Slavery: The Foundation of the United States Economic System

Traditionally, historians and economists have treated slavery as incidental or even detrimental to the growth and character of the US economy. Recent scholarship has come to a drastically different conclusion: ***Slavery was essential to the development, growth and character of American capitalism.***

Slavery in the British Colonies began in 1619 when about 20 slaves were sold in the Virginia Colony.

- By 1700 Slavery was widespread in every colony.
- Slaves were used in agriculture; as servants, cooks and to raise children of the masters.
- Slaves were also used in skilled labor including carpentry, blacksmithing, shipbuilding and other trades.
- At the time of the revolution Black Slaves made up **almost 20%** of the total population
- Slaves were encouraged to have children and many of them survived to adulthood.
    - This was referred to as “natural increase”.
- In 1662 the Virginia legislature dropped the English rule of descent via the father and established the principle of partus sequitur ventrem: whether a child was considered free or slave depended upon the mother's status.
    - Since many of the children were the children of free white fathers and enslaved mothers, the new rule assured slaveowners of the labor of these children for a lifetime.
    - This practice then spread to all the colonies.

The US Constitution is an Economic document that deals with Slavery. (The words slave or slavery do not appear in the document)

- Slaves were both property for purposes of taxation and persons for purposes of representation; e.g. The 3/5th rule.
- Limits were placed on the International Slave trade which made native born slaves more valuable after 1800.
- The Fugitive Slave provision “No person held to service or labour in one state, under the laws thereof, escaping into another, shall, in consequence of any law or regulation therein, be discharged from such service or labor, but shall be delivered up on claim of the party to whom such service or labor may be due.”
    - Pa, RI, CT, NH had already outlawed slavery by 1787.
        - This clause limits individual State rights and forced some states to honor other states laws.

Slaves provided almost free labor and were often required to work 18-hour days six days per week.

- There was no limit to the work or time that a master could command from his slaves.
- By the 1660s, slavery became more profitable than indentured servitude and remained that way.
- Slave masters set enslaved children to work at an early age. They generally began working at tobacco between the ages of seven and ten years.

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The invention of the Cotton Gin in 1791 made growing large amounts of cotton much more profitable and had major consequences:

- More than a million slaves from Md, VA, NC were sold south to AL, MS, LA frequently separating families in the process.
- Slaves were used to cut down old growth forests across the deep south to clear land to grow cotton.
- Cotton clothing became much more affordable than wool and linen and worldwide demand for Cotton grew exponentially through the period 1810 to 1835.
- This growth led to the rapid expansion of mills in England and soon in New England.

Financial instruments which used **slaves as collateral** fueled the development of American capitalism in the 1820's and 1830's.

- Plantation owners took on large amounts of debt since they were often able to produce 20% yearly profit from their Cotton crops.
- Mortgages – money was scarce, land was of little value in colonial US, banks were few; slaves had definite value and could be sold for cash if necessary.
- In early 1700's slaves were the dominant collateral in South Carolina.
- Thomas Jefferson took out a mortgage on 150 of his slaves to fund Monticello.
- By 1820 mortgages using slaves as collateral were common throughout the South.
- Mortgage backed bonds– were widely used to fund the creation of the Cotton plantations in the 1820's and 1830's. (Miss, Al, La, Ga)
- Slaves provided most of the collateral for Bank Loans which the plantation owners used to buy land, equipment, build homes and to buy more slaves.

New York City became the US's financial capital during this period as Wall Street firms managed the instruments to fund the Cotton economy.

- The New York investment managers took a % of every transaction and many became wealthy,
- Some of the wealth created was then used for financing of Railroads and New England factories.
- The international network developed to fund Cotton plantations marked the beginning of largescale US participation in a global financial system.

State banks in LA, MS, AL, FL issued bonds backed by mortgages on slaves and lent the proceeds to cotton planters who then bought more slaves and expanded their plantations.

- These bonds were sold on the international capital markets of London, Amsterdam and Hamburg.
- Production of cotton doubled from 1830 to 1837!
- The resulting glut of cotton caused prices to fall setting off a worldwide financial Panic.
- The price of prime slaves also fell from $2000 to $100 creating "toxic debt"
  - Investors tried but failed to collect on the planter's debts, many bankruptcies resulted.
- Some of the bankrupt planters escaped to the then ***foreign country of Texas*** with their slaves.
  - Ultimately many of the bond investors (but not citizens who lost their money in the State Banks) were paid off by State Governments who had issued the bonds
  - This established a precedent that has shaped US capitalism to this day; e.g. the wealthy get bailed out, the masses do not.

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The fallout from the Panic of 1837 and the depression which followed through the mid 1840's. furthered the divide between the industrializing North and the South which remained committed to slave-based agriculture.

- The South was no longer able to borrow from the international or Northern banks using slaves or cotton as collateral.
- The southern planters turned to new land for collateral to fund their recovery and growth.
- They demanded that land west of the Mississippi become slave states which led to the bitter political and armed conflicts in Kansas and Nebraska – followed by CIVIL WAR!

Lasting influence of Slavery on US Capitalism:

- Labor is a commodity to be used anyway Owners see fit.
- Natural resources can be expropriated and utilized to exhaustion.
- Government is to be structured and subject to the will of wealthy interests.
- Risk due to Financialization of the economy is borne by small investors and the general population.