

## POLITICAL ECONOMY

### A. Political Economy as Part of the Social Contract

1. So far we have studied how Americans wanted to live together by a “social contract” to protect their rights.
2. A part of this idea of a social contract is called “*political economy*.”
3. A political economy is “*the government making laws about the people making and trading things*.”

### B. Modern Political Economy

1. In modern America we are used to the fact that some parts of the economy are businesses (like local restaurants) and huge corporations (like Apple and Amazon). Some parts, however, are controlled by government, like “public” education.
2. The mixture of the private and public elements is why the modern American political economy is called a “mixed” economy.

### C. The Trend Towards Socialism

1. Because the government is controlling more and more of our lives, more parts of life will soon be controlled by government than are private. Right now in America, the government controls 46% of the economy. In Canada, it’s 52%. In France, it’s 62%.
2. When the government controls more than it lives free, that is generally called “socialism.”
3. One reason government control is growing is that most people want the government to tell them what to do about the Covid-19 pandemic.
4. Most people also want the government to help them as much as possible if they don’t have enough money. One example of this is that presidents Trump and Biden have mailed government checks to people because they are not allowed to go to work.

### D. The Original American Political Economy

1. How did America get to a “mixed economy”?
2. At first, Americans didn’t want the government interfering in what they make or trade. This was one of the reasons for the American Revolution! For example, the *Stamp Act* of 1765 was a tax on the making and trading of legal documents.
3. When the colonists rebelled against it, the British government placed a new tax on tea, and the colonist of Boston threw the tea in the ocean in the Boston Tea Party!
4. Thomas Jefferson and George Washington believed that the best kind of political economy was one like ancient Rome, where leaders like a famous man named Cincinnatus were farmers.
5. This is known as *agrarianism*.
6. The only other kind of political economy they knew of was the political economy of Europe, in which kings made laws to control trade (like the Stamp Act and Tea tax). This kind of political economy is known as *mercantilism*. Obviously, it was not popular in America at first, because it was the way the British Empire acted, and Americans wanted a political economy of freedom instead.



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. Agrarianism was more popular than mercantilism in early America for a few reasons:
  - a) When America was first created, it was still a set of colonies in the *pre-industrial* chapter of technology. More agriculture meant more agrarianism.
  - b) Mercantilist taxes by the British government has obviously hurt the colonies, and were part of the reason for the American Revolution, so mercantilism was viewed negatively by Americans.
  - c) Mercantilism is not compatible with liberty. It is basically laws that stop people from making and trading of things the way that they would if left free to choose.
  - d) Mercantilism is always found in nations that fight many wars. Monarchies—and other mercantilist governments—make laws to help their own merchants so they can tax those merchants in times of war. Since America intended to be politically separate from Europe, however, this didn’t seem to be as important.
2. But then Britain attacked America! To get sailors for its navy against France, Britain 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 taxes on British goods—called “*the Tariff*”—were raised. This was what Alexander Hamilton had wanted in the first place.
5. The Tariff went from 15% all the way to 60% (see the chart on the next page). Imagine being used to buying a suit of clothes from Britain at \$115, and then in a few short years, seeing the price of that same suit rise to \$160.
6. The Tariff was supposed to **encourage** “American industry” but most of it was only in the North.

Southern farmers were angry about higher prices.

7. Since the North and South were already arguing about *abolitionism*, the Tariff made them argue more and was part of the reason for the Civil War.

