

The Economic American Revolution

Economic motivators and conditions in Revolutionary America

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History students typically think of the American Revolution as a series of political and philosophical struggles between the American colonies and Great Britain. While political and philosophical issues were important, economic factors played at least as great a role in shaping the course of the revolution. Everyone knows the colonial grievance of "taxation without representation," but more often than not, British actions that affected economic activity inspired rebellious sentiment and action. Even after the revolution, economic concerns dominated every aspect of colonial life and, eventually, played a crucial role in the decision to adopt the constitution in favor of the articles of confederation. Any understanding of the events and motivations surrounding the American Revolution would be incomplete without examining economics as a driving force for change.

Pre-Revolutionary Era (1762-1775)

In the early 1760's, the American colonies began to suffer the recession that followed the Seven Years' war, or French and Indian war. Since 1762, the American colonies and the British government had battled economic hardship that so often follows military conflict. The colonies had recently begun to move beyond mercantilism and see the benefits of inland trade, which required a liquid supply of money. As trade increased, so did debt and the issuance of paper money¹. During the Seven Years' war, the colonists ran trade deficits with Great Britain and borrowed heavily from the British. When British lenders began to feel the economic pain of the recession, they called in their colonial debts, sharply contracting the colonial money supply in the process.² Facing a monetary and economic contraction, the colonies began issuing more fiat money in the form of "colonial scrip" to discharge their debts and promote commerce. In response, the British parliament -- which had always endeavored to keep the colonial money supply under control -- passed the Currency Act of 1764. The Currency Act forbade the colonies to print paper currency, making their colonial scrip illegal. Predictably, this resulted in an even sharper contraction of the money supply, worsening an already severe recession.

¹ Wood, Gordon [The Radicalism of the American Revolution](#), pg 140

² Nash, Gary [The Urban Crucible: The Northern Seaports and the Origins of the American Revolution](#)

While colonists suffered under the Currency Act, Parliament also passed the Revenue/Sugar Act of 1764³, an act that made provisions to enforce and collect existing taxes on imported sugar that colonial merchants had evaded for years. This act also required that colonial merchants post bonds on their ships, a process that was expensive, inconvenient and, in their minds, unjust. The Sugar Act taxes hit New England merchants particularly hard, and eventually affected the general population as merchants raised their prices to cover the cost of the tax. In 1765, Parliament passed the Stamp Act, which required colonists to pay a tax on numerous everyday items including newspapers, pamphlets, legal documents, and playing cards.⁴ The colonists had been unhappy with the Currency and Revenue Acts, but they were furious about the Stamp Act. As mobs broke out in many cities, Bostonians descended upon the office of the stamp distributor -- who happened to be the royal governor's brother-in-law -- and tore it apart, brick by brick. For the next two weeks, the Boston mob ravaged the homes and offices of Boston's royal elite and anyone affiliated with the offending tax. The mob finally went after the governor's house, reducing it to a pile of rubble.

When the British could no longer ignore the colonists' cries, parliament finally repealed the Stamp Act in 1766. That same year, the colonial economy showed signs of recovery from the post-Seven Years War recession. The relief, unfortunately, was short-lived. As trade in the colonies began to increase once more, the monetary constraints imposed by the Revenue Act years before brought commerce to a grinding halt from 1766 until 1769⁵. The economy hobbled along for a few more years when the Credit Crisis of 1772 -- caused by an unwise expansion of British credit markets and speculation that resulted in the collapse of several large lending houses -- once again contracted the money supply and the economy⁶.

During the late 1760's and early 1770's, as the colonists struggled with difficult economic conditions, it seemed that parliament designed each new act to make the colonist's plight

³ USHistory.org "The Sugar Act"

⁴ Nash, Gary [The Unknown American Revolution](#), pg 46

⁵ Nash, Gary [The Unknown American Revolution](#), pg 92

⁶ Price, Jacob [Joshua Johnson, His Partners and His Business](#), London Record Society

worse. Parliament passed the Townshend acts in 1767, for example, as the colonists were dealing with a sharp monetary contraction. As the colonists responded -- in this case, by boycotting British goods -- the British reacted by sending several regiments of troops to occupy Boston and enforce compliance. When the British passed the Tea Act to bolster the failing East India monopoly, the colonists dumped the offending tea into Boston harbor. The British responded by closing Boston harbor and assuming direct control over Massachusetts government by directly appointing previously elected officials.

The number of Americans living in poverty during this time increased dramatically, and the colonists watched themselves become poorer while the British aristocracy that governed them became richer. That same aristocracy then benefitted from the acts of parliament that had helped impoverish them in the first place. To add insult to injury, parliament continued passing laws restricting their freedom and infringing upon what they saw as their natural rights. For the colonists, this was too much. While the political oppression was the final catalyst for rebellion and secession, economic oppression lie at the heart of the colonists' grievances and set the stage for the political struggle that followed. The political oppression commonly cited as the primary reason for colonial resistance was instead secondary to the greater issue of economic injury.

Revolution (1775-1783)

In 1774, the First Continental Congress unanimously agreed to boycott the import of all British goods following the implementation of the Coercive Acts parliament passed that same year. The colonists tried an informal boycott several years earlier, but without much success. With more force and unity behind this boycott, British imports dropped by 97% during the first year of the boycott.⁷ The British interpreted this boycott -- rightfully -- as a sign of open rebellion and moved quickly to suppress the rebellion by capturing colonial leaders and their weapons.

⁷ Kramnick, Isaac Common Sense, by Thomas Paine (with an Introduction by Isaac Kramnick), pg 20

Violence immediately erupted in April of 1775 and continued throughout the year and into 1776. Of the many issues facing the Continental Congress during this time, funding for military operations against the British presented the greatest challenge. The convention delegates realized that only by establishing the colonies as a new government would they have the ability to borrow money from -- and form alliances with -- other countries. The Second Continental Congress began making war appropriations and eventually made a formal Declaration of Independence from Britain. To fund the war effort, Congress commissioned the printing of "Continental Dollars." Congress paid for arms, munitions, and troop salaries with the new paper currency while the states issued their own paper currency to pay for state military expenses⁸.

As congress and the states issued paper money to fight military battles against the British, economic battles raged in cities throughout the new country. Economic conditions deteriorated rapidly due to the combined strain of the British occupation of Boston, naval blockade of port cities, and self-imposed boycott of British goods. This situation created a shortage of goods such as sugar, salt, and rum, leading local merchants to increase the selling prices of these goods dramatically. The colonists -- already at their breaking point -- did not stand for this. Food riots broke out in several cities as citizens took it upon themselves to seize goods from merchants who would not sell them at a reasonable price. In Europe, this practice was known as "*...taxation populaire*--the people's seizure of basic commodities and their subsequent sale at a fair price."⁹ Interestingly, women -- not men -- often led these food riots, more than 30 of which occurred from 1776 to 1779. While men focused on the war effort, women concerned themselves with obtaining necessities for their households, by any means necessary. The women-led rioters demonstrated an implicit belief in "the moral economy," the idea that "...no individual actor...was entitled to enrich himself at the public's expense, especially in a crisis situation."¹⁰ More than anything else, the colonists saw merchants trying to profit unduly from the crisis as unpatriotic. The war effort -- they argued -- would require

⁸ Baack, Ben [The Economics of the American Revolutionary War](#)

⁹ Nash, Gary [The Unknown American Revolution](#), pg 232

¹⁰ Nash, Gary [The Unknown American Revolution](#), pg 233

sacrifices from everyone and the unity of all classes and those trying to take advantage of the common person were no better than the British forces oppressing the country. Thus, the rioters likened their local conflict with miserly merchants and stingy shopkeepers to the military conflict with the British: a morally righteous transfer of power from the illegitimate elite to the people that truly deserve it.

In the midst of colonial upheaval, war, and food riots, the Continental Congress issued Continental dollars in ever-increasing amounts. With no ability to tax -- and loans from Holland or France still not guaranteed - the Congress had few options. Congress commissioned the printing of so much money that "the worth of a Continental dollar in specie... fell from one hundred cents in September 1777 to fifty-six cents in March 1778 and to twenty-five cents in September of that year."¹¹ Just six months later, the Continental dollar bought only 10 cents of specie - it had shed 90% of its original value. The soldiers of the Continental Army -- well aware of the depreciation of the currency -- became restive as their living conditions deteriorated even further. For several years, they fought without proper supplies, clothing, or food, and now they watched their already meager salaries buy them less every month. Soldiers deserted in droves while the specter of mutiny haunted the commanding forces. In a series of stand-offs regarding salary, pension, and supplies, the soldiers tried to make their demands heard. Soldiers camped out in Newburgh, New York threatened a mass defection if Congress refused to honor its financial obligations to the soldiers. Several months later, thousands of soldiers from the Pennsylvania and Maryland lines of the Continental army descended upon the Philadelphia state house -- with the National Congress in session -- to demand recompense.¹² Congress eventually retreated to Princeton under the threat of violence from the soldiers.

Unable to ignore the soldiers anymore, Congress promised to pay and began issuing the soldiers and military contractors war bonds as a form of compensation for their previous service¹³. Despite mounting financial difficulties and a downtrodden, rag-tag military, the

¹¹ Nash, Gary [The Unknown American Revolution](#), pg 309

¹² Nash, Gary [The Unknown American Revolution](#), pg 372

¹³ Holton, Woody [Unruly Americans and The Origins of the Constitution](#), pg 33

Americans and British signed the Treaty of Paris in 1783, ending the hostilities with a decisive American victory. In the typical telling of this part of American history, the war bonds, inflation, and general market disruption are mentioned secondarily to the political issues facing the country as a whole. In fact, the economic turmoil played a critical role in shaping the behaviors and attitudes of the colonists and the war bonds would soon create more problems than anyone imagined.

The Constitution (1783-1787)

As the Revolutionary war was ending, the state and national governments faced a tremendous war debt, owed mostly to foreign creditors and domestic holders of war bonds.¹⁴ To service the debt, the states began taxing heavily, frequently demanding payment in specie rather than paper money. Collecting taxes should have worked to curb the rampant inflation, but as the governments demanded specie -- already in short supply -- colonists watched their real incomes decline while worthless paper money abounded. State governments began increasing land taxes, poll taxes, and tariffs to the point that tax burden on the colonists became much larger than it had been under British rule. In Massachusetts, as in many states, farmers paid disproportionately higher taxes than other citizens did, an inequality that eventually led to Shay's rebellion in 1786.¹⁵ Because the taxes went to service the war debt -- owed mostly to domestic bondholders -- one would expect the high taxes to be a wash for most citizens. After all, did not the former soldiers and citizens hold of the majority of war bonds? Surprisingly, no, they did not.

When Congress finally began issuing war bonds to soldiers, the soldiers had gone without pay for several years. Most did not own decent clothing and many had debts that needed payment. They received the bonds from Congress -- a promise to pay to the holder in the future -- but their economic predicament forced many to liquidate their bonds on the open market, far below face value. Prices of the bonds depreciated rapidly as the supply flooded the market, and speculators swooped into the market to take advantage of the situation. The speculators,

¹⁴ Holton, Woody Unruly Americans and The Origins of the Constitution, pg 32

¹⁵ Holton, Woody Unruly Americans and The Origins of the Constitution, pg 29

of course, were those citizens who had some measure of disposable income at the time: merchants, plantation owners, etc. By 1785, the value of the bonds depreciated to one-eighth of the face value, not including interest.¹⁶ As speculators snatched up increasing amounts of the bonds, they realized that their bonds would be worthless if the national government could not pay when the bonds matured. The government's ability to pay depended on its ability to tax and taxation thus became a crucial issue in the late 1780's.

As speculative bondholders lobbied politicians to raise taxes and supported the campaigns of those politicians promising to raise taxes, they faced a backlash against the more numerous anti-tax citizenry. These two groups had a distinct composition: the anti-tax citizens were poor farmers and average citizens who had fought and suffered greatly in the war while those in favor of taxation were wealthy, usually merchants, landowners, or financiers who had lived rather comfortably during the war. As the vast majority of new taxes went to the bondholders, veterans and average citizens once again felt that an elite class was prospering at their expense. When taxes in a particular area reached a threshold level, pro-tax candidates began losing offices to candidates promising lower taxes and debt relief. As these new candidates began holding office at the state level, they pushed for debt-relief measures that reduced or eliminated debt, often by printing paper money to discharge debts of the average citizens. State judiciaries began lessening or dismissing debts when creditors took their debtors to court. The wealthy bondholders and creditors realized the implications of inflation and debt-relief -- as the British had -- and pushed for changes at the national level to prevent the states from discharging the debts of citizens. Thus, the Constitutional Convention was born.

Once the Constitutional Convention delegates had decided to abandon the Articles of Confederation in favor of the Constitution, debates erupted regarding political representation in congress, slavery, and the power of the executive. Little debate surrounded Article 1, Section 10 of the new Constitution, however. This section forbade states to "coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any...Law

¹⁶ Holton, Woody Unruly Americans and the Origins of the Constitution, pg 38

impairing the Obligation of Contracts."¹⁷ James Madison, Alexander Hamilton, and John Jay -- the most vocal supports of Constitutional ratification and authors of *The Federalist Papers* -- wrote at length about the necessity of enforcing debts and preventing the states from discharging debts with paper money¹⁸. While their pro-constitutional arguments are often cited as political in origin, the three men realized the disastrous economic consequences of the states' debt-relief policies: debt-relief reduced the propensity of creditors to lend. In a post-war nation suffering from real money deflation and a severe shortage of capital, credit would be crucial to economic recovery and growth.¹⁹ Jay, Madison, and Hamilton knew this and argued the point in favor of ratification.²⁰ In Federalist #85, for example, Hamilton argued that Article I, Section 10 would provide "precautions against the repetition of those practices on the part of the State governments which have undermined the foundations of property and credit, have planted mutual distrust in the breasts of all classes of citizens, and have occasioned an almost universal prostration of morals."²¹ The framers considered the enforcement of contracts and protection of private property crucial to the existence of any republic and believed that the new national government must have the ability to do both. Once again, an economic problem laid the groundwork for political change.

Conclusions

It is clear to any student of history that members of revolutionary generation held strong political and philosophical beliefs about the nature of government and the role it played in their lives. To ignore the political arguments and the philosophical transformation does injustice to their cause. On the other hand, ignoring the economic conditions that set the stage for political discourse provides an incomplete understanding of the Revolution and the years surrounding it. As economic conditions factor so greatly in the life of the average citizen, political apathy became financially unattractive. For many, engaging in political action and philosophical

¹⁷ US Constitution - Constitution.org

¹⁸ Holton, Woody [Unruly Americans and the Origins of the Constitution](#), pg 23

¹⁹ Holton, Woody [Unruly Americans and the Origins of the Constitution](#), pg 23

²⁰ Holton, Woody [Unruly Americans and the Origins of the Constitution](#), pg 26

²¹ Hamilton, Alexander [Federalist #85](#) - Constitution.org

discourse became the only way to improve their economic plight. While the notion of a citizenry initially inspired to revolution partly because of their economic self-interest may seem less romantic than that of altruistic philosophers sacrificing everything for the greater good, it may help provide clarity to a tumultuous part of history. In examining the complex nature of the Revolution, one can obtain a more complete -- albeit realistic -- understanding of the "Spirit of '76" that Americans have come to revere.

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