

## ACTIVITY 22.1

**Mercantilism – Show Me the Gold!<sup>1</sup>**

Mercantilism refers to policies and laws that were adopted by many nations of Europe between the 16th and 18th centuries.<sup>2</sup> Mercantilists were people who accepted mercantilism's policies and laws. They believed a strong government was necessary for their society to advance.

An important reason for a strong government was to build a strong army and navy. Wars between the nations of Europe had become more frequent. The monarchs of these nations expected their lifestyles to reflect the important role they played, so they spent lavishly on themselves and their courts.

The problem with wars and large courts is that both require large amounts of money—gold being a common means of payment. Before 1500, monarchs and their governments could tax working-class peasants to pay their bills. Peasants were not politically powerful and did little to resist. This changed in the 14th century when violent peasant revolts erupted in England, France, and other nations. Taxes on land were not popular among wealthy landowners either. A new source of tax revenue had to be found.

Luckily for the monarchs, a new source of revenue emerged. By 1500, international trade was growing rapidly. Trade would grow even more because of the exploration and colonization that followed the voyages of Christopher Columbus to the New World and Vasco da Gama to India. Duties (taxes) on foreign trade went directly to the monarch's treasury. Taxing overseas trade raised revenue without the more visible negative effects of domestic taxes. European governments established companies that were given rights to trade with overseas colonies. For these privileges the companies were willing to pay taxes to their governments.

Mercantilists believed that their governments should promote their own exports (goods and services produced in one nation and sold in other nations) but discourage imports (goods and services bought from sellers in another nation). If Spain exported wheat to England, England would pay for the wheat with some of its gold. Spain would try to hold onto the gold and not spend it on imported goods from England.

<sup>1</sup> Sources: John J. McCusker, "British Mercantilist Policies and the American Colonies," in *The Cambridge History of the United States: The Colonial Era*. Eds. Stanley L. Engerman and Robert E. Gallman. Cambridge University Press, 1996; Laura LaHaye, "Mercantilism," *The Concise Encyclopedia of Economics*. <http://www.econlib.org/library/Enc/Mercantilism.html>

<sup>2</sup> The period from about 1500 to 1750 C.E. is called the "Age of Mercantilism."

## ACTIVITY 22.1, CONTINUED

In the mind of a mercantilist, the transaction provided a double benefit for Spain. Spain would have more gold to wage war or support its courts while England would have less. Mercantilists believed that the total amount of trade and gold in the world was fixed. For them, international trade always resulted in one nation gaining at the expense of another nation. During the Age of Mercantilism, the nations of Europe were always preparing for wars with other nations. Trading for another nation's gold would make the importing nation weaker while making the exporting nation stronger.

**QUESTIONS:**

1. During the Age of Mercantilism between the 16th and 18th centuries, why did European nations want gold?
2. Why did European nations use taxes on international trade, rather than other taxes, to raise revenue?
3. How did nations increase the amount of gold they owned?
4. What did mercantilist nations give up when they held on to their gold, rather than spend it?