

THE QUARTERLY JOURNAL OF ECONOMICS

Vol. LXVI

November, 1952

No. 4

THE LIBERAL ELEMENTS IN ENGLISH MERCANTILISM

By WILLIAM D. GRAMPP

I. The goal of full employment, 467. — II. The means to full employment, 473. — III. Economic freedom in mercantilist doctrine, 486. — IV. The exceptions to free exchange, 492. — V. The historical roots of mercantilism, 496. — VI. Economists on mercantilism, 499.

The period of mercantilism in England extended from roughly 1500 to 1750, and it is customary to apply that word both to the economic writings of the period and to its economic practices. It is also customary to describe mercantilism as the antithesis of liberal, or classical, economic doctrine. Adam Smith used some of his strongest invective against it, and since his time mercantilism has been thoroughly condemned by liberal economists because its practices were the very kind of interference which they always have regarded as useless, unwise, or mischievous.

By reasoning from the actual practices of the mercantilist states, economists and historians usually have supposed that the doctrines of the period of mercantilism were a justification of its institutions. It is common in studies of mercantilism for the author to explain, say, the restriction of imports by referring both to the tariff duties of the age and to the concurrent doctrine of a favorable balance of trade, or for him to move freely among expressions of public officials, laws, economic tracts and discourses, and to suppose that because particular controls were exercised, like price fixing, they must have been justified in the economic writing of the time. No one, of course, would write of recent economic policy this way. It would be unthinkable to describe the New Deal by an indiscriminate reference to the works of Keynes and Hansen and to the public papers of Franklin D. Roosevelt and the private memoranda of Harry Hopkins and always to suppose that whatever the state did or wanted to do found its rationalization in economic doctrine.

When studies of mercantilism use a method of this kind, they

leave an impression with the reader that in many ways is distressingly wrong. He must be led to think that because the mercantilist states did not believe in the market as the mechanism for discharging the economic functions of society, the economists of the age held the same belief and were in favor of the intricate kind of regulation which was practiced. More indeed than this is implied. If the practitioners of mercantilism did not understand prices, money, foreign trade, and other matters, it follows that the economists also were wanting in a knowledge of these matters. Especially is it implied that the mercantilists did not understand the mechanism by which the economic problem is solved in a free society and that this knowledge was the signal discovery of classical economics. From this it must be concluded that the mercantilist writers were particularly deficient because they did not understand how the price system directs resources to particular employments and causes the product to be distributed in a certain way.

None of these impressions about mercantilist *doctrine*, as distinct from mercantilist *practice*, is correct. Yet they are unavoidable if the doctrine and the practice are thought to be parts of a unified system. It is the purpose of this essay to re-examine the ideas expressed by the mercantilist writers of England between about 1550 and 1750 in order to show that the mercantilists anticipated many important elements of classical economic doctrine, including the classical conception of self-interest, the price mechanism, the mutual advantage in exchange, and the place of the state in the economic organization. To this end, it is necessary first to explain that the objective of mercantilist doctrine was different from what it is usually thought to be.

Although I do not know that the doctrine has ever been interpreted as it will be here, a number of writers have in fact suggested that English mercantilism was not wholly mistaken, and that it was in some ways a necessary preliminary to classical economics. Marshall thought of it this way.¹ Viner is charitable to the later writings for their traces of free trade theory.² Keynes observed that the mercantilists' monetary theory was a valid effort to connect the money supply with the rate of interest.³ Heckscher clearly noted the mercantilist expressions in favor of a free market, even though he thought they were not sincere.⁴ Lipson contends that the mercantil-

1. Alfred Marshall, *Principles of Economics* (8th ed.), p. 755.

2. Jacob Viner, *Studies in the Theory of International Trade* (New York, 1937), pp. 74 *et seq.*

3. J. M. Keynes, *The General Theory of Employment Interest and Money*, p. 341.

4. Eli F. Heckscher, *Mercantilism* (London, 1935), II, 323.

ists ought not to be dismissed in quite the cavalier fashion in which it has been common to treat them.⁵ Edmund Whittaker finds evidences of individualism in the writings of some of them.⁶ Although none of these men came to the conclusion of this essay, and cannot be cited in any way to substantiate it, I mention their work in order not to appear to claim for my views more novelty than they actually have.

In what follows, the words "mercantilism" and "mercantilist" refer always to English doctrine and to the Englishmen who expressed it, and, except when explicitly stated, never refer to economic institutions, practices, historical circumstances, or the rulers or administrators of the age.

I

It is not in an obvious way that mercantilist and liberal economic policy are related. What indeed is obvious is the great difference between the measures which each proposed to advance its policy. The liberals wanted the functions of economic organization performed by a market which was as free as possible, and the mercantilists believed the functions would be performed better if the market were *controlled in certain ways*. However, there is another way to analyze mercantilist doctrine, different from the common one of comparing its proposed controls with the relative absence of control in liberal doctrine. It is to examine the presuppositions of mercantilist doctrine and to ask: What did the mercantilist writers believe was the objective of economic policy? What were their measures of control meant to achieve? The answer must be taken from diverse writings of a period covering some two centuries. In generalizing from them, there is the danger of supposing them to be more consistent than they actually are, just in order to make the question manageable. But the hazard is worth taking. Mercantilism was an important stage in the development of economic ideas, and a fresh approach to it may aid in making it more comprehensible.

Had the mercantilist writers been asked for an explicit statement of their objective, they undoubtedly would have said it was to create a strong and secure England. Although their motives were mixed (as most writers' are) the principal motive was the national interest. It was not this, however, which made mercantilism different from classical economics. The classical economists also were nationalists; they valued the political and military interest of England above all

5. E. Lipson, *A Planned Economy or Free Enterprise* (London, 1944), chap. 2.

6. Edmund Whittaker, *A History of Economic Ideas* (New York, 1943), pp. 141-42, 145-47.

things and were ready to sacrifice efficiency and even justice in return for greater national power. The title of Smith's work describes the purpose of his policy of laissez faire. The purpose of John Hales's policy is also indicated by the title of his work, written about 1549, *A Discourse of the Common Weal of This Realm of England*. Now the word "nationalism" is a piece of intensional language, and when applied to the economists, has to be shorn of its inflammatory connotation. They were not like Lord Copper, who stood for "strong mutually antagonistic governments everywhere, self-sufficiency at home, self-assertion abroad." Rather they were devoted to God, St. George, and particularly England.

What separated the mercantilists from the liberal economists was their different means of advancing the national interest. The mercantilists believed the latter required a prosperous, fully employed, and growing economy. The connection between power and wealth was expressed about 1548 in the *Pleasant Poeyse of Princelie Practise* by Sir William Forest:

For kings of their commons sometime must aid true.
The more therefore the public weal doth afflow;
The more is their wealth: this reason proveth now.

Among the conditions necessary for a growing economy the mercantilists cited: a brisk trade, adequate domestic spending, a proper wage and price structure, a particular distribution of income, an excess of exports over imports, a diligent and obedient working class, security of private property, the elimination of monopoly, the full utilization of agricultural lands, an adequate money supply, a low rate of interest, and the full employment of the labor force.

The greatest attention was given to the money supply, spending, and employment. Spending, or in today's language, effective demand, and employment were regarded as mutually determined: whatever changed one would change the other in the same direction. The money supply in some writings was made a determinant of spending while in others it was not directly related to spending. To most of the mercantilists, the condition of national prosperity was an amount of spending sufficient to maintain full employment, and these writers subordinated the accumulation of bullion and other methods of increasing the money supply to the position of determinants of spending. Full employment was taken to be a measure of the quantity of goods produced by the economy, and full employment was the economic objective of mercantilist policy, as distinct from its political objective which was national power.

The objective of full employment was expressed early in the

period of mercantilism by John Hales, who wrote that the state should adopt measures which would assure a "great plenty" of goods and that this required the employment in agriculture and the towns of all those able to work.⁷ At the time Hales' work appeared, there also appeared an anonymous tract called *Policies to Reduce This Realme Unto a Prosperous Wealth and Estate*, in which the author stated that foreign and domestic trade would be increased "if every laborer and artificer, and all other [of] the common people were well set at work."⁸ The mercantilist objective of full employment, its connection with a flourishing trade, and the importance of trade to the nation, were summarized by Edward Misselden in 1622:

And what has more relation to matters of state, than Commerce of merchants? For when trade flourishes, the King's revenue is augmented, lands and rents improved, navigation is increased, the poor employed. But if trade decay, all these decline with it.⁹

The importance of employment was expressed by William Petty (1662) in his familiar proposition that as the nation's population increased its wealth increased in greater proportion (on the assumption, it is clear, that employment increased as much or more than the population). He believed the state should take the greatest care to utilize the labor force and to keep its skills in order. If necessary the idle workers should be

employed to build a useless pyramid upon Salisbury Plain, bring the stones at Stonehenge to Towerhill, or the like, for at worst this would keep their mindes to a discipline and obedience, and their bodies to a patience of more profitable labours when need shall require it.¹

Petty's expedient was ridiculed sixty-six years later by the author of the anonymous *Considerations on the East India Trade*, but Petty's principle was accepted. The later author wrote:

A people would be thought extravagant and only fit for bedlam which with great stir and bustle should employ itself to remove stones from place to place.

Yet as a method of increasing employment, the later author held, such a shift was no more silly than the restricting of imports. If trade were free, "every individual man in England might be employed to

7. John Hales, *A Discourse of the Common Weal of This Realm of England*, ed. Elizabeth Lamond (Cambridge, 1893), pp. 59, 98.

8. *Tudor Economic Documents*, ed. R. H. Tawney and Eileen Power, III, 323.

9. Edward Misselden, *Free Trade, or the Meanes to Make Trade Flourish* (London, 1622), p. 4.

1. Sir William Petty, *Economic Writings*, ed. Charles Henry Hull (Cambridge, 1899), I, 31, 35.

some profit of the kingdom."² It is clear that the later author believed a wise economic policy sought to maximize the national output, which of course was exactly what Petty believed. Where their views differed was on the means of achieving the objective. The later author must have assumed that labor was mobile, or possibly that free trade would make labor mobile, and he then could argue that the greatest output requires the specialization which free trade provides. Petty, on the other hand, made no such assumptions, and therefore the maximizing of output seemed to him to require the full utilization of labor by whatever means were appropriate to the circumstances of the moment.

William Temple (1671) maintained that the riches of a nation were in its people and that they would add to the country's wealth in proportion to necessity's driving them to industry and enterprise.³ Nicholas Barbon (1690) believed that employment was more important than efficiency in consumption and in the use of resources.⁴ Josiah Child (1690) believed that the obstacles to greater national wealth were those which restricted free exchange and consequently reduced employment, and the reforms he submitted gave attention to increasing employment.⁵ Sir Dudley North (1691), who has been called one of the first free traders, wrote: "Commerce and trade, as hath been said, first spring from the labour of man, but as the stock increases, it dilates more and more." As trade expands, or "dilates," it "never thrives better than when riches are tossed from hand to hand."⁶ Charles Davenant (1695) reasoned that security of employment increased the industry of the worker, encouraged him to be thrifty, and thereby was favorable to economic growth.⁷ John Law (1720) argued that one of the main benefits of an increase in the money supply would be an increase in employment.⁸ Daniel Defoe in his famous defense of tradesmen (1732) held that the main benefit of trade was in the numbers it employed.⁹ John Cary (1745) believed

2. *A Select Collection of Early English Tracts on Commerce* (London, 1856), pp. 581, 582.

3. Sir William Temple, *Works* (Edinburgh, 1754), II, 59-60.

4. Nicholas Barbon, *A Discourse of Trade* ([London: 1690] *A Reprint of Economic Tracts*, ed. Jacob Hollander, Baltimore, 1905), p. 32.

5. Josiah Child, *A New Discourse of Trade* (5th ed.; Glasgow, 1751), pp. 54-56.

6. Sir Dudley North, *Discourses Upon Trade* ([London, 1691] *A Reprint of Economic Tracts*, ed. Jacob Hollander, Baltimore, 1907), pp. 25, 27.

7. Charles Davenant, *An Essay Upon Ways and Means of Supplying the War* (London, 1695), p. 143.

8. John Law, *Money and Trade Considered, with a Proposal for Supplying the Nation with Money* (London, 1720), p. 11.

9. Daniel Defoe, *The Complete English Tradesman, etc.* (London, 1732), II, 109, 111.

that the wealth of the nation was in the "labour of its people."¹ Josiah Tucker (1750) wrote that the country was the more prosperous, "the more persons there are employed in every branch of business."² Bishop Berkeley (1751), another mercantilist who was quite near the classical economists, argued that the satisfaction of wants is the ultimate objective of economic organization and that the complete and efficient employment of resources is necessary thereto.³ Malachy Postlethwayt (1759) reasoned that the satisfaction of individual wants required full employment and competition.⁴

The preceding summary is meant to show the importance of full employment in mercantilist policy. The writers indicated how important they felt it to be by their frequent assertion that the wealth of the nation depended on its "labor"; by the significance they attached to the size of the population; by the common statement that the advantage of trade was in the numbers it employed; by the grave concern expressed over the extent of unemployment, idleness, and poverty, in the numerous remedies by which these problems were to be eliminated and the productivity of labor was to be increased. Most of the measures of policy can be explained more simply and completely by assuming that full employment was the mercantilists' objective than by supposing that some other purpose directed their ideas.

It is, however, possible to assume that the amount of "trade" was the keystone of policy, if one uses the word, as the mercantilists usually did, to include *all* economic activity. Their designs for "a brisk trade" then become methods of assuring the maximum amount of productive effort which is what full employment is also meant to provide. But the word, "trade," has a narrower meaning in modern usage, denoting one aspect of the distributive process, and therefore its use can mislead one into thinking the mercantilists ignored manufacturing, agriculture, shipping, and other industries, which in fact they did not. Moreover, many of the mercantilists' ideas can be related more directly to the amount of employment than to the amount of trade (as their ideas about psychological motivation). Of course, the words "full employment" also can be misleading, but less so, I believe, than any others which can describe the objective of mercantilist policy.

1. John Cary, *A Discourse on Trade* (London, 1745), p. 82.

2. Josiah Tucker, *A Brief Essay on . . . Trade* (2d ed.; London, 1750), xii.

3. The Right Rev. George Berkeley, *The Querist* (Glasgow, 1751), Queries 46, 47, 168.

4. Malachy Postlethwayt, *Great Britain's Commercial Interest Explained and Improved* (2d ed.; London, 1759), II, 367, 370-71, 377.

The objective was not, as often supposed, the accumulation of bullion, a favorable balance of trade, the advancement of private interests, the subordination of the working class, low interest rates, the elevation of trade at the expense of other industries. Some of these considerations were means to the end of full employment; some were not entertained by the majority of writers at all. A few of the mercantilists may have confused money with wealth and so made bullionism an end. None of the considerations occupied as important a place in the doctrine as full employment did, and none serves so well to unify the particular measures of control which were proposed.

Once full employment is taken as the objective of mercantilist policy, that policy's difference from liberal policy narrows considerably. Although the difference is not eliminated, it is much less than if one supposes that the objective of mercantilism was, say, a favorable balance of trade, which the liberals never could have accepted as an end.

As many of the commentaries assume a favorable balance of trade to be the objective of mercantilist policy, it perhaps is necessary to explain why that view is not accepted in this essay. If this had been the mercantilists' objective, it is unlikely that they would have given much attention to the money supply, employment, spending, domestic trade, and to other matters which have only an indirect connection, if any at all, with a favorable trade balance. Moreover, they would have emphasized a restriction of imports at least as much as an increase in exports, since by either method a favorable balance could have been realized. One can try, of course, to explain away their doctrine by assuming they were ignorant and illogical. But this does them less than justice. It also leaves one puzzled over why later generations have studied what they said so closely, if they were merely unenlightened and unreasonable scribblers.

It is my opinion that their desire to maintain a favorable balance of trade was based on the assumption that England would be able to increase employment by exporting more than it imported — an assumption which is plausible in the short run. In the long run, the policy would have supported domestic employment if England had invested its net receipts abroad; and it is of interest that some mercantilists, like Thomas Mun (1630), recommended this practice. The favorable balance of trade doctrine is sometimes explained as a device to secure bullion, which, it is said, was thought to increase the national wealth. Since the mercantilists' monetary theory is explained below, it need only be said here that this was not the belief of most of them.

II

In order to achieve full employment, the mercantilists proposed a variety of measures. Most of the measures have often been called wonderful examples of what an economy should not undertake. However, they become sensible if related to the objective of policy. The measures can be grouped into those which affected: (1) the total spending of the economy, (2) prices, wages, and the distribution of income, (3) interest rates, and (4) the supply of labor. The measures in the first three groups were meant to increase employment mainly by increasing the demand for labor while those in the fourth group were meant to increase the labor supply.

(1) Most of the mercantilists believed the economy would prosper if there was the maximum amount of spending by individuals, business enterprise, and foreigners, to which Petty added the government. Although most mercantilists thought of spending on exports as the principal support of employment, some noted that spending in wholly domestic markets was also important. Petty noted that there were circumstances which justified public extravagance, because it put money into the hands of the tradesman; he did, however, think it more prudent for the state, whenever possible, to use its fiscal powers to direct spending to capital goods (or encourage investment).⁵ Barbon observed that covetousness (a high propensity to save) reduced consumption, income, government revenues, and employment. He submitted that the most powerful stimulant to trade, even though he thought it wasteful in itself, was spending on goods which quickly became obsolete.⁶ Defoe believed the economy prospered when consumers spent a large proportion of their income, although he urged the tradesman himself to be frugal in order that trade and employment would be secure.⁷ North was less concerned with the solvency of the tradesman than with the state of all trade, which, he said, will decline if "the consumption fails, as when men by reason of poverty, do not spend so much in their houses as formerly they did." Many of the mercantilists were alarmed by the hoarding of gold and silver, and showed their alarm by frequent aspersions on individuals who fancied "plate" and on those who were covetous. North deferred to the common view of hoarding to the extent of defending a miser by saying that even he spends occasionally and when he does "those he sets on work benefit by their being employed."⁸

5. Petty, *op. cit.*, I, 33, II, 269.

6. Barbon, *op. cit.*, p. 32.

7. Defoe, *op. cit.*, II, 118.

8. North, *op. cit.*, pp. 25, 27-28.

However, it was foreign trade more than domestic trade which interested the mercantilists, because they believed it contributed more to employment, to the nation's wealth, and to its power. The writers *after* 1600 stressed the inflationary effect of an excess of exports over imports and the consequent increase in employment produced by inflation. They reasoned that a favorable balance of trade brought gold and silver to England, that the greater money supply caused spending to increase, and that the greater spending would increase employment. Some viewed exports more directly and naively, thinking that greater exports meant greater employment. Few of the mercantilists distinguished carefully between the short- and long-run effects of a favorable trade balance, a deficiency, however, which would be more noteworthy if it were not that many of their critics also failed to make the distinction carefully.

In order to secure a favorable balance, the mercantilists proposed their familiar commercial policy: duties on imports, with rebates on raw materials used in making exports; the prohibition of certain imported goods; the removal of export duties; subsidies and other assistance to the export industries; monopoly grants to certain joint stock companies engaged in foreign trade; a prohibition of the export of coin and bullion; and an aggressive foreign policy by which England would help its exporters capture markets from their competitors.

The mercantilists who wrote *before* 1600 believed a favorable balance would enable England to accumulate bullion for war purposes. For this reason Hales regarded the export industries as most valuable to the nation, saying: "I would have them most preferred and cherished that bring in most commodity and treasure to the country," commodity and treasure being synonyms here.⁹

Not every one of the measures of policy noted above is proposed in all of the mercantilist writings. In some they even appear to be contradicted, especially the central idea that an increase in spending causes an increase in employment. For example, Temple was opposed to indiscriminate spending on consumption. Other writers deplored the taste for luxuries and urged their use be restricted. However, this kind of opposition to spending rested on one or more of three arguments, and each reveals that the mercantilists did, in fact, relate spending to employment and wished spending regulated in order that it would increase employment. Temple, like his con-

9. Hales, *op. cit.*, p. 127.

temporary, Petty, believed that England required more capital, and he urged less consumption out of income in order that there be greater spending on capital goods (which in turn would increase the productivity of labor). The mercantilists who opposed spending on luxuries did so partly because luxuries were imported and partly because their use by the working class reduced its willingness to work.

(2) The mercantilists' ideas about wages and prices were related to employment in four ways. One view was that wages determined export prices and the amount of exports, and hence determined spending and employment. Another was that the relationship between money wages and prices, or real wages, determined the distribution of income which in turn affected the amount of spending and employment. A third was that selling prices determined the amount of spending and employment. A fourth was that real wages determined the quantity of labor supplied.

Those mercantilists who regarded the net export balance as the chief determinant of employment usually favored a policy of low wages, reasoning that low wages meant low costs and prices and increased unit sales. Some writers, however, favored the opposite policy. Cary believed that high labor costs did not reduce exports. Arguing from the labor theory of value, he stated that the greater the amount of labor used in the manufacture of exports the greater their price would be and the greater the return in bullion from their sale, a viewpoint which assumed demand conditions different from those assumed by the mercantilists who favored low wages.¹ It was Mun who made clear the importance of demand conditions in the export market. He said that England should take care to keep its costs down in the manufacture of those exports for which foreigners had no great need (i.e., those for which the demand was elastic), and that England need be less concerned about high costs for those exports which foreigners found necessary (for which the demand was inelastic).²

Cary also favored high wages because he believed they supported employment in wholly domestic industries. He thought wage reductions would reduce spending on food and in turn the income of landlords.³ Of all of the mercantilists who believed the distribution of income determined spending and employment, it was Defoe who was most explicit:

1. Cary, *op. cit.*, p. 12.

2. Thomas Mun, *England's Treasure by Forraign Trade* (New York, 1928), p. 8.

3. Cary, *op. cit.*, pp. 96-102.

The consumption of provisions increases the rent and value of the lands, and this raises the gentlemen's estates, and that again increases the employment of people, and consequently the numbers of them. . . .

As the people get greater wages, so they, I mean the same poorer part of the people, clothe better, and furnish better, and this increases the consumption of the very manufactures they make; then that consumption increases the quantity made, and this creates what we call the inland trade, by which innumerable families are employed, and the increase of the people maintained; and by which increase of trade and people the present growing prosperity of this nation is produced.⁴

Berkeley expressed a similar idea in one of his rhetorical queries:

Whether as feed equally scattered produceth a goodly harvest, even so an equal distribution of wealth doth not cause a nation to flourish.⁵

Davenant and Postlethwayt also favored a more equal distribution of income or of wealth.⁶

A policy of high real wages implies a policy of low prices for any given money wage structure. Therefore one should think that these mercantilists were not averse to price reductions. Many, however, were. Defoe was opposed to price cutting because he believed it damaged the interests of the tradesman who by his central position in the economy had greatest influence on the amount of employment. Defoe, in fact, seems to have wanted high prices *and* high wages, and the difficulty of having both does not seem to have troubled him. He proposed that wages be kept high by the tradesman's avoiding all practices which would reduce the amount of labor required in enterprise. "There is a maxim," he said, "that the more hands it [trade] goes through, the greater public advantage it is to the country." In order to maintain high prices, he proposed that production be restricted if necessary:

There is another fundamental in the prosperity of a nation, which will never fail to be true, viz., that no land is fully improved until it is made to yield its utmost increase: But if our lands should be made to yield their utmost increase, and your people cannot consume the increase, or foreign trade take it off your hands, 'tis then no increase to us, and must not be produced; so that the lands must be laid down, that is to say, a certain proportion of them, and left to bear no corn, or feed no cattle, because your produce is too great for your consumption.⁷

This idea was revived about thirty years later by Postlethwayt, and from it he developed the notion of maintaining the spending power of farmers by fixing the prices they received in a particular proportion

4. Defoe, *op. cit.*, I, 318-19.

5. Berkeley, *op. cit.*, Q. 214.

6. Davenant, *op. cit.*, p. 103. Postlethwayt, *op. cit.*, II, 389.

7. Defoe, *op. cit.*, II, 109, 115-16.

to nonagricultural prices, a notion which contained the rudiments of parity pricing.⁸ About a century prior to Defoe, Gerard Malynes (1656) wrote that the national interest required high prices.⁹ Still earlier, Hales wrote that spending should be directed to high-priced domestically produced goods in preference to lower-priced imports, although he believed the price *level* was too high and should be reduced by lowering the price of silver.¹

The mercantilist attachment to high prices came of the inflationary persuasion common to most of them after 1600. (Before 1600, there were several proposals to increase the silver content of the coin, which, it was believed, would have been deflationary.) They seem to have observed that unemployment was accompanied by declining prices and severe price competition. They probably reasoned that in order to keep the economy prosperous prices had to be kept high, by means of maximum spending supported by an adequate money supply. Misselden wrote:

And it is much better for the kingdom, to have things dear with plenty of money, whereby men may live in their several callings: than to have things cheap with want of money, which now makes every man complain.²

It is important to note that it was by monetary means that most mercantilists believed prices should be raised and supported. Almost all of them were opposed to raising prices by a monopolistic organization of the market. Although this device would have raised prices it also would have reduced employment, or at least would have made full employment more difficult to achieve. As the mercantilists were strongly against monopoly, they were much in favor of competition. How they conceived of competition is explained below, but it is in order here to note what they thought was the effect of competition on prices, wages, and employment.

Child believed that competition in domestic and foreign markets, including free entry into all occupations, would increase employment and the national wealth.³ Tucker reasoned that a free price system within wholly domestic markets would produce greater employment than any other system.⁴ Similar ideas were expressed by the author of the anonymous *Policies, etc.*, by Hales, Malynes, Petty, Barbon,

8. Postlethwayt, *op. cit.*, II, 405.

9. Gerard Malynes, *Consuetudo, vel, Lex Mercatoria: Or the Ancient Law Merchant* (London, 1656), p. 65.

1. Hales, *op. cit.*, p. 67.

2. Misselden, *op. cit.*, p. 107.

3. Child, *op. cit.*, pp. 54-56, 127.

4. Tucker, *op. cit.*, p. 83.

North, Davenant, Berkeley, and Postlethwayt.⁵ In view of the common belief that the mercantilist writers supported the mercantilist practice of price fixing, it is interesting to note the observations of the author of *Policies, etc.*, about the fixing of food prices in London in the first half of the sixteenth century. It was his view that price fixing reduced the supply of farm products brought to London and thereby made worse the condition it was meant to alleviate. He wondered how anyone could believe "this present dearth of victual may be redressed by setting prices upon victual," and continued: "but surely it is not the setting of low prices that will anything amend the matter. But it must be the taking away of the occasion of high prices," which was, he said, the small supply of goods. The author observed also the inconvenience experienced by buyers. When prices are set below their market value, "what throng and strife is there then like to be who shall first catch upon that which cometh." He concluded that it is much better "to suffer all kind of persons quietly to sell all kind of victual in the market at what price he can."⁶

Another argument advanced for a free market was its salutary effect on the laboring classes. Postlethwayt believed that competition among workers forced them to be efficient, responsible, and enterprising, and that it lowered wages.⁷ The mercantilists holding this view associated low wages with competition and high wages with restrictions on the labor supply, such as apprenticeship and journeymen rules. They argued for a market determination of wages and not, as sometimes asserted, for the subordination of the working class. There were mercantilists who did believe the workers should be disciplined in order that the amount of labor offered for sale would be increased. Petty and one of his eighteenth century admirers, Thomas Man (1739), argued that as real wages exceeded a certain amount the quantity of labor supplied decreased and therefore if the maximum amount of effort was to be obtained real wages should not exceed this amount.⁸

(3) In addition to achieving full employment by measures related to spending and to wages and prices, some of the mercantilists wished to use the rate of interest for this purpose. There was more agreement

5. Hales, *op. cit.*, p. 60. Gerard Malynes, *The Maintenance of Free Trade* (London, 1622), p. 79. Petty, *op. cit.*, I, 9, II, 243. Barbon, *op. cit.*, p. 16. North, *op. cit.*, p. 12. Davenant, *op. cit.*, pp. 56-60. Berkeley, *op. cit.*, Q. 47. Malachy Postlethwayt, *The Universal Dictionary of Trade and Commerce* (London, 1774), cap. "Forestalling," "Engrossing," "Regrating."

6. Tawney and Power, *op. cit.*, III, 340, 342.

7. Postlethwayt, *Great Britain's Commercial Interest, etc.*, II, 425.

8. Petty, *op. cit.*, I, 274-75. Thomas Man, *The Benefit of Procreation* (London, 1739), pp. 20-21.

about the rate of interest than about the correct wage and price policy but less than about the importance of adequate spending. Those who wished to use the interest rate believed a low rate would enable the merchant to increase his inventories, that it would lower the price of exports, and that both these effects would in turn cause an increase in employment. Those who favored a low rate included Misselden, Malynes, Temple, Barbon, Child, Law, and the author of *Britannia Languens* (1680).⁹

Except for Barbon who proposed a maximum rate of three per cent to be fixed by law, these mercantilists favored indirect means of reducing the rate. Most believed that the development of financial institutions, like banking and the money market, would exert a downward influence on the rate. One of the most interesting ideas held that the rate varied inversely with the money supply and was expressed by Misselden, Malynes, and Law. According to Misselden "The remedy for usury may be plenty of money," and Malynes wrote of "the abundance of money which maketh the price of usury to fall, more than any law or proclamation can ever do."¹ Law wrote:

... indeed, if lowness of interest were the consequence of a greater quantity of money, the stock applied to trade would be greater, and merchants would trade cheaper, from the easiness of borrowing, and the lower interest of money, without any inconveniences attending it.²

(The "inconveniences" are those of usury laws.)

This view of the interest rate was not wholly shared by Petty and North. Petty conceded that an increase in the money supply would lower the rate on loans, but he was averse to this sort of manipulation, probably because he believed that as many economic matters as possible should be regulated by "the laws of nature," by which he seems to have meant a free market. He held that the interest on a sum of money at loan must be equal to the net rent which the same sum would yield if used to purchase land, except where the risk in the two transactions differed.³ This implies that the money rate of interest must conform to the real rate and can fall only as the productivity of capital declines. This was a long-term view which does not preclude the possibility of short-term differences between the two rates. There was, therefore, no neces-

9. Misselden, *op. cit.*, pp. 29-30. Malynes, *The Maintenance of Free Trade*, p. 39. Temple, *op. cit.*, I, 129. Barbon, *op. cit.*, p. 41. Child, *op. cit.*, p. ix. Law, *op. cit.*, p. 17. *Early English Tracts*, p. 318.

1. Misselden, *op. cit.*, p. 117. Malynes, *The Maintenance of Free Trade*, pp. 39-40.

2. Law, *op. cit.*, p. 17.

3. Petty, *op. cit.*, I, 48, II, 445.

sary contradiction between Petty's theory and the conventional one (although the mercantilists themselves might very well have insisted there was). North, too, believed the long-run determinant of the interest rate was the productivity of capital and that the rate could fall only as the "stock in trade" (capital) increased. A low rate was therefore the consequence of an increase in the quantity of capital and not the cause of the increase. North was strongly opposed to regulating the rate by altering the money supply, believing that the money supply adjusted itself to the volume of trade rather than determined it. He also was opposed to usury laws, which he believed would decrease the quantity of loans supplied.⁴ One can observe that the proponents of a low rate based their argument on the assumption that a decrease in the rate would increase the quantity of loans demanded while North argued from the assumption that a decrease in the rate would decrease the quantity of loans supplied. Neither seemed to want to consider the other's premises, and so it is not surprising that the debate was inconclusive.

In addition to believing that it determined the rate of interest, there were two other reasons why the mercantilists attended so closely to the money supply. One was the belief that for any given amount of trade there was an appropriate supply of money and that as the supply increased there would be an increase in trade and employment. In this conception, a change in the money supply was thought to operate directly on spending rather than indirectly through changing the interest rate. It happens that Law used both ideas to support his scheme for increasing the money supply. About the direct effect of an increase he wrote:

Domestic trade depends on the money: A greater quantity employs more people than a lesser quantity. A limited sum can only set a number of people to work proportioned to it, and it is with little success laws are made, for employing the poor and idle in countries where money is scarce; good laws may bring the money to the full circulation it is capable of, and force it to those employments that are most profitable to the country: But no laws can make it go further, nor can more people be set to work, without more money to circulate so as to pay the wages of a greater number.⁵

The argument assumes a downward rigidity of prices such that a decrease in the money supply, by causing less spending, produces a decrease in employment and output.

The other reason for the mercantilists' attention to money was the belief that an accumulation of bullion could be desirable in itself.

4. North, *op. cit.*, pp. 17-19.

5. Law, *op. cit.*, p. 11.

Those who held this belief included Hales, Temple, Cary, and Tucker, the last of whom said:

... the whole science of gainful commerce consists, ultimately in procuring a balance of gold and silver to ourselves from other nations.⁶

This has been taken to mean, by Smith and John Stuart Mill for example, that the mercantilists believed money was wealth and that they made no distinction between things exchanged and the medium by which they were exchanged. Some of the mercantilists may have believed this, but it is very doubtful that many did. Hales observed that accumulation was desirable because treasure was the "sinews of war."⁷ Petty believed that the nation should accumulate gold and silver,

because those things are not only not perishable, but are esteemed for wealth at all times and everywhere.⁸

The statements of Hales and Petty do not imply that a nation should accumulate specie because it is wealth but because it is a store of wealth. Even Mun, who has come down to us as one of the first to expose the fallacy of bullionism, conceded there were circumstances in which a prince would be wise to lay by a store of treasure. It is debatable whether the accumulation of bullion would have given England a more certain command over the goods of other nations than would its commodity exports. However, the mercantilists assumed that it would, and in this assumption, however unrealistic or otherwise, there was no logical confusion of money with wealth. Nor was there in the alternative conceptions which related the money supply to the rate of interest and to spending. Moreover, when it is realized that some of the mercantilists were opposed to accumulation, or to restrictions on the export of bullion and coin, there is no warrant at all for stating that the characteristic fallacy of mercantilism was the confusion of money with wealth. North and Berkeley were opposed to accumulation; Child opposed restriction of the export of coin because he thought it reduced employment, and Petty because it was "against the laws of nature, and also impracticable."⁹

(4) There was a final group of measures by which the mercantilists meant to increase employment. It consisted of means of increasing the quantity of labor supplied (the relationship of real wages

6. Temple, *op. cit.*, I, 131-32. Cary, *op. cit.*, p. 2. Tucker, *op. cit.*, p. iii n.

7. Hales, *op. cit.*, pp. 87, 127.

8. Petty, *op. cit.*, I, 269.

9. Mun, *op. cit.*, p. 66. North, *op. cit.*, pp. 25-26. Berkeley, *op. cit.*, *passim*. Child, *op. cit.*, p. 55. Petty, *op. cit.*, II, 445.

to which was explained above), of increasing the labor supply, and of increasing the productivity of labor. That the mercantilists looked at employment from the supply as well as demand side of the market indicates their policy sought to increase the quantity of resources and was not a make-shift for creating jobs.

Their methods of increasing the labor force are harsh by today's standards and often are interpreted as revealing an animosity toward the lower classes. Those who interpret the mercantilists this way usually imply that the classical economists had a more enlightened view of the working class.¹ Certainly more sympathy was expressed by the classicists; there was less carping, less preaching of the early-to-bed, early-to-rise variety, and there was more tolerance of distinctively human behavior. But when all this is said, there still remains the fact that the classical economists did not make any important proposals to redistribute income or otherwise to ameliorate the condition of the lower classes except to urge that the best hope for them, as for all other classes, was the steady growth of national output, a goal which the mercantilists just as persistently sought although by somewhat different means.

Actually, most of the mercantilist labor policy came from the assumption that self-interest governs individual conduct, an assumption as fully entertained today as it was two and three hundred years ago. The principle which directed the mercantilists to believe that the unemployed should receive only a subsistence allowance is no different from that which leads modern economists to believe unemployment compensation should be set much below prevailing wages in order that the idle shall not come to prefer leisure to work. The point was made very clear by J. S. Mill who argued that the best way to treat the poor is to make them wish they were rich.

The mercantilist labor policy consisted of measures to increase the population; to increase the size of the labor force within a given population, in numbers of workers and in the amount of work supplied by each laborer; and to increase the productivity of the labor force. In order to increase the population some writers proposed that subsidies be given to large families; and occasionally they attached the ingenious scheme of financing the subsidies by a tax on bachelors (which makes one wonder what would have happened had the subsidies been successful). Other methods were to encourage the immigration of skilled workers and tradesmen which, it was believed, would be easier if there were greater religious tolerance. The percentage

1. See Edgar J. Furniss, *The Position of the Laborer in a System of Nationalism* (Boston, 1920).

of the labor force to the total population was to be increased by bringing children into employment. Petty estimated that if all those between six and sixteen were employed the national income of England would be increased by five million pounds (about the year 1662).² Almost all mercantilists considered ways of bringing more persons into the labor force. They wished to reduce the enlistments in the army and navy and to direct men into gainful employment, to turn criminals to legitimate activity, and, above all, to rehabilitate the poor and indigent whom circumstances or choice had deprived of the will to work.

Petty held that enlistments could be reduced by raising wages in civilian employments.³ The unemployed were to be rehabilitated by work houses into which they were to be forced on pain of receiving no public assistance whatever and in which they would learn the virtue of work. More severe treatment was thought proper for criminals who, it was believed, had to be shown that crime was not to their interest. Temple thought the forms of punishment should be made more lasting, and he proposed "to change the usual punishment by short and easy deaths, into some others of painful and uneasy lives," a change which involved branding the cheeks of criminals, slitting their noses, and condemning them to slavery in the colonies.⁴ Berkeley believed that all who would not work should be impressed into labor gangs and used for public projects.⁵ However, not all mercantilists were as ruthless. Child pleaded for understanding and patience. He proposed a reconstruction of the system of providing relief to the poor in order to help them and to demonstrate to others that the lower classes were an asset and not a liability to the nation.⁶

In order to increase the amount of work offered, it was proposed that the state remove the many distractions which kept the workers from being industrious. Drinking was the first to be attended to. According to Defoe:⁷

In English ale their dear enjoyment lies,
For which they'll starve themselves and families.
An Englishman will fairly drink as much
As will maintain two families of Dutch.

2. Petty, *op. cit.*, I, 308.

3. Petty, *op. cit.*, I, 23.

4. Temple, *op. cit.*, II, 380-81.

5. Berkeley, *op. cit.*, Q. 381.

6. Child, *op. cit.*, chap. 2.

7. Daniel Defoe, *True Born Englishman in Essays and Studies by Members of the English Association*, collected by C. H. Herford (Oxford, 1913), IV.

Tucker would have done away with cockpits, skittle-alleys, stages for cudgel playing, making book on horse races, the selling of liquor, cakes, fruit, "or any like temptations to draw people together" and away from their jobs.⁸ Other mercantilists asked for sumptuary control, because they thought the wearing of ribbons and ruffles and the drinking of tea made workers prideful and lazy. It is interesting that such proposals hardly ever expressed the fear of insubordination turning into sedition. It was sloth which alarmed the mercantilists.

For the purpose of increasing labor productivity, it was proposed the workers be shown that industry, skill, and enterprise were to their advantage. Rewards were to be given for excellence of work, some in money, some in the form of distinction. Industrious and skilled immigrants were to be attracted to England in order to set an example to native workers. Children were to be trained to the habit of work from an early age, and older persons were to be shown in a variety of ways the rewards from industry. In his program for improving the poor, Tucker asked that courts be formed in each district to supervise the working class, each court to be presided over by "Guardians of the Morals of the Manufacturing Poor." By precept, inducement, and punishment, the poor would be transformed into a national asset. One of the rewards was to be "a good book" stamped in gold on one side with "The Hand of the Diligent Maketh Rich" and on the other, "To the Praise of Them that Do Well."⁹

The labor policy of the mercantilists was a logical derivation of their economic psychology. Almost all believed there were three factors which directed individuals to economic activity: the stimulus given by physical environment, the desire of men to emulate their betters (a desire partly created by social environment), and the eagerness for pecuniary rewards. It was believed that men were the more industrious, the more difficult were the conditions in which they lived: the climate, soil fertility, the national wealth in relation to the population. The less favorable was their environment, the more likely they were to become rich. Temple wrote:

I conceive the true and original grounds of trade to be, a great multitude of people crowded into small compass of land, whereby all things necessary to life become dear, and all men, who have possessions, are induced to parsimony; but those, who have none, are forced to industry and labour, or else to want. Bodies that are vigorous fall to labour; such as are not, supply that defect by some sort of inventions or ingenuity. These customs arise first from necessity, but increase by imitation, and grow in time to be habitual in a country.¹

8. Tucker, *op. cit.*, pp. 53 ff.

9. Tucker, *op. cit.*, p. 57.

1. Temple, *op. cit.*, I, 119.

Postlethwayt summarized the idea by saying, "The greatest industry has ever been the effect of the greatest necessity."²

The second factor which made men industrious was their desire to emulate those above them in social position and income. Petty wrote that men always seek to excel, and when placed together, as in large cities, their emulative instinct becomes all the keener, evoking their industry, increasing spending, and providing opportunity for still greater industry.³ Other writers, like Defoe, doubted the beneficence of emulation, believing it often made men imprudent, but they admitted the motive was a strong one.⁴

The third factor was the desire for monetary returns. It was thought to be the principal cause of industry, and that the greater were the money returns from a particular employment the greater usually would be the quantity of resources supplied to that employment. The idea was expressed quite early and repeated down to the end of the mercantilist period when it was carried forward by the classical economists in their doctrine of self-interest. Hales wrote that "profit or advancement nourishes every faculty; which saying is so true, that it is allowed by the common judgment of all men."⁵ The idea was expressed by other mercantilists, among them Petty, North, Davenant, and Defoe, the last of whom said, somewhat prodigally:

Gain is the tradesman's life, 'tis the essence of his being, as a qualified tradesman. Convenience, and supply of necessary things for life, were the first causes indeed of trade; but the reason and end of the tradesman is to get money: 'Tis the polestar and guide, the aim and design of all his notions; 'tis the center and point to which all his actions tend; 'tis the soul of business, the spur of industry, the wheel that turns within all wheels of his whole business, and gives motion to the rest.⁶

What Defoe said of the tradesman (and Lamb described more economically as "the quick pulse of gain") was believed true of all in the economy and true in a special way of the worker. An increase in real wages would be accompanied by an increase in the quantity of labor supplied until real wages reached a certain amount, and if they went beyond this amount the quantity of labor supplied would decrease. The mercantilists who thought of the labor supply function in this way believed that pecuniary self-interest had less of an effect

2. Postlethwayt, *Great Britain's Commercial Interest, etc.*, II, 367.

3. Petty, *op. cit.*, I, 32.

4. Defoe, *The Complete English Tradesman*, I, 56.

5. Hales, *op. cit.*, p. 57.

6. Petty, *op. cit.*, I, 48. North, *op. cit.*, p. 13. Davenant, *op. cit.*, p. 109. Defoe, *Complete English Tradesman, etc.*, II, 79-80.

on the worker than on others in the economy; or that before the pecuniary motive could operate effectively the worker had first to become accustomed to high real wages. It had, therefore, to be reinforced by other factors. One was emulation. This trait could be exploited by placing before the working man the rewards which others had acquired by their industry, and so developing his wants. Wants, however, had to be guided prudently, for they could turn men toward the ale houses as well as the shops and factories. Most certain of all conditions leading them to industry was environment. If the poor could not be brought to gainful activity by monetary rewards or enticed to it by the desire to excel, they could be forced to it by necessity. Moreover, as Temple explained, the habits they formed while overcoming necessity would remain with them, and they would continue to be industrious when the original cause had disappeared.

III

In these observations on individual motivation, the mercantilist writers anticipated the economic psychology in classical doctrine. In addition, they anticipated two other of its important features: the nature of the price mechanism and the political presuppositions of economic policy.

It was the classical view that self-interest operating in a competitive market directed resources to their most efficient employments and enabled individuals to spend their income in a way which would maximize their satisfaction as consumers. Whatever interfered with the operation of self-interest, as it directed the choices of individuals in their capacity as producers or consumers, usually reduced the efficiency of the economy or, what is the same thing, its real income. The classicists did make exceptions to *laissez faire*, some of them insistent, but *laissez faire* was certainly their rule of policy. So great was their emphasis on the efficiency of resource use which the market created that one must suppose they believed the market would provide for the full employment of resources as well as their direction to the best particular uses. Apart from Malthus and Sismondi, none of the classicists admitted a conflict between efficient employment and full employment.

The mercantilists' conception of the price mechanism was similar to that of the classicists on these matters: the directive power of self-interest (that is, its economic as well as psychological aspect); the determination of prices by supply and demand; the desirability of competition; and the mutual advantage of exchange in domestic

markets. The mercantilists, however, did not believe that universal efficiency could be established by the price system; they did believe that a limited operation of the system was desirable. They also held a qualified notion of the harmony of self-interest. On the issue of full employment, there was the greatest difference between the mercantilists and the classical economists. It was the mercantilist view that free international trade would reduce employment, that inattention to the monetary system would have the same result, and that a highly unequal distribution of income could reduce spending which in turn would reduce employment.

From the mercantilist conception of self-interest followed the belief that under certain conditions the free allocation of resources would yield the greatest possible efficiency and employment. It is noteworthy that the mechanics of the price system should have been explained by one of the earliest writers, Hales, and it is especially interesting that he should have suggested that the idea was a common one in his age. His work is a dialogue between a doctor and a knight. At one point they consider the best means of eliminating the scarcity of corn, and the doctor says its price should be free to find its market value just as the price of wool is free.

Knight: How would you have them [the husbandmen] better cherished to use the plough?

Dr: To let them have more profit from it than they have, and liberty to sell it at all times, and to all places, as freely as men do their other things. But then no doubt the price of corn would rise, specially at the first more than at the length; yet that price would provoke every man to set plough to the ground, to husband waste grounds, yes to turn the lands which be enclosed from pasture to arable land; for every man will gladder follow that wherein they see the more profit and gains. And thereby must needs ensue both great plenty of corn, and also much treasure should be brought into this realm by occasion thereof; and besides that plenty of other victuals increased amongst us.⁷

If these remarks were taken out of context, they easily could be interpreted as an argument for the unrestricted operation of the price system. That "every man will gladder follow that wherein they see the more profit and gains" is in agreement with Smith's statement that "every individual is constantly exerting himself to find out the most advantageous employment for whatever capital he can command."⁸ Hales also anticipated the classical economists in his statement that "the workman never travails but as the master provokes him with good wages"; in his belief that the common

7. Hales, *op. cit.*, p. 59.

8. Adam Smith, *The Wealth of Nations*, ed. Edwin Cannan (New York, 1937), p. 421.

ownership of capital is less productive than individual ownership — “that which is possessed of many in common is neglected of all”; and in his conviction that many forms of economic control are ineffective before the power of self-interest — “for many heads will devise many ways to get anything by.”⁹ So long as only the positive aspects of Hales’ ideas are compared with those of Smith, the two writers are in agreement. Both held the same view of the fact of self-interest and of its power to direct labor and capital to their most profitable uses. The agreement is implied in the above passages and it is clear when the passages are placed in their context. About the normative aspect, however, there was disagreement, and this is explained farther along.

Many of the mercantilists explained how prices are determined by supply and demand. Malynes, in a passage arguing against the fixing of prices by the state, wrote:

Everyman knoweth, that in the buying and selling of commodities there is an estimation and price demanded and agreed upon between both parties, according to a certain equality in the value of things, promoted by a true reason grounded upon the commodious use of things. So that equality is nothing else but a mutual voluntary estimation of things made in good order and truth wherein equality is not admitted or known.¹

This statement actually goes beyond an expression of the fact of supply and demand. It suggests that utility is the basis of value (“commodious use”), that utility is a subjective magnitude (“estimation . . . wherein equality is not admitted or known”), and that there is an advantage in exchange to both buyer and seller (“a mutual voluntary estimation of things”).

The words “true reason” have a special significance, both for Malynes statement and for the doctrine of other mercantilists. In the quotation above, true reason should be interpreted to mean accurate perception or understanding, which makes the statement an expression of the idea that price or value is determined by individual evaluation and that this evaluation is the only true kind. It is the idea that individuals are the best judges of their welfare. Malynes again remarked on true reason in his exposition of the Law of Merchants, which, he said, was the only law that was universal and absolute, the same everywhere and at all times, and that it had its origin in Cicero’s conception of true law as right reason agreeable to nature.² Malynes’ remarks anticipate the conception of natural

9. Hales, *op. cit.*, pp. 46, 49, 99.

1. Malynes, *Consuetudo, etc.*, p. 67.

2. Malynes, *Consuetudo, etc.*, p. 2. Cicero, *De officiis* (trans. C. W. Keyes), I, 4.

law held by the classical economists. They identified natural law with reason and made reason an individual trait, which was in contrast to conceptions of natural law that made reason an immanent quality of social institutions or of a supernal power. The doctrine suggested by Malynes was the doctrine of natural rights or of individual prerogatives which are beyond the power of the state or of society to abridge. It was first enunciated by the Stoics, was applied to social philosophy by Cicero, and then was allowed to lapse for many hundreds of years until it was returned to social thought by the philosophers of liberalism in the seventeenth century.³ That which Malynes incorporated in economic policy, if only by intimation, was not natural law, *sui generis* — this had been done when economic problems first were recognized — but that particular version of natural law which was the touchstone of political and economic liberalism.

The practical result of the natural rights doctrine was a policy of individual economic freedom. Petty, for example, argued against the many economic controls imposed by the state, and attributed England's difficulties to the fact that "too many matters have been regulated by laws, which nature, long custom, and general consent ought only to have governed." Positive laws, he stated, should consist of "whatsoever is right reason and the Law of Nature," a statement which is best interpreted by placing the word, "therefore" before "the Law of Nature," since Petty did not make a substantive distinction between reason and natural law.⁴

As they believed prices ought to be determined by supply and demand, most of the mercantilists were opposed to price fixing and to many other forms of market control. Barbon stated that "the value of all wares arises from their use," that a "plenty" of wares makes them cheap, while a "scarcity" makes them expensive. He concluded, "the market is the best judge of value."⁵ North asserted the "universal maxim" of price is that a "plenty of anything makes it cheap," on the assumption that demand is constant.⁶ Law stated that the price of a commodity is determined by the quantity offered for sale in relation to the demand, and that as the quantity offered increases, the price or value declines. He illustrated the point most interestingly by water and diamonds, explaining that diamonds were more valuable than water, despite the greater "usefulness" of the

3. See my study of the elements of Stoicism in liberal economic doctrine, "The Moral Hero and the Economic Man," *Ethics*, LXI, 2.

4. Petty, *op. cit.*, I, 9, II, 243.

5. Barbon, *op. cit.*, pp. 13, 16.

6. North, *op. cit.*, p. 34.

latter, because the quantity supplied of diamonds was less than that of water. This paradox was noted independently by Smith, about fifty years later, and illustrated by the same commodities, but he did not as explicitly resolve it as Law did.⁷ Berkeley expressed the principle of price determination in one of his queries:

Whether the value or price of things, be not a compounded proportion, directly as the demand, and reciprocally as the plenty?⁸

The opposition to market control was made explicit by Child, who presented a list of nine laws which he said were impediments to trade and employment. Included were laws which prohibited the export of coin, raised the price of exports, reduced the price of beer, forbade engrossing ("there being no more useful trade in a nation"), and limited the supply of labor by restricting entry into skilled trades. He stated:

It is the care of law makers first and principally to provide for the people in gross, not particulars.⁹

Davenant expressed the same conclusion:

Trade is in its nature free, finds its own channel, and best directeth its own course: and all laws to give it rules and directions, and to limit and circumscribe it, may serve the particular ends of private men, but are seldom advantageous to the public.¹

Petty (as noted above) believed that economic relations among individuals should be directed by "whatsoever is right reason" and not by the state. Of all the mercantilists, North endorsed free exchange most thoroughly:

Now it may appear strange to hear it said,

That the whole world as to trade, is but as one nation or people, and therein nations are as persons.

That the loss of a trade with one nation, is not that only, separately considered, but so much of the trade of the world rescinded and lost, for all is combined together.

That there can be no trade unprofitable to the public; for if any prove so, men leave it off; and wherever the traders thrive, the public, of which they are a part, thrives also.

That to force men to deal in any prescribed manner, may profit such as do happen to serve them; but the public gains not, because it is taking from one subject, to give to another.

That no laws can set prizes in trade, the rates of which must and will make

7. Law, *op. cit.*, p. 4. Smith, *op. cit.*, p. 28.

8. Berkeley, *op. cit.*, Q. 24.

9. Child, *op. cit.*, pp. 55-56, 80.

1. Davenant, *An Essay on the East India Trade*, quoted by Whittaker, *op. cit.*, p. 147.

themselves: but when such laws do happen to lay hold, it is so much impediment to trade, and therefore prejudicial.²

The mercantilist conception of free exchange had a political as well as economic aspect, and both anticipated the ideas of the classical economists. Although the mercantilists differed about the origin of government they agreed upon the extent of its powers, which, they said, should be limited by law; and the consequent economic liberty would be favorable to the growth of the economy. Temple said the economy could prosper "under good princes and legal monarchies, as well as under free states" and that it must decline under a "tyrannical power," "free states" here meaning republican governments.³ The words also were used to mean any form of government whose power was limited, as when Barbon wrote that trade could flourish only in a "free government," of which a constitutional monarchy was one form. "Men are most industrious where they are most free and secure to enjoy the effects of their labours," he stated.⁴ In its economic application, the doctrine of limited power meant that regulation of the market should be minimized and made to apply uniformly to all persons and trades. "All favor to one trade or interest against another, is an abuse, and cuts so much of profit from the public," North observed.⁵

As among the classical economists, there was among the mercantilists considerable disagreement about the foundation of government. Some mercantilists insisted, as Hume did later, that the authority of government rested upon the "greatest and strongest" among the people. This was Temple's conception. Others, Defoe among them, accepted the contract theory of government which then enjoyed its eminent hour. But these differences did not lead to disagreement over the proper structure of government. The mercantilists were united in opposing absolute rule by a single individual and unlimited rule by the people, and the opposition to both autocracy and democracy came of a profound distrust of power per se. Temple wrote:

Many men are good and esteemed when they are private, ill and hated when they are in office . . . and many men *come out*, when they *come into* great and public employments.⁶

Barbon and Davenant were forcible in advocating constitutional

2. North, *op. cit.*, p. 13.

3. Temple, *op. cit.*, I, 121.

4. Barbon, *op. cit.*, pp. 27-28.

5. North, *op. cit.*, p. 14. See, however, Philip W. Buck, *The Politics of Mercantilism* (New York, 1942).

6. Temple, *op. cit.*, II, 366.

procedures, asserting that only by these means could the liberty of the individual be secured.⁷

Their opposition to democratic government did not make the mercantilists uncritical apologists for an aristocracy; and they disapproved of many of the grosser forms of illiberalism which they saw about them. Most of them were opposed to religious intolerance, and insisted upon the practicability of allowing each person to seek his salvation in his own way. Defoe was very critical of the ruling classes, believing their attitude toward trade was an obstacle to economic progress. *The Complete English Tradesman*, parts of *The Complete English Gentleman*, and the parabolical meaning of *Robinson Crusoe* can be read as an effort to persuade the aristocracy of the national value of trade and the tradesman. Other mercantilists wrote persuasively of the usefulness of the tradesman and of the wisdom of giving him greater political power and a higher social position.

IV

The ideas of politics and of the price mechanism have a curious relation to the economic policy which the mercantilists advanced. If one read only their expressions about economic and political liberty, one easily could conclude that their policy must be *laissez faire*. If, on the other hand, one looked only at the measures of control they proposed, one would have great doubts of their *laissez faire*. There is a paradox in the mercantilists' anticipating many of the positive and some of the normative elements of classical economics and at the same time proposing a policy quite different from the classical policy. The mercantilists were reluctant to follow the principle of freedom to all of the practical results which they thought it would bring, and, it is equally clear, they were reluctant to modify their ideas of liberty in order to achieve the practical results they wanted.

It is illuminating to compare the ideas of Hales and Smith on the normative aspects of free exchange. When Smith observed that each individual always tries to discover "the most advantageous employment for whatever capital he can command," he concluded that the "study of his advantage naturally, or necessarily, leads him to prefer that employment which is most advantageous to society." Hales did not think this would always be so. In another colloquy, it is said:

7. Barbon, *op. cit.*, p. 20. Davenant, *An Essay on Ways and Means, etc., passim*.

Knight: Every man is a member of the commonweal, and that that is profitable to one may be profitable to another, if he would exercise the same feat. Therefore that is profitable to one, and so to another, may be profitable to all, and so to the commonwealth. . . .

Dr: That reason is good (adding so much and more to it). True, it is that thing which is profitable to each man by himself (*so it be not prejudicial to any other*) is profitable to the whole commonwealth, and not otherwise; or else robbing and stealing, which perchance is profitable to some men, were profitable to the whole commonweal, which no man will admit.⁸

Malynes, too, was unable to endorse free exchange completely. He believed it might conflict with the "good of the commonwealth, which is the cause that princes and governors are to set at the stern of the course of trade and commerce." He held that to allow merchants to set the course of trade would be as imprudent as to consult vintners about laws against drunkenness.⁹ A similar qualification was made by Child:

. . . the profit of the merchant, and the gain of the kingdom, which are so far from being always parallel, that frequently they run counter one to the other, although most men . . . do usually confound the two.¹

Although favorable to competition Postlethwayt hesitated to approve of it wholly. "Exchange of merchandise for merchandise is advantageous in general; but not in cases where it is contrary to the foregoing maxims," he wrote, the maxims being that trade should increase the money supply and employment.² Even the enlightened North was doubtful of the universal harmony of self-interest, although he viewed the disharmony oppositely from the usual way. He was less troubled that the individual could gain at the nation's expense than interested in the possibility of the nation gaining at the expense of the individual (as when unwise investment led to greater employment).³ Some mercantilists believed the economy could prosper at the expense of individuals, if they engaged in extravagant expenditure which, however damaging to them, was a stimulant to trade. The idea was set forth by Mun in a chapter called, "Of some Excesses and Evils in the Commonwealth, which notwithstanding decay not our Trade nor Treasure."⁴ The idea was made notorious by Mandeville in his fable of the bees whose private vices were public benefits. It was not, however, quite as widely accepted as the notoriety of Mandeville's verse suggests. Davenant, while admitting the possibility, denied

8. Hales, *op. cit.*, pp. 50-51, my italics.

9. Malynes, *The Maintenance of Free Trade*, pp. 3-5.

1. Child, *op. cit.*, pp. xxvi-xxvii.

2. Postlethwayt, *Great Britain's Commercial Interest, etc.*, II, 371.

3. North, *op. cit.*, pp. 27-28.

4. Mun, *op. cit.*, chap. xv.

that private extravagance was the way to wealth, and submitted that a wise levying of excises would give the lie to the notion that "riot and expense, in private persons, is advantageous to the public."⁵

These passages indicate that the mercantilists were aware that some of their measures of policy would abridge economic freedom. It can be shown that they were aware of why freedom should be limited.

One reason was that a free market was not entirely favorable to an increase in the nation's wealth. The other reason was less significant and the limitation it implied was in no way inconsistent with classical policy. When, for example, Hales denied that self-interest always produced universal harmony, he cited the act of theft as a proof (actually he had more than this in mind, and the example does not illustrate his position completely). The prohibiting of crime is not, of course, a denial of freedom. Other mercantilists argued that the unlimited freedom of the tradesman would lead eventually to monopoly, which again was a trivial exception because free exchange is, by definition, competitive exchange. Indeed the mercantilists' opposition to monopoly is an affirmation of liberal doctrine, and many of them anticipated the doctrine in their endorsement of competition. Tucker excoriated the regulated companies (which had certain monopolistic powers) in language suggestive of Smith at a peak of indignation:

This is the greatest and most intolerable of all the evils of monopolies. It is a prostitution of the trade and welfare of the public to the merciless ravages of greedy individuals.⁶

Postlethwayt anticipated the classical conception of the advantages of competition, writing:

Domestic rivalry in trade produces plenty; and plenty cheapness of provisions, of the first materials, of labour, and of money. Rivalship is one of the most important principles of trade, and a considerable part of its liberty. Whatever cramps or hurts it in these four points is ruinous to the state, and diametrically contrary to its intent, which is the happiness of the greatest number possible of men.⁷

North warned of the devious forms which monopoly could assume:

For whenever men consult for the public good, as for the advancement of trade, wherein all are concerned, they usually esteem the immediate interest of their own to be the common measure of good and evil.⁸

5. Davenant, *op. cit.*, pp. 56-57, 139.

6. Tucker, *op. cit.*, p. 74.

7. Postlethwayt, *Great Britain's Commercial Interest, etc.*, II, 377.

8. North, *op. cit.*, p. 12.

It will be remembered that Smith said dryly: "I have never known much good done by those who affected to trade for the public good."⁹

When they insisted that one individual should not be free to deprive another of his freedom the mercantilists did not take important exception to the principle of the free market. When, however, they insisted that the market could not be relied upon to guarantee full employment, the exception was important. They believed that if the economy were directed by the market, even a competitive one, spending would not always be sufficient, specie could be lost through excessive imports, the supply of money for other reasons could be inadequate, the rate of interest might be too high, and the labor force too small and insufficiently productive.

Hence, instead of the classical policy of *laissez faire*, the mercantilists proposed a policy which would utilize the market wherever possible, supplement and control it where not, and which would have full employment as its proximate objective. There was, then, this difference of *means* between the mercantilists and the classicists: the former proposed a relatively controlled market and the latter a relatively uncontrolled one. There also was a difference in emphasis on proximate *ends*: the mercantilists stressed the full employment of resources and the classicists stressed the efficiency of the use of particular resources.

Yet it will not do to carry these differences much farther. The difference about means was not a fundamental one. The mercantilists did not believe in an economy wholly or mainly directed by the state, and the classicists did not believe in an economy entirely controlled by a competitive market. The difference about means was a difference over the amount and kinds of control. Both classicists and mercantilists believed in what we now call a mixed economy, and they differed over the ingredients in the mixture. This kind of difference, we know today, is singularly hard to define and to resolve.

The difference on immediate ends — full employment versus efficiency of employment — also is one which must not be made fundamental. It is very probable that neither the mercantilists nor the classicists would have admitted such a distinction. The former, I suspect, would have insisted that their policy achieved a greater output, and therefore more efficiency, than a policy which ignored the problem of full employment. Their implicit assumption was that a nation was not free to choose between using *all* of its resources in one way or another, in order to satisfy the criterion of maximum

9. Smith, *op. cit.*, p. 423.

output, but that the nation must choose between a policy which would produce full employment and one which would not. The classicists probably would have insisted that once the market had been made competitive and the conditions established for an efficient use of resources there would be no problem of full employment. They would have granted, perhaps insisted, that unwise interference with the market could create underemployment but they would not have admitted underemployment as a problem once the market was properly organized. It is only a later age which can make the distinction between full employment and efficient employment a certain one; and in order to do this it must define each of these objectives differently from the way they were defined by the mercantilists and the classicists. It must assume that a policy which provides full employment probably would be accompanied by some inefficiency in the use of particular resources, and that a policy which yields efficiency in the use of employed resources would be accompanied by a condition of some idle labor and capital. When the objectives are so defined, a choice can be made between the two policies, and that will be chosen which yields the largest national product. No clear choice is, however, implied by the distinction between the mercantilist and the classical policies. Not only is it unnecessary to speculate over which was correct, but, it seems to me, the speculation is a little pointless.

V

It is more promising to speculate over the reasons for the difference between the mercantilist and the liberal objectives. The most plausible reason is that the two policies were developed in different periods in which there were different economic problems. The great concern of the mercantilists over employment, particularly of labor, may have been forced on them by the unemployment of the sixteenth, seventeenth, and early eighteenth centuries, which, economic historians tell us, and we can infer from contemporary tracts, was considerable. The enclosure movement seems to have been the major cause of unemployment in the first part of the mercantilist period. By replacing tillage with grazing, the enclosures reduced the amount of labor required in agriculture and drove large numbers of persons off the land into rural slums and into the towns and cities. The transfer of large numbers from one occupation to another is difficult even under favorable circumstances; and circumstances in the sixteenth century were not favorable. The craft guilds were not eager to increase their output at any time, and one can easily suppose

that they were not pleased by the hordes who were swept off the land and sought employment in the towns.

Another cause of unemployment was the frequent commercial crises which by their strangeness must have baffled the early economists (no less than the later). Although the fluctuations seem not to have been of regular occurrence, as later cyclical movements were, yet these were more than occasional and sporadic changes. In addition to these two types of unemployment, which today would be called frictional and cyclical, there seems also to have been much seasonal unemployment. Petty's statistics on annual and weekly wages in the third quarter of the seventeenth century suggest that the average worker was employed about thirty-five weeks of the year.¹

It is fairly clear that unemployment was extensive and quite clear that poverty was common. The management of these two problems was made more than usually difficult by a circumstance arising from the Reformation. When the power of the Catholic church was destroyed there went with it an organized method of caring for the poor. An effort was made to place the responsibility on local governments, but this was not successful. The craft guilds, it is true, looked out for their members, but were unable to care for the newly created poor from agriculture even if they had wished to.

Not only was there less provision for the lower classes, but after the middle of the seventeenth century there was less interest in their welfare and less concern over the problem of unemployment. Under the Tudors there seems to have been a genuine solicitude for the lower classes, a feeling which perhaps came of the knowledge that disaffection with an absolute monarch can have disastrous results. After the revolution of 1688, the monarchy was severely abridged and therefore was less responsible for the general welfare, while Parliament could be only a diffuse object of resentment to those who thought the state was not looking after them properly. Elizabeth could say with reason, "Yet this I account the glory of my crown, that I have reigned with your loves." It is difficult to imagine words of the same sincerity coming from a sovereign after 1688.

It seems, to use today's language, that the unemployment of the sixteenth and seventeenth centuries was the result of immobility, of seasonal fluctuations, of the rigidity of certain prices and wages which was produced by the monopolistic practices of the guilds, and of frequent and severe deflations. The nonseasonal unemployment

1. Petty, *op. cit.*, I, 244, 305.

might have been eliminated (it now is easy to say) had it been possible to move labor from areas where it was abundant to where it was scarce and to force a reduction of certain wages and prices in order to make increased employment profitable to the entrepreneurs of the age. But it does not seem, from their writings, that the mercantilists thought such measures would have been adequate. Although they made proposals for increasing labor mobility and for making wages and prices more flexible, they do not seem to have put much reliance on them. Instead, it seems they had greater confidence in inflationary measures: those which, by increasing the money supply, would have increased spending and employment.

It is interesting to observe that Great Britain had a similar unemployment problem about 200 years after the close of the mercantilist period and solved it by methods quite suggestive of the mercantilists' proposals. After the first World War there was considerable frictional unemployment and money wages could not easily have been lowered. A few years after the second World War, after the inflationary measures of the Labor Government had shown their effect, it was observed by a United Nations report on economic stability, that the frictional unemployment "which had previously been attributed mainly to lack of mobility of labour, melted away, leaving an acute labour shortage."² This report was written mainly from the viewpoint of Keynesian economics which, it is clear, has an affinity to mercantilist doctrine.

In the period when liberal economic doctrine developed circumstances were much different from those of the mercantilist period. There was no longer the problem of managing a large amount of permanent unemployment, as this effect of the enclosure movement had disappeared. The internal market of Great Britain was much better organized, in the sense of there being less immobility of commodities and capital as well as of labor. By 1750, the government no longer enforced any important controls over the internal market. The obstacles to price and wage flexibility were much less formidable than they had been in the preceding three centuries. Improvements in transportation, especially after 1800, brought the parts of the economy into closer connection and made competition more feasible. Finally, there was an expansion of British foreign trade, resulting from the decline of the Dutch empire at the end of the seventeenth century, from the weakening of the imperial power of Spain, and from the increased efficiency of manufactures and shipping which gave

2. *National and International Measures for Full Employment* (New York, 1949), §25.

Britain a cost advantage in the world market. These circumstances dictated a much wider use of the market as the appropriate economic policy, just as the different circumstances confronting the mercantilists required restrictions on the market.

VI

The interpretation of this essay makes English mercantilist doctrine a predecessor of economic liberalism. In order that the meaning be clear, it may be helpful to compare it to other interpretations of mercantilism. It is common for works on the history of economic thought to abide by the judgment of Smith and Mill, that the mercantilists believed money was wealth and therefore believed the nation became richer as its supply of monetary metal increased. It is understandable that the mercantilists should be judged this way. If their goal of full employment is neglected, there is no way to explain their preoccupation with the money supply but to suppose they thought money was wealth. The exposition above of their monetary theory should make clear that few of them made the simple error of which they have so often been accused.

Another interpretation looks upon mercantilist doctrine as a collection of mistaken ideas, not only in the area of monetary theory but in other areas as well. The mercantilists, by this view, are regarded as rudimentary economists who sensed the importance of the problems they addressed but were defeated by them. The mercantilists did express certain ideas crudely and they made mistakes (which is not at all singular). But there was nothing primitive about their central ideas. The most important aspects of the price mechanism, for example, were understood as long ago as 1549 when Hales's *Discourse* was published, and the way in which he wrote of them suggests they were known even earlier. Modern economics has expressed these principles more rigorously but it has not altered them. We still believe that unequal rates of profit will cause a re-allocation of transferable resources. Indeed, it is only in recent years that economics has tried to reintegrate monetary and price theory, in order to bring together the money and the real sides of the economy, which is a theoretical achievement sought by the mercantilists.

A third interpretation makes the mercantilists into apologists for the kind of economy in which they lived. It has become increasingly common in recent years to look upon social thought as an apology or rationalization of the social institutions which are dominant when the thought is expressed. When the mercantilists are regarded this way, two conclusions usually result. One is that their

doctrine was an effort to explain the circumstances of their age. If this means the mercantilists were interested only in their period, it is wholly — and trivially — correct. Economists always are interested in the problems of the time, some of which are transitory and others nearly everlasting. The other conclusion is that the mercantilists sought to advance private interests by disguising them in a tissue of abstraction. I do not know how such an interpretation can be upheld (in addition to contrary statements in their works, there is the awkward difficulty of uncovering the private thoughts of men who have been dead 200 years and more), nor do I see just what significance the proof would have. Perhaps John Hales was trying to increase the income of corn growers and Thomas Mun wanted greater dividends for the East India Company. Nevertheless, they had something of lasting interest to say.

The most cogent of all interpretations makes mercantilism a continuation of the ideas of medieval society. This is the view of Schmoller and of Heckscher.³ Schmoller stated that the principal tenet of mercantilism was the identity between political and economic institutions, such that the economic conduct of the individual was made to conform to the objectives of the state. Mercantilism was thus a system of national power and one of a number of forms which idealism as a political philosophy can take. Prior to the twentieth century dictatorships, the most notable expression of idealism was medieval society. In their remarks on economic conduct, the Schoolmen stated that free individual behavior was inimical to the welfare of society. They adopted the Aristotelean idea that exchange was "unnatural" because it caused men to lose sight of the proper use of commodities, which was consumption, and to make an improper use of them, which was unlimited accumulation.⁴ In the Aristotelean and medieval conception, exchange is condemned if its purpose is anything more than the satisfaction of limited wants. It is wrong if it becomes a means of expressing acquisitive desires because these in themselves are improper. In its practical aspect, the conception makes exchange a useless, or barren, act, and imposes numerous controls over it. This was the medieval view after about the twelfth century, although there were exceptions to it.

In English mercantilist writings I have found only one statement which in any way suggests the medieval notion of exchange. It is Cary's assertion that the buying and selling "whereby one man lives

3. Gustav Schmoller, *The Mercantile System and Its Historical Significance* (New York, 1896), p. 7. Heckscher, *op. cit.*, II, 324.

4. Aristotle, *Politics*, I, 9.

by the profit of another, brings no advantage to the public."⁵ However, it is not certain that Cary endorsed the medieval idea. His observations on the price mechanism are anything but medieval. Admittedly, the mercantilists stated that self-interest was inimical to the public good, but the statement is, I believe, of no significance. The kind of economy they proposed could not possibly have operated without the expression of self-interest, just as the economy proposed by the classicists could not have operated without it. They too condemned self-interest, but neither they nor the mercantilists believed it wholly bad or even mainly so, and they did not want it suppressed. Both wanted the power it gave to men to be used in the national interest. Hales wrote:

To tell you plainly, it is avarice that I take for the principal cause thereof [of enclosures]; but can we devise that all covetousness may be taken from men? No, no more than we can make men to be without ire, without gladness, without fear, and without all affections. What then? We must take away from men the occasion of their covetousness in this part. What is that? The exceeding lucre that they see grow by these enclosures, more than by husbandry. And that may be done by any of these two means that I will tell you: either by minishing the lucre that men have by grazing; or else by advancing of the profit of husbandry, till it be as good and as profitable to the occupiers as grazing is.⁶

To exploit the selfishness in men, to reward them for it, to see in it a power for good as well as harm, were ideas as remote from the ruling thought of the Middle Ages as ideas could be. It is quite impossible there to discover the roots of English mercantilist doctrine. They took hold after the power of medievalism in England had passed. The direction of the doctrine laid not to the past but to the future, to the ideas of the classical economists, however much they disdained their predecessors. It is ironic that the doctrine should have been disparaged most by the men whose ideas it anticipated and that it should have been pushed back into an age with which it could have nothing in common.

WILLIAM D. GRAMPP.

THE UNIVERSITY OF ILLINOIS IN CHICAGO

5. Cary, *op. cit.*, p. 4.

6. Hales, *op. cit.*, p. 122.

Copyright of Quarterly Journal of Economics is the property of MIT Press and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.