Is Economics Going Back To The 1800s? Maybe So

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Some economics thinking seems to have gone backward in time. How far back? At least as far as the nineteenth century.

That's the observation of Robert Wright, professor of political economy at Augustana University in Sioux Falls, South Dakota. He's also an eminent economic historian.

He sees the resurgence of three economic ideas that were more at home in the 1800s than in the twenty-first century.

Tariffs

The first throwback is the growing use of tariffs, also known as taxes on imports of goods from other countries.

In March the U.S. introduced tariffs on steel and aluminum of 25% and 10% respectively. Canada and Mexico were excluded. China, a major producer of steel, snapped back with similar tariffs on America's soybeans and corn, as well as other products.

How the tit-for-tat over tariffs ends is yet to be seen.

The whole thing could be a negotiating ploy by the White House to get China to crackdown on the theft of U.S. intellectual property, such as designs of electronic devices.

Or it could be a return to the 19th century for many nations. In the U.S., average tariffs varied every year from 1860 through the end of the century. Sometimes they moved a little, sometimes a lot. But one thing remained the same, they were always much higher on average than typical tariffs these days. The range was from a low of 14.2% in 1861 through to 46.5% in 1878. Mostly over that period, the tariff levels were in the 20s and 30s percentages, according to The Tariff History of the United States by Frank William Taussig. See pages 345 and 346.

Compare Taussig's figures to those under World Trade Organization rules, which average a mere 9% according to recent data. For many countries, actual tariffs are even lower than 9% because

they cut special deals with each other. For instance, trade between the member countries of the European Union has no tariffs. In the simplest terms, the tariffs under WTO rules are lower than those implemented in the U.S. from 1860 through the end of that century.

In general, tariffs reduce the volume of trade between countries. The higher the tariffs, the lower is the level of trade. Usually, when a nation introduces tariffs on a product, it is to protect the domestic producers from cheaper foreign imports.

It has been a long time since leaders thought that routinely introducing restrictions on international trade was a good idea. That's because economists almost universally agree that more trade benefits all parties involved. Increased international trade makes all participants get richer. That's true even if some industries get hurt in the process.

The opposite is also true. Lower levels of trade results in all parties being worse off financially.

Whether or not the newly implemented tariffs are a good idea the worry is that the world heads back to a 19th-century tariff system and one where trade decreases. The result would be bad for all countries involved even if some people in some industries benefit.

Gold Standard

Before, during, and after the financial crisis of 2007-2009, there was a constant, albeit low level, drumbeat by some people for a return to the so-called gold standard monetary system. That's a regime where paper money is backed either wholly or partially by solid gold. In some cases, notes and bills were exchangeable directly for gold under the arrangement.

The periods when it operated, such as the nineteenth century, sometimes get portrayed as idyllic, at least in economic terms.

"Those sentiments don't ever seem to go away," says George Selgin, director of the Cato Institute's center for monetary and financial alternatives.* But he rightly points out, it's been a long time since it was in place and no one alive now has first-hand experience of it.

That longing for a return to gold is based on the fact that, when implemented correctly, it can help keep prices stable over long periods of time. Put another way, there really isn't any inflation. The reason for that is that governments can't easily print more paper money when they want to spend more. To issue more currency, more gold is required. So in the simplest terms, the typical inflationary boom caused by money printing doesn't happen in the classical gold standard.

The low level of inflation under the classical gold standard allowed companies to more easily fund projects that had long time horizons. Bonds with an expiration date one hundred years in the future were not uncommon, says Selgin.

"The British certainly set the ball rolling for the gold standard," he says. The standard became official for the United Kingdom in 1821, he says, but didn't really reach its heyday until the 1870s because that's when other countries jumped on the bandwagon.

It was those other countries piling in that gave the system a boost. In addition to keeping inflation subdued, the gold standard helped facilitate international trade.

"Together what you had was two features that significantly reduced the risks involved in doing business over the long term and over wide geographical areas," Selgin says. Gold helped with international trade because it kept exchange rates fixed. That meant merchants didn't have to worry about whether the exchange rate with other countries would whipsaw around so adding risk to doing business.

In one way, being on the gold standard is similar to having a phone. As more people have a phone, then the device becomes exponentially more useful. Likewise, as more countries adopted the gold standard in the nineteenth century the more appealing it was for other countries to join the system.

Perhaps the most problematic thing for proponents is the question of how to jump back to a gold standard starting from where we are now. Getting countries en masse to agree to any change is hard enough. Instituting radical change, such as switching around the global monetary system, at best looks improbable in the current geopolitical environment. Failure to get the major economies on board would remove one the benefits of the gold standard in the late nineteenth century -- many countries all using it together.

If the U.S. wanted to unilaterally introduce such a system, then it has another problem. First, the government would have to make a decision to do so, says Selgin. Then the Federal Reserve would have to implement it. As we should all know by now, betting that Congress will do anything, even the simplest, least controversial thing, is a long shot. A massive change like jumping back to the gold standard would seem to go far beyond improbable and well into impossible.

Slavery

The slavery-was-good-for-the economy trope is back.

While everyone seems to agree that slavery was an evil that must never be allowed to flourish again, there are more than a few people who seem to think that the U.S., and other western powers, got rich due to slavery. Consider the following statement taken from an op-ed in The Guardian newspaper less than a year ago:

If the countries and companies that became rich by exploiting human flesh paid their debts, the world would be a radically different and fairer place

The crux of the piece is that the western powers such as Britain, U.S., France, etc. wouldn't be as wealthy as they are now if it wasn't for slavery and the slave trade.

The problem is that slavery isn't good economics in general, and we have detailed research from the U.S.A. that it wasn't economically beneficial. If anything, the U.S. got rich in spite of slavery. Wright knows this stuff inside out. He wrote the book The Poverty of Slavery and is a founding member of the scholar-activist group Historians Against Slavery.

He makes the following comment:

The notion apparently is that if you believe them we should pay reparations to the descendants of the slaves. That appears to be the motivation. The evidence is being exposed as pretty much rubbish.

By the mid-nineteenth century, the U.S. was fast becoming wealthy, and slave ownership was common. But those two things tended not to happen in the same location.

As Wright explains it, the southern states (where slavery was far more common) lagged far behind the northern ones in economic development. He points to the U.S. Postal Service as an example. It ran at a profit in the north, where economic growth was higher but had to use those profits to subsidize operations in the south where growth was slower.

He also notes that literacy levels among much of the non-slave population were lower than in the north. It should be evident that with fewer people able to read and write then there'd be less demand for sending letters. Wright continues:

In fact, it was really the U.S. experience that drew the economic critique out into the open that slavery hurts economic growth and that was the division between the north and the south.

That's because there was one country with two distinct economies that could be compared directly across the same time period. On the face of it, that's pretty robust evidence.

There is further evidence that undermines the idea that slavery makes economies rich. Brazil, which was into the evil practice in a big way, abolished slavery in 1888, long after the U.S. banned it. Yet that country remains ridden with poverty. GDP per capita is around $11,000 a year, which compares to $52,000 for the U.S., according to data from TradingEconomics.com.

Worse still, more than 50 million Brazilians, nearly a quarter of the country's population, live on less than $5.50 a day, according to a recent report in the Rio Times citing data from the Brazilian Institute of Geography and Statistics. No, Brazil certainly didn't get rich off slavery.

* Wright notes that the gold standard is back in vogue but referred me to Selgin for additional detail.