

## Chapter 1 : "The Principle of the Mercantile System" | Literature Essays

*Conclusion of the Mercantile System* T HOUGH the encouragement of exportation, and the discouragement of importation, are the two great engines by which the mercantile system proposes to enrich every country, yet with regard to some particular commodities, it seems to follow an opposite plan: to discourage exportation and to encourage importation.

Introduction In his Theory of Moral Sentiments , Adam Smith “ took his moral concerns into the study of the new discipline of political economy. He discussed the fact that free international commerce would enlarge the economic benefits of the market. Likewise trade between nations would have the political benefit of reducing wars. In his magnum opus, An Inquiry into the Nature and Causes of the Wealth of the Nations Smith arranged a systematic model that tried to explain how self-interest guided free market competition into social benefits. With the division of labour, market production would increase making commodities available to the wider part of the population for cheaper prices. Secondly the concept of mercantilism, along with some examples bullionism, the English East India Company, and the Navigation Acts of will be discussed. Adam Smith “ Adam Smith was born in Kirkcaldy, Fifeshire, Scotland in , and was the son of a typical non noble family from the higher class. His father, also Adam Smith, was a civil servant who came to occupy positions of certain importance in the Scottish administration. After three years, in he received a Master of Arts degree from that university. An important detail to mention was the great influence that the then Professor of Moral Philosophy at Glasgow University, and one of the founding fathers of the Scottish Enlightenment, Francis Hutcheson had on Smith. It was during his lectures that the young Smith initiated his studies of political economy Cannan, , p. Furthermore, in his first book, The Theory of Moral Sentiments , he elaborated a philosophy of stimulus which attempted to unite human self-interest with unrestricted social order Heywood, , p. Later in the The Wealth of Nations , Smith argued that the main objective of the market economy was to create continued growth in the standard of living for the majority of people. From until his death in Adam Smith worked as a commissioner of customs for Scotland. The Wealth of Nations is not only a masterpiece of political economy but it recognises him as its founding character Heilbroner, , p. Mercantilism There is no common definition of mercantilism and its fundamental feature. Some argue that it is its strong sense of nationalism, whilst others discuss the role of state intervention in the economy. Additionally there is the argument relating to the paramount importance of bullionism 1. Moreover mercantilism is erroneously regarded as anti- trade, and as a program of zero-sum game2. As a protectionist policy, mercantilism needed military assistance but also required trade to endure. Therefore mercantilism can be considered to be a set of theories and practices of economic intervention that developed in modern Europe. This materialised due to the technological progress of shipbuilding which formed new trade routes between the commercial classes. A prime example of this development was the creation of the English East India Company in December This chartered monopoly was established to exploit commerce with the East Indies colonies, but traded as far as the Indian subcontinent. In order to keep this monopoly, the Navigation Act of was created. This Parliamentary Act prohibited European goods to be transported to Britain by foreign vessels; the only exception was the transport by English ships or a ship listed in the country of origin of the imports Deyon, , p. In addition, through the East India Company, in the mids vast amounts of cotton calicoes were imported from India to Britain. Eventually this had an effect on the domestic cotton market. It 1 The belief that the accumulation of precious metals, such as gold and silver is the main form of wealth for the State Encyclopedia Britannica, 2 The situation in which for one part to win, the other one has to loose also generated a debate and written work analysing the real benefits of free trade, however not the monopolistic discussion of free trade , but the one related to an unrestricted, self-promoted market Irwin, , p. He basically described this system as a political economic organisation that made efforts to promote exports and restrain imports. The Wealth of Nations critique Many of the analytical models of The Wealth of Nations were dedicated to attacking the mercantile system. They arose out of the considerations made by Smith towards the real accomplishments of the consumer revolution in Britain 3. At the expense of the common interest, merchant groups tried to evade the

competitive market and stimulate their own self-interest as stressed by Smith, , p. Thus institutional adjustments could channel individual interest to achieve socially desirable outcomes. Nevertheless, the creation of wealth and growth as argued by Adam Smith was never related to altruism, but instead to the forces of self-interest, as everyone was working for their own benefit which is exemplified in this sentence. For this to materialise, profit and affluence would only be possible through specialisation and the division of labour. The division of labour would increase productivity, thus generating wealth. Although often understood as a free-market thinker, Smith was nevertheless conscious of the restrictions of the laissez-faire system. The benefits of specialisation and the division of labour which would allow free competition, and consequently growth and wealth, could only work under certain conditions provided by the public authorities. International trade was to be the possible solution, since new opportunities would arise with the commerce of its surplus and bullionism could be seen as not the only form of wealth. The rules and principles that applied to the domestic market should also be applied at the international level Smith, , p. Self-interest, free competition, and the division of labour were key elements against mercantilist monopoly. Influenced by his professor and the founding figure of Scottish Enlightenment, Francis Hutcheson, Smith took his moral concerns in *The Theory of Moral Sentiments* into a study of the new discipline of political economy. Opposing the protectionist principles of mercantilism, he argued that free market competition would bring peace and wealth for all nations. In his main work, *The Wealth of the Nations* he made a systematic critique of mercantilism. Mercantilism is often mistakenly defined as a policy of zero sum game and in fact as necessary for trade to survive. However it is highly protective of the market as the examples of bullionsim, Chartered Monopolies and the Navigation Acts showed. Upper Saddle River, NJ: An Introduction, 4th Edition Basingstoke:

### Chapter 2 : Under the British mercantile system, colonies were expected to ? | Yahoo Answers

*Conclusion of the Mercantile System Though the encouragement of exportation and the discouragement of importation are the two great engines by which the mercantile system proposes to enrich every country, yet with regard to some particular commodities it seems to follow an opposite plan: to discourage exportation and to encourage importation.*

Are you sure you want to delete this answer? Yes Sorry, something has gone wrong. In the mercantilist system colonies were expected to help the mother country achieve a favorable balance of trade, favorable specie inflow, economic self-sufficiency and an export surplus. The mother country would provide the colonies with centralized governmental control of the economy, as well as naval and military protection. The English laws that systematized these developments for North America were enacted over a century and were built around a series of Navigation Acts beginning in 1651. They were given a comprehensive form in 1713. They confined the transport trade within the Empire to British or colonial ships, required all exports from Europe to the colonies to be shipped via England and vice versa, and specified a list of goods that could not be shipped to European ports other than England. These included sugar, cotton, tobacco, indigo, wool, naval stores, rice, furs, and copper. By the mid-seventeenth century, the colonies were prosperous and were encouraged in their prosperity by credits from home. The plantation colonies especially fitted nicely into the mercantilist system because the economies of the South and Britain naturally complemented one another. Britain carried the burden of colonial defense and gave colonial goods and ships protection abroad. From the early eighteenth century until the colonial policy was on the back burner, as England concentrated on a series of wars with France. The casualness of imperial administration and enforcement soothed points of disagreement and where discord continued, laws were tacitly evaded. Systematic smuggling was confined mainly to tea and molasses. For the most part the mercantile system provided easy credit, assured commercial markets, and brought economic prosperity to colonies and mother countries alike. English intervention in the economy in order to serve national interests produced financial and strategic advantages to the colonies. By giving the colonies the bulk of the shipping rights on trade with England, British mercantilism benefited the colonies. Mercantilism inevitably brought trade disputes with other countries, which in turn often degenerated into military struggles. Mercantilism had its critics. Smith advocated the free play of individual enterprise and free trade. Historians such as George Bancroft "condemned mercantilism as the source of foreign policy. He concluded that the Navigation Acts and mercantilism in general were the basic causes of the American Revolution" Many colonists realized that England looked on them purely for their economic role under mercantilism. They also realized that their own prosperity was largely the result of mercantilist policies. As British statesman and political philosopher Edmund Burke declared, "the Act of Navigation attended the colonies from their infancy, grew with their growth and strengthened with their strength. They were confirmed in obedience to it even more by usage than by law. Dickerson disagreed with Bancroft that the Navigation Acts presented a great impediment to colonial trade. They argued that the real bitterness among American colonists after was aimed at British customs and revenue collectors, stamp officials, and enforcement agents. They had a distaste not for mercantilism but for their role in a reorganized empire that emerged after the end of the French and Indian Wars" In particular, they objected to the taxation policy. Overzealous officers, racketeering practices, seizures, and new bonding regulations among other things were what brought hostility from colonists.

**Chapter 3 : Wealth of Nations Overview**

*Chapter 8 Summary. The mercantile system, by encouraging exportation and discouraging importation, gives a country's laborers an advantage, enabling them to undersell those in foreign markets.*

Though the encouragement of exportation, and the discouragement of importation, are the two great engines by which the mercantile system proposes to enrich every country, yet, with regard to some particular commodities, it seems to follow an opposite plan: Its ultimate object, however, it pretends, is always the same, to enrich the country by an advantageous balance of trade. It discourages the exportation of the materials of manufacture, and of the instruments of trade, in order to give our own workmen an advantage, and to enable them to undersell those of other nations in all foreign markets; and by restraining, in this manner, the exportation of a few commodities, of no great price, it proposes to occasion a much greater and more valuable exportation of others. It encourages the importation of the materials of manufacture, in order that our own people may be enabled to work them up more cheaply, and thereby prevent a greater and more valuable importation of the manufactured commodities. I do not observe, at least in our statute book, any encouragement given to the importation of the instruments of trade. When manufactures have advanced to a certain pitch of greatness, the fabrication of the instruments of trade becomes itself the object of a great number of very important manufactures. To give any particular encouragement to the importation of such instruments, would interfere too much with the interest of those manufactures. Such importation, therefore, instead of being encouraged, has frequently been prohibited. Thus the importation of wool cards, except from Ireland, or when brought in as wreck or prize goods, was prohibited by the 3rd of Edward IV. The importation of the materials of manufacture has sometimes been encouraged by an exemption from the duties to which other goods are subject, and sometimes by bounties. The private interest of our merchants and manufacturers may, perhaps, have extorted from the legislature these exemptions, as well as the greater part of our other commercial regulations. They are, however, perfectly just and reasonable; and if, consistently with the necessities of the state, they could be extended to all the other materials of manufacture, the public would certainly be a gainer. The avidity of our great manufacturers, however, has in some cases extended these exemptions a good deal beyond what can justly be considered as the rude materials of their work. By the 24th Geo. But our manufacturers were not long satisfied with this reduction: In the different operations, however, which are necessary for the preparation of linen yarn, a good deal more industry is employed, than in the subsequent operation of preparing linen cloth from linen yarn. To say nothing of the industry of the flax-growers and flaxdressers, three or four spinners at least are necessary in order to keep one weaver in constant employment; and more than four-fifths of the whole quantity of labour necessary for the preparation of linen cloth, is employed in that of linen yarn; but our spinners are poor people; women commonly scattered about in all different parts of the country, without support or protection. It is not by the sale of their work, but by that of the complete work of the weavers, that our great master manufacturers make their profits. As it is their interest to sell the complete manufacture as dear, so it is to buy the materials as cheap as possible. By extorting from the legislature bounties upon the exportation of their own linen, high duties upon the importation of all foreign linen, and a total prohibition of the home consumption of some sorts of French linen, they endeavour to sell their own goods as dear as possible. By encouraging the importation of foreign linen yarn, and thereby bringing it into competition with that which is made by our own people, they endeavour to buy the work of the poor spinners as cheap as possible. They are as intent to keep down the wages of their own weavers, as the earnings of the poor spinners; and it is by no means for the benefit of the workmen that they endeavour either to raise the price of the complete work, or to lower that of the rude materials. It is the industry which is carried on for the benefit of the rich and the powerful, that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent is too often either neglected or oppressed. Both the bounty upon the exportation of linen, and the exemption from the duty upon the importation of foreign yarn, which were granted only for fifteen years, but continued by two different prolongations, expire with the end of the session of parliament which shall immediately follow the 24th of

June The encouragement given to the importation of the materials of manufacture by bounties, has been principally confined to such as were imported from our American plantations. The first bounties of this kind were those granted about the beginning of the present century, upon the importation of naval stores from America. Under this denomination were comprehended timber fit for masts, yards, and bowsprits; hemp, tar, pitch, and turpentine. Both these bounties continued, without any variation, at the same rate, till they were severally allowed to expire; that upon hemp on the 1st of January, and that upon masting-timber at the end of the session of parliament immediately following the 24th June. The bounties upon the importation of tar, pitch, and turpentine, underwent, during their continuance, several alterations. The second bounty upon the importation of any of the materials of manufacture, according to the order of time, was that granted by the 21st Geo. When the plantation indigo was worth three-fourths of the price of the best French indigo, it was, by this act, entitled to a bounty of 6d. This bounty, which, like most others, was granted only for a limited time, was continued by several prolongations, but was reduced to 4d. It was allowed to expire with the end of the session of parliament which followed the 25th March. The third bounty of this kind was that granted much about the time that we were beginning sometimes to court, and sometimes to quarrel with our American colonies, by the 4th. This bounty was granted for twenty-one years, from the 24th June to the 24th June. It was not extended to Scotland, of which the climate although hemp is sometimes raised there in small quantities, and of an inferior quality is not very fit for that produce. Such a bounty upon the importation of Scotch flax in England would have been too great a discouragement to the native produce of the southern part of the united kingdom. The fourth bounty of this kind was that granted by the 5th Geo. It was granted for nine years from the 1st January to the 1st January. For the second three years, it was for deals, to be at the rate of 15s. The fifth bounty of this kind was that granted by the 9th Geo. It was granted for twenty-one years, from the 1st January, to the 1st January. The management of the silk-worm, and the preparation of silk, requires so much hand-labour, and labour is so very dear in America, that even this great bounty, I have been informed, was not likely to produce any considerable effect. The sixth Bounty of this kind was that granted by 11th Geo. It was granted for nine years, from 1st January to the 1st January. The seventh and last bounty of this kind was that granted by the 19th Geo. It was granted in the same manner as that for the importation of hemp and undressed flax from America, for twenty-one years, from the 24th June to the 24th June. The term is divided likewise into three periods, of seven years each; and in each of those periods, the rate of the Irish bounty is the same with that of the American. It does not, however, like the American bounty, extend to the importation of undressed flax. It would have been too great a discouragement to the cultivation of that plant in Great Britain. When this last bounty was granted, the British and Irish legislatures were not in much better humour with one another, than the British and American had been before. But this boon to Ireland, it is to be hoped, has been granted under more fortunate auspices than all those to America. The same commodities, upon which we thus gave bounties, when imported from America, were subjected to considerable duties when imported from any other country. The interest of our American colonies was regarded as the same with that of the mother country. Their wealth was considered as our wealth. Whatever money was sent out to them, it was said, came all back to us by the balance of trade, and we could never become a farthing the poorer by any expense which we could lay out upon them. They were our own in every respect, and it was an expense laid out upon the improvement of our own property, and for the profitable employment of our own people. It is unnecessary, I apprehend, at present to say anything further, in order to expose the folly of a system which fatal experience has now sufficiently exposed. Had our American colonies really been a part of Great Britain, those bounties might have been considered as bounties upon production, and would still have been liable to all the objections to which such bounties are liable, but to no other. The exportation of the materials of manufacture is sometimes discouraged by absolute prohibitions, and sometimes by high duties. Our woollen manufacturers have been more successful than any other class of workmen, in persuading the legislature that the prosperity of the nation depended upon the success and extension of their particular business. They have not only obtained a monopoly against the consumers, by an absolute prohibition of importing woollen cloths from any foreign country; but they have likewise obtained another monopoly against the sheep farmers and growers of wool, by a similar prohibition of the exportation of live sheep and wool. The severity of many of the laws which have

been enacted for the security of the revenue is very justly complained of, as imposing heavy penalties upon actions which, antecedent to the statutes that declared them to be crimes, had always been understood to be innocent. But the cruellest of our revenue laws, I will venture to affirm, are mild and gentle, in comparison to some of those which the clamour of our merchants and manufacturers has extorted from the legislature, for the support of their own absurd and oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood. By the 8th of Elizabeth, chap. To prevent the breed of our sheep from being propagated in foreign countries, seems to have been the object of this law. By the 13th and 14th of Charles II. For the honour of the national humanity, it is to be hoped that neither of these statutes was ever executed. The first of them, however, so far as I know, has never been directly repealed, and serjeant Hawkins seems to consider it as still in force. It may, however, perhaps be considered as virtually repealed by the 12th of Charles II. The second of them was expressly repealed by the 7th and 8th of William III. Besides the forfeiture of the goods, the exporter incurs the penalty of 3s. Any merchant, or other person convicted of this offence, is disabled from requiring any debt or account belonging to him from any factor or other person. Let his fortune be what it will, whether he is or is not able to pay those heavy penalties, the law means to ruin him completely. But, as the morals of the great body of the people are not yet so corrupt as those of the contrivers of this statute, I have not heard that any advantage has ever been taken of this clause. If the person convicted of this offence is not able to pay the penalties within three months after judgment, he is to be transported for seven years; and if he returns before the expiration of that term, he is liable to the pains of felony, without benefit of clergy. The owner of the ship, knowing this offence, forfeits all his interest in the ship and furniture. The master and mariners, knowing this offence, forfeit all their goods and chattels, and suffer three months imprisonment. By a subsequent statute, the master suffers six months imprisonment. In order to prevent exportation, the whole inland commerce of wool is laid under very burdensome and oppressive restrictions. It cannot be packed in any box, barrel, cask, case, chest, or any other package, but only in packs of leather or pack-cloth, on which must be marked on the outside the words WOOL or YARN, in large letters, not less than three inches long, on pain of forfeiting the same and the package, and 8s. It cannot be loaden on any horse or cart, or carried by land within five miles of the coast, but between sun-rising, and sun-setting, on pain of forfeiting the same, the horses and carriages. The execution to be against any two of the inhabitants, whom the sessions must reimburse, by an assessment on the other inhabitants, as in the cases of robbery. And if any person compounds with the hundred for less than this penalty, he is to be imprisoned for five years; and any other person may prosecute. These regulations take place through the whole kingdom. But in the particular counties of Kent and Sussex, the restrictions are still more troublesome. Every owner of wool within ten miles of the sea coast must give an account in writing, three days after shearing, to the next officer of the customs, of the number of his fleeces, and of the places where they are lodged. And before he removes any part of them, he must give the like notice of the number and weight of the fleeces, and of the name and abode of the person to whom they are sold, and of the place to which it is intended they should be carried. No person within fifteen miles of the sea, in the said counties, can buy any wool, before he enters into bond to the king, that no part of the wool which he shall so buy shall be sold by him to any other person within fifteen miles of the sea. If any wool is found carrying towards the sea side in the said counties, unless it has been entered and security given as aforesaid, it is forfeited, and the offender also forfeits 3s. When such restrictions are imposed upon the inland trade, the coasting trade, we may believe, cannot be left very free. Every owner of wool, who carrieth, or causeth to be carried, any wool to any port or place on the sea coast, in order to be from thence transported by sea to any other place or port on the coast, must first cause an entry thereof to be made at the port from whence it is intended to be conveyed, containing the weight, marks, and number, of the packages, before he brings the same within five miles of that port, on pain of forfeiting the same, and also the horses, carts, and other carriages; and also of suffering and forfeiting, as by the other laws in force against the exportation of wool. This law, however 1st of William III. Bond must be given that the wool to be carried coast-ways is to be landed at the particular port for which it is entered outwards; and if my part of it is landed without the presence of an officer, not only the forfeiture of the wool is incurred, as in other goods, but the usual additional penalty of 3s. Our woollen manufacturers, in order to justify their demand of such extraordinary restrictions and

regulations, confidently asserted, that English wool was of a peculiar quality, superior to that of any other country; that the wool of other countries could not, without some mixture of it, be wrought up into any tolerable manufacture; that fine cloth could not be made without it; that England, therefore, if the exportation of it could be totally prevented, could monopolize to herself almost the whole woollen trade of the world; and thus, having no rivals, could sell at what price she pleased, and in a short time acquire the most incredible degree of wealth by the most advantageous balance of trade. This doctrine, like most other doctrines which are confidently asserted by any considerable number of people, was, and still continues to be, most implicitly believed by a much greater number: It is, however, so perfectly false, that English wool is in any respect necessary for the making of fine cloth, that it is altogether unfit for it.

### Chapter 4 : The Wealth of Nations - CHAPTER VIII. CONCLUSION OF THE MERCANTILE SYSTEM.

*The term "mercantile system" was used by its foremost critic, Adam Smith, but Mirabeau () had used "mercantilism" earlier. Mercantilism functioned as the economic counterpart of the older version of political power: divine right of kings and absolute monarchy.*

Colbertism French finance minister and mercantilist Jean-Baptiste Colbert served for over 20 years. Mercantilism arose in France in the early 16th century soon after the monarchy had become the dominant force in French politics. In 1664, an important decree banned the import of woolen goods from Spain and some parts of Flanders. The next year, a number of restrictions were imposed on the export of bullion. The height of French mercantilism is closely associated with Jean-Baptiste Colbert, finance minister for 22 years in the 17th century, to the extent that French mercantilism is sometimes called Colbertism. Under Colbert, the French government became deeply involved in the economy in order to increase exports. Protectionist policies were enacted that limited imports and favored exports. Industries were organized into guilds and monopolies, and production was regulated by the state through a series of more than one thousand directives outlining how different products should be produced. Colbert also worked to decrease internal barriers to trade, reducing internal tariffs and building an extensive network of roads and canals. He was less successful in turning France into a major trading power, and Britain and the Netherlands remained supreme in this field. Economic history of Canada France imposed its mercantilist philosophy on its colonies in North America, especially New France. It sought to derive the maximum material benefit from the colony, for the homeland, with a minimum of imperial investment in the colony itself. The ideology was embodied in New France through the establishment under Royal Charter of a number of corporate trading monopolies including La Compagnie des Marchands, which operated from 1664 to 1674, and the Compagnie de Montmorency, from that date until 1680. These were the first corporations to operate in what is now Canada. Mercantilist policies were also embraced throughout much of the Tudor and Stuart periods, with Robert Walpole being another major proponent. In Britain, government control over the domestic economy was far less extensive than on the Continent, limited by common law and the steadily increasing power of Parliament. With respect to its colonies, British mercantilism meant that the government and the merchants became partners with the goal of increasing political power and private wealth, to the exclusion of other empires. The government protected its merchants and kept others out through trade barriers, regulations, and subsidies to domestic industries in order to maximize exports from and minimize imports to the realm. The government had to fight smuggling, which became a favorite American technique in the 18th century to circumvent the restrictions on trading with the French, Spanish, or Dutch. The goal of mercantilism was to run trade surpluses, so that gold and silver would pour into London. The government took its share through duties and taxes, with the remainder going to merchants in Britain. The government spent much of its revenue on a superb Royal Navy, which not only protected the British colonies but threatened the colonies of the other empires, and sometimes seized them. The colonies were captive markets for British industry, and the goal was to enrich the mother country. British mercantilism thus mainly took the form of efforts to control trade. A wide array of regulations were put in place to encourage exports and discourage imports. Tariffs were placed on imports and bounties given for exports, and the export of some raw materials was banned completely. The nation aggressively sought colonies and once under British control, regulations were imposed that allowed the colony to only produce raw materials and to only trade with Britain. This led to friction with the inhabitants of these colonies, and mercantilist policies such as forbidding trade with other empires and controls over smuggling were a major irritant leading to the American Revolution. The other nations of Europe also embraced mercantilism to varying degrees. The Netherlands, which had become the financial centre of Europe by being its most efficient trader, had little interest in seeing trade restricted and adopted few mercantilist policies. The Habsburg Holy Roman Emperors had long been interested in mercantilist policies, but the vast and decentralized nature of their empire made implementing such notions difficult. Some constituent states of the empire did embrace Mercantilism, most notably Prussia, which under Frederick the Great had perhaps the most rigidly controlled

economy in Europe. During the economic collapse of the 17th century, Spain had little coherent economic policy, but French mercantilist policies were imported by Philip V with some success. Wars and imperialism[ edit ] Mercantilism was the economic version of warfare using economics as a tool for warfare by other means backed up by the state apparatus, and was well suited to an era of military warfare. A number of wars, most notably the Anglo-Dutch Wars and the Franco-Dutch Wars , can be linked directly to mercantilist theories. Mercantilism fueled the imperialism of this era, as many nations expended significant effort to conquer new colonies that would be sources of gold as in Mexico or sugar as in the West Indies , as well as becoming exclusive markets. With the establishment of overseas colonies by European powers early in the 17th century, mercantile theory gained a new and wider significance, in which its aim and ideal became both national and imperialistic. Mercantilism functioned as the economic counterpart of the older version of political power: The second school, supported by scholars such as Robert B. Ekelund , portrays mercantilism not as a mistake, but rather as the best possible system for those who developed it. This school argues that rent-seeking merchants and governments developed and enforced mercantilist policies. Merchants benefited greatly from the enforced monopolies, bans on foreign competition, and poverty of the workers. Governments benefited from the high tariffs and payments from the merchants. Whereas later economic ideas were often developed by academics and philosophers, almost all mercantilist writers were merchants or government officials. European trade exported bullion to pay for goods from Asia, thus reducing the money supply and putting downward pressure on prices and economic activity. The evidence for this hypothesis is the lack of inflation in the British economy until the Revolutionary and Napoleonic Wars, when paper money came into vogue. A fourth explanation lies in the increasing professionalisation and technification of the wars of the era, which turned the maintenance of adequate reserve funds in the prospect of war into a more and more expensive and eventually competitive business. Mercantilism developed at a time of transition for the European economy. Isolated feudal estates were being replaced by centralized nation-states as the focus of power. Technological changes in shipping and the growth of urban centres led to a rapid increase in international trade. Another important change was the introduction of double-entry bookkeeping and modern accounting. This accounting made extremely clear the inflow and outflow of trade, contributing to the close scrutiny given to the balance of trade. The goal of these thinkers was to find an economic system compatible with Christian doctrines of piety and justice. They focused mainly on microeconomics and on local exchanges between individuals. Mercantilism was closely aligned with the other theories and ideas that began to replace the medieval worldview. The mercantilist idea of all trade as a zero-sum game, in which each side was trying to best the other in a ruthless competition, was integrated into the works of Thomas Hobbes. This dark view of human nature also fit well with the Puritan view of the world, and some of the most stridently mercantilist legislation, such as the Navigation Ordinance of , was enacted by the government of Oliver Cromwell. In the English-speaking world its ideas were criticized by Adam Smith with the publication of *The Wealth of Nations* in and later by David Ricardo with his explanation of comparative advantage. Mercantilism was rejected by Britain and France by the mid-18th century. The British Empire embraced free trade and used its power as the financial centre of the world to promote the same. The Guyanese historian Walter Rodney describes mercantilism as the period of the worldwide development of European commerce, which began in the 15th century with the voyages of Portuguese and Spanish explorers to Africa, Asia, and the New World. Criticisms[ edit ] Adam Smith and David Hume were the founding fathers of anti-mercantilist thought. A number of scholars found important flaws with mercantilism long before Smith developed an ideology that could fully replace it. Critics like Hume, Dudley North and John Locke undermined much of mercantilism and it steadily lost favor during the 18th century. In , Locke argued that prices vary in proportion to the quantity of money. Mercantilists failed to understand the notions of absolute advantage and comparative advantage although this idea was only fully fleshed out in by David Ricardo and the benefits of trade. Thus if Portugal specialized in wine and England in cloth, both states would end up better off if they traded. This is an example of the reciprocal benefits of trade whether due to comparative or absolute advantage. In modern economic theory, trade is not a zero-sum game of cutthroat competition, because both sides can benefit from it. Conversely, in the state exporting bullion, its value would slowly rise. Eventually it would no longer be

cost-effective to export goods from the high-price country to the low-price country, and the balance of trade would reverse. Mercantilists fundamentally misunderstood this, long arguing that an increase in the money supply simply meant that everyone gets richer. Adam Smith noted that at the core of the mercantile system was the "popular folly of confusing wealth with money", that bullion was just the same as any other commodity, and that there was no reason to give it special treatment. They believe Mun and Misselden were not making this mistake in the 17th century, and point to their followers Josiah Child and Charles Davenant, who in 1689 wrote, "Gold and Silver are indeed the Measure of Trade, but that the Spring and Original of it, in all nations is the Natural or Artificial Product of the Country; that is to say, what this Land or what this Labour and Industry Produces. Their theories also had several important problems, and the replacement of mercantilism did not come until Adam Smith published *The Wealth of Nations* in 1776. This book outlines the basics of what is today known as classical economics. Smith spent a considerable portion of the book rebutting the arguments of the mercantilists, though often these are simplified or exaggerated versions of mercantilist thought. Those who feel that mercantilism amounted to rent seeking hold that it ended only when major power shifts occurred. While the wealthy capitalists who controlled the House of Commons benefited from these monopolies, Parliament found it difficult to implement them because of the high cost of group decision making. On the continent, the process was somewhat different. In France, economic control remained in the hands of the royal family, and mercantilism continued until the French Revolution. In Germany mercantilism remained an important ideology in the 19th and early 20th centuries, when the historical school of economics was paramount. He added that mercantilism was popular among merchants because it was what is now called rent seeking. Keynes also noted that in the early modern period the focus on the bullion supplies was reasonable. In an era before paper money, an increase in bullion was one of the few ways to increase the money supply. Keynes said mercantilist policies generally improved both domestic and foreign investment because the policies lowered the domestic rate of interest, and investment by foreigners by tending to create a favorable balance of trade. Keynes also supported government intervention in the economy as necessity, as did mercantilism. Paul Samuelson, writing within a Keynesian framework, wrote of mercantilism, "With employment less than full and Net National Product suboptimal, all the debunked mercantilist arguments turn out to be valid. Samuelson wrote that China was pursuing an essentially neo-mercantilist trade policy that threatened to undermine the post-World War II international economic structure. Mercantilism, which reached its height in the Europe of the seventeenth and eighteenth centuries, was a system of statism which employed economic fallacy to build up a structure of imperial state power, as well as special subsidy and monopolistic privilege to individuals or groups favored by the state. Thus, mercantilism held exports should be encouraged by the government and imports discouraged. Neomercantilism Neomercantilism is a 20th-century economic policy that uses the ideas and methods of neoclassical economics. The new mercantilism has different goals and focuses on more rapid economic growth based on advanced technology. It promotes such policies as substitution state taxation, subsidies, expenditures, and general regulatory powers for tariffs and quotas, and protection through the formation of supranational trading blocs.

*chapter viii: conclusion of the mercantile system 1 - adam smith, an inquiry into the nature and causes of the wealth of nations (cannan ed.), vol. 2 [ ] Edition used: An Inquiry into the Nature and Causes of the Wealth of Nations by Adam Smith, edited with an Introduction, Notes, Marginal Summary and an Enlarged Index by Edwin Cannan.*

Mercantilism replaced the older, feudal economic system in Western Europe, leading to one of the first occurrences of political oversight and control over an economy. At the time, England, the center of the British Empire, was small and contained relatively few natural resources. The Sugar Act of introduced high customs for sugar and molasses imported from outside of England and the British colonies. Great Britain was not alone in this line of thinking. Advocates of mercantilism believed the prosperity of a nation was reliant on its supply of capital, and global volume of trade was static. The result was a system of economics that required a positive balance of trade, with surplus exports. One notion behind mercantilism is the economic health of a nation could be assessed by the amount of precious metal, gold or silver it owned. The system advocated for each nation to strive to be economically self-sufficient, which meant the nation would have to increase domestic production and build new homes and industries. Advocates of mercantilism also saw that agriculture was important and should be promoted so a nation could reduce the need to import foods. They suggested a strong nation-state needed colonies and a merchant fleet, both of which could provide additional markets for goods and raw materials. Mercantilists also believed a large population was integral to the domestic labor force of a nation. Controlled production and trade: The expansion of the slave trade: This fostered the development of the slave trade in many colonies, including America. The colonies provided rum, cotton and other products heavily demanded by imperialists in Africa. In turn, slaves were returned to America or the West Indies and traded for sugar and molasses. Mismanagement of printed currency resulted in periods of inflation. Additionally, Great Britain was in a near-constant state of war. Taxation was needed to prop up the army and navy. It was argued that the state should franchise out the leading merchants in promising industries to create exclusive monopolies and cartels. These monopolistic corporations were to be controlled by the government and act as an arm of government interests. Citizens could invest money in mercantilist corporations in exchange for ownership and limited liability in their royal charters. They were granted "shares" of the company profit—the first traded corporate stocks. Its trade routes were protected by the Royal Navy and its high-ranking members became very influential in determining British foreign policy. Colbert had studied the previous theorists of a foreign-trade-driven economy and was in a unique position of authority to execute their ideas. He was also a devout monarchist and wanted an economic strategy to protect the French crown from a rising Dutch mercantile class. Colbert increased the size of the French navy on the premise that his country would have to take control of trade routes to increase its wealth. Even though his practices were ultimately unsuccessful, his ideas became hugely popular until the theory of free market economics was popularized. When Britain introduced the Sugar Act and Navigation Acts to force colonists away from foreign products, the plan backfired by angering the colonies and promoting dissatisfaction with British rule. The imposition of heavy taxes and restrictions frustrated American colonists and eventually contributed to the American Revolution. Defenders of mercantilism argued that the economic system creates stronger economies by bringing colonies and founding countries together. Colonies, creating their own products and obtaining others in trade from the founder, are independent of influence from hostile nations that may manipulate the colonies using trade restrictions. Mercantilist countries use state authority to increase state wealth. Founding nations would export the products of their manufacturing to the colonies. This system made the colony and founding nation more independent and served to enrich the state. Foreign imports were more expensive because all imports had to be shipped by British ships from Great Britain regardless of product origin. These disadvantages were, in the eyes of the colonists, outweighed by the benefits of affiliation with Great Britain. The decision to raise tax rates on the colonies changed how many colonists viewed the Empire. At this point, the benefits of independence became more attractive. The increases caused growing frustration among colonists and led to open rebellion. A boycott of British products began that dropped imports by a full

one-third. The Boston Tea Party added to the fierce resistance aimed at British policies. The lack of representation available to colonists led many to become hostile. In order to protect the mercantilist system, Great Britain pushed harder against the colonies, and the Revolutionary War eventually resulted from the mounting disagreements between the British Empire and American colonies. For example, if trade restrictions prevent a country with a highly skilled labor force from importing clothing, businesses might divert resources to its production. That clothing is relatively expensive to produce because of the high wages that a skilled labor force demands. The returns to the high-cost apparel will be lower than the returns from a more appropriate set of activities. Economic growth is dampened for the country with the trade restrictions, and another country with a low-skilled labor force loses an important potential market for its products, leading to lower growth there as well. In a free trade system, individuals benefit from a greater choice of goods for purchase at affordable prices. Mercantilism restricts imports, which reduces the choices available to consumers in the marketplace. Fewer imports mean less competition, and therefore, higher prices. Further, under a system of free trade, nations are more prosperous because they are not engaged in a zero-sum game. During the years when mercantilism was the primary economic system, countries were engaged in almost constant warfare. Mercantilism encouraged nations to fight over scarce resources rather than find ways to engage in mutually beneficial trade relations. Specialized production leads to economies of scale which, in turn, lead to higher productivity and economic growth. In a free trade system, businesses have incentives to be innovative. By creating more useful products, better production and distribution systems, and more efficient operations, businesses can grow and prosper. Today, mercantilism is considered an outdated philosophy. However, barriers to trade still exist to protect locally entrenched industries. For example, the United States adopted a protectionist trade policy toward Japan in the post-war period and negotiated voluntary export restrictions with the Japanese government, which limited the quantity of Japanese exports to the United States.

*According to Adam Smith in this article, the basis of England's wealth is gold and silver, not in the lands, houses, or resources. He goes on to explain through the article that England has lost its focus on the industry of the consumer and concentrated more on the importation of the money.*

CHAPTER VIII Conclusion of the Mercantile System Though the encouragement of exportation and the discouragement of importation are the two great engines by which the mercantile system proposes to enrich every country, yet with regard to some particular commodities it seems to follow an opposite plan: Its ultimate object, however, it pretends, is always the same, to enrich the country by an advantageous balance of trade. It discourages the exportation of the materials of manufacture, and of the instruments of trade, in order to give our own workmen an advantage, and to enable them to undersell those of other nations in all foreign markets; and by restraining, in this manner, the exportation of a few commodities, of no great price, it proposes to occasion a much greater and more valuable exportation of others. It encourages the importation of the materials of manufacture in order that our own people may be enabled to work them up more cheaply, and thereby prevent a greater and more valuable importation of the manufactured commodities. I do not observe, at least in our Statute Book, any encouragement given to the importation of the instruments of trade. When manufactures have advanced to a certain pitch of greatness, the fabrication of the instruments of trade becomes itself the object of a great number of very important manufactures. To give any particular encouragement to the importation of such instruments would interfere too much with the interest of those manufactures. Such importation, therefore, instead of being encouraged, has frequently been prohibited. Thus the importation of wool cards, except from Ireland, or when brought in as wreck or prize goods, was prohibited by the 3rd of Edward IV; which prohibition was renewed by the 39th of Elizabeth, and has been continued and rendered perpetual by subsequent laws. The importation of the materials of manufacture has sometimes been encouraged by an exemption from the duties to which other goods are subject, and sometimes by bounties. The private interest of our merchants and manufacturers may, perhaps, have extorted from the legislature these exemptions as well as the greater part of our other commercial regulations. They are, however, perfectly just and reasonable, and if, consistently with the necessities of the state, they could be extended to all the other materials of manufacture, the public would certainly be a gainer. The avidity of our great manufacturers, however, has in some cases extended these exemptions a good deal beyond what can justly be considered as the rude materials of their work. By the 24th George III, c. But our manufacturers were not long satisfied with this reduction. By the 29th of the same king, c. In the different operations, however, which are necessary for the preparation of linen yarn, a good deal more industry is employed than in the subsequent operation of preparing linen cloth from linen yarn. To say nothing of the industry of the flax-growers and flax-dressers, three or four spinners, at least, are necessary in order to keep one weaver in constant employment; and more than four-fifths of the whole quantity of labour necessary for the preparation of linen cloth is employed in that of linen yarn; but our spinners are poor people, women commonly scattered about in all different parts of the country, without support or protection. It is not by the sale of their work, but by that of the complete work of the weavers, that our great master manufacturers make their profits. As it is their interest to sell the complete manufacture as dear, so is it to buy the materials as cheap as possible. By extorting from the legislature bounties upon the exportation of their own linen, high duties upon the importation of all foreign linen, and a total prohibition of the home consumption of some sorts of French linen, they endeavour to sell their own goods as dear as possible. By encouraging the importation of foreign linen yarn, and thereby bringing it into competition with that which is made by our own people, they endeavour to buy the work of the poor spinners as cheap as possible. They are as intent to keep down the wages of their own weavers as the earnings of the poor spinners, and it is by no means for the benefit of the workman that they endeavour either to raise the price of the complete work or to lower that of the rude materials. It is the industry which is carried on for the benefit of the rich and the powerful that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent is too often either neglected or oppressed. Both the

bounty upon the exportation of linen, and the exemption from duty upon the importation of foreign yarn, which were granted only for fifteen years, but continued by two different prolongations, expire with the end of the session of Parliament which shall immediately follow the 24th of June. The encouragement given to the importation of the materials of manufacture by bounties has been principally confined to such as were imported from our American plantations. The first bounties of this kind were those granted about the beginning of the present century upon the importation of naval stores from America. Under this denomination were comprehended timber fit for masts, yards, and bowsprits; hemp; tar, pitch, and turpentine. The bounty, however, of one pound the ton upon masting-timber, and that of six pounds the ton upon hemp, were extended to such as should be imported into England from Scotland. Both these bounties continued without any variation, at the same rate, till they were severally allowed to expire; that upon hemp on the 1st of January, and that upon masting-timber at the end of the session of Parliament immediately following the 24th June. The bounties upon the importation of tar, pitch, and turpentine underwent, during their continuance, several alterations. Originally that upon tar was four pounds the ton; that upon pitch the same; and that upon turpentine, three pounds the ton. The bounty of four pounds the ton upon tar was afterwards confined to such as had been prepared in a particular manner; that upon other good, clean, and merchantable tar was reduced to two pounds four shillings the ton. The bounty upon pitch was likewise reduced to one pound; and that upon turpentine to one pound ten shillings the ton. The second bounty upon the importation of any of the materials of manufacture, according to the order of time, was that granted by the 21st George II, c. When the plantation indigo was worth three-fourths of the price of the best French indigo, it was by this act entitled to a bounty of sixpence the pound. This bounty, which, like most others, was granted only for a limited time, was continued by several prolongations, but was reduced to fourpence the pound. It was allowed to expire with the end of the session of Parliament which followed the 25th March. The third bounty of this kind was that granted much about the time that we were beginning sometimes to court and sometimes to quarrel with our American colonies by the 4th George III, c. This bounty was granted for twenty-one years, from the 24th June to the 24th June. For the first seven years it was to be at the rate of eight pounds the ton, for the second at six pounds, and for the third at four pounds. It was not extended to Scotland, of which the climate although hemp is sometimes raised there in small quantities and of an inferior quality is not very fit for that produce. Such a bounty upon the importation of Scotch flax into England would have been too great a discouragement to the native produce of the southern part of the United Kingdom. The fourth bounty of this kind was that granted by the 5th George III, c. It was granted for nine years, from the 1st January to the 1st January. During the first three years, it was to be for every hundred and twenty good deals, at the rate of one pound, and for every load containing fifty cubic feet of other squared timber at the rate of twelve shillings. For the second three years, it was for deals to be at. The fifth bounty of this kind was that granted by the 9th George III, c. It was granted for twenty-one years, from the 1st January to the 1st January. For the first seven years it was to be at the rate of twenty-five pounds for every hundred pounds value; for the second at twenty pounds; and for the third at fifteen pounds. The management of the silk worm, and the preparation of silk, requires so much hand labour, and labour is so very dear in America that even this great bounty, I have been informed, was not likely to produce any considerable effect. The sixth bounty of this kind was that granted by 2nd George III, c. It was granted for nine years, from 1st January to the 1st January. For the first three years it was for a certain quantity of each to be at the rate of six pounds; for the second three years at four pounds; and for the third three years at two pounds. The seventh and last bounty of this kind was that granted by the 19th George III, c. It was granted in the same manner as that for the importation of hemp and undressed flax from America, for twenty-one years, from the 24th June to the 24th June. This term is divided, likewise, into three periods of seven years each; and in each of those periods the rate of the Irish bounty is the same with that of the American. It does not, however, like the American bounty, extend to the importation of undressed flax. It would have been too great a discouragement to the cultivation of that plant in Great Britain. When this last bounty was granted, the British and Irish legislatures were not in much better humour with one another than the British and American had been before. But this boon to Ireland, it is to be hoped, has been granted under more fortunate auspices than all those to America. The same commodities upon which we thus gave bounties when imported from America

were subjected to considerable duties when imported from any other country. The interest of our American colonies was regarded as the same with that of the mother country. Their wealth was considered as our wealth. Whatever money was sent out to them, it was said, came all back to us by the balance of trade, and we could never become a farthing the poorer by any expense which we could lay out upon them. They were our own in every respect, and it was an expense laid out upon the improvement of our own property and for the profitable employment of our own people. It is unnecessary, I apprehend, at present to say anything further in order to expose the folly of a system which fatal experience has now sufficiently exposed. Had our American colonies really been a part of Great Britain, those bounties might have been considered as bounties upon production, and would still have been liable to all the objections to which such bounties are liable, but to no other. The exportation of the materials of manufacture is sometimes discouraged by absolute prohibitions, and sometimes by high duties. Our woollen manufacturers have been more successful than any other class of workmen in persuading the legislature that the prosperity of the nation depended upon the success and extension of their particular business. They have not only obtained a monopoly against the consumers by an absolute prohibition of importing woollen cloths from any foreign country, but they have likewise obtained another monopoly against the sheep farmers and growers of wool by a similar prohibition of the exportation of live sheep and wool. The severity of many of the laws which have been enacted for the security of the revenue is very justly complained of, as imposing heavy penalties upon actions which, antecedent to the statutes that declared them to be crimes, had always been understood to be innocent. But the cruellest of our revenue laws, I will venture to affirm, are mild and gentle in comparison of some of those which the clamour of our merchants and manufacturers has extorted from the legislature for the support of their own absurd and oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood. By the 8th of Elizabeth, c. To prevent the breed of our sheep from being propagated in foreign countries seems to have been the object of this law. By the 13th and 14th of Charles II, c. For the honour of the national humanity, it is to be hoped that neither of these statutes were ever executed. The first of them, however; so far as I know, has never been directly repealed, and Serjeant Hawkins seems to consider it as still in force. It may however, perhaps, be considered as virtually repealed by the 12th of Charles II, c. The second of them was expressly repealed by the 7th and 8th of William III, c. By which it is declared that, "Whereas the statute of the 13th and 14th of King Charles II, made against the exportation of wool, among other things in the said act mentioned, doth enact the same to be deemed felony; by the severity of which penalty the prosecution of offenders hath not been so effectually put in execution: Be it, therefore, enacted by the authority aforesaid, that so much of the said act, which relates to the making the said offence felony, be repealed and made void. Besides the forfeiture of the goods, the exporter incurs the penalty of three shillings for every pound weight of wool either exported or attempted to be exported, that is about four or five times the value. Any merchant or other person convicted of this offence is disabled from requiring any debt or account belonging to him from any factor or other person. Let his fortune be what it will, whether he is or is not able to pay those heavy penalties, the law means to ruin him completely. But as the morals of the great body of the people are not yet so corrupt as those of the contrivers of this statute, I have not heard that any advantage has ever been taken of this clause. If the person convicted of this offence is not able to pay the penalties within three months after judgment, he is to be transported for seven years, and if he returns before the expiration of that term, he is liable to the pains of felony, without benefit of clergy. The owner of the ship, knowing this offence, forfeits all his interest in the ship and furniture. In order to prevent exportation, the whole inland commerce of wool is laid under very burdensome and oppressive restrictions. It cannot be packed in any box, barrel, cask, case, chest, or any other package, but only in packs of leather or pack-cloth, on which must be marked on the outside the words wool or yam, in large letters not less than three inches long, on pain of forfeiting the same and the package, and three shillings for every pound weight, to be paid by the owner or packer. It cannot be loaden on any horse or cart, or carried by land within five miles of the coast, but between sun-rising and sun-setting, on pain of forfeiting the same, the horses and carriages. The hundred next adjoining to the sea-coast, out of or through which the wool is carried or exported, forfeits twenty pounds, if the wool is under the value of ten pounds; and if of greater value, then treble that value, together with treble costs, to be sued for within the year. The

execution to be against any two of the inhabitants, whom the sessions must reimburse, by an assessment on the other inhabitants, as in the cases of robbery. And if any person compounds with the hundred for less than this penalty, he is to be imprisoned for five years; and any other person may prosecute. These regulations take place through the whole kingdom. But in the particular counties of Kent and Sussex, the restrictions are still more troublesome. Every owner of wool within ten miles of the sea-coast must give an account in writing, three days after shearing to the next officer of the customs, of the number of his fleeces, and of the places where they are lodged.

**Chapter 7 : Mercantilism - Wikipedia**

*a system of political and economic policy, evolving with the modern national state and seeking to secure a nation's political and economic supremacy in its rivalry with other states. According to this system, money was regarded as a store of wealth, and the goal of a state was the accumulation of.*

Its ultimate object, however, it pretends, is always the same, to enrich the country by an advantageous balance of trade. It discourages the exportation of the materials of manufacture, and of the instruments of trade, in order to give our own workmen an advantage, and to enable them to undersell those of other nations in all foreign markets: It encourages the importation of the materials It encourages the importation of materials though not of instruments of trade. I do not observe, at least in our Statute Book, any encouragement given to the importation of the instruments of trade. When manufactures have advanced to a certain pitch of greatness, the fabrication of the instruments of trade becomes itself the object of a great number of very important manufactures. To give any particular encouragement to the importation of such instruments, would interfere too much with the interest of those manufactures. Such importation, therefore, instead of being encouraged, has frequently been prohibited. Thus the importation of wool cards, except from Ireland, or when brought in as wreck or prize goods, was prohibited by the 3d of Edward IV. Various materials are exempt from customs duties. The private interest of our merchants and manufacturers may, perhaps, have extorted from the legislature these exemptions, as well as the greater part of our other commercial regulations. They are, however, perfectly just and reasonable, and if, consistently with the necessities of the state, they could be extended to all the other materials of manufacture, the public would certainly be a gainer. Yarn, though a manufactured article is free from duty, The avidity of our great manufacturers, however, has in some cases extended these exemptions a good deal beyond what can justly be considered as the rude materials of their work. By the 24 Geo. By the 29th of the same king, chap. In the different operations, however, which are necessary for the preparation of linen yarn, a good deal more industry is employed, than in the subsequent operation of preparing linen cloth from linen yarn. To say nothing of the industry of the flax-growers and flax-dressers, three or four spinners, at least, are necessary, in order to keep one weaver in constant employment; and more than four-fifths of the whole quantity of labour, necessary for the preparation of linen cloth, is employed in that of linen yarn; but our because the spinners are poor, unprotected people, and the master weavers are rich and powerful spinners are poor people, women commonly, scattered about in all different parts of the country, without support or protection. It is not by the sale of their work, but by that of the complete work of the weavers, that our great master manufacturers make their profits. As it is their interest to sell the complete manufacture as dear, so is it to buy the materials as cheap as possible. By extorting from the legislature bounties upon the exportation of their own linen, high duties upon the importation of all foreign linen, and a total prohibition of the home consumption of some sorts of French linen, 1 they endeavour to sell their own goods as dear as possible. By encouraging the importation of foreign linen yarn, and thereby bringing it into competition with that which is made by our own people, they endeavour to buy the work of the poor spinners as cheap as possible. They are as intent to keep down the wages of their own weavers, as the earnings of the poor spinners, and it is by no means for the benefit of the workman, that they endeavour either to raise the price of the complete work, or to lower that of the rude materials. It is the industry which is carried on for the benefit of the rich and the powerful, that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent, is too often, either neglected, or oppressed. Both the bounty upon the exportation of linen, and the exemption This exemption and also the bounty on the exportation of linen are given by a temporary law from duty upon the importation of foreign yarn, which were granted only for fifteen years, but continued by two different prolongations, 2 expire with the end of the session of parliament which shall immediately follow the 24th of June The encouragement given to the importation of the materials of Bounties on imported materials have been chiefly given to American produce, such as naval stores, manufacture by bounties, has been principally confined to such as were imported from our American plantations. The first bounties of this kind were those granted, about the beginning of the

present century, upon the importation of naval stores from America. The bounty, however, of one pound the ton upon masting-timber, and that of six pounds the ton upon hemp, were extended to such as should be imported into England from Scotland. The bounties upon the importation of tar, pitch, and turpentine underwent, during their continuance, several alterations. Originally that upon tar was four pounds the ton; that upon pitch the same; and that upon turpentine, three pounds the ton. The bounty of four pounds the ton upon tar was afterwards confined to such as had been prepared in a particular manner; that upon other good, clean, and merchantable tar was reduced to two pounds four shillings the ton. The bounty upon pitch was likewise reduced to one pound; and that upon turpentine to one pound ten shillings the ton. When the plantation indigo was worth three-fourths of the price of the best French indigo, it was by this act entitled to a bounty of sixpence the pound. This bounty, which, like most others, was granted only for a limited time, was continued by several prolongations, but was reduced to four pence the pound. This bounty was granted for twenty-one years, from the 24th June, to the 24th June. For the first seven years it was to be at the rate of eight pounds the ton, for the second at six pounds, and for the third at four pounds. It was not extended to Scotland, of which the climate although hemp is sometimes raised there, in small quantities and of an inferior quality is not very fit for that produce. Such a bounty upon the importation of Scotch flax into England would have been too great a discouragement to the native produce of the southern part of the united kingdom. The fourth bounty of this kind, was that granted by the 5 Geo. It was granted for nine years, from the 1st January, to the 1st January. During the first three years, it was to be for every hundred and twenty good deals, at the rate of one pound; and for every load containing fifty cubic feet of other squared timber at the rate of twelve shillings. For the second three years, it was for deals to be at the rate of fifteen shillings, and for other squared timber, at the rate of eight shillings; and for the third three years, it was for deals, to be at the rate of ten shillings, and for other squared timber, at the rate of five shillings. The fifth bounty of this kind, was that granted by the 9 Geo. It was granted for twenty-one years, from the 1st January, to the 1st January. For the first seven years it was to be at the rate of twenty-five pounds for every hundred pounds value; for the second, at twenty pounds; and for the third at fifteen pounds. The management of the silk-worm, and the preparation of silk, requires so much hand labour; and labour is so very dear in America, that even this great bounty, I have been informed, was not likely to produce any considerable effect. The sixth bounty of this kind, was that granted by 11 Geo. It was granted for nine years, from 1st January, to the 1st January. For the first three years, it was for a certain quantity of each, to be at the rate of six pounds; for the second three years, at four pounds; and for the third three years, at two pounds. The seventh and last bounty of this kind, was that granted by the Irish hemp 19 Geo. It was granted in the same manner as that for the importation of hemp and undressed flax from America, 2 for twenty-one years, from the 24th June, to the 24th June. This term is divided, likewise, into three periods of seven years each; and in each of those periods, the rate of the Irish bounty is the same with that of the American. It does not, however, like the American bounty, extend to the importation of undressed flax. It would have been too great a discouragement to the cultivation of that plant in Great Britain. When this last bounty was granted, the British and Irish legislatures were not in much better humour with one another, than the British and American had been before. But this boon to Ireland, it is to be hoped, has been granted under more fortunate auspices, than all those to America. These commodities were subject to duties when coming from foreign countries. It was alleged that the interest of the colonies and of the mother country was the same. The same commodities upon which we thus gave bounties, when imported from America, were subjected to considerable duties when imported from any other country. The interest of our American colonies was regarded as the same with that of the mother country. Their wealth was considered as our wealth. Whatever money was sent out to them, it was said, came all back to us by the balance of trade, and we could never become a farthing the poorer, by any expence which we could lay out upon them. They were our own in every respect, and it was an expence laid out upon the improvement of our own property, and for the profitable employment of our own people. It is unnecessary, I apprehend, at present to say any thing further, in order to expose the folly of a system, which fatal experience has now sufficiently exposed. Had our American colonies really been a part of Great Britain, those bounties might have been considered as bounties upon production, and would still have been liable to all the objections to which such bounties are liable, but to no other. The

exportation of the materials of manufacture is sometimes discouraged by absolute prohibitions, and sometimes by high duties. The exportation of wool and live sheep is forbidden under heavy penalties, Our woollen manufacturers have been more successful than any other class of workmen, in persuading the legislature that the prosperity of the nation depended upon the success and extension of their particular business. They have not only obtained a monopoly against the consumers by an absolute prohibition of importing woollen cloths from any foreign country; but they have likewise obtained another monopoly against the sheep farmers and growers of wool, by a similar prohibition of the exportation of live sheep and wool. The severity of many of the laws which have been enacted for the security of the revenue is very justly complained of, as imposing heavy penalties upon actions which, antecedent to the statutes that declared them to be crimes, had always been understood to be innocent. But the cruellest of our revenue laws, I will venture to affirm, are mild and gentle, in comparison of some of those which the clamour of our merchants and manufacturers has extorted from the legislature, for the support of their own absurd and oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood. To prevent the breed of our sheep from being propagated in foreign countries, seems to have been the object of this law. By the 13th and 14th of Charles II. The first of them, however, so far as I know, has never been directly repealed, and Serjeant Hawkins seems to consider it as still in force. The second of them was expressly repealed by the 7th and 8th of William III. Be it, therefore, enacted by the authority foresaid, that so much of the said act, which relates to the making the said offence felony, be repealed and made void. Besides the forfeiture of the goods, the exporter incurs the penalty of three shillings for every pound weight of wool either exported or attempted to be exported, that is about four or five times the value. Any merchant or other person convicted of this offence is disabled from requiring any debt or account belonging to him from any factor or other person. But as the morals of the great body of the people are not yet so corrupt as those of the contrivers of this statute, I have not heard that any advantage has ever been taken of this clause. If the person convicted of this offence is not able to pay the penalties within three months after judgment, he is to be transported for seven years, and if he returns before the expiration of that term, he is liable to the pains of felony, without benefit of clergy. The master and mariners knowing this offence forfeit all their goods and chattels, and suffer three months imprisonment. By a subsequent statute the master suffers six months imprisonment. It cannot be packed in any box, barrel, cask, case, chest, or any other package, but only in packs of leather or pack-cloth, on which must be marked on the outside the words wool or yarn, in large letters not less than three inches long, on pain of forfeiting the same and the package, and three shillings for every pound weight, to be paid by the owner or packer. The execution to be against any two of the inhabitants, whom the sessions must reimburse, by an assessment on the other inhabitants, as in the cases of robbery. And if any person compounds with the hundred for less than this penalty, he is to be imprisoned for five years; and any other person may prosecute. These regulations take place through the whole kingdom. Every owner of wool within ten miles of the sea-coast must give an account in writing, three days after shearing, to the next officer of the customs, of the number of his fleeces, and of the places where they are lodged. And before he removes any part of them he must give the like notice of the number and weight of the fleeces, and of the name and abode of the person to whom they are sold, and of the place to which it is intended they should be carried. No person within fifteen miles of the sea, in the said counties, can buy any wool, before he enters into bond to the king, that no part of the wool which he shall so buy shall be sold by him to any other person within fifteen miles of the sea. If any wool is found carrying towards the sea-side in the said counties, unless it has been entered and security given as aforesaid, it is forfeited, and the offender also forfeits three shillings for every pound weight. If any person lays any wool, not entered as aforesaid, within fifteen miles of the sea, it must be seized and forfeited; and if, after such seizure, any person shall claim the same, he must give security to the Exchequer, that if he is cast upon trial he shall pay treble costs, besides all other penalties. Every owner of wool who carrieth or causeth to be carried any wool to any port or place on the sea-coast, in order to be from thence transported by sea to any other place or port on the coast, must first cause an entry thereof to be made at the port from whence it is intended to be conveyed, containing the weight, marks, and number of the packages before he brings the same within five miles of that port; on pain of forfeiting the same, and also the horses, carts, and other carriages; and also of suffering and forfeiting, as by

the other laws in force against the exportation of wool. This law, however, I will. Our woollen manufacturers, in order to justify their demand of suchThe manufacturers alleged that English wool was superior to all others, which is entirely false. This doctrine, like most other doctrines which are confidently asserted by any considerable number of people, was, and still continues to be, most implicitly believed by a much greater number; by almost all those who are either unacquainted with the woollen trade, or who have not made particular enquiries. It is, however, so perfectly false, that English wool is in any respect necessary for the making of fine cloth, that it is altogether unfit for it. Fine cloth is made altogether of Spanish wool. English wool cannot be even so mixed with Spanish wool as to enter into the composition without spoiling and degrading, in some degree, the fabric of the cloth. The price of Scots wool, when in consequence of the union it became subject to the same regulations, is said to have fallen about one half. It is observed by the very accurate and intelligent author of the *Memoirs of Wool*, the Reverend Mr.

*conclusion of the mercantile system. Though the encouragement of exportation, and the discouragement of importation, are the two great engines by which the mercantile system proposes to enrich every country, yet, with regard to some particular commodities, it seems to follow an opposite plan: to discourage exportation, and to encourage importation.*

Comparatively high Definition of Cash Accounting The basis of accounting in which the recognition of revenues and expenses are done only when there is actual receipt or disbursement of cash takes place. In this method, in which the income or expense is recognised when the inflow or outflow of cash exists in reality. Moreover, Cash Accounting does not require high knowledge in accounting, a person having little knowledge of bookkeeping can also maintain records as per this system. One of the major benefits of Cash accounting is seen in tax, i. It does not coincide with matching concept. Time lags in the occurrence of a transaction and its recognition. Definition of Accrual Accounting Accrual Accounting is the base of present accounting. Under this method, the revenue is recorded when it is earned, and the expenses are reported when they are incurred. As per matching concept, the expenses of a particular accounting period are matched with its revenue. The accrual basis of accounting fulfills this criterion; that is why it is regarded as an effective tool for recording receipts and payments. Although, some items are necessary to be adjusted at the end of the financial year like: Unearned Income Prepaid Expenses Outstanding Expenses This method is preferred by most of the entities as the system not only informs about the past transactions regarding the revenue and expense, but it also predicts the cash receipts and disbursements expected to arise in the future. Besides this, one of the major drawbacks of accrual accounting is that the company has to pay tax on the income which is not yet received. Key Differences Between Cash Accounting and Accrual Accounting The following are the major differences between cash accounting and accrual accounting: The accounting system in which the income or expense is recognised when an exchange of consideration is actually done is known as Cash Accounting. Accrual Accounting, in which the income or expense is recognised when it arises. Cash Accounting is simple as compared to Accrual Accounting. Cash basis of accounting is not a recognised method as per companies act, whereas accrual basis of accounting is a recognised method. In Cash accounting, the income statement, shows lower income, while in accrual basis of accounting the income statement shows relatively higher income. Cash Accounting is not in alignment with the matching concept, whereas the concept completely applies in Accrual Accounting. The basis of cash accounting is actual receipt and payment of cash. The degree of accuracy is more in accrual accounting, which is very less in cash accounting. Cash Accounting is suitable for sole proprietors or contractors. Conversely, big enterprises should prefer Accrual Accounting. Conclusion The gap in the occurrence and recognition of revenue and expense is the main difference between cash accounting and accrual accounting. The next difference is that the organisations where the records are kept on cash basis accounting enjoy tax benefit whereas in accrual system the entity has to pay tax on the income which is still not collected.

**Chapter 9 : Difference Between Cash Accounting and Accrual Accounting (with Comparison Chart) - Key D**

*Mercantilism is economic nationalism for the purpose of building a wealthy and powerful state. Adam Smith coined the term "mercantile system" to describe the system of political economy that sought to enrich the country by restraining imports and encouraging exports.*

The Principle of the Mercantile System, Some of the best English writers upon commerce set out with observing, that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all different kinds. In the course of their reasoning, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce. The two principles being established, however, that wealth consisted in gold and silver, and that those metals could be brought into a country which had no mines only by the balance of trade, or by exporting to a greater value than it imported; it necessarily became the great object of political economy to diminish as much as possible the importation of foreign goods for home consumption, and to increase as much as possible the exportation of the produce of domestic industry. Its two great engines for enriching the country, therefore, were restraints upon importation, and encouragements to exportation BY restraining, either by high duties, or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home market is more or less secured to the domestic industry employed in producing them. The high duties upon the importation of grain, which in times of moderate plenty amount to a prohibition, give a like advantage to the growers of that commodity. The prohibition of the importation of foreign woollens is equally favorable to the woollen manufacturers. The silk manufacture, though altogether employed upon foreign materials, has lately obtained the same advantage. The linen manufacture has not yet obtained it, but is making great strides towards it. Many other sorts of manufacturers have, in the same manner, obtained in Great Britain, either altogether, or very nearly a monopoly against their countrymen That this monopoly of the home-market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns towards that employment a greater share of both the labor and stock of the society than would otherwise have gone to it, cannot be doubted. But whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident THOUGH the encouragement of exportation, and the discouragement of importation, are the two great engines by which the mercantile system proposes to enrich every country, yet with regard to some particular commodities, it seems to follow an opposite plan: Its ultimate object, however, it pretends, is always the same, to enrich the country by an advantageous balance of trade. It discourages the exportation of the materials of manufacture, and of the instruments of trade, in order to give our own workmen an advantage, and to enable them to undersell those of other nations in all foreign markets; and by restraining, in this manner, the exportation of a few commodities, of no great price, it proposes to occasion a much greater and more valuable exportation of others. It encourages the importation of the materials of manufacture, in order that our own people may be enabled to work them up more cheaply, and thereby prevent a greater and more valuable importation of the manufactured commodities Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce In the system of laws which has been established for the management of our American and West Indian colonies the interest of the home-consumer has been sacrificed to that of the producer with a more extravagant profusion than in all our other commercial regulations. A great empire has been established for the sole purpose of raising up a nation of customers who should be obliged to buy from the shops of our different producers, all the goods with which these could supply them. For the sake of that little enhancement of price which this monopoly might afford our producers, the home-consumers have been burdened with the

whole expense of maintaining and defending that empire. For this purpose, and for this purpose only, in the two last wars, more than two hundred millions have been spent, and a new debt of more than a hundred and seventy millions has been contracted over and above all that had been expended for the same purpose in former wars. The interest of this debt alone is not only greater than the whole extraordinary profit, which, it ever could be pretended, was made by the monopoly of the colony trade, but than the whole value of that trade, or than the whole value of the goods, which at an average have been annually exported to the colonies. It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers, whose interest has been so carefully attended to; and among this latter class our merchants and manufacturers have been by far the principal architects. The importation of gold and silver is not the principal much less the sole benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labor for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments. By means of it, the narrowness of the home market does not hinder the division of labor in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labor may exceed the home consumption, it encourages them to improve its productive powers and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society. Scanned by Jerome S. The text has been modernized by Prof. This text is part of the Internet Modern History Sourcebook. The Sourcebook is a collection of public domain and copy-permitted texts for introductory level classes in modern European and World history. Unless otherwise indicated the specific electronic form of the document is copyright. Permission is granted for electronic copying, distribution in print form for educational purposes and personal use. If you do reduplicate the document, indicate the source. No permission is granted for commercial use of the Sourcebook.