

## Unintended Consequences of Trade Distortions and Price Controls: A National Tragedy provides a Teaching Moment

By

S. Christoffersen, Ph.D.<sup>1</sup>

### Abstract

The tragedy at Valley Forge during George Washington's military encampment in the winter of 1777-1778 provides a vivid lesson in economics. Trade disruptions and price controls - mistaken policies of the nascent republic, consistent with the political philosophy of the times - were contributing factors to death of nearly two thousand soldiers camped at Valley Forge. In this paper, we employ a fundamental supply and demand analysis, and then we illustrate a price ceiling and subsequent shortage. The glitter of British entertainments in Philadelphian society and the harshness of the Continental soldiers' meager existence twenty miles away provide a sharp contrast and sparks the imagination for any student of economics.

Keywords:

Economic history, Revolutionary War, trade distortions, shortages, Valley Forge

JEL Classification:

### Introduction

Following is a story of price controls and trade disruption that will inspire interest in economics and early American history. We document the economic philosophy in Britain which carries over to the British American colonies as the basis of their early trade policies, as well as price controls meant to contain inflation. We further illustrate the supply and demand dynamics that inevitably lead to the tragic consequences at the winter encampment at Valley Forge.

### Economic Philosophy in British America

*Mercantilism* dominated English economic thought on trade from at least as far back as the medieval acts of the great King Alfred, through to Parliamentary laws in the 1600's, the Navigation Acts between 1651 and 1673, and continued to dominate during the Revolutionary War period.<sup>2</sup> This trade philosophy recommends limiting imports while promoting exports, based on the feudal system of the 1500's and is currently described as *economic nationalism*. While export promotion was intended to secure economic benefits for England from her colonies, it also unintentionally advantaged the British American colony. The Navigation Acts

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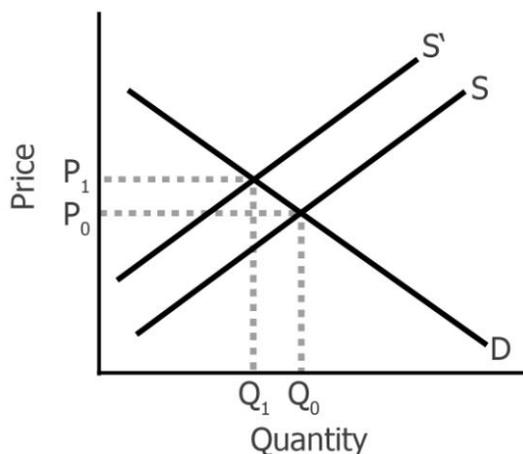
<sup>1</sup> Associate Professor of Economics, School of Business Administration, Kanbar College, Philadelphia University, School House Lane and Henry Ave, Philadelphia, PA 19144  
[christoffersens@philau.edu](mailto:christoffersens@philau.edu)

<sup>2</sup> McCusker and Menard, p. 46

created a closed trading system in which all members of the empire had access to trade (a custom union) while the Dutch and other nations were closed out. “Protected and encouraged by the Navigation Acts, the colonists moved quickly to seize the chances open to them” as they were no longer restricted to roles such as commission agents for the British.<sup>3</sup> The colonists became active exporters of raw materials as “all citizens of the empire had clearly absorbed the spirit of mercantilism”.<sup>4</sup>

In addition to export promotion, mercantilist philosophy includes “import prevention”,<sup>5</sup> thus it is not surprising that trade barriers in America date back to before America existed as an independent country, including barriers to trade in textiles.<sup>6</sup> “In the years after 1750, the men who would lead the colonists into declaring their independence... became increasingly captivated by a vision of an American empire... that would protect American commerce,... (and) develop American industry”.<sup>7</sup> Benjamin Franklin was among those who promoted this vision, thus an early advocate of protectionism, according to Gerald Stourzh.<sup>8</sup>

At the very onset of the revolutionary era, George Washington called for boycotts of British textiles. When the royal governor dissolved the Virginia assembly in 1765, “George Washington, Patrick Henry, Thomas Jefferson and other assemblymen hied to a tavern where they agreed to boycott British goods”.<sup>9</sup> In 1769, Washington led the Non-importation Association and several years later he chaired the Virginia committee that adopted the Fairfax Resolution calling for an intensified boycott of British goods.<sup>10</sup>



### (Simple) Economic Analysis

The non-importation agreement of late 1774 was followed by further prohibitions on trade with Britain, leading to “acute shortages”.<sup>11</sup> The impact of limiting imports of textiles is clearly identified by supply and demand analysis: if we limit British textiles, there are fewer suppliers (S

<sup>3</sup> McCusker and Menard, p. 47

<sup>4</sup> McCusker & Menard, p. 47

<sup>5</sup> Charles M Andrews, 159-259

<sup>6</sup> Christoffersen, p.78 history of trade barriers in the textile industry

<sup>7</sup> McCustard and Menard, p. 357

<sup>8</sup> Gerald Stourzh

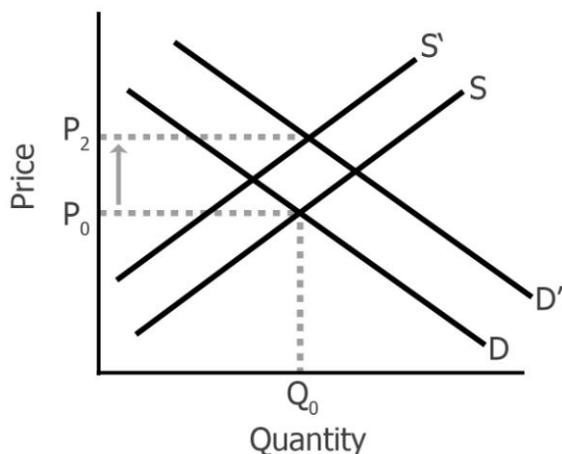
<sup>9</sup> “The Spirits of Independence” p. 14

<sup>10</sup> Shleier, 2006

<sup>11</sup> McCusker & Menard p. 361

to  $S'$ ), and inevitably there will be upward pressure on prices ( $P_0$  to  $P_1$ ) and less quantity ( $Q_0$  to  $Q_1$ ) available in the marketplace.

The pressure on prices is further exacerbated by various preparations for the war, specifically, provisioning the troops.<sup>12</sup> The demand for textiles increases due to the need for uniforms and protective outerwear for soldiers, especially those fighting in the northern colonies. Thus, in addition to the inward shift of Supply ( $S$  to  $S'$ ), there is an expansion of Demand ( $D$  to  $D'$ ), both exerting upward pressure on prices ( $P_0$  to  $P_2$ ).



While the market forces led to sharp increases in prices, there were political forces at work that would soon exacerbate the problem. “In late 1774 and 1775, Congress tried to stop all trade by employing the weapons of boycott and embargo.”<sup>13</sup> The war years “witnessed the beginnings of a national policy; a great increase in government intervention in economic affairs.”<sup>14</sup>

The acute shortages, accompanied by higher prices, were burdensome, and in an attempt to alleviate the burden of price increases, the nascent republic called for price controls on various products, including textiles.<sup>15</sup> The Association of 1774, calling for cessation of trade with Britain, also called for price ceilings, “merchants were urged to keep their prices at the level that prevailed over the previous 12 months” or risk being cut off from business with fellow citizens.<sup>16</sup> “The more important attempts to control prices were carried out at the state and local levels”, with statewide controls coordinated at regional conferences (Providence, R.I., 1776; York, PA, 1777; Springfield, Mass, 1777; New Haven, Ct., 1778; Hartford Ct 1779; Philadelphia PA 1780).<sup>17</sup>

To the extent that the legislation kept prices below the market equilibrium, the shortages due to import barriers were exacerbated (Quantity Demanded exceeds Quantity Supplied at  $P_3$ ; Shortage =  $Q_D - Q_S$ ).

<sup>12</sup> McCusker & Menard, p. 361

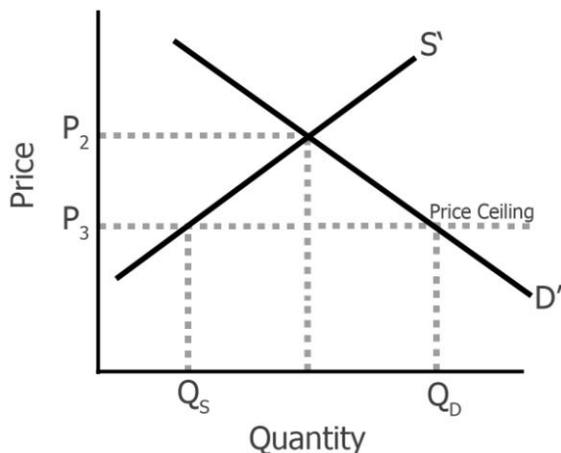
<sup>13</sup> McCusker & Menard p. 361.

<sup>14</sup> McCusker & Menard, p.360.

<sup>15</sup> Schuettinger & Eamonn, p. 41.

<sup>16</sup> Rockoff, p. 29.

<sup>17</sup> Baldwin, p 37-38.



The disastrous winter at Valley Forge can in large part be attributed to these *well-intentioned but misdirected laws*. On June 4, 1778, the Continental Congress, finally ended the ill-fated price controls with the following resolution: “Whereas...it hath been found by experience that limitation upon the prices of commodities are not only ineffectual for the purposes proposed, but likewise productive of very evil consequences...resolved, that it be recommended to the several states to repeal or suspend all laws or resolutions within the said states respectively limiting, regulating or restraining the Price of any Article, Manufacture or Commodity”.<sup>18</sup>

### Impact of Misguided Policy

Contrast the social scene in Philadelphia with Washington's nearby winter encampment at Valley Forge: the British Army is encamped in Philadelphia, “the gayest of all colonial cities,”<sup>19</sup> attending society balls and being entertained by Philadelphia's elite. Twenty miles away, Washington's army has walked as far as the winter weather permits and is now encamped at Valley Forge, a wooded area whose slight rise allows a view across the fields in order to observe any advance of the British forces (one that never came). The “ragtag” Continental army forages the countryside for food and cuts down trees to build and heat log cabins.

The “growth of a self-conscious, powerful colonial elite” and the active “involvement of the ‘lower orders’ in the Revolutionary movement” are documented by Egnal and Ernst (1972).<sup>20</sup> Given these disparate social classes, we might ask who had the ability to purchase the limited supply of textiles: the elite in Philadelphia (who incidentally live near the port), or the rural mother (who desperately wants to sew protective clothing for her son in the militia)? Lower prices might have helped the farmwife to afford the material but it would never reach her. British officers and Philadelphian society had proximate access to the goods and certainly the ability to bribe or otherwise influence purveyors to supply their need for ever-new garments. The result: nearly two thousand people die during the winter encampment, a large number from disease resulting from exposure; “shortages of clothing did cause severe hardship for a number of

<sup>18</sup> Schuettinger & Eamonn, p. 41

<sup>19</sup> Brown, p.755, 757

<sup>20</sup> Egnal & Ernst, p. 9-10

men”<sup>21</sup>. This national tragedy is commemorated today by the National Park at Valley Forge, Pennsylvania.

### Conclusion

Bright lights, fancy dinners and the British military elite dancing with society mavens, all decked out in their fine uniforms and elegant dresses sparks the imagination. A mere twenty miles away, men foraged in the snow with rags on their feet and scant clothing to protect them from the elements. The contrast of brilliant society balls just a horseback ride from thousands of desperate men perishing in a snow-covered Valley Forge is tragic. These deaths were the dire consequences of mercantilism and political interference with supply and demand.

This brief economic history will peak students’ interest in a mythic tragedy set during stirring historical times, and it may educate citizens who vote and policy makers regarding the unintended consequences of trade disruption and price controls.

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<sup>21</sup> [www.nps.gov/vafo](http://www.nps.gov/vafo)