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WHY NOT TAXATION AND REPRESENTATION? A NOTE ON THE AMERICAN REVOLUTION

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ABSTRACT

Why did the most prosperous colonies in the British Empire mount a rebellion? Even more puzzling, why didn't the British agree to have American representation in Parliament and quickly settle the dispute peacefully? At first glance, it would appear that a deal could have been reached to share the costs of the global public goods provided by the Empire in exchange for more political autonomy and/or formal representation for the colonies. (At least, this was the view of men of the time such as Lord Chapman, Thomas Pownall and Adam Smith.) We argue, however, that the incumbent government in Great Britain, controlled by the landed gentry, feared that giving political concessions to the colonies would undermine the position of the dominant coalition, strengthen the incipient democratic movement, and intensify social pressures for the reform of a political system based on land ownership. In particular, allowing Americans to be represented in Parliament was problematic because American elites could not credibly commit to refuse to form a coalition with the British opposition. Consequently, the only realistic options were to maintain the original colonial status or fight a full-scale war of independence.

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" [...] there is not the least probability that the British constitution would be hurt by the union of Great Britain with her colonies. That constitution, on the contrary, would be completed by it, and seems to be imperfect without it. [...] That this union, however, could be easiliy effectuated, or that difficulties and great difficulties might not occur in the execution, I do not pretend." (Adam Smith, *The Wealth of Nations*, Book IV, Chapter VII, Part III, p. 140).

1 Introduction

Before the American Revolution, the American colonies were very prosperous. They had relatively inclusive institutions and paid much lower taxes than other subjects of Great Britain. The revenue collected in the colonies was not nearly enough to cover the cost of their defense. Nevertheless, the British Empire had demonstrated its willingness to protect the colonies in the Seven Years War. After that war, new taxes to finance fundamental public goods (e.g., defense and public order) were unavoidable. Although France and other British rivals in continental Europe were expected to provide military support, rebellion was nonetheless a dangerous and expensive enterprise for the American elites. Why did the American colonies mount a rebellion? Even more puzzling, Americans elites were willing to accept further taxation on the condition that they were granted political power. Why was so complicated to reach such an agreement? For example, why didn't the British agree to permit American representation in the British Parliament and quickly settle the dispute, a proposal considered by Adam Smith in *The Wealth of Nations*?

We develop a formal model of the institutional regime that governs the political relationship between a metropolis and its colony, and we then employ it to offer a new perspective on the American Revolution. The model formalizes the forces that make a stable colonial regime unsustainable and, more importantly, the determinants behind the transition to different post-colonial regimes. We devote special attention to gaining an understanding of when a colonial regime will lead to independence and when it will lead to the political incorporation of the colony (which could take the form, for example, of granting representation to the colony). In order to do so, we combine two dynamic bargaining games that capture both the conflict between the metropolis and its colony and the internal conflict taking place within the metropolis. Specifically, in this model, there are a colony and a metropolis made up of two groups. Under colonial rule, the metropolis selects how the combined surplus generated by the colony and the metropolis is to be divided among the colony and the two groups existing in the metropolis. Sometimes the colony can mount a rebellion and, in such cases, there is a window of opportunity for changing the colonial regime or, at least, for obtaining temporary concessions from the metropolis. In equilibrium, when the chances that the colony would defeat the metropolis in a war of independence are low, the cost of fighting a war for the colony is very high, and the temporary concessions offered by the metropolis are relatively generous, the colonial regime persists. Otherwise, a stable colonial regime becomes unsustainable and two possible regimes emerge in equilibrium: a series of rebellions and wars interspersed with periods of harsh colonial rule (i.e., no concessions) that ends when the colony finally wins its independence; or the political incorporation of the colony.

The mechanism that triggers a change in the colonial regime is a commitment problem. The concessions offered by the metropolis can easily be reversed as soon as the rebels are placated and the metropolis regains control of the colony. A credible way in which these concessions can be made more permanent is for the metropolis to grant political representation to the colony. Indeed, if there is no conflict of interest

in the metropolis or, more generally, if the new representatives do not challenge the political balance in the metropolis, representation is a simple solution that avoids independence and the expense and waste associated with a war of independence. In such cases, in equilibrium, the colonial regime transitions to the political incorporation of the colony. On the other hand, when parliamentary representation of the colonies could destabilize the political balance in the metropolis, it is possible that at least one of the two groups in the metropolis would prefer to fight a war rather than accept the entry of new representatives. A crucial problem here is that the colony cannot commit to not forming a coalition with one of the groups in the metropolis, should it be granted representation. In this case, the internal conflict in the metropolis could block representation, leaving only two extreme options for the colony: accept its colonial status or fight a full-scale war of independence. In equilibrium, the colonial regime is followed by a series of wars interspersed with periods of severe colonial rule, until the colony eventually wins its independence on the battlefield.

The model points the way to a new perspective on the American Revolution.

1.1 Why did the American colonies mount a rebellion?

Until the 1760s, any source of dispute between British authorities and American colonies did not pose much of a problem because the Whig coalition that dominated British politics was sympathetic to the American colonies. Part of the glue that held the Whig coalition together was the fact that the Stuart cause was still alive, but this changed after 1745, which was when the last failed attempt by the Jacobites and the Tories to restore the House of Stuart to the throne occurred. Eventually, this led to a political realignment in British politics which empowered a new alliance of conservative Whigs and Tories with the support of former Jacobite and Catholic groups. The new dominant coalition proved to be less sympathetic to American interests and less permeable to American influence. After the Seven Years War, the new coalition, menaced with the financial burden of the war and convinced that the colonies had not been properly managed, decided to tighten its control over the colonies.

Simultaneously, major economic changes were taking place in the Atlantic economy. Atlantic trade significantly expanded during the eighteenth century, especially from 1745 to 1775. This consolidated a colonial elite formed by wealthy merchants, landlords and planters, who started pushing for their economic and political interests. More importantly, this expansion in the Atlantic economy was accompanied by a structural change in commercial practices. British companies began to expand their activities in America, bypassing the domestic elites and taking control of the marketing process in several different businesses, which was a source of irritation for the American elites. This expansion was also interrupted by several periods of recession and balance-of-payments crises. During those episodes, American elites and British authorities often disagreed as to what the proper macroeconomic remedies were. Thus, the growth and structural changes taking place in the Atlantic economy from 1745 to 1775 threatened the economic position of colonial elites, thereby inducing a demand for sovereign economic policies. This coincided and clashed with the internal political realignment taking shape in Great Britain. The new dominant coalition in Great Britain pushed for tighter control over the colonies and the dismantling of the informal network of agents who had been lobbying the Crown and Parliament on behalf of American interests precisely when American elites began to demand more political influence on economic policies.

The combination of colonial elites' increasing demands for sovereign economic policies and internal political changes in Great Britain explain why the American elites had motives to rebel. The Seven Years War removed France as a threat to American colonies, allowing the rebels to safely count with

French military support without fear of falling into the hands of France. Americans had a window of opportunity to mount a credible rebellion against British authorities. Motives and opportunity, however, do not immediately explain why the rebellion evolved into a war of independence. Indeed, several other proposals for resolving the dispute that did not involve gaining independence were being put forward during that period, with the proposals made by Thomas Pownall and Adam Smith being two excellent examples.

Both Pownall and Smith felt that it was mutually beneficial for Great Britain and the American colonies to find a mechanism for sharing the costs of the global public goods provided by the Empire (i.e., defense) in exchange for political power and representation for the colonies. Adam Smith considered a system in which the political representation of Great Britain and America would be proportional to the contribution that each polity was making to the public treasury of the Empire. Moreover, he was convinced that the introduction of American representation would have had a neutral effect on the political balance of the Empire. In his view, the strength of Parliament would have increased in proportion to the size of the American contingent in Parliament, while the strength of the Crown would have grown in proportion to the amount of new revenues being received. The puzzle is why such a deal was not reached. We argue that the political calculus in Great Britain was more complicated than the one envisioned by Adam Smith.

1.2 Why didn't the British agree to American representation?

After the Seven Years War, the core of the dominant political coalition in Great Britain was composed of the landed gentry, whose power rested on a political system based on land ownership. The leader of the coalition, Prime Minister Lord North, had the support of the king. His cabinet was composed of Bedfordite ministers and, when dealing with serious issues, Lord North could always count on the support of Parliament, which was dominated by landed gentry. The coalition also enjoyed the support of the High Anglican Church. The members of this coalition were all loyal to a political system based on land ownership, and they considered the members of the general public to be unfit to participate in politics and objected to the idea of making any concessions to the American colonies.

The opposition, although relatively weak and not well represented in Parliament, was made up of urban groups that were demanding democratic reforms (the Wilkesites), together with remnants of the former Whig coalition that had governed England before the 1760s, namely, Lord Chatham and his small group of followers and the Rockingham Whigs. The Wilkesite movement promptly drew a parallel between American grievances and the situation of unfranchised people in England, and its members therefore backed colonial demands. The Chathamites also supported the colonies' bid for political representation. The Rockingham Whigs were more ambivalent. The opposition faced two critical problems. First, the Wilkesite and Chathamite movements simply did not have enough parliamentary representation. It is possible that the Wilkesites might have represented a majority of the electorate, but their electoral strength came from urban areas that were extremely underrepresented in Parliament. In other words, the democratic movement in England was growing and was starting to pose a threat to the established power structure but was still in its infancy. Second, the Rockingham Whigs, who were better represented in Parliament, suffered from several structural weaknesses. While they represented the landed gentry, and were against radical democratic reforms, they believed that the cabinet and the king held too much power and they wanted to empower the Parliament.

Once the political disputes taking place in Great Britain at the time are considered, it becomes easier to understand the potentially disruptive effect of the introduction of American representatives. The landed gentry, who controlled the incumbent government, feared that making concessions to the American colonies would intensify the pressure for democratic reforms, thus jeopardizing their economic and political position. The opposition, especially the Wilkesites, would have been happy to accept American representation in the British Parliament. American representatives would most likely become an excellent ally in their fight to push for democratic reforms. The Rockingham Whigs were hesitant for both reasons, as they feared both the authoritarian tendencies of the incumbent government and the threat of radical democratic reform. In this context, the incumbent government preferred to risk a war of independence with the American colonies rather than take the risk of going down a slippery road of democratic reforms that might well accelerate the demise of the existing land-based political system.

In sum, employing the insights provided by our model, we argue that American representation would have shifted the balance of power within Britain in favor of radical political reform. (Americans could not commit to not helping radical reformers within Britain, should be granted representation). Fearful of this outcome, the British chose to go to war rather than offer parliamentary representation to the American elites.

1.3 Related Literature

There is an extensive body of literature on institutions and institutional change (e.g., North and Weingast, 1989; Acemoglu and Robinson, 2006; North, Weingast and Wallis, 2009). Our approach and formal model take full advantage of this literature. Specifically, there are three elements at the core of our model that are emphasized by many modern game-theoretic treatment of institutional change, namely, inter-temporal transactions, social conflict and commitment problems (see, for example, Acemoglu, 2003; and Gehlbach, Sonin and Svolik, 2016).[1] Explicitly or implicitly, most institutional analyses and most formal models, in particular, tend to emphasize these issues within a given political unit. Independence processes, by their nature, necessarily entail the interaction of domestic and foreign factors. A three-group model is the simplest model that can capture these interactions, while a two-group model forces us to approach independence either as an external conflict between two internally homogenous states or as a civil war. Thus, our three-group model is also related to the literature on intra-elite conflict. While, in intra-elite conflict models applied to a given political unit, the relationships between the two elite groups depend on their alignments with the non-elite group (see, for example, Galiani and Torrens 2014), in the present model, intra-elite conflict in the metropolis affects those groups' relationship with the colonies.[2]

[1] Alternatively, we can say that commitment problems associated with inter-temporal transaction in a context of social conflict undermine the validity of the political Coase theorem. The Coase theorem (Coase, 1960) applied to politics implies that, in the absence of transaction costs, agents should agree to efficient institutions irrespective of the distribution of bargaining power among them, which should only affect the distribution of gains. In the case of the British Empire and American colonies, this means that we should have observed a peaceful resolution and that the distribution of political power in Great Britain should have played no role in the final agreement. We argue, however, that commitment problems and internal conflict in Great Britain were critical transaction costs that blocked such agreement.

[2] There is a popular view that simply argues that there was no fundamental issue behind the dispute between Great Britain and its American colonies other than the hubris of the elites on both sides of the Atlantic. Although in general we do not favor this view, it is worth mentioning that the strategic interactions we stress lead, in equilibrium, to intransigent positions and unwillingness to compromise, which can be easily misunderstood as arrogance.

Our paper is also related to several works that have formally modeled decolonization. For example, Grossman and Iyigun (1997) build a model of decolonization in which, as the population of the colony grows, the indigenous peoples in the colony become more willing to engage in subversive rather than productive activities. At some point, the colony becomes a net burden for the metropolitan government. Gartzke and Rohner (2011) develop a model of imperialism and decolonization in which economic development reduces the importance of natural resources and, hence, the incentives for conquering territory and having colonies. Our main contribution to this literature is to offer a formal mechanism that explains why decolonization leads to independence rather than to the political incorporation of a colony.

Finally, we have relied heavily on the studies conducted by many excellent historians who have analyzed colonial America and the American Revolution. Of course, it is impossible to do justice to the vast literature on the topic. We would just like to point out that, except in the case of Adam Smith, we have not used primary sources. Instead, we have simply employed the available pool of historical knowledge to draw attention to, what we think, is an overlooked issue relating to the American Revolution: Given that the colonies were so prosperous under British rule, why did they mount a rebellion? More puzzling and the crucial focus of this paper, given that the colonies might have been willing to accept taxation if representation were granted, why did the British not agree to have American representation in the British Parliament?

The rest of this paper is organized as follows. Section 2 briefly touches upon some key unresolved issues relating to the American Revolution. Section 3 develops the model. Section 4 discusses the developments that led to the rebellion of the American colonies. Section 5 presents the proposals made by Thomas Pownall and Adam Smith for settling the dispute. Section 6 explains why these proposals, which at first glance seem very reasonable, were not implemented. Section 7 concludes.

2 The American Revolution: A Puzzle

This section presents a brief overview of the American Revolution. The goal is not to provide a comprehensive review, but rather to highlight the key issues that lead us to posit the existence of a puzzle that remains to be solved.

1. The American colonies were richer and had a more equal income distribution than Great Britain and other European nations.

Lindert and Williamson (2016) conduct a recalculation of the historical trends in American incomes and find that America had already achieved world income leadership as early as 1700, when they estimate the purchasing power of income per capita in America was 36% higher than that in Great Britain. This gap grew until 1725 to over 50% and remained steady until the American Revolution. They also show that inequality in colonial America was significantly lower than in England and Wales and the Netherlands around the same time. Furthermore, they show several other indicators that suggest better living standards for the colonists. On average, Americans were taller, had longer life expectancy and lower birth mortality than people in England. Regarding New England, the epicenter of the revolution, Lindert and Williamson (2016) estimate that it was one of the poorest region in the colonies, but nevertheless living standards were close to those in England and Wales. Finally, although growth rates in income per capita during the eighteenth century were modest compared with modern standards (see Mancall and Weiss 1999, Mancall, Rosembloom and Weiss 2003, and Rosembloom and Weiss 2014), there is no doubt that as population expanded, the colonies experienced rapid economic growth in national income.

Moreover, growth was accompanied by a significant expansion of foreign trade (as the colonies began to participate in trans-Atlantic trade flows) and an increasingly diversified economic structure (see, for example, Walton and Shepherd 1979).

2. British mercantilist policies were not that burdensome for the colonies and membership in the British Empire's trade system was probably quite beneficial for the colonies.

There is no doubt that the British Empire imposed several trade and other restrictions on the American colonies (e.g., monopolistic foreign trade measures, the Navigation Acts). However, most modern economic historians who have studied the subject concluded that some of these restrictions were not binding and that, even in the case of those that were, the burden that they placed on the American colonies was relatively mild. Engerman (1994), following Thomas (1965) and Thomas and McCloskey (1981), summarizes the empirical literature on the quantitative burden which the Navigation Acts and other mercantilist policies instituted by the British Empire imposed on the American colonies. First, he argues that, given the factor endowments of Great Britain and the American colonies and the trade flows before and after independence, many trade restrictions were indeed non-binding or economically irrelevant (Engerman 1994, p. 199). Second, he considers that the crucial binding and economically relevant restriction was the prohibition to directly export tobacco outside Great Britain (Engerman 1994, p. 199). Finally, he deduces that the economic burden associated with restrictions on tobacco exports and other enumerated commodities was most likely not enough to be a key economic cause behind the American Revolution (Engerman 1994, p. 200). In the same line, McCusker and Menard (2014) conclude that the cost of trade restrictions on the colonies were relatively small (between 1% and 3% of gross domestic product).

Furthermore, these estimations of the burden associated to mercantilist policies implicitly assume an optimistic counterfactual scenario in which trade restrictions are removed without any disruption in the trade flows between the colonies and Great Britain. However, it is also possible to envision a more pessimistic counterfactual scenario in which American independence leads to, at the very least, short run trade retaliations by Great Britain. Given the importance of Atlantic trade, this would have probably been very costly for the colonies. For example, between 1768 and 1772, 55% of American exports went to England and 85% to the British Empire, while 90% of American imports came from England. American colonies were also important for British foreign trade. Indeed, by 1773, America accounted for 32.9% of English manufacturing exports while 37.4% of British imports came from America (Walton and Shepherd 1979). This suggests that Great Britain also had incentives to keep trading with America and, hence, long-term trade retaliations were probably not credible. Nevertheless, the risk of disrupting commercial relationships with the main commercial partner and facing retaliatory trade restrictions from the British Empire should also be counted as a potential trade cost of pursuing independence.

3. The American colonies had relatively inclusive institutions.

There is a fair amount of consensus among historians of colonial America that, despite numerous early attempts to establish institutions that would restrict the economic and political rights of the settlers, it proved impossible to sustain special privileges while at the same time making the colonies economically viable. All the colonies ended up offering land to many of the settlers, removing various political privileges, and allowing local assemblies composed of white male property holders. Walton and Shepherd (1979) maintain that, except on matters of foreign trade, there were few restrictions on colonial freedom, colonists effectively controlled their own legislatures and had considerable autonomy to deal with several local issues. They also consider a combination of factors that explains the success of North American colonies:

permanent settlement, the production for export, and, crucially, that a large proportion of the settlers has a stake in land and a say in local affairs. They argue that these factors significantly contributed to erode the monopoly power of colonization companies, restrict special privileges, and increase the power of local governments. In a similar vein, Engerman and Sokoloff (2002) maintain that the factor endowment European found in the North American mainland favored the development of relatively democratic institutions. Greene (2011) also sustains that North American colonies had relatively inclusive institutions, which he attributes in part to the easy access to land by a large share of the male white population. He argues that settlers demanded the same economic and political rights that property holders had in their polities of origin, including the right *"not be governed without being consulted or in ways that were patently against their interests."*[3]

4. The British Empire had shown its willingness to defend the American colonies and the colonies had shown their willingness to be part of the Empire, especially during the Seven Years War.

The implicit agreement between the Crown and the American colonies, dating back to the original Virginia Company in 1606, was that the Crown would provide protection and the colonists would obey the King. The conflicts with France during the eighteenth century tested this agreement. In the middle of the eighteenth century, the French began to expand their holdings throughout the Mississippi Valley and their trade with the native inhabitants of the area, threatening to take control of the interior of North America. Despite the insistence of the British authorities, the colonies were not able to coordinate their own defense. Then, however, when the Seven Years War (which ultimately became a world war) broke out between France and England, the British government, led by Prime Minister William Pitt, sent troops to America and mobilized local militias made up of thousands of Americans settlers. The French were defeated and Britain laid claim to vast territories east of the Mississippi (see, among others, Ferguson 2004 and Allison 2011). The Seven Years War confirmed that the British Empire was ready to defend the colonies, the colonists had serious difficulties coordinating their own defense, but they finally fought against the French under the leadership of British authorities.

5. The amount that Great Britain was spending on the colonies was considerable, and the colonies did not generate sufficient revenue to make them an advantageous undertaking.

Before and during the Seven Years War, Great Britain had been paying for a significant part of the public goods enjoyed by the colonies, especially in the case of defense. Although it is not simple to allocate the benefits of defense and other expenditures to different areas of the empire, there is a fair amount of consensus that in the eighteenth century defending the empire became a serious financial burden for Great Britain. For example, Brewer (1988) estimates that the cost of the Seven Years War for the British Empire was greater than any major armed conflict until then, and that, due to the conflict, British National Debt nearly doubled from £75 millons before the war to £130 millons at the end of the war (see also Middlekauff 2007). Moreover, Land (2010) develops the argument that fighting in North America was one of the crucial factors that explains Britain's enormous military costs during the Seven Years War (naval transportation and fighting in the frontier was very expensive).

There are also few doubts that, after the Seven Years War, the British began to pay closer attention

[3] For example, Greene (2011) documents that colonial officials permanently complained that local assemblies disregarded the king's instructions and did not comply with any instructions they considered *"contrary to existing colonial statutes or [...] incompatible with either the colonists' inherent rights as Englishmen or the customary powers and privileges of their assemblies."*

to the empire's finances (see, for example, Davis and Huttenback 1986).[4] In the same vein, McCusker and Menard (2014) suggest that, after the Seven Years War, British authorities might have started putting more attention to fiscal considerations and not exclusively to preserve a commercial empire.

The expenditures on the defense of colonies did not disappear with the end of the Seven Years War in February 1763, since the British authorities had to keep a substantial army in the colonies to secure the frontier with the Native American tribes at an estimated annual cost of £0.35 millons. Pressured to serve the national debt and reduce the fiscal deficit, the British began to devise a series of measures to collect more taxes from the colonies (more on taxes in point 6). The goal was to raise enough revenue to only partially cover for the cost of defending the colonies, while British taxpayers would take care of serving the debt (Middlekauff 2005). Thus, even considering the new taxes, colonial defense was subsidized by the British Empire. Furthermore, unless the colonies believed that Great Britain would continue to subsidize their defense forever, independence, if anything, would force the colonies to collect more taxes to pay in full for their defense or face the consequences of a militarily weak state.

6. The American colonies paid little in taxes and the British Parliament had been ineffective in increasing their tax burden.

There is no doubt that the colonies paid very low taxes. For example, in 1763, on average, a citizen in Britain paid 26 shillings per year in taxes, while a citizen in New England paid just 1 shilling per year (see, for example, Ferguson 2004). Along the same line, Walton and Shepherd (1979) present an index of per capita tax burden for 1765: Great Britain 100, Ireland 26, Massachusetts 4, Connecticut 2, New York 3, Pennsylvania 4, Maryland 4, and Virginia 2. Moreover, after the Seven Years War, the British Parliament tried and failed to impose new taxes on the American colonies.

The first wave of taxation was the Sugar Act of 1764, which was a refinement of the Molasses Act of 1733. This was a tax on non-British West-Indian products. Taxes on several of these goods were reduced, but new regulations to avoid evasion were expected to raise revenue. American colonies did not oppose the Sugar Act as a matter of principle, but rather for their assumed economic effects (see, among others, Walton and Shepherd 1979 and Middlekauff 2005). Nevertheless, special interest groups prevailed in the British Parliament and the Sugar Act was finally repealed in 1766.

The second wave of taxation was the Stamp Act of 1765, which imposed a direct tax on several types of printed and legal documents, which were required to pay a stamp. The tax infuriated lawyers and newspaper publishers who were the most articulate people in the colonies and had the means to influence public opinion. In retaliation, the colonists organized a successful boycott of British imports, which, ultimately, induced British merchants and manufacturers to lobby against the Stamp Act. George Greville, the prime minister who introduced the act, had to resign and in 1766 the Stamp Act was repealed. Moreover, *"from now on, it was accepted, the Empire would tax only external trade, not internal transactions"* (Ferguson 2004).

The third wave was the Townshend Acts of 1767, which were customs duties on British products imported into the colonies. The measures were intended to raise 1% of colonial income, a relatively small economic burden. Moreover, they met the criteria that only external trade should be taxed. Still, the Townshend Acts were resisted by a successful boycott of British manufactures. According to Walton and

[4] Davis and Huttenback (1986) argue that *"[i]n the early history of the empire there was a certain air of official indifference associated with the questions of cost and the military. It was only when the drain on the British Exchequer engendered by the colonial phases of the Anglo-French wars became apparent that British officials began seriously considering the financial burdens of imperial defense."*

Shepherd (1979) *"What stung the highly independent colonists, however, was the manner of enforcement. Colonial courts were allowed to issue search warrants, [...], an American Customs Board was created [...] to handle smuggling cases."* Once again, British manufacturers convinced Parliament to repeal the new taxes, except the duties on tea.

The Tea Act of 1773 had two goals: save the British East India Company from bankruptcy and induce the colonies to stop smuggling Dutch tea and start paying the corresponding Townshend duties. The British East India Company was granted the right to directly ship tea to the American colonies and duties on tea were reduced. Not surprisingly, the effect was a significant drop in the price of tea in the colonies, which negatively affected New England tea wholesalers and smugglers, who were dealing in Dutch tea. They responded organizing the Tea Party and a boycott of British tea. This time, Parliament retaliated with the Intolerable Acts, suspending the Charter of Massachusetts, closing the Port of Boston, and interrupting western settlement. Again, the colonists responded with a total embargo on trade with Britain and the British West Indies.

7. Although France and other British rivals provided military support, rebellion was nonetheless very costly for the colonies.

During the war of independence, France provided key military support that helped to keep the Royal Navy out of the war and signed two treaties with the patriots in early 1778. The Treaty of Alliance was a defensive agreement under which America would be provided with French military support in the event of an attack by British forces. The Treaty of Amity and Commerce granted the colonies French recognition, together with considerable trade concessions. At the very least, French military support significantly reduced the cost of the war for American patriots. This does not imply that independence was inexpensive for the colonies. Indeed, there is a fair amount of consensus among economic historians that the war had a tremendous negative effect on the American economy. Lindert and Williamson (2016) estimate that the impact of the war of independence on incomes was large enough to break American worldwide lead in living standards. McCusker and Menard (2014) estimate that the income per capita of the colonies declined 48% from 1774 to 1790 and 14% from 1774 to 1805. The fiscal and financial burden of the war was also very high (see, for example, McCusker and Menard 2014).

8. Rebellion was a very risky and dangerous enterprise for the American elites.

Those who sided with the independence cause were risking their properties, livelihoods, slaves, lands and even their lives if the Americans lost the war. Those who signed the Declaration of Independence, if captured, would most surely be tried as traitors and hanged (see, for example, Fehrenbach 2000 and Fisher 2006). Several historians from the progressive school of thought have also pointed out that American elites faced the risk that the revolution would become too radical and might, for example, start them off on a slippery slope of demands on the part of the lower classes for a more profound democratization of colonial society that would threaten the position of the elites (Egnal and Ernst 1972, pp. 29-30).[5]

In a nutshell, the dispute between the American colonies and Great Britain was not about a tyrannical metropolis strangling the economic development of its colony. As we have seen, the colonies were very prosperous. Restrictions on foreign trade, such as the Navigation Acts, were probably not that influential and membership to the British Empire trade network was quite beneficial for the colonies. The colonies paid very low taxes, the Parliament's attempts to impose new taxes failed, and, nonetheless, the proposed tax increases would have only covered for a fraction of the cost of defending the colonies. So, with or without the metropolis, taxes could not have been avoided. Taxation alone thus cannot have been the

[5] On the radicalism of the American Revolution see also Wood (1991).

reason for the revolt. Although the support of France significantly reduced the military cost of the war of independence for the colonies, the fact remains that, for the American elites, rebellion was very costly and the prospects of success extremely uncertain. There was also the internal risk that the revolt might become too radical.

To solve the puzzle posed by the American Revolution, we must answer two crucial questions. First, why did the North American colonies rebel? Second, why didn't the British authorities and the Americans elites reach a peaceful agreement for sharing the economic burden of defending the colonies in exchange for more political power for the American colonies? For example, why didn't the British agree to have American representation in the British Parliament and thus quickly placate the revolt? After all, the motto of the revolution was "no taxation without representation", suggesting Americans would have been willing to accept taxation if the British Parliament would have granted them political representation and/or greater political autonomy.

3 A Model of Independence

This section develops a game-theoretic model of the regime that governs the political relationship between a metropolis and its colony. From the perspective of the colony, we study the incentives for accepting its colonial status, fighting a war of independence or seeking political representation and/or greater political autonomy without secession. From the perspective of different groups in the metropolis, we study the incentives for offering economic concessions, fighting a war or granting political representation to the colony. The model contributes to our understanding of the political calculus that blocked a reform of political institutions in the British Empire that could have accommodated American demands and avoided a war of independence.

Consider a society with two political units (a colony and a metropolis) and three groups of subjects (one group in the colony, denoted by C, and two groups in the metropolis, denoted by M_1 and M_2, respectively). Let v_t^i indicates the payoff of group $i = C, M_1, M_2$, in period $t = 1, 2, ..., \infty$. The surplus generated by the metropolis is $\bar{v}^M > 0$, while the surplus generated by the colony is $\bar{v}^C > 0$.

The metropolis and the colony bargain over the distribution of $\bar{v}^M + \bar{v}^C$. In the process, part of $\bar{v}^M + \bar{v}^C$ can be wasted. There are three possible political regimes that govern this bargaining process: colonial rule, representation and independence, denoted by $Pol_t = COR, REP, IND$, respectively. Under colonial rule, the metropolis, dominated by group M_1, has control over the distribution of the payoffs between the metropolis and the colony, but the colony can start a war of independence. Under representation, the metropolis and the colony share control over the distribution of payoffs. Finally, under independence, the metropolis and the colony become two independent political units, each making its own decisions.

The timing of events under *colonial rule* is as follows.

1. The probability that the colony wins its independence μ_t is realized and observed by all players. μ_t is an i.i.d. random variable that adopts the values $\mu_t = 0, \mu$ with probabilities $(1 - \pi)$ and π, respectively.

2. The metropolis, i.e., group M_1, makes an offer to the colony. The metropolis can offer political representation ($r_t = 1$) or not ($r_t = 0$). In the later case, the metropolis also selects the payoff for the colony $o_t \in \{v_L^C, v_H^C\}$, where v_L^C indicates a low payoff, v_H^C a high one, and $\bar{v}^C > v_H^C > v_L^C$.

3. The colony observes the metropolis's offer and decides whether to start a war of independence ($w_t = 1$) or not ($w_t = 0$).

   (a) Suppose $w_t = 0$.
      i. If $r_t = 0$, then $v_t^{M_1} = s^1\left(\bar{v}^M + \bar{v}^C - o_t\right)$, $v_t^{M_2} = \left(1 - s^1\right)\left(\bar{v}^M + \bar{v}^C - o_t\right)$ and $v_t^C = o_t$, where $s^1 \in (0,1)$ is a measure of the political power of group M_1 in the metropolis. Moreover, in the following period, colonial rule persists, i.e., $Pol_{t+1} = COR$.
      ii. If $r_t = 1$, then the colony will start to have representation immediately, i.e., $Pol_t = REP$. Moreover, in the following period the colony will be represented, i.e., $Pol_{t+1} = REP$.

   (b) Suppose $w_t = 1$. Then, $v_t^{M_1} = s^1\beta\bar{v}^M$, $v_t^{M_2} = \left(1 - s^1\right)\beta\bar{v}_t^M$ and $v_t^C = \gamma\bar{v}_t^C$, where $1-\beta \in (0,1)$ and $1 - \gamma \in (0,1)$ is the proportion of the surplus that the metropolis and the colony lose in the war, respectively. Finally, nature determines who wins the war of independence (with probability μ_t that the colony wins the war).
      i. If the colony wins its independence, in the next period, the colony is independent, i.e., $Pol_{t+1} = IND$.
      ii. If the metropolis wins the war, then, in the following period, colonial rule persists, i.e., $Pol_{t+1} = COR$, and $\mu_{t+1} = 0$.

Two remarks apply to the political game under colonial rule. First, note that only in some randomly chosen periods the colony has a real chance of winning a war of independence. This could be interpreted as a window of opportunity for the colony to mount a successful rebellion against the metropolis. Second, war is a costly and risky enterprise for the colony and the metropolis. It costs $(1-\beta)\,\bar{v}^M$ to the metropolis and $(1-\gamma)\,\bar{v}_t^C$ to the colony and the final outcome is random, with the probability of victory for the colony given by μ.

Under Independence, we have $v_t^{M_1} = s^1\bar{v}_t^M$, $v_t^{M_2} = \left(1 - s^1\right)\bar{v}_t^M$ and $v_t^C = \bar{v}_t^C$. Moreover, $Pol_{t+1} = IND$. That is, as soon as the colony wins its independence, each country collects its own surplus and the two groups in the metropolis divide their surplus based on their political power.

Under Representation, $v_t^{M_1} = \alpha s^1\left[\bar{v}_t^M + (1-\epsilon)\left(\bar{v}_t^C - v_H^C\right)\right]$, $v_t^{M_2} = \left(1 - \alpha s^1\right)\left[\bar{v}_t^M + (1-\epsilon)\left(\bar{v}_t^C - v_H^C\right)\right]$ and $v_t^C = \epsilon\bar{v}_t^C + (1-\epsilon)\,v_H^C$, where $\alpha \in (0,1)$ measures how the new colonial representatives reduce the relative political power of group M_1. The intuition is that the new representatives will form a coalition with one of the groups in the metropolis, which will affect the distribution of political power within the metropolis. Note also that $v_t^C = \epsilon\bar{v}_t^C + (1-\epsilon)\,v_H^C$, where $\epsilon \in (0,1)$, i.e., we assume that the colonial representatives can guarantee that the colony will keep a weighted average of the surplus generated in the colony and the more generous offer the metropolis can offer. Moreover, $Pol_{t+1} = REP$. Thus, representation is an absorbing state. Once the metropolis grants representation to the colony, there is no turning back.[6]

As the notion of equilibrium, we employ Markov perfect equilibrium, i.e., the decision of a player in period t depends only on the political arrangement in period t, the realization of μ_t and, in the case of the colony, on the offer made by the metropolis.

[6] Alternatively, we might have assumed that, under representation, Nature determines if the wining coalition will be (M_1, C), (M_2, C) or (M_1, M_2). If the winning coalition is (M_1, C), then $v_t^{M_1} = \bar{v}_t^M$, $v_t^{M_2} = 0$ and $v_t^C = \bar{v}_t^C$. If the winning coalition is (M_2, C), then $v_t^{M_1} = 0$, $v_t^{M_2} = \bar{v}_t^M$ and $v_t^C = \bar{v}_t^C$. If the winning coalition is (M_1, M_2), then $v_t^{M_1} = s^1\bar{v}_t^M$, $v_t^{M_2} = \left(1 - s^1\right)\bar{v}_t^M$ and $v_t^C = \bar{v}_t^C$. The intuition is that there is uncertainty about the new winning coalition once the new representatives enter Parliament. The main results are not affected if we use this alternative specification.

Finally, we impose the following assumptions:

Assumption 1. (a) $\gamma\bar{v}^C < v_L^C$. (b) $[\delta+\gamma(1-\delta)]\,\bar{v}^C > [1-\delta(1-\pi)]\,v_H^C + \delta(1-\pi)\,v_L^C$. (c) $\left(\bar{v}^C - v_H^C\right)\epsilon > [(1-\delta)\gamma+\delta]\,\bar{v}^C - v_H^C$

Assumption 2. (a) $(1-\beta)\,\bar{v}^M < \frac{\bar{v}^C - v_L^C}{\delta\pi}$. (b) $(1-\beta)\,\bar{v}^M > \left(v_H^C - v_L^C\right) - (1-\gamma)\,\bar{v}^C\left[\frac{\bar{v}^C - \pi\delta v_H^C - (1-\pi\delta)v_L^C}{\bar{v}^C - v_L^C}\right]$.

Assumption 1.a means that, for the colony, independence is costly in the short run (even if the metropolis does not offer concessions). This is a sensible assumption given the historical evidence regarding the cost of independence (for estimations of the impact of the war of independence on American living standards, see, for example, McCusker and Menard, 2014, and Lindert and Williamson, 2016). Assumption 1.b means that independence is worthwhile for the colony in the long run (even if the metropolis offers temporary concessions). This rules out situations in which the colony finds it too costly to fight for its independence even when there is an absolute certainty that the colony will win the war, i.e., when $\mu = 1$. Assumption 1.c. means that, under representation, the colony is able to protect a sufficient amount of the surplus that it generates, so it is worth avoiding a costly war of independence.

Assumption 2.a ensures that the value for the metropolis of fighting a war is increasing in the probability of winning the war. This rules out uninteresting scenarios in which the metropolis is not willing to fight a war to keep the colony under its control. Assumption 2.b ensures that the metropolis first considers making concessions and then considers the possibility of fighting a war. In other words, the metropolis does not push for a war if simple concessions can placate the colony. This is a relatively mild assumption. For example, when assumption 1.a holds, assumption 2.b automatically holds whenever $\bar{v}^C - v_H^C > \pi\delta\left(v_H^C - v_L^C\right)$.

3.1 Equilibrium Analysis

In order to characterize the Markov perfect equilibrium of the colonial regime model we proceed in three steps. First, we study the response of the colony to every possible offer made by the metropolis. Second, we determine the best course of action for the metropolis. Finally, we combine both results to obtain a full analytical characterization of the the Markov perfect equilibrium of the game.

Lemma 1 characterizes the equilibrium response of the colony to different offers made by the metropolis. Define the following two thresholds for μ (recall that μ is the probability that the colony wins a war of independence):

$$\bar{\mu}^{1,Col} = \left(\frac{v_L^C - \gamma\bar{v}^C}{\bar{v}^C - v_L^C}\right)\left(\frac{1-\delta}{\delta}\right)$$

$$\bar{\mu}^{2,Col} = \left[\frac{v_H^C - \gamma\bar{v}^C + \delta\pi\left(v_H^C - v_L^C\right)}{\bar{v}^C - v_L^C - \delta\pi\left(v_H^C - v_L^C\right)}\right]\left(\frac{1-\delta}{\delta}\right)$$

Lemma 1 ***The Colony****. Suppose that assumption 1 holds. Then:*

1. *If $\mu \leq \bar{\mu}^{1,Col}$, then the colony accepts colonial rule, i.e., $\left(v_L^C, COR\right)$.*
2. *If $\bar{\mu}^{1,Col} < \mu \leq \bar{\mu}^{2,Col}$, then the colony accepts $\left(v_H^C, COR\right)$, but not $\left(v_L^C, COR\right)$. The metropolis has three alternatives to consider: temporary concessions and avoidance of a war; no concessions and facing a war; and offering representation.*

3. *If $\mu > \bar{\mu}^{2,Col}$, then the colony only accepts representation. The metropolis has two alternatives to consider: no concessions and facing a war; and offering representation.* ***Proof****: see Online Appendix A.* ■

The intuition behind lemma 1 is straightforward. For the colony, representation produces a higher expected payoff than temporary concessions, while temporary concessions produce a higher expected payoff than no concession at all. Moreover, these expected payoffs do not depend on μ, the probability that the colony wins its independence. The expected payoff of fighting a war of independence is increasing in the probability of winning the war. Moreover, under assumption 1, when the colony does not have any chance of winning a war, the expected payoff of fighting is lower than the payoff of accepting no concessions, whereas, when the colony wins a war with probability 1, the expected payoff of fighting is higher than the payoff of accepting temporary concessions, but lower than the payoff under representation. Thus, there are three regions to consider. When the probability of winning the war is low (formally $\mu \leq \bar{\mu}^{1,Col}$), the colony is willing to accept colonial rule. When the probability of winning the war reaches intermediate values (formally $\bar{\mu}^{1,Col} < \mu \leq \bar{\mu}^{2,Col}$), to avoid a war the metropolis must offer temporary concessions or representation. Finally, when the probability of winning the war is high (formally $\mu > \bar{\mu}^{2,Col}$), only representation will avoid a war.

Lemma 2 characterizes the best offer for the metropolis. Define the following two thresholds for α (recall that α measures how the new colonial representatives reduce the bargaining power of group M_1):

$$\bar{\alpha}^{1,Met} = \frac{[\beta(1-\delta)+\delta]\,\bar{v}^M}{\bar{v}^M + (1-\epsilon)\left(\bar{v}^C - v_H^C\right)}$$

$$\bar{\alpha}^{2,Met} = \frac{[1-\delta(1-\pi)]\left[\beta(1-\delta)+\delta\bar{\mu}^{2,Col}\right]\bar{v}^M + \delta(1-\delta)\left(1-\bar{\mu}^{2,Col}\right)\left(\bar{v}^M + \bar{v}^C - v_L^C\right)}{\left[1-\delta(1-\pi)-\delta^2\left(1-\bar{\mu}^{2,Col}\right)\pi\right]\left[\bar{v}^M + (1-\epsilon)\left(\bar{v}^C - v_H^C\right)\right]}$$

and the following threshold for μ:

$$\bar{\mu}^{Met} = \left\{\frac{\delta\left(\bar{v}^M + \bar{v}^C - v_L^C\right) + [1-\delta(1-\pi)]\,\beta\bar{v}^M - \alpha(1+\delta\pi)\left[\bar{v}^M + (1-\epsilon)\left(\bar{v}^C - v_H^C\right)\right]}{(1-\delta)\left(\bar{v}^M + \bar{v}^C - v_L^C\right) - [1-\delta(1-\pi)]\,\bar{v}^M + \alpha\delta\pi\left[\bar{v}^M + (1-\epsilon)\left(\bar{v}^C - v_H^C\right)\right]}\right\}\left(\frac{1-\delta}{\delta}\right)$$

Lemma 2 ***The Metropolis****. Suppose that assumption 2 holds. If $\mu \leq \bar{\mu}^{2,Col}$, then the metropolis always prefer temporary concessions (or no concessions at all if $\mu \leq \bar{\mu}^{1,Col}$) rather than facing a war or offering representation. On the other hand, if $\mu > \bar{\mu}^{2,Col}$, then:*

1. *If $\alpha < \bar{\alpha}^{1,Met}$, then the metropolis prefers to fight a war rather than to offer representation.*
2. *If $\alpha \in \left[\bar{\alpha}^{1,Met}, \bar{\alpha}^{2,Met}\right)$, then the metropolis prefers to fight a war rather than to offer representation when $\mu \in \left(\bar{\mu}^{2,Col}, \bar{\mu}^{Met}\right)$, and prefers to offer representation rather than to fight a war when $\mu \in \left[\bar{\mu}^{Met}, 1\right]$.*
3. *If $\alpha \geq \bar{\alpha}^{2,Met}$, then the metropolis prefers to offer representation rather than to face a war.* ***Proof****: see Online Appendix A.* ■

In order to obtain a full characterization of the Markov perfect equilibrium, we simply need to combine lemmas 1 and 2. Proposition 1 summarizes the results.

Proposition 1 *Suppose that assumptions 1 and 2 hold. Before the first time $\mu_t = \mu$, the metropolis implements $o_t = v_L^C$. Thereafter:*

1. *If $\mu \leq \bar{\mu}^{1,Col}$, then there is no independence, the colony does not obtain representation and the metropolis always implements $o_t = v_L^C$.*
2. *If $\bar{\mu}^{1,Col} < \mu \leq \bar{\mu}^{2,Col}$, then the metropolis offers temporary concessions, i.e., whenever $\mu_t = \mu$, the metropolis offers $o_t = v_H^C$.*
3. *If $\mu > \bar{\mu}^{2,Col}$, then either the metropolis offers representation or there is a war of independence. Specifically, if $\alpha < \bar{\alpha}^{1,Met}$ or $\alpha \in \left[\bar{\alpha}^{1,Met}, \bar{\alpha}^{2,Met}\right)$ and $\mu \in \left(\bar{\mu}^{2,Col}, \bar{\mu}^{Met}\right)$, there is a war, while if $\alpha \in \left[\bar{\alpha}^{1,Met}, \bar{\alpha}^{2,Met}\right)$ and $\mu \in \left[\bar{\mu}^{Met}, 1\right]$ or $\alpha \geq \bar{\alpha}^{2,Met}$ the metropolis grants representation to the colony.* ***Proof****: immediately derived from lemmas 1 and 2.* ■

The intuition behind Lemma 2 and Proposition 1 is as follows. When the probability that the colony will win a war of independence is low (formally $\mu \leq \bar{\mu}^{1,Col}$), the colony is not willing to start a war even if the metropolis does not offer any concession. Since this is the preferred situation for the metropolis, in equilibrium, the metropolis always implements no concessions (i.e., $o_t = v_L^C$) and there is no independence. The more interesting cases occur when $\mu > \bar{\mu}^{1,Col}$. Suppose that the probability that the colony will win the war is intermediate (formally $\bar{\mu}^{1,Col} < \mu \leq \bar{\mu}^{2,Col}$). Then, the metropolis must choose between three alternatives: offer temporary concessions, offer representation, or fight a war. Lemma 2 simply establishes that when temporary concessions are enough to placate the colony, the metropolis prefers to use them rather than any other alternative. Moreover, note that this does not depend on the effect of representation on the bargaining power held by group M_1. Formally, the value of α is irrelevant when $\mu \leq \bar{\mu}^{2,Col}$. Suppose that the probability that the colony wins the independence war is high (formally $\mu > \bar{\mu}^{2,Col}$). Then, the metropolis has only two alternatives: offer representation or fight a war. Lemma 2 establishes the best course of action for the metropolis, i.e., for group M_1, which controls the metropolis. When $\alpha < \bar{\alpha}^{1,Met}$, offering representation would be very costly for group M_1 because the new colonial representatives will form a coalition with group M_2, which will significantly reduce the bargaining power of group M_1. In such a case, the metropolis will choose to fight a war. On the contrary, when $\alpha > \bar{\alpha}^{1,Met}$, offering representation is less costly for group M_1 and, hence, worth considering. Indeed, representation becomes more attractive when the colony has a greater chance of winning the war.

In the following sections, we use the model to address a number of open questions about the American Revolution. Bearing this objective in mind, it is worth taking the time to summarize the key mechanisms behind the model as well as the crucial determinants of the different equilibrium paths. The model combines two interconnected dynamic bargaining games. The metropolis and the colony bargain over the distribution of the total surplus generated by the entire empire, while the two groups in the metropolis bargain over the distribution of the share of the surplus obtained by the metropolis. Both bargaining processes could be costly, since part of the surplus could dissipate while the groups are seeking to increase their bargaining power. War is the costly means by which the colony can improve its bargaining position vis-à-vis the metropolis and one of the groups in the metropolis can defend its bargaining position within the metropolis. Concessions and representation are two mechanisms for changing the distribution of bargaining power among the groups that do not reduce the surplus. Thus, the outcome that maximizes the total surplus will always involve concessions or representation, which avoid a costly war of independence. However, in equilibrium, it is not always the case that war can be avoided. The reason for this is

that the colony and the metropolis face a commitment problem. In a colonial regime, the metropolis cannot commit to future concessions because as soon as there is no threat of rebellion in the colony, the metropolis has no incentive to keep its promises. Representation partially solves this problem. However, if representation is granted, the colony cannot commit to not forming a coalition with the opposition group in the metropolis, which negatively affects the bargaining position of the governing group in the metropolis.[7]

The model generates three possible equilibrium regimes. When the probability that the colony will win a war of independence is low (μ low), the cost of fighting a war for the colony is very high (γ low), or the minimum concessions offered by the metropolis are relatively generous (for example, if $v_L^C \to [\delta + \gamma(1-\delta)]\,\bar{v}^C$, then $\bar{\mu}^{1,Col} \to 1$), then the colony's colonial status tends to be stable. Otherwise, a stable colonial regime becomes unsustainable and two possible regimes emerge. One alternative is that the metropolis grants political representation to the colony. That is, there is a peaceful incorporation of the colony into the governance structure of the metropolis. A second alternative is that the metropolis tries to keep its control over the colony for as long as possible by crushing the independence movement every time a revolt breaks out. This strategy, however, cannot last forever. Eventually, the colony mounts a successful rebellion and gains its independence. Which regime emerges when the colony's colonial status becomes unsustainable depends on the effect that a peaceful political settlement would have on the bargaining positions of the groups within the metropolis. Specifically, when granting representation to the colony would significantly weaken the political position of the dominant group in the metropolis (α low), it is more likely that the metropolis will choose to fight a war.

4 Why did North American Colonies Rebel?

This section explores the developments in England and North America that led to a rebellion in the colonies after the Seven Years War. It is certainly possible to trace the roots of the American Revolution to the political and religious dynamics of the English Civil War and the Glorious Revolution. Without disregarding this long-run path, however, we focus on developments in the eighteenth century. In particular, we examine the following two factors that fueled the rebellion. First, we show how the internal political struggles in Great Britain and the war with France had an impact on imperial policies and the ability of the colonies to influence them. Second, we explore how the economic and political evolution of the colonies shaped colonial demands and affected imperial policies regarding the colonies.

4.1 British Politics, War with France, and Imperial Finances

Whatever the political and religious differences between England and the American colonies during the first half of the eighteenth century were, they did not constitute a serious problem (see, for example, Phillips 1999). The Whig politicians who governed Great Britain, directly or indirectly, took in account American interests when they made their decisions. In part, what held the Whig coalition together and kept it in power was that the Stuart cause was still alive. Indeed, there were Jacobite and Tory-linked

[7] Two factors are identified in the literature on the economics of conflict that help to explain why groups engage in open conflict rather than reaching a settlement when the threat of a conflict looms: asymmetric information and commitment problems. For a more detailed discussion of these mechanisms, see, for example, Garfinkel and Skaperdas (2007) and Blattman and Miguel (2010). Our model relies on commitment problems to generate an equilibrium in which the metropolis and the colony fight a war.

attempts to restore the House of Stuart in 1715 and 1745, along with several lesser episodes. All of these attempts failed and, after 1745, the Stuart cause finally died out. This led to a sweeping reorganization of internal political coalitions in Great Britain. Conservative Whigs formed an alliance with the Tories, now detached from the Stuart cause. Also, old Jacobite and Catholic groups tried to help the king and secure favors from him by demonstrating their newfound loyalty.

The new political equilibrium in Great Britain would ultimately lead to a change in its relationship with the American colonies. British policies regarding the American colonies gradually shifted from a light-handed approach to a more hard-line position characterized by a series of attempts to tighten Britain's control over the colonies. The Whig coalition, which was sympathetic to American interests, eventually moved over to the side of the opposition, and a new, more conservative coalition began to dominate British politics. However, this political transformation was gradual and did not become consolidated until after the Seven Years War with France.

After France was defeated in the Seven Years War, a new hard-line approach toward the American colonies began to emerge (Brown 1970, p. 24). This newly adopted attitude was based on the belief that the colonies were not well-managed and that administrative reforms were required to regain control of the colonies and increase colonial revenues (Barrow 1970, p. 137). There were political and economic factors underlying the attempts made to tighten control over the American colonies. As already mentioned, the death of the Stuart cause eventually weakened the Whig coalition, which had been more permeable to American influence. Indeed, by 1771, George III had removed William Pitt, and the Whig coalition had moved over to the side of the opposition.

The Seven Years War had left the British government with a substantial debt, and it was looking for new sources of revenue to repay it. The colonies, with their low tax burden, were a natural candidate. At the same time, the American colonies continued to grow and expand toward the west, which posed two problems for the British government. First, some in Great Britain fear that the growth of the colonies might eventually shift the center of the Empire from England to America. Second and, much more importantly, the colonies' geographic expansion could give rise to a need for additional resources to defend an enlarged territory (Olson 1992, pp. 134 -135). Indeed, defeating the French in North America paved the way for American colonists to further push their expansion toward the west. This forced the British to face a difficult trade-off: keep a costly army in the colonies to secure the frontier with the Native American tribes or block expansion and clash with colonial demands. Additionally, the removal of the French threat in the continent eliminated a common enemy for Britain and the American colonies, which probably contributed to reduce the risk of fighting an independence war for American colonies (Anderson 2000 and Anderson 2005).[8]

With a new dominant coalition in Great Britain trying to tighten the British government's control over the colonies and the formerly sympathetic Whig coalition in retreat, the Americans also started losing their ability to influence imperial policies by informal means. Indeed, prior to the Stamp Act crisis, many different organizations had effectively lobbied for American interests in London. However, by the end of the 1760s, this dense network of pressure groups had been dismantled, leaving Americans with few means of influencing imperial politics (Olson 1992). The representation of North American interests was particularly weak in the British Parliament at that time (Kammen, 1970, pp. 151-152).

[8] Bird (1965), Bradley (1971) and Pole (1972) also stress the connections between the Seven Years War and the American Revolution with special emphasis on the financial burden of the war for Great Britain and American incentives to expand to the west. See also Land (2010) for a more recent analysis of Britain's military cost during the Seven Years War.

An early example of how little influence the American colonies had in Parliament is provided by the passage of the Sugar Act. Everybody in the colonies, even imperial officials, considered the Sugar Act to be a sacrifice made by the northern colonies, which had to bow to the stronger parliamentary influence wielded by the West Indies. The Board of Trade is a good example of an organization that was open to American interests but that lost much of its power after 1763 (Olson 1992, p. 138).

The American colonists started to realize how the mother country's attitude toward them was changing and, whereas before they had felt that they were somehow represented in Parliament through their agents and correspondents, they now began to feel that they were being discriminated against. They also saw the attempts to increase British authority in the colonies as a serious threat to their self-governance (see Barrow 1970 and De Figuereido, Rakove and Weingast 2006) and began to pressure their local assemblies to work harder to advance their interests (Olson 1992, p. 160).[9]

4.2 The Atlantic Economy and the American Elites

The eighteenth century witnessed a significant expansion of trans-Atlantic trade. This trend can be roughly divided into two periods. From 1720 to 1745, trade flows rose steadily, but at a moderate rate. From 1745 to 1775, the expansion accelerated, with this upward trend mainly being triggered by the growth of the British economy (Egnal and Ernst 1972, p. 11). This impressive expansion had three major effects on the colonies (Egnal and Ernst 1972). First, growth made a significant contribution to the consolidation of a colonial elite composed of wealthy merchants, landowners and planters.

Second and, of great importance, this wave of growth was accompanied by a structural change in commercial practices. In the North, British companies began to establish their own trade channels while avoiding local merchants. This posed a serious threat to the colonial elites in urban centers such as Boston, New York and Philadelphia. In the South, the largest Glasgow tobacco companies began to take control of the commercialization of tobacco. At some point, southern planters feared that the Scots were holding too much commercial power and would undermine their economic, political and social status.

Third, the expansion of the Atlantic economy was not a smooth process, but was instead interrupted by periods marked by recessions, debt problems, and balance-of-payments crises. These economic downturns were particularly problematic for the colonial elites because their attempts to mitigate the effects of these recessions on their businesses often clashed with British interests. The non-importation agreements that were used to temporarily shut down British imports avoiding the bankrupt of wealthy colonial merchants in the North are a good example of the ways in which these clashes played out. Another example is the Currency Act of 1764.

In sum, developments in the Atlantic economy from 1745 to 1775 threatened the economic position of colonial elites and spurred their demands for sovereign economic policies (Egnal and Ernst 1972).[10] At the same time, political changes in Great Britain and the pressure exerted by the national debt that had built up during the war against France prompted the British government to tighten its control over the

[9] Barrow (1970, p. 139) stress the importance of self-governance for American colonists and how British efforts to impose taxes on the colonies were percieved as a serious threat to self-governance. More recently, De Figuereido, Rakove and Weingast (2006) argue that the American and British elites had different beliefs about the nature of the Constitution that governed the colonies but that, before the Seven Years War, they did not have the chance to test them. Moreover, they show how these conflicting beliefs could have formed part of a self-confirming equilibrium.

[10] Egnal and Ernst (1972) also link the American elites' demand to assert more control over the colonial economy to the post-independence period.

colonies and dismantled the network of informal colonial agents who had lobbied for American interests before the Crown and in Parliament.

In terms of our model, structural economic changes in the colonies, the fiscal pressure on British finances, and political changes in Great Britain all helped to significantly widen the gap between the surplus generated by the colonies ($\bar{v}^C$) and the surplus that the British Empire was willing and/or could afford to offer to them ($o_t \in \{v_L^C, v_H^C\}$). This led to an increase in $\bar{\mu}^{1,Col}$ and $\bar{\mu}^{2,Col}$ and, hence, to an expansion of the region of the parameter space in which a stable colonial regime becomes unsustainable (Proposition 1, Part 3). It is also possible that the removal of the French threat on the continent reduced the risk of fighting a war of independence for the American colonies. In our model, this can be captured by an increase in μ, which also makes the colonial regime less sustainable.

5 Contemporary Proposals for Avoiding War and Secession

An understanding of the developments and conditions in England and North America that led to the rebellion in the colonies does not automatically translate into an explanation for the American bid for independence. There were several alternative avenues for peacefully settling the dispute. Two outstanding proposals that were made at the time were those put forward by Thomas Pownall and Adam Smith. Although Pownall and Smith differed on some points, they agreed that it was possible and in the long-run interest of both England and the American colonies to reach a peaceful settlement which provided for some mechanism for sharing the economic burden of defending the colonies in exchange for more political power for the American colonies.

5.1 Thomas Pownall

Thomas Pownall was a political theorist who was advocating parliamentary representation for the colonies well before the revolutionary war. During the 1760s and early 1770s, he unsuccessfully tried to persuade Parliament to adopt conciliatory policies. He also toyed with the idea of a radical reform of the British Empire, envisioning a more decentralized system along the lines of the nineteenth century Commonwealth (Shy, 1970, p. 157). Pownall accepted the proposition that the political system of the British Empire admitted two conflicting interpretations. Americans stressed that all Englishmen had equal rights, while Great Britain considered that the colonies were politically subordinated to British authority (Shy, 1970, p. 165). However, he was convinced that there was room for a compromise that would preserve the British Empire while also taking into account colonial demands. He believed that the American colonies should be granted the right to legislative representation, but he was worried that this could led to abuses. Pownall devised several institutional mechanisms for dealing with this risk. First, he proposed that executive and judicial officers in the colonies receive a salary that could not be altered by local legislatures. Second, he suggested that executive and judicial functions should be separated and performed by two different bodies. Finally, he proposed instituting regional courts of appeal. According to Pownall, these proposals would check the democratic impulses of the colonies and establish an administration capable of constitutionally governing them (Shy, 1970, p. 166). Finally, Pownall understood that there was a risk that the Empire's political power could eventually shift to America. However, he thought that parliamentary representation of the colonies would reduce this risk (Shy, 1970, p. 172).

5.2 Adam Smith[11]

In *The Wealth of Nations*, Adam Smith considered three possible political reforms that could put an end to the conflict between the American colonies and Great Britain. The first option was a peaceful independence process accompanied by some kind of defense and free trade treaty. This was his preferred alternative, but he also believed that it was not very likely to occur because there were few historical precedents of nations voluntarily granting independence to a province or colony (Smith, 1776, Book IV, Chapter VII, Part III, pp. 131-132). The second alternative was to reach a deal on taxation without independence. He considered different possible options whereby the colonies could be taxed to finance their share of the cost of the public goods provided by the British Empire. He was extremely skeptical about this solution as well, however, because he thought that the colonies would not collect enough taxes and/or would refuse to do so (Smith, Book IV, Chapter VII, Part III, p. 133). A variant of this option, which is also discussed by Smith, was that the British Parliament could tax the colonies by requisition, meaning that the Parliament would determine the total amount required from the colonies, and colonial assemblies would determine the best way of collecting that sum. However, he was also very skeptical about this solution because he believed that not enough revenues would be collected under this arrangement, which could also alienate colonial assemblies and American elites (Smith, Book IV, Chapter VII, Part III, pp. 134-137).

Finally, Smith proposed that the British Parliament could tax the colonies and grant them representation that was proportional to their contribution to the public revenues of the Empire (Smith, 1776, Book IV, Chapter VII, Part III, p. 137). He was aware that this solution would raise several concerns on both sides of the Atlantic, but he thought that all of those concerns were misplaced. He argued that the new American representatives would not disrupt the political balance of the British Empire. In Smith's view, the revenue from American taxation would strengthen the position of the Crown as much as American representatives would strengthen democratic forces in the British Parliament. Thus, the relative strength of the monarchic and democratic components at the core of the British political system would remain unaltered (Smith, 1776, Book IV, Chapter VII, Part III, p. 140). Smith also believed that the American representatives would help to protect colonial subjects from the imposition of oppressive laws or rules. He considered that the distance separating the American colonies from the seat of government would not be a serious problem because American representatives would maintain strong ties with their constituencies. Nevertheless, from Smith's perspective, the distances involved would have been no more than a temporary inconvenience for American elites, since he was convinced that the rapid increase of the American colonies' wealth and population would eventually move the seat of the Empire to America (Smith, 1776, Book IV, Chapter VII, Part III, p. 140).

6 Why didn't the British Agree to Grant America Representation?

This section explores why the proposals suggested by Thomas Pownall and Adam Smith did not prosper. We begin with a brief but comprehensive characterization of the positions, socioeconomic composition and leverage of the main political cleavages in Great Britain at the time that the American colonies revolted (see a summary in Table 1). We then show how and why the expected effects of the presence of

[11] In Online Appendix B we transcribe the fragments of *The Wealth of Nations* in which Adam Smith develops his proposals for the American colonies.

American representatives on the political balance among those coalitions made American representation in the British Parliament unacceptable for the dominant coalition in Great Britain.

	Incumbent Coalition	Opposition Coalition
Groups in Coalition	Prime Minister and the Cabinet Landed Gentry High Anglican Church Highlands Scots, Irish Catholics and Old-line Tories	London Radicals Bill of Rights Society Lord Chatham and his followers (Chathamites) Rockingham Whigs
Position on American Colonies	Coercive	Pro-American Rockingham Whigs (vacillating)
In the Model	M_1	M_2

Table 1: British Coalitions on the American Colonies

6.1 The Incumbent Coalition in Great Britain

The leader of the coalition that took a coercive approach to the American colonies was the prime minister, Lord North. He had the support of the king and led a cabinet composed of Bedfordite ministers who took a very hawkish view of the American colonies. Parliament was dominated by the landed gentry, who also supported North's cabinet. For example, Bunker (2014) estimates that, out of 558 members in the House of Commons, the cabinet counted with the support of 250, including a core of 150 very loyal members who would never opposed North in a serious issue.

The High Anglican Church was also in favor of coercive policies regarding the colonies. Indeed, the Anglican clergy strongly supported coercion, even though dissenters and Anglican parishioners did not agree on the issue (Phillips 1999). The king also obtained the backing of the Highlands Scots, the Irish Catholics and old-line Tories, who, after the failure of the Jacobite rebellion, were striving to show their loyalty to George III. For example, in Scotland, several clan chieftains tried to prove their new loyalty to the Crown raising regiments to fight in America. Similarly, in Ireland, the Catholic middle class supported the war effort to signal its loyalty to the Crown (Phillips 1999). Finally, any organization or group with strong ties with the government (e.g., local corporations, lawyers and businessmen with government contracts) also supported coercive policies (Phillips 1999).

The position of the coercive coalition was unequivocal. Its members regarded the American colonists as rebels and strongly believed in the supremacy of the British Parliament and the king over the colonies. They were loyal to a political system based on land ownership and considered the public and American radicals as unstable and not fit to participate in politics. Consequently, they strongly objected to any concessions to the American colonies, much less the possibility that the colonies might be granted representation in the British Parliament.[12]

[12] Bunker (2014) summarizes this position as follows: *"How did the cabinet [...] treat the American question? [...] they were hard-liners. In their eyes, the king and his Parliament were legally supreme over each and every colony. [...] Gower, Sandwich, and Suffolk never wavered from this principle, and neither did Lord North. Six years before [...] during the debates on the repeal of the Stamp Act, they opposed severely the repeal of the Stamp Act. [...] It was the duty of the House of Lords, they believed, to stand up against the mob and to resist democracy wherever it appeared. [...] In their opinion, the public was inherently capricious, easily misled by troublemakers such as Wilkesite or his counterparts in Boston. [...] Hand the Americans one concession, and they would ask for more until they won autonomy."* (Bunker, 2014, pp. 98-99).

At the core of the coercive coalition were the landed gentry, whose economic power came from their land revenue. More importantly, their political power rested on a political system that was still heavily based on land ownership. The landed gentry were organized based on local strongholds, where few people voted. They controlled the tenancy of the farmers within the shire, financed the church and other local public goods, and designated the vicars as justices of the peace. Therefore, their seats in Parliament were almost impossible to challenge. All this led to a system that Benjamin Disraeli described as "a territorial constitution" (see, among others, Bunker 2014).

In sum, the coercive coalition was solidly based on the political power of the landed gentry, who feared that making concessions to the American colonies would intensify the pressure for democratic reforms that would jeopardize their economic and political position.

6.2 The Opposition Coalition in Great Britain

London radicals led by John Wilkes were the core opposition group that fought for the American colonies' political rights. The Wilkesites sought to introduce radical democratic reforms, including broader enfranchisement and constituency reform. They also pushed for annual elections, a law against electoral manipulation, and a law that blocks king's officials from the House of Commons (Bunker 2014, p. 130). The Wilkesites' program had wide appeal among shopkeepers, skilled artisans and religious dissenters. While the bulk of the Wilkesites were in London, especially in the eastern districts of the city, they were gaining electoral support in other growing cities such as Bristol, Hull, Newcastle, and Worcester. Naturally, the Wilkesites equated the American colonies' grievances with the situation of many unfranchised people in England. As a consequence, they backed colonial demands, denounced coercive polices aimed at the colonies and called for conciliatory solutions (see Olson 1992 and Bunker 2014).

The Bill of Rights Society, probably the first public opinion lobby in British politics, had supported Wilkes' cause when he was repeatedly excluded from Parliament. The Society amalgamated American grievances with those of the electors of Middlesex, effectively combining democratic demands in England and the colonies (see Olson 1992).[13]

Lord Chatham (William Pitt the Elder) and his few followers, including Shelburne, also supported the American cause. Americans respected him because he had helped to fight the French in Canada. He also believed that concessions to the colonies, including political representation, were necessary to hold the empire together (see, for example, Olson 1973). Allison (2011) succinctly describes Lord Chatham's position as follows: *"[...] how Parliament could justify not giving three million Americans representation, when an English 'borough with half a Dozen houses' had a representative. Pitt predicted that this 'rotten Part of our Constitution' would not survive, warning that the struggle with America would force England to reform her own government."* (Allison 2011, p. 10). Consequently, Lord Chatham and his small group of followers (the Chathamites) opposed the Declaratory Act, which asserted the Parliament's sovereignty over the American colonies.

The Rockingham Whigs, including Edmund Burke, also favored some concessions and a "soft" stance on the American colonies. Being part of the landed gentry, they did not advocate radical democratic reforms, but rather wanted to put some limits on what they perceived as the unchecked and growing power of the king. From the perspective of Burke and the Marques of Rockingham, the king and his

[13] Olson (1992) points out that while the Bill of Rights Society simply added the American grievances to its list of grievances, the Wilkesites made a much coherent connection between the cause of unfranchised people in England and colonial demands for political representation (Olson 1992, p. 146).

allies were using favoritism as means of subjugating Parliament (see Bunker 2014). This could explain why the Rockingham Whigs drew up the Declaratory Act, which established Parliament's sovereignty over the American colonies. Their main concern was to defend the political status of the Parliament from the encroachment of the Crown. There was also an opportunistic component in the Rockingham Whigs' position with respect to the American colonies. They claimed that North's ministries did not manage the colonies well and used the dispute as an opportunity to attack the incumbent government in an effort to make themselves a viable alternative in the event that England lost the war. The great majority of the Rockingham Whigs would never have approved of giving political representation to American colonies.[14]

British merchants were divided on the issue, depending on what product they traded and what benefits they derived from the incumbent government's policies. In fact, the first petitions for conciliatory policies were presented to Parliament by merchants who thought coercive policies would hurt their business with America. Merchants' views also differed with respect to the Wilkesites. Some believed that the Wilkesite movement was the best way to advance their interests. Others viewed the movement's radical agenda with suspicion (see Olson 1992). Protestant dissenters were another important pro-American group. They were infuriated by the Anglican Church's attempt to implant the episcopacy in America with the support of George III. Catholicism, popery, and episcopacy were considered to be threats to their liberties (see Phillips 1999).

The pro-American coalition faced two crucial obstacles. First, London radicals and the Chathamites did not have enough parliamentary representation (see Bunker 2014). Although the Wilkesites might have represented a majority of the electorate and eventually won the city of London, they were not even close to forming a parliamentary majority. The root of the problem was the existence of a political system that was heavily biased in favor of the landed gentry. This was a time when the democratic movement was still in its infancy. Indeed, some Members of Parliament represented densely populated areas while others represented virtually unpopulated counties. Moreover, a large proportion of the seats were effectively uncontested (see, for example, Phillips 1999).

Second, the Rockingham Whigs were better represented in Parliament but, as we have already seen, their support for the American cause was unassertive and opportunistic. Furthermore, their foundations were quickly eroding. On the one hand, they faced the challenge of the Wilkesites and their demands for democratic reforms. Although the Rockingham Whigs agreed with some of the more moderate demands of the Wilkesites, they were extremely suspicious that lesser political reforms would be just the beginning of a more radical program. On the other hand, they were in the odd position of opposing the excesses of the king and his attempts to dominate Parliament, but having to find a way to do so without attacking the institution of the Parliament itself (see Guttridge 1963).[15]

[14] Among the Rockingham Whigs, only Lord Richmond supported radical democratic reforms.

[15] Guttridge (1963) elegantly summarizes the two dilemmas that Rockingham Whigs faced. Regarding, the tension with the Wilkesites' program, he asserts: *"As yet the reformers were not prepared to lay rude hands on the representative system. Their most vigorous demands were for the instruction of members, more frequent elections, and the exclusion of placemen from Parliament. It is true that tentative proposals were made for an addition to the representation of counties and the disenfranchisement of some rotten boroughs; but these proposals involved only a more equitable distribution of existing votes, not an increase in the electorate. They sought to restore the supposedly ancient practice of the constitution, and were not yet based on a radical philosophy of change. Even so, they were unwelcome to the Whigs, whose suspicions were confirmed in the next few years by the appearance of a genuinely radical program. The future was to show that no party or group could afford to ignore this growing movement, and those who called themselves Whigs would soon have to decide whether their gospel of liberalism was a book closed in 1689 or a living principle of change."* (Guttridge 1963, p. 32). Regarding the tension with the Crown, Guttridge asserts: *"[...] Rockingham Whigs agreed with the king that the existing constitution of*

The complicated nature of the position of the Rockingham Whigs helps to explain why they systematically failed to form a parliamentary majority that could advance their agenda and, specifically, why they were not able to successfully push for conciliatory policies with the colonies. Overall, the pro-American coalition was poorly represented and divided.

6.3 British Politics and American Representation

Given the economic and social composition and the political agendas of the incumbent government and the opposition, understanding their respective positions regarding the American colonies is a simple task. The landed gentry feared that the arrival of American representatives would strengthen the incipient democratic movement led by the Wilkesites. Opening the door of political representation to the Americans could quickly solve a dispute with a colony, but it would put at risk the landed gentry's dominant position in the British political system and even the territorial constitution itself. Better to risk losing a colony than to face the risk of a new, powerful coalition that would push for further democratic reforms.

On the other side of the political spectrum, the Wilkesites welcomed the rebellion of the American colonies. They were fighting to reform a biased political system that gave little political representation to the modest but growing middle class in London and other urban centers. American representatives could be a formidable ally that would improve the Wilkesites' chance of pushing their reformist agenda through.[16]

The fact that the Wilkesites and their reformist program were considered a serious threat by the landed gentry and the Crown is clearly reflected in the disputes that arose regarding the election of John Wilkes as the Lord Mayor of London. Although the city of London was the closest to having a democratic government of any district in England, there was a small group of powerful aldermen who usually managed to manipulate the elections to ensure that the candidate favored by the Crown won. The first time that John Wilkes won the election, the aldermen resorted to several maneuvers to void enough of the votes for Wilkes to overturn the result. Riots of Wilkes' supporters followed, but the king's candidate ultimately assumed the mayorship. This did not discourage the Wilkesites, who tried again in the following election. Although the Wilkesites only won a few seats in the Commons, they performed remarkably well, particularly among free urban constituencies. Their platform was simple but appealing. They called for shorter parliamentary sessions, the enfranchisement of more people and justice for the American colonies. They took six seats in the London area, and John Wilkes won the election for

Parliament must be preserved. Upon it depended their political power and their following in the Commons. This influence could not be risked in fundamental reform. The instruction of members would break the solidarity of party. Frequent election would put an intolerable strain on private purses. A wider electorate would destroy local control. As a recent historian has remarked, getting rid of the rotten boroughs was for them too high a price to pay for getting rid of the influence of the crown. The old system was essential. And yet it was precisely this system that the king was using. He was no Stuart tyrant. He preferred to govern as a parliamentary leader. He was beating the Whigs at their own game of patronage and influence. The Parliament they wanted to preserve was being discredited by the arbitrary acts of the ministry; and it was not easy to attack the ministerial majority, on behalf of the electorate, without attacking Parliament itself. But the Whigs had to do this. They had to fight the king without destroying the source of his power which was also theirs. They were in the position of a besieging army which could not afford to hurt the fortress it was attacking." (Guttridge 1963, p. 32).

[16] Indeed, Bunker (2014) documents several connections between American patriots and the Wilkesites. For example, Samuel Adams had two contacts in London who were part of Wilkes's inner circle, and John Hancock has very tight connections with the Wilkesites (see Bunker 2014, p. 131).

Lord Mayor of London. This time, the margin was so wide that there was no room for the aldermen to manipulate the election results (see Bunker 2014).

Although the democratic movement was growing and posing a greater threat to the established order, at the time of the American Revolution it still had little formal representation in Parliament, while the incumbent British government was controlled by the landed gentry. Moreover, the rest of the members of the opposition, especially the Rockingham Whigs, who hold a fairly strong parliamentary coalition, were not able to successfully champion a conciliatory approach. It seems that they were equally fearful of the authoritarian tendencies of the incumbent government and of the threat posed by radical democratic reforms, leading to paralysis and confusion in their ranks.

Taxation in exchange for representation was a reasonable solution for Great Britain and the American colonies. Unfortunately, it appears that the political calculus was more complicated than the one envisioned by Thomas Pownall and Adam Smith. The entry of American representatives would potentially disrupt the balance of power in Great Britain, which would in turn speed the implementation of democratic reforms or, at the very least, this must have been the predominant view in Great Britain in the 1770s. In terms of our model, the incumbent and opposition coalitions are captured by groups M_1 and M_2, respectively. When a stable colonial regime becomes unsustainable, M_1 has two alternatives to consider: not granting any concessions and facing a war, or offering representation (see Lemma 1, Part 3). If M_1 grants representation to the colony, a war is avoided, but the new colonial representatives form a coalition with group M_2, which reduces the bargaining power of M_1. When α very low (formally, $\alpha \in \left[\bar{\alpha}^{1,Met}, \bar{\alpha}^{2,Met}\right)$) or it adopts intermediate values and the probability that the colony wins a war is relatively high (formally, $\alpha \in \left[\bar{\alpha}^{1,Met}, \bar{\alpha}^{2,Met}\right)$ and $\mu \in \left(\bar{\mu}^{2,Col}, \bar{\mu}^{Met}\right)$), this is very costly for M_1. That is, the reduction in the bargaining power of M_1 is so severe that M_1 prefers to fight a war rather than to offer representation (see Lemma 2, Part 2, and Proposition 1, Part 3). Since the entry of American representatives would have triggered democratic reforms, thereby threatening the dominant position of the incumbent coalition in British politics, it is reasonable to assume that this would indeed have been the case.

7 Final Remarks

The American Revolution was a complex historical process with multiple causes. We have tried to understand why the American colonies revolted and, in particular, why Britain and the American colonies were unable to reach an agreement that would have avoided war and independence. We have argued that the internal political equilibrium in Great Britain made such an agreement very unlikely. The entry of American representatives would have allowed them to form a coalition with the incipient democratic movement in England, which would have posed a serious threat to the position of the landed gentry. Moreover, there was no way for the American elites to credibly commit to a different course of action. If American representatives had been granted entry into the British Parliament, it would have been in their best interest to form an alliance with the opposition (Wilkesites and Chathamites). Our model of independence captures this dynamic.

There are several ways to extend our line of analysis. Here we will mention just three of them. First, the political logic blocking American representation in the British Parliament can be easily generalized to other proposals to peacefully solve the dispute. For example, some authors argue that what American elites wanted was politically autonomy and self-governance rather than better representation in the British

Empire affairs (see, for example, Bailyn 1967 and McCusker and Menard 2014). Still, granting American colonists greater political autonomy was a concession the incumbent British coalition was not willing to offer for the same reason as to why it would not grant representation, namely the slippery road effect on democratic demands in Great Britain.

Second, one promising avenue of inquiry would be to build a more general game theoretic model of independence that incorporates internal conflict within the colony and the metropolis. The peculiarity of independence is that it is neither a civil war nor an interstate war, yet it has elements of both. Thus, a good game theoretic model of independence should be able capture how the strategic interactions between internal and external issues lead to different independence paths.

Finally, it would be very interesting to explore the role that the difficulties of giving political representation to the colonies played in the decline of the British Empire.

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Online Appendix to "Why Not Taxation and Representation?: British Politics and The American Revolution"

In Appendix A we present the proofs for all the results shown in Section 3. In Appendix B we transcribe the fragments of *The Wealth of Nations* in which Adam Smith develops his proposals for the American colonies.

A. Proofs

Proof of Lemma 1.

Independence. Once independence is successful, the colony remains independent forever. Independence is an absorbing state. Hence, the expected payoff for the colony is given by:

$$V^C(IND) = \frac{\bar{v}^C}{1-\delta} \tag{1}$$

No Concessions. Suppose that the metropolis always offers $o_t = v_L^C$ and the colony accepts it. Then, the expected payoff for the colony is given by:

$$V^C\left(w=0, v_L^C, COR, \mu_t = \mu\right) = \frac{v_L^C}{1-\delta} \tag{2}$$

Temporary Concessions. Suppose that every time $\mu_t = 0$, the metropolis offers $o_t = v_L^C$, while every time $\mu_t = \mu$, it offers $o_t = v_H^C$. Assume that the colony accepts this offer. Then, the expected payoff for the colony must satisfy the following Bellman equations:

$$\begin{aligned} V^C\left(w=0, v_H^C, COR, \mu_t = \mu\right) &= v_H^C + \delta \left[\begin{array}{c} \pi V^C\left(w=0, v_H^C, COR, \mu_t = \mu\right) + \\ (1-\pi) V^C\left(w=0, v_L^C, COR, \mu_t = 0\right) \end{array} \right] \\ V^C\left(w=0, v_L^C, COR, \mu_t = 0\right) &= v_L^C + \delta \left[\begin{array}{c} \pi V^C\left(w=0, v_H^C, COR, \mu_t = \mu\right) + \\ (1-\pi) V^C\left(w=0, v_L^C, COR, \mu_t = 0\right) \end{array} \right] \end{aligned}$$

Solving this system of equations, we obtain:

$$V^C\left(w=0, v_H^C, COR, \mu_t = \mu\right) = \frac{\left[1-\delta(1-\pi)\right] v_H^C + \delta(1-\pi) v_L^C}{1-\delta} \tag{3}$$

Note that $V^C\left(w=0, v_H^C, COR, \mu_t = \mu\right) > V^C\left(w=0, v_L^C, COR, \mu_t = \mu\right)$ because $v_H^C > v_L^C$.

Representation. Once the colony gets representation, it has representation forever. Representation is an absorbing state. Hence, the expected payoff for the colony under representation is given by:

$$V^C(REP) = \frac{\epsilon \bar{v}^C + (1-\epsilon) v_H^C}{1-\delta} \tag{4}$$

War. Suppose that the colony does not accept a temporary concession. Then, whenever $\mu_t = \mu$, the colony embarks in a war of independence, which means that the expected payoffs for the colony must satisfy the following Bellman equations:

$$
\begin{aligned}
V^C\left(w=1,COR,\mu_t=\mu\right) &= \gamma\bar{v}^C+\delta\left[\mu V^C\left(IND\right)+\left(1-\mu\right)V^C\left(w=0,v_L^C,COR,\mu_t=0\right)\right]\\
V^C\left(w=0,COR,\mu_t=0\right) &= v_L^C+\delta\left[\begin{array}{c}\pi V^C\left(w=1,v_L^C,COR,\mu_t=\mu\right)+\\ \left(1-\pi\right)V^C\left(w=0,v_L^C,COR,\mu_t=0\right)\end{array}\right]
\end{aligned}
$$

Solving this system of equations, we obtain:

$$
V^C\left(w=1,COR,\mu_t=\mu\right)=\frac{\left[1-\delta\left(1-\pi\right)\right]\left[\left(1-\delta\right)\gamma+\delta\mu\right]\bar{v}^C+\left(1-\mu\right)\delta\left(1-\delta\right)v_L^C}{\left(1-\delta\right)\left[1-\delta\left(1-\pi\right)-\left(1-\mu\right)\delta^2\pi\right]} \tag{5}
$$

Since whenever $\mu_t=\mu$, the colony embarks in a war of independence, while, whenever $\mu_t=0$, the metropolis always offers v_L^C, this expression does not depend on the metropolis's offer. Moreover, $V^C\left(w=1,COR,\mu_t=\mu\right)$ is an strictly increasing function of μ for $\mu\in[0,1]$. Formally:

$$
\frac{\partial V^C\left(w=1,COR,\mu_t=\mu\right)}{\partial\mu}=\frac{\delta\left[1-\delta\left(1-\pi\right)\right]\left\{\left[1+\delta\pi\left(1-\gamma\right)\right]\bar{v}^C-v_L^C\right\}}{\left[1-\delta\left(1-\pi\right)-\left(1-\mu\right)\delta^2\pi\right]^2}>0
$$

where we have used $\bar{v}^C>v_L^C$.

Representation versus Temporary Concessions and War. Note that representation induces a higher expected payoff for the colony than any temporary concession. Formally, $\bar{v}^C>v_H^C>v_L^C$ implies $V^C\left(REP\right)>V^C\left(w=0,o_t,COR,\mu_t=\mu\right)$ for $o_t=v_L^C,v_H^C$. Although, under representation, the colony obtains a lower payoff than under independence, representation is always better than fighting a war of independence. Formally, $V^C\left(REP\right)>V^C\left(w=1,COR,\mu_t=\mu\right)$ for all μ if and only if $\epsilon>\frac{\left[(1-\delta)\gamma+\delta\right]\bar{v}^C-v_H^C}{\bar{v}^C-v_H^C}$, which holds due to assumption 1.c. Summing up, for the colony, representation dominates any other alternative.

War versus No Concessions. The colony accepts no concession if and only if $V^C\left(w=0,v_L^C,COR,\mu_t=\mu\right)\geq V^C\left(w=1,COR,\mu_t=\mu\right)$. $V^C\left(w=0,v_L^C,COR,\mu_t=\mu\right)>V^C\left(w=1,COR,\mu_t=0\right)$ if and only $v_L^C>\gamma\bar{v}^C$, which holds due to assumption 1.a. $V^C\left(w=1,COR,\mu_t=1\right)>V^C\left(w=0,v_L^C,COR,\mu_t=\mu\right)$ if and only if $\left[\gamma+\delta\left(1-\gamma\right)\right]\bar{v}^C>v_L^C$, which holds due to assumption 1.b. and $v_H^C>v_L^C$. Since $V^C\left(w=1,COR,\mu_t=\mu\right)$ is an strictly increasing function of μ for $\mu\in[0,1]$, the intermediate value theorem implies that there exists a unique $\bar{\mu}^{1,Col}\in(0,1)$ such that the colony accepts no concession if and only if:

$$
\mu\leq\bar{\mu}^{1,Col}=\left(\frac{v_L^C-\gamma\bar{v}^C}{\bar{v}^C-v_L^C}\right)\left(\frac{1-\delta}{\delta}\right) \tag{6}
$$

War versus Temporary Concessions. The colony accepts a temporary concession $o_t=v_H^C$ if and only if $V^C\left(w=0,v_H^C,COR,\mu_t=\mu\right)\geq V^C\left(w=1,COR,\mu_t=\mu\right)$. $V^C\left(w=0,v_H^C,COR,\mu_t=0\right)>V^C\left(w=1,COR,\mu_t=\mu\right)$ if and only if $\frac{\left[1-\delta(1-\pi)-\delta^2\pi\right]\left[1-\delta(1-\pi)\right]v_H^C+\left[1-\delta(1-\pi)-\delta^2\pi\right]\delta(1-\pi)v_L^C-\delta(1-\delta)v_L^C}{\left[1-\delta(1-\pi)\right](1-\delta)}>\gamma\bar{v}^C$, which holds due to assumption 1.a and $v_H^C>v_L^C$. $V^C\left(w=1,COR,\mu_t=1\right)>V^C\left(w=0,v_H^C,COR,\mu_t=\mu\right)$ if and only if $\left[\gamma+\delta\left(1-\gamma\right)\right]\bar{v}^C>\left[1-\delta\left(1-\pi\right)\right]v_H^C+\delta\left(1-\pi\right)v_L^C$, which holds due to assumption 1.b. Since $V^C\left(w=1,COR,\mu_t=\mu\right)$ is an strictly increasing function of μ for

$\mu \in [0,1]$, the intermediate value theorem implies that, there exists a unique $\bar{\mu}^{2,Col} \in (0,1)$ such that the colony accepts the temporary concession $o_t = v_H^C$ if and only if:

$$\mu \leq \bar{\mu}^{2,Col} = \left[\frac{v_H^C - \gamma\bar{v}^C + \delta\pi\left(v_H^C - v_L^C\right)}{\bar{v}^C - v_L^C - \delta\pi\left(v_H^C - v_L^C\right)}\right]\left(\frac{1-\delta}{\delta}\right) \tag{7}$$

Since $v_H^C > v_L^C$, it must be the case that $\bar{\mu}^{2,Col} > \bar{\mu}^{1,Col}$. Finally, note that $\bar{\mu}^{1,Col} < 1$ if and only if $\bar{v}^C > \frac{v_L^C}{\delta+(1-\delta)\gamma}$, while $\bar{\mu}^{2,Col} < 1$ if and only if $\bar{v}^C > \frac{v_H^C+\delta(1-\pi)\left(v_H^C-v_L^C\right)}{\delta+(1-\delta)\gamma}$. ■

Proof of Lemma 2.

Independence. Independence is an absorbing state. Hence, the expected payoff for player M_1 is given by:

$$V^{M_1}(IND) = \frac{s^1\bar{v}^M}{1-\delta}$$

No Concessions. Suppose that the metropolis always offers $o_t = v_L^C$ and the colony accepts it. Then, the expected payoff for player M_1 is given by:

$$V^{M_1}\left(w=0, v_L^C, COR, \mu_t = \mu\right) = \frac{s^1\left(\bar{v}^M + \bar{v}^C - v_L^C\right)}{1-\delta} \tag{8}$$

Temporary Concessions. Suppose that the metropolis always offers $o_t = v_H^C$ and the colony accepts it. Then, the expected payoffs for player M_1 must satisfy the following Bellman equations:

$$V^{M_1}\left(w=0, v_H^C, COR, \mu_t = \mu\right) = s^1\left(\bar{v}^M + \bar{v}^C - v_H^C\right) + \delta\left[\begin{array}{c}\pi V^{M_1}\left(w=0, v_H^C, COR, \mu_t = \mu\right)\\ +(1-\pi)V^{M_1}\left(w=0, v_L^C, COR, \mu_t = 0\right)\end{array}\right]$$

$$V^{M_1}\left(w=0, v_L^C, COR, \mu_t = 0\right) = s^1\left(\bar{v}^M + \bar{v}^C - v_L^C\right) + \delta\left[\begin{array}{c}\pi V^{M_1}\left(w=0, v_H^C, COR, \mu_t = \mu\right)\\ +(1-\pi)V^{M_1}\left(w=0, v_L^C, COR, \mu_t = 0\right)\end{array}\right]$$

Solving this system of equations, we obtain:

$$V^{M_1}\left(w=0, v_H^C, COR, \mu_t = \mu\right) = s^1\left[\frac{\left(\bar{v}^M + \bar{v}^C - v_H^C\right) + \delta(1-\pi)\left(v_H^C - v_L^C\right)}{1-\delta}\right] \tag{9}$$

Representation. Once the colony obtains representation, it has representation forever. Representation is an absorbing state. Hence, the expected payoff for player M_1 under representation is given by:

$$V^{M_1}(REP) = \frac{\alpha s^1\left[\bar{v}^M + (1-\epsilon)\left(\bar{v}^C - v_H^C\right)\right]}{1-\delta} \tag{10}$$

War. Suppose that the colony does not accept a temporary concession. Then, the expected payoff for player M_1 must satisfy the following Bellman equations:

$$V^{M_1}(w=1, COR, \mu_t = \mu) = s^1\beta\bar{v}^M + \delta\left[\mu V^{M_1}(IND) + (1-\mu)V^{M_1}\left(w=0, v_L^C, COR, \mu_t = 0\right)\right]$$

$$V^{M_1}\left(w=0, v_L^C, COR, \mu_t = 0\right) = s^1\left(\bar{v}^M + \bar{v}^C - v_L^C\right) + \delta\left[\begin{array}{c}\pi V^{M_1}(w=1, COR, \mu_t = \mu)\\ +(1-\pi)V^{M_1}\left(w=0, v_L^C, COR, \mu_t = 0\right)\end{array}\right]$$

Solving this system of equations, we obtain:

$$V^{M_1}\left(w=1,COR,\mu_t=\mu\right)=\frac{\left[1-\delta\left(1-\pi\right)\right]s^1}{1-\delta\left(1-\pi\right)-\delta^2\left(1-\mu\right)\pi}\left\{\begin{array}{c}\frac{\left[\beta(1-\delta)+\delta\mu\right]\bar{v}^M}{1-\delta}\\+\frac{\delta(1-\mu)\left(\bar{v}^M+\bar{v}^C-v_L^C\right)}{1-\delta(1-\pi)}\end{array}\right\}$$

Since whenever $\mu_t=\mu$, the colony embarks on a war of independence, while whenever $\mu_t=0$, the metropolis always offers v_L^C, this expression does not depend on the metropolis's offer. Moreover, $V^{M_1}\left(w=1,COR,\mu_t=\mu\right)$ is a decreasing function of μ for $\mu\in[0,1]$. Formally:

$$\frac{\partial V^{M_1}\left(w=1,COR,\mu_t=\mu\right)}{\partial\mu}=\frac{\delta s^1\left[1-\delta\left(1-\pi\right)\right]\left[\delta\pi\bar{v}^M\left(1-\beta\right)-\left(\bar{v}^C-v_L^C\right)\right]}{\left[1-\delta\left(1-\pi\right)-\delta^2\pi\left(1-\mu\right)\right]^2}<0$$

where we have used $\bar{v}^C>v_L^C+\delta\pi\bar{v}^M\left(1-\beta\right)$.

No concessions dominates any other alternative. Since $\alpha<1$ and $\bar{v}^C>v_H^C>v_L^C$, $V^{M_1}\left(w=0,v_L^C,COR,\mu_t=\mu\right)>V^{M_1}\left(w=0,v_H^C,COR,\mu_t=\mu\right)$, $V^{M_1}\left(w=0,v_L^C,COR,\mu_t=\mu\right)>V^{M_1}\left(REP\right)$ and $V^{M_1}\left(w=0,v_L^C,COR,\mu_t=\mu\right)>V^{M_1}\left(w=1,COR,\mu_t=\mu\right)$.

Representation versus Temporary Concessions. $V^{M_1}\left(w=0,v_H^C,COR,\mu_t=\mu\right)>V^{M_1}\left(REP\right)$ if and only if $\bar{v}^C>\delta\left(1-\pi\right)v_L^C+\left[1-\delta\left(1-\pi\right)\right]v_H^C-\left(1-\alpha\right)\bar{v}^M$, which holds because $\bar{v}^C>v_H^C>v_L^C$. Thus, for the metropolis, temporary concessions are always better than representation.

War versus Temporary Concessions. When $\mu=\bar{\mu}^{1,Col}$, the metropolis prefers to offer temporary concessions rather than to engage in war. Formally, $V^{M_1}\left(w=0,v_H^C,COR,\mu_t=\bar{\mu}^{1,Col}\right)>V^{M_1}\left(w=1,COR,\mu_t=\bar{\mu}^{1,Col}\right)$ if and only if $\left(1-\beta\right)\bar{v}^M>v_H^C-v_L^C-\left(1-\gamma\right)\bar{v}^C\left[\frac{\bar{v}^C-\pi\delta v_H^C-(1-\pi\delta)v_L^C}{\bar{v}^C-v_L^C}\right]$, which holds due to assumption 2.b. Since $V^{M_1}\left(w=0,v_H^C,COR,\mu_t=\bar{\mu}^{1,Col}\right)$ does not depend on μ and $V^{M_1}\left(w=1,COR,\mu_t=\mu\right)$ is decreasing in μ, the metropolis prefers temporary concessions to war in all cases.

Representation versus War. When $\mu_t=1$, we have $V^{M_1}\left(REP\right)>V^{M_1}\left(w=1,COR,\mu_t=1\right)$ if and only if

$$\alpha>\bar{\alpha}^{1,Met}=\frac{\left[\beta\left(1-\delta\right)+\delta\right]\bar{v}^M}{\bar{v}^M+\left(1-\epsilon\right)\left(\bar{v}^C-v_H^C\right)}$$

When $\mu_t=\bar{\mu}^{2,Col}$, we have $V^{M_1}\left(w=1,COR,\mu_t=\bar{\mu}^{2,Col}\right)>V^{M_1}\left(REP\right)$ if and only if:

$$\alpha<\bar{\alpha}^{2,Met}=\frac{\left[1-\delta\left(1-\pi\right)\right]\left[\beta\left(1-\delta\right)+\delta\bar{\mu}^{2,Col}\right]\bar{v}^M+\delta\left(1-\delta\right)\left(1-\bar{\mu}^{2,Col}\right)\left(\bar{v}^M+\bar{v}^C-v_L^C\right)}{\left[1-\delta\left(1-\pi\right)-\delta^2\left(1-\bar{\mu}^{2,Col}\right)\pi\right]\left[\bar{v}^M+\left(1-\epsilon\right)\left(\bar{v}^C-v_H^C\right)\right]}$$

Moreover, since $\bar{v}^C>\delta\pi\bar{v}^M\left(1-\beta\right)+v_L^C$, it is muts be the case that $\bar{\alpha}^2>\bar{\alpha}^1$.

Thus, we must distinguish among three possible cases:

Case i: If $\alpha<\bar{\alpha}^{1,Met}$, then $V^{M_1}\left(w=1,COR,\mu_t=1\right)>V^{M_1}\left(REP\right)$. Since $V^{M_1}\left(REP\right)$ does not depend on μ and $V^{M_1}\left(w=1,COR,\mu_t=\mu\right)$ is decreasing in μ, this implies $V^{M_1}\left(w=1,COR,\mu_t=\mu\right)>V^{M_1}\left(REP\right)$ for all $\mu\in\left[\bar{\mu}^{2,Col},1\right]$.

Case ii: If $\alpha\in\left(\bar{\alpha}^{1,Met},\bar{\alpha}^{2,Met}\right)$, then $V^{M_1}\left(w=1,COR,\mu_t=\bar{\mu}^{2,Col}\right)>V^{M_1}\left(REP\right)>V^{M_1}\left(w=1,COR,\mu_t=1\right)$. Since $V^{M_1}\left(w=1,COR,\mu_t=\mu\right)$ is decreasing in μ, there exists a unique $\bar{\mu}^M\in\left(\bar{\mu}^{2,Col},1\right)$ such that $V^{M_1}\left(w=1,COR,\mu_t=\bar{\mu}^M\right)=V^{M_1}\left(REP\right)$, $V^{M_1}\left(w=1,COR,\mu_t=\mu\right)>$

$V^{M_1}(REP)$ for all $\mu \in \left(\bar{\mu}^{2,Col}, \bar{\mu}^{Met}\right)$, and $V^{M_1}(w=1, COR, \mu_t=\mu) < V^{M_1}(REP)$ for all $\mu \in \left(\bar{\mu}^{Met}, 1\right)$. $\bar{\mu}^{Met}$ is given by:

$$\bar{\mu}^{Met} = \left\{ \frac{\delta\left(\bar{v}^M + \bar{v}^C - v_L^C\right) + \left[1-\delta(1-\pi)\right]\beta\bar{v}^M - \alpha(1+\delta\pi)\left[\bar{v}^M + (1-\epsilon)\left(\bar{v}^C - v_H^C\right)\right]}{(1-\delta)\left(\bar{v}^M + \bar{v}^C - v_L^C\right) - \left[1-\delta(1-\pi)\right]\bar{v}^M + \alpha\delta\pi\left[\bar{v}^M + (1-\epsilon)\left(\bar{v}^C - v_H^C\right)\right]} \right\} \left(\frac{1-\delta}{\delta}\right)$$

Case iii: $\alpha > \bar{\alpha}^{2,Met}$, then $V^{M_1}(REP) > V^{M_1}\left(w=1, COR, \mu_t=\bar{\mu}^{2,Col}\right)$. Since $V^{M_1}(REP)$ does not depend on μ and $V^{M_1}(w=1, COR, \mu_t=\mu)$ is decreasing in μ, this implies $V^{M_1}(REP) > V^{M_1}(w=1, COR, \mu_t=\mu)$ for all $\mu \in \left[\bar{\mu}^{2,Col}, 1\right]$. This completes the proof of lemma 2. ■

B. Adam Smith on The American Revolution

In *The Wealth of Nations*, Book IV, Chapter VII, Part III, Adam Smith discusses three proposals to deal with the American colonies.

Proposal 1. **Peaceful independence, accompanied by a defense and free trade treaty**.

"To propose that Great Britain should voluntarily give up all authority over her colonies, and leave them to elect their own magistrates, to enact their own laws, and to make peace and war, as they might think proper, would be to propose such a measure as never was, and never will be, adopted by any nation in the world. No nation ever voluntarily gave up the dominion of any province, how troublesome soever it might be to govern it, and how small soever the revenue which it afforded might be in proportion to the expense which it occasioned." (Smith, 1776, Book IV, Chapter VII, Part III, p. 131).

"If it was adopted, however, Great Britain would not only be immediately freed from the whole annual expense of the peace establishment of the colonies, but might settle with them such a treaty of commerce as would effectually secure to her a free trade, more advantageous to the great body of the people, though less so to the merchants, than the monopoly which she at present enjoys. By thus parting good friends, the natural affection of the colonies to the mother country, which, perhaps, our late dissensions have well-nigh extinguished, would quickly revive. It might dispose them not only to respect, for whole centuries together, that treaty of commerce which they had concluded with us at parting, but to favour us in war as well as in trade, and instead of turbulent and factious subjects, to become our most faithful, affectionate, and generous allies; and that same sort of parental affection on the one side, and filial respect on the other, might revive between Great Britain and her colonies, which used to subsist between those of ancient Greece and the mother city from which they descended." (Smith, Book IV, Chapter VII, Part III, p. 132).

Proposal 2. **A deal on taxation without independence.**

"The colonies may be taxed either by their own assemblies, or by the parliament of Great Britain. That the colony assemblies can ever be so managed as to levy upon their constituencies a public revenue sufficient, not only to maintain at all times their own civil and military establishment, but to pay their proper proportion of the expense of the general government of the British empire, seems not very probable." (Smith, Book IV, Chapter VII, Part III, p. 133).

"It has been proposed, accordingly, that the colonies should be taxed by requisition, the parliament of Great Britain determining the sum which each colony ougth to pay, and the provincial assembly assessing and levying it in the way that suited best the circumstances of the province." (Smith, Book IV, Chapter VII, Part III, p. 134).

"The colony assemblies [...] might still find many pretences for evading or rejecting the most reasonable requisitions of parliament." (Smith, Book IV, Chapter VII, Part III, pp. 135-136).

Proposal 3. **Taxation and representation proportional to contribution to the public revenues of the Empire**.

"The parliament of Great Britain insists upon taxing the colonies; and they refuse to be taxed by a parliament in which they are not represented. If to each colony which should detach itself from the general confederacy, Great Britain should allow such a number of representatives as suited the proportion of what it contributed to the public revenue of the empire, in consequence of its being subjected to the same taxes, and in compensation admitted to the same freedom of trade with its fellow-subjects at home; the number of its representatives to be augmented as the proportion of its contribution might afterwards augment; a new method of acquiring importance, a new and more dazzling object of ambition, would be presented to the leading men of each colony." (Smith, 1776, Book IV, Chapter VII, Part III, p. 137).

"We, on this side of the water, are afraid lest the multitude of American representatives should overturn the balance of the constitution, and increase too much either the influence of the crown on the one hand, or the force of the democracy on the other. But if the number of American representatives were to be in proportion to the produce of American taxation, the number of people to be managed would increase exactly in proportion to the means of managing them; and the means of managing, to the number of people to be managed. The monarchical and democratical parts of the constitution would, after the union, stand exactly in the same degree of relative force with regard to one another as they had gone before." (Smith, 1776, Book IV, Chapter VII, Part III, p. 140).

"The people on the other side of the water are afraid lest their distance from the seat of government might expose them to many oppressions. But their representatives in parliament, of which the number ought from the first to be considerable, would easily be able to protect them from all oppression. The distance could not much weaken the dependency of the representative upon the constituent, and the former would still feel that he owed his seat in parliament, and all the consequence which he derived from it, to the good-will of the latter. It would be the interest of the former, therefore, to cultivate that good-will, by complaining, with all the authority of a member of the legislature, of every outrage which any civil or military officer might be guilty of in those remote parts of the empire. The distance of America from the seat of government, besides, the natives of that country might flatter themselves, with some appearance of reason too, would not be of very long continuance. Such has hitherto been the rapid progress of that country in wealth, population and improvement, that in the course of little more than a century, perhaps, the produce of American might exceed that of British taxation. The seat of the empire would then naturally remove itself to the part of the empire which contributed most to the general defense and support of the whole." (Smith, 1776, Book IV, Chapter VII, Part III, p.140).