

The Changing Role of the State during the Development of the Economic Thought: Mercantilism, Physiocracy and Classical Economics

Sema Yılmaz Genç, Furkan Tarık Kurt

Abstract— The role of the state in the economy is an important factor in the process of development and change of economic systems. In this study, Mercantilism, which is important for the state's intervention in the economy, and Physiocracy and Classical Economic Thought, which advocate the state not intervening in the economy. The changing role of the state in the economy will be examined from the mercantilism to the turning point of the classic economic thought.

Index Terms— Classical Economics, Economics, Economic Thought, History, Mercantilism, Physiocracy, The State

1 INTRODUCTION

The State has been studied throughout the history, redefined as various ways and nominated differently by philosophers for thousands of years since Aristotle and Plato. The reason of it is that the fact of the state has taken form according to the cultures of societies. The states have been historically rebuilt behind particular crises and afterwards they have been reshaped differently. For instance the depressions of slavery have has an effect on bringing the feudal structure, the crises of the feudal system have brought the early capitalism, the deficiencies of the capitalist system have brought the liberal and socialist state form[11].

The more have people been located as societies, the more frequently have the discussions about the realm of the existing state concept emerged. These discussions have lasted for thousands of years and they constantly continue at the present.

The division of labour and specialisation, which were important terms for Plato, have played a considerable role on the establishing process of cities. Plato who thought the reason that people hadn't been able to sustain themselves had affected the evolution of the state studied the matter of state in three phases. On the first phase, he says that the city-state makes constant wars in order to gain strength as on the second phase it occurs the professional military rank in order to protect the farmers, the crafters and the traders in societies. On the third phase the discrimination between the rulers and the governed ones among military services and producers appears. Likewise, Plato's student Aristotle's perspective on the

state is the same. Nevertheless while Plato has offered coownership for the ruling class, Aristotle has stood up for the idea of the private ownership [3].

In Greece, the concept of the state has improved upon the moral values. The sense of the state has found place under these boundaries in Roman period that has been impressed by the Greek history as well. It may be observed the occurrence of the state that has been incumbent on societies and acknowledged as authority even by the Hammurabi laws.

As an Islamic philosopher, Farabi has mentioned the necessity of the division of labour associated with the diversity of human needs and its benefits on societies. According to Farabi, the primary duty of a state is to secure the justice. According to Gazali, who has similar thoughts as Farabi, the mission of providing the connection between the professions and organisations belongs to the state. On the other side, Ibn al-Haldun defends that the state should have no concern with the trades [5].

With the lapse of time the city-states have been replaced by the concept of the nation-state. The transition period is also termed as the transition of feudalism to capitalism. According to the position of economic actions in societies has expanded, the states have begun to determine the economic rules besides the morals. By the power of the economical movements, the state's position in the economy has expanded and narrowed from time to time. The economic history has also been the history of the fight between those who had found the involvement of the state on economy useful and those who had not[14].

2 ECONOMIC THOUGHTS

2.1 Mercantilism and the State

Mercantilism is called the economic policies implemented in Western Europe between 1450 and 1750. Mercantilist policies are intended to strengthen the state. It aimed to fulfil that by

- Sema Yılmaz Genç is currently pursuing masters degree program in electric power engineering in University, Turkey. E-mail: semayilmazgenc@gmail.com
- Furkan Tarık Kurt is currently pursuing masters degree program in Economic Theory and History in Kocaeli University, Turkey. E-mail: furkantarik.kurt@hotmail.com

accelerating the valuable mine flow to the country and increasing the stockpile. Thus the birth of the modern state, the rise of the economic activities, the start of the wealth sensation and the improvement of the frame of mind have played the key roles by the formation process of mercantilism. The economic activities that have been increasing with the developing maritime have played an important role on calling this period as "Economic Capitalism". During this period it was also essential to the countries that native merchants were to be defended against foreigner merchants and it was demanded a central power to accomplish that [10].

2.1.1 The Birth of the Modern State

During the medieval age the church and feudality had an irruptive role on the community. Renaissance and reform revivals have been quite effective in the elimination of this role. Besides, there has been a lack of a powerful state to urge the leave of medieval's feudal and agricultural system behind and transit to the system where trade and industry are fundamental.

Medieval society has been based on the church and feudality. The monarchs have taken the advantage of the internal disorder of the church's that has been caused by the reform movements. Most of the riots, which have been given a start in an attempt to remove the obscurantist, have found support by the monarchs.

Just as the monarchs had taken the authorization of the feudal lords, juridical unity has been provided along the countries and the constitution of the central states has begun to be established by the urge of the administrative organizations throughout the country and the army, as the king's courts. The power wanted to be kept by monarchs in order to gain money to sustain policies for this purpose.

The modern state has been supposed to organize all movements of the kingdom and economy must have succored the monarch [7].

2.1.2 The Policies of Mercantilism and the Powerful State Perception

Mercantilism principles are based on the operation of establishing a powerful state. During the commercial capitalism, in other words the period of mercantilism, gold and silver were thought to be the main source of wealth. The more a country owned gold and silver, the stronger they were accepted. Therefore it was emphasized that the states or the rulers of the countries should have taken all measures. Thus the trade wasn't to be confined; contrary it was supposed to be extended. On the other hand, in order to ensure export leftovers there have been a bunch of import restrictions applied by the states. According to mercantilists, the authority was supposed to have a strict control mechanism on the customs. Furthermore it had to organize the industry of the country, establish industrial foundations when it has been needed and regulate the industry zone beneficial to increase the expert volume [2].

The wealth searching process through mercantilist principles has given acceleration to the colonialism progress. This situation has played an important role on the start of a

universal competition. Between 1600 and 1667, there has been only one year that war hasn't occurred in Europe. In consequence of the fact that England has mostly been in the ascendant of the continual wars among England, Netherlands, French and Spain, the growth of the empire has shown parallelism with the development of the mercantile system [15].

As a result of the mercantilist principles, gold and silver have only been held by powerful countries. This situation caused the decline of the purchasing of some money losing countries and consequently the decrease in the external trade. At the same time the struggle against the inflation of those countries which were able to make money continued and they reached a stage where they were unable to trade with countries in financial strain. The mercantilist policies which pursued only the goal of single-sided benefits were not a success due to the fact that one nation's export depends on the other nations' import, and the other nations' import depends on their ability to pay. As a result of the mercantilist policies, the state caused the diminution of the external trade and the increase of the inflation. As the trade bourgeoisie gave place to the industrial bourgeoisie, so stood the natural order hypothesis for the protectionist state policy [13].

2.1.3 Mercantilism by Countries and the Function of the State According to the Mercantilists

Despite the mercantilism principles have generally based on the powerful state concept, they varied by the countries because of the different cultural structures.

In the 1600's Spain was the richest country in the gold reserves. Spanish mercantilism, also named as bullionist mercantilism, introduced the state to some regulations for precious mine import from America and Asia, and aimed to extend a hand for the merchants who took of the road to bring those precious mines from these areas. Nevertheless because of the fact that it couldn't fulfil the required speed-up as a consequence, the country fell behind Europe.

The French mercantilism, named after Colbertism, referred to a mercantilist system, in which it was concentrated on industrialization under the guidance of the state. The most important part of the state by the French mercantilism was to ensure industrialization. The French philosopher Jean Bodin stood up for abolition of all obstacles that determined transaction and business in control of state. Moreover he urged upon the commonwealth in his best-known work "The Six Books of the Republic" and splitted it into:

- the income that the state acquired from landed properties
- the war bride
- the taxes levied from the citizens
- customs duties
- other duties

Bodin also confronted the advance taxes and highlighted the eventuality of their continuity. He mentioned that not any war could cause more harm to the folk than the burdan of tax and warned the sovereign about the over raise of the tax load [6].

Another French philosopher Jean Babtiste Colbert had on

the other hand paved the way for industrialization through the country during the period of his ministering in France. By means of his contributions he was named after the French mercantilism. While he was in his minister seat, Colbert implemented policies in order to strengthen the state and provided it senior authority beneficial to ensure that the state supervised all the economic activities. During the term when Colbert was the minister, the industry sector received quite a lot of help from the state. It's easily possible to deduce that the powerful state concept had been commonly held by the mercantilism policies thereby looking at nothing but the period of Colbert's at ministering in France. Colbert had also mentioned that the sole purpose of the trade was to empower the state.

British mercantilism had been a success considering other countries. That success brought the industrial revolution with it. By the accomplishment of mercantilist policies in Britain those reasons such as the development of maritime with the urge and support of the state or regarding manufacturing had been effective.

The British philosopher Edward Misselden is considered as the first philosopher who paid an attention on the balance of trade and he defended the opinion that the state must have chosen the way to promote exportation, to define importation and to substantiate external trade.

Another British philosopher Thomas Mun also stood up for exportation to be supported. Mun noticed that the state could merely get wealth by foreign trade surplus.

Above these philosophers, such philosophers as Sir William Petty, Dudley North, John Locke, Richard Cantillon, David Hume, Sir James Stuart played an important role on the success of the British mercantilism. Furthermore all these aforementioned philosophers had economical ideas besides mercantilist thoughts.

German mercantilism, also named as Cameralism was based on the theories of state. Cameralism represents industrialization by paying attention on public finance and fiscal management. This flow which had lasted for three hundred years in Germany contributed national unity and industrialization.

Cameralist theorists had claimed the idea that the agriculture, mining and industry must have been provided by the state. J.J. Becher mentioned that the state was to play the biggest role on industrialization and increase exportation. On the other hand Hornick uttered that Germany's power was going to remain with its increasing population [3].

2.2 Physiocracy and the State

The term "physiocracy" comes from the French word "phycocrate". That word introduces itself as "the rule of nature" from Greek translation. The physiocrats believed in a divine power that reveals a universal and excellent "natural order". The physiocrats, who had faith in the existence of a social order besides the materialist order, mentioned that to obey the rule of nature would provide the beatitude [8].

The reason that the interventionism of the French State's was stricter than the British mercantilism had caused the birth

of physiocracy in France. Furthermore all the wars lost during the mercantilism and the exorbitant expenses of the palace had been the reason of the downturn of French economy. Therefore the burden of tax on the peasantry surcharged. The troubles about collecting taxes caused a deficit in the budget and it made the economy reach a serious impasse. As a consequence of all these problems, it was created social unrest.

The implementation of mercantilism for three hundred years engendered severe ideological impulses. As to economy, the decrease of agricultural activities against industry caused the increase of valueless lands and rural depopulation. Also the founded internal customs stemmed interprovincial grain trade. Hereat the dissatisfactions against the interventionist states of mercantilism had started being experienced [1].

The physiocrats, who accepted manufacturing as the resource of wealth and stood up for the abolition of the state interventions, have adopted the phrase for "laissez-faire".

2.2.1 The Principles of Physiocracy and the Position of the State in Economics

Physiocracy is considered as the first ideological system. The system which lasted only for twenty years had affected such economists as Ricardo, Marx and Adam Smith.

The physiocrats, who claimed that the economical activities were to be determined by natural-divine laws, had strictly urged upon the necessity of the state's not to interfere the running of those laws and criticised the interferences of previous states. According to the physiocrats, the mission of the state was solely to protect human's life and wealth and to ensure domestic and exterior safety.

According to the principles of physiocracy, agriculture had to be propped for speed-up instead of the industry and trade. Physiocrats had classified the society into three categories as the social, the productive and infertile class. The agricultural laborers were accepted as the members of the productive class. Hence the state must have reduced the taxes on the agriculture community, further it had to cancel them entirely. The taxes supposed to be collected should have promoted by the landowners in order not to cause any slowdown on production [3].

Physiocrats interpreted the industry section in the manner of that it didn't promote any surplus production and thus the Colbertism policies had the avail deducted, damaged the husbandry owners and caused the prices of manufactured products to mark up. For this reason, the state had to give a free hand and ensure the competition conditions between the merchants and industrialists. Physiocrats thought that the verification of these conditions would let the surplus of the soil productivity build up fully accumulation of capital and wealth. Afterwards Adam Smith followed the same opinion [16].

2.2.2 Physiocrats and Concepts of the State by Physiocrats

François Quesnay, known as the founder of physiocracy, studied out the economic table which is accepted as a sum of the physiocratic economy. Quesnay mentioned in his work "Natural Law" that the state's activities also should have

adjusted the natural order system. He was antagonistic towards the state and contributed the invisible hand principle by standing up for the opinion of the self-improvement of economic activities. Furthermore it was Quensay who coined the term "laissez faire-laissez passer"

Another physiocrat Anne Robert Jacques Turgot says that the society is supposed to have a freer regime by releasing the pressure of the state with the reforms. This is because she realized that the folks were oppressed. Turgot had the opportunity of performing his ideas while he was on his minister seat. He liberalized wheat commerce in order to bring freedom to the market in this period yet afterwards he was suspended from his duty [3].

Otherwise Victor Riquetti explained the term of tax by referring to the taxation policies in one of his books. Some of the philosophers as Dupond de Nemours or La Riviere supported the natural order idea against the interventions of the state [17].

2.3 Classical Economic Thought and the State

The work of "The Wealth of Nations", which was published by Adam Smith in year 1776, is accepted as the beginning of the classical economy. The classical economic flow had objected the interventions of the state and improved the invisible hand by pointing some morals from the physiocrats. Moreover the circumstances which had occurred at the end of the 18th century all over the world foreshadowed the economic developments and the future of the economy. Such facts as misplacing the mercantilist colonial policies with America's arising as a sovereign, the rupture of relations through the medieval society via The French Revolution and the growing fund by the help of the industrial revolution have played an amazing role on the occurrence of the classical economic thoughts [9].

The libertarian mentality that renaissance and reform had revealed has pioneered many changes in technical and scientific areas. The geographical explorations and consequently ensued imperialist movements have played a great role on the enrichment of Europe. The industrial revolution which was born as a consequent of these movements have caused the bourgeoisie to strengthen and that strengthened bourgeoisie class has defended a viable state concept by trying to provide freedom. The innovative class members funded in France and England via the industrial revolution have taken a stand against the commercial restrictions, the monopolization which occurred under the mercantilism, the irresistible authority of the state's and the power of the aristocrats through their wealth. This class adopted the opinion of a minimum intervention of the state on the economy and an individual system where the economical and political freedom was consolidated. The basement of this opinion was laid by the classical economists.

2.3.1 The Principles of the Classical Economy and the Gendarme State

The classical economists who wouldn't accept the state as a determinant in the economy believed that it was supposed to be a restriction on the state's power and thus it was to supply

military, education and prosperity. The individuals must have felt free by the economy sector and look after and priorities must be looked after. The classicals, who thought that the natural order theory defended by the physiocrats would also bring balance to the economy, had mentioned that the natural order, in other words the invisible hand was going to determine the output and the type of production[12].

The opinion "Supply creates its own demand" known as the Say's law of the classical economists also claims that the supply and demand equilibrium is supposed to be brought by the natural laws and it emphasizes that there mustn't be and outer intervention on it. According to classicals the more assignments the state gets for the economy, the more would the Borden of taxes be a problem for the folks. The increase of the Borden of taxes would slow down the industrialization process because it would also cause a saving gap and to increase the expenses. That's why the classicals who cared about the private enterprise system made the state remove the obstacles from the entrepreneurs' way as much as it was possible.

For this reason they loaded it with the charge of "Gendarme State". The state which they considered as a cross to bear would never supposed to interfere the economy while it kept providing its missions on the safety, defense, justice and diplomacy. It should have made productions inbetween a restricted area and therefore its expenditure would be reduced, too. For the financing of these expense, it was supposed to levy just a bunch of duty from the individuals and the private institutions [8].

The classicals have explained the job of the state in three ranks. Through this system where looking after an individual's benefits was fundamental, the state wasn't able to intervene directly in the economy, however providing national defense, raising a hand to all individual enterprises within the limits of the law and undertaking all the investments that individuals weren't able to afford even if the investments were not profitable enough were the three ranks of the state's mission.

2.3.2 Classical Philosophers and Concepts of the state Classicals

Adam Smith who is known as the founder of the classical economy principle has required some conditions about the intervention of to state in economy. In his opinion there were no need any intervention by the state when people look after their own benefits. Yet in other cases there may be needed an intervention. Smith classified these cases as fallows:

- It had to provide an army in order to defense the state against any exterritorial attacks.
- The state had to protect the individuals within securing the justice.
- The state had to step in the business which the individuals couldn't return any profit and build foundations and facilities.
- The state was supposed to take measure to competitions.
- It had to excise customs duty on the importees.
- The interest rates should have been followed by the state. It had to keep it under control.

Furthermore Marshall mentioned that the taxation needed to be directly proportionate to nationals' ability to pay. According to Marshall the tax rates weren't supposed to be arbitrarily as well as they must have been clear and stable [3].

Another economist David Ricardo also paid attention on taxation. According to Ricardo the taxes were to be provided by the capital or expenditure of a country. The taxation levied from the expenditure was normal but the one levied from the capital would harm the production power of a country [16].

Besides Ricardo sided with the external trade policies. The law of comparative advantage of Ricardo's in opposition to Smith's theory of absolute advantage contributed Britain to have been a country which imported food products and exported industrial goods. In Ricardo's opinion it shouldn't have intervened to the economy because of the fact that if the state increased money supply, it would cause inflation (Quantity Theory of Money).

Through the population theory, the famous classical economist T.R. Malthus would become pro-state when it comes to the benefits even if he was against the intervention of the state and stood for external trade. For this reason he supported protectionism braced by Britain's Corn Laws. These laws used to charge a substantial amount of taxation on corn. Malthus supported this policy considering that those increasing corn prices would help the capital boosting the production and improving productivity. Moreover Malthus supported raising the expenses in consideration of the weakness in demand and claimed an exception of the classical economists about being flexible in state interventions.

Just like Malthus, J.S. Mill came up with the same idea of the possibility of the interventions when it was necessary. According to Mill, who was pretty effected by the poverty of his lifetime, the state was supposed to provide educational developments, bring solution to the income inequality with taxation policies and make organizations about limiting the working hours of the children. Besides Mill stood for levying higher taxes from wealthy people and thought that this regulation would avoil to public thus he defended increasing the annuity income [3].

3 CONCLUSION

After people had started living as a community, the period of placement from the city states to the nation state began with mercantilism and the mercantilism period caused the industrial revolution by providing the capital stock. The capital having been developed had protected by the state at first. The changes in politics, social and economic activities around 1800 made the state regulate its limits. During the next periods the opinion of the state needed to be only the watcher of the capital was defended and any intervention by the state was considered as a restriction to the freedom.

Yet the placement of the state in economy was exposed to some limitation in the classical economy period, on next phases the capital stock kept gaining strenght and caused economic fluctuations. The lackness of a solution to all these impasses made new movements in the next century that

strengthened the charge of the state in economies.

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