

Mercantilism includes a national economy aimed at accumulating monetary reserves through a positive balance of trade, especially of finished goods. Historically, such policies frequently lead to war and also motivate colonial expansion.

Mercantilist theory varies in sophistication from one writer to another and has evolved over time. High tariffs, especially on manufactured goods, are an almost universal feature of mercantilist policy. Other policies have included:

- Building overseas colonies;
- Forbidding colonies to trade with other nations;
- Banning the export of gold and silver, even for payments;
- Forbidding trade to be carried in foreign ships;
- Export subsidies;
- Promoting manufacturing with research or direct subsidies;
- Limiting wages;
- Maximizing the use of domestic resources;
- Restricting domestic consumption with non-tariff barriers to trade.

It is a body of economics thought popular during the mid-16th and late 17th centuries. It held that money was wealth, accumulation of gold and silver was the key to prosperity, and one nation's gain was another's loss.

Supported by economists such as Gerard de Malynes (1586-1641), Edward Misselden (1608-54), and Sir Thomas Mun (1571-1641) in the UK, Jean Baptiste Colbert (1619-83) in France ,and Antonio Serra in Italy (1570-?), it exhorted governments to maintain surplus of exports over imports through tariffs (duties), colonialism, and other such measures.

1. The fundamental aim of Mercantilism was to make a country strong. The strength of a country was tested with the help of the wealth of the country, above all, in that portion of wealth which consisted of precious metals like gold and silver. So the Mercantilists attached greater importance to bullion (gold) because it was the most durable, useful and generally acceptable form of wealth.

2. If a country has gold mines and silver mines, it can get gold and silver but if a country has no mines, it can get gold and silver through trade. The country should have a favorable balance of trade. In other words, there should be an excess of exports over imports.

3. In the Mercantilist system of thought trade was the most important occupation. Industry and commerce were ranked second in importance. Agriculture was the least important of all. The state had an important role to play in the Mercantilist system. It should come forward to exploit the natural resources of the country to increase its exports. There was regulation of economic life by the government.

Mercantilism in its simplest form is bullionism, but mercantilist writers have emphasized the circulation of money and reject hoarding. Their emphasis on monetary metals accords with current ideas regarding the money supply, such as the simulative effect of a growing money supply.

Bullionism is an economic theory that defines wealth by the amount of precious metals owned. It believed that money (gold) was the only form of wealth that was important. Countries during the 16th to 18th century in Europe hoarded gold and accumulated gold bullion in their treasuries. Bullionism is the name given to essential features of economic thought in the first mercantilist era during the 16th century.

A bullionist is a person who advocates a system in which currency is directly convertible to gold or silver.

Factors Shaping Mercantilism:

Some economic, political, religious and cultural factors were responsible for the emergence of mercantilism.

1. Economic Factors:

Towards the end of the 15th century changes were taking place in the economic life of the people. Domestic economy was giving way to an exchange economy. Agriculture was giving place to industry. Trade became very important and it changed the foundation of socio-economic set-up of the middle ages.

Trade necessitated the use of money which was available in the form of gold and silver. Along with the expansion of commerce there were improvements in transport, agriculture, population, etc., so the Mercantilist thought was the outcome of these developments.

2. Political Factors:

Towards the end of the middle ages nationalism became the strong force. Europe changed greatly due to Renaissance. As a result, there was a fundamental political change. It resulted in the emergence of strong nations like England, France, Spain, etc., Feudalism came to an end and the King became more powerful. Each nation wanted to preserve its independence and considered other nations as enemies. In order to create a strong and powerful state the Mercantilists tried to regulate the political and economic activities of the people.

3. Religious Factors:

The Reformation Movement was revolt against Roman Catholic Church. It challenged the authority of Pope. Initially the Roman Catholic Church controlled the political and economic activities of the nation. But after the Reformation the authority of the Pope was challenged.

4. Cultural Factors:

Culturally also Europe was undergoing a sharp change. Renaissance gave a new light of learning to the people. People were made to realise that this worldly life was more important than the heavenly life. As a result, money came to occupy an important place in human activities.

5. Scientific Factors:

In the field of science and technology great improvements and inventions were made. The discoveries of compass and printing press were of great importance, with the help of compass navigation became easier and it led to the discovery of new countries. Thus new countries opened the gates to a variety of raw materials and markets. The invention of printing press helped the spread of new ideas and knowledge.

Mercantilism's demise was initiated by David Hume, Adam Smith (who coined the term), and other classical economist (see Classical Economics) who saw it as serving only the merchant class and argued that real wealth was to be equated with full employment through greater production of goods and services.

In more recent times, the mercantilism dogma was revived by the UK economist John Maynard Keynes (1883-1946) when he stated that a surplus in balance-of-trade stimulates demand, thus increasing the national wealth. When corporations, politicians, and unions demand control over imports through higher-duties to protect local jobs and industries, they are resorting to mercantilism.

The philosophy of mercantilism in centuries past was a problem for foreign policy, and frequently caused stress between nations. The countries that held this belief close to their heart frequently were at conflict with their neighbors.

Using Mercantilism for example:

1. Johnny, Dave and Susie are competing for resources and land in Settlers of Catan, a game where ever increased production, coupled with selfish trading behavior, rewards the players with the strongest sense of mercantilism.

2. The economy of the United States started to decline when they abandoned mercantilism in favor of cheaper outsourced labor in other countries.

Main ideas or Characteristics of Mercantilism:

1. Wealth:

The fundamental aim of the mercantilists was to make the country strong. The strength of the country was found in the wealth of the country, especially that portion of wealth which consisted of precious metals like gold and silver.

Mercantilism firmly believed that gold was the basis of wealth and power. Hence the mercantilist slogan was 'more gold, more wealth and more power'. All the economic activities in the country were centred around wealth. According to Gray, "Everybody thought that his country was engaged in a race with other countries and in that race it must not be the loser".

In this respect it seems that the mercantilists should have drawn inspiration from their predecessors because in ancient Greek and Roman and throughout the middle ages power was considered to be synonymous with accumulation of treasure or precious metals. Commerce was also encouraged on the same ground. To quote Columbus "Gold is a wonderful thing; whoever possesses it, is a master of everything he desires; with gold one can get souls into paradise".

This greatest importance given to precious metals may be attributed to the following reasons:

- (i) In the 16th century, the only form of wealth, most useful and generally acceptable was gold and silver. Naturally the mercantilist attached more importance to gold and silver.
- (ii) With the rise of absolute monarchy, taxation could be possible only if money was used as measure of value. Thus on the political side also money came to occupy greater importance.
- (iii) For conducting wars money was essential. Three things were required for war—money, more money and still more money.
- (iv) Mercantilists believed that trade depended on plentiful of money.
- (v) Money was also needed for development of exchange economy.
- (vi) Money in those days was identified with capital.

Thus the Mercantilists had a high regard for money. If we consider the circumstances of the day, Mercantilists were justified in attaching greater importance to gold. According to Keynes, "the Mercantilists understood the important role of money in the economic system. They studied the effects of an increase in the quantity of money on the price level and employment."

2. Foreign Trade:

The Mercantilist theory of foreign trade is known as the balance of trade theory. The aim of this theory was to get large amount of precious metals. Foreign trade was considered to be the only Source for getting gold and silver. They believed that all those nations which did not possess their own gold and silver mines could become rich after getting gold and silver from foreign countries through trade.

Sir Thomas Mun the greatest representative of Mercantilist declared that, "foreign trade ought to be encouraged, for, upon it hinges the great revenue of the King, the honour of the kingdom, the noble profession of the merchant, the supply of our poor, the improvement of our lands and means of our treasure".

The mercantilists insisted that the value of export should always be greater than imports. In short, they advocated a favourable balance of trade. Hence they encouraged exports and discouraged imports. "Export more, import less and collect the balance in the form of gold and silver", was the essence of this theory. Accordingly every exporter was considered to be a close friend of the state and every importer as an enemy.

However, the mercantilists theory of foreign trade has no validity in modern times. If every nation exports more, there would be an end to international trade. Further, the mercantilists did not distinguish between particular balance of trade and general balance of trade. By general balance of trade we mean balance of the country's trade with other countries and particular country.

Further, the mercantilists were ignorant of the fact that favourable balance of trade cannot be maintained for ever because if gold comes into a country more and more, there would be inflation. Thus the mercantilist theory of foreign trade is not a correct one.

3. Commerce and Industry:

The mercantilists considered commerce and industry as the most important branches of the national economy. They wanted to increase the national productive efficiency by means of regulation of industry and commerce. They believed, that commerce and trade were the most productive occupation and agriculture was the least productive.

Further, as they believed that manufacturing industries were more closely connected with commerce, they must receive all attention from the government. However, it should not be misunderstood that the mercantilists regarded agriculture as insignificant. They thought that agriculture did not contribute directly to the strength of the country.

4. Population:

Mercantilists encouraged large population for making the nation militarily strong and for increasing its productive capacity. They believed that cheap and abundant supply of labour would keep the cost of production low.

This would enable a country to sell its commodity at a lower price in the international market According to Davenant, "People were the real strength of a country". The mercantilists even encouraged immigration because they would bring wealth and enrich the country.

5. Natural Resources:

The mercantilists wanted to utilize all the natural resources to the maximum extent so as to produce more, export more and import less. They also attached importance to agriculture in order to solve the food problem. Colonies were developed to supply the required raw materials. Further, the colonies were not allowed to export directly to foreign countries. All the commodities should be exported to the mother country only.

6. Wages and Rent:

The mercantilists discussed the problems of production only. So they did not give much importance to the problems of distribution, especially to wages and rent.

7. Interest:

No unanimity existed among the mercantilist writers on the subject of interest. Sir Thomas Mun, a famous mercantilist writer favoured interest taking for the loans on the ground that lending helped the poor and young merchants. It also led to the employment of the savings of the widows. Thomas Mun and his followers told that the rate of interest would be high or low depending upon the industrial conditions of the country.

8. Taxation:

The views of the mercantilists on taxation were interesting because they were more scientific and ahead of their time. Broadly speaking the mercantilists favoured a multiple tax system based on the principle of "each should pay according to the benefits received from the state".

9. Theory of Value:

Regarding value, both subjective and objective approaches existed. Prior to the mercantilists, value was regarded as an intrinsic quality possessed by a commodity, it depended upon the utility of the commodity. Value was thus considered to be different from price. By the end of the mercantilist period, market value was recognised. Scarcity also determined the value of a commodity. According to the mercantilists the normal value of a commodity depended on the cost of production.

10. Factors of Production:

Mercantilists recognised three important factors of production, namely, land, labour and capital. Here we can quote Sir William Petty's saying "Labour is the father and active principle of wealth as land is the mother". The Mercantilists emphasised the cultivation of agricultural waste lands so that food production might increase and the country might become self-sufficient and imports might be reduced.

11. Commercial Regulation:

Mercantilists believed that commercial regulations were essential for maximising social welfare. Commercial laws were passed to restrict the import of food materials. But no regulation was applied to the import of raw materials because they were required for the industrial development of the country. The state supported the export industries and shipping which would secure a favourable balance of trade.

12. Role of State:

The mercantilists regarded the state as the supreme power for controlling the activities of the people. State was the master and its citizens, the servants. The mercantilists believed that state intervention was necessary to solve the problems of the society. They believed that for securing success in wars a strong nation was required.

Nearly, all the mercantilist writers believed that since the total economic resources of the world were limited, the economic policy must be framed in such a manner as to increase the power of the state. As a result they suggested the policy of protection.

The state policies were shaped according to this idea. Special acts were passed to encourage exports and the development of industries. Protection was given to the industries because their main objective was to maintain a favourable balance of trade.

12. Land Banking Schemes:

Mercantilists ideas regarding money gave rise to the establishment of Land Banking Schemes. Land Bank Schemes were introduced by Chamberlin and Barbon.

13. Occupation:

Mercantilists believed that merchants were the most profitable members of the society. To them occupation was productive only if it increased wealth of a country.

Critical Estimate of Mercantilism:

Mercantilist theories and practices have been criticised by many writers. The opposition actually started towards the end of the 17th century. The storm of criticism against mercantilism was particularly strong in France. The criticism against mercantilism reached its climax towards the end of the 18th century when Adam Smith published his book "The Wealth of Nations", one fourth of which was devoted to this.

MARXISM:

It is a system of economic, social, and political philosophy based on ideas that view social change in terms of economic factors. A central tenet is that the means of production is the economic base that influences or determines the political life.

Under Marxism, outdated class structures were supposed to be overthrown with force (revolution) instead of being replaced through patient modification. It held that as capitalism has succeeded feudalism, it too will be removed by a dictatorship of the workers (proletariat) called socialism, followed quickly and inevitably by a classless society which governs itself without a governing class or structure.

Developed in the 19th century jointly by two lifelong German friends living in London - Karl Marx (1818-1883) and Friedrich Engels (1820-1895) - it forms the foundation of communism.

Using Marxism in sentence or example:

Some have pointed to the fall of states like the USSR as proof that Marxism does not work and that they retained the corruption and class systems that they were meant to end.

DIFFERENCE BETWEEN CLASSICAL AND MARXIST POLITICAL ECONOMY:

Political economy is a science of the study of the interconnectedness between economics and politics in a state which is the basis for the change and development in the society. As a field of study, political economy refers to a branch of the social sciences which deals with the production of material wealth considered as the foundation of all human society. It attempts to study the laws that govern the development of human society based on the economic relations of the people in the process of production, distribution and consumption. There are different approaches the study of political economy, they include: classical, neo-classical and Marxist approaches.

In this work, the main area of concentration is on the classical political economy and the Marxist political economy; we are also going give a clear distinction between the two concepts of classical and Marxist political economy, then we are also going to give the differences between the two concepts.

CLARIFICATION OF TERMS - CLASSICAL ECONOMICS

BRIEF HISTORY OF CLASSICAL ECONOMICS

Classical economics can trace its roots to Adam Smith in 1776. In *The Wealth of Nations* Adam Smith presented a comprehensive analysis of economic phenomena based on the notions of free markets and actions guided by individual self interests in a laissez faire environment. This work by Smith was motivated in large part as a critique of the existing mercantilist system.

Under mercantilism the ruling aristocracy directed economic activity with the primary goal of benefiting the ruling aristocracy. The mercantilist view was that the wealth of a nation was based on the wealth of the ruling aristocracy. Smith argued, quite convincingly, that the wealth of a nation was actually based on the productivity of resources, which was best achieved if the Producers, consumers, and resource owners were left to their own "selfish" actions.

An efficient allocation of resources, higher living standards, and economic growth were achieved if producers sought higher profit and consumers sought greater satisfaction. Higher profit motivated producers to offer

the most desired goods at the lowest expense. Greater satisfaction motivated to seek the most desired goods at the lost expense. The result is the best, more efficient use of available resources.

The classical framework developed by Adam Smith was enhanced, refined, and improved over the ensuing 150 years by a number of scholars. The basic principles were refined and applied to an assortment of topics and issues, including resource markets, international trade, economic development, and industrial activity--to name just a few. Much of this work remains relevant to the modern study of microeconomics, often termed neoclassical economics.

Economists also applied this classical framework to macroeconomic issues, especially unemployment, economic growth, and business-cycle stability. With this application a comprehensive theory of macroeconomics was developed that offered an explanation for macroeconomic phenomena and provided recommendations for government policies.

THE CONCEPT CLASSICAL ECONOMICS

Classical economics dominated the study of economics for 150 years after it was introduced. This work not only launched the modern study of economics, it continues to provide the foundation for modern microeconomics. Classical economic principles were also adapted to macroeconomic phenomena and provided a guide for macroeconomic policy until the beginning of the Great Depression in 1929. Classical economics fell out of favor in the 1930s largely because it did not adequately explain the occurrence of high rates of unemployment during the Great Depression.

The term "classical economics" was coined in the first half of the 1800s by Karl Marx, who is considered by some as an important contributor to the development of classical economics and by others as a primary critic of this theory. The term gained new life in the early 1900s when John Maynard Keynes developed Keynesian economics as an alternative theory of macroeconomics.

Highlights of classical economics include:

One, classical economics is based on three key assumptions--flexible prices, Say's law, and savings-investment equality.

Two, the theoretical structure of classical economics is based on a view that the macro economy operates in aggregate according to the same basic economic principles that guide markets and other microeconomics phenomena.