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History of Economic Thought

III. Mercantilism and Adam Smith

Leipzig University | May 3, 2024

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III. Mercantilism and Adam Smith

1. Mercantilism and Absolutism
2. French Mercantilism
3. English Mercantilism
4. Opposition to Mercantilism
5. German Natural Law and the Scottish Enlightenment
6. Adam Smith
7. Conclusion



1. Mercantilism and Absolutism

What is mercantilism? No self-identified mercantilist writer!

- System of state building (Heckscher) or systematic state privilege (Adam Smith)
- Rothbard: both!
 - Mercantilism built up the royal power, support for king in return for privileges
 - Increased power over society – status and privilege, economic position, from royal favour
 - Bullionism: more specie meant easier access to greater reserves for potential taxation

But absolutism not simply about kings – also republican forms

- Venice
- The Dutch Republic as the odd man out?



Niccolò Macchiavelli (1469-1527)

- From wealthy Tuscan family, served Florentine Republic 1494-1512
- Wrote the *Prince* to ingratiate himself with returning Medici

Main works: *The Prince* (1513) and *Discourses on Livy* (1514-1519)

- Aim of the prince: to preserve, expand his status – state
- A mirror-of-princes, but subverts the genre: here virtue is simply whatever helps the prince secure, expand the state
- *Discourses* is similar, simply set in a republican state
- But has also been argued as the origin of republicanism: Roman division of power secured good policies



Jean Bodin (1533-1596)

- Theorist of sovereignty, French absolutism
- *Six livres de la république* (1576)
- Supporter of Henry III, against the religious factions
- Sovereignty: will having the force of law

Michel de Montaigne (1533-1592)

- Essayist and skeptic
- Power of reason extremely limited, little access to natural law
- Therefore better to support strong central, moderate state over extremists



French Wars of Religion (1562-1598)

- Between Protestant Huguenots and the Catholic League
- Both parties extremist – no one for toleration, religious pluralism
- King caught in the middle, tried to moderate

The *politiques* the party supporting the king

- Against extremism, but not for tolerance – simply for social peace
- Henry IV *politique* par excellence – Huguenot leader, king from 1589, converts 1594 for political reasons: “Paris is worth a mass”

Politique victory leads to less power for the Church, Gallicanism

- Gallicanism: independence of the French Church
- Jansenism: “crypto-Calvinism” in seventeenth century France



The Great Chain of Being

English, especially Tudor theory of absolutism

- Correspondence theory: there is hierarchy in heaven, the cosmos, in the body – so therefore also in society
- Simply organic analogy – no argument
- Earlier uses in e.g., Plato – “body politic”

Stuart England: divine right of kings from inheritance (Filmer)

- Baconian pragmatism
- Hobbes: atomistic individualism, war of all against all in state of nature, *homo homini lupus*
- Strong state needed for protection, formed by contract



2. French Mercantilism

State Power is Key

- Strong central state desired
- Montaigne fallacy: one man's (or state's) gain is another man's loss
- Guild control: compulsory membership in French guilds from 1581



Louis XIII, Richelieu and the *gabelle*



- Taming the Huguenots: limiting their independence (e.g., siege of La Rochelle 1629)
- Enforcing the *gabelle*: salt tax first introduced in middle ages
- State monopoly and compulsory purchases
- Enforcement strict, searches without warrants
- But great inequalities: some provinces completely exempt, smuggling rife



Louis XIV and Colbert





Louis XIV (1638-1715), king of France from 1642

- Jean-Baptiste Colbert (1619-1683), leading role under Louis XIV

Apex of Mercantilism

- Monopoly grants, cartelizing privileges
- Subsidies to luxury goods production
- Large bureaucracy, numberless inspectors, enforcers
- Button-making monopoly challenged 1690s – turn against mercantilism generally

Wage controls and apprenticeship requirements

- Labour kept on farm, mobility discouraged
- Guilds controlled by closed oligarchy of masters
 - Personal connections necessary to get ahead
 - Little hope for advancement for apprentices, journeymen



Bodin and the quantity theory 1568 – but not the first!

Barthélemy de Laffemas (1545-1612)

- Controller-general of commerce under Henry IV (1589-1610)
- Criterion of good economic policy: whether bullion flows in or out of the country
- Manage trade to secure inflow of bullion
- Strengthen guilds
- Encourage French silk industry

Maximilien de Béthune, duc de Sully (1560-1641)

- Chief minister of Henry IV
- Opposed to Laffemas, had own schemes: ban export of gold and silver, outlaw luxury consumption
- In general protectionist



Antoine de Montchrétien (1575-1621)

- Chief claim to fame: first to use the phrase “political economy”
- Montaigne fallacy, autarky
- Forced labour/against “idleness”

Francois de Noyer, sieur de Saint-Martin

- Proposed Royal Company with all-encompassing powers during minority of Louis XIII:
 - Direct colonies, “recruit” colonists
 - Control wool manufacture, monopoly on paper
- Never went anywhere, lack of investors, no royal assent



Bullionism

- Encourage the inflow of specie, prohibit its export
- Colbert clear that access to reserve of specie one important motive

Cartelization of the economy through quality standards

- Subsidies to exports, import restrictions. The goal: self-sufficiency
- Taxation: the art of plucking a goose with minimum of hissing and maximum of feathers

International trade a zero-sum game

- One nation can only improve its shipping, trade, at expense of others
- Note military application: large merchant navy means large pool of ships, experienced sailors for military purposes



3. English Mercantilism

Strengthen Royal Power

- Royal income, control
- Special interests

“Anarchic” England

- Mercantilist policies hard to enforce, London, countryside beyond guild control
- As a result, no guild had coercive control in any trade or line of production
- “Internal” mercantilism of limited use for this reason – foreign trade the focus



The Great Debasement 1544-1551

- Introduced by Henry VIII
- Silver content reduced from 92.5 to 25 percent
- Wreaked havoc, revoked 1551, debased currency withdrawn 1560

Sir Thomas Smith (1513-1577)

- Professor at Cambridge, politician/bureaucrat, first English mercantilist
 - Real originator of Gresham's law 1554
 - *A Discourse on the Commonwealth of England* 1549/1581
 - Against debasement
 - Analysis grounded on individual self-interest, but government direction necessary

Sir Thomas Gresham (1519-1579)

- fiscal agent in Antwerp, in report explained “his” law
- Architect of system of monopoly privilege



The Statute of Artificers 1563

- Attempted to support guilds, regulate wages and apprenticeships

Grants of Monopoly

- A favourite: legal monopoly on production or trade of something
- Abolished 1623 – but only royal grants

Privileged Trading Companies

- Monopoly privileges for trade on a given region
 - Muscovy Company 1553 the first
 - Barbary, Eastland and Levant Companies in 1570s and 80s
 - East India Company 1600



Francis Bacon, Prophet of Empiricism

Sir Francis Bacon (1561-1626), Baron Verulam

- Central political position: Lord Chancellor 1618, then fell on corruption charges

Basic Proposition

- All natural knowledge is by induction, all divine knowledge by revelation
- Simply gather the facts and general truths will emerge
- Enormously influential on a century of English thought





Sir William Petty (1623-1687)

The Leading Baconian in Economics

- Adventurer, went to sea at 13, studied medicine in Holland and anatomy in Paris
- Secretary to Hobbes in Paris, imbibed Baconian philosophy
- Return to England 1646, studies at Oxford
- Protégé of Samuel Hartlib, another leading Baconian
- Joined the “invisible college”, a group of Baconian scientists
- Joined Cromwell’s army in Ireland 1651 – became enormously rich as surveyor general, buying up confiscated Irish lands





Focused on applying Baconian principles to social world

- Major work: *Political Arithmetic* written 1670s, published 1690
- Claims to eschew intellectual argument, only use arguments of sense: number, weight and measure
- “Policy” reduced to mathematics – but very little of it, mostly statistics – sometimes simply made up

Few economics propositions – nothing spectacular

- Population expansion good, should be encouraged
- Keep people poor, controlled – but productive

Baconian empiricism petered out after 1690s

- Satirized by Jonathan Swift in *Gulliver's Travels* and *A Modest Proposal*



Charles Davenant (1656-1714) and Gregory King (1648-1712)

- Credited with expounding law of demand
- Published a schedule showing relationship between price changes of corn and the output of corn
- But this was simply a hypothetical schedule, showing historical or future relationships – not a statement of a basic law
- Also little evidence that it was true – they probably made up the schedule, not a case of measurement



Usury in itself no longer seen as evil

- Debate over usury laws about height of interest, and used economic/pragmatic arguments

Thomas Culpeper 1621

- First pamphlet on usury, *High Rate of Usury*
- Government should enact maximum legal rate, force down interest to compete with the Dutch
- Reprinted in 1668 as part of propaganda for law to lower legal maximum to 4 percent

Low legal rate in interest of the EIC

- Prime borrower, had no problem borrowing at low rate
- However, its competition would be starved of capital



William Potter's 1650 land bank scheme

- Money good, let's create more of it!
- Paper money “secured” on the nation's land, not a claim to specie
- Inflation would actually lead to lower prices, since production boosted

William Paterson and the Bank of England

- Scheme proposed 1693, enacted 1694
- Purpose: loans to government in exchange for privileged banking
 - Note-issuing bank
- Bank run 1696, payments suspended for two years. Competition from new banks outlawed 1697 and 1708
- BoE became fiscal agent of the government

English pioneered combination of privileged banking and government finance



Money and Trade Considered, with a Proposal for Supplying the Nation with Money (1705)

- Money a mere creation of government of no intrinsic value, simply a means of payment
- A land bank issuing paper money “backed” by the nation’s land would lead to secure currency

More money would lead to favourable balance of trade

- Production would be boosted so gold and silver would flow in
- The rate of interest would fall, as bank credit expanded
- Main evil: hoarding

Law and the Mississippi Bubble



4. Opposition to Mercantilism

Origins of *laissez-faire*

- Phrase first used around 1680, slogan of French opposition

Louis XIV and the council of commerce 1700

- Representatives critical of mercantilist system
- Only freedom of trade beneficial to the state

The English Whigs

- Earl of Shaftesbury and John Locke



Abbé Claude Fleury (1640-1723)

- Launched opposition to absolutism 1670s
- Upheld agrarian ideal against government subsidies to industry
- Attacked skepticism, reason of state

Francois de Salignac de la Mothe, Archbishop Fénelon (1651-1715)

- Led powerful cabal at court, opponent of absolutism and mercantilism. Tutor to Grand Dauphin
- *Télémaque* 1695/6, published 1699
- For laissez-faire against mercantilism, war
- Failure for simple reason: Grand Dauphin died 1712



It is the effect of a wise overruling Providence that no land yields all that is useful to human life. For want invites men to commerce, in order to supply one another's necessities. Want therefore is the natural tie of society between nations; otherwise all peoples would be reduced to one sort of food and clothing, and nothing would invite them to know and visit one another.

- From *Treatise on the Existence of God*
- Clear inspiration from earlier scholastic themes: unequal distribution of resources unites people, bind them together in mutual advantageous trade



Pierre Le Pesant, sieur de Boisguilbert (1646-1714)

Norman nobleman, educated by Jesuits

- *Le détail de France*, first published 1695, many republications – despite royal prohibition
- Social harmony would arise from the innumerable efforts of individuals, each pursuing own self-interest – natural order of liberty under *laissez-faire*
- Bullionism wrong, real wealth consists in goods, not money
- Free trade in luxuries as well as for agriculture
- Free trade is reciprocal utility – against Montaigne, back to scholastics?
- Government intervention often counterproductive, example of grain trade
- Pufendorf, natural law clear influence: extended to economic sphere, individual utility and self-interest examined and analyzed, society, interpersonal exchange operates according to natural law – descriptive!



The English EIC Opposition

Problem: The company depends on charter, monopoly privileges

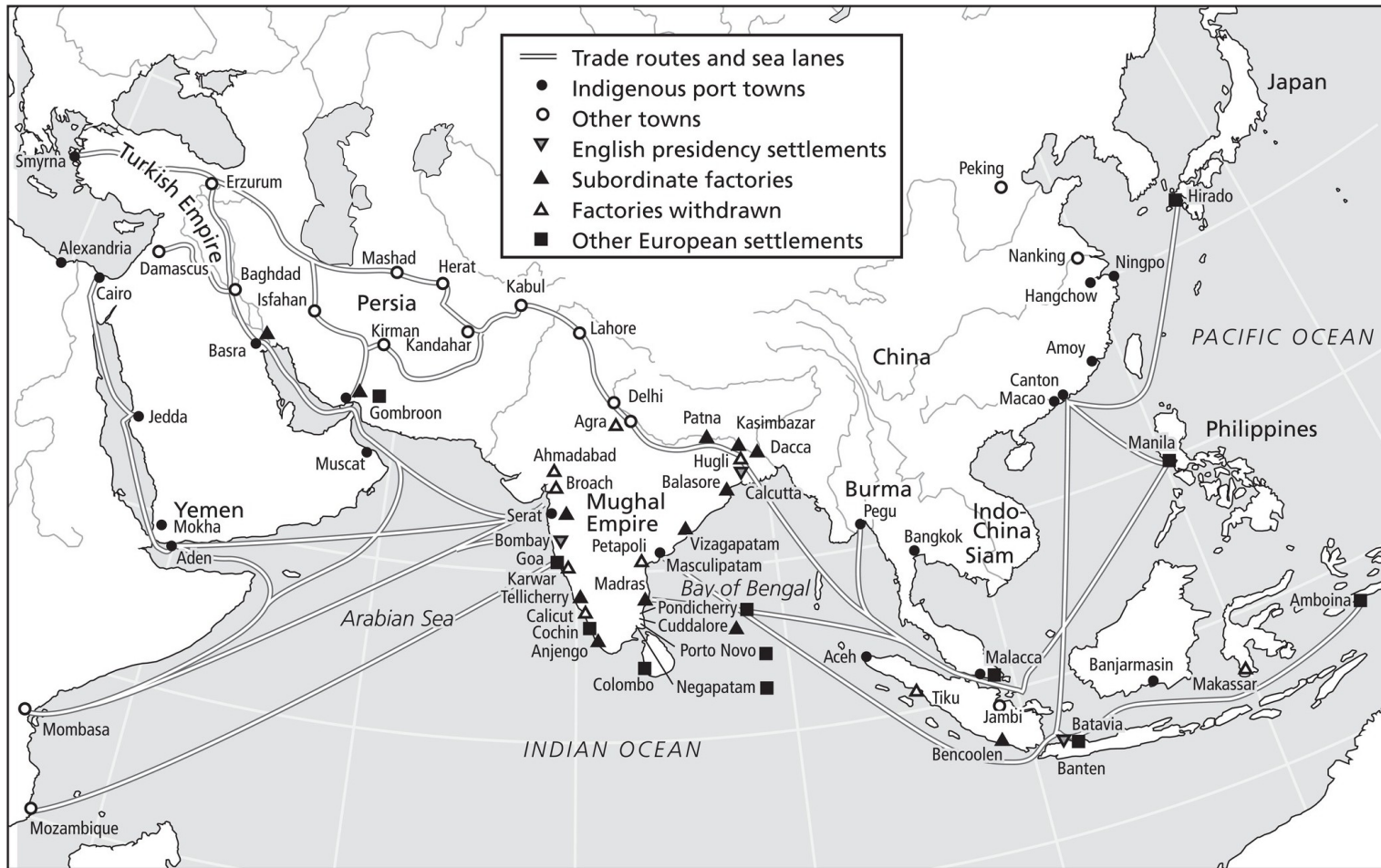
- The ideological justification for these in mercantilist ideas
- But mercantilism hostile to the outflow of specie from a country

The business of EIC: the importation of luxuries from the Indies

- Spices, silk and other fabrics, chinaware and so on
- No corresponding East Asian demand for European wares
- Therefore, these luxuries were paid for with outflow of specie



The East Indies Trade c. 1700





Thomas Mun and Josiah Child

Sir Thomas Mun (1571-1641)

- Director of EIC 1615, before that merchant in Mediterranean, Levant and Italy
- Sophisticated bullionism: EIC not bad, for it re-exports most of the imports, leading to net favourable balance of trade
- In fact, Mun not really bullionist:
 - An increase in the money supply simply drives up prices, does nothing good
 - Scornful of inflationism, of plea that scarcity of money causes business to suffer

Sir Josiah Child (1630-1699)

- Merchant, affiliated with EIC
- No need to worry about balance of trade with the Indies – on net, the balance of trade is favourable due to re-exports
- Against monopolies (except EIC)
- However, for usury laws, same arguments as Culpeper



John Locke (1632-1704)

- Philosopher, under Baconian influence at Oxford as student (in medicine)
- Change 1666: Becomes physician to, friend of, and political advisor to Anthony Ashley Cooper, from 1672 Earl of Shaftesbury

Locke engaged with Cooper in the Whig cause

- Opposition to Restoration establishment, looming absolutism
- Locke's *Two Treatises on Government* justification for Glorious Revolution of 1688
- In general, Locke became champion of religious toleration, property rights and a free economy



Against Proposed Usury Law 1668

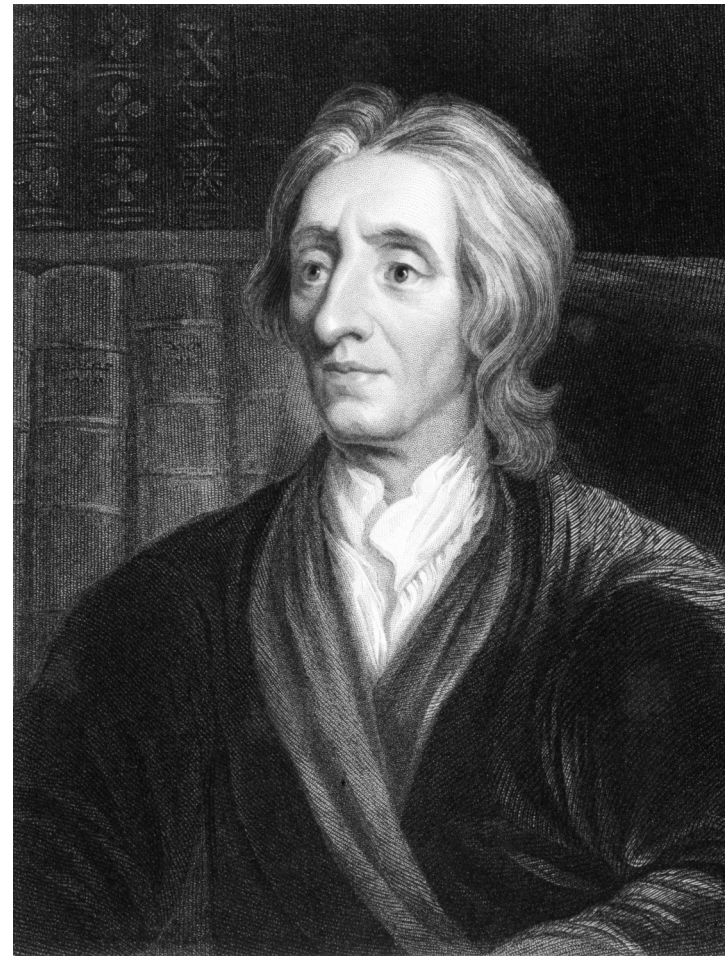
- lowering the rate would simply restrict the supply of savings
- Rehash of debate in 1690s: *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money*
- Same argument as 1668: let the market set the rate of interest

Question of Recoinage in 1690s

- Stock deteriorated due to erosion, old coins only 2/3 as valuable as new coins
- Mercantilist writers wanted recoinage at lower weight, greater supply of coins (of same tale, nominal value)
- Locke against this policy: it's illusory and deceitful
- *Further Considerations Concerning Raising the Value of Money* 1695
- Locke won out: recoinage 1696, silver weight maintained



Shaftesbury and Locke





5. German Natural Law and the Scottish Enlightenment

Protestant Natural Law

- Intellectual Influence from the Spanish Scholastics
- Return to the medieval intellectual tradition

The German Setting

- Cameralism: the science of filling the state treasury
- University-based education intellectual life



Hugo Grotius (1583-1645)

- Dutch jurist, exiled 1621 to Paris
- Main work: *De Iure Bellie ac Pacis* 1625
- Expressly influenced by Spanish Scholastics

Samuel Pufendorf (1632-1694)

- Saxon, studied at Leipzig and Jena, taught at Heidelberg and from 1672 Lund, Sweden
- Main work: *De Iure Naturae et Gentium* 1672
- Draws on Grotius and Hobbes, also cites Spanish scholastics
- Against Hobbes: the state of nature is a state of peace
- Society, government, instituted to protect person and property



Methodological individualism

- Self-interest a basic driving force
- Sociability as fundamental

Scholastic natural law structure

- But less moralistic, more descriptive

Of great importance

- Widely read, both in political philosophy and economics
 - Locke
 - Scottish Enlightenment
 - French anti-mercantilists





Private Property

- A moral quality, not in the things themselves
- Arose when it was unclear to whom a given thing belonged
 - Scarcity and (potential) conflict necessitates property
- Presupposes man-made agreement, explicit or tacit, whereby labour and cultivation leads to ownership
- Private ownership necessary to advance beyond primitive conditions

Price and Value

- Value from the aptitude or utility of a thing to serve human ends
- Scarcity and utility determine price
- Hence, no paradox of value, since the most useful things are abundant
- Market price is the just price, but a legal price can also be



Origins and Nature of Money

- To facilitate more advanced exchanged, money needed
- A common measure of value, all goods measured in money
- Their qualities led to precious metals being adopted

Value of Money and the Quantity Theory

- A greater quantity of money lowers its value
- Debasement damaging to trade, the prince cannot change the value of money arbitrarily

Usury

- An interest payment is legitimate when it corresponds to expected gains from loaned money
- Money is not barren, other things more easily acquired by means of money
- Interest payment for borrowing capital



British Intellectual Life

- Oxford and Cambridge dead – only to make friends for young gentlemen, education of Anglican churchmen
- Scotland the place to be intellectually, Edinburgh and Glasgow Universities

Growing Reading Public

- Increasingly possible to be an independent intellectual
- David Hume and his *History of England*
- Edward Gibbon and the *Decline and Fall of the Roman Empire*



Act of Union 1707 – Scotland and England united

- Presbyterian Church established church of Scotland
- The church dominated by lowlands and east coast moderates

Moderate Presbyterians and the Scottish Enlightenment

- Rev. William Robertson (1721-93) leader of the moderates
 - Principal of Edinburgh University 1762
 - Founder of Select Society of Edinburgh 1750
- Institutional and economic support from the church
- Likely intellectual influence also, if only for sentimental reasons – note Smith’s high opinion of “Presbytery”



Moral Philosophy, Natural Law and Economics in Scotland

- Gershom Carmichael (1672-1729), son of Presbyterian minister exiled for heresy, born in England
- Graduated from Edinburgh, regent at St Andrews and Glasgow
- Minister at Fife, first professor of moral philosophy at Glasgow 1727

The Natural Law Inheritance

- Carmichael translated Pufendorf's compendium, *De Officio Hominis et Civis*, published with extensive commentary 1718
- Follower of Pufendorf on subjective value
- Muddied the waters: introduced difficulty in acquiring goods as a determinant of value



Francis Hutcheson (1694-1746)

- Son of Ulster Scottish Presbyterian minister, educated in Glasgow and Dublin
- Succeeded Carmichael in his chair, his most prominent student
- Dynamic teacher, in English rather than Latin
- *The System of Moral Philosophy* 1755
- Followed Pufendorf on value: no demand, no price
- Very subjective definition of use: any tendency to give satisfaction
- Took up Carmichael's real cost suggestion, expanded it



Commodity Theory of Money

- Money first a commodity generally accepted in a country
- Then comes into use as medium of exchange, standard of value, measure of economic calculation
- Commodities chosen for the monetary role based on their properties:
 - Generally desirable
 - Divisible into small quantities
 - Durable
 - Portable
- Silver and gold are the commodities usually chosen, the form of coins most popular, most convenient for daily use

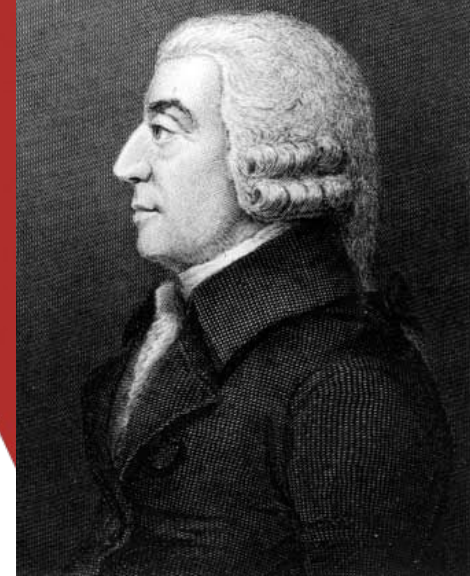


Division of Labour

- A free market means reciprocal aid through mutual exchange
- Division of labour key to preserve human life
- Against Mandeville: it is not luxury consumption but saving and investment that leads to prosperity

Lingering Mercantilism

- Trade must be regulated to maintain favourable balance of trade
- In practical policies, Hutcheson simply a mercantilist
- Hutcheson had a clear influence on Adam Smith
- Seen from arrangement of topics, almost the same in Hutcheson and Smith



6. Adam Smith (1723-90)

- From Kirkcaldy, raised by mother, studied under Hutcheson, MA with distinction 1740
- Sent to Balliol College, Oxford, to become Anglican minister. Returned after six years an ardent Presbyterian
- Sponsored by Lord Kames to give lectures in natural law and liberty 1748 in Edinburgh, 1750 chair in logic, 1752 ascended to Hutcheson's old chair, remained there for 12 years
- *Theory of Moral Sentiments* 1759
- Tutor to Duke of Buccleuch 1764, 3 years in France
- Returned to Kirkcaldy to work on his major work: *An Enquiry into the Nature and Causes of the Wealth of Nations* (1776)



The Main-Spring of Human Action

- Human action motivated by self-interest
- Means that men in economic affairs look to their advantage
- Not the only virtue! See *Theory of Moral Sentiments*

Influences

- Bernard Mandeville, *Fable of the Bees*
 - Private vice, public benefit
- From Pufendorf, the continental natural law tradition



The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations. (bk 4, ch. 4)

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. (bk 1, ch. 2)



Exchange and Division of Labour

- The starting point of economics for Adam Smith
- Originator of term division of labour

Origins of the Division of Labour

- Based on an instinct to “truck, barter and exchange”
 - The cause, not the consequences of differences between men
 - Possible influence from Locke
- Encouraged by self-interest
 - As persons realize the advantages to be gained



On the Division of Labour

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.

Whether this propensity be one of those original principles in human nature, of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to enquire.
(bk. 1, ch. 2)



Limits to Division of Labour

- The extent of the market
- Some occupations only possible in towns
- Isolated individuals have to do everything themselves

Effects of the Division of Labour

- Leads to differences in talents
- Three sources of increased productivity
 - Increased dexterity
 - Time saving
 - Invention of machinery



Productive and Unproductive Labour

- Productive labour: work on material goods, durable “stock”
- Unproductive labour: work on immaterial goods, services
- Durable consumer goods also unproductive, despite being useful
- Result: productive work is really work that adds to capital stock

Investment and Growth

- Only from savings and thrift
- “Every frugal man a public benefactor” as opposed to Mandeville
- Close to Turgot: Schumpeter talks of the “Turgot-Smith theory of investment”



Early Smith, Late Smith

- Early on, completely in Hutcheson's footsteps
- Subjective value
- *Wealth of Nations* different from Smith's earlier work

Value in Use, Value in Exchange

- From physiocrats
- Value in use: usefulness to the individual
- Value in exchange: price, what you pay
- Labour is the measure of exchange value
- Nominal vs. real price ; money price vs. labour price

Hence, the value paradox

- Water is very useful, but has very low exchange value
- Diamonds are practically useless, but has high exchange value



Exchange in Smith's Lectures

The very intention of commerce is to exchange your own commodities for others which which you think will be more convenient for you. When two men trade between themselves it is undoubtedly for the advantage of both... The case is exactly the same betwixt any two nations. The goods which the English merchants want to import from France are certainly more valuable to them than what they give for them.



The Classical Triad

- Land earns rent
- Labour wages
- Stock (capital) profits
 - No entrepreneur: everything comes down to investing stock, managing labour

Rent and Profit

- Often seen as simply deductions from product of labour
- The determination of rate of profit is not clear
 - But the greater the amount of stock, the lower the rate
- Increasing amount of stock means an increasing demand for labour
 - Therefore economic growth means a secular increase in wage rates



Short Run

- Determined by bargaining between employers and labourers

Long Run

- Natural price is subsistence wage
 - If wages rise, population increases, until wages fall again to new subsistence level
 - If wages fall below subsistence, population shrinks, driving up wages to subsistence level
- Increasing capital accumulation the only hope? Problem taken up by Malthus

Common 18th Century Them

- the population of a species tends to press on the means of subsistence of the species



- No clear rent theory
- Rent to land at one point portrayed as simply a monopoly price and the landowner a monopolist
- At other points rent is due to the superior location, fertility of land
- Or to the productive powers of land
- Condemnation of landlords: they reap where they do not sow!
- Perhaps Smith influenced by vestiges of *ancien régime*, “feudal” privileges?



Early Smith, late Smith

- Follows Hume in his lectures
- No price-specie flow mechanism in *Wealth of Nations*

Money and Circulation

- Every country will have just enough specie to “circulate trade”
 - Surplus specie will overflow channels of commerce, seek employment abroad
 - Perhaps another instance of too narrow a focus on long-run equilibrium?
- Value of money determined by labour
 - money the embodiment of the labour cost that went into it



Emergence of Money

- Exchange hampered under barter
- Therefore prudent men began keeping commodities for exchange
- Examples: cattle, salt, tobacco, cod

Metallic Money

- Gold and silver preferred for their qualities
- Divisible, durable, valuable, transportable
- Stamping and coinage introduced to certify purity, weight
- Therefore the coins originally simply expressed the weight



- Smith's contemporaries very skeptical or hostile to banking, bank notes – e.g., David Hume
- Smith much more positive, if still careful
- Bank notes are like a “highway in the sky”: the stock bound up in specie can be productively invested if people use bank notes instead of coins
- Issue of bank notes will be regulated by market mechanism, so bank notes always equivalent to specie: an over-issue will flow back to the banks in exchange for specie
- A case of national pride: Scotland the home of modern banking, established in the early eighteenth century



Patron Saint of Free Markets?

- *Wealth of Nations* a thorough critique of mercantilism
- But Smith supported some classic mercantilist policies:
 - Navigation acts
 - Taxes on imports of manufactures
 - Taxes on export of raw wool

Concern for the Martial Spirit

- Policies needed to cultivate the martial spirit, remedy bad influence of division of labour
- Navigation acts
- National education

Memories of Bonnie Prince Charlie '45, concern over future Jacobite rebellions?



Advocate of Usury Laws

- Legal maximum rate of 5 percent

The Goal

- Freeze out marginal borrowers
- Speculators
- Prodigal consumers
- Capital instead channeled to prime borrowers, who could use it productively



7. Conclusion: Economics after Mercantilism

Rise of pragmatism

- More concerned with concrete, practical topics
- In theory less moralistic, more descriptive – more concerned with what is, not what should be

Topics of concern

- Usury laws and just price, value theory
- International trade and bullion flows
- Economic progress and social harmony

Any advances?

- *Laissez-faire*, at least internationally, by eighteenth century – Smith's system of natural liberty
- Good understanding of relation between money flows and prices