Growth of the Colonial Economy - GDP

![GDP Growth Graph]

- Thousand 1840 dollars
- 1650, 1720, 1774, 1781, 1793, 1800

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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

- 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


- 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
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?

Fig. 3. Le Moyne, “The Province of Florida in America,” 1565. Source: Site and Freeman, A Book of Old Maps, p. 63.
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.
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

- Agriculture
- Shipping
- Other
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
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

1. Laborer and shipper strike a contract trading a period of labor for passage.
2. Shipper transports laborer to America.
3. Shipper sells the contract to employer in America.
4. After contract is up, servant becomes a free laborer.
Laborer borrows money from the shipper to pay for passage and supplies

Shipper transports laborer to the colonies

Laborer finds an employer and negotiates a contract long enough to pay back shipper

After contract is up, servant becomes a free laborer
This Indenture

Whereas, That,

The said [name], desirous of acquiring knowledge and skills in the trade of [trade], and after the manner of an Apprentice to [name], agrees voluntarily, and of his own free Will and Accord, to put himself Apprentice to

[Name of Apprentice],

Of the City of [City], To learn the Art, Trade, and Mystery, and after the Manner of an Apprentice to serve the said [Name], from the Day of the Day hereof, for, and during, and unto the full End and Term of these presents,

Next ensuing. During all which Term, the said Apprentice his said Master faithfully shall serve, his Secrets keep, his lawful Commands everywhere readily obey. He shall do no Damage to his said Master, nor see it to be done by others without letting or giving Notice thereof to his said Master. He shall not waste his said Master's Goods, nor lend them unlawfully to any. He shall not commit Fornication, nor contract Maimery within the said Term. At Cards, Dice, or any other unlawful Game, he shall not play, whereby his said Master may have Damage. With his own Goods, nor the Goods of others, without Licence from his said Master, he shall neither buy nor sell. He shall not absent himself Day or Night from his said Master's Service, without his Leave: Nor haunt Ale-houses, Taverns, or Play-houses; but in all Things behave himself as a faithful Apprentice ought to do, during the said Term. And the said Master shall use the utmost of his Endeavour to teach or cause to be taught or instructed the said Apprentice in the Trade or Mystery of

[Trade], and procure and provide for him sufficient Meat, Drink, Lodging and Washing fitting for an Apprentice, during the said Term of [Number] Years, and at the Expiration thereof shall give him a good New Suit of Raiment, besides his Common Apparel.

AND for the true Performance of all and singular the Covenants and Agreements aforesaid, the said Parties bind themselves each unto the other firmly by these Presents. IN WITNESS whereof, the said Parties have interchangedly set their Hands and Seals hereunto. Dated the [Date] Day of [Month] in the [Year] Year of the Reign of our Sovereign Lord [Name], King of Great-Britain, &c.

[Name of Master]

Sealed and delivered in the Presence of us:

[Names of Witnesses]
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 necessaries, 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...
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
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/enewsletter/volume3/images/cropLg.jpg
### Wheat Prices in Massachusetts: 1720-49

<table>
<thead>
<tr>
<th>Year</th>
<th>Massachusetts</th>
<th>Silver-Equivalence</th>
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<tr>
<td>1720</td>
<td>7.00</td>
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<tr>
<td>1725</td>
<td>8.73</td>
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<td>13.25</td>
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<tr>
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<tr>
<td>1745</td>
<td>17.92</td>
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<td>1749</td>
<td>50.25</td>
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## Colonial Money Supply

### Massachusetts Exchange Rates: 1720-49

<table>
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<tr>
<th>Year</th>
<th>Mass. £ per £100 British Sterling</th>
<th>% Depreciation</th>
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<tbody>
<tr>
<td>1720</td>
<td>£ 219.43</td>
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<tr>
<td>1725</td>
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