

POLITICAL ECONOMY

A. Political Economy as Part of the Social Contract

1. To date we have studied how American culture became the way that it is through the evolution of its social contract. It is the story of a culture that began by championing natural rights, but, failing within that framework to overcome its inheritance of slavery, fortunately survived a civil war, and proceeded to embrace the notion of “civil rights,” which predominates to this day.
2. Another aspect of the American social contract that has similarly evolved from its original ideals towards a very different modern incarnation is its *political economy*.
3. If politics is the government making laws, and the economy is the sum of all the productive and commercial activities of the people, then political economy is: the government making laws about production and trade, or, as we have rehearsed in class “*the government making laws about the people making and trading things*.”
4. Evidently this is a part of the social contract. We associate with one another through production and trade, and we expect the government to play a role in how we do that, such as through the protection of our rights, or in some other way, according to how we want our society to be organized.

B. Modern Political Economy

1. Modern American political economy is usually referred to as a “mixed economy.” This means that most industrial and commercial activity is private, but a large segment is also “public,” i.e. controlled by government.
2. We are all accustomed, for instance, to the fact that America is home to a vast array of private enterprises, from small businesses to huge corporations, and that the American economy—the largest in the world over the past century—is a generally “free market” of incredible diversity.
3. At the same time, however, the government (whether federal, or state, or local) tends to dominate certain aspects of the economy, such as “public” education and the provision of unemployment benefits (money given to people who can’t work). The government also “regulates” economic activity in many ways and for many reasons, such as via environmental laws to control pollution, and, ever since the Obama presidency, healthcare.gov, a federal system for directing how people can access medical care that is supposed to make it more affordable.
4. The mixture of the private and public elements of this system is the reason for the term “mixed” economy.

C. The Trend Towards Socialism

1. Another notable aspect of America’s political economy today is the clear trend towards *more* government involvement in the economy. This means ultimately that the “mixture” will tilt towards government soon playing a bigger role than private enterprise. When that happens, America will join countries like Canada, where 52% of the economy is government-controlled, and France, where 62% of the economy is government controlled. (Currently, the figure for America is 46%).
2. In 2007, when the mixed housing and banking industries of America almost collapsed in what is known as “The Financial Crisis,” the government greatly expanded its role in both housing and banking.
3. In the past two years, the government has also been extremely controlling of both private life and business, by “locking down” society, and ordering businesses to either stop operating or profoundly change how they do business in order to try to mitigate the Covid-19 pandemic. It

is indicative of the trend towards socialism that Americans have been very compliant with government orders. In essence, they *want* government to tell them what to do.

4. They also want the government to help them as much as possible. In keeping with this expectation, President Trump arrangement for government checks to be mailed out to Americans to cushion the economic hardships of the pandemic, and new president Joe Biden has sought to create a **\$2.3 trillion** government spending program to “stimulate” the economy.

D. The Original American Political Economy

1. If the current American political economy is a “mixed economy” moving in the direction of socialism, where did it start, and how did we get here?
2. The original political economy was rooted in the concept of individual liberty, and provided for a minimal role for government in the economy.
3. A big part of the reason for the *American Revolution* was the desire to reject the types of political-economic controls that the British government wanted for its colonies. The infamous *Stamp Act*, for instance—usually thought of as the trigger for the Revolution—was a tax on the making and trading of legal documents. It was an act of colonial political economy.
4. When the colonists rebelled against it, the British government placed a new tax on tea, which was met with act of political-economic rebellion: the Boston Tea Party!
5. A big part of the reason the original American political economy was so free is that a society based on the idea of the individual’s right to pursue his own happiness clearly cannot tolerate too much interference in that pursuit by government.
6. Not surprisingly, it was Thomas Jefferson’s view of political economy that prevailed in early America. Jefferson, like Washington, was a great admirer of the political economy of the ancient Roman Republic in which the leading citizens were farmers, and in which they were willing to serve the state to protect liberty, but only to a degree, and after which service they always returned to the honest work of farming.
7. A great role model in this regards, especially for George Washington, was a republican hero of ancient Rome named Cincinnatus, who was appointed dictator in an emergency, and then relinquished his political power to return to farming. Since agriculture is the fundamental activity of the good citizen in this model of political economy, it is known as *agrarianism*.
8. The only other model the founders had available to them was Europe, in which monarchies promoted their own national commercial interests at each others’ expense through empire-building and government-controlled trade. The alliance of merchants and governments in this system is known as *mercantilism*, as Jefferson viewed this alliance as inherently corrupt.
9. There were mercantilists among the founding fathers. The most notable of these was Alexander Hamilton. While Washington and Jefferson were the main leaders of America, however, mercantilism was not viewed positively, and America remained mostly agrarian in terms of its political economy.



A statue of Cincinnatus in the American city of Cincinnati (evidently, named after him) shows the ancient Roman leaders giving up the “fasces” (a symbol of power) a returning to the plow (a symbol of agrarian life).