How the Pilgrims Financed the *Mayflower*

Case

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Region: United States of America, United Kingdom of Great Britain and Northern Ireland | **State:**
Industry: Financial service activities, except insurance and pension funding| Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use| Wholesale trade, except of motor vehicles and motorcycles
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Abstract

This case describes how the Pilgrims—the pioneering English settlers of New England—financed the considerable costs of their resettlement by making it part of a business venture. The terms of financing are highlighted, and readers are asked to consider how the terms were shaped by moral hazard.

Case

Learning Outcomes

By the end of this case, students should be able to understand:

- a principal–agent relationship;
- the problem of moral hazard;
- some mechanisms used by principals to reduce moral hazard; and
- the effects of information availability on moral hazard.

Introduction

It is a curiously little-remarked fact that the Pilgrims could meet the costs required by their now famous migration in 1620. The outlays were considerable. First, they obtained permission from the Virginia Company of London to settle in what it claimed to be its territory, and negotiated, using the services of agents, the terms of their settlement. Second, they chartered the *Mayflower*, and manned it with a crew possessing the much sought-after skills required to cross the perilous Atlantic. Third, they stocked it with a year's worth of food and other provisions for over 100 people. In addition to the life-sustaining necessities (which included barrels and barrels of beer to be consumed in place of plain water that, typically for the time, was too unclean and hazardous to drink), the items stocked consisted of arms and ammunition, home-building equipment, fishing and whaling equipment, goods for trading with Native tribes, materials to construct a smaller boat to be used for inland and coastal journeys, and seed corn for planting food upon their arrival. Carpenters, marksmen, a boat-builder, a salt-maker, a cooper (one who makes and repairs casks and barrels), and several servants were recruited outside ranks of Pilgrims for needed skills. And finally, the settlers were re-provisioned several times from England before they could sustain themselves.

The typical cost of such resettlements was so large relative to the average income of the time that in France and Spain, such ventures were usually financed by kings, and very sparingly. It is therefore remarkable that the Pilgrims, a bunch of English religious dissidents living as refugees in Holland and working mainly as textile workers, managed to get their hands on such a princely sum. They did so the same way that many Silicon Valley firms get started today: by tapping into venture capital.

Venture Capital in Early Modern England

The term "venture capital" refers to the kind of capital that seeks investment in very high-risk, high-reward business startups. Such a risk–reward profile was quite familiar to investors in

England of the time. English investors had been funding high-risk sea-going ventures long before the Pilgrims set sail. These ventures would seek to generate earnings by either: (a) trading in the Mediterranean, Africa, the Indies, or Russia; (b) trying to discover a new, shorter route for the lucrative trade with the East on which they could receive exclusive trading rights; (c) fishing seasonally off the cod-rich banks of Newfoundland or New England while trading furs with the Native Americans; or (d) pirating the French and Spanish ships scurrying across the Atlantic with the loot from the New World (Kupperman, 2009). Such ventures were risky because foreign markets were fickle, ships would frequently be lost or wrecked, and cargo could spoil or be seized by pirates. But when successful, the rewards were enormous. The pirating operation of the famous Sir Francis Drake provided its investors a return of 4,700% (Srinivasan, 2017).

The ventures were financed on a one-off basis. A group of wealthy merchants, calling themselves “merchant adventurers,” would get together to finance a specific time-limited venture—a summer’s fur trading and fishing expedition along the coast of present-day Maine, for example. The merchant adventurers (henceforth, adventurers) were merely investors; very rarely would they travel with the expedition itself. At the end of a successful trip, they would collect their earnings (if any) and go their separate ways. Later, they might come together again with a different group of adventurers to finance a different venture.

Some adventurers were painfully aware that that a good part of the summer’s fishing season was wasted by their expeditions sailing back and forth across the Atlantic (Kupperman, 2009). If there were a permanent settlement of Europeans in the New World, the output of their ventures would be considerably higher. But who from Europe would agree to settle long term (in a place considered to be) so far from civilization?

The Pilgrims’ Venture

The Pilgrims had found religious tolerance in liberal Holland, but they felt that their children were being corrupted by the overly permissive Dutch culture. Their break with the Church of England precluded a return to England, but they wished to bring up their children with the proper English and godly ways. Also, the life of a textile worker in commercially advanced Holland was proving to be too grueling, and they longed for a return to the pastoral rhythms of their English country life. Their alienation from the society they lived in made them good candidates for a business venture that involved resettlement in the New World.

English adventurer Thomas Weston, along with two representatives of the Pilgrims, created the seventeenth century equivalent of a business plan. Potential investors were offered a share for GBP 10, but those participating in the resettlement and pledging their labor, like the Pilgrims, were offered a share each for free. The venture was to generate earnings by having the settlers send back valuable products acquired year-round by fishing, logging, and trading with the Natives. A group of English adventurers signed on, and along with the Pilgrims’ own paltry savings, somewhere between GBP 1,200 and GBP 1,600 of capital were raised to send the Pilgrims to the New World (McIntyre, 1963).

The relationship between the pilgrims and the adventurers suffered from the problem of moral hazard—a concept that is taught in many economics and finance courses. More generally, the problem arises when relationships are between one party—the “principal” —who has contracted with another party—the “agent” —to act in the interest of the principal. Examples of such “principal–agent” relationships are the shareholder–manager, employer–employee, and homeowner–realtor relationships. Moral hazard arises when (a) there is some divergence in the interests of the principal and the agent, and (b) some of the agent's actions and their consequences are hidden from the principal's view. The hazard is the possibility that the agent may pursue her own interest over that of the principal. For example, when some part of an employee's effort is hidden from the employer's view, the employee may not work as diligently in attracting customers. If the prospect of moral hazard is severe enough, principals may forgo entering a relationship with agents in the first place. Thus, some mutual gains from trade would remain unrealized.

The interests of the adventurers and that of the Pilgrims were congruent in some ways, but divergent in others. The adventurers wanted to maximize financial returns in the shortest time. The Pilgrims did too, but they also had long-term goals, which included maintaining their community's religious purity. Because the adventurers could not monitor the efforts of the Pilgrims in the New World, they were concerned that the Pilgrims would engage too much in religious zealotry and not enough in economic pursuits. To mitigate the concern, the adventurers had padded the ranks of settlers with fortune-seeking unattached young men recruited from outside the community of Pilgrims. To the Pilgrims' consternation, half of the *Mayflower*'s passenger manifest consisted of such spiritually suspect men. The merchant adventurers had the upper hand in the negotiations and so their wishes generally prevailed.

The adventurers also exacted onerous terms about how exactly the venture was to be run. The settlers in the New World were required to organize themselves like a commune. The Pilgrims grudgingly pledged their labor six days a week for seven years. All goods, services, physical structures (including housing), and earnings generated by their labor were also to belong to the venture, which was to provide for their food and other basic needs. The settlement was expected to become self-sustaining as soon as possible in terms of food, so that there would be minimum need for more provisions to be sent from England at the venture's expense.

Over the Pilgrims' protests, a ruthless and hard-nosed merchant, Christopher Martin, was appointed by the adventurers to lead the settlement. One of the Pilgrims later wrote of him, "he so insulteth over our poor people, with such scorn and contempt, as if they were not good enough to wipe his shoes" (Philbrick, 2007). At the end of seven years, the venture would expire, and all assets and earnings would be liquidated and distributed to the shareholders. The Pilgrims would receive proceeds from the venture in proportion to their shares and be set free.

The Disappointment

The adventurers had expected the settlers to start generating earnings right away, maybe even send beaver skins and clapboard on the *Mayflower*'s return journey. But the Pilgrims' first year in the New World was a disaster. Because of delay in setting sail and several mishaps at sea, they arrived much later in the fall than planned. Stormy weather, combined with the imperfections of the navigational techniques of the time, led them to land 200 miles north of their intended destination (near present-day New York City) where they had anticipated resources to be the most plentiful. They had little time left to gather food and build shelters before winter. Their seed corn was useless in the foreign soil, and they were reduced to stealing corn from the Native Americans, which did little to endear them to the new neighbors. They didn't have much luck with fishing either—their boat-builder died and their salt-maker turned out to be incompetent. Six months after they arrived, only half of the *Mayflower* passengers still lived, the others having succumbed to malnourishment or pneumonia (Philbrick, 2007).

The survivors spent the following spring and summer building structures to live under and scouting for trades with the Natives. In the fall, the survivors were greeted by the *Fortune* arriving from England bearing a few provisions, more mouths to feed in the form of new settlers, and a letter from the adventurers expressing their impatience. “That you sent no lading is wonderful,” Weston wrote sarcastically, “and worthily distasted. I know your weakness was the cause of it, and I believe more weakness of judgement than weakness of hands. A quarter of the time you spend in discoursing, arguing and consulting would have done much more…. The life of the business depends upon the lading of the ship, which if you do … I may be freed from the great sums I have disbursed.” Fortunately, a trade with some friendly Native Americans had accrued a large stock of furs (estimated to be equal to GBP 400), which they shipped to London on the *Fortune*, along with a plea for more provisions. As luck would have it, the *Fortune* was looted by French pirates, and only the plea made it to London.

Over the next few years, bitter disagreements played out among the adventurers as to whether they should raise more capital for re-provisioning and how long they should continue to raise funds. As was the practice at the time, additional capital would have to be raised by levying a new compulsory assessment on the existing shareholders. Some adventurers considered it throwing good money after bad. Some, like Weston, bailed out by selling their shares to the more patient among them. Some sent stopgap provisions privately on credit. Others sued each other over various legal matters.

The Financial Restructuring

The New World settlers concluded that the London adventurers were not useful for anything more than for sending the necessary provisions unreliably, unwanted settlers regularly, and harrying letters unfailingly. In 1626, the leaders of the settlement agreed to swap the equity of the London adventurers for debt. In exchange for all shares and the ventures’ assets (such as fur trading rights) the leaders of the settlement agreed to pay the adventurers nine yearly installments of GBP 200 (Srinivasan, 2017). The repayment guarantee was backed by the leaders’ personal credit.

In short, the payments were not made on schedule. Due to competition from other European settlements springing up all over the Atlantic seaboard, the Pilgrims’ fur trading did not turn out to be as profitable as hoped. Additionally, their agent in London embezzled their cargo that was supposed to go towards paying debt. The debt was rolled over several times, and the ownership changed hands. The final payment that discharged the debt was eventually made in 1645, 25 years after the *Mayflower* had made its famous voyage. A great majority of the Pilgrims had died by then.

Discussion Questions

1. Discuss the characteristics of the Pilgrims’ relationship with their investors that made it ripe for moral hazard.
2. Which of the investors’ actions could have been attempts to reduce moral hazard?
3. Explain how the investors’ choice to acquire equity rather than debt in the Pilgrims’ venture might have been a solution to moral hazard.
4. Do investors today face the possibility of moral hazard to the same degree as the Pilgrims’ investors did? Why or why not?

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