ECONOMIC CONSEQUENCES OF THE FRENCH AND INDIAN WAR FOR THE PHILADELPHIA MERCHANTS

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The conclusion of the Seven Years War and with it the ending of England's lavish spending in the support of her armies and those of her allies left the western trading world in a state of acute distress. It was the now familiar story of wartime inflation and speculation inspired by cheap money and great demand followed by postwar collapse when the factors which supported the boom ceased to exist. On the European side of the Atlantic critical times were evidenced by the numerous failures reported from such widely scattered places as Stockholm, Berlin and London. In America the repercussions of these failures accentuated the problems of an already debtor community.

As a participant in the War and as a part of the closely integrated British Empire it was inevitable that Pennsylvania and its commerce minded capital should share in the vicissitudes of this trying period. While the conflict lasted, business activity in Philadelphia reached an all time high. But the factors on which the seeming prosperity was built were both war-born and transient. They were hastily erased with the coming of peace. What was left was only an aggravated version of the unsatisfactory prewar economy. All of the old problems which the merchant had strained to cope with, particularly the shortage of exchange and the lack of an adequate currency, reappeared and were further from solution than ever. Like his associates in the mother country, the local merchant finally sought political cures for economic ills. Some of the antecedents of the Revolution undoubtedly lie in the dislocations presented in the following discussion.

The years 1754 to 1760, or more descriptively the period during which North America was an important theater of military

\[1\] Pennsylvania Gazette, Feb. 9, 1764. Under heading "Amsterdam."
operations, were years of great prosperity for those who dealt in English and European goods. Despite high insurance rates and increased costs of production which obliged merchants to raise prices, sales exceeded those of any previous time. Instrumental in making this possible by expanding the purchasing power of all classes, were the large emissions of Provincial paper currency and the British money poured into America for the purchase of military supplies. Business was also stimulated by the liberality with which English merchants extended credit. The latter were almost undiscriminating in whom they trusted. Former clerks, supercargoes and retailers with hardly any capital were able to secure a stock of goods and proceed to partake of the large volume of trade which existed. Optimism seemed unlimited. Just a beginner in business, Daniel Clark reported to William Neate, a British merchant, that he found the demand so great that he believed he could sell goods to the amount of £10,000 annually.  

With such activity, imports increased by leaps and bounds. In 1757 they were £168,246; in 1758, £260,953; in 1759, £498,161; and in 1760 an all time high of £707,998 was reached.  

Large sales notwithstanding, the market was completely overestimated; goods were actually imported far beyond the ability of the province to consume. The firm of Willing and Morris as early as 1758 stated that the amount of cotton goods in Philadelphia was equal to three years' consumption. In 1761 James and Drinker admitted that they had overimported by £10,000 in the year 1760. In the same year Daniel Clark estimated that except for a few articles there were enough English goods in town to last for ten years while more were pouring in daily. Oddly enough, the excess of imports did not produce the rise in the rate of exchange which

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8 Daniel Clark to William Neate, London, October 16, 1760, Clark Letter Book. It may be interesting for purposes of comparison to note that a few years earlier £5,000 had been considered a goodly original capitalization for a beginning firm.

9 Johnson and Collaborators, History of Domestic and Foreign Commerce of the United States, Vol. I, p. 120.

4 Willing and Morris wrote, "by two vessels lately arrived from Liverpool and three from London there is at least £20,000 Sterling value of Manchester Goods imported which with what was already here is more than equal to three years' consumption. Most of those concerned in the trade are people who deal on credit & must sell even to a loss to enable them to make punctual remittances for the support of their credit in England," Willing and Morris to Robert Hibbert and Company, Manchester, March 28, 1758, Willing and Morris Letter Book.
would normally have checked the inflation in a short time. Instead of rising, the rate of exchange actually declined. With a few minor fluctuations it fell from 171 in July of 1756 to 150 in July of 1759. The best explanation is that British purchases in America and the sale in England of prize goods seized by American privateers made bills of exchange easily available. A low rate of exchange in itself encouraged large importations because of the ease and cheapness with which payments could be made to English creditors.

Although the causes had been developing for some time, it was within the space of a few months in the summer and fall of 1760 that the bubble burst, transforming what had been the greatest prosperity into the most severe depression Philadelphia had ever known. "Times have changed much within these few months that we apprehend many of the importers of European goods must feel the Alteration very sensibly had they continued as they have for two or three years past" was the opinion of James and Drinker in November of 1760. The firm might well have predicted that hard times would last several years, and that a number of Philadelphia merchants would fail before there was any improvement.

Causes of depressions are always complex, but in this case two complementary factors may be singled out which seem to have been primarily responsible—the tremendous debts which retailers owed the Philadelphia merchants and the latter in turn owed to their English correspondents, and the decline of the extraordinary sources of income which had come into existence earlier in the war. With the shifting of military operations to the West Indies the British government no longer spent the large sums of money in America which it had formerly. It was also about this time that the illicit trade which had furnished the colonists with low cost

\footnote{Bezanson, Gray, and Hussey, Prices In Colonial Pennsylvania, Appendix, Table 17, p. 431. Par was about 165 to 170. That is, Pennsylvania currency was normally worth about 65 to 70 per cent less than English.}

\footnote{Willing and Morris Letter Book, January 26, 1758.}

\footnote{James and Drinker to Hillary and Scott, November 14, 1760, James and Drinker Letter Book.}
commodities to remit to the mother country was drastically reduced. In short, a decline in the means of making remittances came just at the time when payments for the large imports of the preceding years were due. The disparity in the credits and debts of the merchants may be read in its inevitable result, a rising rate of exchange. In May 1760 the rate was almost as low as it had ever been, 153; by October of the same year it was 170; and by August 1761 it had risen to the almost unheard of height of 180. Daniel Clark gives a good summary of the evil times upon which Philadelphia had fallen. In February of 1762 he wrote:

the present time is perhaps the most distressful the Philadelphians have ever met in the way of business, at least the modern part of them. We owe heavy sums in England. Sales dull. Goods high and scarce at home [England], here plenty, money prodigious scarce & not easily Collected from the Inhabitants. These circumstances have reduced the trading part of us to a most Tragick condition and the merchants of London am afraid will participate of this our general calamity. I have the misfortune to be one of a number of those that owe money in London & other parts of England and to remit at 180 (which the exchange is now risen to) vexes my soul.

Upon being pressed by his English creditors for remittances the Philadelphia merchant put pressure to bear upon his own stricken customers, but what money he was able to raise in this manner or out of his own resources he found that he could remit to England only at a loss due to the rise in exchange. The universal complaint of merchants in the early 1760's was that bills were scarce and that exorbitant prices were charged for such as were available. A merchant might have enough Philadelphia currency with which to discharge a debt, but unless it could be converted into a remittance acceptable to his British creditors it was

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8 Bezanson, op. cit., p. 431.
9 Daniel Clark to Meniers, Freres, February 13, 1762, Clark Letter Book.
10 James and Drinker informed Neate and Pigou that "... We have shared largely in the disadvantage of the rise of Exchange here for some years past without finding any relief, but patience and perseverance in hopes of better times—It is generally agreed that there never was in this Place so many People distressed for money that have property to give in security for it as now and it is every week if not day increased such large sums shipped off." James and Drinker Letter Book, July 2, 1762.
of little use. Clark reported to William Neate that this was his predicament: "I cannot get Bills of Exchange tho' I have as much money by me now as would discharge the first parcel of Goods I had of you.—I offered 78 [178] per cent exchange for 600 pounds but could not get it, it being previously engaged." Such keen competition for what credits on England did exist had the effect of driving up the exchange rate still further. The merchant who deferred paying his debts found that his position became worse rather than better.

To avoid paying ruinous prices for bills on the Philadelphia market, merchants went to great lengths in the search for alternatives. Some inquired about the possibilities of making commodity remittances in naval stores from the Carolinas or in sugar from the West Indies; others encouraged West Indian and Virginian correspondents to send what bills were available there to Philadelphia for sale. In May of 1762 James and Drinker reported that every merchant sought to obtain a portion of the money which Parliament had granted to compensate Pennsylvania for its war expenditures. In ordinary times specie would have made an acceptable substitute, but during the war its shipping was attended by prohibitory costs. It was only when convoy was available that specie was a feasible substitute for bills. When with the coming of peace it was possible to ship gold and silver, the supply was quickly exhausted. "There are very few Bills of Exchange to be had at any rate, and the greatest part of them spoken for. Our Silver and Gold sent away within these 8 months last, what little is left the people in Trade are collecting as fast as they can to send to England and we see no way of being supplied from any Trade we can carry on." This was the way in which James and Drinker described the situation in October, 1763.

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12 The West Indian trade had been unprofitable too. In April 1765 Thomas Clifford wrote "That the trade I have for some Time Carried on [to the West Indies] served rather for employment [of vessels] and to oblige some of my friends whom I inclined to serve rather than to Yield any profit, indeed since this time two years almost every adventure I have ship'd the accounts have closed with a loss." Clifford Out Letter Book, April 5, 1765. Daniel Clark corroborates this, Daniel Clark Letter Book, July 17, 1761.
23 James and Drinker to David Barclay, May 19, 1762, James and Drinker Letter Book.
24 James and Drinker to Devonshire and Reeve, October 8, 1763. James and Drinker Letter Book.
With the means of making remittances expensive and almost exhausted, and confronted with overstocked shelves, dull sales and the inability to collect old debts, there was little for the merchant to do other than become delinquent in his remittances to English creditors. Although it irked them to have to do so, even the most reputable of Philadelphia firms were forced to take recourse to this solution. In 1764 John Reynell, who had never before been delinquent, was obliged to inform the English firm of Mildred and Roberts that the scarcity of money made it imperative that he temporarily suspend payments. James and Drinker and John Kidd were in a similar position. The latter wrote Rawlinson and Davison, "the many shocks the trade of this place has met with for this two years past has put it out of my power to make your remittances in time & that so confounded and ashamed me that I had not spirits to write to you & the hopes of being able by every next Opportunity to Ballance your account made me always neglect writing by the present, but now I assure you upon my honour that your Money is very safe & that I will remit it to you in a short time."

Although conditions in America were partly of their own making inasmuch as credit had been granted too liberally, English merchants could not be expected to receive the news of defaults without taking some remedial action. During the last years of the War and for some time following its close, money was nearly as scarce in England as in America, and English merchants too had debts to pay. Self-protection, if nothing else, required that the latter retrieve as much as possible by bringing extreme pressure to bear on American correspondents, and become more careful in future extensions of credit. Reputable Philadelphia firms were appointed as agents to push the collection of debts from their associates even if it meant forcing the latter into bankruptcy. The results are shown in the large number of failures which occurred in Philadelphia in 1763. The most outstanding was that of Scott and McMichael whose debts at the time of becoming insolvent amounted to £50,000. James and Drinker termed it "the greatest

19 Due to war expenditures there was a great scarcity of money in England. David Barclay, one of the largest of English firms, complained to James and Drinker of the "intolerable scarcity of money" they were experiencing. James and Drinker Letter Book, March 17, 1763.
break we ever knew anything of on this side of the water.”

With regard to future extensions of credit, Philadelphia firms were asked to report on the credit ratings of their neighbors. In April, 1763, James and Drinker furnished Neate and Pigou with the names of fifty-three merchants whom they thought were safe to trust. To the list was appended the statement that “you can judge of some of these better than we by their payments but we should think them all safe, there may be some other that may be good that we are in doubt about as these are suspicious times, and some that we have no doubt of that we do not now recollect.”

It almost goes without saying that imports declined sharply during this period of depression. Sales were slow and the glut of goods from earlier importations so great that even those merchants whose credit was sound and might therefore have continued to place orders found little incentive to do so except for a few articles which were necessary to keep an assortment of goods on hand. Had a market existed these merchants would have hesitated to sell for fear of accumulating more bad debts. Daniel Clark, one of the merchants whom James and Drinker rated as “safe,” declined ordering after 1761. In that year he received goods valued at approximately £5,000 but of which he said “they are priced so far beyond their real value that I really dispair ever selling them at first cost—not withstanding my extensive acquaintance in this country since the Arrival of these goods I have not sold £500 worth & all of that have not received £20. So great is the glut of dry goods with us here I hope you have not shipped any more goods for me.”

By 1763 the situation had not changed

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18 James and Drinker to Neate and Pigou, April 27, 1763, *James and Drinker Letter Book.*

19 Local merchants advised their English suppliers not to send more goods. “We agree with you that before things can get into their old Channel Quantities of goods will be worn out & that before they are as cheap as they have formerly been. At the same time we may remark that it appears to us that there is no place to which you ship goods that is so unfavourably placed to the Importer as Philadelphia is, for where People in the Country find what they have Occasion to wear is dear they Manufacture for themselves & that very good both Linnen & Woolen of most sorts & while the thots of high prices continue the better sort will not purchase and of Consequence the goods lay on the Importers hands or he must push them off where he would not otherwise choose.” James and Drinker to David Barclay, November 4, 1761, *James and Drinker Letter Book.* Statements similar to this abound in the letter books of these years.

much for at that time James and Drinker informed David Barclay, "Our City is now stock’d with almost all kinds of goods and but a dull prospect of sales and collecting money." There was still another reason which deterred merchants from ordering more merchandise. The cost of English goods continued to rise, as a result of the great demand for them which had existed and the shortage of labor caused by the drawing of men into the army. This fact added to the high rate of exchange made it necessary, if profits were to be realized, to raise prices to an impossible level.

Merchants had expressed the hope that with the coming of peace conditions would be improved by the lowering of original prices and transportation costs, and also by the possibility of again shipping specie in safety. None of these was immediately realized. Manufactured goods remained high and the rate of exchange, partly because gold was unavailable, varied but slightly from its high level throughout 1763 and 1764. But most significant of all, any hopes which were held for improvement were dashed by the new trade regulations and revenue measures passed by Parliament in 1764 and 1765.

The circumstances surrounding these acts and the storm of protest which they aroused in the colonies lie outside the scope of this article. Suffice it to say that the Sugar Act, aimed at putting teeth in the Molasses Act of 1733, and the placing of iron and lumber on the enumerated lists at the same time that non-enumerated commodities were prohibited from being shipped directly to the countries north of Cape Finisterre greatly circumscribed trade. To make matters worse the currency of the colonies began to fall precipitately when in 1764 Parliament prohibited the use of paper as legal tender.

To climax a series of distasteful measures the Stamp Act was passed in 1765. If enforced, this act would have still further reduced the small amount of specie left in the colonies. Thomas Clifford in a letter to Thomas Pennington, Bristol merchant, appraised the menacing outlook as follows:

The present situation of America is such as to need the aid of all its Friends. Our paper Currency is Annually sinking, and must soon be Extinct. Duties on Divers of our imports to be paid in Silver before they are landed.
The Avenues of Trade to supply us with Silver all shut up. Business now greatly suffers from want of a proper medium. A Stamp Act staring us in the Face, should it take place together with the duties abovementioned would in short time divest us of every penny of hard money on the continent. We should be glad to support with Reputation that publick Faith and Confidence necessary to subsist between us & our mother Country as trading people, but on the present plan we cannot. I therefore see no other way but to decline such branches of Trade as we are deprived of the means to support. I intend as speedily as I can to furnish your account and remitt you the Ballance.\textsuperscript{21}

The measures which the merchants of Pennsylvania and the other colonies adopted in an attempt to improve their position constitute a significant chapter in the American Revolution.

\textsuperscript{21} Thomas Clifford to Thomas Pennington and Son, Bristol, November 23, 1765. \textit{Clifford Out Letter Book}. 