

## THE COLONIAL EXPERIENCE WITH MONEY

English laws forbade sending coinage to America. England didn't want the colonies to trade with each other, but to send raw materials back home. The scant coinage in the colonies came mainly from pirates or trade with the Spanish West Indies.

The colonists were in dire need of a money system and England refused to provide it, continually placing them in distress. For 10 to 20 years after 1640, more people were going back to England, than were coming here. Out of necessity, the colonies became a kind of monetary laboratory, devising several different monetary solutions.

In the "Country pay period" (1632-1692) many agricultural products were legally declared to be money, at values fixed from time to time. But this wasn't any more efficient than barter everyone wanted to pay with the least desirable commodities; in the worst condition.

In 1652 Massachusetts allowed a mint for silver coinage, but the coins quickly found their way back to England, hardly circulating in the colonies. Guarding its monetary prerogative, the Crown called the mint treason, and it was closed.

From 1739 a privately owned land bank were formed, issuing paper money backed by land. But the colonists shunned this privately issued money, considering that currency should be a function of government, as it was in England until 1694.

## MASSACHUSETTS PAPER MONEY EXPERIMENT

Then in 1690 Massachusetts embarked on a radical experiment, and began to issue "Bills of Credit"; a form of paper money not backed by any physical thing. Rather than a promise to pay any thing, it was a promise to accept the paper bills for all monies due to Massachusetts. At first, this paper was not made a legal tender - that is the people were not forced to accept them, but everyone did and the bills immediately began circulating as money, ending the colony's distress. This money didn't flow back to England like the coinage. This worked exceptionally well for two decades, so long as they were not issued in too great a quantity.

Other colonies copied Massachusetts, emitting similar bills of credit. They transformed life in the colonies, improving industry and commerce; building real infrastructure for their communities and economies.

When the colonial governments authorized the issuance of too many bills - and this sometimes occurred - their value dropped. But when the paper issues were moderate - and there was no exact science to this - they kept their value well. Of great importance is that the colonies did not issue more bills-than-their legislatures authorized.

They were learning one of the basic laws governing the value of money; that if too much money is circulating, in relation to the work it has to do, its value will start to decline.

## PENNSYLVANIA'S PAPER MONEY

Pennsylvania, thanks partly to the support of Benjamin Franklin, created a different form of paper money, which was loaned into circulation. In 1723, Pennsylvania was petitioned by a group of merchants to alleviate "the evident decay of the province ... for want of a medium to buy and sell with, and praying that a paper currency be established." A state loan office was created, authorized to loan L15,000 of paper money at 5% interest for 8 years. L250 was the maximum loan and the borrower had to pledge collateral mostly land, and annually pay the interest and 1/8 of the principal.

The results of this circulating medium were so good that more were authorized, and as the loans were repaid, they were loaned out again to others. Pennsylvania used the interest it earned on this paper money, which it created out of thin air, for colonial expenses, thereby reducing taxes.

The Lords of Trade and Plantations, the British group charged with overseeing the colonies, had sporadically attacked the colonists paper money systems, but in 1763 they passed a general law against all of them, and in so doing, provided one of the main causes of the revolution.

## CONTINENTAL CURRENCY - LIFEBLOOD OF THE REVOLUTION

The skirmishes at Lexington and Concord are considered the start of the Revolt, but the point of no return was probably May 10, 1775 when the Continental Congress assumed the power of sovereignty by issuing its own money.

Congress authorized a total of \$200 million; and though at first, they had no legal power to do so, had no courts or police, or power to levy taxes; the Continental currency functioned well in the early years and 'became a crucial part of the revolution. In 1776, it was only at a 5% discount to coinage, when General Howe took over New York city and made it a center for British counterfeiting. Newspaper ads openly offered the forgeries: 'Persons going into other colonies may be supplied with any number of counterfeit Congress notes for the price of the paper per ream. They' are so neatly executed that there is no risque in getting them off.... Enquire for Q.E.D. at the Coffee House from 11 PM to 4 AM."

Congress did not exceed its authorized issue of \$200 million (except to replace worn out notes), but the British certainly did. We don't know how much they, counterfeited, but it could have been billions; w and yet the Continental currency continued to function! In March 1778 after 3 years of war, it was at \$2.01 Continental for \$1 of coinage.

General Henry Clinton complained to { Lord George Germaine that "The experiments suggested by your lordships have been tried, no assistance that could be drawn from the power of gold or the arts of counterfeiting have been left untried but still the currency ... has not failed."

Finally it did fail, but not before providing the foundation for delivering the nation, carrying the revolution over 5 years to within 6 months of its victory. Thomas Paine wrote: "Every stone in the bridge that has carried us

over, seems to have a claim upon our esteem. But this was a corner stone, and its usefulness cannot be forgotten."

Alexander Del Mar, the great monetary historian and once head of the US Bureau of Statistics, described this result in his 1899 book THE HISTORY OF MONEY IN AMERICA: "Never was a great historical event followed by a more feeble sequel. A nation arises to claim for itself liberty and sovereignty. It gains both of these ends by an immense sacrifice of blood and treasure. Then when victory is gained and secured it hands the national credit - that is to say a national treasure over to private individuals, to do as they please with it! ... Americans of the revolution had before them ... the historical examples of Greece and Rome. In all these states the main contention from first to last between the aristocratic and popular factions arose out of and centered in the monetary system; that greatest of all dispensers of equity or inequity....

They had only to take care that the seed they planted was genuine and uncontaminated. Nature was certain to do the rest. Well they planted; and now look at the fruit and see what it is that they planted! They planted financial corporations ... they planted private money ... they planted financial exemptions from public burdens...In a-word they planted another revolution."

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# A Brief History of the American Colonial Experience with Money and Currencies

## Re-Imagining Economics