

Economics C23-1

Lecture 3

I. The Colonies on the Eve of the Revolution

A. Wealth

B. Standard of Living

C. Growth

D. Location of the Population

II. Role of the Colonies in the British Imperial Economy

A. Mercantilism in theory

B. Mercantilism in practice

III. The Economic Roots of the Revolution

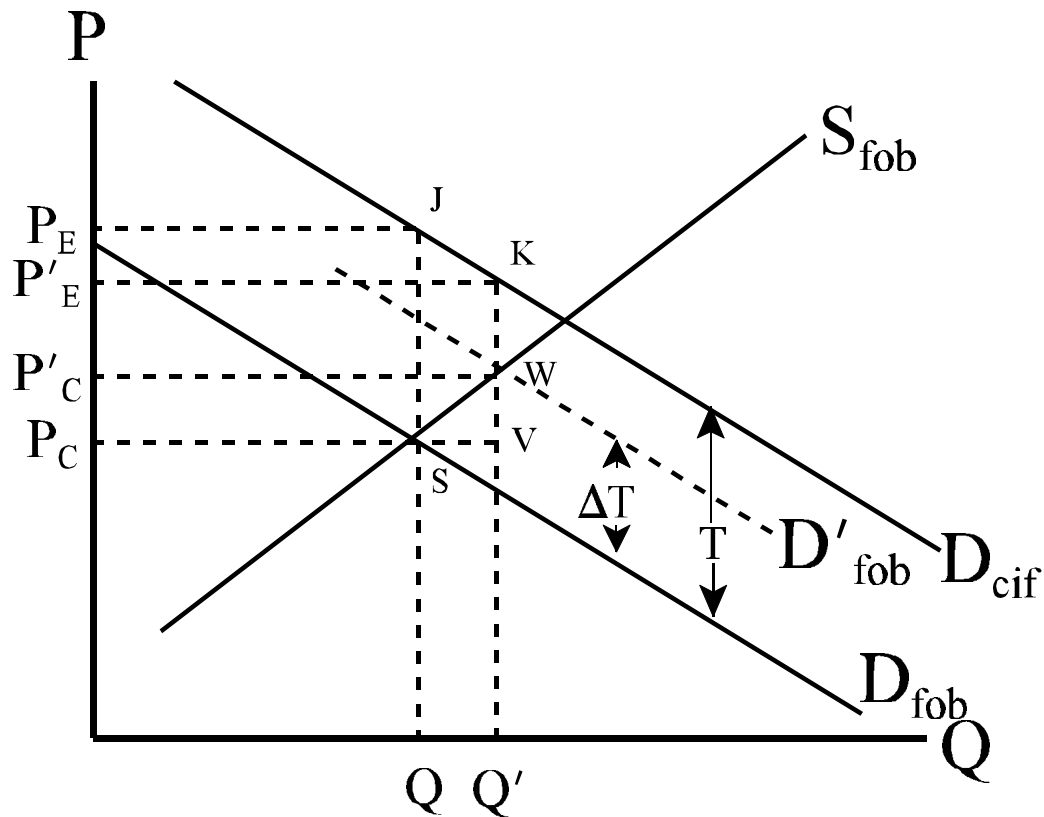
A. Costs of being part of the Empire

B. Benefits of being part of the Empire

C. Measuring the “net” burden

IV. Economic impact of the war

V. Economics of Independence



$T = \text{cost of trans-Atlantic transportation}$

1. Cost to American *consumers* of enumeration (assume D_{fob} is demand for goods on the dock in Europe, D_{cif} is demand in the colonies, and S_{fob} is the supply of goods on the dock in Europe): eliminating enumeration reduces transport cost by $\Delta T \rightarrow$ they now can buy Q' and pay P'_E instead of buying Q and paying P_E , so they gain consumer surplus equal to the area $P_E J K P'_E$.

2. Cost to American *producers* of enumeration (assume D_{fob} is demand for goods on the dock in colonies, D_{cif} is demand in Europe, and S_{fob} is the supply of goods on the dock in the colonies): eliminating enumeration reduces transport cost by $\Delta T \rightarrow$ they now sell Q' and get P'_C instead of selling Q and getting P_C , so they gain producer surplus equal to the area $P'_C W S P_C$.

3. Benefit to American *producers* of bounties (assume D'_{fob} is demand for goods on the dock in colonies, D_{cif} is demand in Europe, and S_{fob} is the supply of goods on the dock in the colonies): eliminating enumeration raises transport cost by $\Delta T \rightarrow$ they sell Q and get P_C instead of selling Q' and getting P'_C , so they lose producer surplus equal to the area $P'_C W S P_C$.

VI. Economic interests & the Constitution

A. Charles Beard's view

B. An empirical test

1. when the Convention began on May 25, 1787, there were 55 delegates appointed by the states; their occupations were

24 lawyers

8 merchants

8 politicians

6 planters

4 farmers

3 physicians

1 minister

1 printer (Benjamin Franklin)

(total does not add to 55 because 3 had more than one occupation); 12 were big owners of western land and 3 were deeply in debt

2. 29 delegates owned public securities (avg \$2,200), and 12 owned private securities (\$9,000), while 18 owned slaves (avg 95)

To assess the role of economic interests, we need consider both

- 1. the personal interests of legislators**
- 2. their constituents' interests**

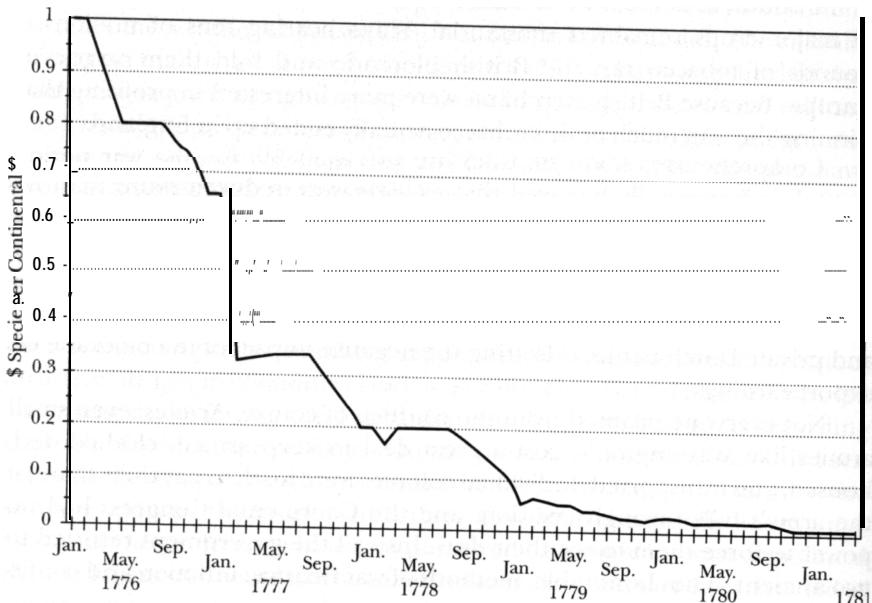
consider a vote on a particular issue (e.g. on the insertion of a presidential veto —> stronger national government)

if delegate i voted “yes” on this issue, the dependent variable V_i takes on the value 1; $V_i=0$ otherwise

now, run the regression $V_i = \alpha + \beta X_i + \gamma Y_i + \mu_i$

where X_i are delegate characteristics and Y_i are characteristics of his constituency

Dollars of Specie per Continental Dollar January 1776-April 1781



Source: **Charles Calomiris**, "Institutional **Failure, Monetary Scarcity, and the Depreciation of the Continental**" *Journal of Economic History* **48** (1988): 47-68. Reprinted by permission of Cambridge University Press.

**ANNUAL NET BURDEN ON
COLONIAL FOREIGN COMMERCE**
(million \$)

	1770	1763-1772
Burden		
Exports		
tobacco	1.63	1.04
rice	.60	.70
other	.27	.18
Imports	<u>.61</u>	<u>.72</u>
total *	3.10	2.63
 Benefit		
Tariff Preference	.28	.20
Bounties	.17	.18
total *	.44	.37
 Net Burden	 <u>2.66</u>	 <u>2.26</u>

*Columns do not add up due to rounding errors in the individual entries.

Source: Robert Thomas. "A Quantitative Approach to the Study of the Effects of British Imperial Policy on Colonial Welfare," *Journal of Economic History* 25 (Dec., 1965), p. 626.