**Mercantilism Lesson Plan**

1. Introduction: Review and Timeline of Previously Learned Concepts.

Exploration 🡪 European colonization 🡪 Trade networks 🡪 Mercantilism 🡪 Rivalry

* 1. Exploration led to European colonization, which led to a new trade networks and economic domination, which created a new world economy, which led to mercantilism, which led to rivalry between European states.
1. Background
	1. Mercantilism was an economic "system" that developed in [Europe](http://www.encyclopedia.com/topic/Europe.aspx) during the period of the new monarchies **(c. 1500)** and culminated with the rise of the absolutist states **(c. 1600–1700).**
	2. However, mercantilism was not a strict economic theory with certain rules. Instead, it reflected an evolving set of economic policies put forward by nations to serve their own interests.
	3. Underlying principles
2. The belief that the amount of wealth in the world was relatively static (unchanging);
3. The belief that a country's wealth could best be judged by the amount of precious metals or bullion it possessed;
4. The need to encourage exports over imports as a means for obtaining a favorable balance of foreign trade that would yield such metals;
5. The value of a large population as a key to self-sufficiency and state power;
6. The belief that the crown or state should exercise a dominant role in assisting and directing the national and international economies to these ends.
	1. As such, mercantilism developed logically from the changes inherent in the decline of feudalism, the rise of strong national states, and the development of a world market economy.
	2. Mercantilism was the theory of trade espoused by the major European powers from roughly **1500 to 1800**. The exportation of finished goods was favored over “extractive” industries like farming. (“extractive” means the withdrawal of natural resources by extraction with no provision for replenishment).
	3. Economic activity in this setting can be viewed as a zero-sum game in which one country’s economic gain was at the expense of another.
7. Merchant Capitalism
	1. Mercantilism has sometimes been referred to as “merchant capitalism” because merchants promoted and benefited from it.
	2. Merchant capitalism, a term used by economic historians, refers to the earliest phase in the development of capitalism.
	3. The mercantile era drew to a close around 1800, giving way to industrial capitalism.
8. New Monarchies of the late **15th and 16th centuries**
	1. Since mercantilism at base postulated increased royal control over both the internal and external economic policies of the state, it found easy acceptance among the "new" monarchies.
	2. Examples: Portugal, Spain, England, France.
9. Proponents of Mercantilism
	1. During the **17th century**, adherents of absolutism also found much to embrace in mercantilism.
		1. During the age of Stuart absolutism James I (ruled 1603–1625) and Charles I (ruled 1625–1649) found it logical to accept the premise that the monarch should not only control the political and social hierarchy but should enjoy control over the economy as well.
		2. [Oliver Cromwell](http://www.encyclopedia.com/topic/Oliver_Cromwell.aspx) (1599–1658), after destroying Stuart pretensions in the [Civil War](http://www.encyclopedia.com/topic/Civil_War.aspx), embraced both mercantilist warfare and the Navigation Acts in his commercial struggle with the Dutch.
	2. It was in [France](http://www.encyclopedia.com/topic/France.aspx), however, that mercantilism found perhaps its greatest supporter in Jean-Baptiste Colbert (1619–1683).
		* 1. The basic theoretical tenets of mercantilism predated Louis XIV's reign, in some cases by half a dozen generations.
			2. Mercantilism reached its height under Colbert not because he was a theorist but rather because he was a man of action who judged its tenets to be the only natural and logical way to achieve his most cherished goal: a powerful and wealthy France united under a glorious monarch.
			3. The primary obstacle to France's economic greatness was the overwhelming economic power of the Dutch.
			4. If the mercantile power of the burghers (middle class merchants) of [Amsterdam](http://www.encyclopedia.com/topic/Amsterdam.aspx) could be broken in both Europe and the lucrative Asian trade, France could prosper.
10. Rivalry
	* 1. Colbert's anti-Dutch strategy evolved logically from his beliefs on political economy. Foremost among his particular tenets on mercantilism was the conviction that the volume of world trade was essentially static and that, to increase its share, France would have to win part of that controlled by its rivals.
		2. Commerce caused perpetual combat in peace and war among the nations of Europe, as to who shall win most of it."
		3. Unfortunately, despite his most careful calculations regarding this struggle in both Europe and the [Indian Ocean](http://www.encyclopedia.com/topic/Indian_Ocean.aspx), Louis XIV's armies and fleets suffered increasing difficulties in the war from 1672 to 1679. These setbacks forced Colbert to undo many of his initial reforms from 1661 that had doubled the king's revenues, forged a powerful navy, and set France on a course for apparent dominance in Europe.
		4. By the time of his death in 1683, the kingdom was instead on the road to bankruptcy and revolt, and Louis XIV's penchant for continued warfare in the decades down to 1715 only exacerbated this decline.
11. How Mercantilism Affected European Colonies
	1. It led to the adoption of enormous trade restrictions, which stunted the growth and freedom of colonial business.
	2. It was thought, no great nation could exist and be self-sufficient without colonial resources.
12. Opponents of Mercantilism
	1. During the eighteenth century the limits of mercantilism became increasingly obvious, and intellectual and political critics of its basic tenets gradually emerged.
	2. First, Louis XIV's spectacular failures in the kingdom viewed as the apex of both absolutism and mercantilism certainly revealed the limitations of allowing the state to direct the economy for its own frequently selfish, if not self-destructive, purposes.
	3. These developments would ultimately cause the destruction of merchant capitalism. In short, merchant capitalism reached a level within the mercantilist system where state intervention and direction of the economy was threatening and even preventing further expansion.
13. Laissez-Faire
	1. This theory argued that the economy functioned best when its own "natural laws" were allowed to function without government intervention.
	2. David Hume: Political Discourses (1752) andEssays and Treatises on Several Subjects (1753), Hume also sought to refute some of the principal tenets of mercantilism, including confounding money with wealth and the blind acceptance of bullionism.
	3. Adam Smith: Yet by far the most important work criticizing mercantilist thought was Adam Smith's (1723–1790)An Inquiry into the Nature and Causes of the Wealth of Nations (1776), the first systematic economic analysis of the world market economy created during the preceding age of mercantilism.
	4. Smith's strong advocacy of free trade and his belief that world wealth was not static, as Colbert and others had held, did much to undermine mercantilism.
	5. Smith coined the term "invisible hand" to describe how, without any central direction, in a free market economy the butcher, the baker, and the candlestick maker provide what people need. It is, he said, as though there is an invisible hand guiding them to meet people's needs
	6. At the same time his theories encouraged colonies like British North America to reject the traditional dependence on their mother countries as defined by the mercantilist model.
	7. In France, however, only the French Revolution and Napoléon I (1769–1821) would facilitate the destruction of the economic remnants of both the late medieval and mercantilist periods.
14. Rise of Capitalism: the Dutch, Market Economy, & Joint-Stock Companies
	1. “Capitalist” is a term not used until the 19th century, but by mid-17th century some people were called “capitalists” in reference to how they used their money.
15. Invested their money to make more money.
16. For these entrepreneurs the most lucrative business opportunity was the growing world trade.
	1. The Dutch
17. Dutch entrepreneurs led the way in implementing capitalist ideas as they engaged in worldwide trade.
18. Built warehouses to store goods so that they could control supplies and keep prices high.
19. Through individual initiative, like that noted above, and new strategies (rather than through government policy), the Netherlands became the leading commercial center in Europe in the 16th century.
20. Amsterdam is the site of the first stock exchange
21. Keep in mind the “tulip” example discussed in class.
	1. Joint-Stock Companies & the Global Network of Trade
		* + 1. This new economic structure allowed ordinary investors to buy shares in commercial ventures that were run by boards of directors.
				2. Made it easier to raise enough capital for trading ventures around the world.
				3. English and Dutch joint-stock companies that helped them dominate trade in Asia: The English East India Company and the Dutch United East India Company.
				4. These privately own companies had remarkable powers: they could buy, sell and even wage war in the companies’ interests.
				5. Both generated huge profits, and both contributed to the early formation of a global network of trade.
22. Looking Forward: Britain and the Industrial Revolution
	1. By 1860 England had removed the last vestiges of the mercantile era. Industrial regulations, monopolies, and tariffs were abolished, and emigration and machinery exports were freed.
	2. In large part because of its free trade policies, England became the dominant economic power in Europe.