

Economics and Independence

IN CONGRESS, JULY 4, 1776.

The unanimous Declaration of the thirteen united States of America.

[illegible][illegible]

“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness....”

“For cutting off our Trade with all parts of the world”

“For imposing Taxes on us without our Consent”

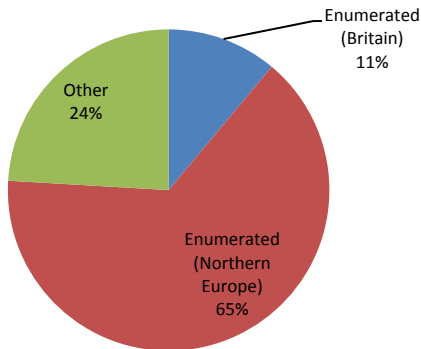
Quantifying the Costs of the Navigation Acts

Thomas splits up the problem into several pieces:

- ① the effects of regulations on exports of colonial products
- ② the effects of regulations on imports into the colonies
- ③ colonial foreign commerce
- ④ colonial shipping earnings
- ⑤ the compensating benefits of being in the British Empire

The Effects on Exports of Colonial Products

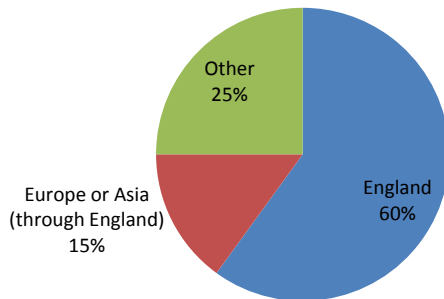
Colonial Exports, 1770



The Effects on Exports of Colonial Products

- The added transportation costs on enumerated goods lowered the price received by the colonies and the quantities sold
- How large these effects were depended on the supply and demand elasticities
- Tobacco as an example:
 - Thomas estimates that the colonial price would have been 34 percent higher under independence
 - He assumes that supply would have increased by one percent for every percent increase in price
 - These estimates put the lost surplus of tobacco growers around 64,000 pounds for 1770
- Thomas also calculates the benefits from bounties and preferential duties

Sources of Colonial Goods



The Effects on Imports

- Same approach as exports, you need to estimate supply and demand elasticities
- Tea and pepper were the two main imports in determining the size of the burden
- Thomas finds that the prices for these goods would have been 16 percent lower under independence

Estimating the Value of Military Protection

- One of the biggest benefits of the British Empire was military protection
- Thomas figured that the colonies would have needed to maintain a standing army of 5,000 men
- To estimate the value of naval protection, Thomas looks at the rise in shipping insurance rates
- Insurance rates were around 3.5 to 7 percent when protected by the British navy and rose as high as 28 percent without those protections

The Costs and Benefits of Empire Membership

Summary of Costs and Burdens (Thomas, 1965)

	1763-1772	1770
Burden on foreign commerce	\$2,255,000	\$2,660,000
Burden per capita	\$1.20	\$1.24
Benefit of British protection	\$1,775,000	\$1,755,000
Benefit per capita	\$0.94	\$0.82
Balance	(\$0.26)	(\$0.42)

Colonial per capita income at the time was roughly \$100.

A Critique of Thomas's Results

- By Thomas's numbers, economics didn't spark the revolution, maybe it was all about life, liberty and the pursuit of happiness
- This countered the belief for decades that economics was an important part of the reasons for revolution and became generally accepted
- Decades later, another economist came along to question Thomas's results
- Larry Sawers published a paper in 1992 challenging Thomas's methodology and results

Sawer's Critique

- Sawers finds several problems with the approach that Thomas took and the interpretations he made
- He believes Thomas was using the wrong counterfactual
- He also believes Thomas was focusing on the wrong numbers
- Sawers conclusions are that the economic burden was an important motivation for independence

What is the Right Counterfactual?

- Thomas was estimating things right around the time of the revolution
- But if you're thinking revolution, you're thinking about the long run
- Manufacturing was becoming more important, protection from the French less important
- The empire was designed to protect against foreign competition but promote competition within the empire, as the colonies grew this became less and less beneficial

What is the Right Way to Measure the Burden?

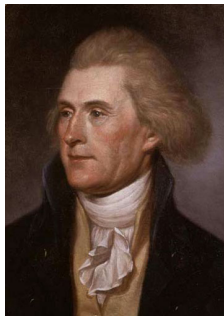
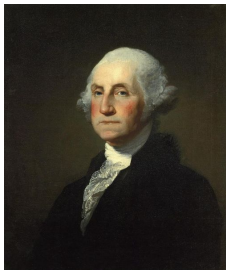
- Thomas calculates the economic burden per person
- In these terms, the burden was indeed quite small
- But the benefits and costs were not equally shared
- The leaders of the revolution had more to gain economically than other groups of colonial society

The Distribution of the Burden



John Hancock – merchant involved in Atlantic trade

The Distribution of the Burden



George Washington, Thomas Jefferson – tobacco planters

The Distribution of the Burden

The Founding Fathers by Occupation and Region

Occupation	New England	Middle	South
Merchant	37%	18%	5%
Lawyer	42	55	38
Politician	11	3	14
Minister	0	3	5
Physician	10	3	8
Farmer-Planter	0	12	30
Landowner	0	6	0

From "The Founding Fathers of 1776 and 1787: A Collective View" by Richard Brown, William and Mary Quarterly, Vol. 33, No. 3, 1976

The Distribution of the Burden

Distribution of prior occupations for senators in the
111th Congress

Occupation	% reporting occupation
Law	54
Public service / politics	32
Business	26
Education	16
Real estate	6
Journalism	5
Agriculture	5
Medicine / doctor	3
Labor / blue collar	2
Artistic / creative	2
Military	1
Professional sports	1
Homemaker / domestic	1
Actor / entertainment	1
Miscellaneous	1

Economics and Independence

- Being part of the British Empire had a variety of economic advantages and disadvantages
- As the colonies grew, many of the benefits declined while the costs grew
- Thomas's analysis suggests that at the time of independence, the costs of empire membership were very small, concluding economics weren't a major factor
- Sawers disagrees, arguing that the costs were getting more and more significant and that the planters and merchants stood to gain a great deal from independence
- Sawers does not claim that economics was the only force driving revolution, but maintains that it was important


Economics and Independence

- There is one more point of contention in this debate
- Regardless of the costs and benefits, did people care?
- Where are all of the fiery speeches about economic burden?
- Why are there just a couple of economic grievances buried in the middle of the Declaration of Independence?

Economics and Independence

Attention Taxpayers,

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Right now local governments in California can spend public money or incur public debt to take over private electric businesses without letting local voters have the final say. That's why California needs Prop. 16. In tough economic times like these, voters deserve the right to have the final say about how our money is spent. **Learn more about Prop 16 and join us to stand up for the Taxpayers Right to Vote - Yes on Prop 16.**

Do you think voters deserve the right to have the final say on how our money is spent?

☐ YES, I AGREE ☐ NO, I DISAGREE

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Image from <http://www.postcarbon.org/article/102372-an-even-bigger-spill-looming/13916-government>

Timeline of Independence

- 1774 - First Continental Congress
- 1775 - Second Continental Congress
- 1776 - Articles of Confederation are drafted, Declaration of Independence
- 1778 - 8 of 13 states ratify the Articles of Confederation
- 1781 - Surrender at Yorktown, final states ratify Articles of Confederation
- 1783 - Treaty of Paris
- 1787 - Constitutional Convention

The Revolutionary War

- Eventually revolution happened
- Declaring independence raised issues of how the new national economy would be structured
- These were fairly pressing issues considering that there was a war to fight
- The Continental Congress had limited options: it could (and had to) spend money on the military but couldn't easily raise revenue

How Can a Country Raise Money?

Ways to Raise National Revenue

Revenue Source	Problems
Taxation	Difficult to set up quickly, need consent of individual colonies
Borrowing	Hard to borrow without something to borrow against (future tax revenue)
Printing Money	Not really a long run solution

Congress's Solution: The Continental Dollar



Continental Dollar Emissions (1775-1779)

Year of Emission	Nominal Dollars
	Emitted
1775	\$6,000,000
1776	19,000,000
1777	13,000,000
1778	63,000,000
1779	140,500,000

What Happened When Congress Printed Money

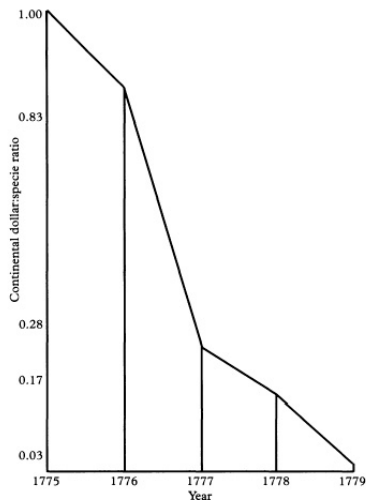


Figure 1. *Average annual specie value of continental dollar, 1775-1779*

Note: The period covered is from the initial issue of currency to the year in which the Continental Congress first resolved to end issues as a source of revenue. Ratio on 22 June 1775 = 1.00

Source: Bullock, 'Finances', p. 135

Financing the War

- Printing money worked at first to fund the military
- However, the currency quickly began to depreciate for a couple of reasons:
 - The individual colonies were issuing their own money that competed for the same resources
 - The British were actively attempting to devalue the Continental dollar
 - People lost faith that the government could back up the Continental dollar
- Ultimately, this was a fairly poor approach to a national monetary policy