Fighting Like a State: Lessons from the American Revolution

The American Revolution was a unique revolution because it was a revolution for liberty and decentralization. The Declaration of Independence—as a bold act of secession—can also be understood as one of the earliest major challenges to modern centralized sovereign authority within the emerging nation-state system.

In *The Anatomy of Revolution*, Crane Brinton argued that revolutions tend to proceed through successive stages in which power passes from the defenders of the old regime, to moderates, and finally to increasingly-radical factions. As each stage unfolds, political power tends to become more centralized and concentrated in fewer hands. Yet Brinton regarded the American Revolution as unusual because it never advanced as far down this path as the French or Russian Revolutions (p. 150),

. . .in America rather earlier in the revolutionary process a struggle between moderates and radicals had been fought out, and had ended with victory for the radicals. The fruit of that victory was the Declaration of Independence.

Yet, the period from 1776 to 1787 represents a complex struggle between **two competing visions** of American political order: one rooted in decentralized state sovereignty, individual liberty, and suspicion of concentrated power; the other oriented toward national consolidation, commercial regulation, and the legal protection of creditor and elite interests.

While independence *was* successfully declared and independence maintained in a great libertarian movement for liberty and decentralization, we cannot avoid the fact that national government was eventually centralized afterward at the expense of the Revolution, especially through the work of the nationalists and the advent and ratification of the Constitution.

While it is also true that—even after the ratification of the Constitution and creation of a new national-federal government—the United States maintained **a surprisingly robust and durable federalism**, we should note the interventions that took place during and after the Revolution that threatened the cause of independence and provided justification for further consolidation, as well as understand the counter-revolutionary process.

As I studied aspects of the the American Revolution this year, **two key lessons** emerged:

1) **When you fight *like a state*, you win or lose *like a state*;**
2) **Intervention begets intervention**

War, even the American Revolution, is the health of states because it is almost impossible to avoid fighting a war on **state-centric terms**. Even in fighting a war for American independence, many interventions were already planting the seeds of further interventions and big government.

Along similar lines, Rothbard writes regarding the treatment of the Tories,

In this kind of ferocious civil conflict, in which the life of the Revolution itself was at stake, it is unreasonable to expect consistently libertarian methods of handling the Tories from even the most liberal supporters of the Revolution. . . .

Thus, a Revolution and revolutionaries dedicated to the cause of liberty moved to suppress crucial liberties of their opposition—*an ironic but not unsurprising illustration of the inherent contradiction between Liberty and Power, a conflict that can all too readily come into play even when Power is employed on behalf of Liberty*. (*emphasis* added)

James Madison said truly,

Of all the enemies of true liberty, war is, perhaps, the most to be dreaded, because *it comprises and develops the germ of every other.*

War is the parent of armies; from these proceed debts and taxes; and armies, and debts, and taxes are the known instruments for bringing the many under the domination of the few. . . . (*emphasis* added)

No nation can preserve its freedom in the midst of continual warfare.

In *Crisis and Leviathan* by Robert Higgs, he writes,

In American history the most significant crises have taken two forms: war and business depression. At the outbreak of war a suddenly heightened demand for governmental provision of military activities leads immediately to displacement of market-directed resource allocation by greater taxation, governmental expenditure, and regulation of the remaining economy.

Unfortunately, the American Revolution—though a great movement toward liberty—was no exception.

George Washington or Charles Lee—A State-Centered Approach versus Guerilla Warfare (May 1776)

The key decision of the Continental Congress to choose George Washington over Charles Lee matters because the way a war is fought has consequences. The choice to fight *like a state* means either losing or winning *like a state*. A **state-centered approach** to warfare basically *requires a state* to support it, and—if one does not already exist—it is likely a state or quasi-state will be shortly created.

In terms of strategy for the American War of Independence, **Washington favored a state-centered approach** that required a professional army and centralized administration, whereas **Charles Lee advocated a decentralized form of warfare** that sought to exploit America's comparative advantages in terrain, local support, and militia resistance, resembling what would

later be called asymmetric or guerrilla warfare.[1]

Historian Jeffrey Rogers Hummel summarizes in "The Constitution as Counter-Revolution: A Tribute to the Anti-Federalists,"

. . .the military strategy adopted by Congress necessitated large expenditures. Military conservatives, such as Washington, wanted to fight the Revolution according to the conventional principles of eighteenth-century warfare, with a sizeable and costly professional army. Some military radicals, such as Charles Lee, pointed toward a less orthodox military-oriented strategy along the lines of what today is called guerrilla warfare, which would have been more decentralized and less expensive. The American fear of standing armies, stemming from the well-established threat that standing armies posed to liberty, as well as each state's jealous regard for its own prerogatives, prevented the military conservatives from implementing their entire programme. But they did induce Congress to focus the Revolutionary effort upon a regular Continental Army commanded by Washington.

Congress was thus faced with the enormous task of acquiring the resources to raise and maintain the Continental Army. *To this single, fateful decision* [choosing a state-centric war model and appointing Washington] *can be attributed almost the entire panoply of war-time excesses*. An unfunded government debt, paper money, skyrocketing inflation, price controls, legal tender laws, direct impressment of supplies and wide-spread conscription. . . Those excesses naturally aroused resentment, and they *played into the hands of the nationalists, who contended that only stronger central authority could alleviate them*. (*emphasis* added)

Rothbard writes concerning the awareness of the radical Massachusetts delegation at the Continental Congress that following the state-centric model posed a danger to true liberty and state independence,

Here the Massachusetts radicals were in a cruel dilemma; any army under the Continental Congress would mean, in contrast to a guerilla army, *the inevitable buildup of a central state apparatus, and of a high expensive and burdensome state army, which would inevitably saddle all Americans with heavy taxes, inflation, and debt.* The Massachusetts radicals can hardly be blamed for their decision to press for a statist continental army; the theory of revolutionary guerilla warfare had yet to be fully developed. . . (*emphasis* added)

Washington's strategic vision carried costs beyond the battlefield. Maintaining the Continental

[1] Concerning guerrilla warfare, Rothbard writes in *For a New Liberty*: ". . .revolutionary guerrilla war can be far more consistent with libertarian principles than any inter-State war. By the very nature of their activities, guerrillas defend the civilian population against the depredations of a State; hence, guerrillas, inhabiting as they do the same country as the enemy State, cannot use nuclear or other weapons of mass destruction. Further: since guerrillas rely for victory on the support and aid of the civilian population, they must, as a basic part of their strategy, spare civilians from harm and pinpoint their activities solely against the State apparatus and its armed forces. Hence, guerrilla war returns us to the ancient and honorable virtue of pinpointing the enemy and sparing innocent civilians. And guerrillas, as part of their quest for enthusiastic civilian support, often refrain from conscription and taxation and rely on voluntary support for men and materiel."

Army required massive expenditures, borrowing, requisitioning, inflationary currency emissions, and various forms of economic intervention. Price inflation became a persistent problem, and Congress struggled to finance the war without resorting to measures that many Americans viewed as violations of the very liberties they sought to defend. A decentralized military strategy might not only have reduced costs but also diminished pressures for inflation, price controls, and other emergency wartime expedients.

Revolutionary Inflation (June 1775)

War encourages centralization and artificial expansion of the money supply, and the ability to engage in monetary inflation and credit expansion enables war and other government projects.

In order to fund and support the Continental Army in the style of a regular army—rather than as a guerilla force or forces—taxation was out of the question. The Continental Congress did begin to discuss borrowing (with the plan to repay through future taxes) in June 1775. That seemingly left one option—"coercive but seemingly painless, a device the British colonies had pioneered in the western world, the issue of paper money." On June 22, 1775, Congress issued $2 million paper "bills of credit" ("Continentals"), but this would soon expand greatly. Rothbard explains the nature of this inflation,

Paper issues fraudulently pretend to be equivalent to units of specie and are used by the issuer to bid away resources in society from the producers and consumers, in the process depreciating the money itself. Its nature and consequences are equivalent to the process of counterfeiting.

In a letter to Jean Nicolas DéMeunier—commenting on his article concerning the US in DéMeunier's *Encyclopédie Méthodique*—Thomas Jefferson wrote (June 22, 1786),

Every one thro[ugh] whose hands a bill passed, lost on that bill what it lost in value, during the time it was in his hands. This was a real tax on him; and in this way the people of the united states [*sic*] actually contributed. . .millions of dollars during the war, and by a mode of taxation the most oppressive of all, because the most unequal of all.

Both the Confederation and the individual states "went heavily into the printing business." By the time the original $2 million Continentals were ready, Congress had already decided it would not be enough and authorized another $1 million by the end of July. Before the end *of 1775*, a total of $6 million of inflated money was either printed or authorized. For context, the total money supply of the previous year was about $12 million, therefore, this issuance represented *a 50 percent increase of the money supply in less than a year*.

G. Edward Griffin continues the story,

By the end of [1775], another $3 million. In 1776, another $19 million. $13 million in 1777. $64 million in 1778. $125 million in 1779. And still more: the Continental Army issued its own "certificates" for the purchase of supplies totalling $200 million. A total of $425 million in five years on top of a base of $12 million is *an increase of over 3500%*. And, in

addition to this massive expansion of the money supply on the part of the central government, it must be remembered that the states were doing exactly the same thing. *It is estimated that, in just five years from 1775 to the end of 1779, the total money supply expanded by 5000%*. By contrast, the amount raised in taxes over the five-year period was inconsequential, amounting to only a few million dollars. (*emphasis* added)

Such inflation—while it funded the war without taxes—predictably led to other consequences that threatened the very cause and success of independence.

In 1779, **George Washington** wrote to the President of Congress,

In the last place, though first in importance, I shall ask; is there any thing doing, or that can be done, to restore the credit of our money? *The depreciation of it has got to so alarming a point, that a wagon-load of money will scarcely purchase a wagon-load of provisions*. (*emphasis* added)

On January 15, 1779, **Washington** wrote the committee of Congress concerning how inflation was negatively impacting the success of the war effort itself,

But if the men were to be had, a question arises, whether they could be subsisted. The difficulty and expense would be excessive, and it is much to be doubted, *whether our money, though aided by every exertion of government, would be able to bring out the resources* of the country to answer so immense a demand. . . . *The great impediment to all vigorous measures, is the state of our currency*. (*emphasis* added)

Writing in a letter on December 21, 1776, **Robert Morris**—the chief architect of financial centralization during and after the Revolution, promoting a national bank, public debt, and expanded federal power—recognized the detriment to the cause of independence,

I must add to this gloomy picture one circumstance, more distressing than all the rest, because *it threatens instant total ruin to the American cause*, unless some radical cure is applied, and that speedily; I mean *the depreciation of the continental currency*. The enormous pay of our army, the immense expenses at which they are supplied with provisions, clothing, and other necessaries, and, in short, the extravagance that has prevailed in most departments of the public service, have called forth prodigious emissions of paper money, both continental and colonial. (*emphasis* added)

The policy of inflation to fund the American Revolution was one of the most costly methods of taxation and even threatened the success of the independence movement, not to mention its post-Revolution consequences. While the American Revolution was largely a libertarian revolution, it is clear that a state-centric model—government inflation, standing armies, etc.—not only threatened the cause, but virtually ensured post-war centralization of government powers.

Legal Tender Laws, Price Controls, & Property Seizure

What are some of the most easily-identifiable consequences of monetary inflation?

The most straightforward answer, obvious to almost everyone, is simultaneous price inflation and loss of purchasing power. And, when price inflation and loss of purchasing power predictably arrive, intervention begets intervention—the state employs coercion to enact price controls.

After prices skyrocketed, and **wage and price controls** exacerbated the economic situation, a series of **harsh legal tender laws** soon followed in a desperate attempt to force people to give up their property and production for increasingly worthless fiat paper.

In an informative article on this topic, "**From Price Control to Valley Forge: 1777-78**," Pearcy Greaves—a student of Mises—wrote,

Price controls were imposed in an attempt to reduce the costs of supplying the Continental Army and reduce the burden of the war. Of course, price-controlled goods experienced predictable shortages and the prices of non-controlled goods skyrocketed, further exacerbating the scarcity. Additionally, many did not want to accept the newly-printed money in exchange for their goods (despite possible legal consequences). Some desperate people even sold their farm products secretly to the British in return for gold, which could then be used to buy necessities. ***These realities weakened the army, the people, and the war effort in general.*** **(*emphasis* added)**

Needless to say, all these policies exacerbated the shortages, threatened the cause of American liberty and independence, and tended toward greater centralization.

1) The war, fought on state-centric terms, required massive inflation to fund it;
2) Monetary inflation and credit expansion brought about price inflation, loss of purchasing power, and economic dislocation;
3) Counterproductive wage and price controls and legal tender laws were implemented to control prices;
4) After price controls and legal tender laws failed and caused shortages, and more resources were withdrawn from the market, forcible confiscation of property, threats, and punishments were implemented;
5) The chaos caused by these policies and the desire to win the war led to consistent calls—suggested by the nationalists—for more order and stability through greater centralization

As is typical, increased centralization and state power were proposed as solutions to problems largely caused by state interventions.

Post-War Economic Crisis, & the Depression of 1784

Besides price inflation and loss of purchasing power, what is another—often-overlooked and misunderstood—consequence of monetary inflation?

The answer is economic dislocation, distortion of the structure of production, and misallocation of resources, a boom-bust cycle, and a depression.

A critical driver of centralization was the financial chaos left in the wake of the Revolutionary War. During the war, both the individual states and the Continental Congress had inflated fiduciary notes—essentially fiat paper money—to finance military operations. These notes had depreciated dramatically, creating widespread economic dislocation.

Writing in *Cronyism*, Patrick Newman explains the post-war depression,

After the Revolutionary War, the country faced an economic crisis. . . Difficulties in the early 1780s came from the war's aftermath, and postwar interventions delayed recovery. . . . First, industries had to recover from wartime destruction and rebuild damaged infrastructure. Second, manufacturers needed to experience a harsh but necessary correction: when peace arrived, Great Britain's better quality and lower-priced manufacturing exports returned to American shores. Consequently, Americans had to reallocate labor and other resources away from eastern manufacturing and back to agriculture and westward settlement. Third, Great Britain now restricted its purchases of American exports, forcing a redirection of exports to continental Europe and Asia. All three of these factors—recovering from wartime destruction, reallocating resources used in wartime production, and suffering from coercive foreign trade legislation—produced a postwar depression in 1784. . . . Postwar tax and monetary policies aggravated this depression and hampered a quick recovery.

Rothbard likewise writes about the inflationary credit expansion of the **Bank of North America**, as well as the Bank of Massachusetts and Bank of New York.

The Push for Central Banking: The Bank of North America (BONA)

The **Bank of North America** was a federally-chartered bank established in 1781 and linked government finance, public debt, and privileged banking. It was an important precursor to Hamilton's financial system. It was the **first national bank** in US history.

As a source for financing the Revolution, the Bank of North America often receives undue credit.[2] It is a common claim that the Bank of North America was essential for stable financial

[2] The inflationary national bank both artificially expands credit and receives undeserved credit.

support to win the Revolution, however, William Gouge, in his *A Short History of Paper Money & Banking* (1833), deals with this claim with a simple presentation of historical sequence,

It is a common opinion that the Bank of North America rendered essential service during our revolutionary struggle—that, without it, the achievement of independence would have been difficult, if not impossible. Assertions to this effect have been made with so much confidence that we once believed them to be well-founded; but on examination we find—

First. **That the capture of Cornwallis, which is described by historians as the closing scene of the Revolutionary War, took place on the 9th [*sic*; 19th][3] of October, 1781, and that the Bank did not go into operation till January 7th, 1782.**

. . . .

The reader, on duly considering these facts, will probably be convinced that the services rendered by the Bank of North America, during our revolutionary struggle, have been grossly exaggerated.

From an Austrian economics perspective, the **depression of 1784** was partly the inevitable correction following years of wartime inflation, paper-money expansion, and credit creation. While postwar adjustments and renewed British competition contributed to the downturn, the bust also reflected the liquidation of distortions created by the Revolution's inflationary war economy. But the post-war economic crisis created conditions that facilitated further national consolidation.

The Articles of Confederation: A Step Towards Centralization

Politically, during this period there were also persistent calls for creation of a powerful central state to win the war and provide order and stability.

Winning the war was a key argument for the Articles of Confederation and more consolidated national government. However, the Articles were drafted in **1777** and fully ratified in **1781**, yet the Revolution had virtually ended by **October 19, 1781** with the surrender of Cornwallis.

In *Conceived in Liberty*, Rothbard writes,

The myth abounded that formal confederation was necessary to win the war, although the war would be virtually won by the time the confederation was finally achieved. The war was fought and won by the states informally but effectively united in a Continental Congress. . .

[3] Gouge likely means October *19* when Cornwallis formally surrendered, but it does not affect the overall thrust of his argument.

Now, even though the Revolution was won *without* the Articles of Confederation, the government created by the Articles would remain after the war. Though much more limited in power, the Articles of Confederation marked a **significant step** away from the loose wartime coordination of the Continental Congress and **toward a more centralized national government**.

The much-maligned Articles of Confederation provided **grievance fuel**: problems caused by the war, previous interventions, and the consequences of both could be blamed on the inadequacy of the Articles—the central government simply had too little power.

Standing Armies & The Newburgh Conspiracy (March 1783)

The Newburgh Conspiracy of 1783 revealed how fighting the Revolution on state-centric terms and several interventions had already fostered pressures toward greater nationalization and centralized power.

Frustrated by unpaid wages and pensions, officers in the Continental Army—encouraged by nationalist allies such as Robert Morris—considered using military pressure to secure stronger federal authority and reliable national revenues. The episode vindicated long-standing fears that standing armies could become political instruments threatening liberty and state sovereignty.

In June of 1787, James Madison gravely warned that,

The means of defence agst foreign danger, have been always the instruments of tyranny at home. Among the Romans it was a standing maxim to excite a war, whenever a revolt was apprehended. Throughout all Europe, the armies kept up under the pretext of defending, have enslaved the people.

Rothbard wrote in *Conceived in Liberty*,

By 1787, the nationalist forces were in a far stronger position than during the Revolutionary War to make their dreams of central power come true.

The Ideological Transformation: Redefining the Revolution

One of the most significant aspects of this process was the **ideological reframing** that accompanied the drive for centralization. The argument was made—and has been repeated ever since—that the Constitution *completed* the Revolution rather than betraying it. The Articles of Confederation were portrayed as a failed experiment, and the Constitution as the fulfillment of American founding ideals.

Over time, what began as a unique revolution for secession, decentralization, and liberty became reinterpreted as a promise for a large, consolidated, indivisible national government.

While the Declaration of Independence is a heritage of which we should be proud, and which we should reclaim from the egalitarian progressives and the mainstream national conservatives, the American Revolution also provides a cautionary tale for proponents of liberty:

1) **When you fight *like a state*, you win or lose *like a state*;**
2) **Intervention begets intervention**