1. Basic concepts

1.1. The First Modern Economists

THE MERCANTILISTS. Between the 16-th and 18-th centuries, the major countries of Europe believed in the economic theory of mercantilism.

Mercantilists **argued** that nations should behave as if they were merchants **competing** with one another for profit. Accordingly, governments should support industry by enacting laws designed to keep labor and other production costs low, and exports high. In this way the nation could achieve what was called a "favorable balance of trade".

"Favorable balance of trade" described a situation in which **exports** exceeded **imports**. The excess, which was like profits to a merchant, would result in an increase in the nation's supply of gold or silver. And so most people agreed in those days, the true measure of nation's **wealth** was its **hoard** of gold and silver.

To achieve favorable trade balances, the major European powers sought to **acquire** colonies. Colonies, it was thought, could provide the "mother country" with cheap labor, raw materials and a market for its manufactured **goods**.

In an effort to attain these goals in their American colonies, the British, for example, enacted the **Navigation Acts**. The Navigation Acts protected British industry by prohibiting the colonies from producing certain goods like hats, woolen products and wrought iron. The laws also listed certain "enumerated articles" (mostly raw materials) which could not be sold to buyers in colonies other than England.

Resentment towards the Navigation Acts was so great that they are regarded as one of the principal causes of the Revolutionary War.

Today there are people who still argue that their country should **promote** a "favorable balance of trade" that their national government should do what it can to **restrict** imports and promote exports. For that reason, they are often described as **neomercantilists** or "new" mercantilists.

THE PHYSIOCRATS. For one group of 18-th century French philosophers and economists, the suggestion that nations should go out of their way to protect **business** and industry made no sense at all. These were the physiocrats.

The physiocrats argued that the products of agriculture and other natural resources were the true source of wealth. Since these were God – given, it made little sense for government to go out of its way to help business and industry **increase** profits. For similar reasons, they opposed government efforts to promote a "favorable balance of trade".

In other words, since real wealth came from the land, it followed that the wisest thing government could do would be to keep its hands off business and let nature take its course. This idea was expressed in the slogan "**laissez faire**" (let people do as they choose).

Interestingly, the 200 – year – old argument between those favoring regulation of the economy and those supporting **laissez faire** is still with us. Whether the problem involves individuals (like those living in poverty and **unemployment** or institutions (such as a rising tide of business or **bank failures**, there are those who find the solution in government intervention, and others who favor "laissez faire", letting natural economic forces take their course.

Answer the following questions.

1. What two groups are discussed?
2. How were they different from each other?
3. What is a "favourable balance of trade"?
4. What is "laissez faire" and with which group is the term associated?

Define the following words and expressions.

Argue resentment compete promote export restrict import business	wealth increase hoard (of gold) unemployment acquire bank failure government intervention