there was for a time regulation by the Royal Exchanger of foreign exchange transactions and by other official agencies of transactions in commodity markets, so as to make sure that *each* individual transaction should as far as possible make a net contribution to the national stock of the precious metals. Later commentators on mercantilism labeled such practices as "bullionism" or "balance-of-(individual)-bargain system." It was believed that attention should be given not only to the aggregate balance of trade but also to the separate balances in the trade with particular countries or in particular sectors of commercial activity. There was considerable suspicion, for instance, that the trade with the East Indies was for all of Europe a "losing" trade involving a chronic drain of the precious metals to the East.

Thomas Mun first formulated a persuasive defense of the English trade with the East Indies even if it did involve, in its first effect, a net drain from England of the precious metals. This drain, he claimed, was not an ultimate one, since by reexport at higher prices of its imports of Indian commodities, England more than regained the precious metals which had initially been sent to India. Mercantilist literature, however, long continued to support discrimination between countries in the regulation of imports according to the usual state of the trade balances with such countries, or as an incident to tariff bargaining, or as an instrument of power politics.

The mercantilists gave priority status with respect to eligibility for export to goods with a high labour content in relation to their value. Export of manufactures was favoured over export of agricultural products ready for consumption; exports of raw materials such as raw wool, or minerals, was regarded as injurious or wasteful. The export of machines and tools and the emigration of skilled workers were regarded as specially injurious. Underlying these positions were the beliefs that labour was in such abundant supply that it was permissible to treat it as nearly equivalent nationally to a free good, and that restriction of export of raw materials or of machines would not substantially diminish their domestic rate of production and would result in their retention for domestic processing or use. Such restrictions would thus work to make the balance of trade favourable and to increase domestic employment.

The general mercantilist position was that imports of goods and services were in principle desirable only if *(a)* they were essentials which could not be produced, at whatever cost, at home, or *(b)* they were raw materials which could not be produced at home in the needed quantities except by the withdrawal of scarce resources from the production for domestic use or for export of goods with a higher labour content in proportion to their value, or *(c)* they needed to be imported as a *quid pro quo* for other countries' allowing their nationals to import from the country in question. The implicit mercantilist ideal was zero import, and export only in exchange for the precious metals. In France, Colbert and others gave this ideal express formulation in replying to objections raised by Frenchmen that the severity of French import restrictions would result in other countries' prohibiting entry of French products. Colbert claimed that France alone had the potentiality to produce at home the whole range of commodities essential to national prosperity, whereas none of its neighbors could dispense with France's commodities.

A variant of mercantilist doctrine, expounded mostly but not exclusively by English writers, substituted for a favourable balance of trade in terms of monetary values a "balance of labour" in terms of the relative labour content of the exports and the imports—with an aggregate excess of the labour content in the exports over that in the imports treated as "favourable." This has been regarded by some modern commentators as a "refinement" or improvement of the balance of trade doctrine. It would, however, be easily possible for a given trade situation highly unfavourable by the trade balance criterion to be highly favourable by the balance of labour criterion, and vice versa. Under the balance of labour criterion, moreover, the fewer units of import commodities obtained on the average per unit of export commodity, other things being equal, the more "favourable" would be the balance of labour.

Political Objectives

Mercantilism had political as well as strictly economic objectives in view. The *minimum* objectives were an even balance of trade and an even balance of power. But as large an excess of exports over imports as possible was an aspiration of all countries, and the great powers sought more than an even balance of power. They sought enough superiority of power to "give the law" to other countries, to enable conquest of adjoining territory or overseas colonies, or to defeat their enemies in war. It was general doctrine that strength was necessary as a means of protecting wealth and of augmenting it, while wealth was a strategic resource, necessary to produce strength and to support its exercise. With wealth one could finance and equip armies and navies, hire foreign mercenaries, bribe potential enemies, and subsidize allies. Power could be exercised to acquire colonies, to win access to new markets and to shut foreigners out of one's own markets, and to monopolize trade routes, high-seas fisheries, and the slave trade with Africa. "Power" was clearly and obviously a relative matter; what mattered was the ratio of power, not the terms of the ratio. It was also true of power that geography had great importance in determining what comparisons were relevant; landlocked countries had little occasion to concern themselves with their power relative to a distant maritime power, and being a neighbor to a strong country could mean being under constant threat. It was also a distinctive feature of political relations that comparisons of strength were relevant not only between pairs of countries but also between groups of actual or potential allies. The emphasis on international comparisons, on ratios, which was highly relevant in the political sphere in a world of power politics, whether the power was expected to serve national aggression or national security, was often carried over to the economic sphere, where it had little relevance. It could and did lead to gross confusion about the nature and significance of national wealth and national economic well-being.

When great emphasis was placed, in the economic sphere, as it logically was in the sphere of power rivalries, on an inherent conflict of interests, this had grave consequences both for economic policy and for international politics. If it was relative status that solely or mainly mattered, economic damage to a rival country could logically be treated as equivalent to economic benefit to one's own country, and famine abroad, to bountiful harvests at home. Such reasoning abounds in the mercantilist literature, and it was moral or sentimental revulsion against it more than superior economic analysis which brought much of the late eighteenth-century Enlightenment to the support of free trade ideas. Even among writers who were primarily interested in economic matters, the mercantilist "jealousy of trade" fostered, as overcompensation, an exaggerated belief in the harmony and mutuality of economic interests between countries.

The doctrine that low real wages (per hour or per day or per piece) were in the national interest was widely prevalent in England in the seventeenth and eighteenth centuries and has sometimes been labeled by modern writers as "the mercantilist labour doctrine." Many English writers did expound this doctrine, with favourable balance of trade considerations obviously in mind. But a substantial number of writers denied the proposition on which the doctrine was based, namely, that English labourers, once their minimum needs were taken care of, preferred idleness to more (or superior) commodities, or, as one eighteenth-century writer phrased it, that for workers in general "the luxury of indolence tends always to swamp the luxury of goods." Or, if they accepted the proposition as true to fact and regarded voluntary idleness as an evil, they proposed, on humanitarian and other grounds, the search for remedies less oppressive for the poor than low rates of real wages. It seems difficult to find on the Continent any trace of a special affinity between mercantilist thought in general and the low-wage doctrine, perhaps because it was generally impossible for the poor there to attain a basic minimum of subsistence without working to nearly the limits of their endurance, perhaps because in Catholic countries the frequency of religious holidays when work was prohibited satisfied their carvings for rest, leisure, and time-consuming dissipation.

Distinctive Aspects of Mercantilism

Mercantilism was a doctrine of extensive state regulation of economic activity in the interest of the national economy. It took for granted that man was inherently self-regarding and would pursue his own interests without concern about the consequences of such behaviour for the interests of the community. It accepted as axiomatic that if individuals were in their economic behaviour left free from tight regulation, the consequences for the community would be disastrous. But this had been practically universal doctrine from classical antiquity on, and therefore did not distinguish mercantilist from premercantilist thought.

Substantially new in mercantilist thought, however, was its systematic adjustment to the concentration of power and the monopolization of loyalty by nation-states, which in their relations with other states followed a "Machiavellian" or amoral code, and were more extensive in area of jurisdiction than the earlier city-states and feudal barons but less extensive than the empires of classical antiquity and than the universal Catholic church of the Middle Ages. Also substantially new in mercantilism were its greater concern with economic matters as one phase of the then prevalent secularization of thought and practice, the change in the specific character of the economic objectives of the political authorities, and the new administrative patterns of regulation of communal life. These new features were the product of the growth of commerce and of the changes in political organization associated with the breakdown of the Holy Roman Empire and of feudalism and the absorption of the hitherto substantially autonomous city-states by the new nation-states. Mercantilism was a doctrine of state intervention in economic life, but of state interventionism of a special pattern and with some special objectives. It was thus in sharp contrast with the later laissez-faire doctrine. It was also, however, in sharp contrast with some present-day systems of state interventionism, such as socialism, Russian communism, and the welfare state, for in principle at least these do not have the accumulation of the precious metals, favourable balances of trade, and national limits to moral obligations as central and ultimate objectives.

Differences in Practice

Agreement on the general mercantilist objectives left abundant room for major differences both among periods and among countries in the choice of methods used in pursuing these objectives and in the degree of vigor of their pursuit.

Practice was conditioned by limitations of administrative capacity; pressure of conflicting national objectives; domestic resistance arising out of regional, class, and occupational special interests; military weakness; and the idiosyncrasies, the apathy or enthusiasm, and the dynastic loyalties of monarchs.

The techniques adopted could be monetary ones, involving control of exchange markets and of the movement of the precious metals across national boundaries. They could take the form of regulation of individual commercial transactions; of regulation by general tariffs, prohibitions, or quantitative restrictions; or of subsidies to exports or to exporting or import-competing industries. The governments could themselves set up and operate factories producing for export or replacing imports; they could set up and operate companies engaged in foreign trade; they could grant monopoly privileges to privately owned chartered companies to produce and sell specified products in the domestic market, to engage in foreign trade on the basis of special privileges, and to administer overseas colonies. Governments could encourage immigration, restrict emigration, or promote early marriages in the belief that growth of population would serve the general mercantilist objectives. Wages and interest rates could be subjected to legal maxima in the belief that this would improve the national competitive position in foreign trade. Wars could be embarked upon for mercantilist reasons. On all of these matters, while ultimate objectives could be static within countries and uniform as between countries, the selection of means to serve these objectives could differ between countries and could undergo constant change through time within countries because of change of circumstances and of opinions.

Mercantilism in practice always in some measure fell short of what doctrine called for. Perhaps the most important deviations of practice from doctrine were those resulting from the fiscal necessities of government. All governments in the age of mercantilism found it difficult to finance their general activities. To adhere to mercantilist objectives without regard to fiscal considerations would often involve the exemption of important categories of exports from customs duties, the substitution of outright prohibition of specific exports and imports for customs duties—with a consequent loss of revenues—or the grant of subsidies to favoured industries, shipping, fisheries, or colonies, all of these being measures which would involve an increase of government expenditures or decrease of government revenues.

Restraints on importation carried beyond some uncertain point could lead foreign countries injured thereby to adopt retaliatory or defensive measures, with the possible result that the gross contribution to a "favourable" balance of trade made by the import restrictions might even in the short run be more than offset by the adverse effect on exports. Most mercantilist measures involved a burden on some occupational or regional sectors of the population. Such sectors, without challenging the general objectives of mercantilism, would commonly resort to all the forms of pressure and persuasion available to them to obtain a relaxation of the measures or a revision of them which would shift the burdens elsewhere. Thus, in England the graziers would press for a relaxation of the restrictions on the export of raw wool, and the independent merchants would protest vigorously against the special privileges granted to the trading companies. Even where absolute monarchy prevailed, governments found it necessary to make concessions to such dissenting groups.

Every measure restrictive of trade established a possibility of private profit from its evasion or violation, and no country was able to prevent extensive violation of the regulatory measures by smugglers, tax evaders, merchants operating illegally in restricted trades ("interlopers"), and bribed enforcement agents. Public resistance to particular restrictive measures and to the personnel endeavoring to enforce them, and lax administration at the top levels often led to apathy in enforcement. When Adam Smith, in 1778, entered into his duties as a commissioner of customs, he was astonished to find, expert though he already was, how much of his own personal effects consisted of articles of foreign manufacture which it was illegal not only to import but also to possess, and he warned a friend that the latter's wife, upon investigation, would probably find that she was even a worse offender. In

Britain in particular, although there was general approval in principle of mercantilism, there was almost equally general dislike of the administrative institutions and practices essential to its effective execution.

The British public was jealous of the exercise of power by the executive branch of the national government, of administration conducted by the central authorities in London instead of locally, and of agents of the central government with powers of inspection and arrest. Legislation was more centralized than in most countries, but enforcement was highly decentralized and was largely left to unpaid local magistrates with considerable autonomy and to suits brought on their own initiative by interested parties or by voluntary informers who were remunerated from the monetary penalties imposed by the magistrates as a result of such suits. The higher the customs duties and the more burdensome the regulations and prohibitions, the greater was the incentive to evade or violate them, so that in many cases difficulty of enforcement led to restraint in the severity of legislation or to partial or complete abandonment of serious attempts at enforcement. It seems quite plausible, therefore, that at least in England mercantilist measures were in practice not nearly as severe a restraint on foreign trade in the eighteenth century as were, say, the transportation costs of the time or than are the ordinary tariffs of present day protectionism.

While there was a substantial unity of doctrine throughout the Western world with respect to the proper objectives of commercial policy, the differences between countries in political organization, administrative structure, and geographical circumstances led to very substantial differences in the intensity with which, and the selection of devices whereby, they pursued these objectives. In the smaller Germanic states, for instance, mercantilism was little more than a vague general doctrine. The major interests of German intellectuals relating to economic and political matters, as represented by the contents of cameralist writings and university courses, were directed to the principles of management of the absolute rulers' finances, of organization and conduct of professionalized public administration, and of management of official property, including mints, mines, forests, and an occasional factory. In France, although public administration was on the whole centralized to an extent without parallel in England, taxation (including customs duties), property law, and guild regulations were largely under autonomous local administration following traditional and regionally diverse patterns and principles.

The Decline of Mercantilism

Criticism of the prevalent methods of pursuing mercantilist objectives was always fairly common in countries where some free discussion was tolerated. Much of this criticism, however, whatever its analytical merit, was special pleading by spokesmen for a political faction, an industry, a region, a particular port or town, or a particular privileged company.

In the 1750s there first began to appear comprehensive criticism of the basic principles of mercantilism by persons of stature with no visible private axes to grind. One major source of criticism was from exponents of an essentially new gospel of individualism which extolled the merits, on ethical and political as well as on economic grounds, of freedom of the individual from detailed regulation by the state. Here important voices were those of Adam Smith in Britain and of the marquis d'Argenson, the physiocrats, and Turgot in France. Important also was the widespread revulsion among intellectuals against the past record of almost continuous war and preparation for war, for which mercantilism was largely blamed. It was, in fact, much more the pacific and cosmopolitan views of the *philosophes* and the Illuminati on the Continent and of men like David Hume and Adam Smith in Britain than the more strictly economic argument of these and other writers which first put mercantilism seriously on the defensive among intellectuals.

In the early years of the nineteenth century the English classical school of economists rejected mercantilism on the basis of economic analysis, of which a part was substantially original with them. The school claimed that trade conducted under individual initiative and free from official regulation was inherently of mutual profit both to the individuals directly involved and to the community as a whole, and they applied this to domestic and international trade alike. Here they had since the 1750s a number of important predecessors. They added, however, an analytical justification of this position which was essentially new, the principle that allocation of resources to production in accordance with comparative costs would maximize aggregate output and that the operations of individuals acting in their own interest in a free and competitive market would conform with this principle. They did not deny that this was subject to the qualification that producers knew both what their relevant costs were and what were the prices at which their products could be sold. But they claimed, as an obvious proposition, that businessmen were better informed on these matters than government could be. From this reasoning, they proceeded to the policy conclusion that the determination of what commodities and in what quantities a country could export and import to its greatest advantage should be left to the outcome of the decisions of individual businessmen operating to maximize their own incomes. This was a sharp break with mercantilism's insistence on the necessity of regulation of economic behaviour and its ranking of the desirability of export and import of particular commodities according to whether they were manufactures or agricultural products or raw materials and according to their labour content. To the classical school these were more or less arbitrary classifications, whose correspondence, if any, in practice with classification according to the comparative cost principle would be fortuitous.

The classical school also rejected the mercantilist stress on the balance of trade and on the national supply of the precious metals. They claimed that in the absence of government regulation an international automatic equilibrating mechanism would bring each country the amount of specie appropriate to its needs and circumstances and would prevent trade balances from getting into serious disorder. Here they had predecessors in the eighteenth century, most notably, perhaps, Isaac Gervaise and David Hume.

It is to be noted that neither the mercantilists nor the classical school distinguished clearly and systematically between short-run and long-run effects, and that insofar as one can