

Studies in Public Choice

Joshua Hall · Marcus Witcher *Editors*

# Public Choice Analyses of American Economic History

Volume 1



Springer

# **Studies in Public Choice**

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Editors

# Public Choice Analyses of American Economic History

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*Editors*

Joshua Hall  
Department of Economics  
West Virginia University  
Morgantown, West Virginia, USA

Marcus Witcher  
West Virginia University  
Morgantown, West Virginia, USA

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*To Buchanan and Tullock and Downs  
and Riker and too many others to mention.  
We stand on your shoulders.*

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# Contributors

**Jeremy Attack** Vanderbilt University, Nashville, TN, USA

**Fred Bateman (deceased 1937–2012)** University of Georgia, Athens, GA, USA

**Dora L. Costa** University of California, Los Angeles, CA, USA

**Vincent Geloso** Texas Tech University, Lubbock, TX, USA

**Jac C. Heckelman** Wake Forest University, Winston-Salem, NC, USA

**Phillip W. Magness** Berry College, Mount Berry, GA, USA

**Robert A. McGuire** The University of Akron, Akron, OH, USA

**David Mitchell** University of Central Arkansas, Conway, AR, USA

**John Joseph Wallis** University of Maryland, College Park, MD, USA

**John H. Wood** Wake Forest University, Winston-Salem, NC, USA

# Chapter 1

## British Public Debt, the Acadian Expulsion and the American Revolution



Vincent Geloso

**Abstract** Starting in 1755, the French-speaking colonists of Atlantic Canada (known as the Acadians) were deported by the British. The expulsion was desired by the American colonists in New England but was ultimately opposed by the British government. In fact, the expulsion was enacted against the wishes of the Imperial government. Set against the backdrop of rising public debt in Britain, the costly expulsion of the Acadians (combined with the subsequent conquest of the French-speaking colony of Quebec) contributed to a change in policy course favoring centralization. Using public choice theory, I construct a narrative to argue that the Acadian expulsion contributed to the initiation of the American Revolution.

### 1.1 Introduction

Until the end of the French and Indian War (1754–1763), the American colonies faced a more or less lenient British Crown—an era that Edmund Burke qualified as one of salutary neglect for the Americans. Throughout the period, the British Parliament and the Crown were lax in the enforcement of laws and edicts in the colonies. The colonies were given a certain degree of autonomy that differed from those of other colonies in the Americas (Bordo and Cortés-Conde 2001). They were also lightly taxed given the level of British public spending in the colonies (Davis and Huttenback 1982). However, a shift in policy began to emerge during with the onset of the French and Indian War and it picked up steam at its end. The shift related to requiring a greater financial contribution to the Empire from the American colonists.

What explains this shift away from salutary neglect? The most accepted narrative is that the debt-and-tax wary British felt that they were paying for the heavy burden of the Empire while the American colonists were in effect benefiting from

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V. Geloso (✉)  
Texas Tech University, Lubbock, TX, USA  
e-mail: [vincent.geloso@ttu.edu](mailto:vincent.geloso@ttu.edu)

the Empire. The burden of the public debt was the dominating political issue in Britain at the time and it formed the backdrop of most policy debates. In fact, the issue of the public debt in Britain was key to the supremacy of the Whigs in British politics (Stasavage 2007, 2003). Asking the colonies to contribute to the financing of the Empire was seen in Britain as a reasonable policy given the state of public finances (Rabushka 2008, 730–732). Simultaneously, the American colonists claimed that they ought to obtain more autonomy with regards to their governance (de Figueiredo Jr et al. 2006, 391–394). The demands of both parties being impossible to reconcile, political separation seemed inevitable.

However, the attempt to tax Americans was complemented by an attempt by colonial officials in England—through the Board of Trade—to become more active in the management of the colony (Geloso 2015; Greene 1986, 1994; Speck 1994). The policy shift was one towards a more direct involvement on the part of Britain in the management of the colony. Governors would be given extensive sets of guidelines to follow with very detailed policies to enact. Privileges previously enjoyed by the colonies were increasingly challenged by the Board of Trade and the Crown. This constituted an important contributor to the initiation of the American Revolution.

It is this component of the shift away from salutary neglect that is the concern of the present paper. The shift is analyzed through the lenses of public choice theory and the role played by two substantial events that motivated the shift: the Acadian Upheaval of the 1750s and the Conquest of Quebec. This paper will argue that the policy of salutary neglect had, by the 1750s, given the colonies virtual self-governance with respect to their internal affairs (de Figueiredo Jr et al. 2006, 393). However, this autonomy did not come with full fiscal responsibility as most of the financial costs of some crucial political decisions ended up being shouldered by Britain. Colonial governments were responding to the demands of settlers who wanted to expand settlement westwards and, in the case of New England, towards the northeast as well. In that latter case, the colonists saw their way barred by the French-Canadians settlers known as the Acadians in the modern-day Canadian provinces of New Brunswick, Prince Edward Island and Nova Scotia. The Acadians, who were in a strange legal situation that led them to be neither loyal to France or England, entertained some of the most friendly relations with Native Indians (most notably the Mi'kmaq). These two groups acted as a barrier to the settlement of New England farmers who lobbied colonial officials to deport the Acadians and squash the Indian tribe. Eventually, they got their way and the majority of the Acadian population was deported against the explicit wishes and orders from the Crown not to proceed with the deportation plan. A costly endeavor for such a minor theatre of operation, the financial cost of the Acadian Upheaval was shouldered largely by Britain. The fact that local politicians in America could take decisions whose burden would be shouldered elsewhere is a classic case of rent-seeking. This problem also incentivized the Crown, Parliament, and the Board of Trade to favor centralization in order to avoid a repetition of the problem once the more heavily (French) populated colony of Quebec was ceded by France to Britain.

This paper is organized in three sections. The first section briefly overviews the background of British public finances to properly put into perspective the importance of the Acadian Upheaval. The second section discusses the Acadian Upheaval and its costs. The last section explains, through the lenses of elements drawn from public choice theory, how the elements described in the first two sections contributed to the policy shift.

1.2 British Public Finance and the Burden of Empire

For most of the eighteenth century, England was locked in intermittent conflict with France and its varying allies. This long century of war meant that the British state had to grow extensively in order to mobilize the resources required for war (O'Brien 1988, 2011) and this meant a rapidly growing public debt. In the last year of the single longest period of peace in Europe, from 1713 to 1740, the public debt of Britain stood at 75% of the economy (Clark 2001, 435). By the end of the French and Indian War, it had surged to 132% and it fluctuated close to the 100% line until the American Revolution (see panel 3 of Table 1.1 for averages over periods of peace and war). As such, the debt constituted the premier political issue in Britain, especially since ownership of government securities became more widespread throughout the era. It was also an important factor in insuring a bargain between different factions that coalesced to form the Whig party which had a supremacy in government from 1714 to 1760.

This latter point is crucial to understand the rationale of political actors in Britain. Within the Whig party, there was a wide array of differing actors which included government creditors who bargained with religious dissenters and aristocrats who sought an expansion of parliamentary powers. Its main opponent was the Tory Party which had the landed aristocracy as one of its main constituents. That constituency

Table 1.1 British government spending in America, public debt and size of the British government

Years	Spending in America as share of total expenditures (%)	Spending in America as share of military expenditures (Navy+Army) (%)	British public debt as a share of GDP (%)	British government spending as share of the economy (%)
1740–1748	1.6	2.7	83.6	9.8
1749–1755	3.6	8.2	97.1	7.5
1756–1763	6.7	10.3	98.8	13.3
1764–1775	4.1	11.0	117.4	8.6

Sources: For British government spending in America: Gwyn (1980, 77); source for British expenditures: Mitchell (1988, 579); source for public debt: Clark (2001, 435); source for size of the economy: Broadberry et al. (2015)

generally chafed under the burden of the debt since the lion's share of taxation efforts fell upon it. The presence of government creditors within the Whig coalition led to the design of policies and constraints meant to prevent debt default and insure repayment. Moreover, these creditors did derive earnings from these securities whose repudiation risks they were trying to minimize. As such, the coalition held together as it benefitted this group (Stasavage 2003). Combined with the generous patronage conferred under the long ministry of Robert Walpole (1721–1742), the coalition was able to maintain itself in power and push the Tories into opposition for many decades (Eccleshall and Walker 1998, 2). The long-run legacy of this power arrangement was that debt-ownership became more widespread. This meant that debt creditors as a political base of support only expanded.<sup>1</sup> As such, policies that insured the financial credibility of the British government were at the center of the rationale of political actors during the eighteenth century.

With this perspective in mind, the growing cost of the Empire's reach into North America takes its relevance. Most of the financial resources allocated to North America were military in nature (Gwyn 1980, 77) and, as a share of the total military budget of Britain, they kept increasing: from less than 3% of the military budget in 1740 to above 11% by 1775 (see Table 1.1). The view in Britain was that the American colonists needed to pay their share of the Empire's defense burden. There was cause in this argument since it seems that even after the tax hikes of the 1763–1775 era, the colonies were still net recipients of British government spending (Davis and Huttenback 1982). Self-interested political actors viewed, within the overarching framework of the public debt, positively any policy that would control the net cost of the colonies.

### 1.3 The Acadian Upheaval

The combination of the relevance of the public debt issue in British politics and the rising costs of protecting the American colonies explains the role that the Acadian Upheaval played in the policy shift towards centralization.

In 1713, the population of French descent that populated today's Maritime provinces of Canada (but mostly Nova Scotia) fell under British rule. However, a strange political bargain (imposed by the fact that the population was Catholic) was struck whereby the population (known as the Acadians) did not have to take a loyalty oath to the King. Rather they had to take an oath of neutrality (Faragher 2005, 125–150). Few Acadians took the oath. In any case, they were largely indifferent to British rule (Akins 1869, 11) which made the British distrustful. The British

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<sup>1</sup>It is worth pointing out that William Pitt the Younger, a *New Tory*, was actually well-versed in financial matters. During his premierships (1783–1801, 1804–1806) that overlapped with the French Wars (1792–1815) when public debt expanded rapidly, Pitt developed a sinking fund to credibly commit to the repayment of the public debt. This shift within those of Tory sympathies shows how much the landscape of British politics had changed.

settlers in neighboring New England were especially distrustful. The issue was compounded by the fact that the Acadians entertained very friendly economic and cultural relations with the Native Indians of Mi'kmaq tribes who entertained less cordial relations with the American settlers of New England (Faragher 2005, 179).

The combination of these facts meant that there was room to exploit the distrustful disposition of the British who entertained ideas regarding deportation (Akins 1869, 6,9,58–59,69–70). Settlers from neighboring New England and British-held Nova Scotia used the discomfort surrounding the neutrality oath to further their interests. First, the growth of the Acadian population was faster than theirs, which they perceived as potential competition for land (Johnston 2003, 41–42). Second, the Acadians were known for developing, impressively given the capital constraints associated with frontier economies such as those of the New World, elaborate irrigation systems to permit agricultural growth. The deportation of the Acadians, under the pretext of their constituting a credible security threat, would have meant the ability for American colonists to settle already improved lands (Akins 1869, 9). Third, the friendly disposition of the Acadians towards the Mi'kmaq who had much less cordial relations with the American settlers meant that the strength of the tribe would diminish if the Acadians were deported.<sup>2</sup> These motivations were sufficient enough for British settlers to push for deportation arguing that on top of being a threat, the Acadians were “lazy [and] unskillful in methods of agricultural [and cannot] be led or drove into a better way of thinking” (Akins 1869, 102) and that “industrious laborers” of British stock would be able to farm the land (Akins 1869, 9).

The drive for deportation was largely made by settlers in New England and British Nova Scotia. This was resisted by the government in London. In the 1750s, the Secretary of State underlined “pernicious consequences” from the deportation of an otherwise “considerable number of useful subjects” (Akins 1869, 581–582). When the deportation began on August 10th 1755, London had not sanctioned the move. In fact, London had sent instructions not to proceed with the deportation on August 13th 1755. The Imperial government had, in effect, rejected the move but it ended up with the bill. Overall, close to 7000 individuals were deported and the military and transport costs of the operation were estimated at somewhere between 87,621£ and 101,886£ (see Table 1.2) (Geloso 2015, 58–63). For an operation of arguably minor military importance, the costs were considerable: somewhere between 1.2% and 1.4% of British government spending and between 2.7% and 3.2% of total military expenditures. It also represented between 32.7% and 38% of the average annual budget dedicated to North America. Given the minor importance of the colony and the lack of a perceived threat on the part of London, these constituted heavy costs for the Crown.

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<sup>2</sup>Early on, the British governors of Massachusetts offered payments for the scalps of any Mi'kmaq (regardless of age and gender) (Akins 1869, 581–589).

**Table 1.2** The costs of the deportation of the Acadians

	High estimate	Low estimate
Total cost	101,886£	87,621£
Cost per deportee	14.56£	12.52£
As share of British government spending	1.4%	1.2%
As share of British expenditures on N America	38.0%	32.7%

Source: Costs: Geloso (2015, 62); source for spending in Britain and in North America: see Table 1.1

Note: Geloso, presented the cost per head as the cost relative to the total Acadian population which was in the logic of his article. Here, it is more logical to show the cost per deportee. However, Plank (2003, 149) proposes a much higher figure for deportation which nears 11,000 (the near totality of the population). Most historians agree that the number of deportees is between 7000 and 8000. There were also supply costs and recolonization expenses that were not included in these figures which amount to 14,570£ and 62,655£ (Geloso 2015, 62)

## 1.4 A Public Choice Interpretation of the Policy Shift

The fact that the Imperial government had explicitly rejected the project while footing the bill is crucial to our understanding of the shift towards increased centralization. Indeed, the colonists obtained the benefits of the deportation—available land combined with a parliamentary grant for recolonization—but they did not assume the costs. The level of autonomy conceded to the American colonies did not come with the financial responsibility of autonomy and this institutional arrangement formed a “moral hazard” problem for the Empire (Geloso 2015, 72). This problem is well explained by a public choice interpretation that relies on the concept of rent-seeking. It is from that explanation that the policy shift can be understood properly.

The settlers of New England and British Nova Scotia were engaging in rent-seeking (Tullock 1967; Krueger 1974). Their efforts to link the prejudices running against French-speaking Catholic with a potential security concern were deployed in order to redistribute land in their favor. In fact, they were quite explicit about it. Faragher (2006, 83) points to a letter (echoing many others) published in newspapers of New York, Pennsylvania and Maryland that presented the expulsion of the Acadians as a “Great and Noble Scheme” and as a chance to obtain land “as good (...), as any in the world”.

However, the actors who took the decision to expel the Acadians did not have to assume the full burden of the decision. On the first hand, governors William Shirley of Massachusetts and Charles Lawrence of Nova Scotia were largely respondent to the colonists who constantly lobbied for the expulsion. Moreover, the “salutary neglect” of Britain meant that they had a free hand in responding to this constituency. On the other hand, this autonomy did not come with full fiscal responsibility. While, the colonies did collect taxes for their own civil governments (Rabushka 2008) and militia service represented their defense contribution, the regular troops and the ships of the Royal Navy were provided by Britain. The latter

constituted the lion's share of colonial expenses. Local militiamen, untrained and personally assuming the expenses of their equipment, on leave from their farms or trades could have hardly afforded to spend a season campaigning in order to expel a few thousand settlers. Nor would they have had the capacity. The expulsion required the use of 2250 soldiers who had to scout for stragglers and repel the Acadians who evaded capture and fought back, with the help of the Mi'kmaq, against them (Geloso 2015, 60–61). Moreover, frigates from the squadron assigned to North America waters had to be used to protect the large number of transports ships.

Finally, it is worth pointing out that the Acadians and the Native Indians had developed an understanding that new settlers would have had to respect. The Acadians ceded the wooded uplands to the Mi'kmaq for migration, fishing, hunting and gathering. They confined their settlements to the coastal lowlands (where they built elaborate dykes to permit farming) and both parties would exchange furs for agricultural produces (Faragher 2005, 2006). In the framework of the less cordial relationship between British colonists and the Native Indians, raids and conflicts were more frequent than trade. Absent the implicit subsidy on the part of Britain, they would have had to assume the extra burden of fighting the natives. The fact that taxpayers in Britain shouldered the largest share of the costs of the operation (and very little of the benefits given the strategic relevance of expelling the Acadians) meant that the colonists did not have the fiscal responsibility that came with their great autonomy.

This situation corresponds to a problem of dispersed costs and concentrated benefits. This type of problem emerges when choices are divorced from the consequences of those choices (i.e. a lack of responsibility). The sectional interests of Massachusetts and Nova Scotia competed for policies whose benefits would accrue largely to them. However, they would have been less likely to pursue those benefits had the costs not been assumed by a third party. Such a problem would be consistent with the observation that the colonists were net recipients of government spending from Britain (Davis and Huttenback 1982).

These problems were not lost on political actors in Britain. Following the Acadian Upheaval and the French and Indian War, parliamentary committees increased their scrutiny of the public expenses of the colony of Nova Scotia and credits were withheld from the colony if it did not get its accounts in order (Hully 2012, 122–123). In Parliament, Edmund Burke lambasted the British colony of Nova Scotia. He and his followers considered the colony of Halifax as the “greatest public pork barrel project yet opened in North America” (Griffiths 1992, 79). Indeed, the Crown had expanded—over the course of the colony's existence—close to 700,000£ (Gwyn 1998, 28). The Board of Trade felt compelled—after being submitted to political pressures—to exercise tight control over the colonies (i.e. greater centralization), starting with Nova Scotia. The strict control that the Board of Trade exercised over Nova Scotia (i.e. greater centralization) formed a sort of training ground for further attempts at centralization (Hully 2012). The impetus for centralization was further increased when Britain conquered the colony of Quebec (populated by 60,000 Catholic inhabitants of French descent). The Board of Trade and the Secretary of State issued very detailed directives to the governors



of Quebec—82 sets of instructions were delivered to Governor James Murray which dealt with topics from marriage, relations with the Indians, iron works and religion (Shortt and Doughty 1918, 132–149).

However, centralization did not entail “one-size-fits-all”. In fact, it was seen as a tool for flexibility and better coordination (Lawson 1989) where policies could custom-made for each colony. From this flexibility emerged an informal policy of toleration<sup>3</sup> towards the French-speaking Catholic population of Quebec which culminated, by 1774, in the Quebec Act which recognized many of the civil institutions that had existed prior to the conquest. This limited the risks of rebellions<sup>4</sup> and alliances with Native Indians<sup>5</sup> while also preserving the revenues associated with the fur trade (the main export from Quebec). These reduced risks allowed the British to dramatically wind down the garrison from 3200 men (for Quebec City only) to less than 1000 (Geloso 2015, 71) between 1763 and 1771. It also allowed the Governors of Quebec to face down the merchants who wanted tough measures adopted against the French-Canadians and more legislative autonomy (but only for the very few Protestants, not the Catholic majority) (Lawson 1989).

Toleration extended in a different form to the Native Indians. Wars with them had been prohibitively costly. Policies meant to appease and soothe the relations with them were seen in an increasingly favorable eye. If westwards settlement could be limited or be accomplished in a more agreeable manner between the involved parties, this would limit the probability of conflict. Moreover, bribing Indians meant creating a pool of loyal allies who could complement British military forces. At the end of the French and Indian War, such approaches were adopted in all earnestness by the British to the point that historian Robert Allen (1992) could title his book on British Indian policy and the defense of Canada as *His Majesty's Indian Allies*.

Toleration was a cost-reducing policy tailored specifically for Quebec and its adoption was heavily informed by the Acadian Upheaval (Geloso 2015).<sup>6</sup> Increased

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<sup>3</sup>Here, I do not mean toleration in the enlightenment sense, even less in the sense of acceptance. Rather, I mean a form of pragmatic shrugging-off of differences in order to serve other purposes. Indeed, many of the government officials of Quebec, with the strange exception of Governor James Murray, held negative views of the French-Canadians. These men (which included Governor Guy Carleton who replaced Murray) nonetheless pushed for toleration of the civil and religious institutions of the French-Canadians.

<sup>4</sup>The policy paid off early on as many Canadians refused to help the Americans during the 1775 invasion—some did, but many more fought for the British and a great deal more simply engaged in a friendly neutrality towards the British.

<sup>5</sup>The policy seems to have paid off in that regard as well. During the Pontiac uprising of the early 1760s, French-Canadian militiamen heeded the call of the governor to help them fight the Native Indians. Although they were not actively engaged, their willingness to fight on the behalf of the British suggests that the toleration policy paid off.

<sup>6</sup>There is supportive evidence that this bred further waves of toleration as government policy. Indeed, it is argued that the Quebec Act of 1774—which formalized the toleration policy—formed the basis of the Irish Catholic Relief Act of 1778 which eased many constraints placed upon Catholics in Ireland (Stanbridge 2003).

centralization permitted the adoption of policies tailored to each individual colony. The policy response lends itself to public choice analysis. Readers should recall that, as mentioned above, public debt ownership in Britain became more widespread throughout the eighteenth century. Any policy courses affecting the public debt would resonate in the mind of the (propertied male) voters of Britain. Moreover, an increasing number of government creditors were part of the governing apparatus. In the functions they occupied, they pushed for the adoption of policies that insured a credible commitment towards debt repayment (i.e. reducing default risks). The fact that they shouldered the costs of policies that benefitted only the American colonists would have made these entrenched interests more likely to respond to costly endeavors like the Acadian Upheaval. As politicians with vested interests, they were acting on their behalf even if it meant a tighter control of expenditures than would have otherwise been the case. The policy response was thus a rent-seeking response to a problem created by earlier rent-seeking.

This has an important implication for American history. The attempt to centralize on the part of London was a crucial ingredient in the initiation of hostilities between the colonists and Britain. The Acadian fiasco was a key ingredient in that policy shift. As such, it contributed in no small part to the American Revolution. The Acadian Upheaval also informed Britain of the need to adopt a pragmatic policy of toleration once Quebec was acquired which could be provided by centralization through the tailoring of policies for individual colonies. This policy led to the adoption of the Quebec Act of 1774 which tolerated Catholicism in Quebec and the feudal institutions inherited from the French while also putting a barrier to westwards settlement. That the Quebec Act was known in the American colonies as one of the Intolerable Acts should be sufficient to understand the reaction. Through this indirect channel, the American Revolution was initiated.

## 1.5 Conclusion

This article has argued that a public choice interpretation can be made of the causes that led to the American Revolution. Indeed, one of the key factors in the revolution according to historians like Greene (1986, 1994, 2000) was the attempt on the part of Britain to provide a more centralized management of the Empire. This policy shift which was based on the fear that “the extensive autonomy enjoyed by the colonies might somehow lead to their loss” (Greene 2000, 99). It was heavily informed by the costly venture of expelling the Acadians in the Maritime provinces of Canada, an operation of minor strategic importance. The colonists reaped the gains of the expulsion while the fiscal responsibility was shouldered by London. The virtual autonomy over internal affairs granted by the policy of salutary neglect enabled the rent-seeking behavior of the colonists who wished to obtain the farmlands of the Acadians. The policy of centralization was a response to this issue since it limited the autonomy of the colonies and also permitted the adoption of custom-made policies centrally designed for each colony. That policy was also

the result of rent-seeking as the actors who designed them were responding to a growing constituency of government creditors, many of which were members of the government concerned with default risks.

As such, this article provides a public choice interpretation of one of the (many) leading causes of the American Revolution.

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# Chapter 2

## North-South Alliances During the Drafting of the Constitution: The Costs of Compromise



Robert A. McGuire

**Abstract** This chapter challenges the long-standing conclusion that North-South alignments helped bring the 1787 Constitutional Convention to a successful conclusion. The widely divergent economic interests between the regions regarding commercial and merchant activities, imports and exports, and slavery and the slave trade created such widely divergent sectional differences that the North-South agreements and compromises that were necessary to complete the Constitution created a governing institution that sowed the seeds of its own downfall. By 1861, the Constitution's original design could no longer serve as the nation's governing institution; its design created circumstances that led to southern secession and a civil war that killed and wounded more than a million Americans, cost several billion dollars, and required three major amendments to "save" the Constitution as the nation's governing institution. This chapter draws on economic reasoning, political theory, and the historical record of the 1787 Constitutional Convention to challenge the long-standing conclusion that the North-South alignments helped bring the convention to a successful conclusion. The methodological approach involves juxtaposing economic principles and the issue positions of the framers and their states on the major North-South agreements and compromises among the delegates.

### 2.1 Introduction

The great danger to our general government is the great southern and northern interests of the continent, being opposed to each other. – James Madison, Constitutional Convention, June 29, 1787 (Farrand 1911a, p. 476)

We must make concessions on both sides. Without these the constitutions of the several states would never have been formed – Elbridge Gerry, Constitutional Convention, July 2, 1787 (Farrand 1911a, p. 515)

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R. A. McGuire (✉)  
The University of Akron, Akron, OH, USA  
e-mail: [rmcguire@uakron.edu](mailto:rmcguire@uakron.edu)