

THE ECONOMICS OF AMERICAN INDEPENDENCE

Political revolutions are generally interpreted as intellectual (mass) movements that are inspired by religious, national and collective ideas to having shaped human history --- political psychologists do point to the collective sub-consciousness driving human behaviour and making mass action possible, i.e. this explanation tries to identify sub-conscious cultural symbols that can unite a mass of people. The American and French revolutions are often taught as twin events of great bourgeois movements that aimed at human rights and the creation of civil societies --- it is a fact, that 1848 was not successful on the European continent and that many progressive political measures were postponed by reactionary elites (in this case, the Tzars and Kaisers immediately responded in harmony by sending troops). Maybe, Lenin or Attaturk were more prudent when they launched their attacks on the ruling class --- even today, it is very difficult to analyze what made the Russian revolution to becoming a Soviet revolution where even brutal cosacks sided with the hungry masses and why is the Turkish revolution so neglected ? Is it possible that the economic revolution of American Independence does not fit into the Paretian elite cycle of revolutions ? Yes, we do think so and we will elaborate. While the British seem to be historically successful with devolution (as also recently shown), we perceive 1789 in France and 1989 in the Eastern Block as a Paretian elite cycle --- concerning 1789, we also do think that it is a tale of two revolutions, but be we will not go so far to liken the French to the Bolshevik revolution. Even today, the separation of religion and state in the Republic of France is unique on the European continent and an important future factor for a liberal society --- we do also not support the confiscation of church property, but the main factor of France falling into the Paretian category is its etatism and maybe naïve positivism (state technocratism). The main success of Bolshevism was its precise perception of a 'revolutionary situation' and moral brutality, but it falls definitely under the Paretian circulation of elites.

The American revolution is in our opinion of **different origin** and possesses an **ethical and economical nature** --- we can not go here into the biblical theory of the 10 lost tribes, but : ' For thy salvation I wait, O Lord ' (Genesis 49:18) --- salvation from the Hebrew word: yesh-oo'-aw (something, somebody saved) which was also the real name of Jesus. Although George Washington rightfully corrected many views on liberty and order (private property, market forces, individual contracts, religious tolerance) , we do think that the economic revolution of American Independence would have never happened without the holy experiments of biblical avant-gardes, like W. Penn , the Pilgrims in Holland and the Puritan communities who wanted to

save themselves from the age old traditional injustices of European society (it should be noted here that such social groups, mainly Unitarians, existed also in Poland and Hungarian Transylvania, but the 'karma' of the old territory could not be overcome) . So something biblical and economical happened on a new territory and historical documents tell us that the people involved believed to be part of a divine venture. The American revolution is linked to the teachings of the Hebrew Bible and the new evangelism challenged the traditional notions of social stratification : the true value of man was seen to be his/her moral behavior and all men can be saved.

Liberalism, enlightenment and religious tolerance claimed that without a passion for the public good there can be no real liberty and the public passion must be superior to all private passions ; **Thomas Paine (1776)** wrote and distributed his best-seller pamphlet on: **Common Sense, advocating a complete break with history and to make the immediate choice to separate from the British Empire** which operated via mercantilism where economic assets are represented by bullion (gold, silver, trade value= positive balance of trade= exports minus imports). In addition, Britain expected Americans to pay for colonial defence, but not for the interest or retirement of debt incurred during wars. The colonists objected chiefly on the grounds not that the taxes were too high (indeed they were low), but they had no representation in parliament --- the main reason for parliament to impose taxes was to prove its primacy and the main use of the tax funds was patronage for ambitious British officers (= about 1500 well-connected British officers would have become redundant and London did not want to discharge them). 13 colonies joined to break free from the British Empire and by 1774 each colony had established a Provincial Congress to form self-governing states --- in 1763, Britain had imposed a series of direct taxes followed by other laws to demonstrate authority, but the colonists viewed these laws as a violation of their rights as Englishmen. American enlightenment rejected oligarchic aristocracy common in Europe and championed instead republican liberty --- in 1783, the Treaty of Paris abandoned any British claims to the US, ending the revolutionary war from 1775-1783 ; the US constitution was ratified, with a strong and federated government, causing an upheaval of traditional social hierarchy, giving birth to an ethics of liberty. Whatever, even after American Independence, the British were still America's leading trading partner. The Currency Act of 1764 forbid the colonies from designating future currency emissions as legal tender for private and public debt, this tight money policy created financial difficulties where cash was in short supply --- American businessmen had also engaged in credit sales with Britain and financial crises gripped in London in the 1760s/70s ; British merchants called in their debts, American business was unable to generate liquidity, it was frequently ruined and the colonial economy was damaged, with Americans systematically boycotting British products. This negative financial economics and monetary dynamics

was speeded up in the same year (=1764) by the Sugar Act (indirect tax), the Quartering Act (whose costs fall on the residents) and in 1765 by the Stamp Act (direct tax). The Townshend Act (1767) brought an additional tax on a number of essential goods like paper, glass and tea. The Coercive Acts in 1774 contained 4 crucial laws, e.g. the Boston Port Act, i.e. the closing of Boston port until compensation for the Tea Party/ the British never received such a payment. American political opposition formed with the Sons of Liberty (20 core members, mainly from Boston, New York, and Philadelphia) --- actually, Britain 'made' the rebellion grow and the revolutionary war /1775-1783/ broke out ; the US was sided by France, Spain, the Dutch and Indian tribes . The British regarded the event as a civil war, no battle honours were awarded ; they were aided by additional troops of German/Hessian auxiliary units and also some Indian tribal partisans. **The French involvement proved decisive , leading to a naval victory around Yorktown/Chesapeake in 1781 and to the surrender of the 2nd British army to American General Commander Cornwallis.** The already mentioned Paris Treaty/of Sep.3, 1783/ draw the frontiers of the US in the West to the Missisipi , in the North to Canada and in the South to Florida ; the other nations received separate agreements. Do not forget that in the seven years war/ 1756-1763/, France had ceded to Britain all of its territory east the Missisipi river as well as Canada, Spain surrendered its claim to Florida !

The declaration of American Independence was ratified on July 4/1776, to announce and explain the separation from Great Britain, the author was Thomas Jefferson, the document contains the signatories of 56 delegates of the continental congress/ Philadelphia/ from the 13 colonies. The declaration was intended to be an expression of the American mind, stating that: ' all men are created equal, endowed by their creator with certain unalienable rights...life, liberty and the pursuit of happiness', i.e. we can read here biblical natural law/= laws of nature=nature's G-d/ and America is envisioned as the force behind a beginning great empire of liberty which also influenced the foreign policy of WWI (1914), WWII (1941), the Cold War (1947/1989) and the war on terror since 9/11, 2001. Thomas Jefferson became the 3rd President of the US / 1801-1809/, residing for example over the Louisiana Purchase (1803) and the Lewis & Clark expedition (1804/06). Whatever, the transfer of the power to tax shifted from the British Parliament to the new US government. Given the magnitude of British military and empire, how were the colonists able to achieve victory ? What were the economic incentives for American Independence in a 7 years war ? The Americans were being asked to finance a British army which was charged with keeping the Americans out of the West ! The victory over the French had come with a high price for the British and the per capita tax burden in the colonies ranged from 2-4% to that of Britain. So a series of tax acts were passed by Parliament and the revenue was to be used to pay for the standing army --- from American boycotts to the Tea Act and to the 2 continental

congresses, a military solution slowly evolved. The actual level of taxation was relatively modest, but the economic incentive was to avoid British regulation of trade --- after adopting the constitution, the taxes were at far higher rates than prior to the revolution. The Navigation Acts imposed only a net burden of less than 1% of colonial capita income; the burden of continued membership in the British Empire was somehow weighted against future costs of remaining in the Empire. The colonial population of more than 2 million was of 1/3 that in Britain; the growth in the colonial economy had generated a remarkably high level of per capita wealth and income.

British military advantages and British financial advantages were indeed huge and the British government had acquired exceptional capacity to generate debt to fund for wartime expenses --- but --- **America was too large for the British army to occupy all cities and the countryside. George Washington chose to engage in a war of attrition to tire the British** who occupied Boston, New York, Newport and Philadelphia; very fortunately for the Americans, the British military effort collapsed before the funding techniques of Congress: increasing the rate of issuance of their currencies = inflation, with confiscations to continue the war effort and state conventions for establishing wage and price controls. Finally, in 1781 French and American forces trapped the British army at Yorktown (above mentioned), the Paris Treaty 1783 lifted the economic burden from taxation and new land became available in the West that was available for settlement. Let us take a look on the monetary dynamics: from 1775 - 1779, the emission of continental dollars was 1775: a nominal of 6000, with 3% share of total stock, this value of 6000 was a 15% share of total value; in 1779 it was: a nominal of 145.000, with 58% share of total stock, the value of 5270 was a 13% share of total value; this period totals a nominal of 241.500, with a 100% share of total stock, the value of 41.020 was a 100% share of total value --- currency emission was at least a total of \$ 216.376, with \$ 4470 (1774) to \$ 123.376 (1781). Although these are only simple and not absolute estimations from historical data, it is evident that the Americans were fortunate that the war ended just before a speedy and higher inflation was set in motion that would have eventually stopped the movement towards Independence. The birth of a new egalitarian nation is in our perception of the events of great significance in world history --- in the following century, this egalitarian model was spreaded over even more new territory in North America. The biblical spirit of an egalitarian nation and the following economic opportunities motivated millions of people to better their living chances by migrating into this new polity. The Sons of Liberty and for example the 56 signatories of the Declaration of Independence were all very well educated members of the new commercial class that had slowly evolved in the 17th century --- for a long time, it was only possible to enter the American elite institutions of higher learning by knowing the Bible profoundly and by writing essays on divinity, before embarking into any further study. In the beginning,

the ethical spirit of liberty propelled millions of people forward , great thinkers like J. Goethe did admire ' the most liberal republic on earth' and the Paretian circulation model did not apply, i.e. the economic revolution of American Independence was as a political model a world historical exception because of its higher ethical spirit that was also the dominant economic thought of the new emerging commercial intelligence.

The historical case of **American exceptionalism** was based on the progressive availability of new free land for expanding settlement, on a steady increase of new exploitable natural resources, on the emergence of a new commercial class and maybe most importantly an ethical spirit of liberty that was based on true biblical evangelism. For example, the American economist Henry George foresaw a lot of the coming problems in his works and therefore one must not share his social philosophy --- his references to the developing privileges and monopolies are mainly neglected because of the non-academic nature of his economic thought. In any case, we can easily learn that the coming industrial age also changed the economic dynamics of the American exception. The European colonization converted marginal colonial economies into a new powerful polity that grew in about 230 years into an industrialized economy that today makes up 1/4 of the world economy ; the large unified market, a political democracy, productive farmlands, the already mentioned natural resources and the entrepreneurial spirit are even today attracting millions of immigrants from all over the world --- today, investments in material and human capital and the techno-industrial factor are playing the major role. A very important historical figure of the economic revolution for American Independence was Robert Morris, who was named in 1781 the Superintendent of the United States, being an extraordinary strong leader in financial matters ; using a French loan in 1782, he set up the private **Bank of America** to finance the war and seeking to further greater efficiency. The revolutionary war did cost \$ 66 million in the specie of gold and silver ; the French did supply the Americans secretly with money, gunpowder and munitions and bankers in Paris and Amsterdam loaned large sums to the American war effort ; until 1790, these loans were repaid in full. A long time, urbanized industry was limited primarily to the Northeast ; cotton cloth production was the leading industry, with the manufacture of shoes, woollen clothing , and machinery also expanding. Most European immigrants remained in eastern cities, mill towns or mining camps, only those with farm experience and relevant savings bought farms in the West. Almost 1/3 of the nation's income came from manufacturing, but with more than 80% of the population living from agriculture.

Historically, it was the rapid development following the Civil war that laid the groundwork for the modern US industrial economy when by

1890 the US leaped ahead of Britain for first place in industrial output. Since the revolutionary war, the US price level grew with factor 10 (1776=10, 2002=100) ; GDP per capita grew in the same period also by at least factor 10 (1776= \$ 1000; 2002= \$ 36.000). **The US in 1776 was primarily an agricultural nation** until well after the Civil war and it was operating on a gold standard which tends to limit growth in an economy based around a commodity-based system of exchange. Today, the heavy-weight of the world economy is the US debt, a close follower of the US economy and twice as big as Japan, with real debt coming very close to real GDP. In the early days of the nation, Americans used English, Spanish and French money together with the first Colonial paper notes (1690) of the Massachusetts Bay Colony ; the paper currency of the Continental Congress (1775) was to finance the revolutionary war --- to also support the war, the Continental Congress chartered the Bank of America as first real bank. The dollar became the official monetary system in 1785, but there were still no coins. A federal monetary system was established with the US mint in Philadelphia (coins were struck in 1793). The First Bank of America (1789, by Constitution) served as the US Treasury's fiscal agent, thus **performing central bank functions** until 1811. We can not go on here, but these facts only go to show how many economic, policy and technical measures have to be taken to make a national polity functioning --- after gaining Independence from Great Britain, it took a century to built the socio-political infrastructures and institutions that an advancing economy needs ; these social processes seem to carry always the danger of conflict, war and revolution and a lot of human ingenuity and tech-know-logy is needed for successful mastering the historical tides.

The spirit of American Independence does **not** make it a **typical Pareto** revolution and it seems to be a revolutionary exception from the elite circulation models that are widely used in politology and sociology. However, real economic progression started at least 7 decades later, but world history would have been much darker without the spiritual light of liberty and the self-evident truth that all men are created equal by their creator --- and there is still no end of history.

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