Money, Europe and the U.S.

by Anne Emerson

This is page ten of Economic Ideas for General Readers. This WILL be the last essay in this series, showing billions of readers that you have come a long way with me. Let us start with something very human – status and prestige. We don't usually find status and prestige in the pipes and waters of fountains (remember our fountain analogy), but they do affect how people and fountains behave.

If an economist wants a prestigious job in the international arena, then he or she often studies the economic specialties of International Economics (Trade theory) and Development Economics (Growth theory). Agricultural Economics (Farm theory) is a poor relation, in the Status-and-Prestige department. But some poor sucker has to do it! (Sorry, there's that sarcasm again.)

Moreover, when it comes to the global economy, my most-friendly-neighborhood Agricultural Economist, who loves plants and did extremely well on his Biology SATs (800, I am told) tells me that big-picture economics has no place in agriculture (farming). All good farm economics is local – detailed, specific; applies to local seeds, fruits, vegetables, environment, ecosystem, etc. Even to the soil and the microbes in the soil. Fancy that! (In-joke. Only my family might understand that one.)

So, naturally (pun not intended but I rather like it), International Economists (Trade Theorists) don't speak to Agricultural Economists (Farm Theorists). (That's polite-speak for interpersonal disdain.) If they had, they would have learned that Engel's Law is the operative law in buying and selling things like tomatoes, apples, jute, and natural rubber! There's a book about it.* Johnson's solution, in 1991, was to remove tariffs so that everything could work more efficiently, in accordance with the conventional wisdom in Trade Theory – which is Comp-this, or the Theory of Comparative Advantage. My readers know what I think about that. (See Page Eight in this series.) In my opinion, Comp-that, or Competitive Advantage, is the real name of the international business game.

Adam Smith, a famous author, called what businesses do – "making money" – Mercantilism, but Mercantilism has been discredited, as a theory of trade. Mercantilism is the idea that a nation gets wealthy by bringing in more money in trade, than it gives out. You might look at a nation's GDP, price level, etc., and believe that the U.S. is a very rich country, right? And, theorists will tell you that currency exchange rates adjust in such a way that they neutralize a nation's attempt to bring in more money than it gives out. That is, assuming that everyone plays by the same rules, which are "floating" exchange rates. If we can "fix" our exchange rate, it gets more complicated. (Ask Mr. Trump's advisors about that! Tariffs on Chinese goods in the last Trump administration…)

Farmers know better, and if economists look at the grand experiment – The EEC – Euro nations getting together to promote greater regional growth – they will see why. Policy decisions regarding the common currency, the Euro, affect rich countries (wealthy regions in Europe) differently from the way they affect poor countries (poorer regions in Europe). That which benefits wealthy countries (especially Germany) makes budget challenges for poorer countries worse (especially Greece and Eastern Europe). Bottom line: monetary policy affects wealthy and poorer regions differently. This impact has been somewhat disguised, in the past, by the tendency of many countries to use their own currencies.

*Johnson, D. Gale, 1991, "World Agriculture in Disarray," St. Martin's Press, New York

Johnson (World Agriculture in Disarray) was unkind to people who work with farmers (like, say, USDA) and their foolish habit of subsidizing farmers. Sorry, there's that sarcasm again. Tariffs MIGHT help some types of farmers, but prices will likely increase for their goods; tariffs probably won't help U.S. steel consumers when our trading partner is Japan, where very good steel is made, and Japan is a friendly nation that wants to trade with the U.S. Ask experts on soybeans; and steel.

I hope my trillions of readers understand by now that I don't tell you up front what the point is. I hook you, rather like a spy-story-reader, so that you stick around to find out whodunnit! So, here's the point: Engel's law (in farm theory) has been around a very long time and economists are quite familiar with it. Yet they have seen fit to ignore the obvious (that farms need subsidies) in favor of international trade theory (leave the economy alone and it will become the best of all possible worlds, all by itself. Don Quixote, anyone? Ask an English teacher).

Oh, I almost forgot, do some of you want to know what Engel's law IS? As one of my professors said, when I thought that "immiserizing growth" was the concept to use, Engel's law is the idea that farm prices decline over time, putting farms and farming-dominant nations at a disadvantage relative to other businesses and nations. That professor was a Development Economist (Growth Theorist), and he didn't appreciate the significance of this well-known characteristic of farm prices, for the long-run advancement of International Trade among nation states. He was a nice guy. I will not suggest, as the cynic in me sometimes might have done, that he knew better but it wasn't convenient to say so. For data in support of "farm prices decline in accordance with Engel's Law" over the long run, please see the figure showing wheat prices in England, going back far enough that we can see the effect, even though in the short run wheat prices are volatile – they jump around a lot.

So, why do non-farm economists not see this? Here's what I think: The basic "economic" worldview is that all businesses are the same in kind; they merely differ in detail, like Aristotle's table. (There is an essence of tables, and all tables possess it. Ask an ancient Greek.) In Annie's worldview, table-makers can get rich if they stay at the cutting edge; old-fashioned hand carpenters will tend to go out of business, no matter how beautiful their tables. We may need to decide how much of the dazzling cutting edge we want, because it is awesome and cheap; or how much of tradition and service we want, knowing that we will have to pay more for it than we want to, lest it go away.

So, back to "economic-speak". If we think all businesses are the same in kind, then we won't care to model, using our economic math, those changes for the worse in the budget situation of an industry or sector (like farming or senior care), caused by policy-makers' pursuit of economic growth by means of expanding the global money supply. But, if we DO think that farm incomes (among other business incomes) decline over the long run, in the nature of growth, then we need Annie's model!

So sorry, I couldn't keep this essay to one page. I hope you will forgive me another in-joke. One-to-one wages to prices is all very well, when we have one price for products (manufactures) and another for services (worker-intensive farming). I bet the farmer's name was Hecksher-Ohlin.* Or more likely, he was a capitalist. Or, a mathematician who enjoys cleverness. Oops! Sarcasm again.

*Technical discussion here: There is a theorem, arguing that there is a monotonic correspondence between the price of the product and the price of the factor used most intensively in the sector (Johnson, Harry G., 1973, 54), it may be inferred that when that factor-price falls, the product price falls.
In Johnson, Harry G., 1973, "The Theory of Income Distribution," Gray-Mills Publishing, Ltd., London
The price of the product may or may not fall, depending on the assumptions of the model. We reference, here, a closed model. We further argue that, for inelastic demand in such a case, then the (global) income to the sector will also fall.

Technically, the farm sector's income SHARE (share of the whole economic pie) declines with growth, and economists should agree that there's no doubt about that. See Annie's scholarly paper, published on this website, now available for all to see. The technical details are explained there. You can find it on the Magic Money Essays page. Also, in traditional economic-speak, capitalists are the owners of capital ("business" or "finance" we can say) and workers, or laborers, work for capitalists.

Oh, and somewhere I have to slip in that commodity prices are volatile, so it's really hard to figure out what's going on with them, especially over time and across nations. If you want to pursue this further, please see The Twin Thing, on the Poems webpage of Anniespicsandpoems.com (And, if you do, please be aware that Corn means Wheat in England; people presume too much, who think they speak the same language. Also, in my day in England, "technology" meant know-how in general, not "machines" in particular. And, some punctuation conventions differ from U.S. to U.K.)

But there are lots of real-world entities (governments, charities, non-profits), as well as businesses, and *times change*. Over time, capitalists realized that education was important to high-tech industries, and they paid their technical workers very well. It was no longer quite so obvious that capitalists made a lot of money and workers made less.

When the clever folk saw the error of those capital vs. labor analyses, they invented a concept, "human capital," and carried on as before. I will attempt to explain that in-joke for general readers – just in case I have even one general reader left! "Human capital" is what we possess when we are loaded up with facts, figures, and theories from our education. It's a sort-of hybrid between being a business owner and a worker. But we can tweak our economic math so that we have more than one type of worker (skilled vs. unskilled), rather than tweaking it to show more than one type of business (money-magnets vs. resource-losers).

Oops! Page eleven has long been filled. (And my husband wants me to explain value in exchange vs. value in use. But there isn't space. You should read Adam Smith for that one. And ponder the Labor Theory of Value. And read a big fat book on the history of economic thought; required reading in some graduate programs in economics, but not, I think, in business school.)

And, you don't have to be an MBA business professional to know that senior care doesn't work when the imperative is to keep prices (and costs – technical difference here) down. So, if you are a CEO in the senior-care industry and your technical advisors have done well in cutting edge businesses, or if they lord their greater technical knowledge over you, you should probably fire them. Unless they can adapt in an agile sort of way to new information, which I think they can, as real-world successful people!

Oops! Page Twelve is now almost full. For anyone who is still reading this self-indulgent, rambling in-joke, the point is this: Equilibrium – NOT! **Annie has explained why non-equilibrium economics is the best type of economic model for the long run. It takes only a moment to see that urbanization has been proceeding apace ever since the repeal of the corn laws in England.** *Adam Smith was a moral philosopher. Economics was invented in his name, later. The mathematics of economics was invented by mathematicians. They liked things like symmetry, beauty, equilibrium, clockwork. That was a long time ago. Shall we start again – reinvent Greek philosophy, Eastern philosophies, and calculus; reinvent statistical analysis; reinvent the rule of law – or shall we attempt to bring the real world and economic theory back into balance? (Rhetorical question; ask an ancient Greek. If you can find one.)*