

## Lecture 3: The Ancients and the Mercantilists

### General Comments

Much of the early history discussed here is Eurocentric. Karl Marx wrote his essays and books in an atmosphere that understanding his analysis requires we also look at the period and influences under which he did his work.

Also, we begin this work by looking at precapitalist Europe. This is important, since history was the approach Marx took in his analysis.

Finally, we look at all of this from Marx's pyramid. In other words, we want to study the "Mode of Production," the "Social and Political Institutions," and the "Ideology." This was contained in Marx's lecture the first day of class and will be a theme throughout the course.

### Precapitalist Europe: Introduction

We need to understand that society emerged when there was a need for labor to divide itself. This is one of the first lessons we learn in any Principles text. The division of labor allows us to increase production, whether at the primitive level where the division is often assigned by age or by gender or in the most complicated societies where we specialize down to carefully defined careers or tasks. Couple the division of labor with the invention and implementation of tools and we have the possibility for production levels that are many times what would be possible through working alone, with only our hands. Of course, the tools that we employ, in modern economics terminology, is termed *capital*. We will soon see that the role of capital is very different when viewed by a mainstream (capitalist or neoclassical) economist as opposed to a Marxist.

From a Marxist perspective, as tasks become more differentiated and tools become more sophisticated, productivity increased tremendously. However, other results also follow. For example, increased productivity allowed for a material surplus which could be used to support a *leisure class* because smaller and smaller numbers of people were required to produce greater amounts of product. But as soon as we admit we might have the possibility for a leisure class, we also admit to the possibility that classes in general exist. Before the division of labor and the implementation of sophisticated tools, survival required a more communal atmosphere. Even though tasks were divided among members of these early societies, social class was not present or at least not very important. Once a leisure class became a possibility, society began to divide amongst social classes. Interestingly, people that did the actual work of producing society's goods and services were, according to Marxists, relegated to the lowest classes. In other words, people doing physical work were generally among the lowest social classes in the system. Those able to escape work were assigned the highest social standings. Marx did not contend that the higher classes performed no meaningful service to society. They were often the people that constructed laws and rules of behavior that brought order to society. They performed rituals to ingrain these rules and laws into the population so that voluntary compliance would minimize the need for violence.

At the same time, however, these rules, laws, and rituals also led to compliance from the working class. They complied from an understanding that what they did was natural, that there needed to be a working class. These rules, laws, and rituals combined to create the ideology of the system and to convince the

lower classes that the system worked for them or, as mentioned before, that it was natural to have the social classes into which they were born.

From this background, we define *ideology* as the ideas (beliefs) that justify the social and economic relationships in the current social arrangement. The ideology justifies the current system and is internalized by most in the population. Those that object are classified as deviants and are sanctioned. The absence of a commonly accepted ideology leads to social disruption, and eventually, to revolution or insurrection.

### **Precapitalist Europe: Ancient Greek/Roman Slavery**

Over 80% of the population in ancient Greece and Rome were slaves. They were the workers. In fact, they were responsible for almost all the person based productive effort of those times.

Cities at that time were mostly developed for warehousing and government functions. Essentially, all work was conducted in an agriculture setting. The slave owner was master. He/she fed and clothed the slaves at a minimum (subsistence) level. All productive surplus went to the owner, who lived a relatively lavish lifestyle as a result.

In order for a system where 20% of the population lived in luxury provided by the sweat of the other 80% of the population, a strong ideology had to exist. The ideology was that slavery was natural. To be a slave was a destiny. It was the only possible system that could exist because most people were born to be slaves. They were inferior people incapable of governing themselves or captives from wars. Superior breeding and intelligence were natural to the superior classes who were destined to rule . . . and to own slaves.

Even the two great thinkers, Aristotle and Plato justified slavery in their teachings. In fact, Plato argued that there had to be a class of thinkers that were freed from the day to day drudgery of production. In order to think, the leaders needed time. Time to read, time to teach, and time to allow the mind to wander.

Without question, this system led to tremendous advances in production, in the provision of law, in science, and in culture over the earlier, primitive societies. Great cities emerged and great wars of conquest were undertaken. Rule of law was invented. Civilization was extended.

A second consequence was that work became a demeaning task only to be undertaken by weaker minds and stronger bodies. In fact, the notion of work was even extended to invention. Thus, tools and technological advance were ignored and even looked down upon. Eventually, the economy stagnated. This, coupled with a Roman empire that was extended beyond the ability to control or stave off attacks from other cultures, along with the eventual decadence of those in the leisure class, made the slave system economically and morally weak. Eventually, Germanic and Slav tribes bit at the outer boundaries of the Roman Empire leading to its eventual fall.

### **Precapitalist Europe: Feudalism**

*The Institutions:* You already heard about Feudalism in the Marx lecture. We will follow up on that now with a little more detail.

With the fall of the Roman Empire, the rule of law and custom associated with that empire disappeared. The vacuum that was created was eventually replaced by a hierarchical system called Feudalism. Slavery, as such, was not a dominant feature of this new society. The slave was replaced by the serf/peasant. The serf was not a slave, but a citizen. The serf owed allegiance to the lord of the manor, the first rung in the new system of leisure class. This allegiance took the form of money payments, the offering of a part of the serf's produce, and the willingness, actually duty, to serve in armies in times of war. In return, the lord provided protection and a system of justice based on custom.

The lord of the manor answered to yet another overlord, who answered to another, and so on up the line ending with the King or Queen. In return for allegiances up the line, each rung of the ladder was given a hereditary right to the use of properties. This right included the serf.

Like the ancients, over 80% of the population were classified as serfs. They worked mostly on the land and in agricultural pursuits. For the most part, the serfs and their families produced all of their own needs. Trade and bartering existed, but was weak and at relatively low levels.

Custom and tradition ruled. If your parents were serfs, you would be a serf. If your parents were Dukes or Duchesses, and you were the oldest, you were also likely to be a Duke or Duchess. There was really no strong central government and there were few laws against which justice could be dispersed. The lord of the manor was the distributor of justice at the lowest levels. The serf actually had the right to appeal a lord's decision to the next rung in the hierarchy. However, as you might suspect, this was rarely done. Disputes between lords were settled at the next highest level, and so on up the line.

Payments of tribute (taxes), responsibilities for work and soldiering, all were determined by custom. The exchange of goods for profit or the charging of interest were both taboo. And most importantly, the responsibility of the lord to his/her serfs was theoretically as strong as the serf's responsibilities to the lord.

As mentioned earlier, the serfs were not slaves. This does not mean that the serfs had great lives. Many of their obligations were quite difficult and they were often far from what we today would term as free. Certainly, the nobility lived off of their efforts. Political and economic power were obviously given to the nobility. The nobility was the leisure class. The serf was certainly exploited under such a system. The basic unit within the economy was the manor. The lord would change from time to time, and the administration of justice was certainly different as between one manor and another.

A second important institution that held the feudalistic society together was the Catholic church, by far the greatest landowner in the European feudal system. The church also represented the closest to a centralized government the feudal system had to offer. The feudal hierarchy could change allegiances from one overlord to another, depending on the politics of the day. But the church hierarchy always ended in Rome.

The manor could be secular or religious. Many manors were run by the church. But no matter which organization ruled, the relationship between serf and overlord remained essentially the same. One additional factor should not be overlooked. While the rural manor was the predominate economic institution, there were towns. Most were involved in some crude forms of manufacturing. These manufactured goods represented the basis for what little trade that took place at this time. Goods were sold from the town to the manor in exchange for money and food.

The basic economic structure in the towns were the guilds - based on professions and crafts. Guilds also existed in ancient Rome by the way. Nothing could be legally produced and sold except through membership in the guild. These organizations also looked over religious matters and the administration of justice among its members. They were generally not based on profit and they had authority over their member's personal as well as their economic lives.

*The ideology:* The ideology of the ancients was that the way things were was "natural." The ideology of the feudal system was the "Judeo-Christian" tradition. The ethic employed by this tradition is often referred to as the *Christian Paternalistic Ethic*. This ethic mirrored the family, with society being the family containing grandparents, parents, children and grandchildren. Those in power positions were the grandparents and parents. They have the usual obligations that go with parenthood, i.e., they were responsible for the care of their children.

On the other hand, the children had to accept the obligations associated with children, obedience being one of the major such obligations. They are to submit to the whims of their parents and accept and respect parental authority.

One of the principal responsibilities of the parents was to relieve the children from the worst aspects of poverty. This was especially important in the Jewish traditions. Both the Jews and the Christians used loans, grants, and alms to help relieve poverty. The Christians were not to charge interest beyond any costs of making and keeping track of the loans. In many instances, both religions asked the creditor to forgive debts every seven years.

The rich were made rich by God so that they could carry out these parental responsibilities. Giving alms to the poor was a major responsibility for the rich. Those that were rich and used the riches for their own life styles were condemned by the prophets as being greedy and not fit for the riches of heaven. Certainly Christ argued for the poor and against those rich that were greedy in the distribution of their wealth. If anything, Christ went beyond the Jewish Mosaic Law in condemning the rich and glorifying the poor. However, and significantly, in other parts of the Bible being rich could make getting into heaven more difficult, but it would not prohibit entrance should the rich use their wealth for the good of the poor. Other parts of the Gospel also indicate that Christ was not as unhappy with the rich as might appear elsewhere.

Later writers of this era emphasized this point by saying that being rich in itself was not a sin (Clement of Alexandria). The desire for riches for their own sake was a sin. In other words, it is not in being rich that a person is good or evil, it is in how the riches were obtained, and even more importantly, how they were used. Interesting from today's standards, the selfish, acquisitive individual was the sinner - the very motivations capitalism holds up as the most important in a competitive system.

Other components of this paternalistic approach were in the notions of private property. Thomas Aquinas argued that private property could only be justified if it were used to help the poor. It was a necessary condition for charity. The relationships between the parent and the children were ordained by God and were not capable of violation without peril to the soul.

Trade and commerce were generally discouraged and looked down upon. For example, the price that could be morally charged in an exchange was the *just price*. The just price was the price that would compensate the property owner for the costs incurred in producing or procuring the product. No profit could be morally extracted from a transaction. However, there was one addition to this rule. The just

price could also include an amount above cost necessary to sustain the seller in his/her “customary station in life.”

Social mobility was certainly a no-no in this system. The system is based on tradition. Being able to avoid one’s birthright station in life would bring the entire system down. Acquisitive behavior could not be tolerated for this basic reason.

It was said earlier that the charging of interest was also condemned. Interest was called *usury*. How could a person charge interest for something that was given out of charity. Remember, loans were a form of charity and, as such, were often not paid back.

Now, don’t believe for a moment that everyone followed this ideology. Rules are always made to be broken. The role of ideology in any social system is to maintain control and support the dominant mode of production (Marx). Those caught grievously breaking these rules were dealt with in a very public fashion in order to provide at least the myth of supporting the truth. In this case, the truth was given by God and by traditional ways of doing things.

### **The End of Feudalism, the Beginnings of Capitalism, and the Emergence of Mercantilist Thinking**

The feudalist society was based on agriculture. It was tied to the land. Interestingly, it was agricultural technology that started the process of decline in the feudal system. This didn’t happen all at once. Over time, centuries, the increased productivity in agricultural pursuits, more than anything else, led to the eventual invention we call capitalism.

*Let’s Talk About Capitalism:* There are many ways we could define capitalism. Milton Friedman defines it as a system based on the freedom to choose coupled with the private ownership and control of the resources of production. Consumers are free to choose which products to purchase, or just as importantly, not purchase. Resource owners are free to choose where to employ those resources, or again just as important, where not to employ them. In fact, the resource owners are free to choose whether to employ their resources anywhere at all.

Out of these freedoms come the concepts of supply and demand. We will have more to say about this towards the end of the course when we will talk about the neoclassical system as seen through the eyes of a Marxist critic. However, suffice it to say here, under the proper competitive conditions and with the assumption of a fixed distribution of income, the forces of supply and demand will result in an efficient distribution of resources. An efficient distribution of resources occurs when the greatest net value is achieved out of production and consumption. Again, we will speak of this later.

Both the radical and Friedman’s views consider capitalism to be a system based on the exchange of private property rights. Both agree that exchange, at the level required for a capitalist system, requires a complex monetary system. Both agree that the search for profits is a major determinant of resource allocations, at least from the businessperson’s point of view.

But now for the radical (Marxist) additions to the definition of capitalism. The first aspect has to do with classes.

The class system under slavery was owner and slave. The class system under feudalism consisted of

several hierarchical layers with the serfs occupying the bottom rung. Under capitalism, there are two great classes and two sub-classes for a total of four. The two great classes were the owners (leisure class) and the workers (proletariat and bourgeois). The two sub-classes were the small business owners and professionals and the destitute.

Secondly, while both the Friedman and the Marxist agree that profits play a major role in capitalism, the Marxists carry this a step further by saying that the search for profits is the only real determinant of resource allocation. This is because ownership and productive resources are separated from the proletariat who actually does the work of production. As you saw in the Marxist lecture, workers really have little to say about working - they must sell their labor power to survive.

You are reminded of these definitions of capitalism so that we can better understand what happened, who won and who lost, as feudalism fell and capitalism took its place.

*The Transition:* The transition from feudalism to capitalism was caused to a great extent by technological advances in agricultural production. The primary advance in this regard occurred in England when the two-field crop rotation system was replaced by a three-field system. This happened somewhere between the eighth and ninth century. It was in widespread use in the eleventh century. Basically, when the same land was planted with the same crops year after year, the land lost its productive power, i.e., the land was depleted. The three-field system planted rye or winter wheat on one third of the land; beans and peas were planted on the second third, that the remaining fields were left fallow. The fields were rotated each year. The decay of the bean and pea plants during the fallow period actually put nitrogen back into the soil, making a fertile field for next year's rye and wheat planting. This simple change tremendously increased the productivity of the land. Some say that productivity increased by some fifty percent shortly after adopting this technology. Over time, the percentage probably increased above this amount as well.

A related change is that horses began to replace oxen as more grains were available for the horses. Since horses were faster than oxen, this meant a further increase in productivity. Further, the faster horses meant that larger fields could be farmed by a single serf and new lands could be brought into production. In short, greater economies to scale began to present themselves. We will talk more of this shortly. With more horses, crops could be shipped greater distances over land. What is more, the four wheel carriage with a rotating axle at the front made possible the shipment of larger loads.

Now, what does all this mean. Well first, it means that larger populations could be served by agriculture. Second, it means that fewer people were needed on the farm to support larger populations in the city. Third, it means that surplus labor existed on the farm which would be tempted to relocate to the city in order to find work. Fourth, economies from scale and comparative advantage became significant factors which lead to the emergence and growth of cities. Finally, all this means increased exchange and trade facilitated by currency, all features of capitalism identified above.

*What About This Growth of Cities and Businesses?:* Think about this a minute. If there were no economies from scale or comparative advantage, there would really be no basis for trade. We will talk about Adam Smith and David Ricardo's theories later in the course. Suffice it to say now that comparative advantage means different regions are able to produce goods at lower relative costs than are others, while the other regions have their own advantages. This makes it cheaper for one region to produce certain goods while other regions can produce other goods at cost and price advantage. It makes

sense for each region to specialize in that thing they do best and trade for the advantages found in other regions. That's all we will say about comparative advantage at this point in time.

Economies from scale are just as important. Assume an even scattering of serf families, each producing on fixed plots of land, with the costs of production for all goods being equal. Because it costs money to transport products, it would make little sense to trade. I would have to cover the same costs for the product as I could realize at home plus the costs of transportation if I traded with my neighbor.

>Economies from scale mean that one of the serf families could realize lower costs than their neighbors if only they produced a large enough amount, i.e., achieved a minimum scale of production. Because this family could offer a particular product at a lower price than their neighbors could under a self-sufficiency arrangement, there is a basis for trade.

A family could trade with neighbors as far away as transportation costs will allow. In other words, when the delivered price of the product is the same as the cost of production at the distant family's location, the basis for trade ends.

After the technological changes in agriculture noted above occurred, agriculture products could be traded over larger distances. Those moving to the cities began to produce products at a scale large enough to beat the costs on the farms. So a reverse trade emerged from the manufacturing in the cities. Cities began to grow, specialization began to increase, new comparative advantages began to emerge, and trade and commerce began to develop. With all this, yet newer technologies, especially in manufacturing, began to emerge.

*Long-Distance Trade:* Many think that the Crusades and the new contacts with Arabs and the Far East are what led to long-distance trade between Europe and the rest of the world. While this is undoubtedly important, there was certainly more than person to person contact involved.

Long-distance trade could not have taken place at any great level until innovations in agricultural and manufacturing production occurred, as described above. There had to be a surplus of production, at relatively low cost, in order for trade to take place. Of course, as trade expanded, expansions in industry and further innovations in agriculture were also encouraged. Competition began to emerge, leading to even greater incentives for cost reducing techniques.

A well known principle in Regional Economics is that trade between distant places tends to bring about the growth of intermediate cities to service the traders and transporters of goods. A merchant class began to emerge who existed primarily to facilitate exchange. This merchant class and the trading of surpluses from agricultural areas began to weaken the bonds formed in the traditional feudal system. Status was possible through the assumption of the title of merchant as opposed to the traditional means of assigning status.

The Crusades against the Ottoman Empire were not purely religious, you might be surprised to hear. The Turks practiced the Moslem policy of tolerance towards Christians throughout much of their history. Therefore, the Crusades could not be completely justified as a way of protecting pilgrims to the Holy Land, as is often asserted. The Crusades were as much based on commercial advantage as they were related to anything religious. France wanted to expand its trade with the East. What is more, France had significant strife at home. External wars are often undertaken to mollify unrest at home. Venice wanted

to expand its own eastern trade and influence, and so they joined in supporting expansionist efforts towards new markets and eliminating competition where they could.

The development of trade with the Arabs and with the Vikings to the north led to further developments in production and exchange. Fairs were replaced with commercial cities. Ships were changed to carry goods in addition to personnel. Complex systems of currency exchange were developed to facilitate the trade. International laws affecting commerce emerged, including rules of contract. This latter point was certainly different from justice by tradition and by custom associated with the feudal system. By the fifth and sixth centuries, much of the infrastructure was in place to allow trade on a significant scale to occur.

We now have exchange taking place some distance from the point of production. We also have craftspersons, totally separate from the land, working in cities, and exchanging their goods with merchants as the emerging mode of operation. Cities became locations for exports. The currency brought in from these exports allowed for new investment in capital and the expansion of production. And so it goes.

*An Important Development in Manufacturing - The Putting-Out System:* Just as the three-crop rotation system led to significant changes in agricultural production, the so-called putting-out system of manufacture began to change the city. As trade expanded, the need of a reliable supply of manufactured goods increased. The merchant capitalist needed to take control of production processes to assure that such a dependable system of supply would exist.

Before, the craftsperson owned the tools of production, the skills, and the talent for producing particular goods and services. The putting-out system found the merchant providing the craftsperson with the materials for production. On what we would call now a sub-contract system, the craftsperson would transform the materials into final products. However, the merchant owned the materials throughout the production process. A value-added payment was provided to the craftsperson for the labor provided. The merchant retained any rights to the returns above and beyond costs of production from the sale of these products.

As the putting-out system evolved, the merchant/capitalist began to provide not only the materials for production, but also the tools, and sometimes even the building where production took place. More and more, the craftsperson was a laborer. And more and more, the putting-out system looked like a factory. The craftsperson now became a worker. He/she did not own the tools of production, did not own the materials of production, and had no claim on the finished product. Now the owners had control over the process of production and profit replaced tradition as the guiding force in economic affairs. Capitalism, as defined here, became equal to or dominant to the feudal system somewhere around the sixteenth century.

In the fifteenth century, England developed what was then considered to be a super modern textile industry. The industry needed water for production. So the industry was scattered around sources of running water. With the putting-out system and the emerging textile industry, the thought that domestic monopoly control became appealing. Soon organizations, called livery guilds, emerged to help bring about such monopoly power through protectionist measures.

Fees, licences, membership to trade organizations, and other barriers prevented entry into the market. These new industrialists also needed protection from foreign competition. In order to do so, they needed

a stronger central government that they could influence and control.

*What Happened to the Manors?* Capitalism could not truly replace the feudal system unless the most basic organization of feudalism, the manor, disappeared. It eventually did because of the increased importance of cities and manufactured goods and services.

The lords of the manors soon found themselves wanting the luxuries from urban manufacturing. They had an agriculture surplus they could use to purchase these goods and services. But the old traditions put a limit on how much they could tax and expect in tribute from the serfs. The commutation system was invented primarily to secure more currency for the nobility.

The commutation system allowed the serfs to trade money earned from the sale of produce for their labor obligations to the nobility. In effect, the commutation system substituted money rents for direct labor and material obligations. The serfs were now farmers. The more they produced, the better their material lives. The lords were now given cash or goods in trade which could be used to purchase the products of the city. Tradition gradually gave way to contracts under this new system.

The lords eventually began to directly rent their land holdings to other peasants for cash. The lord became a landlord outside of the old traditions.

Interestingly, in the late fourteenth and early fifteenth centuries, there was a brief pause in the demise of the manor system. The Hundred Years' War between France and England (1337-1453) and the Black Death plague (1348-1349) combined to create general social disruption in both countries and to a severe labor shortage. Wages rose due to this shortage at the expense of the return to land. As land rents fell, the landlords attempted to end the commutation system and return to the Manor. Peasant revolts resulted, virtually all over Europe, from the late fourteenth to the early sixteenth century.

The point is, the clock could not be turned back. Capitalism was here to stay. The bloody conflicts as peasants and nobility resisted change were the natural result of an upheaval of traditional society. Resistance to change is natural, but the changes came.

*What Else Could Happen?* Other factors occurred during the fifteenth and sixteenth century that would increase the drive towards capitalism. While it began much earlier, the so-called *enclosure movement* hit its stride in the 1600's.

The enclosure movement found lords, always seeking new sources of cash, fencing in lands that were previously used for communal grazing by the serfs. This land was used to raise sheep for the ever more hungry textile industry. With the enclosure movement, many serfs were driven off of their lands. Others essentially went bankrupt. These all moved into the cities, generally destitute and desperate. In the meantime, the old guilds began to change into types of craft unions interested primarily in increasing the wealth of their membership. This increase would be through monopoly power, i.e., restricting supply, as is generally the case when economic returns are sustained.

Therefore, we had an influx of population without any chance of joining or training in craft trades. These became general laborers who would hire themselves out, i.e., sell labor power, in order to survive. The proletariat was beginning to emerge - one group selling their labor services for a wage, with essentially no control over the process or means of production.

The intellectual awakening also occurred around this time. New discoveries led to progress that was put into many practical applications, not the least of which was navigation.

Navigation led to discovery. Discovery led to colonization and to the influx of precious metals into Europe. The influx of metals facilitated increased trade, since essentially all currency was in the form of precious metals.

The influx of metals led to inflation. The prices of manufactured goods and services rose much faster than did wages or rents. Profits soared. This is basically because of the success in manufacturing developing significant monopoly power and freedom from competition. The larger profits began the capital accumulation process you heard Marx discuss in his lecture.

This was the beginning of the primitive accumulation phase of capitalist development. Primitive accumulation came from trade and commerce, the putting-out system of organization, the enclosure movement on the farms, and the price inflation just described.

As was mentioned before, the merchants needed a strong central government to help maintain their monopoly position. These new and quite wealthy merchants provided money to the monarchs to help build these nations. In return, the monarchs provided trade and other controls to the benefit of existing merchants. These new cooperative arrangements put the merchants and their monarchs in control of emerging nations all over Europe. Central governments did become stronger, unified currencies emerged, and monopolies were granted.

*The ideology:* The ideology of this new system was framed in the theories of the so-called *Mercantilists*. The Mercantilists view actually began before the great influx of gold and silver from discovery and colonization. Prior to that, the supplies of precious metals in Europe were not sufficient to carry on the expanded level of trade and commerce. The central tenant of Mercantilism was based on procedures for gaining precious metals.

Basically, the notion of the Mercantilists was that a nation's wealth depended on the levels of gold and silver it could control. While some could be gained through conquest, the easier and more stable way was through trade. If a nation could continuously export more than it imports, the difference must be made up through the payment of gold and silver. Thus the currency and wealth of a nation could be enhanced.

These policies extended to the period where precious metals were being imported from the new discoveries and colonies. The easiest way to assure a “favorable balance of trade” was to establish trade monopolies and to control trade through tariffs and quotas on foreign production. Input supplies could be obtained at the most attractive prices if a monopsonist were granted exclusive franchises. Export value could be maximized if the monopolist franchise were the only provider of the nation's goods to foreign powers. Trade monopolies, such as the East India Company of England, were granted exclusive charters for this purpose. They were also protected from competition in the domestic economy to assure their health and economic strength.

The various countries also tried to establish trade monopolies in their colonies. Foreign competition was difficult to keep out in all cases. The stronger the control of the colonial empire, the stronger the control over trade and economic affairs. Colonization became a major competitive weapon by one nation against

another.

Extensive regulations were also a feature of the day. These regulations applied to exporting and importing companies. They are the equivalent of trade controls used by modern day Japan to limit foreign competition in domestic markets. These controls were applied to local resource suppliers so they could not take advantage of foreign markets and would provide cheaper inputs to domestic production and, of course on imported goods and services that would compete with local production. Local exporters were often subsidized and given tax breaks if the regulations, controls, and regulations did not assure their competitive positions.

The regulations often controlled so much of what local capitalists and merchants could do that there was an eventual backlash. The argument for freedom from state controls began to emerge, which would eventually lead to the demise of the Mercantilist tradition. Conflicts began to emerge that would bring a quick end to the Mercantilist period.