

OVERVIEW

Hypothesis: The Bank of North America increased the state capacity of the early United States government.

Background:

- ▶ BoNA was the first fractional-reserve bank in NA.
- ▶ Provided much-needed financing for the Revolution.
- ▶ Lent \$1.3M in 1782-1783. Covered roughly 20% of G.

Why care?

- ▶ Supports view that war motivated early modern Europeans to build state capacity via liberal reforms.
- ▶ Suggests a state-capacity motive for central banking. Similar to the story of the Bank of England in the UK.

STATE CAPACITY

Johnson & Koyama (2017): “the ability of a state to collect taxes, enforce law and order, and provide public goods.”

1. Legal capacity: “to enforce its rules across the entirety of the territory it claims to rule”
2. **Fiscal capacity**: “to garner enough tax revenues from the economy to implement its policies.”

Tax revenue *per capita* is used as a proxy for fiscal capacity.

Stylized fact: When constrained, high-capacity states promote civil stability and long-run economic growth.

REVOLUTIONARY WAR, 1775 – 1783

British Empire vs. United States (alliance of 13 colonies)

UK was the prototypical high-capacity state.

- ▶ Combined an efficient bureaucracy with an extreme capability to mobilize resources. (See Brewer 1988)
- ▶ Sydney Fisher hypothesis: UK was not seriously fighting b/c of a desire for reconciliation with colonists.

The US was a low-capacity state. Congress...

- ▶ Was prohibited from taxing, regulating trade, etc.
- ▶ Requested funds from states, but were largely unmet.
- ▶ Could print money, which soon became worthless.

“NOT WORTH A CONTINENTAL”

TABLE: Net Issuance of US Fiat Currency

Year	Par (\$ mil.)	Specie Value (mil.)
1775	6.00	6.00
1776	19.00	15.33
1777	13.00	4.04
1778	63.50	10.38
1779	130.05	5.27
	241.5	41.02

- ▶ By 1780, continentals had depreciated by over 98%.
- ▶ Congress was close to the limit of inflationary finance.

BANK OF NORTH AMERICA

Chartered 1781 by Congress. Opened 1782 in Philadelphia.

Plan was devised by Hamilton after the UK's BoE.

- ▶ Made private loans and \$1.3M in government loans.
- ▶ Financed by private capital + banknotes (monopoly).
- ▶ Largest corp. in US. Averaged 8% annual dividends.

government monopoly + cheap loans = indirect tax

- ▶ Public finance would have prescribed a direct tax...
- ▶ But US had insufficient state capacity. Second best?

Hamilton these loans called “essential” to the war effort.
Financed about 20% of spending in 1782 and 1783.

QUESTIONS?

Fun fact: BoNA was privatized in 1785 and soon faced stiff competition from new entrants. After many mergers, BoNA is now owned by Wells Fargo.