Global Trade & the Rise of Capitalism

SETTING THE STAGE

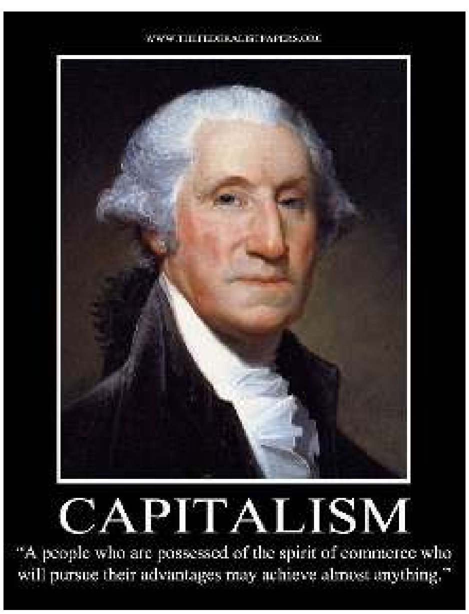
Colonies helped countries to establish a favorable balance of trade. Colonies provided raw materials (timber, cotton, tobacco, etc.) that could be made into products (furniture, cloth, etc.) and sold to other countries. These products could also be sold back to the colonies to make even greater profits. These ideas are at the center of the economic policy of mercantilism. This will go hand in hand with another economic policy, capitalism.

The establishment of colonial empires in the Americas influenced the nations of Europe in still other ways. New wealth from the Americas was coupled with a dramatic growth in overseas trade. The two factors together prompted a wave of new business and trade practices in Europe during the 16th and 17th centuries. These practices, many of which served as the root of today's financial dealings, dramatically changed the economic atmosphere of Europe. Some historians even conclude that this was an economic revolution.

The Rise of Capitalism

One aspect of the European economic revolution was the growth of **capitalism**. Capitalism is an economic system based on private ownership and the investment of resources, such as money, for profit. No longer were governments the sole owners of great wealth. Due to overseas colonization and trade, numerous merchants had obtained great wealth. These merchants continued to invest their money in trade and overseas exploration. Profits from these investments enabled merchants and traders to reinvest even more money in other enterprises. As a result, businesses across Europe grew and flourished.

The increase in economic activity in Europe led to an overall increase in many nations' money supply. This in turn brought on inflation, or the steady rise in the price of goods. Inflation occurs when people have more money to spend and thus demand more goods and services. Because the supply of goods is less than the demand for them, the goods become both scarce and more valuable. Prices then rise. This principle is known as supply and demand. At this time in Europe, the costs of many goods rose. Spain, for example, endured a crushing bout of inflation during the 1600s, as boatloads of gold and silver from the Americas greatly increased the nation's money supply.

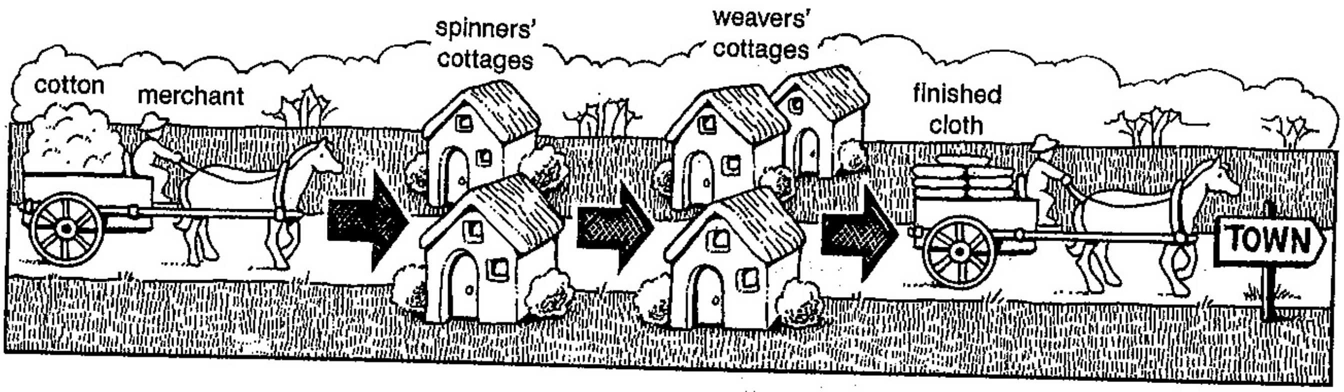


People did not only place capital in these new investments in overseas trade, however. Profits meant more money at home, within a nation. As people had more money to spend, this drove up prices (inflation). Higher profits meant bigger profits for landowners and merchants. These landowners owned the means of production (land, tools, and seeds needed to grow crops). Landowners and merchants were able to work together to sell crops, wool, and other items to make even greater profits that could be reinvested back into their businesses.

Like landowners, cloth merchants wanted to produce their goods in a more efficient way. They hoped to make cloth more cheaply to increase their own profits. In England, cloth merchants began a new system to get cloth to the market cheaply and quickly. They bought raw wool at the cheapest prices they could find and paid farmers in nearby villages to spin then weave the wool into cloth. When the cloth was ready, the merchants picked it up and sold it where prices were highest. These workers made the cloth in their own cottages. As a result, the use of workers who work at home with their own equipment is known as **cottage industry**.

Cottage industry was an early form of capitalism. Cloth merchants found willing workers and competed against guilds to get the highest price they could for their product. They priced their cloth competitively so consumers would want to buy their cloth over another merchants. These ideas are at the heart of capitalism and a **market economy**. In a market economy, prices are not fixed by guilds, by the government, or by custom. Instead, forces of supply and demand set prices.

Soon after investors began to invest their money in other industries. English capitalists (those who invest their capital, or investors) invested in coal mines, ironworks, breweries, and shipyards. Dutch capitalists founded printing, diamond-cutting, sugar-refining, and even chocolate industries.



Economic Revolution Changes European Society

The economic changes that swept through much of Europe during the age of American colonization also led to changes in European society. The economic revolution spurred the growth of towns and the rise of a class of merchants who controlled great wealth. The changes in European society, however, only went so far. While towns and cities grew in size, much of Europe's population continued to live in rural areas. And although merchants and traders enjoyed social mobility, the majority of Europeans remained poor. More than anything else, the economic revolution increased the wealth of European nations. In addition, mercantilism contributed to the creation of a national identity. Also, as we have already studied, the new economic practices helped expand the power of European monarchs, who became powerful rulers. Mercantilism and capitalism helped expand the power of the secular ruler.