

# Economics C23-1

## Lecture 2

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### I. Geographic Specialization & Trade

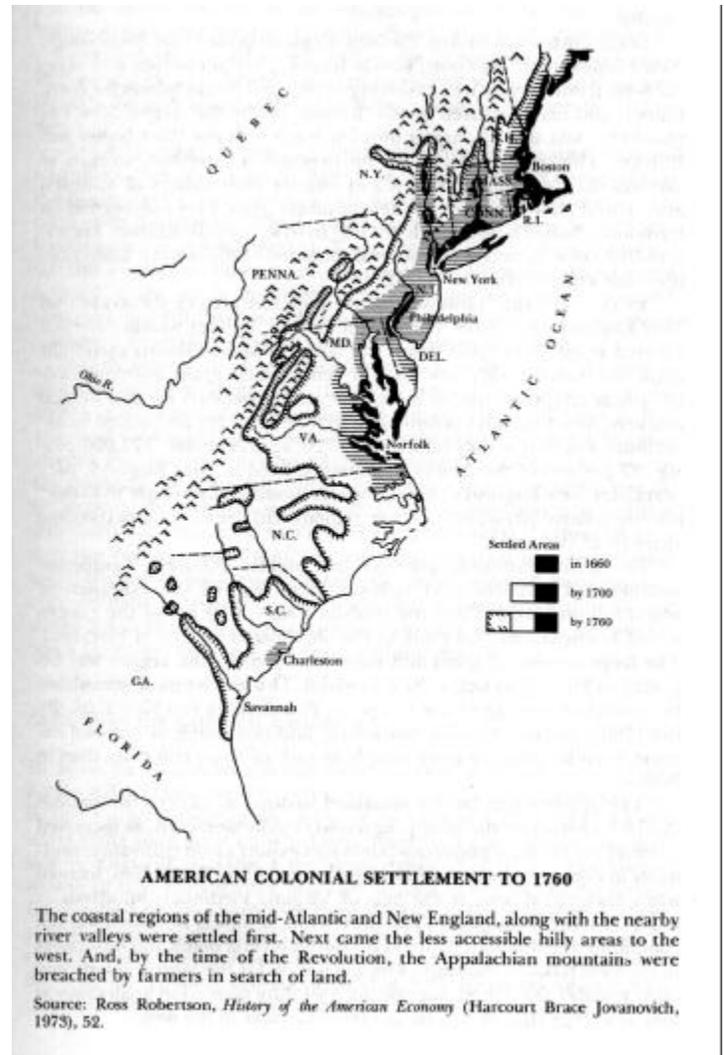
#### A. Towns

1. location of towns and cities at “breaks-in-transit”

2. needed more, though

3. why not in some places?

4. the resulting pattern



## **B. Regions**

**1. early attempts**

**2. Virginia and Massachusetts**

**3. The rest of the South**

**4. Specialization by crop and product**

**New England**

**Middle Atlantic**

**South**

**-> foreshadows patterns of labor relations**

## C. External Trade

Average Annual Commodity Trade Balance of the 13 Colonies, 1768–1772  
(thousands of pounds sterling)

	Great Britain and Ireland	Southern Europe	West Indies	Africa	All Trades
New England	-609	+48	-36	+19	-577
Middle colonies	-786	+153	-10	+1	-643
Upper South	-50	+90	-9	0	+30
Lower South	-23	+48	+44	*	+69
Total colonies	-1,468	+339	-11	+20	-1,121

Note: A plus sign (+) signifies a surplus, with exports exceeding imports in value. A minus sign (-) denotes a deficit. (\*) denotes amounts less than £500. Regional balances may not add to totals as a result of rounding.

Values are expressed in prices in the mainland colonies. Therefore, import values include shipping costs, commissions, and other handling costs. Export values do not include these distribution costs.

Source: Gary M. Walton, and James F. Shepherd, *The Economic Rise of Early America* (Cambridge, England: Cambridge University Press, 1979). Reprinted by permission of Cambridge University Press.

**Only the South has a positive trade balance – both New England and the Middle colonies exported less than they imported; all regions had positive balances with Southern Europe and Africa and negative balances with the U.K.**

**Only the Lower South had a positive balance with Africa**

**A Balance of Payments for the 13 Colonies, 1768–72**  
(thousands of pounds sterling)<sup>a</sup>

	Debit	Credit
Commodities		
Exports <sup>b</sup>		2,800
Imports <sup>c</sup>	3,920	
Balance of trade	1,120	
Ship sales		140
Invisible earnings		
Shipping earnings		600
Merchant commissions, risk, and insurance		220
Balance on current account from trade	160	
Payments for human beings		
Indentured servants	80	
Slaves	200	
British collections and expenditures in colonies		
Taxes and duties	40	
Salaries of British civil servants		40
Military expenditures		230
Naval expenditures		170
Capital and monetary flows		
Specie		40
Indebtedness		

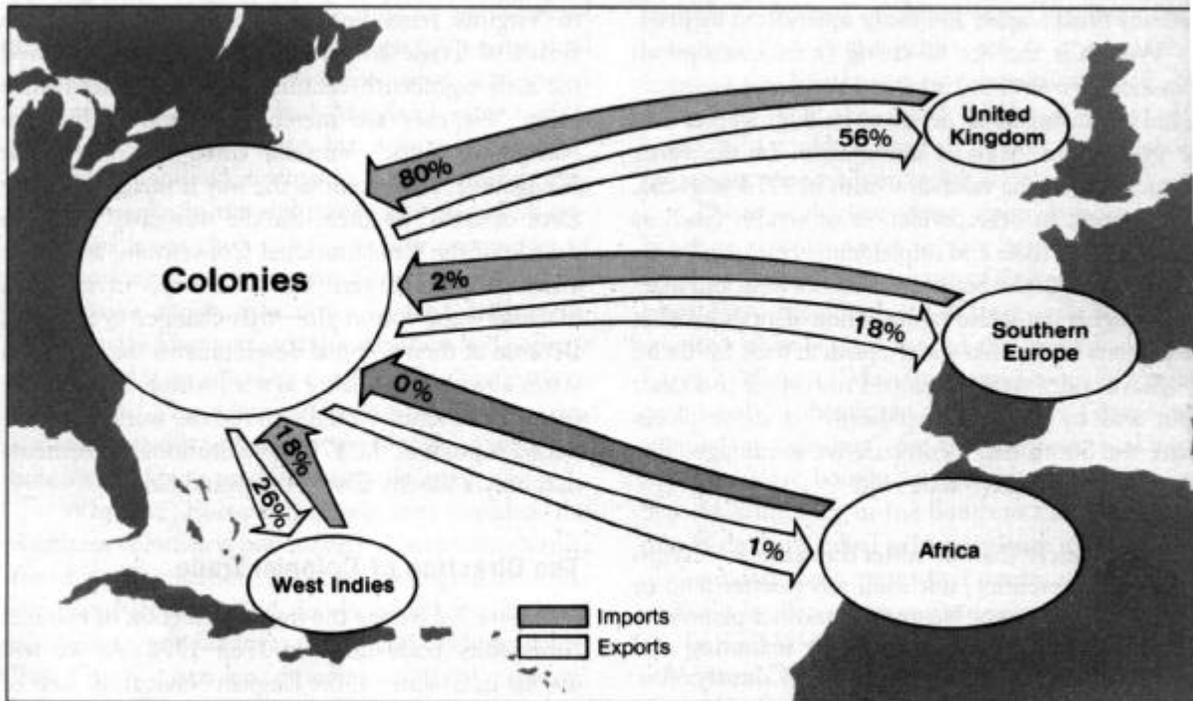
<sup>a</sup> All calculations are rounded to the nearest 1,000. Note that the figures in this table differ somewhat from those given in J. F. Shepherd and G. M. Walton, *Shipping, Maritime Trade and the Economic Development of Colonial North America* (Cambridge, England: Cambridge University Press, 1972), Chapters 6, 7, and 8. Because Newfoundland, Quebec, Nova Scotia, Florida, Bermuda, and the Bahamas were included in the source but excluded here, the primary aggregate estimates of exports, imports and shipping earnings have been adjusted downward by £210,000, £420,000, and £10,000, respectively.

<sup>b</sup> Exports are valued FOB exclusive of ocean transport costs and other merchandising costs.

<sup>c</sup> Imports are valued CIF—that is, including ocean transportation costs, insurance, interest, and commission charges.

Source: Gary M. Walton, and James F. Shepherd, *The Economic Rise of Early America* (Cambridge, England: Cambridge University Press, 1979). Reprinted by permission of Cambridge University Press.

Percentage Distribution of Total Colonial Trade



Source: James F. Shepherd and Gary M. Walton. *Shipping, Maritime Trade, and the Economic Development of North America* (Cambridge: Cambridge University Press, 1972), pp. 160-161.

The United Kingdom was colonial America's dominant trading partner in exports and imports, followed by the West Indies and southern Europe.

**Some “triangular” trade (rum from New England to Africa, slaves to West Indies, sugar to New England)**

**But more “tramp” (opportunistic) trading**

## **II. The Institutional Background:**

**The “Rules of the Game” (mostly transplanted from England):**

- 1. land ownership**
- 2. labor**
- 3. commercial organization**
- 4. social measures**
- 5. misc. controls**

## **The Ties that Bind (why no change in these powers with the Revolution):**

**Dartmouth College v. Woodward (1819): the definitive test of our Constitution's contract clause, but for today let us view it in a slightly different light. This decision protected and sustained the property rights granted to Americans by the English Crown following the Revolution.**

**Justice Story wrote, it was an unquestioned "principle of the common law that the division of an empire works no forfeiture on previously vested rights of property..."**

**Why does it matter? Think of how the former colonies would have looked after the Revolution without the *Dartmouth* decision**

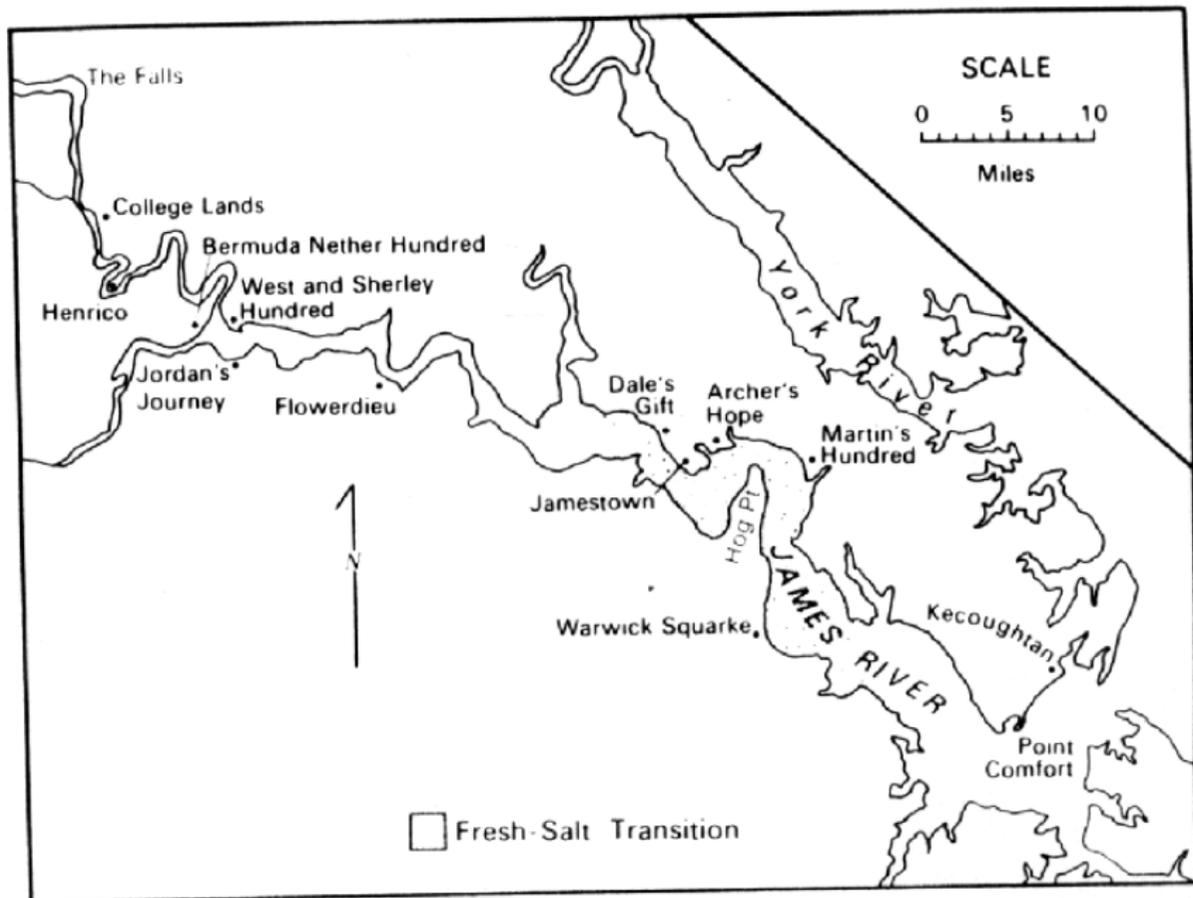
## **The problem of territorial expansion**

**the spread effect:** as new states entered the union the nonmarket controls were reimposed at the state level. New state constitutions were usually based on that of an existing state, but each state had a choice of what part of the package it would adopt.

**the size effect:** as large firms overlapped state and local jurisdictions, the nonmarket control mechanisms moved to the Federal level.

We'll come back to these "institutional" questions in another week when we discuss business and how important changes in the attitude of the courts and the states toward business paved the way for a major innovation: the modern business corporation.

FIGURE 1. The James River, 1607-1624



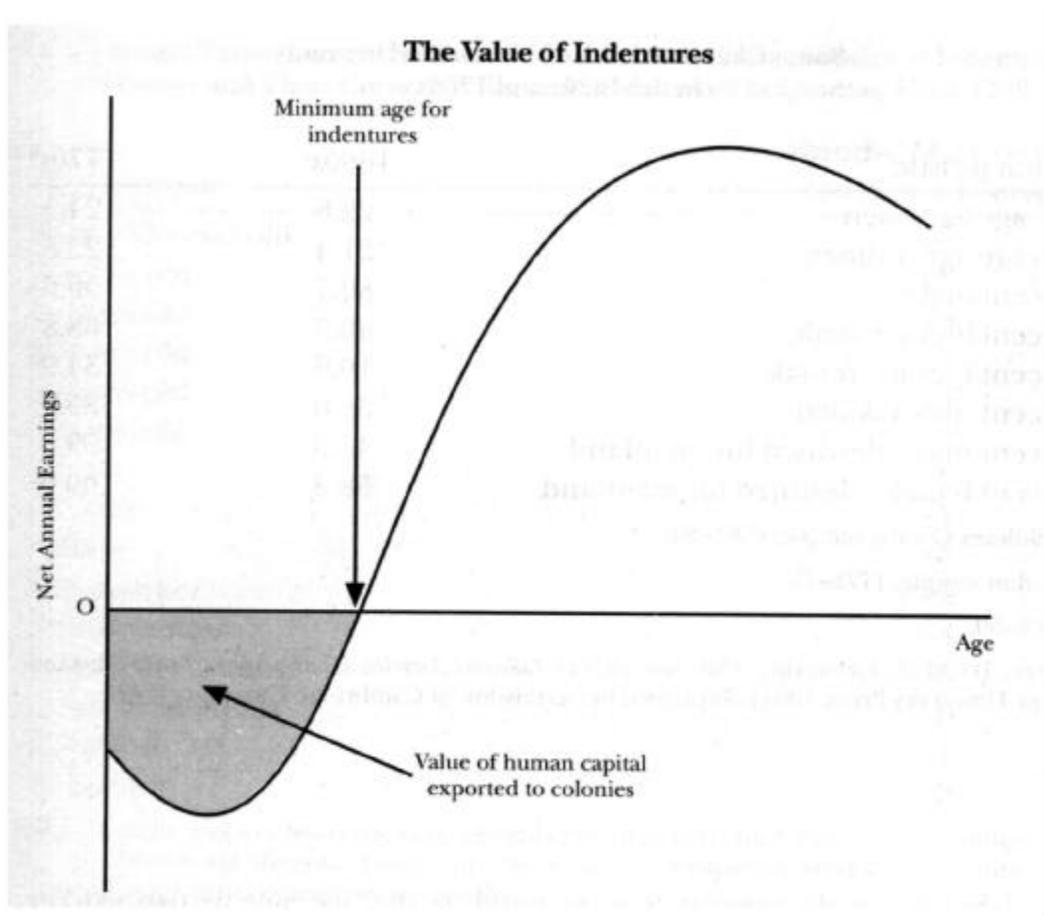
### III. Colonial Labor Markets

A. In general, a function of product mkts

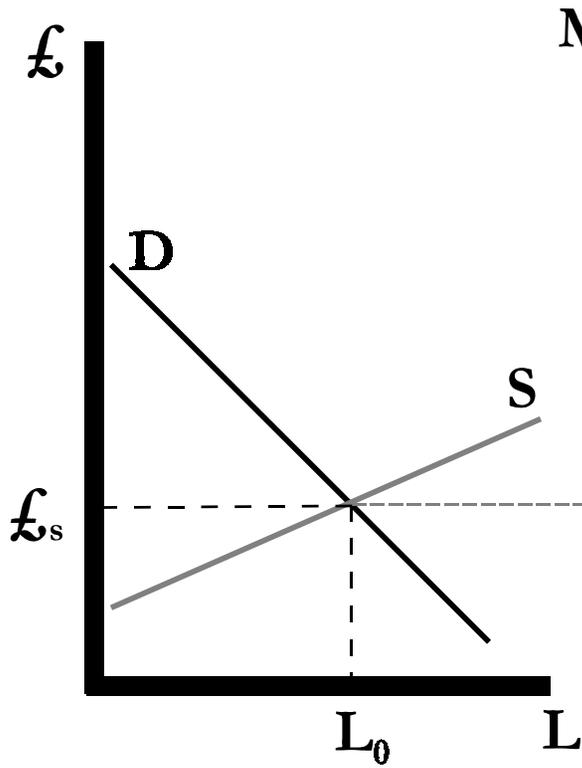
B. The Jamestown “experiment”

1. the idea
2. the problem
3. the solution

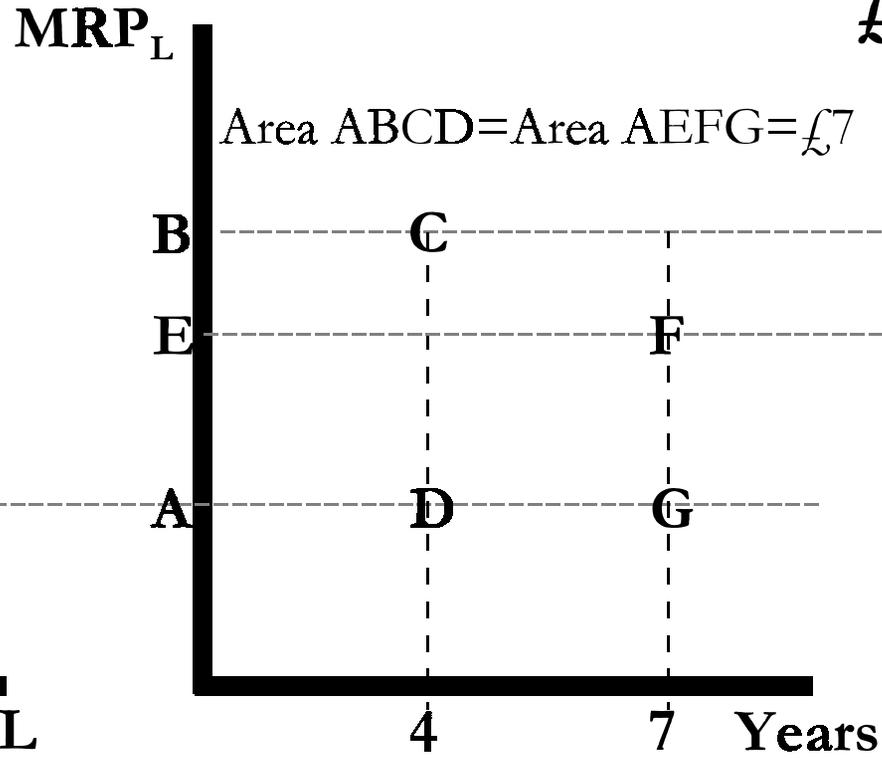
C. Indentured servitude



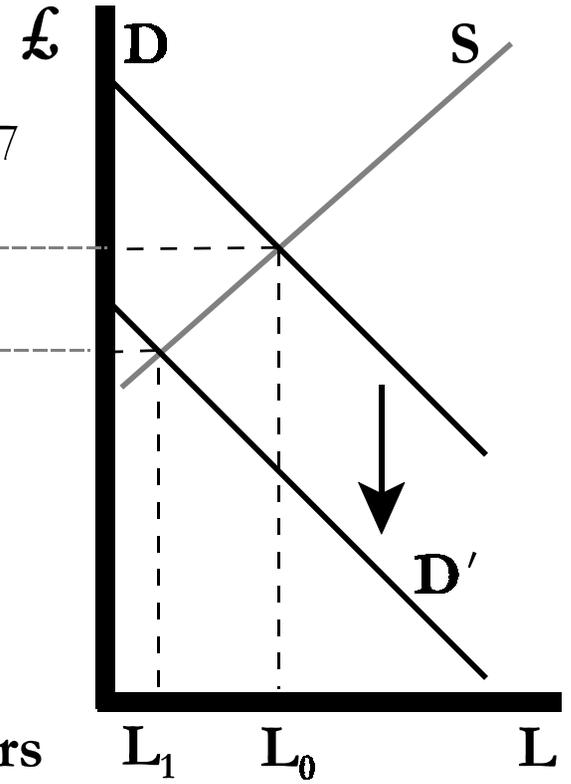
# English Labor Mkt.

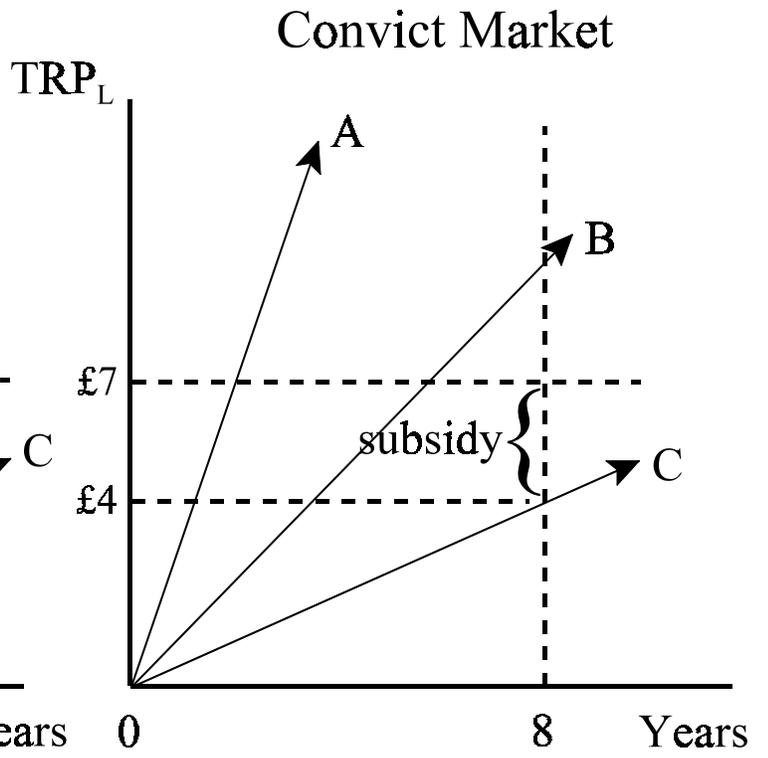
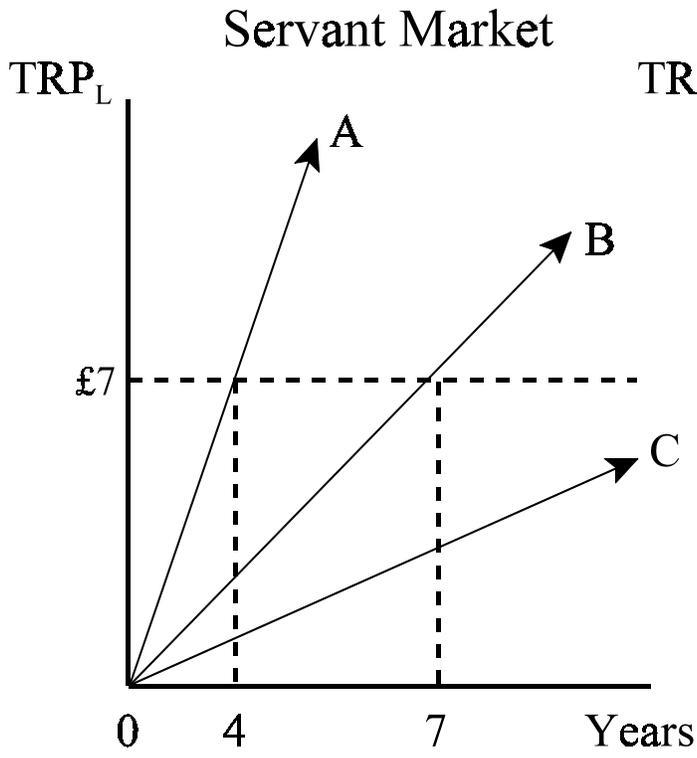


# Indentured Servant Mkt.



# Colonial Tobacco Mkt.





# 1. the background (“service in husbandry”)

## 2. the characteristics of indentures

Some Characteristics of Indentured Servants  
In the 1680s and 1700s

Characteristic	1680s <sup>a</sup>	1770s <sup>b</sup>
Average age, men	22.8	24.3
Average age, women	21.4	22.8
Percent male	80.7	90.6
Percent literate, male	40.5	68.8 <sup>c</sup>
Percent literate, female	10.8	34.9 <sup>c</sup>
Percent males skilled	35.0	85.0
Percent males destined for mainland	47.3	99.6
Percent females destined for mainland	58.4	100.0

<sup>a</sup> Middlesex County sample, 1683–84.

<sup>b</sup> London sample, 1773–75.

<sup>c</sup> 1718–59.

Source: David W. Galenson, *White Servitude in Colonial America* (Cambridge, England: Cambridge University Press, 1981). Reprinted by permission of Cambridge University Press.

## 3. the economics of indenture contracts

**essentially, a forward contract, with the  
risk borne by the ship captain**

**how do we know? what we test?**

**run a regression of the form**

$$P_i = \alpha + \beta X_{i1} + \beta X_{i2} + \beta X_{i3} + \beta X_{i4} + \mu_i$$

**where the  $X_i$ 's are characteristics of the indenture known *before* the contract is signed and  $P_i$  is the price for which the contract sells in the colonies**

**if the contract is a true forward contract, what can we predict about the  $\beta$ 's?**

**other factors that might affect the price for which the contract sells?**

**factors shaping the contract length:**

**first, remember what the length is a *proxy* for**

**Second, think what effects that?**

**to see their influence, run another regression of the form**

$$M_i = \alpha + \beta X_{i1} + \beta X_{i2} + \beta X_{i3} + \beta X_{i4} + \mu_i$$

**where  $M_i$  is the contract length in months and the  $X_i$  are dummy variables for characteristics**

**Differential Value (in months of service) of Various Characteristics of Indentured Servants and Their Contracts: Servants Indentured in London, 1718–1759**

Characteristic	Months' More or Less Indentured Service
Under 15 years old	33
15 years old	26
16 years old	16
17 years old	9
18 years old	4
19 years old	2
Female	-2
Literate	-1
Farmer	-4
Metalworker	-4
Textile worker	-4
Bound for Antigua	-5
Other West Indies	-6
Maryland	4
Virginia	2

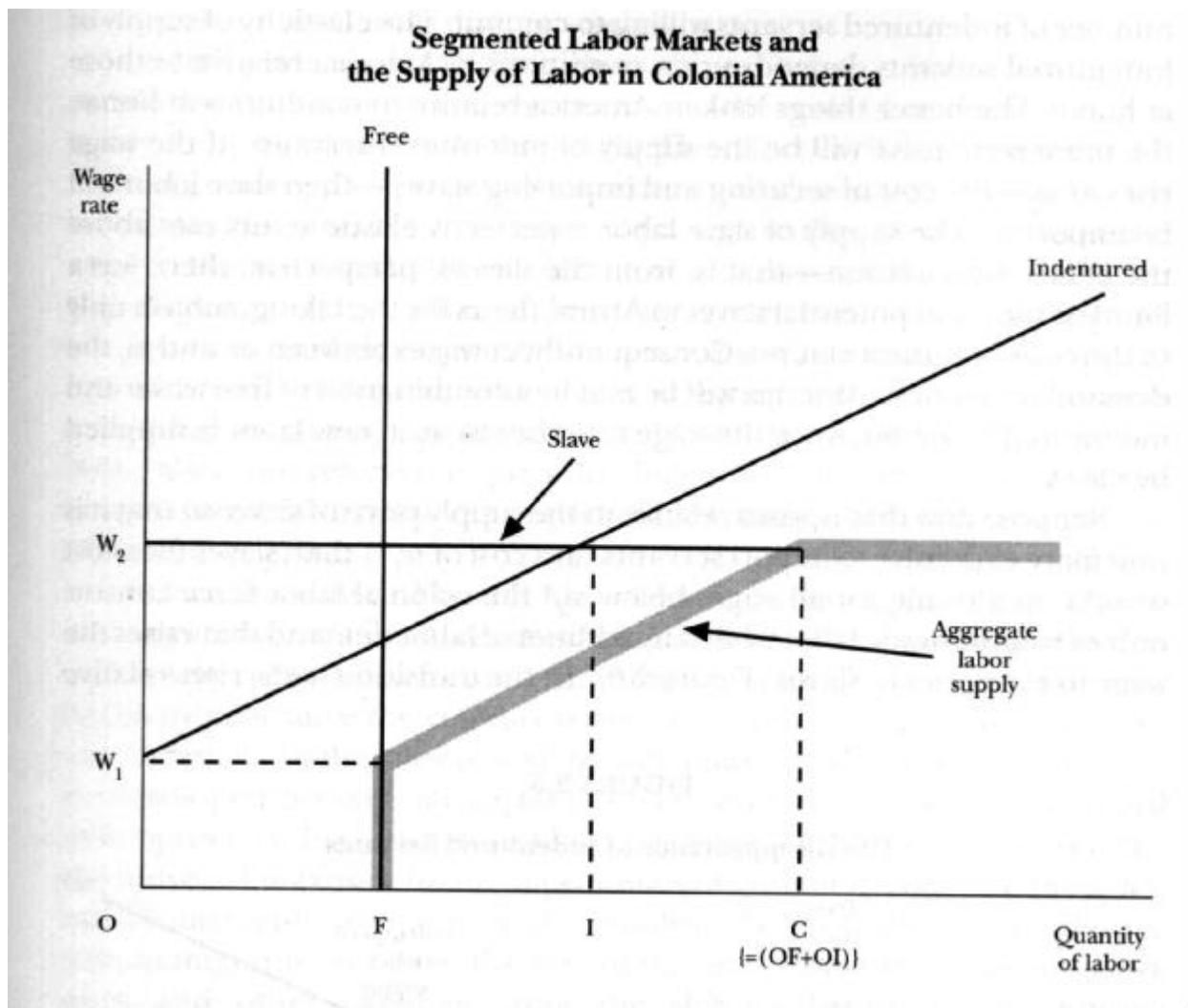
Note: Months' more or less service are added to or subtracted from the 56 months' average service for 20-year-old illiterate male with no recorded occupation bound for Pennsylvania (months rounded to nearest whole month).

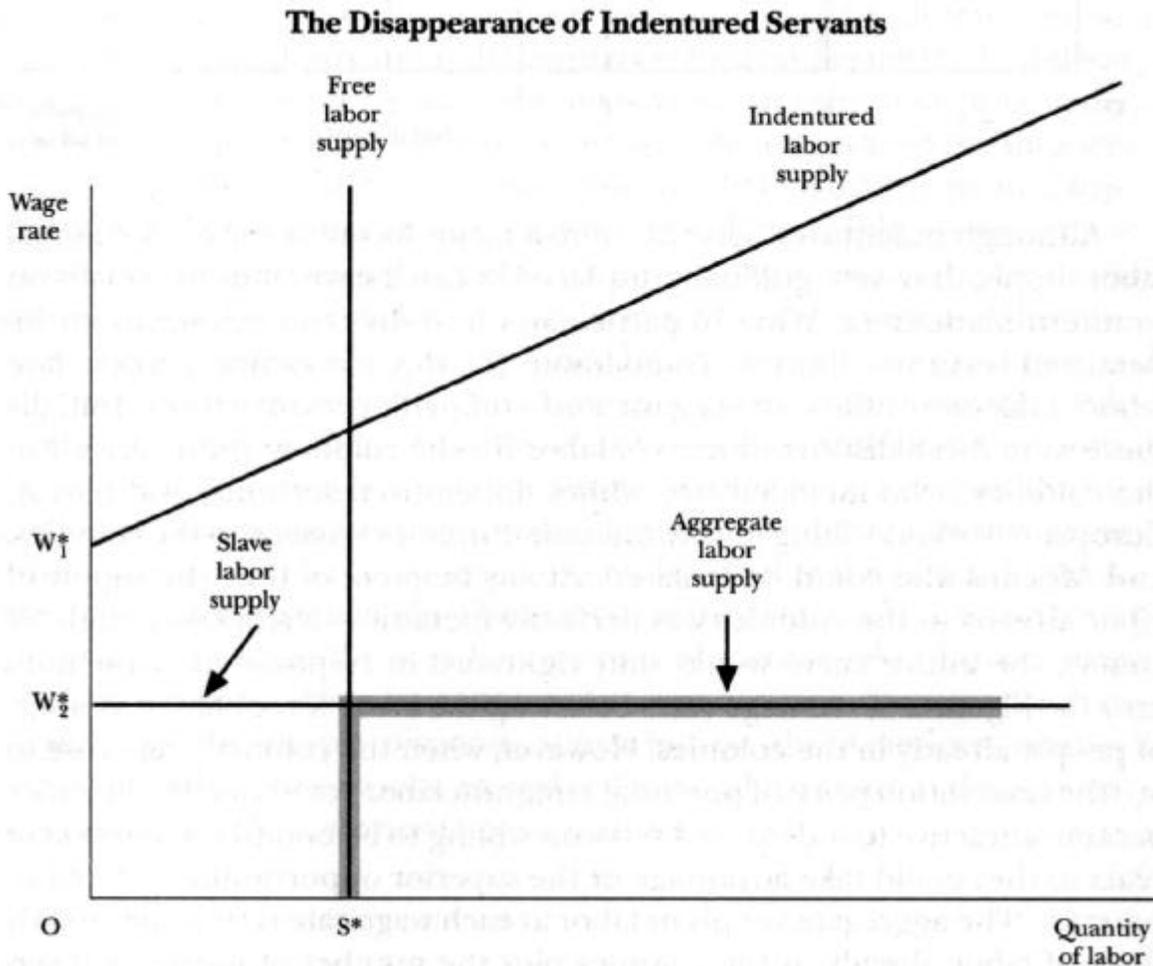
Source: Computed from David W. Galenson, *White Servitude in Colonial America* (Cambridge, England: Cambridge University Press, 1981): Table 7.1. Reprinted by permission of Cambridge University Press.

$\alpha=56$ ,  $\beta_1$  (coefficient on dummy for “under 15 years old”)=33  
→ illiterate male bound for Penn.  
with no occup serves 89 mo

what do these coefficients say about the operation of the indenture market?

### D. The appearance of slavery





**why the Chesapeake? why the wealthy?**

**E. Regional distribution of labor arrangements: role of productivity**

## IV. The Colonies on the Eve of the Revolution

**Total Physical Wealth of Free Wealth Holders in 1774 (£)**

	New England	Middle Atlantic	South	All Colonies
Average physical wealth	£161.20	£189.20	£394.70	£252.00
of gentlemen	313.40	1,233.00	1,281.30	572.40
of merchants	563.10	858.00	314.00	497.10
of farmers with outside income	144.20	257.30	801.70	410.50
of professionals	270.60	240.60	512.20	341.00
of artisans	114.50	144.50	137.80	122.50
Distribution of wealth				
Bottom 20%	1.0%	1.2%	0.7%	0.8%
Top 20%	65.9%	52.7%	69.6%	67.3%
Composition of wealth (all wealth holders)				
Land	71.4%	60.5%	45.9%	53.0%
Slaves and servants	0.5%	4.1%	33.6%	21.2%
Livestock	7.5%	11.3%	8.8%	9.2%
Personal	11.2%	8.4%	5.1%	6.7%

Source: Edwin J. Perkins, *The Economy of Colonial America* (1980, Tables 8.1 and 8.4), adapted from Alice Hanson Jones, *American Colonial Wealth: Documents and Methods* (New York: Arno Press, 1978) and Alice Hanson Jones, *Wealth of a Nation to Be* (New York: Columbia University Press, 1980).

**level: South vs. rest of the colonies**

**distribution: South vs. Middle Atlantic  
("best poor man's colony")**

**we'll return to look more closely next week**