

The Commercial Revolution

The trading, empire building, and conquest of the Age of Exploration was made possible by new financing schemes that now form the basis of our modern economies. Lots of elements had to come together at once for the new economy to work, but timing again was on the side of the Europeans, and everything fell into place.

First, the church gave in to state interests by revising its strict ban on what are now standard business practices, like lending money and charging interest on loans. Once banking became respectable, a new business structure emerged: the joint-stock company, an organization created to pool the resources of many merchants, thereby reducing the costs and risks of colonization. Investors bought shares, or stock in the company. If the company made money, each investor would receive a profit proportional to his or her initial investment. Because huge new ships were able to carry unprecedented cargoes, and because the goods were often outright stolen from their native countries, successful voyages reaped huge profits. A substantial middle class of merchants continued to develop, which in turn attracted more investors, and the modern-day concept of a stock market was well under way.

These corporations later secured royal charters for colonies, like the Jamestown colony in Virginia, and funded them for business purposes. Even when they didn't establish colonies, monarchies granted monopolies to trade routes. The Muscovy Company of England monopolized trade routes to Russia, for example. The Dutch East India Company controlled routes to the Spice Islands. Increased trade led to an early theory of macroeconomics for the nations of Europe. Under the theory of mercantilism, a country actively sought trade, but tried not to import more than it exported; in an attempt to create favorable trade.

European countries were feverish to colonize. Colonies gave the mother country resources, while creating new markets for exports. To further aid the effort, monarchies promoted domestic industry and placed tariffs on imports from competing empires.

Mercantilism was causing a lot of resentment between parent countries and the colonies. The colonial resources were shipped back to Europe and the colonies had to buy goods from Europe. The European nations added many taxes to force the colonists to pay expensive prices for goods. These outrageous taxes and prices eventually caused colonies to demand revolution.

1. What is a joint-stock company?
2. Why did these companies reap great profits?
3. What is mercantilism?
4. Why did mercantilism eventually lead to revolution?

Adam Smith

The changing ideas that were occurring during the enlightenment focused not only on politics but on the economy as well. These changes had a large effect on the people of the world. There was one major figure that tried to bring attention to the changing economy of the time and that man was Adam Smith.

Adam Smith was a political economist who published "*An Inquiry into the Nature and Causes of the Wealth of Nations*," which examined in detail the consequences of economic freedom. It covered such concepts as the role of self-interest, the division of labor, the function of markets, and the international implications of a laissez-faire economy. "Wealth of Nations" established economics as an autonomous subject and launched the economic doctrine of free enterprise and trade.

Adam Smith saw mercantilism as the main problem. Mercantilism is an economic system where the wealth of the nation was controlled by a strict government regulation of the economy. This was used so governments can secure the control of major industries. The major trading nations during the 16th, 17th, and 18th centuries believed that increasing exports and collecting precious metals in return best served national wealth and power. The period 1500–1800 was one of religious and commercial wars, and large revenues were needed to maintain armies and pay the growing costs of civil government. Under a mercantilist policy a nation sought to sell more than it bought so as to accumulate wealth. The state exercised much control over economic life, chiefly through corporations and trading companies.

Adam Smith did not agree with this idea. He believed that the government should not have a hand in all businesses. He supported a free market, which meant that all businesses had the freedom to organize and operate for profit without government interference. His belief of this free market introduced laissez-faire economics.

Laissez-faire economics is a doctrine that states that an economic system functions best when there is no interference by government. It is based on the belief that the natural economic order tends, when undisturbed by artificial stimulus or regulation, to secure the maximum well being for the individual and therefore for the community as a whole.

His last influential idea was called capitalism. Capitalism is an economic system characterized by private or corporate ownership of capital goods, by investments that are determined by private decision, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market. In other words, he supports an economic system that allows everyone to own businesses for profit free from government control. Smith is known as the father of modern economics, something that still benefits us today.

1. Who was Adam Smith?
2. Why did Adam Smith see a problem with it?
3. What is laissez-faire economics?
4. What is capitalism?