American Revolution Boom and Bust

The economic causes for the American War of Independence

Halfway into the 1700s, the British Empire was nearing its height of power around the globe. Great Britain controlled approximately a quarter of the world's land mass and had fought five costly wars in Europe since the creation of its privately owned central bank in 1694, the Bank of England (BoE):

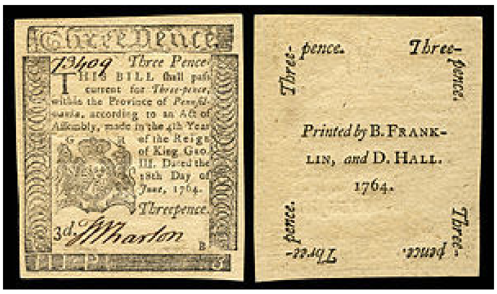
- Great Northern War (1700-1721)
- War of the Spanish Succession (1701-1714)
- War of the Quadruple Alliance (1718-1720)
- Anglo-Spanish War (1727–29)
- War of the Austrian Succession (1740-1748)

The cost had been high. The British Parliament had borrowed heavily from the Bank of England to finance these wars. Consequently, the British government embarked on a fiscal programme of trying to raise revenues from its thirteen American colonies in order to meet its usurious interest payments to the bank.

The colonists living in the thirteen colonies resisted paying taxes to the British Crown without there being direct representation. In 1766, Benjamin Franklin was called as a witness before the House of Commons, answering over 170 questions. Concerning the taxes levied on the overseas British-American territories, Franklin said:

"…an internal tax is forced from the people without their consent if not laid by their own representatives. The Stamp Act says we shall have no commerce, make no exchange of property with each other, neither purchase nor grant, nor recover debts; we shall neither marry nor make our wills, unless we pay such and such sums; and thus it is intended to extort our money from us or ruin us by the consequence of refusing to pay it."
~ Benjamin Franklin

The economies of the thirteen colonies were prosperous by the end of the 18th century, but a century ago, it was a very different situation. Because few coins were minted in the thirteen colonies that became the United States in 1776, money was scarce. Hence why foreign coins like the Spanish dollar were widely circulated to facilitate trade and commerce. The official currency denominations were the same as the ones in England (pounds, shillings, pence) but the values differed throughout the colonies. To make up for the shortfall of cash-flow, Colonial governments sometimes issued paper money to facilitate economic activity, giving birth to Colonial currency.



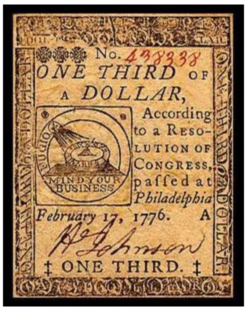
Prior to the BoE, in 1690, the Massachusetts Bay Colony printed its own home grown paper money (the first in America). This trend was adopted in 1703 by South Carolina, then by other colonies. Throughout the mid-1700s, pre-revolutionary America was still relatively poor. There was a severe shortage of precious metal coinage to trade in return for goods.

With gold and silver coins being in short supply, the early colonists were increasingly forced to experiment with printing their own self-devised paper money. Some of these experiments were successful. Commodities like e.g. tobacco were also used as money in some colonies with success where cash was in short supply. Colonial currency was nothing other than debt-free issued paper money, printed in the public interest and not backed by gold or silver coin. It was a 100% fiat currency with little intrinsic value.

Because more paper money was issued than what was taken out of circulation through taxes, the currency depreciated in relation to the British pound sterling. The resultant discrepancies were harmful to merchants in Great Britain, who were forced to accept the depreciated currency from colonists for payment of debts.

As a result, Parliament in London passed currency acts in 1751, 1764 and 1773 which regulated colonial paper money, in order to protect the interests of British merchants. The policy created tension between the colonies and Great Britain, and was cited early in the American Revolution as a grievance by colonists. The passing of these currency acts enforced tighter monetary controls throughout the colonies. Widespread poverty set in as people had a shortage of gold and silver specie. By 1773, a revolt was nigh.

After the American Revolutionary War began in 1775, the Continental Congress had begun issuing paper money, known as Continental currency. Continental currency is denominated in dollars, thus replacing the British denominations of Colonial money.



In printing their own money, the colonies had become a cause for concern at the Bank of England, with the knowledge that it had lost complete control over the issuance of the currency in the thirteen colonies; and thus was not going to generate any income from bank loans. The depiction overleaf of a continental from Philadelphia, valued at one third of a dollar, has the inscription of a rebellious phrase: "**MIND YOUR BUSINESS**". The only way that Great Britain was going to crash the Continental currency was by waging a campaign of economic warfare. The colonies were able to carry out their trade and commerce as a result of their economic independence and, as far as Great Britain was concerned, that demonstration of self-determination was untenable and could not persist unabatedly.

The British successfully waged economic warfare by counterfeiting continentals on a large scale. Benjamin Franklin expressed:

"The artists they employed performed so well that immense quantities of these counterfeits, which issued from the British government in New York, were circulated among the inhabitants of all the states, before the fraud was detected. This operated significantly in depreciating the whole mass."
~ Benjamin Franklin

Continental currency depreciated so badly during the war that it gave rise to a famous phrase: *"…not worth a continental!"*. Towards the end of 1778, continentals retained from 1/5 to 1/7 of their face value. By 1780, they were worth approximately 1/40th of their face value. The U.S. Congress attempted to reform the currency by removing the old bills from circulation and issuing new ones, without success.

Continentals had become so worthless by May of 1781 that they ceased to circulate as money. Franklin noted that the depreciation of the currency had, in effect, acted as a tax to pay for the war. George Washington lamented:

"The depreciation of it is got to so alarming a point that a wagon-load of money will scarcely purchase a wagon-load of provisions."
~ George Washington

The painful experience of the runaway inflation and collapse of the Continental dollar may explain what prompted the delegates to the Constitutional Convention to include the gold and silver clause into the United States Constitution, thereby imposing on the individual states not to "*…coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts…*".