

POLITICAL ECONOMY

A. Political Economy as Part of the Social Contract

1. So far we have studied how American culture became the way that it is by changed to its social contract. America started by championing natural rights, but, because it couldn't overcome the inheritance of slavery, after the Civil War, the social contract was more about "civil rights."
2. Another way the social contract changed was it *political economy*.
3. If politics is the government making laws, and the economy is people making and trading things, then political economy is simply "*the government making laws about the people making and trading things*."
4. This is a part of the social contract, because making and trading things is a part of how we agree to live together.

B. Modern Political Economy

1. Modern American political economy is usually called a "mixed economy." This means that most industries and companies are private, but a lot of the economy is also "public," i.e. controlled by government.
2. We are all accustomed, for instance, to the fact that America is home to many small businesses (like local restaurants) and huge corporations (like Apple and Amazon).
3. At the same time, however, the government (whether federal, or state, or local) controls certain parts of the economy, such as "public" education. The government also "regulates" how we live, such as by 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 is why it's called a "mixed" economy.

C. The Trend Towards Socialism

1. Because the government is controlling more and more of our lives, the mixture will soon be that more parts of life are 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. The government was also extremely controlling of both private life and business, by "locking down" society, and ordering businesses to either stop operating or change how they do business in order to try to stop the spread of Covid-19. This is one of the reasons government control is growing.
4. People also want the government to help them as much as possible. President's Trump and Biden have mailed government checks to people, and Joe Biden wants 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. People didn't want the government interfering in what they make or trade.
3. 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.

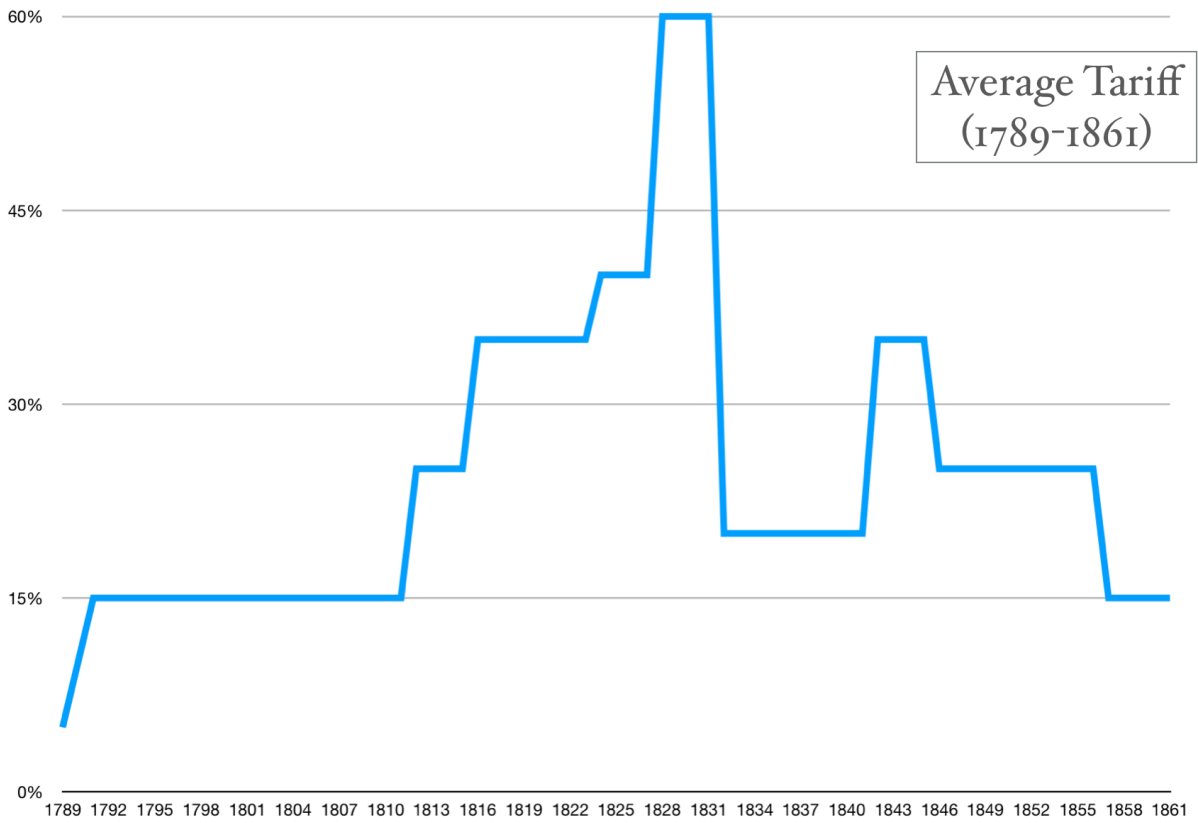
4. When the colonists rebelled against it, the British government placed a new tax on tea, which was met with act of political-economic rebellion: the Boston Tea Party!
5. A big part of the reason the original American political economy was so free is that a society based on the idea of the individual's 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 was most important 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.
7. One of their role models was a republican hero of ancient Rome named Cincinnatus, who was made the temporary dictator in an emergency, and then gave up his political power to return to farming.
8. Since agriculture is the main activity of the good citizen in this model of political economy, it is known as *agrarianism*.
9. The only other model the founders had available to them was 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*, but 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 a pre-industrial state of technological development. Agriculture was more common than manufacturing, so 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 helps some people (the industries of a country that “export”) at the expense of the people that want to “import.” This is an interference in the normal making and trading of things 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 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 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. 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 made them willing to accept mercantilist laws as a barrier to British goods being imported. It was at this point that the tax on foreign goods known as “*the Tariff*” was raised. This was what Alexander Hamilton had wanted in the first place.
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% (see the chart on the next page). 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 Americans, The Tariff caused Southern farmers to suffer a drop in business as well. This is because countries almost always raise their own tariffs when another country does.
7. This policy was supposed to **encourage** “American industry.” The fact that most of these 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 the North and South were already arguing about *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).