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Terribly Timely Tariffs

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Terrible Timely Tariffs: An exploration of the rise and fall of Mercantilism.

Introduction

Mercantilism was an effective system for expanding state power and prosperity in early Modern Europe when three specific conditions existed: weak states, expensive trade, and zero-sum competition. These conditions combined to create a prisoner’s dilemma where all nations engaging in mercantilism was both individually rational and mutually destructive. The significant changes in these three conditions in the late 18th to early 19th century removed the prisoner’s dilemma, making it both individually and mutually rational to engage in a general policy of free trade.

Mercantilism refers to a broad set of policies used by most European states in the Early Modern Period (15th to 18th) century. The term “Mercantilism” didn’t exist in its own time, being coined by Adam Smith to criticize it (Heckscher 1994). Mercantilism broadly had four core policies. The first and most important element of mercantilism was maintaining a favorable balance of trade. Mercantilists believe that national wealth was derived primarily from increasing the amount of hard currency within your currency at the expense of one’s neighbors, while the opposite could lead to a catastrophic currency crisis. To achieve these goals, mercantilists used protectionist tariffs and aggressive policies to favor domestic exports as well as a domestic sailing industry. Some, but not all, mercantilist states engaged in extensive regulation of productive industries to attempt to increase exports. Finally, mercantilist powers used colonialism to gain captive markets that exported raw resources only to the mother country and had to buy goods from the homeland. These policies have some similarities to modern protectionism, but the specific conditions of the period in which they existed made their motivation and organization fundamentally different from modern protectionist projects.
By exploring the three conditions that were key to the rise of mercantilism (weak states, expensive trade, and zero-sum competition) over three time periods a shifting mercantilist efficiency can be observed, eventually leading to the collapse of the mercantile system. Mercantilism would, through its impact on state and economic development, create the conditions for its own destruction. France and England provide two important cases in the history of mercantilism and European history generally. The relative success of their mercantilist policies contributed significantly to the rise hegemonic victory of Britain over France.

**1517 to 1648: Age of Reformation**

Europe at the dawn of the Protestant Reformation was radically different than the world we know today, and experienced significant change from 1517 to 1648.

Weak states are one of the most important and defining elements of Europe from the fall of the Western Roman Empire and throughout the medieval ages, but the state began its slow march towards monopolistic power in the Early Modern age. When you look at a map of Europe, such as the one shown in Figure 1, the main immediate difference from a modern one is the names and borders of places are a bit different, but there still appears to be a variety of contiguous and unified states resembling those of today. France isn’t too far off from a modern map, the Scandinavian countries can be made out, and Portugal’s borders are the same as today. However, these maps are intensely deceptive of the greatly decentralized nature of feudal society. Figure 2 is a significantly more accurate deception of medieval polities, and for much of the map it is almost impossible to discern what is really happening. When zooming in further on the Holy Roman Empire in Figure 3, now primarily Germany, you can see the existence of hundreds of tiny and functionally independent polities. One can imagine the difficulty a
nobleman would have in being educated in the general location of their neighbors, let alone a common peasant attempting to gain any sort of serious understanding of the world around them.

The governing bodies of Europe, the state, were incredibly weak, and people first and foremost identified with their faith or their local community. In that way, Europe both had a significant universality and particularism, both of which impaired state development (Heckscher 1994). The Protestant Reformation greatly weakened the universalistic identity of Europe through destroying the unity of Western Christendom (Mark 2015). People in many countries went from being members of a united Catholic Church, to being members of a national church, such as the Church of England (Mark 2015). These religious national identities were significant in helping the formation of early popular national identity. The Treaty of Westphalia, signed in 1648 after the devastating Thirty Years war, strengthened these conceptions by laying the foundations of the nation-state (Mark 2015). An understanding was reached in Europe for the first time that nations had the right to determine their own faith and policy, and that subjects of a nation were to be loyal first and foremost to their nation instead of any universalistic or foreign religious authority (Mark 2015). Despite these foundations having been laid, the state in 1648 still in its youth, and growing pains would be significant in years to come.

Unlike statehood, the incredibly expensive nature of trade only saw marginal improvements from 1517 to 1648. It is hard for people in modern times to even begin to conceptualize communication and travel in the past. People today think in birds eye maps. We have instant access to the status and relative traffic on all roads, we can see an exact image of the earth from satellites, and we can plan trips around the world and arrive in a matter of days. In medieval times, most people had never seen a map. What maps did exist were often symbolic in nature, with what few attempts at accurately mapping geographic shapes being wildly inaccurate
by modern standards. It is a myth that people thought the world was flat, it was known to be a sphere with incredibly accurate calculations of its size from ancient times, but the premodern idea of the world was still first and foremost local. For most people, their entire world was the area walkable within a few days of their home.

Travelling as far a nearby city could easily cost over a month’s wages (Blanning 2008). Most of Europe still relied on a mix of broken and unmaintained remains of ancient Roman road networks and muddy dirt roads created by local travel (Blanning 2008). Most roads were unpaved, causing travel to be both expensive and dangerous (Blanning 2008). Travel by sea was often preferable, with it being faster if weather permitted, but that if is key. Travel by sea was highly dependent on good weather. Sometimes, you may arrive at a port and arrive at your destination a few days later, while sometimes a traveler would end up waiting weeks for an opportunity, forced to lodge in the local town and wait (Blanning 2008). The physical costs to travel and trade were difficult and expensive.

If people were to travel, they would further find significant linguistic diversity. Within France alone, there were two completely different language groups spoken, with langues d'oïl (which become Modern French), spoken in Northern France, and lenga d’òc (Occitan) spoken in the south, with these languages further splintered into a wide variety of regional and often unintelligible dialects. The linguistic divides continued until the Third French Republic in the 1880s, when compulsory primary schooling banned all non-standard dialects of French.

England, by comparison, had relative linguistic unity. While there were still significant regional dialects, Early Modern English was mutually intelligible throughout England. Middle Welsh was spoken in Wales. With the ascension of James I to the English throne in 1603, the kingdoms that would become the United Kingdom had their own linguistic struggles, especially
in the Scottish Highlands and Ireland against Gaelic languages. However, the core population of the Kingdom of England itself, by far the most constituent element of the United Kingdom, was significantly more linguistically unified than France.

Beyond the expenses and inefficiencies created by poor road systems, weather, and technological limitations, local cities and nobility imposed significant tolls and tariffs on trade between and within polities. In areas like the Holy Roman Empire, which were composed of hundreds of functionally independent states, trade had to pass through countless local states all wanting their slice. Trading within a nominally unified state, however, was of little solace. Most states still had countless local tolls and interregional tariffs stifling trade.

This was a central issue for France. By 1648, there were some areas of nominal important and export tariff unity, but these tariffs were then be farmed out or sold to local officials to implement their own policy, causing significant disunity (Heckscher 1994). Tolls were extremely common within France to travel by road, and there was significant disunity between the more unified northern core around Paris and the south of France (Heckscher 1994). By contrast, England was uniquely positioned. From as early as the 1200s, England successive monarchs had maintained a continued policy of disallowing tolling except for limited and expressed purposes on roadways, as well as maintaining a united customs union over England (Heckscher 1994). This positioned England early on in a position to take advantage of gains from trade, which was further aided by the countries many riverways and long coastal borders allowing relatively cheap shipping throughout the country (Heckscher 1994).

Finally, European conflict and growth was largely zero sum in this period. When states became stronger, or people more prosperous, more often than not it was at the direct expense of a rival. Part of this was due to the near zero rate of per capita economic growth in Europe.
Looking at Figure 4, in most countries, the average person in 1300 was no better off in 1800, and for some, they were doing worse. What growth did exist was most often through population, and one of the best ways to grow your population was to conquer someone else’s. Beyond the slow rate of growth, warfare itself was increasingly devastating and expensive as states became increasingly reliant on standing armies instead of traditional feudal levies (Blanning 2008). Losing a war, or winning a pyrrhic victory, could devastate a country. The Thirty Years war killed millions, including between 1/3rd to a ½ of the total population of Germany (Mark 2015). If a policy or trade deal meant you’d have a better outcome in the distant future, but gave your enemies an immediate edge, such a policy could spell your death. Even if a policy was mutually beneficial, it almost always benefited one side more. Wealth was even zero sum in a literal sense, in that there was a finite amount of gold and silver coins, or specie, present in Europe. There were numerous periods where regional or continental bullion famines greatly hampered economic stability (Hecksher 1955). Due to this, buying too much stuff from foreign countries could make you quite literally run out of money.

The combination of these factors made a policy of free trade impossible for most nations, and all trade a dangerous affair. Trade that empowered a neighboring rival may allow them to defeat you, devastating your people and your lands. The benefits from non-protected trade may be higher, but the very slow rates of growth meant that it could take one hundred years to see the practical effects of a mutually beneficial trade policy, while the relative change in the local balance of power may be much greater. The expensive nature of trade localized it, meaning that most nations engaged in the majority of their trade with rival powers. Colonial trade, in these conditions, ought to be monopolized. If one nation were to allow their colonies free trade, and all
others did not, they would be at a significant disadvantage, especially for strategic goods such as timber necessary to support a navy.

**1648 to 1789: Mercantilist Projects**

Different countries tacked these three problems in different ways. France and England’s respective policies would attempt different solutions, and each had both stumbles and successes.

**Colbert’s Mercantilism**

Colbert is one of the most direct examples of someone attempting to holistically implement a mercantilist policy in a country. Serving as First Minister of State from 1661 until his death in 1683 under the Sun King Louis XIV, Colbert’s reforms were an instrumental part of Louis XIV’s attempt to centralize and expand the power of the French monarchy (Hecksher 1994). Many of Colbert’s reforms were directly related to solving the three core problems of weak state power, expensive trade, and zero-sum competition.

In order to enact his more ambitious economic policy, Colbert first had to attempt to centralize power in the state. Instead of immediately attempting to force toll abolition, he attempted to transfer the operation of tolls to the state (Hecksher 1994). He successfully had the state gain de-jure control over great swaths of economic policy, though as will be seen, this power in reality was limited.

Colbert’s eventual goal was a complete unity of import and export tariffs in France, as well as the abolition of all internal tolls. Ideally, this policy would greatly reduce the cost of trade and help give the French government greater control over its economics. Beyond the efficiency gains from a larger trade zone, by only having state-controlled tariffs and duties, it would be far easier for the state to implement mercantilist policy favoring exports. He further
attempted a program of road renewal and expansion to further improve the French economy (Hecksher 1994).

Finally, Colbert sought to use the zero-sum nature of trade to his favor by creating a competitive and state supported high quality export industry. Wide sweeping regulations, controls, and subsidies replaced old guild regulations, set jointly to enhance French exports (Hecksher 1994). French industrial policy was bound to the imperious state regulators.

Colbert’s reforms have a mixed legacy. He successfully unified customs under state control in Northern France but failed to integrate Southern France (Hecksher 1994). The attempt to have state run tolls as a stopgap measure would only worsen the situation, as state tolls were so irregularly and improperly run and unable to adjust for local conditions, that most traders preferred to take illegal but better administrated toll routes (Hecksher 1994). The road expansions would be halted shortly after Colbert left power, and those implemented often favored roads that looked were travelled by court officials, rather than were well situated to improve trade (Blanning 2008). His economic regulations in the short term helped French manufacturing grow, but as soon as Colbert died, no one filled his shoes to update the policy. As such, many of the same policies written to heavily manage the economy in the 1680s would still be in use 100 years later, when they were wildly out of date (Hecksher 1994). Colbert left a legacy of half-baked reforms halted by his death. Colbert’s reforms were two steps forward, one step back, followed by a grinding halt as other nations began to pass France by.

**English Mercantilist Policy**

The English mercantilist project was less of a uniform political project, such as the one performed by Colbert, and rather a longer process of acts individually targeting the three core
issues. The advance of a strong state was the result of a series of complex conflicts between King, Parliament, Catholics, and Protestants, but would be settled by the victory of protestant parliamentarism in the Glorious Revolution of 1688 (Blanning 2008). The Act of Union further served to integrate the state, as Scotland and England become united and entered a free trade zone (Hecksher 1994). However, the Act of Union would also end up excluding Ireland from trade with England it previously enjoyed, beginning a long trend of poor integration and administration over Catholic Ireland by the English protestants (Hecksher 1994).

English roads already were toll free, but opposite to France, in order to improve the condition of roads the Turnpike System was introduced allowing tolling at competitive Turnpikes maintained by private forces (Blanning 2008). The system was widely successful, creating rational and competitive roads and tolls.

The most important piece of English mercantilist policy, however, were the Navigation Acts. Implemented in 1651 and 1660, the Navigation Acts existed to improve English mercantile and naval power, especially against the Dutch. In this period, the Dutch controlled an absolute majority of all trade throughout Europe, so combating the Dutch economic dominance was a key policy (Blanning 2008). The Navigation Acts prohibited the use of foreign ships for trade, required employment of Englishmen in ships, and laid restrictive terms on colonial trade (Hecksher 1955). The Navigation Acts were highly successful in helping British Naval power in Europe but would sow the seeds for dissent in the Americas (Hecksher 1955). Overall, the British improvement in this period were very successful, enabling Britain to gain a competitive edge through the successful implementation of mercantilist policy as the British replaced the Dutch as the main naval power in Europe.
1789 to 1815: The French Revolution & Napoleonic Wars

An accounting of the details of the French revolution is beyond the scope of this paper, however, a few key factors can be drawn from it. First, the French revolution was caused in part by the failures of French mercantile policy. The internal grain trade was a topic of serious dispute, and French finances fell into such disarray due to their intervention in the American Revolutionary War against the British. When the revolution did occur, many of the issues faced by Colbert were addressed early on, such as finally truly integrating Northern and Southern France into a single political and economic structure (Hecksher 1994). Beyond that, the wars of the French revolution would have tremendous impact on how Europeans viewed diplomacy and statehood.

1815 to 1848: Age of Industry

The French Revolution radically reshaped the European order. Quite literally, the map of almost all of Europe was redrawn, with Napoleonic Civil Code replacing many traditional legal systems continentally (Richard 2017). Beyond the literal redrawing of maps, the French revolution saw the dawn of nationalism throughout Europe, as peoples across borders yearned for a state to unify and explain their peoples. Nationalism would be a powerful support for states that could yield it. At the same time, the old economic order, focused on guilds and landed aristocracy, became increasing replaced by a modern class structure, divided principally into farmers, workers, and capital owners (Richard 2017). The radical reshaping of European conditions enabled new doctrines and outlooks to replace the mercantilist philosophies commonly espoused.
Industry dramatically reduced costs of transportation, most notably through the introduction of railroads and steam powered ships. The world began to become a much smaller place, with travel becoming relatively affordable. Nations were now able to trade in great deals not just with immediate rivals, but also trade easily and in great quantities with nations anywhere on Earth.

Perhaps most importantly, the French revolution would, for the first time in human history, make economic growth a consistent expectation year after year. Going from economies maybe increasingly marginally in wealth over hundreds of years, every successive generation would become wealthier from the fruits of industry. This also meant that economic efficiency had a greater compounding effect- ten years of relative economic stagnation towards a rival was now enough to reshape global power. Advances in banking reduce the reliance on specie, as paper money became widely circulated (Richard 2017). Finally, there was an intentional effort through the Concert of Europe to prevent future catastrophic pan-European warfare. A consensus was shaped, most importantly by Metternich of Austria, to create a system of European politics where no one nation would gain dominance over others as France had done in the Napoleonic wars (Richard 2017). The Concert of Europe successfully prevented a major pan-European war until World War One, drastically reducing the zero-sum nature of European politics. A higher relative gain of a neighbor did not necessitate a grievous existential to most powers.

The Mercantilist Prisoner’s Dilemma

Free trade was not a plausible policy for most European states before the Napoleonic Wars due to weak state structures, but even if it were, it would not have been desirable. In states in which it was possible, such as the Netherlands or England, the costs to engaging in free trade outweighed the benefits due to the zero-sum nature of conflict. We can see, for example, how the
successful implementation of mercantilist policies by Dutch rivals successfully caused their decline into a second-rate power (Blanning 2008). The eventual British naval and economic hegemony of the 19th century was due to them being the most able to successfully implement the positive elements of mercantilist policy while minimizing the costs. Britain, by winning the game of imperial mercantilist brinkmanship, brought itself into the 19th century as the power most capable of capitalizing on the industrial revolution and the gains of free trade. Mercantilism did not prevent Britain’s eventual free trade policy, but rather was the tool by which Britain was able to become a nation of free trade.

In a Pre-Concert of Europe world, it was more important to capture a larger slice of the economic pie than to expand it. Mercantilism created the conditions for its own destruction; its increase of state power enabled free trade policies thereby decreasing its own relative effectiveness, while simultaneously creating the conditions for colonial revolt. Looking at Figure 5, it is illustrated in a simple scenario that while it is mutually preferable for both nations to engage in free trade than for both nations to engage in mercantilism, because nations are self-interested actors, they will always in this scenario engage in mercantilism. If only one nation engages in mercantilism, they gain a competitive advantage. This trap would mean that European powers would rationally create the conditions in their own colonial empires in the Americas for mass revolt, from the Untied States to Haiti to Latin America. Nevertheless, it was the correct policy to engage in. Britain lost the least, enabling it to capture the most gains when the world left the trap behind and entered a system where free trade was advantageous. Mercantilism sew the seeds for its own destruction, but the power to maximize its gains and minimize its losses was able to transition to global hegemony.
Figure 1 Above (ONLmaps, 2018). Figure 2 Below (Voltaire’s Nightmare, Ang, 2021).
Figure 3 Above (Voltaire’s Nightmare, Ang, 2021)  
Figure 4 Below (Fouquet & Broadberry 2015)
The Mercantilist Prisoner’s Dilemma

<table>
<thead>
<tr>
<th>England engages in Free Trade</th>
<th>England engages in Mercantilism</th>
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<tr>
<td>Both nations have higher economic growth, but neither gains a decisive advantage over the other</td>
<td>England gains a decisive advantage over France, allowing it to become the global hegemon</td>
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<tr>
<td>France gains a decisive advantage over England, allowing it to become the global hegemon</td>
<td>Both powers suffer economically and put their colonial empires at risk of revolution, and neither gains a decisive advantage</td>
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</tbody>
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Figure 5 (Self-Produced)
Works Cited


