

# MERCANTILISM AND ITS ROLE IN FORMATION AND DEVELOPMENT OF THE MODERN CAPITALIST ECONOMY AND THE WORLD MARKET

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## Abstract

*The universe has always been in a continuous dynamic and it was the ideas that represented the germs that produced, over time, changes from the most varied, from the simple to the structural, with extremely valuable consequences for populations, peoples and nations. Therefore, we dare say that economic thinking is the forerunner and locomotive that generated transformations, truly revolutionary, hard to anticipate, in the early years of capitalism, with really serious and profound movements. Mercantilism was an easy-to-understand economic theory that allowed intuition and imagination to heat the minds of those with an entrepreneurial spirit, but not without the knowledge of the monarchs of the time who not only proved interested in the new current of thought, also sponsored its implementation.*

**Key words:** mercantilism, current of thought, economic program,, trad, gold, silver

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## Introduction

The fifteenth and especially the sixteenth centuries gave free rein to the manifestation of the arts, initiatives of many forms, which also included religious wars.

All these aspects, none negligible, changed the content and face of Europe, fundamentally, foreshadowing, at the same time, the emergence of a current of economic thought, called mercantilism, complemented by the quantitative theory of value, which as it is called, expressed the importance of gold. and silver, is able to determine the price level.

The changes of economic origin, which were in full swing and were gaining ground at a fairly high rate, however, were not reflected, from a systemic point of view, as a coherent and complete economic theory.

From a spiritual point of view, some of the thinkers of the time first turned their attention to theology, while philosophy expected deeper, more subtle thinkers, such as Descartes, Leibniz or Spinoza.

History flowed by itself, without political and social evolution following a theoretical path, one thinker or another [Lungu, Cosma, 2002, p. 52].

The end of the Middle Ages and the period we referred to at the beginning, of assertion of capitalism, overlap with the period known in historiography as the Renaissance, starting from the Italian peninsula, became a real phenomenology, scientifically, economically, philosophically, culturally, ethically, aesthetically, morally and religiously.

Big names, extremely famous, such as Leonardo da Vinci, Michelangelo Buonaroti, Niccolo Machiavelli, Galileo Galilei, Giordano Bruno, William Shakespeare and others, have been connected, fundamentally to these transformations of the new modern era.

While art captured reality, through forms and nudity, economics put on the cloak of reality, by recognizing profit as an end in itself. [Lungu, Cosma, 2002, p. 52]

This new type of economy, also known as the Renaissance economy, obviously contained contrasting aspects.

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As a peculiarity, the individualistic aspects, although they emanated a tendency of emancipation, this economy remained subordinated to political and cultural limits and norms that will stop, only, at the same time, with the decline of royalty.

These progressive tendencies were helped by the increasingly accelerated process of the disintegration of the Middle Ages, completely feudal, caused by other factors, such as the plague epidemic of 1347 and 1350 and the War of 100 years (the one hundred-year war) held between 1328 and 1453.

As a result, the mainstays of the feudal-type economy have changed significantly. The nobility acquired, over time, a caste character and received a different orientation, in terms of money.

The church was marked by the crisis of the papacy, simultaneously with the loss of ground of the scholastic current, driven by the coming into force, of the principles of the religious Reformation and by the failure of the crusades.

The more technical work, performed by the associated craftsmen in the guilds, has acquired an oligarchic, coquettish character, more and more often, the need to pay for specific activities and become ferment with a revolutionary, growing accent.

Thus, under such conditions, the germs of the new and progress appeared that were able to coagulate a new one.

The cult of ancient values was still present and dominated thinking in everyday life.

The lack of previous models, be they archaic, has slowed down the obvious progress.

### **1 Discovering of the New World - the motivation for extensive experiences for Europeans**

The dynastic states, but also the new modern states in Europe, wanted to strengthen their internal administration and exert as much influence as possible in foreign countries. This required massive financial resources, primarily for ground forces, naval forces and administration.

Gold and silver had been rare items in the Middle Ages. An ordinary man did not see a gold piece, not even once in his life. It was only the inhabitants of the big cities who knew the silver coin. But the discovery of the New World and the exploitation of mines in Peru changed that. The old recognized commercial cities have lost their financial importance, and the commercial center of the world has moved to the Atlantic coasts. Gold and silver were no longer objects of curiosity.

These precious metals began to enter Europe, through Spain, Portugal, the Netherlands and England. The sixteenth century had its writers, who dealt with political economy, and they spread, concerning national wealth, a theory that seemed very fair and at the same time very useful for their countries. They believed and argued that gold and silver were real wealth. Therefore, a country that has the largest reserve of gold and silver coins in the cellars of the national treasury, or of banks, is the richest country. And since the word currency means the power to maintain armies, it turns out that the richest country is also the strongest and can therefore dominate the rest of the world.

This conception is called "mercantilism," and if we make a similarity it was received with the same absolute confidence with which miracles had been received by the early Christians. Economic theory, 1992, p. 45]

As a small conclusion, the mercantilist doctrine has as a cornerstone the axiom according to which gold and silver constitute wealth, par excellence..

Thus, there was a wide interest, not only for kings, but also for those who later became financial and non-financial investors. (Bocănete, 2016, p. 28)

## **2 The practical application of mercantilism**

In practice, mercantilism functioned as follows: if a country aimed at having as large a surplus of precious metals as possible, it had to ensure a favorable balance in its trade with foreign countries. If he could export to the neighbor more than he imported from him, the neighbor would be indebted and forced to send him some of his gold. And so a gain for the creditor country is a loss for the debtor country. The mercantilists understood that profit and wealth are created in the sphere of circulation. The gain of some, meant the loss of others. The wealth consisted of gold and silver bullion, and so large quantities had to be attracted to the country. In order to accumulate these riches, it was necessary to increase the political power of the state, which was given not only the right but also the duty to actively intervene.

## **3 The mercantilist economic program**

As a result of this ingrained belief, the economic program of most states in the eighteenth century was reduced to the following five points [Puia, 2001]:

- to try to collect as much gold and silver as possible;
- to encourage foreign trade rather than domestic trade;
- to encourage industries that transform raw materials into manufactured (finished) and exported materials;
- to encourage population growth, because the factories needed workers and the market, buyers;
- to entrust to the state, the leadership of the commercial movement and the right to intervene when it deems it necessary.

Instead of considering international trade as a force of nature that is always subject to natural laws, regardless of human intervention, the nations of the sixteenth and seventeenth centuries sought to regulate trade by royal laws and decrees, and with the financial help of governments.

## **4 The mercantilism as instrument of accumulation**

In the 16th century, Charles V adopted mercantilism (which was entirely new at the time) and has introduced it into his many possessions. Elizabeth I of England honored him by imitating him, and especially Louis XIV, who were staunch adherents and supporters of this economic doctrine and Colbert, his great finance minister, became the prophet of mercantilism and thus he became the centre of interest for the whole Europe.

All of Cromwell's foreign policy was the practical application of mercantilism, against his wealthy enemy - the United States - the Netherlands, because Dutch shipowners carrying much of European goods had free trade tendencies and therefore had to be removed at all costs.

## **5 The glorious and bad consequences of mercantilism**

A colony subject to mercantilism, it was a reservoir of gold and silver, of spices for the motherland. The deposits of precious metals from America, Africa and Asia, but also the raw materials from the tropical lands, became the monopoly of the state that ruled the colony. No foreigners were allowed to enter it, and the natives were forbidden to do business with merchants traveling under a foreign flag. Mercantilism encouraged the development of industries in some countries where there had been, no factories before. Thanks to him, roads and canals were built and means of transport improved (infrastructure was created); more skill was demanded from the workers, and the social situation of the merchants rose, weakening, at the same time, the power of the aristocracy.

On the other hand, it caused great misfortunes, subjecting the natives to humiliations, coercion and scandalous exploitation. Secondly, it exposed the citizens of the metropolises to less desirable situations, because it transformed the countries into armed camps and divided

the world into small territories, each working for private gain and at the same time forcing himself to destroy the power of the neighbors and seize their gold. Finally, he attached importance to capital (van Loom, 1993, p. 263), so that for the common man, wealth was considered the only virtue worth fighting for.

In the form above, of early mercantilism, this economic doctrine manifested itself in the fifteenth and sixteenth centuries. A more evolved form, called developed mercantilism (seventeenth and eighteenth centuries), but based, in essence, on the same principles of accumulating surplus profits, with active trade balance, considered that the trade balance is the true balance of power. This conception, based on privileges and obstacles, has materialized in practice under three aspects: customs, colonial and maritime [Ionescu, 2020, Mss].

In the customs field, there were numerous restrictions and even import bans. On export, certain own goods were encouraged, others were limited or banned. In order to keep the secret of production, it was necessary to reach the so-called "customs inquisition" which was maintained as long as trade and production, based on manual labor, were still relatively low.

In colonial policy, the metropolis applied the "regime of exclusivity" or "colonial pact" that suffocated the economic and political life of colonies that were forbidden to maintain foreign relations, to make naval transports with their own means or to develop any competing industry. The revolt of the English colonies in North America, which broke out in 1775 and the explosive growth of trade, after the transition to mechanism, will bring serious changes [Puia, 1993, p. 81] in this system.

The mercantilism in maritime policy is eloquently illustrated in Cromwell's Navy Act - 1651. It was stated that goods imported into England could be transported only by English ships or the countries that produced these goods. The measure was directed mainly against the Netherlands, with which it had had several naval wars [Koslinski, 1993, p. 37, 38] Cromwell's act ensured the hegemony of England in maritime trade. But just like fashion, economic systems come and go, but according to objective and precise laws. The same happened with the mercantilism that gave way to free trade.

## CONCLUSIONS

Under such circumstances, the natural economy that has survived, since prehistory, began to be replaced by the exchange economy, much more mobile and adapted to new requirements, and precious metals - gold, silver, platinum, which had served as ornaments and chlorine standard, has acquired the new role of medium of exchange. This essential aspect has boosted the dynamics of economic life.

Specialized literature attests to the fact that the true monetary principle had become known and functional in the world of elites in the fourteenth and fifteenth centuries.

Religious reform did what economics failed to do. Socially, the struggle between the church and the monarchical institution has sharpened.

It turned out that the old moral virtues, asceticism and piety were replaced by the concern for professional perfection. The thirst for gain demystified and ruined the morals and chivalry of the Middle Ages.

The influx of wealth from the New World to Europe is the result of large amounts of wealth, where mercantilism was an extremely important link, composed of two components: one with the role of producing goods and accumulating wealth and the other of a political nature, because it laid the foundations for the consolidation of state centralism.

Mercantilism has become a practice born of necessity.

At the same time, the wealth due to gold, silver and platinum is the result of creating unprecedented conditions, of exports able to develop industries and increase demographics, against the background of external conditions, extremely favorable, due to the lack of wars in the era. [Economic theory, 1992, p. 65]

The mercantilist doctrine, depending on the country in which it was applied, contains a common fund of ideas, but also many peculiarities.

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