiness was in this manner brought about by two different orders of people, who had not the least intention to serve the public. To gratify the most childish vanity was the sole motive of the great proprietors. The merchants and artificers, much less ridiculous, acted merely from a view of their own interest, and in pursuit of their own pedlar principle of turning a penny wherever a penny was to be got. Neither of them had either knowledge or foresight of that great revolution which the folly of the one and the industry of the other was gradually bringing about.⁶

These same constituents of folly and shopkeeping, distinguished in the same way, constitute Adam Smith's mercantile system. The folly is that of the governing classes—the nobility and the landowners, inheritors of the ancient delusion that wealth is money—who need to make decisions about commercial problems, who understand nothing of them, and who most readily fall prey to the doctrine that trade enriches the country by bringing in more money. The merchants, for their part, are fully aware of how trade enriches themselves, wish to be free to export currency and bullion, but are compelled to produce arguments so adapted to the comprehension of the ruling classes as to secure the desired effect. In this situation, the doctrine of the balance of trade, with its mixture of solid argument and sophistry, is their 'most satisfactory account'; for it gives priority to foreign trade while encouraging the ruling classes to transfer their vigilance from the export of bullion to the balance of trade—'much more embarrassing, much more intricate and just equally fruitless'.⁷ For Adam Smith, the mercantile system is therefore both absurd and rational. Its literary manifestations, its arguments adapted to meet the prejudices of the ruling classes, are absurd. But those in whose interests the doctrine was propagated, viz., the mercantile classes who, with the help of the doctrine, won a monopoly position at the expense of their countrymen, were both rational and purposeful. They were, insisted Adam Smith, 'by no means such fools as those who believed them'.⁸

The account of the system contained in the *Wealth of Nations* is to a certain extent a manoeuvre designed to parry the physiocratic doctrine of the sterility of trade and industry. But in this manoeuvre Adam Smith was theoretically handicapped. He had made himself spokesman for the view that agriculture was 'naturally' the most productive and advantageous form of economic activity. This compelled him to describe the process by which the development of trade and industry was a cause, not a consequence, of the advancement of the nation and the improvement of its land, as 'contrary to the natural course of things'.⁹

⁶ Adam Smith, *Wealth of Nations*, pp. 391 f.

⁷ *ibid.*, pp. 400 ff.

⁸ *ibid.*, p. 461.

⁹ *ibid.*, p. 392.

The 'mercantile system' is one part of the solution to this problem. It reflects an unnatural capital accumulation generated by non-economic factors—a 'so-genannte ursprüngliche Akkumulation'—through the exploitation by merchants and industrial entrepreneurs of the liberal, generous and economically ignorant landowning classes. The historical function of the mercantile system is to supply commerce and industry with capital at the expense of the frivolous and extravagant landed proprietors.

II

The origins of the so-called political interpretation of mercantilism are usually credited to Cunningham and Schmoller.¹⁰ Both of these scholars, however, made reference to and were clearly influenced by Heyking's late Hegelian theory of the origins of mercantilism. According to this conception, European history from the close of the Middle Ages is primarily the process by which nation states evolved and developed their individual identity, in deliberate opposition to and struggle with one another; it was accompanied by internal consolidation and unification through the disruption of the medieval social order and the destruction of medieval universalism and cosmopolitanism. In the process the concept of the state was born—the recognition of the state as a complete and self-conscious entity, coupled with solicitude for the material foundations of its existence. This solicitude becomes conscious as it conflicts with that of other states at national frontiers and in the field of foreign trade, and so gives rise to a national commercial policy directed against other states.¹¹ Cunningham and Schmoller particularised this common theory and applied it to English and German mercantilism respectively. Cunningham wrote of nationalist sentiment awakening in Europe in the sixteenth century, of Englishmen's growing consciousness of the sea as their natural defence, of the increasingly aggressive nationalistic drive to ensure England's supremacy through the expansion of her sea-power.¹² Schmoller described 'eine egoistische nationale und statliche Handelspolitik harter und schroffer Art' as the inevitable consequence of the historical progress represented by the rise of the modern state and national economies; as far as Germany was

¹⁰ E. Heckscher, *Mercantilism*, (London, 1934), i. 28 f.; Judges, *loc. cit.*, pp. 59 ff.

¹¹ E. F. von Heyking, *Zur Geschichte der Handelsbilanztheorie*, (Berlin, 1880). Cf. J. Viner, 'Power versus plenty as objectives of foreign policy in the seventeenth and eighteenth centuries', *World Politics*, i (1948), 2.

¹² W. Cunningham, *The Growth of English Industry and Commerce*, (3rd. ed. Cambridge, 1903), ii. 13 ff.

concerned, mercantilism stood for the establishment of a powerful state and a sound national economy, and it meant the overthrow of local and provincial economic institutions, a faith in Germany's own future, the shaking off of her increasingly burdensome commercial dependence upon foreign countries, and the pursuit of economic autarky.¹³

Neither Cunningham nor Schmoller advanced any new economic theory; they were not 'brave heretics' in Keynes's sense, nor did they undertake any reassessment of the economic content of mercantilist literature. But two central features of Adam Smith's interpretation of the mercantile system were lost through their interpretations; first, the problem of the initial accumulation of capital, and secondly, the view of the system as the outcome of the clash of opposed class interests. Mercantilism did not represent the particular interests of the mercantile class: it represented national interests. The ruling classes, the representatives of the power of the state, were no longer 'fools who believed' but were raised by Cunningham and Schmoller to the status of standard-bearers of the concepts of the state, of national unity and the national economy. Cunningham waxed indignant over the unseemly contempt for the ruling classes apparently implied in Adam Smith's interpretation. If Adam Smith's views were correct, he wrote, then one must assume that generations of English statesmen and Members of Parliament were so ignorant and corrupt that they could be successfully manipulated by a handful of manufacturers and merchants. 'Ich anerkenne es nicht, dass der Scharfsinn und die Gerechtigkeit unserer Politiker so niedrig gewesen sein kann'.¹⁴ The mercantilist ideas to which these political figures gave voice had also, said Cunningham and Schmoller, a broader popular or national foundation. Cunning-

¹³ G. Schmoller, *Umriss und Untersuchungen zur Verfassungs-, Verwaltungs- und Wirtschaftsgeschichte*, (Leipzig, 1898), pp. 55 ff. It has been held that Schmoller's interpretation, with its stress not only upon *Staatsbildung* but also upon *Volkswirtschaftsbildung*, ought not to be classified as political. (Wilson, *loc. cit.*, p. 184). However, the concept of *Volkswirtschaft* itself originally bore for Schmoller a strong flavour of institutional history: 'Ich meine den Zusammenhang des wirtschaftlichen Lebens mit den wesentlichen und leitenden Organen des sozialen und politischen Lebens überhaupt; ich meine die Anlehnung der jeweiligen wesentlichen wirtschaftlichen-socialen Einrichtungen an die wichtigsten oder an einzelne wichtige politische Körper. In allen Phasen der volkswirtschaftlichen Entwicklung fällt dem einen oder anderen politischen Organe des Stammes- oder Volkslebens eine führende und beherrschende Rolle auf dem Wirtschaftsgebiete zu . . . Politische und wirtschaftliche Körper müssen sich keineswegs decken; aber die grossen und glänzenden Leistungen in Staat und Wirtschaft pflegen sich dann zu Tage zu treten, wenn die wesentlichen Träger der Macht- und Rechtsorganisation zugleich die Träger der Wirtschaftsorganisation sind'. (Schmoller, *Umriss*, pp. 2 f.) And see A. Skalweit, 'Gustav von Schmoller und der Merkantilismus', *Schmollers Jahrbuch*, 62: 2 (1938), pp. 313 ff.

¹⁴ W. Cunningham, 'Adam Smith und die Mercantilisten', *Zeitschrift für die gesamte Staatswissenschaft*, 40 (1884), pp. 44 f.

ham found that the policy of sea-power had gripped 'the popular imagination' and become 'a popular movement'.¹⁵ According to Schmoller, mercantilist policy found its justification 'als Begleiterin einer grossen, aufwärtsgehenden Strömung des nationalen und wirtschaftlichen Lebens'.¹⁶

The new interpretation required that the literary sources, the literature and the political *pronunciamentos* of mercantilism, should be read in a different light. They could not be interpreted as 'satisfactory accounts' devised to hide the manipulations of the mercantile interests. They must be construed rather as the genuine expression of ideas associated with the creation of states and national economies, with the drive for power and unity. But these sources devoted themselves largely to economic questions, they conducted economic disputes, and contained an element of theoretical economic speculation. So the question was whether these economic controversies were 'rational', i.e., logically connected with the prevailing economic conditions and the explicit objectives, or were still absurd—and, if so, why? As far as one can judge, Cunningham and Schmoller were both inclined to take the latter view, but found it difficult to offer a satisfactory explanation; this in turn partially explains why they attached such great importance to the drive of mercantilism for power and unity—'not, surely, exceptional ends in the history of human programmes'.¹⁷ When Cunningham, for instance, insisted with typical zeal that the mercantilist authors were aiming at national wealth not as an end in itself but as an instrument of power, his point seems to be simply that less weight should be attached to their purely economic arguments.¹⁸ Again, when Schmoller asserted that the ideas of the mercantilists were correct and in accordance with the facts, what he had in mind was their economic policy *measures*, not their economic reasons and arguments in support of these *measures*. Thus, he used in their defence what was called by Schumpeter 'the Practical Argument', which he reinforced by stressing the empirical nature of mercantilist literature. Its theoretical elements on the other hand he described as over-enthusiastic generalisations from the raw data of experience; they contained 'exaggerations' and 'mistakes', 'half-true', 'distorted' and 'spurious economic theories'. The doctrine of the balance of trade seemed to him psychologically reasonable but not theoretically water-tight: 'Was Wunder, wenn die Frage in der Vordergrund rückte, was gewinnen oder verlieren wir bei der Berührung mit

¹⁵ Cunningham, *The Growth of English Industry and Commerce*, ii. 14.

¹⁶ Schmoller, *Umriss*, p. 57.

¹⁷ Judges, *loc. cit.*, p. 64.

¹⁸ Cunningham, 'Adam Smith und die Mercantilisten', pp. 47 ff.

dem anderen Staate? . . . wenn also nicht alle Sätze richtig waren, die man an die Bilanzlehre anknüpfte'.¹⁹

III

This provided the point of departure for Heckscher's revision. Heckscher criticised Cunningham and Schmoller for their defective economic analysis of the ideas of mercantilism. He asserted that a consistent economic theory was to be found in mercantilist literature, demanded an interpretation of it, and appealed from the historical school to Adam Smith's 'insight into economic theory'.²⁰ But Heckscher's mercantilism is not of course Adam Smith's. Heckscher was as much a stranger as Cunningham and Schmoller were to Adam Smith's approach to the problem of capital accumulation and his view of the role of class interests. For Heckscher, just as for Cunningham and Schmoller, the driving force of mercantilism was the creation of states and the strivings of statesmen after power and unity; the literary sources were presumed to give faithful expression to these exertions. According to Heckscher, therefore, the economically absurd element in these endeavours had to be regarded as the paradoxical consequences of a widespread and basic misunderstanding, engendered by the emergence of the money economy and maintained by its continued existence.

As soon as the result of production, from the producer's standpoint, no longer consists in other goods but in money, then the money yield appears as the only aim of economic activity, other goods are then considered unwelcome since they are merely competing with one's own products for the monetary equivalent. For a time, *laissez-faire* was able to force back this almost inevitable economic fallacy, owing to the usual virility of its doctrine, but it was far from being able to eradicate it for all time.²¹

According to Heckscher, the system of economic thought in mercantilist literature and policy developed from this basic 'fear of goods'. The fear of goods was the foundation of the system of protection. But protectionism—the encouragement of exports and penalising of imports—was logically associated with the idea of an export surplus. Thus the doctrine of the balance of trade aligned the system's view of goods with its view of money. Mercantilist discussions about the need

¹⁹ Schmoller, *Grundriss der allgemeinen Volkswirtschaftslehre*, (Leipzig, 1908), i. 85 ff.; 'Wilhelm Roscher' in *Zur Literaturgeschichte der Staats- und Sozialwissenschaften*, (Leipzig, 1888), pp. 147 f.; *Umriss*, pp. 1, 43 ff., 52 f., 55 f. J. A. Schumpeter, *History of Economic Analysis*, (New York, 1954), pp. 337 ff.

²⁰ Heckscher, *Mercantilism*, (London, 1934), i, 30.

²¹ *Ibid.*, ii. 138 f.

for bullion and increased circulation were regarded primarily as 'paradoxical consequences' of the view of goods; the connection represented 'undeniable, if somewhat fantastic, logic'.²² Insisting strongly as he did upon the internal consistency of the economic ideas of mercantilism, Heckscher set his face resolutely against any attempt to relate them to actual conditions or interests. The pronouncements of mercantilist literature were not to be construed as reflections of actual contemporary phenomena but as necessary links in a chain of thought. And for Heckscher this was not merely a methodological principle. He certainly did not deny that the practical objectives might vary according to local, personal or class interests. But, characteristically, he made this fact serve as part of his argument: it could be pleaded, using a similar line of reasoning, in support of concrete proposals or measures that were mutually contradictory 'on the basis of a common body of doctrine'.²³ The argument illustrates the extent to which Heckscher treated the mercantilist writers as economists in a neo-classical sense. Despite possible diversity of objectives, they were nevertheless united in the professional task—the logical art of choosing the correct means. The premisses for this choice might have varied according to prevailing circumstances—if these had been known. But Heckscher insisted that the facts of economic life and social reality were unobservable, inaccessible and unknown to contemporary observers, especially in an age when statistical data relating to these phenomena were lacking.²⁴ This difficulty seemed to him to leave the field clear for premisses derived from false notions—which produced paradoxical consequences. It may be apposite to recall that the 'last' mercantilist, James Steuart, expressed a kindred view of the 'systems' of political economy:

Men of parts and knowledge seldom fail to reason consequentially on every subject; but when their inquiries are connected with the complicated interests of society, the vivacity of an author's genius is apt to prevent him from attending to the variety of circumstances, which render every consequence, almost which he can draw, uncertain. To this I ascribe the habit of running

²² *Ibid.*, ii. 145, 178, 195, 199.

²³ Heckscher, 'Revisions in economic history: Mercantilism', *Economic History Review*, vii (1936–37), p. 54. In the second edition of his *Mercantilism*, Heckscher added the following clarification of his position: 'As a proof that there were no uniform outlook, many writers have pointed to the undeniable fact that different mercantilists put forward mutually antagonistic demands, but this is proof of the uniformity rather than the contrary. For to the extent that contrary demands emanated from the same or closely related principles, this disunity on matters of practice indicates that the premises themselves did not rest on practical interests but on more or less generally recognised principles'. *Mercantilism*, (revised ed. London, 1955), i. 27.

²⁴ Heckscher, *Historieuppfattning*, (Stockholm, 1944), pp. 20, 46 ff.; *Mercantilism*, (1955 edition), ii. 342 ff.

into what the French call *Systèmes*. These are no more than a chain of contingent consequences, drawn from a few fundamental maxims, adopted, perhaps, rashly. Such systems are mere conceits; they mislead the understanding, and efface the path to truth.²⁵

IV

In the debate which has followed the publication of the second English edition of Heckscher's work (1955), two approaches can, broadly speaking, be distinguished.

The first of these rejects the conception of mercantilism as a system of economic policy—or, given Heckscher's view of the ideas of mercantilism, a system of policy that was constitutionally ineffective and divorced from reality. If one accepts the picture of mercantilism as paradoxical economic logic built upon the false premisses of the fear of goods, a number of assumptions have to be made in order to deduce from it a systematic pattern inherent in the economic policy of the leading countries of Europe over a period of about two hundred years. Not only must it be assumed that politicians wished and were able to act in accordance with this logic; it must further be assumed that they were moved by certain clearly defined common aims—not merely by catchwords such as 'power' and 'unity.' Finally, the system must be assumed to be capable of maintaining a continuous grip upon governments and politicians for hundreds of years, despite its inescapable lack of success—which in turn pre-supposes an unbridgeable chasm between ideas and policy on the one hand and practical experience and facts on the other. Such a system seems to present rather the appearance of an obstacle to the analysis of the 'vital intermixture of ideas and preconceptions, of interests and influences, political and economic, and of the personalities of men.' The conclusion drawn from this has been that the term mercantilism, while perhaps useful and worth retaining to denote a trend of economic thought, is nonetheless misleading and confusing as a description of a particular economic policy.²⁶

The other approach seems to take the opposite tack. It envisages a concept of mercantilism designed to embrace a system of economic policy within more or less well defined historical limits, but it rejects Heckscher's 'dogmatically liberal' view of mercantilism as a paradoxical system of logically connected ideas divorced

²⁵ James Steuart, *An Inquiry into the Principles of Political Economy*, (London, 1767), i. p. IX.

²⁶ D. C. Coleman, 'Eli Heckscher and the idea of mercantilism', *Scandinavian Economic History Review*, v (1957), pp. 24 f. The same conclusion is indicated by the argument of J. van Klaveren, 'Fiskalismus—Mercantilismus—Korruption', *Vierteljahrsschrift für Sozial- und Wirtschaftsgeschichte*, 47 (1960), pp. 333 ff.

from reality. This involves a partial return to Schmoller. On the basis of the same German literary sources as Schmoller used, the mercantilists are again declared to be practical men, empiricists and realistic observers. But whereas Schmoller did not venture to credit the mercantilists with anything more than half-truths and spurious theories, the revolution of economic theory in the 1930s has generated greater confidence: the 'Statswirtschaftslehre' of the Cameralists can be reckoned 'zu den Ahnen der New Economics'.²⁷ Mercantilism is still described as the creation of states and national economies in harmonious association. It is at once 'eine Schöpfung des neuen, scharfsichtigen Selbstverständnisses des Staates', and an expression of perceived economic necessity. Greater stress, however, is laid on dynamic economic objectives: increased production, expanding markets and the removal of institutional barriers standing in their way.²⁸ To this approach belongs at least in part an attempt to view mercantilism as 'économie dirigée', a planned economy with national economic objectives—'wealth', 'plenty' or simply 'welfare' within the framework of the nation and at the expense of other nations.²⁹

V

Those who regard mercantilism as a misleading generalisation in the consideration of economic policy may nevertheless admit that economic ideas constitute one of many factors in the formulation of policy, though probably a more important factor in formulating the arguments of politicians. They may concede also that the history of economic thought can provide a starting-point for the analysis of economic and social trends. The implication seems to be that economic ideas too must be classified in realistic and historically useful categories. On the other hand, for those who cling to the conception of a mercantilist system in the history of

²⁷ I. Bog, 'Der Merkantilismus in Deutschland', *Jahrbücher für Nationalökonomie und Statistik*, 173 (1961), p. 131. Keynes himself mentioned only one German writer, W. von Schröder, whose work was only known to him through Heckscher's account. *The General Theory of Employment, Interest and Money*, (London, 1936), pp. 344, 359. According to Schumpeter he ought to have picked out instead the more original J. J. Becher, who 'of course left plenty for Lord Keynes to do'. (*History of Economic Analysis*, pp. 283 ff.) In the modern literature, Becher's name has been linked with the term 'Reichsmerkantilismus', used to denote certain of the efforts towards the economic and political unification of the German Empire, especially between 1650 and 1710. H. Hassinger, *J. J. Becher, 1635–1682 (Veröffentlichungen der Kommission für neuere Geschichte Österreichs)*, 38 (Vienna, 1951); I. Bog, *Der Reichsmerkantilismus*, (Stuttgart, 1959).

²⁸ Bog, *Der Reichsmerkantilismus*, pp. 1 ff.; *Der Merkantilismus in Deutschland*, p. 132.

²⁹ J. G. van Dillen, 'Betekenis van het begrip Mercantilisme voor de economische en politieke geschiedenis', *Tijdschrift voor geschiedenis*, 72 (1959), pp. 191 ff.

economic policy, a defined system of mercantilist ideas is indispensable if economic policy is not to be interpreted as an apparition. The question, then, seems to be: Is there a corpus of ideas to which the term mercantilist can be applied, and if so, how is it to be defined and interpreted?

The use of the literary sources of the mercantilist period raises problems of sources, a matter to which Adam Smith's account of the mercantile system paid greater regard than many later ones. All generalisations, of course, build upon the ideas expressed in the literature. Few people in that age had either cause or opportunity to express their ideas about economics, and these few did so in particular circumstances and situations, to which any interpretation must have regard. These situations have a number of features in common. The mercantilist writers are addressing a politically influential minority to whom they appear in the role of expert advisers,³⁰ a situation which offers a tolerably clear basis for what Adam Smith called 'a satisfactory account'. And it is a fairly obvious consequence of such a situation for the adviser to represent as the aim of his proposals the strengthening of the power of the state, the consolidation of its unity or—when addressing more enlightened princes—the wealth of the nation, or simply 'felicity'.³¹ Is it then feasible to describe these ostensible aims as significant components of mercantilist theory, as *ends* to which the proposed *means* should stand in logical relation? A great deal of mercantilist literature consists of petitions demanding in this or that specific instance the intervention of the state in economic matters: is there any justification for dressing up this simple fact in the modern conceptual dress of 'économie dirigée'? Much has been written on the concept of state power, superior to economic and other group interests, and the role of this concept in mercantilist literature. Indeed, it is difficult to imagine how this idea could have been avoided in an era when every economic writer was suspected of pleading in his own cause, which many in fact did.³²

³⁰ See Schumpeter, *History of Economic Analysis*, pp. 159 ff. It is difficult to find any clear line of demarcation between 'the Consultant Administrators' and 'the Pamphleteers'.

³¹ For a catalogue of 'mercantilist objectives', see, e.g., J. Viner, 'Power versus Plenty', pp. 7 ff. 'The felicity of the people' is an objective often mentioned in the Swedish literature of the eighteenth century, from which may also be cited an interesting assertion of the comparatively peaceful tendencies of the new commercial policy: 'The former military aggression of the powers of Europe has thus now been replaced by an equally ardent greed for trade surplus. This is not won by the swift strokes of armies, but is the result of dispositions made long before and founded upon the most abstruse commercial calculations'. A. Modeer, *Försök till en allmän historia om Svea rikets handel*, (Stockholm, 1770), editor's preface.

³² J. Viner, *Studies in the Theory of International Trade*, (New York, 1937), pp. 92 ff.; W. Letwin, *The Origins of Scientific Economics: English Economic Thought, 1660–1776*, (London, 1963), chap. 3.

Recently the reversible definition 'Staatsmacht == Wirtschaftsmacht' has been described as the 'Zeitgeist des merkantilistischen Ära'.³³ Is this spirit of the age anything more than a term for a certain political environment in which literary sources with an economic content were produced? That economic problems and projects do largely fill the journals, petitions and tracts is of course typical of this age. So too is the proclivity for economic action exhibited by the state and its representatives. But these facts are one thing. It is another question whether this literary and political activity was influenced by discernible ideas or interests, in harmony or in conflict, or whether it simply represents a trial-and-error process with no definite pattern. General catchwords and slogans as the alleged objectives of mercantilist theories are more likely to obscure than clarify the issue.

Nor does Heckscher's mercantilism appear to constitute an historically useful grouping of economic ideas. As far as its economic content is concerned, liberated from the objectives of power and unity taken over from Cunningham and Schmoller, it not only lacks any connection with the real economic world but also any sort of historical distinctiveness. It appears rather as a timeless mode of thought. Plainly, there is nothing unreasonable *per se* in assigning to economic ideas an independent history of their own, or in asserting that they developed in part according to their own logic. This applies particularly to their most purely theoretical aspects—the development of an (albeit primitive) analytical technique into a literary tradition, handed on and further refined by one author after another. There is undoubtedly a tradition of this kind in the English mercantilist literature. Nor is it unreasonable to postulate that during a particular period the literary tradition incorporates certain common premisses—perhaps even 'false' or non-empirical premisses—which lead to a corresponding uniformity in the conclusions drawn. But if we are to be able to say that these premisses lend a distinctive character to a closed, logically cohesive system in the history of economic ideas, they must be capable of formulation. The proposition that 'wealth consists of money or bullion' perhaps satisfied the formal requirement for a premise capable of such formulation; but Heckscher found, as had Adam Smith before him, that it was neither common to nor unique in mercantilist literature. Instead he tried to discover the foundations of mercantilist thinking in the attitude to goods. But the 'fear of goods', as Heckscher described it, was not in fact capable of formulation as a starting-point for a chain of logical argument: it was a mentality en-

³³ Bog, *Der Merkantilismus in Deutschland*, p. 135.

gendered by the money economy. It made mercantilism, once a money economy had established itself, into a state of mind persisting down the ages.³⁴

The money economy in some form is clearly a pre-condition of all opinions featuring 'the fear of goods', and speculations and theories about the productive function of money, which occur in the literature from Xenophon to Keynes. This is a truism that remains valid whatever the theoretical standpoint adopted, and irrespective of whether Heckscher is regarded as a 'dogmatic liberal', or of whether these ideological reflections about the money economy are held to be illusory or faithful to the facts. But by their very nature, theories about the productive function of money cannot constitute the distinguishing features of an historically limited school of economic thought. Certainly they are often encountered in mercantilist literature; but their causes vary. Sometimes one is compelled to fall back upon Schumpeter's simple explanation: 'They felt it was nice for a nation as well as for individuals to have money—and said so without thinking any more about it'.³⁵ At other times mercantilist writers attach special importance to some of the elementary economic facts associated by Marx with the 'monetary and mercantile systems': that money is indispensable to circulation; that it is the universal yardstick of exchange value and therefore the object of accumulation and of hoarding; or that bullion is 'world money' or hard currency.³⁶ Sometimes, particularly in connection with experiments in banking or monetary policy, one comes across attempts to formulate general economic theories about the function of money.³⁷ It is the variations that are significant and historically interesting here. The fact that almost all writers offered opinions on these matters, however, is of no consequence and does not require any system of mercantilist ideas to explain it.

VI

Adam Smith's mercantile system related to a particular historical situation; it bore upon a specific economic problem; and it was employed to depict certain

³⁴ The expression is borrowed from Marc Bloch, 'Le mercantilisme, un état d'esprit', *Annales d'histoire économique et sociale*, vi (1934).

³⁵ Schumpeter, *History of Economic Analysis*, p. 344.

³⁶ K. Marx, *Zur Kritik der Politischen Ökonomie* (Marx-Engels Werke, 13, Berlin, 1961), pp. 69 ff., 101 ff., 125 ff. The most comprehensive survey of the seventeenth-century English literature from this point of view is still Br. Suviranta, *The Theory of the Balance of Trade in England*, (Helsinki, 1923).

³⁷ D. Vickers, *Studies in the Theory of Money, 1690–1776*, (New York, 1959). The debate in Denmark is surveyed in more historically concrete terms by K. E. Svendsen in 'Monetary policy and theory in Denmark, 1784–1800', *Scand. Econ. Hist. Rev.*, x (1962), pp. 38 ff., xi (1963), pp. 1 ff.

ideological trends associated with this problem and situation. The mercantile system was viewed as a manifestation of the efforts of mercantile interests, in a still overwhelmingly agrarian community dominated by the landowning classes, and by means that were in part non-economic, to 'turn a larger portion of the capital of the society' into trade and industry. Adam Smith apparently also meant that the mercantile system was practised as an effective policy, and that it played a significant role in a process of 'original' capital formation. This belief of his constitutes a problem in itself. Another problem can be posed alongside it: whether there is any clearly defined section of the economic literature of the seventeenth and eighteenth centuries that can be said to be ideologically centred upon the mobilisation of capital for trade and industry without, perhaps, possessing either the theoretical apparatus or political opportunities necessary to the clear formulation of its objectives?

The *Wealth of Nations* singles out Thomas Mun's celebrated work, *England's Treasure by Forraign Trade*, as the classic literary exposition of the mercantile system. Adam Smith drew a distinction between the doctrine of the balance of trade developed by Thomas Mun and the earlier policy of controlling bullion exports; in this he was followed by Marx, who spoke of the monetary and mercantile systems, and by others who used the terms bullionist and mercantilist.³⁸ Later students of the history of the theory of international trade have not found the distinction so significant, and on occasion it has been pointed out that the bullionists in any case were no more in error than their victorious opponents.³⁹ Schumpeter drew attention to two peculiarities in the argument of the bullionist Malynes: his use of the term 'overbalancing' to signify an unfavourable relationship between export and import prices, or what we today call 'unfavourable terms of trade'; and the way he based his proposals—for increased import duties, prohibition of bullion exports, pegged exchange rates—on the explicit assumption of an inelastic foreign demand for English cloth.⁴⁰ In more general terms, it had been suggested earlier by Dobb that the mercantilist argument of the balance of trade often aimed in reality at improving the 'terms of trade', and that these attempts were based on market imperfections and inelasticities of demand such as

³⁸ Adam Smith, *Wealth of Nations*, pp. 400, 403; Marx, *Das Kapital*, (Berlin, 1953), ii. 57; Engels, *Herr Eugen Dührings Umwälzung der Wissenschaft*, (Berlin, 1958), p. 283; E. R. A. Seligman, 'Bullionists', *Encyclopaedia of the Social Sciences*, iii (New York, 1930).

³⁹ Heckscher, *Mercantilism*, (London, 1934), ii. 243 ff., and especially p. 248; *idem.*, *Sveriges ekonomiska historia*, (Stockholm, 1936), i: 2. p. 698; J. Viner, *Studies in the Theory of International Trade*, pp. 3 ff.

⁴⁰ Schumpeter, *History of Economic Analysis*, pp. 344 f.

those institutionalised for example by the colonial system. The role of imperfect competition in mercantilist literature is undoubtedly important; in the works of such writers as Locke and Cantillon one finds improved terms of trade explicitly postulated as the desired outcome of an advantageous balance of trade.⁴¹ But this rational explanation is not applicable to Thomas Mun's doctrine of the balance of trade. On the contrary, Mun's starting-point is the need to be able to sell English cloth cheaply because of the elasticity of foreign demand—a proposition which must have carried conviction in the England of the 1620s. He goes on to argue in favour of the right of merchants in the east India and Baltic trades to export specie under licence, citing in his support the relationships between the quantity of money and prices, and between prices and sales: an increase in the quantity of money means a higher price-level, and a higher price-level makes sales and exports more difficult. What later commentators found dubious in Thomas Mun was the jump from these practical observations and recommendations to what is usually described as his balance-of-trade doctrine—the doctrine that the value of exports must exceed that of imports in order to render possible the desired net import of bullion.⁴²

This balance-of-trade doctrine, however, was commonplace in the literature long before Thomas Mun.⁴³ But the concept of 'the Kingdom's stock', of which the merchant is 'the steward', is both original and crucial to his argument. The concept is defined as those assets which can be converted through the medium of foreign trade into claims upon foreign countries: these consist, says Mun, firstly of 'natural wealth . . . so much only as can be spared from our own use and necessities', and secondly of 'artificial wealth', i.e., 'our manufactures and industrious trading with forraign commodities'.⁴⁴ The identification of the exportable and

⁴¹ M. Dobb, *Studies in the Development of Capitalism*, (London, 1946), pp. 202 ff., 209 ff.; Locke, 'Some considerations of the consequences of lowering of interest and raising the value of money', (*Works*, 10th. ed., Vol. v. p. 50); Cantillon, *Essai sur la nature du commerce en général*, (Paris, 1952), p. 104.

⁴² Thomas Mun, *England's Treasure by Forraign Trade*, (1664, repr. Oxford, 1949), pp. 8, 14 f., 17. On the debate of the 1620s and its background, see J. D. Gould, 'The trade depression of the early 1620s', *Economic History Review*, 2nd. ser. vii (1954–55), pp. 81 ff.; R. W. K. Hinton, *The Eastland Trade and the Common Weal*, (Cambridge, 1959), pp. 12 ff.; B. E. Supple, *Commercial Crisis and Change in England, 1600–1642*, (Cambridge, 1959), pp. 58 ff., 197 ff. The inconsistencies in Thomas Mun's views are discussed by Heckscher in *Mercantilism*, (London, 1934), ii. pp. 242 f.; and see J. D. Gould, 'The trade crisis of the early 1620s and English economic thought', *Journal of Economic History*, xv (1955), pp. 121 ff.; G. W. Wilson, 'Thomas Mun and specie flows', and Gould, 'Rejoinder', *Journal of Economic History*, xviii (1958), pp. 62 ff.

⁴³ Viner, *Studies in the Theory of International Trade*, pp. 6 ff.

⁴⁴ Mun, *England's Treasure*, pp. 1, 7. The best modern commentary has this to say: 'This illu-

re-exportable values of foreign trade with the national capital is the distinguishing feature of Thomas Mun's doctrine. The national capital is presumed to grow not only through the increasing net surplus of 'natural' or 'artificial wealth' over its consumption, but also through saving in the sense of restricted consumption of foreign surpluses. Invoking his celebrated analogy with personal finances, Thomas Mun declares that an excess of sales to foreigners over purchases from them represents an increase of capital, and vice versa. This involves the idea that goods which are exchanged for imported 'treasure' are thereby rescued from capital-destroying domestic consumption; but Thomas Mun at once adds—still employing the analogy of personal finances—that it would be ridiculous if the saving achieved through an export surplus were not channelled into foreign trade and invested in an increase of 'the nation's capital' through the licensed export of money:

For it is in the stock of the Kingdom as in the estates of private men, who having store of wares, doe not therefore say that they will not venture out or trade with their money (for this were ridiculous) but do also turn that into wares, whereby they multiply their Mony, and so by a continued and orderly change of one into the other grow rich, and when they please turn all their estates into Treasure; for they that have Wares cannot want mony.⁴⁵

Mun's balance of trade is not to be construed as a modern balance of payments, in which the net flow of bullion and specie is the balancing item. It is more a sort of balance sheet purporting to show how foreign trade has ordered 'the Kingdom's stock'. On the debit side are the items which have created claims on foreigners: the export of goods and services *plus the licensed export of money for purposes of trade*. On the opposite side are credited the items which liquidated these claims: the import of goods and services, including the purchase of foreign currency for such purposes as the maintenance of armies upon foreign soil.⁴⁶ Thus, the net debit remaining—we could call it the addition to the nation's capital—is not the net inflow of bullion and specie. It is rather the net inflow of bullion, positive or negative, plus monies taken out on licence by merchants. It seems clear that Mun was trying to find a method of accounting in which the net flow of bullion and specie would *not* appear in the role of the decisive criterion of the growth or decline of the nation's capital. Josiah Child, Mun's successor both as

sive concept coalesces frequently with the idea of wealth, and frequently seems to be synonymous with money, although for the most part it clearly approximates the notion of financial capital'. E. A. Johnson, *Predecessors of Adam Smith*, (New York, 1937, repr. 1960), p. 78.

⁴⁵ Mun, *England's Treasure*, p. 16.

⁴⁶ *Ibid.*, pp. 83 ff.

an economic writer and as a director of the East India Company, was more direct in expressing his scepticism as to the value of narrow comparisons of the values of exports and imports; without disputing that the balance of trade—if it could be ascertained—would indicate the national profit or loss, he suggested the general condition of trade and maritime traffic as a more reliable criterion, adding the characteristic remark, ‘. . . yet in my poor opinion, the enquiry whether we get or lose, does not so much deserve our pains and care, as how we may be sure to get’.⁴⁷

The balance-of-trade doctrine developed by Thomas Mun contains elements of both empirical data and economic analysis. But these should be viewed in the context of—and as subordinate to—the doctrine built up around the concept of the national capital, which can most accurately be described as a pre-scientific macro-theory with a strongly ideological impress. The fashionable terms of the pamphlets—‘national trade’ and ‘national trader’, for foreign trade and foreign traders—originated from it; and at the same time it lent support to demands for economic sacrifices, political measures and legislation designed to promote the growth of the national capital. Marx’s characterisation of these general conceptions and the use made of them still seems apposite:

Ihnen schwebt das Geld schon als Kapital vor, aber eigentlich nur selbst wieder in der Form des Geldes, der Zirkulation des merkantilen Kapitals, des sich in Geld verwandelnden Kapitals. Das industrielle Kapital hat für sie Wert und zwar den höchsten Wert—als Mittel, nicht als Reichtum selbst in seinem produktiven Prozess—weil es das merkantile Kapital schafft und dies in der Zirkulation zu Geld wird.⁴⁸

In fact, varying conceptions of the national capital can be said to have marked the approaches even of Petty, Locke, North, Cantillon and others, and they persisted, despite the theoretical undermining work, as a sort of vulgar economics. Their success and popularity in England after 1660 appear natural; but they spread to the commercially under-developed countries too, where their formulation could take alarming forms. In Sweden in 1730, under the overpowering influence of Thomas Mun, Anders Bachmanson-Nordencrantz dilated upon the

⁴⁷ Josiah Child, *A New Discourse of Trade*, (4th ed., 1718?), pp. 175 ff., 180. The following general description of the mercantilist doctrine of the balance of trade applies neither to Mun nor Child—nor to many of their followers: ‘The mercantilists were most interested in the ‘balance of payment’ in its strict sense of a net balance of immediate obligations payable in specie, and the specie flows inward or outward resulting from the balance of payments were their primary concern’. (Viner, *Studies in the Theory of International Trade*, p. 14).

⁴⁸ Marx, *Grundrisse der Kritik der Politischen Ökonomie, Rohentwurf, 1857–58*, (Berlin, 1953), p. 233.

dreadful consequences of the consumption of the nation's capital. In a relatively infertile land with an unproductive peasant agriculture, the produce of the land—the 'natural wealth' of the nation—can scarcely suffice for the nation's needs of sustenance, clothing and defence, so that the gap must be filled by 'the principal capital of the realm':

... and if this cost or expenditure shall continue long and exceed the annual income, then must the inhabitants of the land lose in time their principal capital, neither will they at the last own house or land, nor even dispose of their own bodies.

And the conclusion is that such a nation must supplement its 'rural condition' with a 'bourgeois condition' in which the nation's raw materials are processed into artificial wealth; and that it must protect, support and develop foreign trade, and by legislation prevent the wealth of merchants from leaving commerce.⁴⁹

Associated with Mun's doctrine of artificial wealth was the development of the doctrine of 'the balance of labour and raw materials' characteristic of the eighteenth century literature. This provided a theoretical rationalisation of the policy of industrial protectionism: the promotion of the export of manufactured goods and the facilitating of the import of raw materials. It also supplied the principal argument for the English pamphlet campaign over the Treaty of Utrecht.⁵⁰ From a different standpoint it can be regarded as the logical and historically natural extension of the concept of the national capital to include the quantity of labour and raw materials consumed in the production of the 'artificial wealth' of the nation; and this in turn meant that industrial production—not only foreign trade—was to be regarded as within the scope of the circular productive process. The employment of a bigger labour force is held to be one of the decisive pre-requisites of economic growth, but the conclusions vary according to the circumstances: sometimes under-employment and a reserve of labour is assumed to be a given resource; sometimes the literature leans towards the populationist side, which asserts the desirability of and discusses the conditions for a growing population.⁵¹

⁴⁹ A. Bachmanson, *Arcana oeconomiae et commercii*, (Stockholm, 1730), i. 45 ff., 164.

⁵⁰ E. A. Johnson, *Predecessors of Adam Smith*, pp. 301 ff.; Viner, *Studies in the Theory of International Trade*, pp. 52 ff.; Dobb, *Studies in the Development of Capitalism*, pp. 211 ff.

⁵¹ T. E. Gregory, 'The economics of employment in England, 1660–1713', *Economica*, i (1921), pp. 37 ff.; E. S. Furniss, *The Position of the Laborer in a System of Nationalism*, (repr. New York, 1957); J. J. Spengler, 'Mercantilist and physiocratic growth theories', in *Theories of Economic Growth* (ed. B. Hoselitz, Glencoe, Ill., 1960), pp. 26 ff. On Swedish populationism, see E. P. Hutchinson, 'Swedish population thought in the eighteenth century', *Population Studies*, xiii (1959), pp. 81 ff.; G. Utterström, 'Labour policy and population thought in eighteenth-century Sweden', *Scand. Econ. Hist. Rev.* x (1962), pp. 264 ff.

The doctrine of 'foreign-paid income' appears as a corollary of the earlier notion that the consumer, who destroys wealth, loses and pays.⁵² But as interest in the factors of production increases, there develops also the idea of costs of production, raw material costs and wages as productive consumption; and Steuart reformulates the earlier view with an important qualification: 'the balance is always turning against the idle consumers'.⁵³ Both in Cantillon and Steuart the national profit from foreign trade is clearly conceived as a net import of foreign 'natural wealth' making possible reduced costs of industrial production. It was this conception which most immediately provoked the Physiocratic counter attack.⁵⁴ When Adam Smith wrote his balancing and harmonising account of the two systems of political economy, he was undoubtedly strongly influenced by this clash between opinions and interests in the French and English literature of the second half of the eighteenth century. In countries whose economic conditions and social structure differ, different controversies are carried on at the same time. In Sweden around 1760, the most original economic writers criticised monetary expansion as 'fictitious', and advocated a programme for increasing population by unlimited subdivision of land-ownership, in which increased agricultural production per capita—'increasing returns'—was explicitly assumed to be the consequence.⁵⁵ To assign such a programme to either a mercantile or an agricultural system in Adam Smith's sense would obviously be a meaningless fatuity.

There is, however,—in the English literature and elsewhere—a real basis for the Smithian generalisation, 'the mercantile system'—a system characterised by ideologically inspired speculations designed to bring capital formation in industry and foreign trade to the forefront of the interest and attention of 'the nation', i.e. of educated opinion and the politicians. The social and economic objectives which are often implicit in these speculations are the bonds linking them together. But

⁵² Johnson, *op. cit.*, pp. 308 ff.

⁵³ James Steuart, *An Inquiry into the Principles of Political Economy*, (London, 1767), i. 510. In this connection, Marx commented: 'Wir finden daher bei Dolmetschern des Merkantilsystems . . . sehr weitläufige Predigten darüber, dass der einzelne Kapitalist nur als Arbeiter konsumieren muss, wie die Kapitalistennation den andern dümmern Nationen das Verzehren ihrer Waren und überhaupt den Konsumtionsprozess überlassen, dagegen die produktive Konsumtion zu ihrer Lebensaufgabe machen muss. Diese Predigten erinnern oft der Form und dem Inhalt nach an analoge Ermahnungen der Kirchenväter'. (Marx, *Das Kapital*, ii. 54).

⁵⁴ Herlitz, 'Trends in the development of physiocratic doctrine', *Scand. Econ. Hist. Rev.* ix (1961), pp. 130 ff.

⁵⁵ References are given by Hutchinson, *loc. cit.*, pp. 93 f., 98. Most interesting are the Runebergs. See also Heckscher, *Sveriges ekonomiska historia*, ii: 2. 860 ff., 868 ff.; B. Ohlin, 'The quantity theory in Swedish literature', *Economy and History*, ii (1959), pp. 11 ff.; Utterström, *loc. cit.*, pp. 274 ff.

they do not display any marked theoretical uniformity: the analytical apparatus of Cantillon and Steuart is not comparable with that of Thomas Mun or Joshua Child, Becher or Nordencrantz. This is why theoretical definitions, refutations or defences of 'mercantilism' are surrounded by a perceptible aura of unreality—and this is the case even with Adam Smith's 'refutation'. There is in fact one peculiarity in the theoretical apparatus of most mercantilist writers that clearly distinguished them from Smith and the classical theory—the absence of the concept of *profit* as a general social category of income, and, associated with this, the assumption that rent and the exploitation of foreign consumers are the only surplus incomes and the only sources of capital formation.⁵⁶ These ideas, however, are of earlier origin; they are merely emphasized in mercantilist literature because of its concentration upon the question of the growth of mercantile and industrial capital.

If the concept of mercantilism is limited to denote the complex of ideas with social and economic objectives thus defined, it appears still to be a useful one for the historian. Comparative studies of the development of mercantilist ideas in this sense, and the role of these ideas in various countries before the industrial revolution, would then be valuable.

⁵⁶ R. Meek, *Studies in the Labour Theory of Value*, (London, 1956), pp. 24 ff.