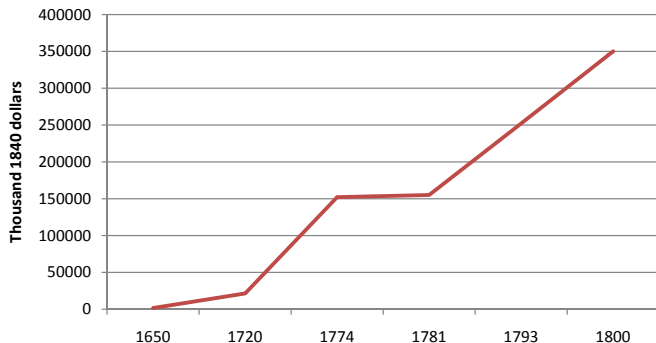
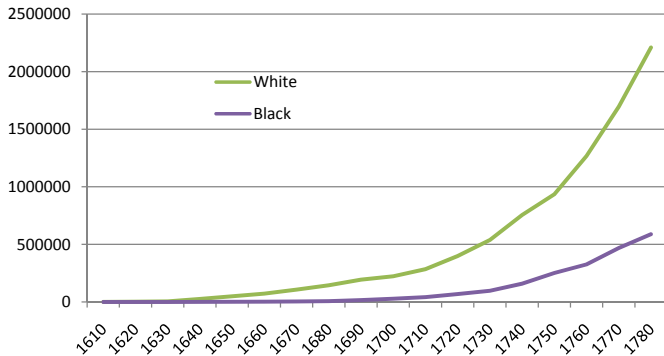


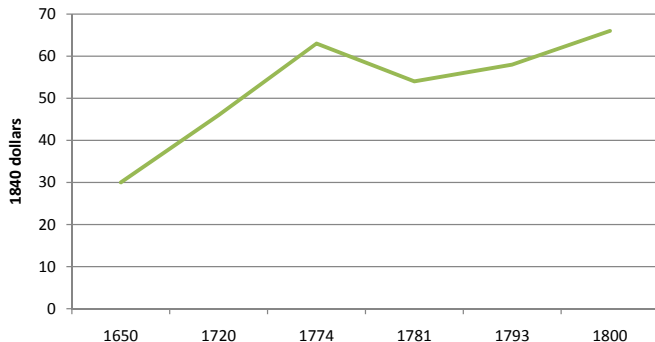
Growth of the Colonial Economy - GDP



Growth of the Colonial Economy - Population



Growth of the Colonial Economy - GDP per capita



Why Settle America?

- Early exploration of the Americas had a lot to do with *mercantilism*
- An oversimplification: countries assumed greater military and political power came from greater stocks of gold and silver
- The Spanish had success in finding places with gold and silver that could be mined
- Other countries had to rely on trade to build up stocks of silver and gold
- This led countries to seek out colonies that had different resources from the mother country and to set up extractive institutions

Mercantilism and Role of Colonies

Philipp Wilhelm von Hornick, *Austria Over All, If She Only Will*, 1684 (quoted in Robert Ekelund Jr. and Robert Hebert, *A History of Economic Theory and Method*, Waveland Press, 1997):

- That every inch of a country's soil be utilized for agriculture, mining or manufacturing
- That all raw materials found in a country be used in domestic manufacture, since finished goods have a higher value than raw materials
- That a large, working population be encouraged
- That all export of gold and silver be prohibited and all domestic money be kept in circulation
- That all imports of foreign goods be discouraged as much as possible

Mercantilism and Role of Colonies

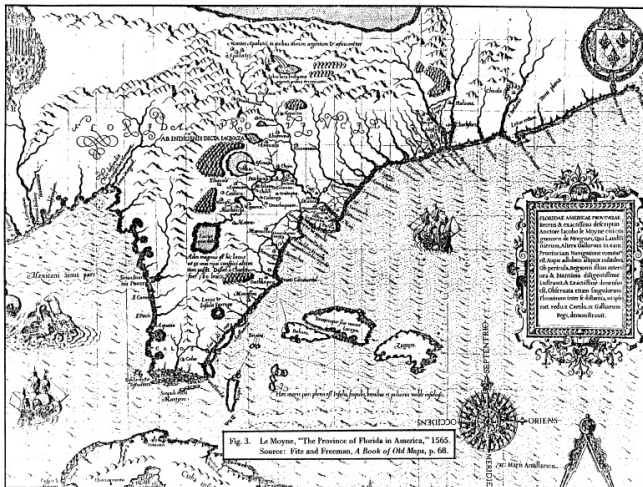
Philipp Wilhelm von Hornick, *Austria Over All, If She Only Will*, 1684 (quoted in Robert Ekelund Jr. and Robert Hebert, *A History of Economic Theory and Method*, Waveland Press, 1997):

- That where certain imports are indispensable they be obtained at first hand, in exchange for other domestic goods instead of gold and silver
- That as much as possible, imports be confined to raw materials that can be finished [in the home country]
- That opportunities be constantly sought for selling a country's surplus manufactures to foreigners, so far as necessary, for gold and silver
- That no importation be allowed if such goods are sufficiently and suitably supplied at home

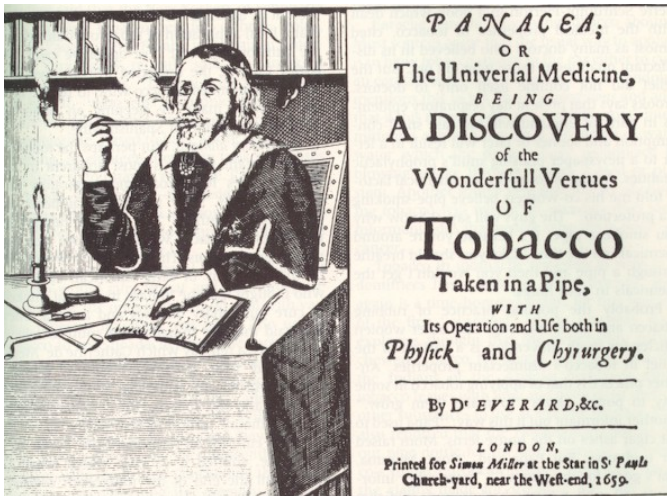
Why Settle America if You're British?

- The colonies in the mid-Atlantic didn't yield gold or silver
- Initially, British businessmen thought the southern colonies might be good for silk and winemaking
- That didn't really pan out, but tobacco did
- The northern colonies were about subsistence agriculture and port services

Why Settle America if You're British?



Why Settle America if You're British?



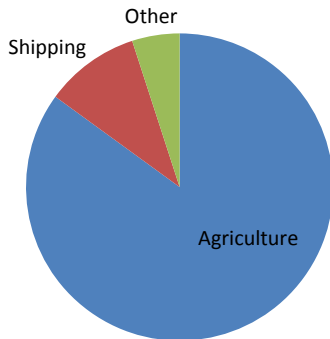
Mercantilist Policy and the Colonial Economy

- Although the colonies didn't have gold and silver, the colonial economy was very much shaped by mercantilist policy
- Colonies were supposed to provide England with commodities unavailable in England and to serve as a captive market for English finished products
- Colonies weren't supposed to compete with the mother country: you sell your resources to England, not to other countries, and you buy your finished goods from England, not from other countries

Mercantilist Policy and the Colonial Economy

- These mercantilist policies had very different effects on the southern and northern colonies
- Southern colonies had land that could be used for tobacco
- Britain provided a growing market for tobacco, supply of tobacco rose dramatically during the entire colonial period
- Northern farmland wasn't all that good so as population grew, the marginal product of labor dropped
- Mercantilist policy didn't leave many manufacturing jobs for these farmers to switch to
- The one big industry the north did have was shipping (they had timber and lots of things needed to be shipped)

Colonial Workforce by Sector



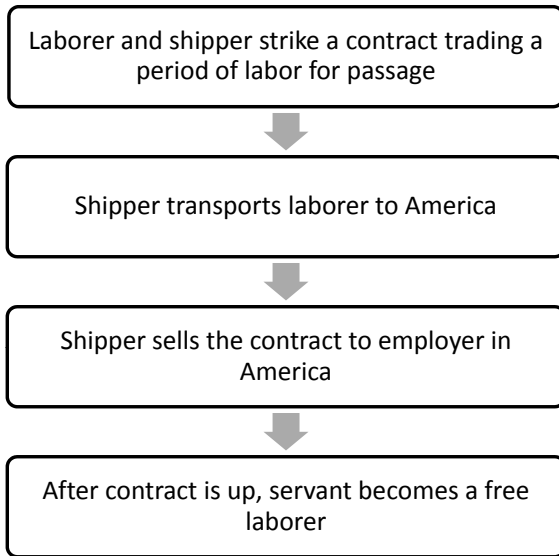
The Colonial Economy

- So the colonial economy was dominated by agriculture
- The good news: there was plenty of land to farm
- The bad news: to farm all that new land, the colonies needed more people
- More good news: wages were good in the colonies relative to Britain so people wanted to work in the colonies
- More bad news: travel from England to the colonies was extremely costly (almost equal to a German migrant's annual salary)
- Solution: indentured servitude

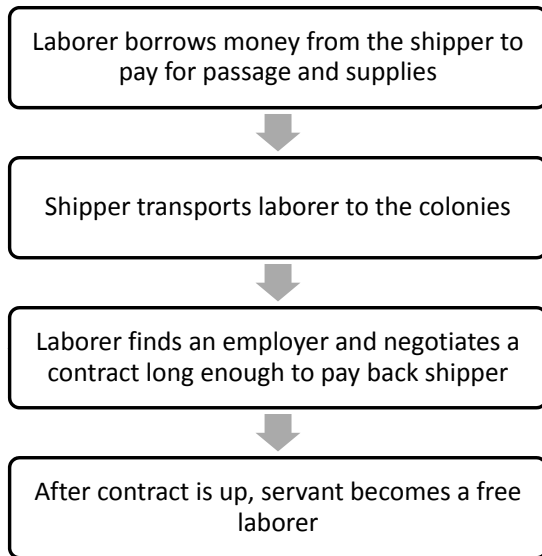
Credit Constraints and Indentured Servitude

- The cost of passage to America was £5 to £10, an amount greater than average annual income at the time
- To put that in perspective, think about college tuition:
 - Average tuition and fees at private four-year nonprofit colleges is \$28,500
 - Average income for a 18 to 24 years old high school graduate is \$26,218 for men, \$22,814 for women
 - If there were no student loans, how would people pay for college?

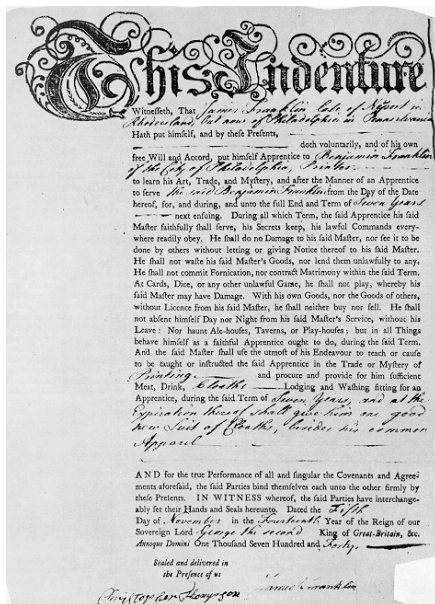
How Indentured Servitude Works - Standard



How Indentured Servitude Works - Redemptioners



How Indentured Servitude Works



How Indentured Servitude Works

This indentured...between [Alexander Beard]...of the one part, and [John Dickey]...of the other part, witnesseth, that the said [Alexander Beard] doth hereby covenant, promise and grant, to ...[John Dickey]...and his assigns, from the day of the date hereof until the first and next arrival at [Philadelphia] in America...and during the term of [three] years to serve in such service and employment as the said [John Dickey] or [his] assigns shall there employ [him]...In consideration whereof the said [John Dickey] doth grant...to pay for [his] passage, and to find allow [him] meat, drink, apparel and lodging, with other necessities, during the said term; and at the end of the said term to pay unto him the usual allowance, according to the custom of the country in the like kind...

Other Things in Short Supply

- A lack of workers wasn't the only complaint, the supply of money was also an issue
- People complained of shortages of specie and other forms of currency (complaints often came when taxes were due)
- Paper currency had issues with depreciation (partly due to the lack of specie)
- In general, colonial money was a mixture of several types of money, each with its own set of problems

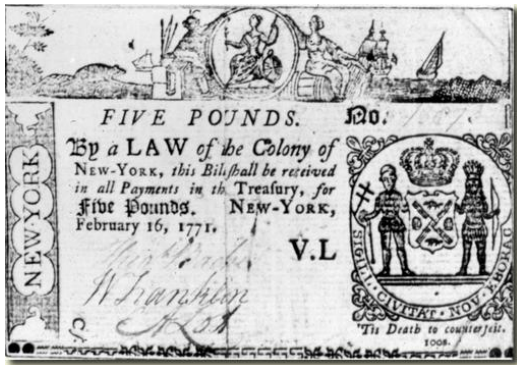
Colonial Money Supply



Spanish silver dollar

http://en.wikipedia.org/wiki/File:Philip_V_Coin.jpg

Colonial Money Supply



Colonial currency, New York Colony, 1771

<http://iarchives.nysed.gov/PubImageWeb/viewImageData.jsp?id=137>

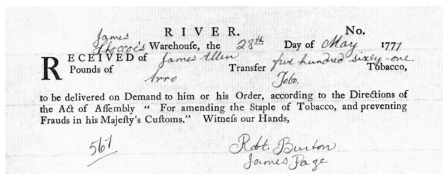
Colonial Money Supply



Colonial currency, Virginia, 1776

<http://www.history.org/history/teaching/enewsletter/volume3/images/fiveDollarsLg.jpg>

Colonial Money Supply



Virginia tobacco note, 1777

<http://www.history.org/history/teaching/newsletter/volume3/images/cropLg.jpg>

Colonial Money Supply

Wheat Prices in Massachusetts: 1720-49

Year	Massachusetts	Silver- Equivalence
	Shillings	Units
1720	7.00	3.98
1725	8.73	3.93
1730	10.75	3.76
1735	13.25	3.38
1740	13.00	
1745	17.92	3.49
1749	50.25	5.85

Colonial Money Supply

Massachusetts Exchange Rates: 1720-49

Year	Mass. £ per £100 British	
	Sterling	% Depreciation
1720	£ 219.43	--
1725	289.11	31.8%
1730	337.71	16.8
1735	360.00	6.6
1740	525.00	45.8
1744	588.61	12.1
1745	644.79	9.5
1746	642.50	-0.4
1747	925.00	44
1748	912.00	-1.4
1749	1033.33	13.2