

The Assembly and Paper Money, 1723-1756

In August 1721 Philadelphia merchant and politician *Jonathan Dickinson* surveyed the colony's grim situation: trade nearly stopped, money scarce, and imports depressed. Dickinson further worried that unless people were given additional time to pay for their necessities, many of them would be ill-prepared for the ensuing winter. Similar sentiments were voiced by other Pennsylvanians, who were faced, according to the provincial and proprietary secretary, James Logan, with the worst economic depression the colony had ever experienced. While a variety of factors caused the economic failure, including consistently falling grain prices beginning in the late 1710s, and financial collapse in England following the bursting of the South Sea Bubble in 1720, most of the colonists agreed that the continued cause of their distress was, according to Philadelphia merchant Thomas Griffitts, the "Want of some proper medium for Currency."

Like most colonies, Pennsylvania based its economic transactions on specie, that is, gold and silver, bills of exchange, and commodities, or produce. But gold and silver were nearly always in short supply, and bills of exchange, though reliable, were almost drawn exclusively for large sums of money. Commodities, on the other hand, proved to be cumbersome as a medium of exchange and were subject to price fluctuations. In February 1718 petitioners sought to remedy the chronic problem of currency shortage by requesting the Assembly to make produce the official basis of economic transactions while at the same time fixing the price of those commodities. Their petition, however, was denied. Not until the depression of 1720 did the colony move toward a resolution of the currency crisis, and, inspired by *Francis Rawle's* 1721 pamphlet promoting the use of paper money to stimulate the economy, the Assembly passed the province's first paper money act in 1723, emitting £15,000 in bills of credit.

Born of necessity, paper money proved to be a remarkable success and became, in time, one of the driving forces of Pennsylvania's economy. By the end of the 1720s relative prosperity had replaced the earlier depression, but the demand for paper money remained. In 1724 Governor *Sir William Keith* argued to the English Board of Trade that paper money was vital to Pennsylvania's economic growth, and in 1739 the House declared in the preamble of a paper money bill that paper money was essential for "carrying on ... trade and other improvements." In all, the Assembly enacted four paper money laws between 1723 and 1739, inclusive, that struck a total of £86,110 5s in bills of credit; by 1740 the total amount of paper money then in circulation (some currency having been sunk) reached its highest level, £80,000. During the French and Indian War, however, the House more than doubled its previous emissions in the space of three years (1755-57), and issued in four acts £185,000 in paper money to be granted to the king for the defense of the province. Just as paper money had shifted from being a tool to rescue the colony from financial ruin to being the means of growth and expansion, its purpose was subsequently redefined by the demands of war. The bills of credit were no longer issued as loans, but rather as direct cash payments to suppliers of military provisions and as

wages for provincial troops. Yet, while paper money had become one of the critical elements in colonial Pennsylvania's economy, it also engendered continual conflict between its proponents and its enemies, the latter most notably including the proprietors and their governors.

The first four paper money acts were similar in structure. Each act authorized the printing of bills of currency, which were then deposited with the General Loan Office, the agency established to oversee the execution of the paper money acts. Money was lent to individual residents of Pennsylvania, who mortgaged their properties in order to secure the loans. The amount lent, however, was never to exceed half of the value of mortgaged landed property, or a third of the value if the mortgaged property was a house. Nor was the loan to be less than £12 or more than £100 to £300, depending on the statute. Although the time required to repay the loans varied from 8 to 16 years, the interest charged on each loan was always 5 percent. The loans were recorded by the trustees of the General Loan Office with a description of the property mortgaged and a schedule specifying the exact dates the repayments were to be made. The last point was particularly important; in addition to collecting the principal, the loan office also collected the interest, which was subsequently credited to the Assembly. That fund became the property of the House, which appropriated the money according to its own discretion. As most of the loans were secured by landed property, Pennsylvania had, in effect, established a land bank that linked the value of the loan to that of the land, which in eighteenth-century Pennsylvania was steadily rising in price. The method proved to be sound. In an important distinction, however, the Assembly also intended the bills to be used as a currency for the colony's daily transactions and ordered the printing of bills in all denominations, including fractions of a pound. Under the terms of the first four paper money acts, for example, the legislature printed 35,500 one-shilling notes and 31,000 notes equal to one shilling and six pence.

The bills of credit (paper money) were popular. More than 3,000 loans were made during the life of the General Loan Office, and, true to the Assembly's intent, the loans were issued to residents with modest, as well as wealthier, means. The average amount loaned was about £65, a figure that remained fairly consistent from 1724 to 1756. In addition, the average size of property mortgaged to secure the loans was also modest, about 167 acres, while less than 5 percent of the properties mortgaged were more than 300 acres. The loans were also dispersed fairly evenly throughout the original three counties of Pennsylvania; most of the loans issued were to residents of Chester County (26.7%), Bucks County (25.9%), and Philadelphia County (23.8%). Fewer loans were made in Lancaster County (12%) and the city of Philadelphia (9.3%), and the frontier counties of Berks, Cumberland, Northampton, and York (in all 1.8%), the earliest of which was not established until 1749.

In addition to the paper money acts, the Assembly from 1726 to 1746 also passed four reemission acts, which were considerably less controversial but just as useful. In theory, as the bills of credit were repaid by the mortgagor, they were to be "sunk," that is, removed from circulation by the loan office and destroyed. But paper money's ability to serve as both a loan and as a currency was the key to its success and, in order for that to

occur, a steady and plentiful supply of paper money was needed. The reemission acts provided for that contingency by extending the legal life of the bills, and allowing for their return to circulation in the form of new loans. The acts also called for the replacement of torn bills with new bills.

The trustees of the General Loan Office were charged with overseeing the execution of the paper money laws. While the House wrote all of the regulations concerning the mortgages and the amounts that could be loaned, the trustees were responsible for determining the recipients of those loans and for overseeing their repayment. They were also responsible for the destruction of defaced or torn bills that were returned and exchanged for new bills. Of the 20 trustees who served between 1723 and 1756, inclusive, all were members of the Assembly at the time of their initial appointment (see below). The General Loan Office's first four trustees were named, and subsequently renamed, in the paper money acts of March and December 1723 and May 1729, with the understanding that they were to serve until the acts expired. But experience soon changed that practice, as it became apparent that the Assembly did not intend to allow the paper money acts to expire, and that the transactions of the trustees needed greater scrutiny. Disconcerted by the fiscal irregularities in the accounts of William Fishbourn, the 1729 Assembly passed legislation that removed the current trustees, three of whom had served since 1723, and replaced them with four new members, specifying that the new appointees were to serve for the duration of the legislation. Concern over the trustees, however, continued; the 1732 Assembly "admonished" the General Loan Office for its "remissness" in collecting money that it was owed, and the 1733 Assembly debated reforms demanded by petitions from Bucks, Philadelphia, Chester, and Lancaster counties. The House agreed with the petitioners that term limits should be established for the trustees but rejected their requests for legislative prohibitions against representatives serving in the loan office. The House, led by John Kinsey (who chaired a pivotal committee of the whole), resolved that trustees should serve no longer than four years. Acting upon that resolution, the 1737 Assembly passed legislation appointing four new trustees, while the following Assembly mandated the term limit into law by including it in the May 1739 paper money act. Trustees were subsequently replaced by the 1743 and 1748 assemblies, which ironically allowed Kinsey to remain as a trustee, despite the restrictions in the 1739 act.

Paper money issued during the French and Indian War, however, dramatically altered one of the functions of the bills of credit. Although the emissions continued to serve as currency, the bills were no longer issued as loans. Rather, they were issued as direct payments toward the war effort and were secured by taxes spread over a specified period of time. As early as the 1745 Assembly during King George's War, £5,000 had been granted to the king's use (a euphemistic phrase that disguised a military appropriation) from the available funds in the loan office, but the demand for money during the French and Indian war proved to be too great for such expedencies. The 1755 Assembly authorized the expenditure of £55,000 (along with an additional £5,000 donated by the Penn family) toward the war and later that term granted the king an additional £30,000. The paper money was to be printed in a manner similar to previous paper money acts, but the first emission was to be repaid by a four-year tax on all landed estates in the province,

while the second emission was to be secured by a ten-year excise on liquor retailed in the province. In the following year the 1756 Assembly declared that the £90,000 emitted in the previous year had already been expended and accordingly appropriated another £100,000 for the defense of the colony (the last mentioned appropriation was executed in two separate acts). The repayment for that expenditure was added to the already-existing land tax.

The last, non-defense related paper money measure during the colonial period had been enacted in May 1739, although there were repeated attempts by the legislature to enact similar measures after that date. The reemission act of March 1746 continued the paper money then in circulation until 15 October 1756, but as no other reemission bills were passed beyond the 1746 act, bills of credit could not be loaned by the General Loan Office after that expiration date. The General Loan Office continued to operate after 1756, but its primary function was restricted to collecting outstanding mortgages and to assisting in the sinking of the wartime paper money issues. Commissioners were appointed by the Assembly to administer the four defense appropriations enacted in 1755, 1756, and 1757. Unlike the trustees, the commissioners included provincial councilors as well as assemblymen, and their principal responsibility was to oversee the distribution of the military appropriations (see below).

Despite its overall success, paper money was not without its opponents. Initial opposition to bills of credit was centered among wealthier merchants and political conservatives, who feared that the new measures would disadvantage creditors by deflating the value of money. If the bills of credit were to be made legal tender, they argued, creditors would be repaid in a currency with a market value less than its legal face value. That possibility was particularly worrisome for those engaged in trans-Atlantic trade or with overseas obligations, and for whom the pound sterling served as the basis of their financial transactions. They feared that the forced integration with the pound sterling of a colonial currency with an inflated value would produce a financial catastrophe. But the impact of the 1720 depression was too great to prevent passage of the paper money acts, at which point the opposition attempted to exert a controlling influence over the new economic measures. After the House passed its second paper money act, petitioners, including Isaac Norris (1671-1735), Israel Pemberton (1685-1754), Clement Plumsted, and William Allen, asked the House in November 1723 to exempt from payment in paper currency at least all debts owed to the king, the proprietors, creditors residing in Great Britain, and widows who were owed non-negotiable bonds. If those suggestions were unacceptable, the petitioners argued that those debts should be increased to include the difference between the Pennsylvania and sterling exchange rates. The Assembly, however, ignored the petition, and continued its support for paper money, as originally conceived, finding a valuable ally in Sir William Keith, whose partisan promotion of the measures led Hannah Penn to issue instructions prohibiting her governor from enacting any further paper money legislation.

By the late 1720s opposition to paper money among Pennsylvania merchants had lessened, and the time seemed propitious to enact another currency bill. Responding, in part, to several petitions from the city and county of Philadelphia, and one petition from

Bucks County calling for an increase in paper money, the 1728 Assembly proposed striking £50,000 to be loaned at 4 percent interest, with a repayment schedule of 16 years. Governor Patrick Gordon was sympathetic to the measure, but, while he appeared willing to ignore Hannah Penn's instructions to his predecessor, he hesitated to offend the Board of Trade. In 1726 the board had indicated to Gordon its low opinion of bills of credit and the damage paper money purportedly had caused in neighboring colonies, and advised him that it would recommend to the crown the repeal of any future paper money acts from Pennsylvania. In addition, the board urged Gordon to make certain that the already existing bills were sunk on schedule. That last instruction must have caused Gordon some concern; three months prior to Gordon's arrival in Pennsylvania, Governor Keith had approved the March 1726 reemission act extending the life of those bills currently in circulation. The 1728 Assembly subsequently agreed to Gordon's call for moderation and passed a bill emitting only £30,000 to be loaned at 5 percent interest. Nonetheless, the Assembly rejected the governor's suggestion of an effective suspension clause and delayed implementation of the measure for only four months, clearly not enough time for London to review and repeal the law before the emissions began. Writing to the proprietors, Gordon defended reasonable increases in the paper money supply, while pointing out his success in defeating the efforts of those representatives who had insisted on emitting greater sums of money. Two years later Gordon approved the February 1731 reemission act, justifying his consent by insisting that approval was the "most prudent & politick Expedient to preserve that Peace & Happiness" the colony enjoyed, as well as to isolate the "Malecontents," a reference to the still influential former supporters of Keith. Nonetheless Gordon still worried about offending the government at home and cautioned John Penn that the act should not be presented "for some time" to the British authorities.

In 1737 opposition to Pennsylvania's paper money found a new voice in Thomas Penn, who was determined to make a profit out of the colony he and his brothers had inherited from their father. In that year Penn forbade Governor George Thomas from signing into law any paper currency legislation unless it allowed for the payment of proprietary quitrents according to the current sterling exchange rate. In a compromise the 1738 House compensated the proprietors in cash payments in exchange for their agreement to accept their rents according to a fixed rate of exchange. Thomas Penn, in return, permitted Governor Thomas to approve a new paper money bill that emitted £11,110 and 5 shillings, while reemitting £68,889 and 15 shillings already in circulation, thereby establishing a paper money supply of £80,000.

New objections to paper money, however, arose from Whitehall. Concern in England over the colonial bills of credit had been growing, and in 1739 Parliament requested an accounting of colonial paper money currently in circulation, with their expiration dates, and the prices of gold and silver from 1700 to 1740. In its response, drafted by Isaac Norris (1701-1766), Thomas Leech, Abraham Chapman, James Morris, John Kearsley, and Israel Pemberton (1685-1754), the House furnished the information desired and added that the unfavorable difference in the exchange rate between Philadelphia and London resulted from the imbalance of trade between the two centers and not from any devaluation of paper money. Nonetheless, the crown in 1740 denied permission to the colonial governors to sign future paper money acts that did not contain a suspension

clause, that is, suspending execution of the act until reviewed by the crown. With that in mind, Thomas in June 1746 informed the House that he could not approve a new paper money bill, even though its sole purpose was to contribute £5,000 to the defense of the colonies. Pressed by the Assembly to accept the emergency measure, Thomas relented and signed the act, which struck £5,000 to be paid out of the General Loan Office and secured by an extension of the excise for an additional ten years.

Further efforts to issue more paper money, however, were spurned by Governor James Hamilton, who suggested to the 1748 and 1749 assemblies that legislation pending before the House of Commons to restrain the issue of paper money in the American colonies, and the proprietors' concern that the 1738 compromise was no longer acceptable, were sufficient obstacles to his approval of any paper money bills. In 1751 the debate entered a new and more contentious phase; Thomas Penn instructed Hamilton to refuse any paper money bill that did not grant the executive (and therefore the proprietary) a voice in the expenditure of the profits collected by the Assembly on the interest from its loans. Penn was determined to gain greater control of the Assembly's private source of revenue, which he believed allowed the House to flaunt proprietary will. Hamilton balked at informing the House of Penn's new explosive instruction, known as the "appropriating clause"; nonetheless, he and his successor, Robert Hunter Morris, accordingly rejected paper money legislation offered by the assemblies of 1751, 1752, 1753, and 1754. The two governors cited royal instructions or the length of the excise taxes needed to support some of the proposed emissions as the reasons for their vetos. The Assembly, furious over the vetos, correctly suspected that the governors had secret instructions prohibiting further emissions of paper money.

The 1754 Assembly finally obtained the truth out of Morris, but while the House was delighted, as reported by Benjamin Franklin to James Wright in June 1755, that "the Mask" had been finally "forc'd off," paper money legislation remained deadlocked. In the aftermath of General Edward Braddock's defeat in July 1755, the House promptly appropriated an unprecedented £50,000 in paper money for defense and included a general land tax to pay for the emission. But Morris vetoed the measure since the tax did not exempt proprietary property. The Assembly, however, pointedly asked the governor why a week earlier he was able to grant hundreds of thousands of proprietary acres to volunteers who would enlist, but believed himself prohibited from allowing the proprietary estates to be subject to a land tax. Moreover, the House linked together Morris's recent demands and asked "with what Face of Justice" could the proprietor "insist on having Half the Power of disposing the Money levied, to which he would contribute ... not a single Farthing?"

Although he eagerly supported Morris's decision, Penn broke the impasse in November 1755 by donating £5,000 in uncollected quitrents to the war effort. The Assembly accepted the gift, and subsequently passed three paper money bills specifically exempting property held by the Penns from a general land tax. Those acts were passed in November 1755 for £60,000, and in March and June 1757 for a total of another £100,000. The House had also passed an additional £30,000 paper money bill intended for defense in

September 1756 based on an extension of the excise tax. In all, new bills of credit worth £185,000 were added to the paper money supply.

Emissions of new bills of credit [not intended to replace torn or defaced bills] with dates of the appropriate legislation:

An act to emit £15,000 in bills of credit, March 1723

An act to emit £30,000 in bills of credit, December 1723

An act to emit £30,000 in bills of credit, May 1729

An act for reemitting the bills of credit and for emitting an additional £11,110 and 5 shillings, May 1739

An act for striking the sum of £30,000 in bills of credit and giving the same to the King's use, and for providing a fund to sink the bills so to be emitted by laying an excise upon wine, rum, brandy and other spirits, September 1755;

An act for granting the sum of £60,000 to the King's use, and for striking £55,000 thereof in bills of credit and to provide a fund for sinking the same, November 1755;

A supplement to the act, entitled "An act for granting the sum of £60,000 to the King's use and for striking £55,000 thereof in bills of credit, and to provide a fund for sinking the same," and for granting to his Majesty the additional sum of £100,000, March 1757 [striking £45,000 in new bills of credit];

An act for striking the sum of £55,000, the remainder of the sum of £100,000 granted by this Assembly to the King's use, and for making the same current within this province June 1757.

Trustees of the General Loan Office and year(s) of their appointment.

Samuel Carpenter (1686-1736): 1723, 1729

Jeremiah Langhorne: 1723, 1729, 1730

William Fishbourn: 1723, 1729

Nathaniel Newlin: 1723, 1729

Philip Taylor: 1729

John Wright (1667-1749): 1731, 1739, 1744

Andrew Hamilton: 1730

Charles Read (1686-1737): 1730

Richard Hayes: 1730

John Kinsey: 1738, 1739, 1744, 1749

Joseph Kirkbride (1690-1748): 1738, 1739

Jonathan Robeson: 1738, 1739

Caleb Cowpland: 1738, 1739

Thomas Leech: 1744

John Watson: 1744

Thomas Chandler: 1744

James Morris: 1749

Abraham Chapman: 1749

Francis Yarnall (1694-1778): 1749

James Wright: 1749

List of Commissioners appointed to oversee the defense bills and the year(s) of their appointment.

Isaac Norris (1701-1766): 1755, 1756

James Hamilton: 1755

John Mifflin: 1755, 1756, 1757

Benjamin Franklin: 1755, 1756

Joseph Fox: 1755, 1756, 1757

John Hughes: 1755, 1756, 1757

Evan Morgan: 1755

Lynford Lardner: 1756, 1757

William Masters: 1756, 1757

Joseph Galloway: 1757

John Baynton: 1757