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THE SECRET HISTORY OF US CURRENCY: HISTORICAL DOUBLE STANDARDS IN INTERNATIONAL RULES*

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As is customary during US presidential election seasons, the debate between free trade and protectionism rages in the coming election—this time in the guise of the debate on "outsourcing." As in the past, most US economists are taking the line that free trade is the "straight and narrow path" that we must all tread, despite the siren calls of the protectionist.

Interestingly, few of these economists seem to realize that the US is actually not the home of free trade it pretends to be. In the nineteenth century, when most US industries lagged behind their European counterparts, the country took the view that free trade was not in its national interest. This is clear from looking at American currency, which carries the pictures of politicians whose policies would have come under severe criticism from the World Bank and the WTO.

On the one dollar bill is the first President, George Washington. He opted to wear American clothes over higher quality British clothes to his inauguration ceremony—a potential violation of the proposed WTO rule on transparency in government procurement. On the rarely-seen two dollar bill we have Thomas Jefferson, who strongly argued against patents. He believed that ideas are "like air" and therefore should not be owned by anyone.

During the hundred-or-so years leading up to the Second World War, the US economy was the most heavily protected in the world. Indeed, Abraham Lincoln, a well known protectionist whose portrait appears on the five dollar bill, raised tariffs after the Civil War to the highest level set by the US before or since.

Alexander Hamilton, the first Secretary of the Treasury, appears on the ten dollar bill. Hamilton is the person who invented the so-called "infant industry" doctrine, which says that less developed countries need to protect their industries against competition from more developed countries.

While Benjamin Franklin, on the hundred dollar bill, did not support Hamilton's infant industry argument, he did insist that high protection is an effective measure against "social dumping" from the then lower-wage countries of Europe.

On the fifty dollar bill we have Ulysses Grant, the Civil-War-hero-turned-President. In defiance of British pressure on the US to adopt free trade, he remarked that "within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade."

That leaves Andrew Jackson on the twenty dollar bill. At first glance, Jackson, a well-known advocate of small government, may seem to fit in the current policy orthodoxy. However, he was not very successful at protecting property rights. After all, he evicted many Native Americans from their homelands. He was also hostile to foreign investors, quashing the country's first de facto central bank, the (second) Bank of the USA, partly on the ground that it was largely owned by foreign (mainly British) investors.

Thus, judging from US currency, the most revered politicians in US history seem to be precisely the ones who pursued policies the current development orthodoxy vehemently rejects.

However, Americans do not have a monopoly on double standards. At one time, virtually all of today's rich countries—from Britain down to Korea and Taiwan—used tariff protection and subsidies to spur their own industrial development. They also neglected to protect intellectual property rights, especially those of foreigners—Switzerland and the Netherlands did not have patent laws until the early twentieth century.

Once they became rich, these countries started demanding that poorer countries practice free trade and introduce "advanced" institutions such as firm patent laws. Friedrich List, the great nineteenth-century German economist, likened such demands to "kicking away the ladder" by which the rich countries climbed to the top, and thus denying the poorer countries the chance to develop.

After the Second World War, thanks to post-colonial guilt and Cold War politics, such "ladder-kicking" was at a low ebb. However, during last two decades, developing countries have been under enormous pressure to embrace free trade, open their capital markets, and institute "best practices" like patent law. The rich countries rarely acknowledge that by applying this pressure they are preaching exactly what they did *not* practice.

The result has been a marked slowdown in the growth of the developing countries. The growth of per capita income in the developing countries has been halved from 3% annually during the 1960-1980 period to 1.5% during the 1980-2000 period. In light of this, a radical re-thinking of today's development orthodoxy is warranted. In practical terms, this means re-writing the rules of international trade so that countries can adopt policies and institutions that are more suitable to their conditions. The record of the past twenty years suggests that this may give developing countries a better chance for growth and development.

* This article is based on the book *Kicking Away the Ladder—Development Strategy in Historical Perspective* (Anthem Press, 2002).