

<p>MERCANTILISM Economic system of Europe from 1500s to 1700s. It favored a balance of exports over imports (more goods sold to foreign countries than purchased). In each nation, the economy was regulated by government in order to achieve this end. Mercantilism facilitated the development of the political system of absolutism (all-powerful rule). It also provided a basis for the growth of capitalism, by emphasizing capital saving and strengthening nation-states so that they could establish social conditions necessary for economic development.</p>	<p>FREE MARKET Mercantilist ideas were criticized in the 18th century by economists advocating a free market—the flow of commerce without government regulation (sometimes called laissez-faire, or “leave alone”). Free market policy is part of a wider economic system called capitalism, which developed during the late Middle Ages. Capitalism is based on the ownership of land, labor, and other means of production by private individuals who compete with one another to produce goods and services offered on a free market for profit.</p>
<p>PROMOTERS 17th century England: Thomas Mun and Sir James Steuart France: Jean-Baptiste Colbert Italy: Antonio Serra</p>	<p>PROMOTERS 18th century France: Economic theorists who called themselves physiocrats Scotland: Adam Smith</p>
<p>OBJECTIVE To create wealth and power for the nation.</p>	<p>OBJECTIVE To create wealth and power for the nation.</p>
<p>MAIN PRINCIPLE Governments should regulate a nation’s economy to increase wealth at the expense of rival nations and protect home trade from foreign competition.</p>	<p>MAIN PRINCIPLE Governments should not interfere with a nation’s trade, business, or industry, or prevent or discourage its citizens from buying foreign goods.</p>
<p>UNDERLYING BELIEF The world contains only a fixed amount of wealth. To increase its share of wealth, a nation has to take some wealth away from another nation.</p>	<p>UNDERLYING BELIEF Denial of the idea that a nation can grow rich only at the expense of another. Belief that a nation benefits from all trade, whether domestic or foreign.</p>

POLICIES OF MERCANTILISM

Bullionism

- Seek to increase overseas colonies in order to increase nation’s share of world’s wealth.
- Ensure a substantial share of the limited supply of precious metals, such as gold and silver—either by owning mines or by trade.

Favorable Balance of Trade

- Reduce amount of goods imported into country by imposing tariffs (import taxes) on foreign goods. (Resulting higher price is intended to discourage people from buying foreign goods.)
- Increase competitiveness of home industries by giving financial aid to domestic firms and industries so that they can lower the prices of their exports.
- Increase value of country’s exports by granting money (subsidies) to help establish new industries and expand existing industries.
- Ensure nation is self-sufficient so that it does not have to depend on foreign countries for goods or labor (has the advantage of avoiding dependency on nations that could become hostile).

Accumulation of Capital

- Thrift and saving to be encouraged; by these means people and nations create capital (profits, or excess of production over consumption) that can be used to expand production.

ADAM SMITH’S IDEA OF A FREE MARKET

His Argument (*The Wealth of Nations*, 1776)
In a free economy, the natural laws of economics can operate, resulting in goods being produced at the lowest possible price. In an economy regulated by government, the natural laws of economics cannot operate, to the detriment of all.

The Natural Laws of Economics

- 1 Law of self-interest** People act for selfish reasons; they produce goods and work for their own advantage.
- 2 Law of competition** In a free market, everyone competes; e.g., each textile manufacturer, to succeed in business, must make clothes more efficiently and sell them at a lower price than rivals. Competition in a free market among selfish individuals results in economic progress because it encourages innovation and efficiency. Competition between home and foreign industries helps to improve home industries.
- 3 Law of supply and demand** The amount of goods a nation needs and produces will automatically be regulated by the operation of a free market; e.g., when the supply (quantity available) exceeds the demand (need) for clothes, manufacturers have to lower their prices to attract more customers. The low price will drive some manufacturers out of business.