

03a. The Causes of the Revolution

Econ 373: US Economic History

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The Revolution as a Protest

The Declaration of Independence

- Economic development leads to self-conscious and powerful elite
 - Includes NE merchants, Mid-Atlantic financiers, Southern plantation owners
- Many of the complaints in Declaration are about economics
 - Constraints on growth imposed by British economic policy in the 1760s and 1770s
 - Concern that sovereign Parliament would subvert American liberties and prosperity
 - Reduced expenditures in colonies and lower subsidies for migration
 - Britain fails to avoid credit crisis by prohibiting printing of colonial money
- Economic development nurtures a vision of independence

The Declaration of Independence

- Useful to think from perspective of the different British agents:
 - King, Parliament
 - Tories, Whigs
- Colonials are divided:
 - Among colonies: Virginia and Massachusetts, Pennsylvania and New York
 - Within colonies: Tidewater vs. Appalachian
 - These divisions were closely related with original patterns of settlement

Mercantilism

- In mercantilism, colonies expected to play specific role in helping home country achieve favorable balance of trade
 - Imperial self-sufficiency by supplying products that would otherwise be imported
 - Export earnings through production, sale of goods in high demand outside empire
 - Market for exports of home country
- Colonies subject to British policies that regulated economic activity
 - Restricted rights of colonies to issue their own currency
 - Prohibited production of specific goods in colonies, excluded goods from trade
 - Imposed limitations on or regulated intercolonial trade

Mercantilism

- Colonies had several key roles in context of British mercantilism
 - Colonies produced iron, provided strategic naval supplies, produced tobacco
- Development of domestic manufacturing prompted restrictions
- In 1630s, legislation to exclude foreigners from trade with colonies
- 1651: Acts of Trade and Navigation (new provisions in 1660, 1662, and 1663)
 - Trade carried on vessels built, owned, and commanded by English or colonists
 - Trade with colonies had to pass through England
 - Certain colonial commodities could only be exported to England

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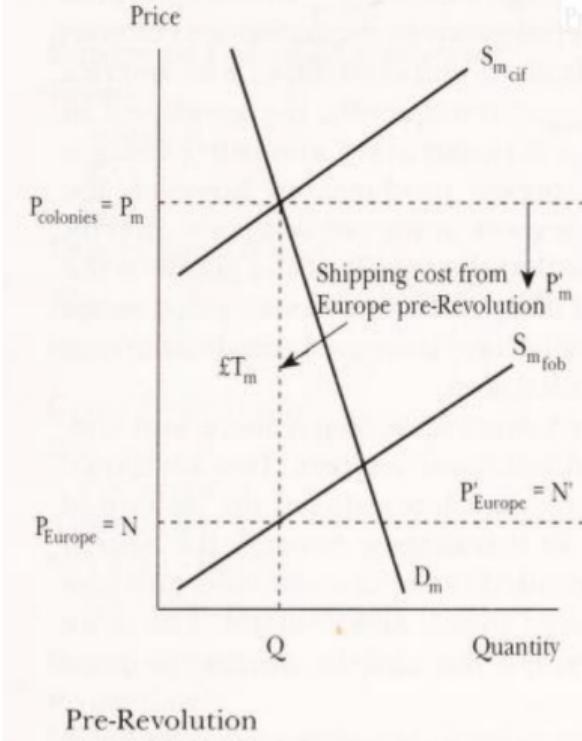
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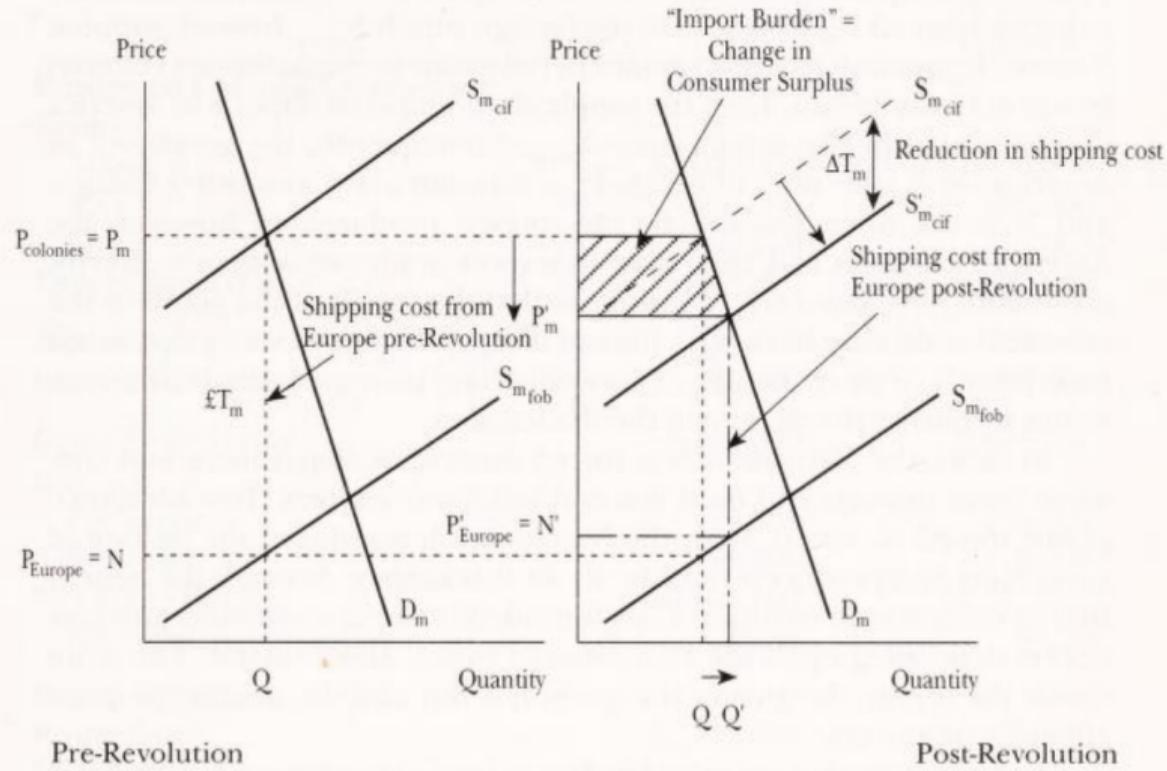
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Measuring the Burden of the Navigation Acts on American Imports



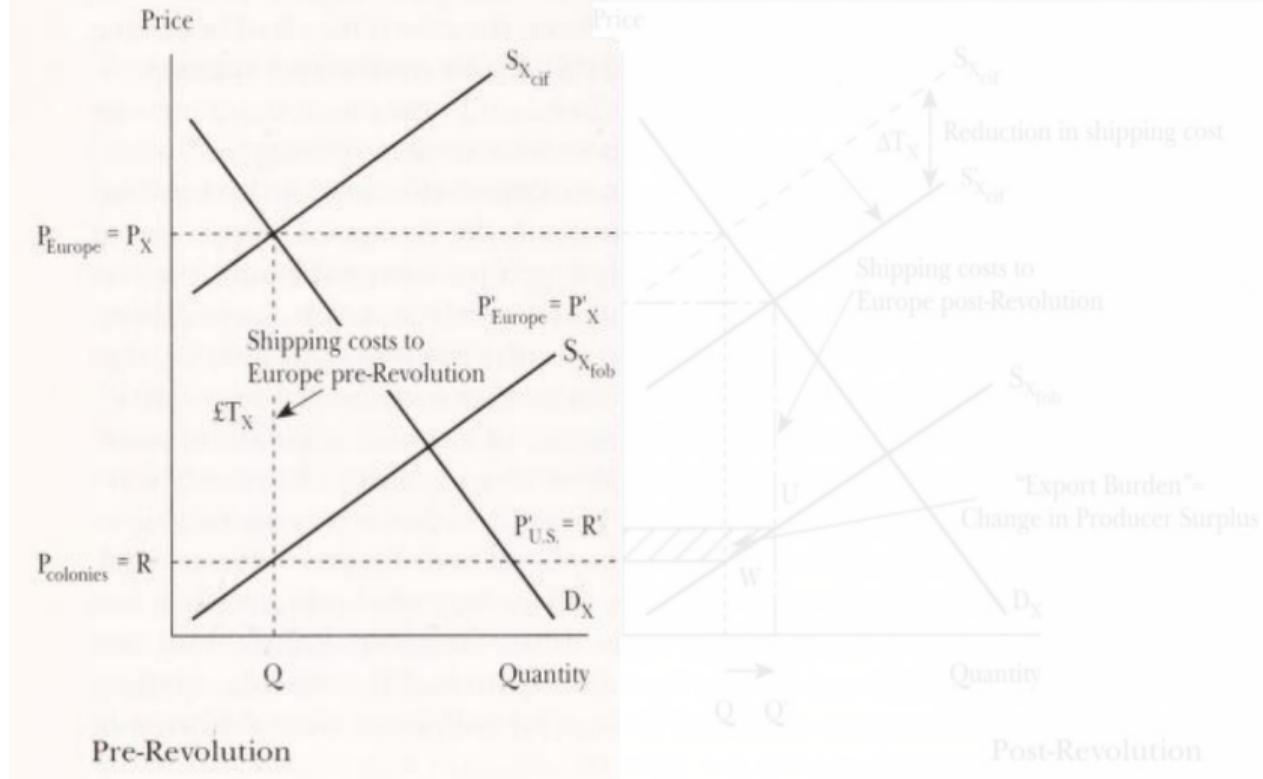
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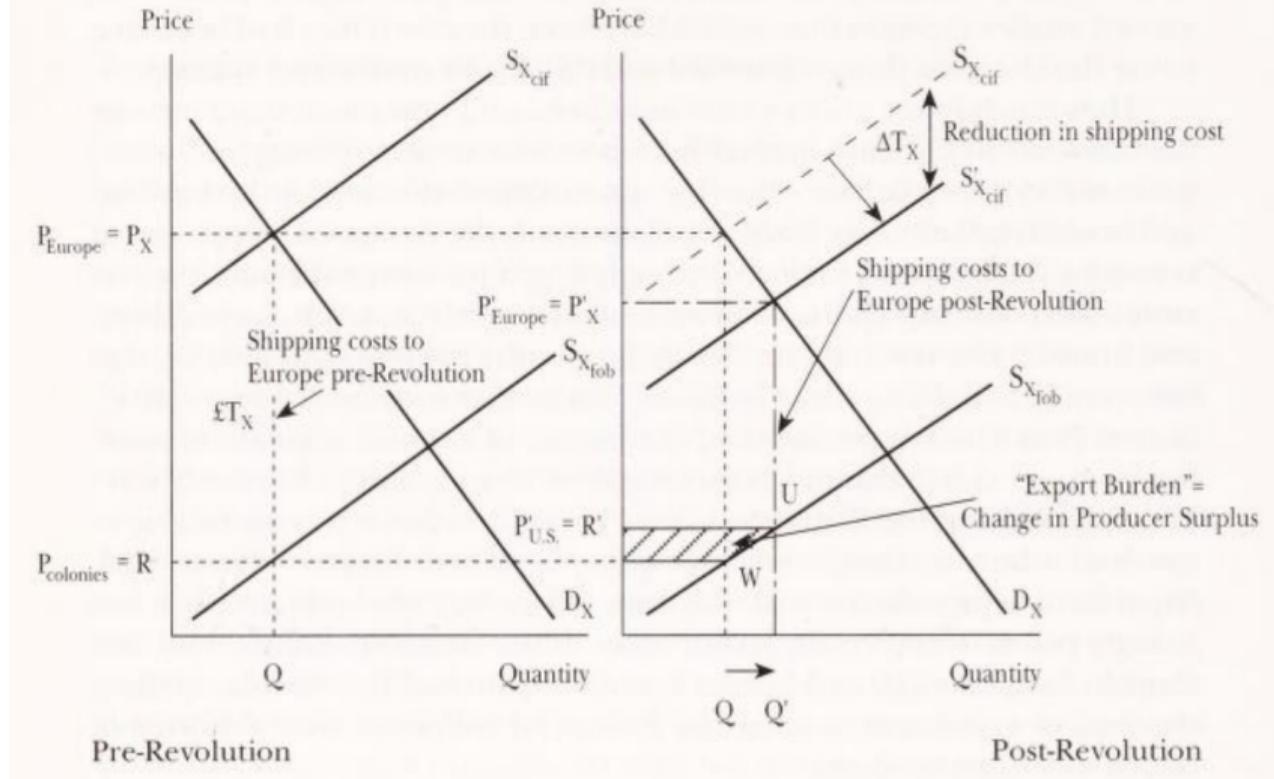
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 - Higher prices of shipping services, lower prices of final goods for colonial producers

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- On cost side:
 - Higher prices for imported goods paid by colonial consumers
 - Higher prices of shipping services, lower prices of final goods for colonial producers
- What were total costs of these policies for the colonists?

Table 1: Costs and Benefits of Colonial Membership

	Occupied 1770	Average 1763-72
Burden of Colonial Commerce:		
<i>Exports:</i>		
Tobacco	1,630,000	1,035,000
Rice	600,000	695,000
Other	265,000	175,000
Export Burden	2,495,000	1,905,000
<i>Imports:</i>		
Import Burden	605,000	720,000
Gross Trade Burden	3,100,000	2,625,000
less:		
Preferences	275,000	195,000
Bounties	165,000	175,000
Net Trade Burden	2,660,000	2,225,000
net burden per capita	\$1.24	\$1.20
Benefits of British Protection	1,775,000	1,775,000
Net Trade Burden less per capita	885,000 \$0.41	480,000 \$0.26

**Table 2: Index of Per Capita Tax Burdens in 1765
(Great Britain = 100)**

Great Britain	100
Ireland	26
Pennsylvania	4
Maryland	4
Massachusetts	4
New York	3
Connecticut	2
Virginia	2

The Navigation acts

- British mercantilist policies forced American colonists to pay more consume fewer imports, earn less sell fewer exports
 - Also reduced welfare for consumers and producers outside British Empire
- Low end estimates $\approx 2\%$ of per capita income versus $\approx 14\%$ on high end
 - Effect for consumers versus producers depends on supply and demand elasticities
- Burden of Navigation Acts was especially large for some sectors and regions
 - Southern planters, Northern merchants
 - Useful to see Revolution as driven by elites

Mercantilism as a set of institutions

- British mercantilism reduced incomes for everyone a little and for some people probably quite a lot – mobilized elites and parts of middle classes
- Was Revolution as about political ideas *or* material conditions under British colonial policy *or* reform agenda for institutions of mercantilism?

Mercantilism as a set of institutions

- British mercantilism reduced incomes for everyone a little and for some people probably quite a lot – mobilized elites and parts of middle classes
- Was Revolution as about political ideas *or* material conditions under British colonial policy *or* reform agenda for institutions of mercantilism?
- What types of different institutions were possible that could satisfy colonial demands in changing economic and political environment of Atlantic world?

(Remember: the colonists were getting richer prior to revolting)

The Revolution as a Bargain

Why did the colonists revolt?

"The unanimous Declaration of the thirteen united States of America, When in the Course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the powers of the earth, the separate and equal station to which the Laws of Nature and of Nature's God entitle them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation."

"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.—That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, —That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness. Prudence, indeed, will dictate that Governments long established should not be changed for light and transient causes; and accordingly all experience hath shewn, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same Object evinces a design to reduce them under absolute Despotism, it is their right, it is their duty, to throw off such Government, and to provide new Guards for their future security.—Such has been the patient sufferance of these Colonies; and such is now the necessity which constrains them to alter their former Systems of Government. The history of the present King of Great Britain is a history of repeated injuries and usurpations, all having in direct object the establishment of an absolute Tyranny over these States. To prove this, let Facts be submitted to a candid world."

Why did the colonists revolt?

- The 1760s were turning point in British-colonial relations:
 - Britain was victorious in war with France
 - But had large public debt and value of imperial membership for colonies was less clear
- Standard story emphasizes British attempts to raise revenue from colonies:
 - Sugar (1764), Stamp and Quartering (1765), Townshend (1767), Tea (1763)
- Mercantilism alone probably not decisive; alternative explanation is changes in bargaining positions of groups on either side of Atlantic
 - Let's consider "game" between ruler (British) and citizens (Colonists)

A strategic game between “British” and “Colonists”

		Colonists	
		Exit	Loyalty
		Tax	
British	Tax		
	Don't Tax		

A strategic game between “British” and “Colonists”

- Formally, this is **normal-form** game
- Next, add payoffs for each agent: British (in **red**) and Colonists (in **orange**)

A strategic game between “British” and “Colonists”

		Colonists	
		Exit Loyalty	
		Tax	T, E
British	Tax	$T + L, 0$	
	Don't Tax	$0, E$	L, T

T = value of revenue / tax

E = value of exit

L = value of loyalty

A strategic game between “British” and “Colonists”

		Colonists	
		Exit	Loyalty
		Tax	5, 10
British		Don't Tax	0, 10
			5 + 5, 0
			5, 5

T = value of revenue / tax

E = value of exit

L = value of loyalty

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A strategic game between “British” and “Colonists”

		Colonists		
		Exit	Loyalty	Voice
		Tax	T, E	$T + L, 0$
British	Don't Tax		$0, E$	L, T
				$?, ?$
				$?, ?$

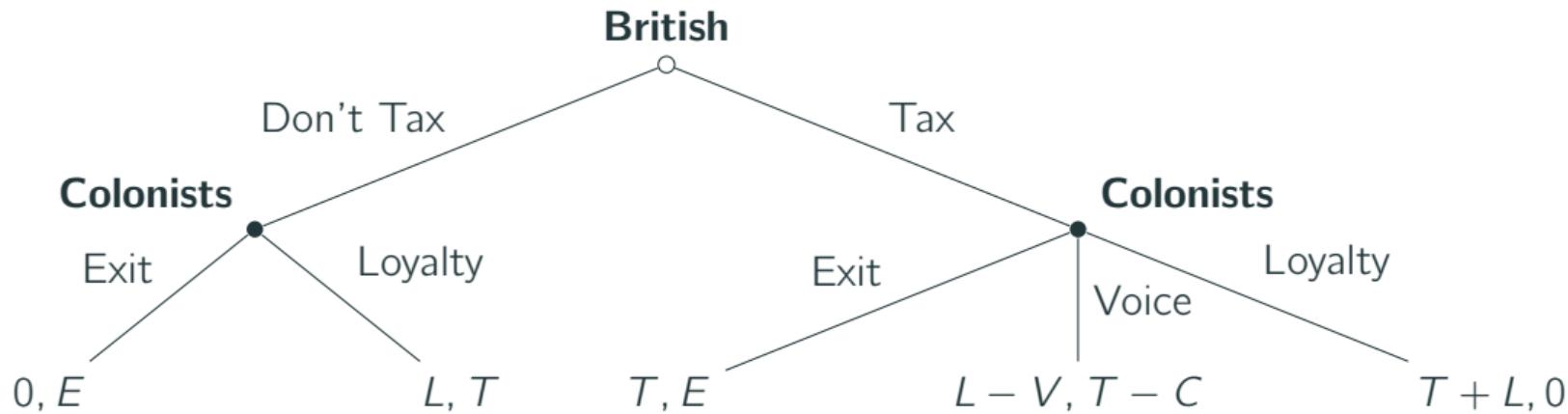
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- Also represent game in **extensive-form**, such that agents move in sequence



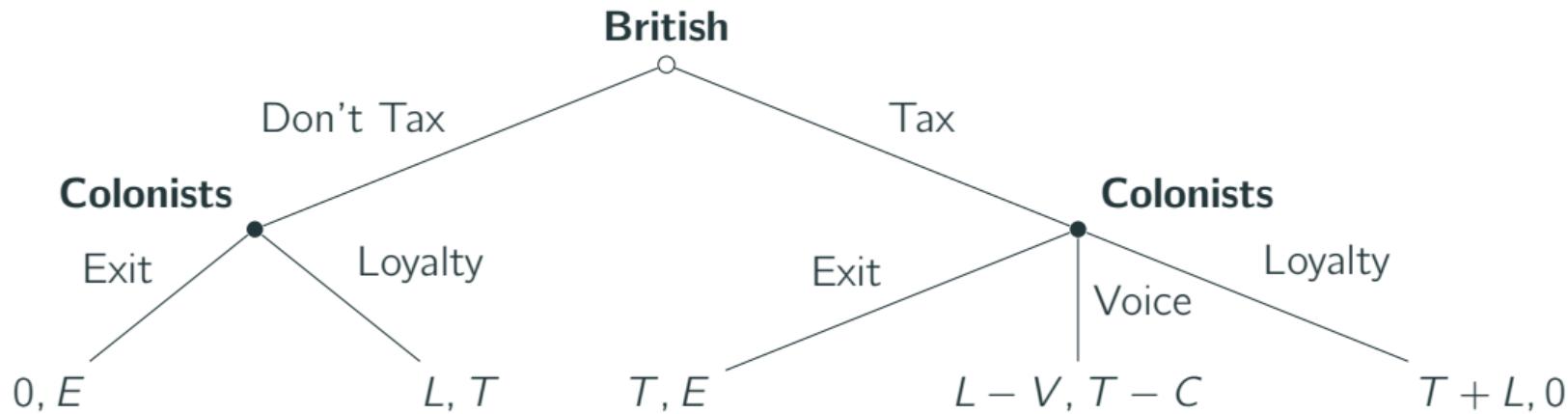
- T = value of revenue / tax
- E = value of exit
- L = value of loyalty
- C = cost of voice for Colonists
- V = cost of protest for British

A strategic game between “British” and “Colonists”

- Formally, this is **normal-form** game
- Next, add payoffs for each agent: British (in **red**) and Colonists (in **orange**)
- We can alter game by adding actions that one or both players can take
- Also represent game in **extensive-form**, such that agents move in sequence
- Equilibrium of game depends on payoffs (value of T , E , L , C , and V)
 - How do we use this setup to understand events leading up to American Revolution?

A strategic game between “British” and “Colonists”

- Identify outcome of history: British play “tax” and colonists play “exit”
- Ask: “What payoffs would make this outcome an equilibrium?”
 - Start with decision of colonists



- For left branch, compare E versus T
- For right branch, compare $E, T - C$, versus 0
- Let's say $E > T$ and $E > T - C > 0 \rightarrow$ colonists choose "Exit"
- Now, given what is expected of colonists, consider British choice between "Tax" and "Don't Tax"
- Compare with 0 versus $T \rightarrow$ if $T > 0$ British choose "Tax"

A strategic game between “British” and “Colonists”

- Identify outcome of history: British play “tax” and colonists play “exit”
- Ask: “What payoffs would make this outcome an equilibrium?”
 - **Outcome:** colonists choose “Exit” and British choose “Tax”
 - If value of E is high and if T , $T - C$ is not too high
 - Translate to words... Caveats...
- Changes in Atlantic economy in 1700s: trade expanded, consolidated elite
 - Created demand for sovereign economic policies in colonies
 - Clashed with realignment of politics in England