

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. During the Covid-19 pandemic, the government was also 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. 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.

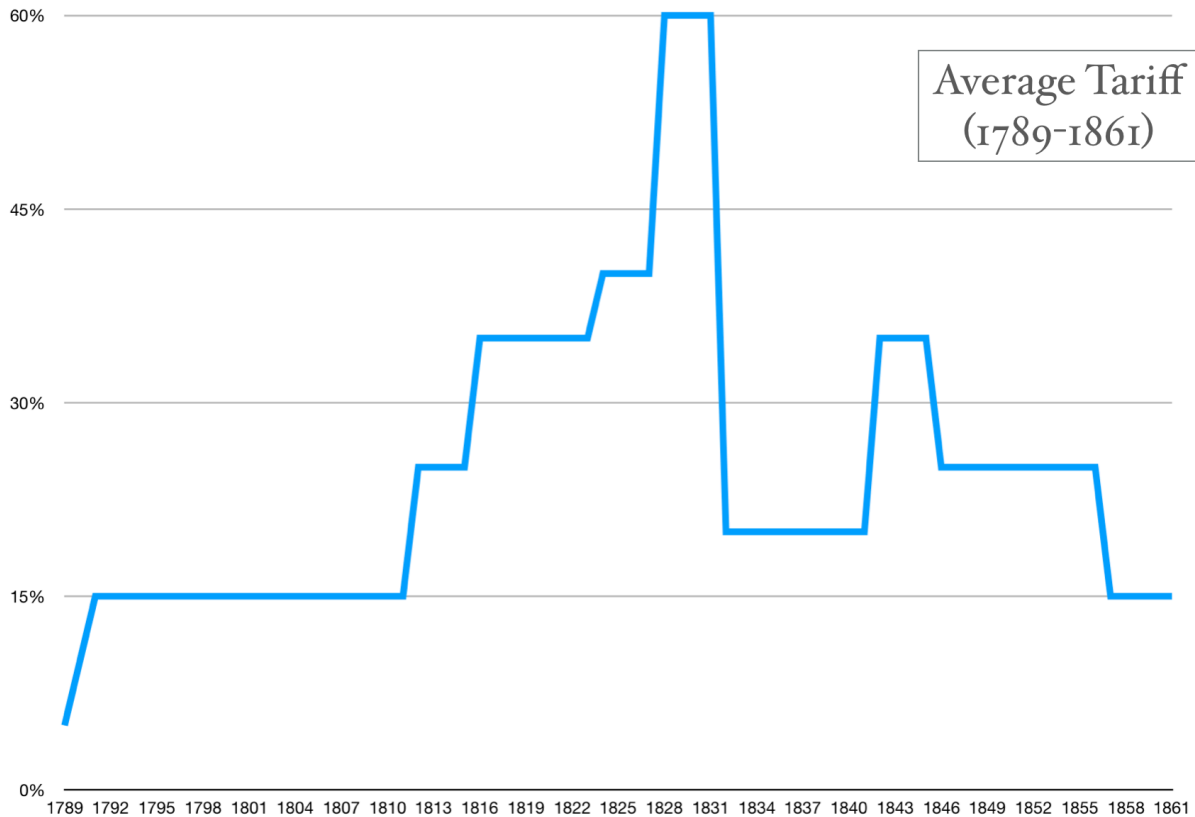


A statue of Cincinnatus in the American city of Cincinnati (evidently, named after him) shows the ancient Roman leaders giving up the “fasces” (a symbol of power) a returning to the plow (a symbol of agrarian life).

E. The “American System” of Mercantilism

1. A number of factors contributed to the dominance of agrarianism in the original American political-economic system.
 - a) When America was first created, it was still a set of colonies in a pre-industrial state of technological development. In that setting, where agriculture was common and manufacturing and commerce were uncommon, agrarianism was almost the default point of view.
 - b) Mercantilist policies by the British government has obviously hurt the colonies, and were part of the reason for the American Revolution, so such policies were naturally viewed negatively by Americans.
 - c) Mercantilism is not compatible with liberty. It involves the government passing laws that favor some segments of the economy at the expense of others—usually the industries of a country that “exports” at the expense of whatever people want to “import.” This is an interference in the normal, spontaneous economic activity that people would engage in if left free to choose.
 - d) Mercantilism is always associated with nations at war. Monarchies—and other mercantilist governments—make laws that impede the flow of goods from other countries into their own and try to promote the exporting of goods to other countries, because these policies result in the flow of money into the country, which allows the government to tax that money, and have access to it for the purpose of war. This is called the “balance of trade,” and it is linked to the “balance of power,” because a country with a negative balance of trade (more imports than exports) has less money on hand for its own government to confiscate in times of war. Since America intended to be politically separate from Europe, however, this policy was less relevant to its particular situation. Only when the Napoleonic Wars (1799-1815) expanded to include America did mercantilism become more appealing.
2. Britain, which was at war with Napoleon’s France, practiced a policy of “inalienable citizenship,” which is quite near to the opposite of “inalienable rights.” It means that if you are born in a country, you can never not be a citizen (and thus subject to its king). Following that policy, its navy would board American ships at sea and seize American sailors. This was intolerable to Americans, and was enough to push America into another war with its mother country.
3. The **War of 1812 (1812-15)** was a painful experience for America, because the British were brutal in their attacks. They no longer intended to rule America, only to punish it. British troops even landed in Washington, and burn the White House to the ground.
4. This made Americans resent Britain much more, and made them willing to accept mercantilist laws as a barrier to British goods being imported. It was at this point that taxes on foreign goods—collectively known as *The Tariff*—were raised. This was essentially Hamilton’s idea come to life, but the credit at the time went to a new American politician named Henry Clay.
5. The Tariff, which stood at 5-15% in early American history, was quickly doubled, and doubled again, until the taxes on imported products was as high as 60%. Imagine being

used to buying a suit of clothes from Britain at \$100, and then in a few short years, seeing the price of that same suit rise to \$160.



6. In addition to causing the price of many goods to rise for American consumers, The Tariff caused many exporters—especially Southern farmers—to suffer a drop in business as well. This is because countries rarely allow their trading “partners” to raise tariffs without raising their own tariffs in retaliation.
7. The justification for this policy was that American manufacturers would be able to compete with British manufacturers. It was thus a policy to **encourage** “American industry.” The fact that most such industries were in the North was not lost on Southern plantation owners, who now had to pay more for the things they needed, and whose exports were harmed by the very same policy.
8. Not surprisingly, since this policy generally hurt the South and favored the North, and these two parts of America were already engaged in an important argument about the morality of slavery because of *abolitionism*, the Tariff contributed to the antagonism between the two, and was one of the causes of the Civil War (even though it had been lowered from its peak by the time the war happened).