

Magadh Mahila College

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HISTORY

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PAPER – II

RISE OF MODERN WEST

Unit – 2

Cause for the Rise of Mercantilism

**Topic: - MERCANTILISM AND THE
ADVENT OF COMMERCIAL
REVOLUTION**

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Introduction

MERCANTILISM to MERCHANT CAPITALISM is the first phase in the evolution of the modern capitalistic system. The economic activities associated with this phase of capitalism prevailed in Europe from the middle of the 13th century to the middle of the 18th century that is from 1250 to 1750. This period saw an unprecedented expansion of trade and commerce and consequently, large-scale accumulation of capital. As the money was gained mainly through trading and commercial activities, this type of capital is called merchant or commercial capital.

When we say that mercantilism is the first phase in the evolution of capitalism, we must find answer to the question, what is capitalism? Capitalism is an economic system by which individual invests money in trade, commerce or industry purely with the profit-making objective. and even the profit that he makes he spends to further profit-making and the process goes on, From the point of history, it means a process of change in the economy, from the subsistence economy of the early medieval period to the money economy of the mid-13th century; from the economy based on home-grown produce that earned profit in kind to the one based on imports and exports that earned profit in cash, i.e. money or letters of credit. Earlier, men produced goods for subsistence, i.e., for survival, and so they produced goods or grew crops as much as they needed. But in course of time they began to produce more than what they needed, and the excess product was sold to make profit, when the profit was invested to bring further profit, the capitalist system came into being.

Now, the questions arise, what is mercantilism? If it was the first phase of capitalism, what were the other phases? Mercantilism as an economic doctrine emphasised that in the production of goods the role of individuals would be crucial, but the production process and the overall economy would be strictly under the state control. The state should play the most powerful role in increasing trade and commerce. A state must be constantly concerned to augment its wealth and riches, so that it can be a powerful nation-state. It must resort to all means to enhance its economic

prosperity, even if necessary, at the cost of other nations. The mercantilists even advocated possession of colonies by the powerful nations, and also felt that these colonies should be exploited for the profit of the mother-country. In the words of the great English philosopher-politician of the 17th century. Francis Bacon, mercantilism aimed "at the opening and well-balancing of trade, the cherishing of manufactures, the banishing of idleness, the repression of waste and excess by regulatory laws, the Improvement and nurturing of soil, the regulation of prices".

At this stage we must have further clarification as to the other phases of capitalism and how they differed from the first phase. i.e., the mercantilist phase. The process of capitalism passed through two more phases - the phase of INDUSTRIAL CAPITALISM and that of FINANCE CAPITALISM. The industrial capitalism also known as the FREE TRADE CAPITALISM, is the second phase of capitalism, and it came with the Industrial Revolution in the second half of the 18th century. It is the forerunner of the present-day free market economy. It emphasised the role of individuals, in contrast to mercantilist's stress on that of the state in all economic activities. It advocated free enterprise, free trade and free exchange. It opposed all sorts of controls and regulations on individual's economic activities, except those necessary for maintaining law and order. Industrial capital made its appearance around 1750 and dominated the economic scene till 1870. The period was marked by mass production of goods and large-scale accumulation of capital. In short, it advocated individual's freedom in economic sphere, while mercantilism stood for state monopoly in economic field.

The third and the last phase of capitalism - FINANCE CAPITALISM It indicates the stage when free market economy reaches the peak. It creates big business houses which have accumulated so much capital that they can finance industrial projects in their own country or in other countries. The big industrialists and capitalist join hands to form banks, corporations and trusts to finance large projects. It came into prominence around 1870 and reached its peak before the First World War.

From our discussion so far, it is clear that mercantilism or merchant capitalism opted for a system that stressed upon regulation, restraint and control of individual's role in economic activities and attached importance to the state's role in the maximum expansion of trade and commerce. A similar programme of stimulation, regimentation and regulation had characterised the economic life of medieval towns. But under mercantilism the newly emerged state superseded the town and its guilds as the regulator of the economy.

Causes for the Rise of Mercantilism

The interplay of several forces and factors during the 12th and 13th centuries led to the rise of mercantilism. We can look into the factors keeping the time-scale and chronological order in mind.

Advent of Money Economy:

Firstly, trade and commerce on a European level as well as on an international scale was growing at such a scale during the 12th and 13th centuries that money economy was slowly but steadily making its appearance replacing the out-worn subsistence economy. Now trade was not possible with simple exchange of goods or the barter system. Money, coins and bills of exchange came into use for smooth and efficient conduct of trade and commerce. This marked the nascent stage of merchant capitalism. Of course, the student's must not the fact that it was not a story of continuous economic growth. Trade showed a depressing trend in the early 14th century and it continued for several decades due to floods, the Black Death caused by bubonic plague, and the Hundred Years' War. But once the recovery came in the late 14th century, it recorded the tale of prosperity once again on a much wider scale.

Emergence of Trade Zones : Northern Trade Zone:

Secondly, the emergence of trade zones was also responsible for the rise of mercantilism. Two important trade zones came into being in the period covering 12th and 13th centuries. The first one was the NORTHERN TRADE ZONE and the second one was the MEDITERRANEAN TRADE ZONE. The northern trade zone contained a fairly large portion of northern and western parts of Europe. It linked up the Baltic Sea region with the North Sea region with a thriving commercial relationship. The Baltic region contained Sweden, Denmark and the towns (mainly German) of the HASEATIC LEAGUE, while the North Sea region included England, France and the Flanders (Belgium and a portion of northern France). During 12th and 13th centuries supplies of food and warm clothing (the two most essential commodities) were steadily increasing. Salt fish, for example, was in great demand, because it was cheap, tasty and lasting. The 14th century saw such a boom in herring fisheries along the narrow waters between Denmark and Sweden that the Baltic fishery trade employed thousands of men for catching fishes, salting them, making barrels to pack them and exporting them to various parts of Europe. So, the trade was indeed growing.

Similar was the situation in the Anglo-French Flanders area. In fact, Flanders was the centre of the northern trade system (T. W. Wallbank and others, *Civilization: Past and Present*, pp. 212-13). By 1050 the artisans of Flanders were producing a surplus of woolen cloth of such fine quality that it was in great demand. Baltic fish, honey, furs and forest products, the English raw wool and tin, and the French wine were exchanged for cloths of Flanders.' From the south through Italian cities came the luxury goods of the Orient - silk, spices and sugar. Thus, we see, the northern trade zone, with the thriving Baltic and North Sea regions, had become a busy commercial area by the late 13th century.

Mediterranean Trade Zone :

Thirdly, the emergence of the Mediterranean trade zone was an important development in Europe's economic history. It gave a great impetus to mercantilism. The victory of the European mercenaries over the Muslim forces in the Crusades (1092-1291) prepared the ground of the European control of the Mediterranean Sea. The Crusades added a new chapter in world history by giving the control of the vast eastern trade to European states, or more truly, to some Italian city-states. The crusades dealt the first blow to the obsolete feudalistic order, signaled the advent of capitalism, marked the rise of towns and saw the growth of trade and commerce. The Mediterranean trade zone was much wider, having more trade routes and more active than the northern trade zone. It was a trading zone through which European products went to the East, and the eastern goods came to Europe. On the one hand, its trade extended to the Baltic and North Sea regions, and on the other, it was linked to the Arab world and to Asia as far as India and China. The Arab vessels brought luxury goods from the East to the ports on the Persian Gulf and Red Sea. From there they were shipped by caravan to Alexandria, Acre and Joppa and from these ports the merchants of Venice, Genoa and Pisa transported the goods to Italy, and from Italian ports they were sent to markets all over Europe.

Prof Crane Brinton has written that the truly big business of the last medieval centuries was to be found not along the Baltic, but in the coasts of the Mediterranean, many of which were already active trading areas, enriched and enlivened by the Crusades. Venice, Genoa, Pisa, Florence, Milan, Lucca and some other cities in Italy, and Barcelona in Spain gained most from the Mediterranean trade. Venice provides an excellent case study. It was the East-West trade that brought wealth to Venetian merchants from the East. Commodities like silk, spices, sugar, cotton, dyestuff etc. came from the East. Wool and cloth went from the West. The journey of the Venetian merchant - explorer, Marco Polo, to China in the late 13th century and his long stay there very nicely symbolises the large expanse of the Venetian trade.

Rise of Towns and Hanseatic League:

Fourthly, the steady growth of trade and commerce led to the revival of towns. In that sense the rise of towns was a consequence of the growth of trade and commerce. But the important point is that the coming of towns gave further impetus to the expansion of trade and commerce. In other words, the rise of towns was a potent factor for broadening the base of merchant capitalism.

A combination of towns often turned into a potential commercial unit. The Hanseatic League (from the German word 'Hansa' which means alliance) was a grand example of this phenomenon. A group of Germany towns joined hands for mutual protection and to get special privileges. It happened so because in Germany a strong state capable of maintaining order and keeping the folks together did not exist in the 13th century. This League began with a few cities, but by the 14th century its membership swelled to 70. This large combine of German towns and cities became a formidable economic force in Europe, particularly in the northern trade zone. The heart of this economic fraternity was Lubeck, and it included Hamburg, Danzing and Bremen. Its wealth came mainly from its control of the Baltic fisheries, its sure access to the Russian trade, and its rich business with England and Flanders. The Hansa ships carried Baltic fish, timber, grain, furs and metals to western European markets and brought back cloth wine and spices. At one time the Hanseatic ships controlled the lucrative transport of wool; from England to Flanders. Hanseatic merchants, travelling overland with carts and caravans, took their Baltic goods to Italy. The League maintained large warehouses and trading posts at Bruges, Novgorod and Bergen on the Norwegian coast. So, what began as a trading combine, turned into a political empire with its military force, its own legal code (the Law of Lubeck), its own officials and diplomats and its own flag?

After 1500 the fortunes of the Hanseatic League declined rapidly. The trade steadily passed from the Baltic Sea to the Atlantic Ocean, and this meant commercial decline for most of the Baltic nations and advantageous to Holland and England. Yet, the League played a prominent role in the rise of mercantilism.

Banking System and Holding of Fairs:

The BANKING SYSTEM and SEASONAL FAIRS very much helped the rise of mercantilism. During the 12th and 13th centuries the banking system in its most preliminary form was operating. The practice of usury, the basis of banking system, was strictly forbidden by the Church because it promoted idleness that went against the Christian ethics. But in spite of this restriction, banking system in some form or the other developed because not only traders, but also the kings, nobles and even the Church (which opposed usury) needed money and they took it from the lay bankers. Three factors -

- (i) the- introduction of gold coins in place of silver coins in the 13th century;
- (ii) the use of bills of exchange in business transaction; and
- (iii) the practice of money changing at banks and fairs very much helped the growth of merchant capitalism.

How did these three factors help business to expand? The florin of Florence and ducat of Venice became the standard gold currency for European and international trade. They very much boosted trade and commerce. The Bills of Exchange, also called the Letters- of Credit, also greatly contributed to the growth of business. The bills were equivalent of modern cheques. This freed the traders and others from the risk of carrying large amount of money with them. If the money was deposited in one bank or agency in one city and a bill of exchange was taken from the same bank or agency, it could be cashed in another city, provided the latter had a branch of the bank or agency. The importance of the bills can be understood from an example. When the English king, Henry III invade France in 1224, he carried with him 30 barrels of money, each containing 160,000 cons, to defray the expenses of the expedition. This incident clearly shows the need for such bills and other forms of banking transaction. The third factor, i.e. the practice of money changing too made banking system essential. There were so many coins and currencies in vogue in Europe at the time that it was difficult to find out their value or importance. The bankers could know their respective values in

terms of trade and commerce and they could exchange one currency for another.

The Italians were the torch-bearers in banking too. The early bankers hailed from Lombardy and Florence. The Medici family of Florence, under the dynamic leadership of Casimo de Medici, became one of the leading bankers of the 14th and 15th centuries. Tile Medici bank had branches in Venice, Rome, Milan, London, Geneva, Bruges and Avignon. The Bank of St. Geogre, founded in 1407 at Genoa, controlled much of the Mediterranean trade. In Germany powerful banking families flourished in the cities of Augsburg and Nuremburg. The most famous was the Fugger family of Augsburg. The Fuggers had multifarious business concerns, but their dominance in banking business was overwhelming. In the late 15th century the Fuggers financed numerous commercial undertakings all over Europe, advanced heavy loans to the Habsburg rulers, and to the Popes as well after the decline of the Medici bank.

The SEASONAL and ANNUAL FAIRS arranged in various parts of the main European trade routes by the rich and ambitious nobles, gave great impetus to trade and commerce. Those fairs used to be the mootng around for the goods and merchants of Italy and northern Europe. During the 12th and 13th centuries the fairs of Champagne in France became the major clearing house for world trade. Fairs greatly stimulated the money economy and early forms of banking and credit. Fairs also promoted money changing and banking. The bills of exchange were common at the fairs and agents of banks worked overtime to make the fairs successful commercially. Interestingly enough, the tradition of fairs still continues and we are aware of the famous trade fairs of Hanover, Frankfurt and Dusseldorf, Cologne and Paris.

Technological Advancement in Seafaring:

The pressure for expanding trade and commerce motivated change in technology. And again, changes in technology led to further growth of economy. The most noteworthy innovations were taking place in construction of ships. This was mainly because the quantum of cargo to be carried outside and to be brought home from

outside was increasing with every passing year. The maximum shipment was done with the Venetian GALLEYS. The galley was a medieval, long narrow, oar-driven vessel that formed the backbone of Venetian trade till the end of the 13th century. From 1300 improvements were made in the galley and it was converted into a bigger and swifter merchant vessel. These merchant galleys dominated the Mediterranean trade in the 14th and 15th centuries. Each of them carried on an average 250 tons of cargo - mainly spices and other lucrative items. The early 15th century records show that nearly 45 galleys sailed from Venice annually, of which four went to Flanders, two to southern France, three to the Black Sea, three to Alexandria, four to Beirut and three to Jaffa in the Holy Land and the rest to other places. The Venetian fleet to Flanders also stopped at London and Southampton. According to Prof Brinton, this Venetian ship transportation was "an important economic institution" because from its start in 1317 it provided a service between Italy and north-western Europe that was cheaper and more secure than the overland route.

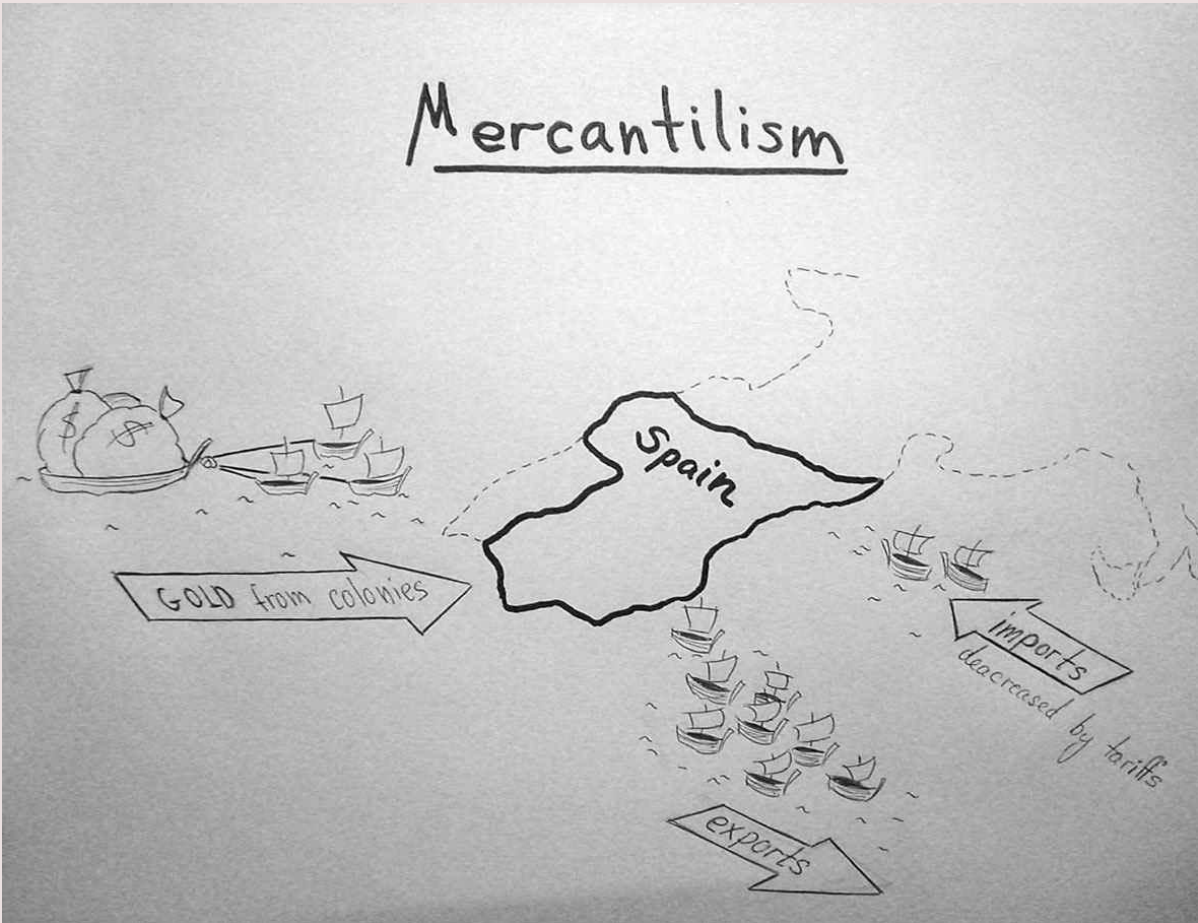
Interestingly enough, the ship building industry of Venice was the largest industrial establishment in Europe. About 1200 men were employed in the construction of galleys. Labourers of various skills were engaged as well as numerous unskilled labourers in building of ships. During war-time more labourers were recruited.

Other technological changes in sea faring were also taking place. Better instruments improved charts and maps and clearer indicators proved helpful to captains and navigators. This also meant the emergence of a new community of technocrats, consisting of instrument-makers and ship-builders.

Role of Guilds:

The guilds played a noteworthy role in the growth of merchant capitalism. The guilds were guiding the European economy in the medieval period, but their influence and activities grew very much in the 12th and 13th centuries. The term guild means organizations of merchants and artisans, set up for the smooth conduct of trade and

commerce and for the protection of the Interests of merchants and artisans in a particular area. There were two types of guilds - merchant guild and craft guild. The merchant guild ensured a monopoly of trade within a given locality. All outside merchants were supervised closely and made to pay tolls. In the absence of strong central government, the merchant guilds performed some functions which would otherwise have been governmental. The craft guilds were mainly concerned with the categorisation of workers and artisans and providing them job security. Of course, both the guilds aimed at the creation of monopoly and the enforcement of a set of trade rules. Each guild had a monopoly of a certain article in a particular town. Every effort was made to prevent competition between members of the same guild. Due to the efficient supervisory role of the guilds, trade and commerce expanded smoothly and the process of capital formation.



Conclusion

From our discussion it is clear that mercantilism in the first stage of capitalism. Several forces and factors were responsible for its rise in the 12th and 13th centuries, and it dominated the European economy from 1250 to 1750.

As regards its characteristics, the first point to be noted is that it was based on state control, state monopoly and state interference.

Secondly, it put emphasis on exports rather than imports. Thirdly, it insisted on putting heavy duties in order to discourage imports and encouraging domestic production.

Fourthly it believed in the accumulation of expensive metals like gold and silver, which were used to make coins.

Fifthly, it encouraged acquisition of colonies by countries for increasing their trade and commerce.

Lastly, it promoted means like chartered companies and navigation acts for increasing a country's commercial prosperity.

Several causes were responsible for the rise of mercantilism:

Firstly, the gradual emergence of money economy replacing subsistence economy was a primary factor for the rise of mercantilism.

Secondly, the emergence of the Northern Trade Zone gave a great impetus to the rise of mercantilism.

Thirdly, the building up of the Mediterranean Trade Zone was another important factor for its rise.

Fourthly, the revival of towns and the advent of the Hanseatic League provided a great boost to mercantilism.

Fifthly, the evolution of the banking system and the arrangement of fairs proved very helpful to the growth of mercantilism.

Sixthly, several innovations in naval technology fostered trade and commerce, thereby providing further momentum to merchant capitalism.

Lastly, the guild system provided a kind of order and discipline that proved to be very favourable to the rise of mercantilism.

Suggested Readings:-

1. Meenakshi Phukan : Rise of Modern West
2. G. Clark : Early Modern Europe
3. Raghbir Dayal : Modern European History
4. Jain and Mathur : World History (1500 – 1950)
5. G.M. Trevelyan : Social History of England
6. Parthsarathi Gupta (ed.) : आधुनिक पश्चिम का उदय
7. लाल बहादुर वर्मा : आधुनिक यूरोप का इतिहास
