The Economics of the Revolution

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Economic growth and the Revolution

- Economic developments play a central role in fostering the Revolution.
  - Economic progress makes separation thinkable because the scale and diversity of the economy will make it possible to live outside the British Empire.
  - And, for many historians, economic progress caused tensions that led to the Revolution.

- Recall colonists have a higher GDP per capita than Britain and number a little more than 2.1 million people.

- However, technologically not as sophisticated or militarily capable and financial sector is extremely limited.
The costs of independence

• However, the costs of the Revolution –both direct and indirect– will be much higher than anticipated.

• The Revolutionary War lasts for over eight years (1775-1783), with around 150,000 deaths and 80,000 loyalists leaving the United States (approximately 3% of the population).

• High inflation and massive debt.

• Loss of international markets.

• Also, these costs will accentuate the disenchantment with the Articles of Confederation, eventually leading to the Constitutional Convention.
The economy at the eve of the Revolution
Economic elites at the eve of the Revolution

- Economic development leads to a self-conscious powerful elite.

- Many grievances are economic:
  - British economic policy in the 1760s and 70s inhibited economic growth and expansion into new activities.
  - Fueled fears that a sovereign Parliament would subvert American liberties and prosperity.
  - Reduced expenditures in the colonies and fewer subsidies for migration.
  - Britain subverts colonial attempts to counter a credit crisis by prohibiting the printing of colonial money.

- Economic success nurtures a vision of independence that was unthinkable 20 years earlier.
A new vision

- Increasingly the colonies lean toward a vision of an American empire under a republican government responsive to the American people.
  - Protect American commerce.
  - Encourage agriculture and industry.
  - Promote western settlement.
- Franklin, while spending 17 years in England prior to the Revolution, is arguably the first to think as an American.
  - Sees the colonies as potentially the biggest and most dynamic part of the Empire, and represents a region that will become the most populous and important part of that Empire.
  - He has little hope that Parliament will be that foresighted.
The growing costs of empire

- At the eve of Revolution, the Colonies had established trading relationships with other countries, some direct while others indirectly relying on re-export from Britain.

- As the scale of production increases, the mercantilist policies become more costly. A lot of money is thought to be on the table.

- Colonies are enjoying prosperity in agriculture, improved organizational skills, and the beginning of a manufacturing sector.

- Revolutionary thinkers extrapolate that unencumbered by mercantilism, they would grow even faster.

- But were the navigation acts really that burdensome at the time or was it the fear of new types of taxation that was the primary worry?
The cost of the Navigation Acts, I

- Douglas Irwin calculates that Navigation Acts cost around 2% of GDP and being part of the empire brought significant economic benefits.

- It is true that specie flowed to Britain because of the Acts, but the flow was not large, contrary to what is portrayed in most history books.

- Offsetting benefits included the protection of the Royal Navy and the large British market. Adding up costs and benefits yields a very small net cost.
  - If Navigation Acts were that costly, the growth seen in the 18th century would have been impossible.

- Disagreement and dissent centers not on this or that particular regulation or tax but on “who would determine the shape of things to come, on who would determine the future of the British Empire in America.” (McCusker and Menard, 1985)
The cost of the Navigation Acts, II

- There is, therefore, substantial evidence that the Acts in themselves were not enough to tip the balance.

- Colonists, such as New England shippers were aware of the value of belonging to a large trading area.

- The First Continental Congress approved of the navigation system in its resolutions, and Benjamin Franklin offered to have the Acts reenacted by every colonial legislature and to guarantee them for 100 years if Britain abandoned efforts to directly tax the American colonies.
The conflict

• While it is significant that those most economically affected by the navigation acts are among the strongest proponents of separation, it is unlikely that the cost was large enough to justify their actions.

• Let us trace out the forces that amplified colonial fear of British rule. Much of them are economic, and it is clear that the opinions surrounding these issues fundamentally differed between the two political entities with each thinking that their policies and responses to them were eminently justified.

• The major ground shaking change was direct taxation of goods and services, and the colonists viewed Parliamentary taxation as depriving them of both their property and liberty.

• Eventually, these constitutional differences would prove irreconcilable.
The British perspective

• The British interpret the colonial protests as an attempt to weaken the Navigation Acts and to shirk responsibility for paying their share of supporting the empire and funding military engagements.

  • Truth to both views, but the cost to each makes a lack of compromise puzzling. Things spin out of control.

• Parliamentary provisions go beyond taxation.

  • Lowered the tax on French West Indies molasses from 6 to 3 pence per gallon, but was strictly enforced. Also taxed sugar, certain wines, coffee and a few other goods.

  • Severely affected the rum industry (New England) and sharply reduced trade with the Azores, Canary Islands, and French West Indies.

  • Reduced sources of revenue by which colonies could purchase necessary British manufactured goods.
Radicalization, I

- Radicalizes Boston merchants, e.g., John Hancock.

  - New York Restraining Act — forbade the passing of any new bills unless they pay, provide housing, and food to British Troops. Never enacted as the colonial assembly acquiesced.
  - Revenue Act – taxed glass, lead, painters’ colors, and paper. Also gave the right to issue ‘writs of assistance’ allowing for search of private property for smuggled goods. Controversial because English law established the right to be secure in one’s private property.
  - Indemnity Act – Helped subsidize the British East India Company’s re-export of tea to the colonies driving out the profits of largely smuggled tea from elsewhere.
Radicalization, II

- Commissioners of Customs Act — Establish customs board located in the colonies to increase tax revenue and reduce smuggling. Disagreement eventually leads to the occupation of Boston and the so-called Boston Massacre, which I believe there is now some doubt on whether or at least to what extent it occurred.

- Vice Admiralty Court Act (1768) — Gave naval courts rather than colonial courts jurisdiction in matters involving customs duties and smuggling.

- With exception of Tea Act, repealed in 1770.

- Right to tax and regulate trade is called into question. There becomes increasing momentum for the idea that American commerce should be the province of republican government lodged in the colonial legislatures. These ideas are rooted in colonial economic success.
The Revolutionary War
The costs of the war, I

- The economic consequences of the Revolution are felt immediately.
- Trade collapses with British occupation of major cities: Boston, Newport, New York, and Philadelphia.
- Furthermore, Royal Navy denies Americans access to overseas markets and allows rapid deployment and resupply of British troops.
- Some recovery when the British withdraw from Boston (1776) and Philadelphia (1778) and France and Spain enter into the war.
- But tonnage through Philadelphia in 1780 is 1/3 the value of 1770 and New York is occupied until 1783.
- Also, Britain confiscates 30,000 slaves and levies stiff duties on tobacco leading to 20% lower production in 1784 than in 1774.
In Irons: Britain’s Naval Supremacy and the American Revolutionary Economy

Richard Buel Jr.
The costs of the war, II

- Between 1774-81 economy declines by 15% or more.

- As we will see later, declines continues throughout the 1780s representing perhaps the largest economic decline in our history.

- Continental Congress is forced to issue debt and large quantities of paper money (also, the British undertake a covert program of counterfeiting the Continental dollar).

- By 1781 the exchange rate was $225 in paper money for $1 of hard specie.

- As a last resort, Congress authorized the army to confiscate property and some states organized conventions for the purpose of establishing wage and price controls.

- Particular importance of the Declaration of Independence in terms of borrowing.
Fifty-five Dollars.

THE Bearer is entitled to receive Fifty-five Spanish Milled Dollars, or an equal Sum in Gold or Silver, according to a Resolution of Congress of the 14th January, 1779.

55 Dollars.
Imperial trade

- Loss of privileged access to Empire is not offset.
- After War, British Government bans American ships in British West Indies and imposes duties on certain goods.
- The 5mil pound trade deficit with British over 1784-86 can no longer be made up with trade to British West Indies.
- Loss of 1.3mil pounds of specie leads to deflation of 12% in 1783.
- This loss of trade also has serious impact on the British West Indies, with widespread food shortages.
- “The Revolution has robbed us of our trade with the West Indies, the only one which yielded us a favorable balance without opening any other channels to compensate for it...In every point of view the trade of this country is in a deplorable condition.” Madison.
From independence to the Constitution
The recovery from the War

- The recovery of economic activity from the War is painfully slow:
  - McCusker and Menard estimate that GDP per capita declines by 46% in 1790 compared to 1774. In comparison, the decline during the Great Depression was 48%.
  - More recently, Lindert and Williamson document a decline in income between 15% and 20% between 1774 and 1800. Since income grew in the 1790s (e.g., 1% a year), the decline between 1774 and 1790 following Lindert and Williamson must have been around 36%
  - Wealth per capita is 15% lower in 1805 compared to 1774.
  - Exports 25% lower in 1791 compared to 1768–72. The South is hit the hardest.

- However, we need to be a bit skeptical about the size of the economic decline:
  - It is hard to find the type of agonizing accounts of poverty that are plentiful with respect to the Great Depression.
  - Some authors, such as Middlekauff, defend that recovery was rapid though uneven.
Regional heterogeneity

- The mid-Atlantic states appear to have recovered the most quickly, substituting a growing local market for the loss of some foreign markets.
  - Also increased the degree of manufacturing, some of which is shipped to the south.

- New England’s recovery was somewhat slower. It could not replace the demand for cod, whale oil, or shipping that took place with the British West Indies. By 1786 cod fishing still only 80% of its pre-War level. Some activity re-directed to trade with the South.
  - French West Indies, Portugal, and Spain provide to some degree substitute markets.

- Southern states recovered slowly. Lost the rice bounty supplied by Great Britain and indigo production fell. Carolina planters struggled.
The bright spots of international trade

- Overseas trade regained life with remarkable ease. Other countries welcomed American ships, and although the British West Indies were excluded, Great Britain itself accepts American ships on the same footing as they did from her colonies.

- Virginia’s Planters could sell tobacco directly to Europe (addictive good) and they did. Tobacco sales were lower in the 1780s than before the war, but full recovery was not far off.

- Prices for tobacco and wheat remained high in the 1780s.
Chapter 7: Hard Realities for a New Nation

Table 7.1 shows that by 1790, the United States had taken advantage of its new freedom to trade directly with northern European countries. Most of this trade was in tobacco to France and the Netherlands, but rice, wheat, flour, and maize (Indian corn) were also shipped there in large amounts. Despite the emergence of this new trade pattern, the lion’s share of American exports continued to be sent to Great Britain, including items that were then reexported to the Continent. Many have speculated on the reasons for this renewal of American–British ties. Part of the explanation may be that Britain offered the greatest variety of goods at the best price and quality, especially woolens, linens, and hardware. Moreover, British merchants enjoyed the advantages of a common language, established contacts, and their knowledge of U.S. markets. Because American imports were handled by British merchants, it was often advantageous to use British ports as dropping-off points for U.S. exports, even those destined for the Continent.

At the same time, new patterns of trade were emerging in the Caribbean. Before the Revolution, trade with the British West Indies had been greater than trade with the foreign islands, but by 1790 the situation was reversed, largely due to the exclusion of American shipping from the British islands. Undoubtedly, many American ships illegally traversed British Caribbean waters, and Dutch St. Eustatius remained an entrepôt from which British islands were supplied as they had been during the war. Consequently, the statistics in Table 7.1 exaggerate this shift. Nevertheless, it would appear that U.S. trade with non-British areas of the Caribbean grew substantially during these years. This trend had been under way before the Revolution, but postwar restrictions on American shipping undoubtedly hastened it.

Lastly, it is worth noting that no new trades to romantic, faraway places emerged in any significant way during this period of transition. The changes in trade patterns were actually rather modest.

As trade patterns changed, so did the relative importance of the many goods traded. For instance, the most valuable export by the early 1790s was no longer tobacco, but bread and table 7.1 Average Annual Real Exports to Overseas Areas from the 13 Colonies, 1768–1772, and the United States, 1790–1792 (In Thousands of Pounds Sterling, 1768–1772 Prices)

<table>
<thead>
<tr>
<th>DESTINATION</th>
<th>1768–1772</th>
<th>PERCENTAGE OF TOTAL</th>
<th>1790–1792</th>
<th>PERCENTAGE OF TOTAL</th>
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</thead>
<tbody>
<tr>
<td>Great Britain and Ireland</td>
<td>1,616</td>
<td>58</td>
<td>1,234</td>
<td>31</td>
</tr>
<tr>
<td>Northern Europe</td>
<td>—</td>
<td>—</td>
<td>643</td>
<td>16</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>406</td>
<td>14</td>
<td>557</td>
<td>14</td>
</tr>
<tr>
<td>British West Indies</td>
<td>759</td>
<td>27</td>
<td>402</td>
<td>10</td>
</tr>
<tr>
<td>Foreign West Indies</td>
<td>—</td>
<td>—</td>
<td>956</td>
<td>24</td>
</tr>
<tr>
<td>Africa</td>
<td>21</td>
<td>1</td>
<td>42</td>
<td>1</td>
</tr>
<tr>
<td>Canadian Colonies</td>
<td>—</td>
<td>—</td>
<td>60</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>—</td>
<td>59</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>2,802</td>
<td>100%</td>
<td>3,953</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: —, not applicable.

Source: Adapted from Shepherd and Walton 1976.
flour. Tobacco production grew slowly, but rising tobacco prices aided the recovery of the tobacco-producing areas of Virginia and Maryland. Other important southern staples, such as pitch, tar, rice, and indigo, fell both in value and in quantities produced. The decline of indigo was aggravated by the loss of bounties and by increased British production of indigo in the West Indies after the war. The most striking change of the period, however, was the increase in the export of foodstuffs such as salted meats (beef and pork), bread and flour, maize, and wheat. Of course, this increase accompanied the relative rise of the trades to the West Indies. Because the uptrend in food shipments to the West Indies was under way before the Revolution, not all of these shifts in commodities can be attributed solely to independence.

Because of these changing patterns and magnitudes of trade, some states improved their economic well-being, while others lost ground. Table 7.2 shows exports per capita for each state during this period, after adjusting for inflationary effects. Compared with prewar levels, New England had returned to about the same per capita position by the early 1790s. The Middle Atlantic region showed improvement despite the depression felt so sharply in Pennsylvania in the mid-1780s. As indicated in Table 7.2, the trade of the southern regions did not keep pace with a growing population. Although the South's prewar absolute level of exports had been regained by the early 1790s, its per capita exports were significantly below those in colonial times, with the Lower South most severely affected. Once again, however,

<table>
<thead>
<tr>
<th>ORIGIN</th>
<th>1768–1772</th>
<th>1791–1792</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL</td>
<td>PERCENTAGE</td>
</tr>
<tr>
<td></td>
<td>EXPORTS</td>
<td>OF TOTAL</td>
</tr>
<tr>
<td>New England</td>
<td>477</td>
<td>17</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>46</td>
<td>2</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>258</td>
<td>9</td>
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<td>Rhode Island</td>
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<td>3</td>
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<td>Connecticut</td>
<td>92</td>
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<td>Middle Atlantic</td>
<td>560</td>
<td>20</td>
</tr>
<tr>
<td>New York</td>
<td>187</td>
<td>7</td>
</tr>
<tr>
<td>New Jersey</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>353</td>
<td>13</td>
</tr>
<tr>
<td>Delaware</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>Upper South</td>
<td>1,162</td>
<td>41</td>
</tr>
<tr>
<td>Maryland</td>
<td>392</td>
<td>14</td>
</tr>
<tr>
<td>Virginia</td>
<td>770</td>
<td>27</td>
</tr>
<tr>
<td>Lower South</td>
<td>604</td>
<td>22</td>
</tr>
<tr>
<td>North Carolina</td>
<td>75</td>
<td>3</td>
</tr>
<tr>
<td>South Carolina</td>
<td>455</td>
<td>16</td>
</tr>
<tr>
<td>Georgia</td>
<td>74</td>
<td>3</td>
</tr>
<tr>
<td>Total, all</td>
<td>2,803</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Adapted from Shepherd and Walton 1976.
Figure 7.1: Per Capita Credits in the U.S. Balance of Payments, 1790–1815

drafted into the British Royal Navy. The Congress and President Thomas Jefferson, fearful of entangling the United States in war, declared the Embargo Act of 1807, which prohibited U.S. ships from trading with all foreign ports. Basically, this attempt to gain respect for American neutrality backfired, and as the drastic declines in Figures 7.1 through 7.3 convey, the cure was almost worse than the disease. As pressures in the port cities mounted, political action led to the Non-Importation Act. 

• Experience deflation as specie flowed out of the country, and the public debt could not be paid by the national government. These features lead to high uncertainty.

• There are serious doubts concerning the viability of the political experiment. It will lead to the Convention.

• Congress cannot raise money from the states and cannot pay the debt. In 1787 it set aside all requirements in favor of having the states to pay their debts in any way they chose.

• Seven states resort to printing money (common goods problems).
The colonies had a system of “corporate” representation in the colonial legislatures: a town, parish, or county was the basis of representation.

In none of the 13 colonial legislatures was representation apportioned based on population.

Situation grows worse as colonies expand into interior. Also an English Royal Proclamation in 1765 forbade the colonial legislatures from reapportioning representation.

Tensions clearly seen in Pennsylvania and South Carolina.
• May 10 Resolutions of 1776: the Second Continental Congress asks each colony to create new governing structures by writing their first sovereign constitutions.

• Massachusetts, New Hampshire, New York, and Pennsylvania pick a proportional-apportionment system based on population and regularly-scheduled reapportionment.

• Why? States with fewer workers and less profitable cash-crops.

• The remaining nine states continued with a corporate basis of representation.

• Long-run consequences: education investment.
The problems of the Confederation

- Articles of Confederation are a hindrance.

- Article 2: “Each state retains its sovereignty, freedom, and independence, and every power, jurisdiction, and right, which is not by this Confederation expressly delegated to the United States, in Congress assembled.”

- And control of trade policy was not delegated to Congress: “no treaty of commerce shall be made whereby the legislative power of the respected States shall be restrained from imposing such imposts and duties on foreigners as their own people are subjected to, or from prohibiting the exportation or importation of any species of goods or commodities whatsoever.”

- Great Britain uninterested in a trade deal as it commanded a strategic advantage. Congress could not regulate trade and hence could not retaliate against British trade policies.
WE HAVE NOT A GOVERNMENT

THE ARTICLES OF CONFEDERATION AND THE ROAD TO THE CONSTITUTION
Consequences

- For example, when Massachusetts prohibits British ships from loading cargo in its ports, British switch to New Haven.

- British magazine calls them 13 Dis-united States.

- Collective action problem with no obvious solution.

- Mercantilism is entrenched and the U.S. is demanding an end to mercantilism and special considerations that no country has granted to any other.

- There was not much interest among the French or other European countries to enact trade deals.

- “the vesting of Congress with the power of regulating trade ought to have been a principal object of the Confederation for a variety or reasons.” “…it is necessary for the purpose of commerce and revenue.” Alexander Hamilton.
The call for a new Constitution

• “If it be necessary to regulate trade at all, it surely is necessary to lodge the power, where trade can be regulated with effect…” James Madison

• The Revolutionary War causes the accumulation of large debts to France and the Dutch Republic.
  • Without a reliable revenue stream, Congress can not borrow nor fund an army to deal with British occupation of western forts.
  • “the present system neither has nor deserves advocates…” James Madison

• Congress requests amending the Articles to levy a 5% import duty with the proceeds used to pay interest and principle on the debt. But Rhode Island and New York reject – so cannot obtain unanimous consent.
  • States severely in arrears on payments to Congress.
  • Economic woes, much surrounding trade, strongly influence the move toward a Constitutional Convention. “Most of our political evils may be traced to commercial ones.” James Madison writing to Thomas Jefferson.
Shays’ rebellion

- The situation is particularly critical in Massachusetts.
- The state did not pass pro-debtor laws (such as forgiveness of debt), there are no large printings of money that inflate away those debts, and taxes are comparatively high.
- Western Massachusetts farmers who cannot pay their debt are having their lands seized.
- A revolt ensues between August 29, 1786, and June 1787. Under the leadership of Daniel Shays, courts are closed and debtors released from prison.
- It does not take much on Massachusetts’s part to end the rebellion, but it does underline the ineffectiveness of the current political arrangement.
- The rebellion deeply worries many of the political leaders at the time, and it is a significant force convincing many of the desirability of a constitutional convention.