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History of Economic Thought

III. Mercantilism

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III. Mercantilism

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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?



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



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



2. Italian Mercantilism

Machiavelli

- Not much on economic policy
- Do great things! Drain the Pontine marshes!

Giovanni Botero (1540-1617)

- Piedmontese, Jesuit
- *Reason of State* (1589)
- Attacks Machiavelli pro forma, then admits “political prudence”
- Interest the overriding principle in the decisions of princes
- Early Malthusian
- Long tradition of somewhat-tempered Machiavellianism



3. French Mercantilism

- Fostered by monarchs
- Strong central state desired
- Montaigne fallacy: one man's gain is another man's loss



Sixteenth Century Mercantilism



Henry III (1551-1589, reigned 1574-1589)

- Compulsory guild membership for all craftsmen 1581
- Craftsmen forbidden from working outside hometown
- Killed by Dominican Jacques Clément 1589



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



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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

Prohibition of Calicoes

- Imported from 1660s on
- Prohibition only stifled production, smuggling rampant

Wage controls and apprenticeship requirements

- Labour kept on farm, mobility discouraged
- Little hope for advancement for apprentices, journeymen: guilds controlled by closed oligarchy of masters, personal connection necessary to get ahead



Louis XIV wanted central control of organization of army

- France had the largest army in Europe since Roman times
- Basically organized like a modern army
- Against the medieval/early modern model of private entrepreneurs owning their own regiments

The failure of the army

- bureaucracy could not manage the task, partial reversal to earlier system
- Corruption rife, lead to “shadow market” mechanism
- Prefigures modern experience of socialism



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

Barthélemy de Laffemas (1545-1612)

- Controller-general of commerce under Henry IV
- 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



4. English Mercantilism

“Anarchic” England

- Mercantilist policies hard to enforce
- The countryside beyond guild control
- London also beyond guild control: by custom, any member of any guild could engage in any trade
- As a result, no guild had coercive control in any trade or line of production
- “Internal” mercantilism of limited use for this reason



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



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



Sir Richard Martin (1534-1617)

- Goldsmith, alderman of London, master of the Mint under Elizabeth I
- Against outflow of bullion (with Smith and Gresham)
- Against the Indies trade for this reason

Gerard de Malynes (d. 1641)

- Adviser to the Crown, Mint official
- Most distinguished English bullionist
- Exchange rates are set by conspiracy among the dealers
- Government monopoly of foreign exchange needed
- Any exchange not at the legal rate usurious
- Terms-of-trade fallacy: the balance of trade deficit will not regulate itself, it will be self-reinforcing, driving specie from the country



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





First Navigation Act passed by Cromwell, second by Charles II

- Aim of both: encourage English shipping
- Foreign ships banned from shipping from Asia, Africa and America to England and her colonies
- European ships banned from shipping from third country to England
- Only ships with English owner, master, and a majority English crew accepted



The Leading Baconian in Economics

- Opportunist and adventurer, went to sea at 13, put in land in France, studied at Jesuit college in Caen, then 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
- Lived in London from late 1650s, never became prominent under Restoration period despite friendly standing



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*



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



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



5. German Cameralism and Natural Law

- Cameralism, from *camera*, chamber – of finance, or the treasury
- Administrative science, training in bureaucratic technique
- Taught in German world, Scandinavia
- Little economics, more about practice of government finance, taxation



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 against Hobbes: the state of nature is a state of peace
- Society, government, instituted to protect person and property
- Property from convention: necessary in his framework

Christian Wolff (1679-1754)

- From Breslau, professor in Halle, Marburg
- Most influential German philosopher before Kant
- Works on natural law and moral philosophy



Methodological individualism

- Self-interest of individuals basis of his analysis
- Sociability contra Hobbes

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





6. Opposition to Mercantilism: France

The single tax proposals

- Most famous: Marshal Vauban 1707, *Projet de dixme royale*

Origins of *laissez-faire*

- Phrase first used around 1680
- Thomas Le Gendre (1638-1706), merchant banker, multimillionaire to Colbert

Louis XIV and the council of commerce 1700

- Called to advice the king, representatives harshly critical of mercantilist system
- Only freedom of trade beneficial to the state
- The most consistent among them applied this to domestic affairs



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!



7. Opposition to Mercantilism: England

The East India Company Opposition

- Centered around the EIC
- Concerned with specie flows

The Whig Opposition

- Centered on Earl of Shaftesbury, John Locke
- Opposed to absolutism



The East India Company Opposition

Problem: The company depends on charter, monopoly privileges

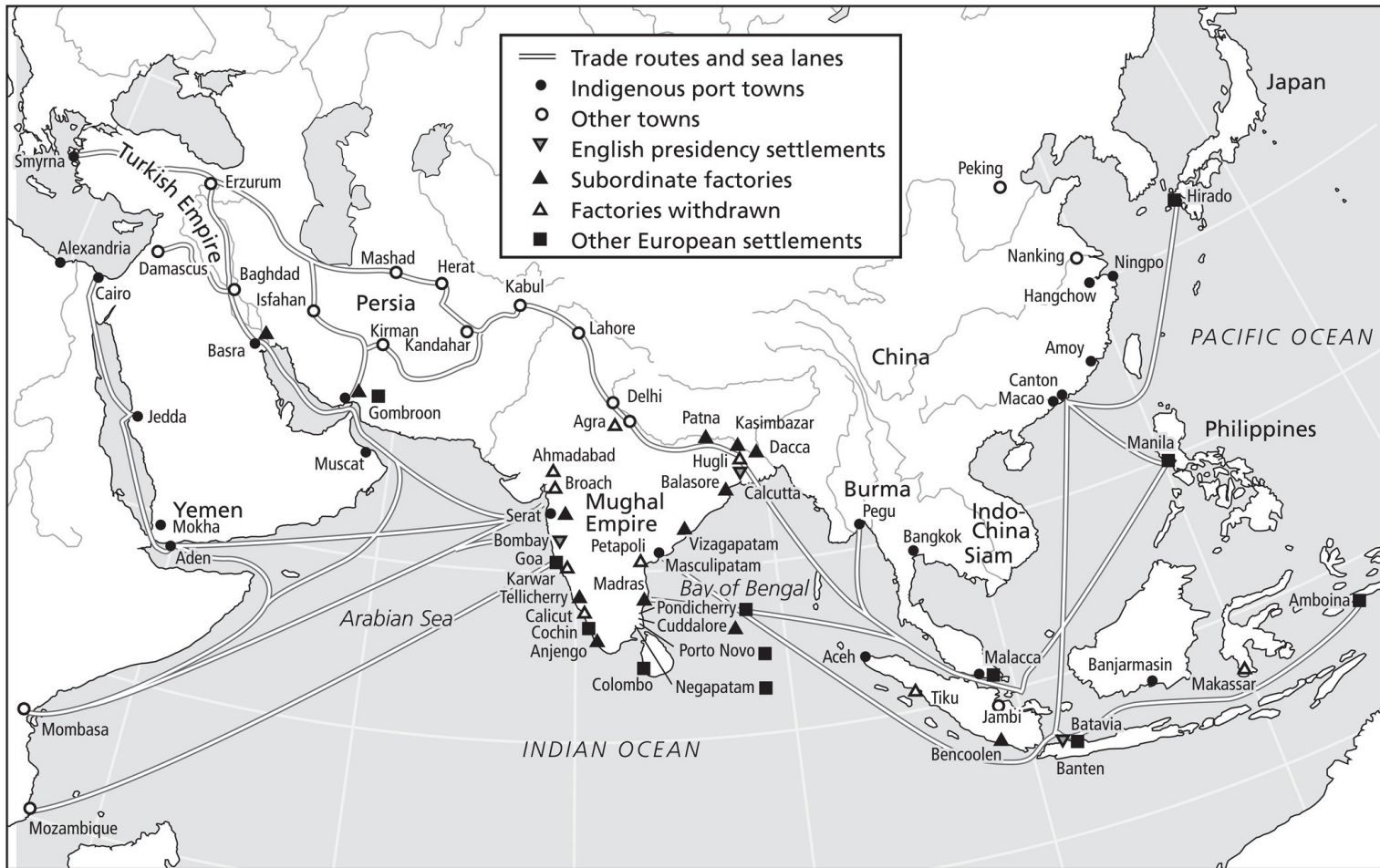
- The ideological justification for these in mercantilist ideas
- But mercantilism hostile to the outflow of specie from a country

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

- Spices, silk and other fabrics, chinaware and so on
- There was 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

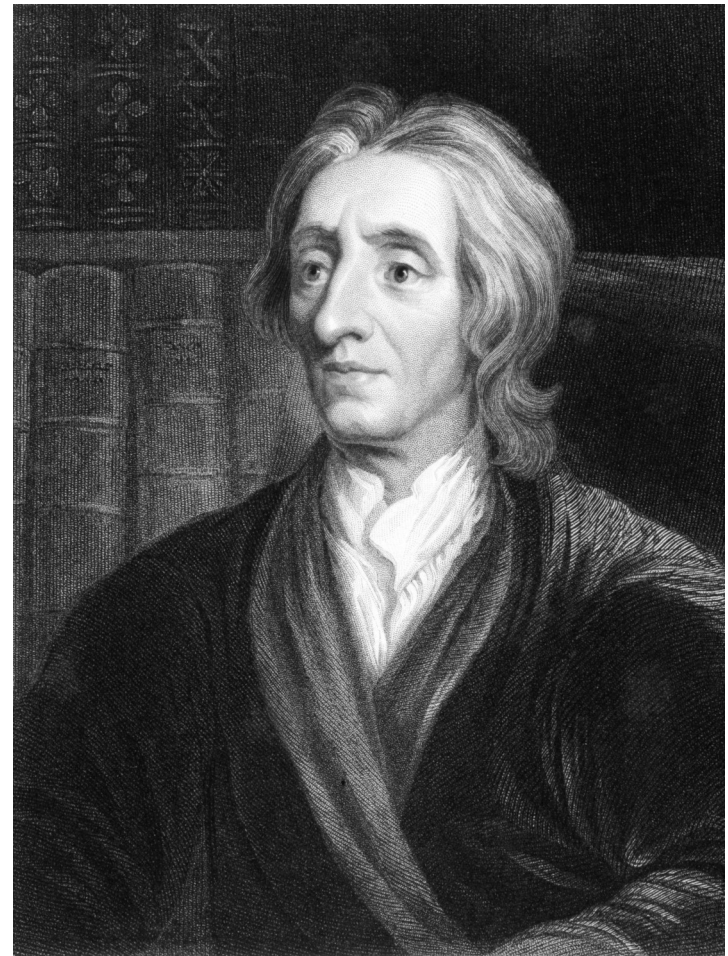
- lowering the rate would simply restrict the supply of savings
- Rehash of debate in 1690s:
 - *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money*
- Same argument as 1668: let the market set the rate of interest

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





Josiah Tucker (1713-1799)

- Anglican clergyman, celebrated writer on religious, political, economic issues
- Moderate laissez faire
- Self-interest moves society, but some government direction needed
- Attacked usury laws, navigation acts, wars and conquests

Charles, third Viscount Townshend (1700-1764)

- large landowner, son of “Turnip” Townshend
- Against export subsidies for corn, monopoly of EIC
- Very influential in public opinion

Robert Walpole, first Earl of Orford (1676-1745)

- Dominated British government 1721-1742
- Against war, lowered taxes, paid down debt
- Salutary neglect



8. 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
- International trade
- Bullion flows

Any advances?

- Methodological individualism – esp. from natural law
- *Laissez-faire*, at least internationally, by eighteenth century
- Good understanding of relation between money flows and prices