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Mercantilism: a materialist approach

Thomas Victor Conti 

Economic History Department, University of Campinas Institute of Economics, São Paulo, Brazil

ABSTRACT

Historians and economists have shown renewed interest in mercantilism over the last couple of years. From this interest, a dispute has arisen about whether mercantilism should be seen as an incoherent economic thought or if it is possible to ‘reconstruct’ its basic principles. In line with this latter attempt, this paper is intended to provide a materialist explanation for varying degrees of belief in shared mercantilist assumptions. My hypothesis is that belief in mercantilist assumptions is significantly dependent upon how economic and security issues materially interact in a given time and space, with uncertainty and insecurity profoundly favouring mercantilist dispositions in economic thought. To analyse this hypothesis, the paper sets the first steps for relating the credibility of mercantilism with changes in British economic and military history from the sixteenth to the nineteenth century. Section 3 presents ideas to further investigate this hypothesis. Section 4 concludes the paper.

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1. Introduction

Mercantilism might be one of the hardest concepts to grasp in the history of economic and political thought. Even though it is widely employed by scholars from different fields of research, its precise theoretical meaning has varied throughout the last 150 years or so. From the strict doctrine of economic thought and practices of state privileges granted to private groups, as criticised by Adam Smith (1776/2001), to the creedless endeavour studied by Judges (1939), mercantilism still defies attempts at theoretical refinement. Its actuality, however, should not be underestimated. One example is Rodrik’s (2013) recent statement that ‘mercantilism remains alive and well and its continuing conflict with liberalism is likely to be a major force shaping the future of the global economy’ (2013). While it is too early to know exactly how global economic relations will shape such future, there is no doubt that in recent years we have witnessed considerable growth in academic interest on mercantilism. With this interest, a new historiographical debate emerged and scholars have once again been invited to try and grapple with its complexities.

Outstanding contributions from Steve Pincus and books organised by Lars Magnusson, Philip Stern and Carl Wennerlind updated old controversies over the definition, periodisation and usefulness of mercantilism as a concept for historians and economists. With varying degrees of emphasis, they all seem to agree that mercantilism was not a coherent, strict doctrine. Pincus (2012) argued for a shift from consensus to parliamentary political debate. Magnusson (2002, 2012, 2015) defends interpreting mercantilism as a new language and discourse that tried to grasp with the rapid, conflicting change Europe was going through from the sixteenth to the eighteenth century. Stern and Wennerlind (2013, p. 7) propose that mercantilism should be seen as a system of thought embedded with preoccupations about morality, politics and science – that is, as a system previous to our current

disciplinary divisions where ‘the economy’ is taken as a separate field of human action.¹ Thus, through different approaches historical weight increasingly shifts from text analysis per se to how to best capture the overall context under which mercantilism operated.

However, as McDiarmid (2016) argues in his review of Magnusson’s recent *The Political Economy of Mercantilism*, although the topic has been deeply researched and regardless of all the emphasis on discourses or debates about it, justifying why we would actually need the concept of mercantilism is difficult. Indeed, if we follow Pincus’ (2012) suggestion, we should give up trying to reconcile mercantilism with any definite stance. But other historians are not yet convinced this is the best approach.

Barth (2016) responded to this challenge recently. While acknowledging the exceptional historical work of Pincus, Magnusson, Stern and Wennerlind, Barth reconsiders a wide selection of early modern thinkers and manages to identify some common assumptions in their views that in his judgement are enough to justify the continued use of mercantilism as a concept for historians interested in the early modern period. In his own words,

focusing on money removes the obscurity and reveals the elements that made mercantilism distinct ... The mercantilist belief in the particularity of money, indeed, laid the foundation for both consensus and conflict within the early modern dialectic. Historians may no longer speak of a uniform mercantilism. But they absolutely can, and should, speak of a coherent mercantilism, and they may do so with neither hesitation nor ambiguity. (Barth, 2016, p. 289)

According to Barth, these assumptions are basically two: money is a commodity different from others (whether in the form of bullion or not) and achieving a positive balance of trade is a necessary goal of political economy. Regarding this latter assumption, Suprinyak (2016, pp. 48–52) has also recently reconstructed how early British mercantilist authors debated England’s crisis and arrived at a coherent conclusion. This paper takes Barth’s argument as a starting point to explore a materialist explanation for why these two assumptions were common to so many authors, perceived as credible for long time periods and acted upon by practical men even in the absence of a strong theory behind them. The reasons for their eventual change must also be addressed, from general acceptance to the eighteenth-century Humean and Smithian critiques, its continuation in some colonial spaces and then its comeback in late nineteenth-century ‘neo’-mercantilist thought and practices.

The general hypothesis of this paper is the belief that mercantilist assumptions are significantly dependent upon how economic and security issues materially interact in a given time and space. Specific combinations of material economic and security factors lead to different perceptions of their relative importance in each context, thus leading to varying degrees of belief in shared mercantilist assumptions. The greater the perception of uncertainty and threats surrounding the production, distribution and consumption of goods relevant to local or national security, the greater the odds of mercantilist assumptions arising and being seen as credible.

To properly understand belief in mercantilist assumptions from the sixteenth to the nineteenth century, we must first account for the unique nature of international trade during this period. In short, international trade was an economic business just as much as it was a military enterprise. European maritime vessels were the most complex and expensive in the world technologically and they could, and did, provide both economic transportation services and military attack and play defence roles simultaneously. This material, technical characteristic of international trade, alongside a pervasive context of recurrent warfare, had important consequences for how European thinkers addressed economic affairs between states, and it was ultimately responsible for the long-standing credibility of mercantilist assumptions.

If these hypotheses are true, the contributions of this paper to the current literature on mercantilism are basically three. First, it adds another layer of argument against the still common practice

¹Stern and Wennerlind do not actually employ the concept of embeddedness. The concept was originated by Polanyi (1944/2001), but a more contemporary and precise discussion on embeddedness as used here can be found in Dequech (2003).

among economists of reducing mercantilism to unsound economics and the (incorrect) attribution of its fall to advances in pure economic theory and reasoning. Second, it also proposes a slight change in perspective from the classical approach of ‘power and plenty’ as the decisive factors in mercantilist thought. Instead of power, emphasis on security and threats to security suggest mercantilist ideas become credible mainly as reactive reasoning, in response to changes in the economic and military conditions of their time. Third, it adds one more element to Barth’s (2016) effort of ‘Reconstructing Mercantilism’ by identifying its core principles and assumptions: the typically mercantilist assumption that war is a likely scenario and *economic* measures must be taken to avoid being caught off-guard in case war breaks out.

To avoid misunderstandings, it is important to clarify what I mean by ‘materialist.’ I do not mean it as a Marxian-style historical materialist approach since I do not place special emphasis on class analysis nor on categories such as ‘mode of production,’ ‘relations of production,’ among many others. However, it would not be incompatible with an expanded infrastructure-superstructure conceptual scheme in which objects usually beyond classical Marxian analysis (e.g. weapons and means of transportation) are also taken as basic elements of the production ‘infrastructure’ of a society. What is meant by ‘materialist’ is the approach to explain part of the changes in economic thought by looking mainly at how existing economic relations changed. In other words, it is an interdisciplinary endeavour bringing insights from economic history to provide a better understanding of the history of economic thought.

The materialist idea espoused here is greatly inspired by the institutionalist conceptual framework of North, Wallis, and Weingast (2009), wherein group (material) capabilities to organise and defend interests, and the stakes for private agents in making credible threats of using violence, are determinant features to explain why some rent-distributing institutions will emerge mostly as an attempt to control violence. Surprisingly, North *et al.* discussed the European ‘Natural State’ without any substantive reference to mercantilist beliefs and organised groups that existed during the early modern period. Hopefully, the approach to mercantilism defended here may help filling these gaps. To do so, Dequech’s (2013) expanded institutionalist framework is another important conceptual reference, since his theoretical framework builds on the interaction between institutions of behaviour and thought, and the interactions between market and community provisioning domains.

This ‘materialist’ approach to the history of economic thought certainly has its limits, but I believe it is a particularly useful tool to approach early modern economic thinking. Until the nineteenth century, economic thinking itself did not have clear boundaries and was loosely institutionalised, consisting of a small number of authors that enjoyed great freedom. They could write for different audiences, take active participation in politics and read a wide range of authors from different fields, thus having little incentives to follow any ‘internal,’ economic-oriented evolutionary line we may retrospectively try to place them in.

But there is another important reason a more materialist-oriented perspective is well suited to discuss mercantilism. Since mercantilist authors like Thomas Mun, Gerard de Malynes, Lewis Roberts, Edward Misselden, Josiah Child and Jean-Baptist Colbert were mostly practical men involved in actual business or government positions, it is reasonable to expect their rationale to be more oriented towards pragmatic solutions than towards abstract approaches such as those adopted by thinkers like Smith, Hume and the physiocrats. It is not unusual to see David Hume’s idea of a self-correcting balance of payments and Adam Smith’s criticism of the mercantile system being credited as the ones that debunked mercantilist assumptions. However, from the standpoint of general economic history, the view that such theoretical points could rapidly change the mercantilist assumptions held by practical, powerful men does not sound all that convincing. Even if time proved they were right and mercantilist assumptions wrong, the groups organised around Smith’s criticism not only had vast knowledge of trade and policy-making, but also held privileged power positions in the social structure of their time. It would be rather unusual for them and others to rapidly change beliefs and practices based on pure theory. As we will see, that does not seem to be the case indeed, at least not for Great Britain.

Thus, the approach proposed here claims that any arguments on the rise or fall of mercantilist ideas or practices should also tackle the problem of the rise or fall in importance of the type of activities and environments that enabled those discourses in first place. Even though this paper's perspective and arguments do not need to be limited to any specific country, time and space constraints lead me to restrict the case to British economic history and use mostly secondary sources. But I do believe the approach can be further expanded to other countries and time periods,² maybe even up to this day.³

The rest of the paper is organised as follows. In Section 2, it presents the core material foundation for belief in shared mercantilist assumptions: the nature of how war and international trade were organised from the sixteenth to the nineteenth century. In Section 3, I relate the two classical mercantilist assumptions on money and trade identified by Barth (2016) to the material foundations presented in Section 2. As we will see, the particularity of money and the emphasis on the balance of trade can be easily associated with the political economy of warfare in that period. However, changes in circumstances led to increased disbelief in mercantilist assumptions for some regions and groups in the world economy, while for others they also made it possible for the old assumptions to be organised in a new way. In Section 3, some additional suggestions of how and where these material conditions changed are given to show future possibilities of research from this perspective. Section 4 concludes the paper.

2. The material foundations of credible mercantilism

The general hypothesis of this paper is that belief in mercantilist assumptions can be explained by how economic and security factors are materially entwined. Different combinations of these factors as well as their unequal geographical distribution explain most of the varying degrees of belief in shared mercantilist assumptions. In the first approximation, two assumptions must be considered: money matters, be it in the form of bullion or any other internationally valid mean of payment; and a positive balance of trade is a necessary economic objective in policy (Barth, 2016). Even though active government intervention in business and protectionist measures are more disputed normative claims among mercantilist writers, both could also be interpreted as closely related to material problems in security and the economy, although not always.

To understand why this is the case, one must grasp the very distinctive nature of the relationship between international trade and warfare in early modern European societies. First, war and preparation for war created two serious monetary problems: the need to supply enough money to pay for soldiers and supplies abroad and the need to deal with economic scarcity and potential social disorganisation any war creates by draining the stock of metallic currency. In the early seventeenth century, this problem was greatly emphasised in Thomas Mun's *England's Treasure by Foreign Trade*, as he claimed foreign wars exhausted a kingdom's treasure because armies needed to be provisioned with foreign wares.⁴ And that was undoubtedly the case in Britain at least until the 'financial revolution' of the late seventeenth century, when the institutionalisation of public debt facilitated the provision of funds to meet imperial obligations – at the time, hardly anything beyond military effort (Dincecco & Prado, 2012) – and was useful for both institutions (Rodriguez, 2002).⁵

Second, there was little to no distinction between the means to conduct international trade and the means to wage war overseas or secure maritime trading routes. For more than three centuries, large European maritime vessels simultaneously held three characteristics: they were the most

²See e.g. Rössner's (2014, 2016, 2018) discussion on monetary theory, mercantilism and cameralism, especially in Germany.

³It would be particularly interesting to evaluate how Anders Chydenius' (1729–1803) criticism of mercantilist thought and practices relate with the general arguments laid out here. See e.g. Chydenius (2011), Uhr (1964) and Magnusson (1987).

⁴Thomas Mun was not arguing with general purposes in mind, as he was very much focused on the interests of the East India Company (Muchmore, 1970). The link between mercantilist thought and the interests of merchant groups will be further explored when we discuss balance of trade.

⁵A brief mention to this problem also appears in footnote 12 of Wennerlind (2013).

expensive and complex military asset available; they were one of the most expensive and complex fixed capital investments available; and they were the only cost-effective means for providing large-scale transportation services (Conti, 2017). This material characteristic made itself felt in many disputes along this period and made sure that mercantile interests, especially from organised merchants in the form of Trading Companies and merchant banking institutions, were treated with special care. A failure in stepping up international trade or maintaining shipbuilding capabilities also meant additional risks for security provisioning and enforcing private property overseas – even more so for Britain.⁶

In this violent and uncertain context, the assumptions of money neutrality and/or the existence of a price-specie (*civil*) flow mechanism certainly become less plausible, or at least more risky than one would consider from a purely economic-theoretical viewpoint, with no major geopolitical uncertainty,⁷ piracy or warfare to be credibly expected in the near future. Thus, in the next two subsections, my objective is to explore the relationship between precious metals and warfare and international trade and warfare, respectively.

2.1. Precious metals

War and preparation for war created two serious monetary problems: the need to supply enough money to pay for soldiers and supplies abroad and the need to deal with the economic and potential social problems any war can create at home or abroad by draining the stock of metallic currency. Due to their credit capabilities and the dual-use nature of the maritime vessels they owned, merchants often got directly involved in war efforts and mercantilist authors since early times worried about the implications of actual war or prospects of war for the economy.

In an age prior to national standing armies, states – or, more precisely, imperial administrators – depended on bullion to afford soldiers, many of whom were mercenaries, at home or abroad. As the first approximation, mercantilist assumptions on the need for bullion and a positive balance of trade have a greater chance of being seen as credible in proportion to a country dependence on armed forces or other resources that can only be acquired in bullion, as well as on public perception of the likelihood of warfare.

A country dependence on mercenaries is not only a function of its other sources of national force and protection, but also of the geographical extent over which such forces must have credible enforcement capability. Empires with greater need to manage large areas overseas will naturally be more inclined to see metallism as a credible assumption, since an administration running out of internationally accepted means of payment abroad will suffer greatly from lack of manpower and supplies to defend itself – e.g. the large West and East India companies.

The problem was particularly stressed in early modern Europe due to the fact that since the late middle ages mercenaries were indispensable for European warfare and precious metals were the only form of money a mercenary would accept (Wallerstein, 1974/2011). Buying military power with money was a consequence of the decline of feudal nobility and of the increasing independence of kings from it (Wallerstein, 1974/2011, pp. 29–30). Fiscal monetary surpluses were best used for creating and paying for armies, mercenary or otherwise. As in many other affairs in the sixteenth century, the state did not have administrative powers to do this alone and was forced to rely on better organised, well-informed merchants and corporations

⁶Two recent articles take this line of reasoning further, defending Patrick O'Brien's (2005, p. 37) idea of a 'fiscal-naval state' in Britain. See e.g. Page (2015) and Rodger (2011). Outside of Britain, Ojala and Rähkä's (2017) discussion on the Swedish Navigation Acts (*Produktplakat*) and the case of Finland provide some interesting insights into the different incentives the act promoted for Swedish and Finnish merchants to invest in shipbuilding, according to the alternatives available to them.

⁷The institutionalist concept of fundamental uncertainty as defined in Dequech (2011) can be applied here. At least from the sixteenth century until 1914 – although possibly beyond that period – this uncertainty was largely present along with the possibility of armed conflict, but it could also involve severe economic crises or to a much smaller extent disruptions brought about by radical technological innovations. Interestingly, Stern and Wennerlind (2013, p. 5) do mention how the classical studies by Schmoller and Heckscher on mercantilism began 'at a moment when international conflicts ran high.'

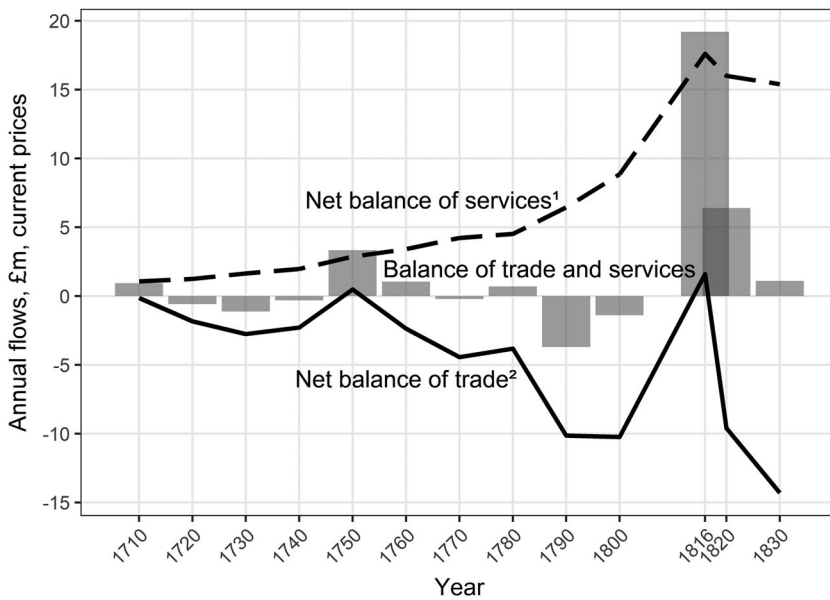


Figure 1. British Trade and Service Accounts 1710–1830, in millions of current sterling pounds. Source: Prepared by the author based on Brezis (1995) data.

Notes: (1) The service account includes freight gains, insurance and other related activities, commercial sector profits and net interest payments and amortisations. (2) Trade balance includes net exports, tourist spending, losses by theft or smuggling and gains or losses from selling vessels.

(Wallerstein, 1974/2011, pp. 139–140) – ‘it was their business to know,’ as Deringer (2017) reinforced in a recent study.

However, Barth (2016, pp. 264, 277–279) highlights how bullionism, with its emphasis on mining and conquering gold and silver mines abroad, suffered a setback in Britain as early as in the 1620s. Mercantilism in turn also valued gold and silver, but a positive net balance of trade was the favoured means of achieving it.

To understand why the idea of a positive net balance of trade was so credible in Britain, what we need to understand, and Barth also mentions this, is how the British Empire had a substantial advantage in collecting revenues as compared to continental countries. The latter were more heavily dependent on what Morgan (2002) refers to as a ‘tributary and demographic’ logic of securing tax revenues.

In Britain, the institutionalisation of public debt led to an unprecedented capability to finance war through debt creation, a major factor in reducing dependence on previously accumulated metals. So here we find another major material basis for the credibility of mercantilist assumptions: the scope and reliability of the credit system. As public finance emerges and credit services become a customary part of how an economy operates, gold and silver stocks become less mandatory for paying soldiers or making up for declining trade flows during warfare. In other words, while until the early eighteenth century the balance of payments was almost entirely synonym with the balance of trade, plus shipping and insurance services, after the eighteenth century – at least for Britain – the balance of services became increasingly important for the dynamics of the balance of payments (see Figure 1 in the next subsection).

On the one hand, this institutional development led to a substantial increase in British government bureaucracy.⁸ On the other hand, throughout the eighteenth and nineteenth centuries,

⁸Albeit it was still very small by today's standards. In 1690, the British central government had 3,214 officials responsible for collecting federal government revenues and only 147 officials for all other functions. By 1815, tax collectors had grown to 21,112 and for other government functions to 3,486. See Hoppit (2002).

increases in British public debt were closely associated with more severe military conflicts (Benjamin & Kochin, 1984). In 1697, total debt amounted to £16.7 million pounds. By 1815, this figure had risen to £744.9 million (Morgan, 2002, pp. 175–179). This shows how over the eighteenth century the British Government was capable of amassing a volume of funds large enough to increase its debt 44-fold. In 1815, its nominal public debt was three times larger than its own estimated national income (Morgan, 2002, pp. 253–254; see also Arrighi, 2010, pp. 164–165).⁹

No other contemporary or past European power had been able to make a similar move, much less without breaking creditor's interests and confidence or lower classes' obedience. In practice, that meant that important distinctive capabilities of the mercantile system involving high finance and corporate¹⁰ British trade could provide the additional breath the empire needed in periods of great budget pressure. However, this also meant criticism of crude bullionist ideas. An increased emphasis on a positive balance of trade made more sense under British economic conditions than anywhere else in the eighteenth century (Schoenberger, 2011).

As credit and debt flows could vary with great intensity and speed as needed, the fixation of the past with accumulating precious metals at home over large time periods became increasingly less credible among soon-to-be economists, even if merchants and imperial administrators were less confident in giving up such assumptions. In fact, British imperial laws discouraged or prohibited the export of coins to colonies and forbade colonial laws from trying to do the same in relation to exporting coins and bullion from the colonies, a practice that according to Narsey (2016) continued throughout the nineteenth century: 'the evidence of our study supports his [Barratt-Brown (1974)] conclusion that while mercantilism was concealed or disguised in the nineteenth century, it had continued well into the twentieth century' (p. 209). Of course, Narsey refers to *practical* mercantilism and not to explicitly scholarly, theoretical mercantilism.

2.2. International trade

Mercantilist assumptions in Britain, even when not widely accepted, had an important part of their credibility built upon the specific conditions that provided incentives for securing strategic resources in case of war – universally accepted money, inflows of liquid assets, maintenance and growth of a powerful maritime fleet. In this section, I present how British international trade at the time put together these three problems and provided fertile ground for mercantilist policies be perceived as credible for many contemporary thinkers, businessman and policy-makers.

As late as in the early nineteenth century, in Britain as in any other country, the vast majority of the population lived in rural areas and most economic problems stemmed from productivity, product level and gains from agricultural production (De la Escosura, 2004, pp. 1–12). This geographically dispersed production depended heavily on costly and slow animal power for transportation, thus creating a context where the easiest strategies for generating large revenues for both private groups and state agents consisted in strengthening cities and commerce, as they were the nodal points where the most readily available products could be traded and taxed (Krpec & Hodulak, 2015; Tilly, 1990). As a matter of fact, technical and organisational limits at the time made it easier to access international trade routes between major port cities or colonies than most rural areas in the same country without access to waterways (Hobsbawm, 2010).

However, 'economic policy had to always consider the inevitability of war and piracy' (Muldrew, 2013). Here, 'war and piracy' are no more important to our concerns than the word 'inevitability.' In the seventeenth century, countries in Europe were at war more often than not and simple induction would lead thinkers and pragmatic men to consider that they should prepare for a similar future.

⁹There were also rising per capita revenues in Britain (Dincecco, 2009), even if public debt grew much faster than per capita revenues.

¹⁰The origin of corporations, with their sophisticated shareholding arrangements and division between shareholders and management, was closely associated with the mercantilist system. See Ekelund and Tollison (1980).

Irwin (2006) assessed this problem when he recalled Josiah Child's classical argument that 'all trade [is] a kind of warfare.' However, this does not mean mercantilists were necessarily warmongers who favoured violence as a means to solve problems (Shovlin, 2013). What it means, as Irwin himself concludes, is that mercantilists' 'focus on export competition and rivalry makes mercantilist thought similar in outlook to that of strategic trade policy.'

As for the implications for the balance of trade, Davenant (1695) provided a good example when he said that 'whatever Nation is at a greater expence than this Ballance admits of, will as surely be ruin'd in time, as a private Person must be, who every year spends more than the Income of his Estate.' Davenant was explicitly arguing in a context where England and France were at war with each other. The idea that trade deficits were not important in the short term or that they would balance themselves out in the future was hardly credible under open warfare conditions.

Moreover, international trade was necessarily dependent on capabilities of provisioning adequate means of attack and defence to enforce security and private property for market expansion, as well as maintaining previously established positions and commercial-diplomatic relations (North, 1968). We discussed how the desire for precious metals stemmed from their function as the only means of payment accepted by private armies and mercenaries, who made most of the military efforts until the late nineteenth century. These security efforts could hardly move too far away from state or large trade companies' capabilities of lending order and predictability to complex flows of people and goods (Horlings, 2005, pp. 94–95). For Misselden, in 1622 this relationship was quite explicit.

it is worthy to be remembred to their Honour, that service which the Merchants-Adventurers did to the State in Anno 88 when they supplied the Navie Royall with a whole ships lading of Powder and Shot from Hamburg: which came luckily even in articulo temporis, when there was a very great want thereof. These also have from time to time employed and bred up many worthy Masters of ships and Mariners; and built many Tall, warlike and Serviceable shippes: which as they themselves also, are at all times ready to doe service to the King & State upon all occasions. None of all which they had ever beene able to have done as particular men, in a loose, distracted, and disorderly trade. (Misselden, 1622)

The same applied for The Levant Company.

The Levant Company likewise by their trade under Government, hath built a great strength of warlike, Tall & Lusty Shipping, which they employ in that trade: and by their industry have wonne from the Italians the trade of the Levant: the Commodities whereof were before brought into this Realme by Argosies to the encrease of forreine shipping, and at deare rates: and is now reduced to the Natives of this Kingdome, to the encrease of Shipping, and the benefit of the Publike. Which without Government and good order, had been impossible for them to have done. (Misselden, 1622)

Commercial companies linked flows of goods and information with colonies and foreign countries in a complex network of commercial transport capable of circumnavigating the world. In Britain, exclusive rights to use ports were reinforced via the Navigation Acts (Baugh, 1988), as well as, to a lesser extent, by urban tolls (turnpike trusts), rights to construct, purchase and use canals and river ports, customs tariffs, privateering laws and the possibility of legitimate threat and exercise of violence via gunboats, etc. In addition to ensuring rents to organised commercial interests, regulations and privileges built upon maritime services also fostered a competitive struggle to expand the presence of the Empire overseas and strengthen it against its rivals.

In other words, behind Smith's mercantile system lied a symbiotic relationship between capabilities required for accumulating wealth and those required to keep strategic resources under control for the purpose of maintaining or expanding imperial and corporate power. It is not necessarily true that mercantilists assume trade as a zero-sum game, as a call for war or as war by other means. What mercantilism raised and maybe still assumes is an objective probability that declared warfare may linger in the future, a probability seen as more credible than balanced peace with a multitude of long-term civil self-correcting interactions – like Hume's balance of trade or Smith's free market equilibrium.

The seventeenth-century debate on mercantilist practices focused on the idea of a ‘positive balance of trade’ partly because the balance of service inflows was much less meaningful before the ‘financial revolution’ in Britain in the late seventeenth century reduced uncertainties in the financial realm. From the viewpoint of merchant-bankers and other agents involved in international trade and credit services, as the eighteenth century went by the direction of the flow of goods became much less important than their simple existence and growth. Freight, insurance, amortisation and interest payments could be charged more than once per travel in an economy unimpeded by national boundary lines.

From the perspective presented here, it is no surprise that figures for international British trade throughout the eighteenth and nineteenth centuries reveal the increasing balance of trade deficits accompanied by a growing surplus in the service account that was often higher than trade deficits, as shown in [Figure 1](#). The period between 1800 and 1820, when war with France intensified and Napoleon attempted a continental blockade, was precisely the period in which Britain had its highest trade and service surpluses in 130 years (O’Brien, 2011). An economy largely based on trade between port cities, including large Atlantic commercial networks, is what made this success possible (Black, 2007; Cardoso, 2013).

However, mercantile vessels and Royal Navy ships were not solely means of trade and commerce. They embodied a very peculiar symbiotic entwinement between large-scale transportation capabilities for commercial purposes and capabilities for violence, with state-of-the-art guns and cannons governed by international maritime laws that regulated how war and violence should be played out at sea. Under these historically circumscribed technical conditions, the rent-seeking behaviours of elite merchants can also be interpreted as resulting from the monopolist capabilities of these groups to inflict direct violence¹¹ and not from adhering to any strict mercantilist doctrine.

The British slave trade networks of the past provide evidence of the symbiosis between weapons and trade, as up to 80,000 slaves were transported through them a year and they strongly resisted attempts to put an end to their operations throughout the nineteenth century (Lloyd, 2012, pp. 24–27). The British East India Company also provides an extreme example of accumulated mercantilist power: the company had no less than 115,400 staff members under its command in 1782, a figure that had risen to 150,000 by 1805 (Black, 2008, p. 89). Back then, merchants, merchant corporations and banking houses were an indispensable source of strength for war and for balancing power, a role they would continue to play throughout the nineteenth century (Kennedy, 1987, p. 113; Rosinski, 1947, p. 103).

In this scenario, group monopolies and oligopolies were the norm and not the exception. Elements we might call ‘competitive’ applied only to smaller commercial units, including early steam engine factories.¹² Adam Smith himself recognised the differences between the principle of free trade and implementing such principle through any political process, a problem that would make the final adoption of free trade difficult or even impossible. For this ambivalent position, he would be conveniently remembered by ‘neo-mercantilists’ at the end of the eighteenth century (Crowley, 1990, pp. 357–360) or in the late nineteenth century (Koot, 2012, pp. 187–220; Palen, 2015).

In fact, in the early nineteenth century merchants or merchant-bankers,¹³ as the Barings and the Rothschilds were already in a sufficiently high position to influence government policy and British business overseas, were prime examples of ‘gentlemanly capitalists’ (Cain & Hopkins, 1986; Chapman, 2005; Wechsberg, 2014). While economic thinkers became less concerned with the

¹¹From this perspective, rent-seeking is not to be interpreted as proposed by Ekelund and Tollison (1981), an approach appropriately criticized by Rashid (1993). For details on the theoretical approach presented here, see Cox, North, and Weingast (2015).

¹²Even with many conflicts, there were constant attempts to control outward flows of machinery and specialized labour. See Jeremy (1977).

¹³As Roberts (1993) shows, these names changed with time but their functions remained very much the same. It is important to highlight how, beyond economic and political determinants, British higher acceptance of different ethnicities was determinant for the choice of merchant classes to make Britain their country. See Chapman (2002).

balance of trade or services and with the particularity of money and precious metals, those were still important issues for influential merchants and imperial administrators.¹⁴

An interesting example is that of the Barings family. Between 1802 and 1803, the Barings held key positions to assist in the sale of French Louisiana to the United States. It was the largest economic transaction on record until then and its goal would be to provide liquid assets for funding Napoleon's war effort against Britain itself. The fact that France needed British and Dutch merchant-bankers to finance this transaction was indicative of the relative weakness of her financial and commercial sector.

Another example is the failure of Gabriel-Julien Ouvrard, an important French financier, to take the Spanish treasure of Vera Cruz from Spanish Mexico to Spain and France between 1805 and 1808. Supported by the British mercantile class, the Barings were able to use their information, means of transport and favourable diplomatic relationships in the United States to redirect most of Mexico's resources to British soil during wartime (Marichal, 2007). During the war, the Rothschilds rose as a large banking and merchant house largely due to their role as resource and money providers to finance landed resistance against Napoleon in Prussia, the Netherlands and Russia (Ferguson, 1999).

The British mercantile corporations were managing most of the country interactions around the globe, organising hundreds of thousands of workers and soldiers, with innovative long distance ship maintenance warehouses, millions of pounds in value and more than twenty thousand vessels (Mitchell, 2007) that could cost up to 10 times more than a complete textile factory of the period. As Baugh (2004) found, 'a new 74-gun ship fully outfitted might typically cost almost £50,000 in the 1780s; the largest factory in Britain in the 1790s cost £5,000' (p. 238).

While the organisational capabilities necessary to maintain such large and complex system had no serious contender in the world following the French defeat at Trafalgar in 1805, early industries could only produce existing goods at lower prices, such as textiles. They did not significantly change weapon production nor combat skills, and depended on the people involved with the mercantile system to transport an important share of their products intended for export markets (Esteban, 1997). In other words, the industrial revolution promoted little change beyond the limited space of production initially.

Meanwhile, commercial networks were larger, more expensive and more capable of converting their socio-technical capabilities into geopolitical power and political influence. They were also more complex from an organisational point of view, requiring contact with different cultures, institutional trust to manage sites six months away from each other, keep fleets operational and transform this expensive structure into new cash flows.

These advantages made them indispensable when dealing with matters of national security. Monopolist or quasi-monopolist power in trade and violence put them in an especially privileged bargaining position. The context of international insecurity at the time only increased even more the disposition to believe in assumptions that favoured these national, rent-seeking group interests. If by a general adoption of mercantilist assumptions the interstate system as a whole increased its chances of facing warfare, it would likely provide even more fuel for mercantilist assumptions.

3. Are there credible mercantilist assumptions nineteenth century and beyond?

In Section 2, we saw how mercantilist principles could be credible at a time when precious metals were needed as means of paying mercenaries at home or abroad; state-of-the-art technology in large-scale, cost-efficient transportation was the same as state-of-the-art military assets – maritime gunboats; and financial instruments were often not sufficiently developed to be reliable in case of

¹⁴ I believe this is an important and under-studied research object whose importance the materialist approach to mercantilism may find particularly relevant. What were the economic thoughts and practices of important government advisors and merchants during the nineteenth century? We know from Narsey (2016) that some mercantilist attitudes towards money in the colonies were long-lived and strongly enforced. What can we say about the economic thinking of the men behind those practices?

war. This paper argues that these three economic-security characteristics are material foundations that explain why classical mercantilist assumptions were perceived as credible by so many actors and for long time periods. However, the analysis set forth here is too dependent on secondary sources and the time frame covered is too long, so there is no doubt these arguments can be improved through further research. In this section, I briefly suggest some cornerstones for where a deeper investigation into these topics in the nineteenth century and beyond could begin.

All three factors highlighted above (mercenaries, coincidence between transportation and military technology and inadequate financial instruments) have not been kept constant through history. Thus, neither can mercantilist assumptions. Changes in military affairs, international trade and the credit system may increase the likelihood of mercantilist assumptions be seen as credible in other areas, or to eliminate their credibility entirely. A detailed discussion of these changes goes beyond the scope of this paper, but some brief comments may help researchers explore new hypothesis when studying mercantilism.

Some important changes have begun in the second half of the nineteenth century in Britain's government conditions of earning revenue, albeit not entirely. Harley (2004, p. 189) shows how, in 1840, 17 of a total of 721 taxes accounted for 94.5% of all public revenues in Great Britain and classical free-trade movements, such as the one that revoked the Corn Laws, were much more oriented towards rationalising an outdated tax structure than to changing the economic foundations of government (see also Howe, 2002).

There was still some need for precious metals, especially in the global periphery; however, financial instruments were much more apt to adjust to the demand for bullion. In transport and military technologies, the building of railways eliminated the monopoly of waterways on large-scale, cost-efficient distribution services and maritime vessels became increasingly specialised either in transport or in warfare. The Navigation Acts were also revoked at a moment when a significant part of all trade in British ports was already being carried out by foreign vessels. The age of military-commercial movable, capital-intensive units at sea was slowly fading away.

Between 1815 and 1870, the British Empire got involved in a few European disputes among great powers. But as new practices in the realm of transport, communications and management and weapons evolved together under the umbrella of the nationalist ideology¹⁵ that prevailed in the late nineteenth century, both the American Civil War and the unification of Germany would mobilise all the new socio-technical¹⁶ capabilities of those days. They also marked the beginning of military industries and led to increased awareness of the role of railways as instruments of warfare (Palmer, 1902; Wolmar, 2010). Shortly after the Franco-Prussian War, John Stuart Mill made a speech called 'Our Military Expenditure' where he argued how wars were being waged by 'nations in arms' and stated that 'no country can afford to keep a standing army great enough for the purpose [of defense].' In that speech, Mill also condemned the revoking of privateering laws in the Paris Declaration of 1856, as a result of which, in his words, 'we abandon one of our most effective defensive weapons – the power of attacking an enemy through his commerce' (Robson, 1996).

Thus, the geography of the credibility of mercantilism changed. Powerful countries that had to deal with British maritime hegemony, such as the United States and Germany, still found support for protectionism and intervention in foreign trade policies. In Britain, liberal imperialists were aware of the benefits of free trade in international economic relations, but never allowed colonies to adopt their own monetary policies Narsey (2016) and were also increasingly aware of their improved capabilities to conquer territory inland using repeating rifles and railways.

Just like international trade in the seventeenth and eighteenth centuries, policy-making for arms industries in the nineteenth and twentieth centuries became the flagbearer of all traditional characteristics of classical mercantilism. National production was preferred over imports, government

¹⁵Wimmer (2013) provides important data showing how nationalism grew during this period and in general history it can be regarded as the main causal factor for the breaking out of wars.

¹⁶This concept is well defined in Bousquet (2009).

procurement and exclusive production rights helped the sector grow, exporting military technology was forbidden or heavily regulated according to strategic policy (even if prohibitions were poorly enforced) and gains in these sectors by one country were perceived as a threat by all others, like a zero-sum game, instead of a win-win game of *civil* self-correcting features.

If we take a look at the contemporary world, we see that nuclear, chemical and biological industries are all dealt with in rather mercantilist terms. In monetary affairs, developing countries like China and Brazil do engage in explicit policies designed to accumulate foreign reserves, which is mostly justified by the need to rely on a protective cushion against global uncertainty. But this protective mechanism was not necessarily against the possibility of war, as in the seventeenth and eighteenth centuries, as today policy-makers are more concerned with avoiding international economic crises, which can be quite disruptive domestically, a possibility that was less of a problem some centuries ago.

These ideas suggest the possibility of looking for a material basis to explain the credibility of mercantilist assumptions of thought and practice and maybe it can be found in the material link between economic and security issues. The perception of credible threats for economic assets of any nature leads economists, policy-makers and businessmen to be more receptive to mercantilist-like assumptions.¹⁷

4. Final considerations

Stern and Wennerlind (2013) recalled Charles Wilson's classical argument that 'mercantilism was always something more and something less than *economic*.' Wealth and power, either political or military, even when they appear by different names, may in some cases be seen as representing similar phenomena. The capability to buy, influence, win or dissuade enemies is at the core of what these concepts refer to. In the age of classical mercantilist thought, separating wealth from the necessary means of securing it had little practical, material meaning to convince agents involved in practical problems, even if there were and still are good reasons to separate one from another in science, discourse and the birth of political economy.

As an entwinement of economic-security affairs, the materialist approach to mercantilism concludes that the credibility of mercantilist assumptions is positively correlated with factors like uncertainty, insecurity, underdeveloped financial capabilities, expanding military assets and a significant subjective probability of warfare. By contrast, the credibility of mercantilism is probably negatively correlated with predictability and international affairs, secure property rights overseas, geopolitical stability, international cooperation, credible pacifism and an optimistic perception of the probability of continued peace.

The tradition of linking mercantilist assumptions exclusively to theoretical refinements within economics, only to conclude that they are blatantly unsound economics, is simplistic and ultimately unhelpful. However, properly understanding mercantilism is not a matter of defending it, since any apologetic defence of mercantilist policies would also fail to capture some flagrant limitations in its reasoning, like the *necessary* belief in future international non-cooperation.

If Rodrik (2013) is right and mercantilism is on the rise today, the materialist approach to mercantilism may prove useful to bridge disciplinary boundaries between historians, economists, internationalists and other scholars interested in the relationship between economic thought, government intervention and warfare.

¹⁷This argument is different from Schumpeter's (1954) 'Practical Argument' regarding mercantilism. To explain why mercantilism was credible is different from explaining why it was correct, or why it had positive consequences, or why it was appropriate policy for its time. A proper understanding of mercantilism's consequences would require empirical methods different from the ones employed in this article. In order to explain the credibility of mercantilism's assumptions, it has to be shown what conditions made certain people more inclined to believe in them. Whether those beliefs were enough widespread to guide policy, cause wars or dominate economic thought is also a different matter. My argument is insecurity provides fertile ground for people to find mercantilist assumptions more credible. Between c.1600 and c.1800, insecurity reigned over and the assumption war would closely ensue made mercantilist assumptions in themes like international trade, its vessels and adequate means to finance war more credible.

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ORCID

Thomas Victor Conti  <http://orcid.org/0000-0003-4759-4689>

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