

Mercantilism and the American Revolution

Background Reading

In the 18th century, an economic theory called mercantilism dominated European international trading policy. Mercantilism is the belief that the best way for governments to accumulate wealth and political power is to promote a positive balance of trade—in other words, nations must export more than they import. In order to accomplish this, European powers established colonies and closely regulated international trade.

Mercantilist policies often included instituting high tariffs on imported manufactured goods, preventing colonies from trading with foreign nations or shipping goods on foreign ships, and establishing monopolies over domestic and colonial markets. Under the mercantilist system, European countries ensured that colonies would stay economically dependent by preventing them from developing manufacturing operations that would compete with domestic industries.

The British began pursuing mercantilist policies in the latter half of the 17th century when English Parliament passed a series of Navigation Acts intended to establish a positive balance of trade. When enforced, these laws placed heavy restrictions on trade in the thirteen colonies. However, for much of the 18th century the British pursued an unofficial policy of salutary neglect—purposefully failing to enforce the Navigation Acts in order to court favor with the colonists, especially given the threat of war with other European powers.

And the British were right to be concerned and try to plan accordingly. In 1756 war broke out between the British and the French, engulfing both Europe and North America. The Seven Years' War (also known as the French and Indian War) lasted until 1763 when the British emerged victorious, gaining control of all of North America east of the Mississippi.

But the costs of the war left Britain with enormous debt and a vast new territory necessitating control. To increase desperately needed revenue, the British ended almost a century of salutary neglect and

began enforcing existing mercantilist policies in addition to levying new taxes on colonists. While the British reasoned that the colonists had gained the most from the victory and should therefore bear the brunt of the war's costs, colonists resented the British decision to intervene in their affairs after decades of operating more or less autonomously. Tensions between the British and colonists over the taxes and trade restrictions were a major contributing factor to the American Revolution.

In 1776, the United States declared its independence from Great Britain. In the eyes of many economists, 1776 also marked the beginning of the end of mercantilism—this was the year Adam Smith published the influential book *The Wealth of Nations*, which ushered in a new era of economic thinking advocating for free trade among nations.

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