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An analysis of the principal media of exchange used in Colonial Virginia

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AN ANALYSIS OF THE PRINCIPAL MEDIA OF EXCHANGE USED IN COLONIAL VIRGINIA

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PREFACE

The purpose of this paper is to analyze the principal media of exchange used in Virginia during the colonial period, showing why these media were used and how adequately or inadequately they performed the function of money. This analysis will be limited primarily to the role played by "tobacco money," coin, and paper money in the local economy of Virginia. The role of credit as a medium of exchange will be touched on only briefly, although its importance is recognized.

The paper falls rather naturally into three chronological periods: (1) the period 1607-1700 during which an analysis is made of the use of tobacco and coins as money, (2) the period 1700-1754 during which the use of coins and tobacco notes as money is discussed, and (3) the period 1754-1775 during which an analysis is made of Colonial Virginia's experience with paper money, the medium of exchange which was overwhelmingly predominant during this period.

The latter period is the most controversial period from the point of view of historians' varying interpretations of Virginia's experience with paper money. Traditionally, historians have adopted the view that colonial paper money resulted in severe depreciation and price inflation throughout all or most of the colonies.[1] These historians were appar-

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[1]Susan S. Burr, Money Grows up in American History (Publication Number 43. Service Center for Teachers of History. Washington, 1962), p. 7; Richard A. Lester, Monetary Experiments: Early American and Recent Scandinavian (Princeton: Princeton University Press, 1939), p. 4; and E. James Ferguson, "Currency Finance: An Interpretation of Colonial Monetary Practice," in William and Mary Quarterly, third series, X

ently providing background for the price inflation during the Revolutionary War, and based their conclusions on the experience of Massachusetts, Rhode Island, and the Carolinas, where depreciation was severe.[2]

This position has been challenged by several recent works. Such history has been written, according to Richard A. Lester, in his studies of individual colonies, by so-called "sound money" men--by authors like William Graham Sumner, Horace White, A. Barton Hepburn, Charles Jesse Bullock, and Davis R. Dewey. "Actually the paper money issued by the middle colonies--New York, New Jersey, Pennsylvania, Delaware, and Maryland," stated Lester, "depreciated relatively little before the Revolutionary War." His study, however, did not embrace Virginia and no direct opinion was given on Virginia's paper money experience.[3]

The most recent and perhaps the best study in this field, which includes Virginia, are the two recent works by E. James Ferguson. "A view of the evidence," stated Ferguson, "suggested that generations of historical scholarship have fostered a mistaken impression of the monetary practices of the colonies."[4] "The predominant fact," stated Ferguson, "was not the failure of paper money but its success and good credit in the colonies, from New York to Maryland, in Virginia, and in South

(1953), 153-54. This will hereafter be referred to as Ferguson, "Currency Finance."

[2]Burr, op. cit., p. 7.

[3]Lester, op. cit., p. 4.

[4]Ferguson, op. cit., p. 180.

Carolina during its later development."[5]

Typical of the description of Virginia's experiment with paper money, by those authors following the "traditional view" (and few, indeed, deviate from this view) is as follows.

"The experience," stated George L. Beer, "with Virginia Paper Money during the war and the justifiable complaints of the British merchants induced the imperial government to take steps to prevent such evils in the future."[6] According to Oscar T. Barck, Jr. and Hugh T. Lefler, the issues of paper money were anything but successful in the "southern colonies, notably South Carolina and Virginia, where over-emissions resulted in 'severe depreciation.'"[7] M. R. Caine and William J. Shultz stated that North Carolina's paper money fell on some occasions to ten per cent of their value within a year and "Virginia indulged in still wider excesses."[8] Lawrence H. Gipson concurred with this majority view. "The expansion of currency," stated Gipson, ". . . resulted in its rapid depreciation [in Virginia]."[9] Herbert L.

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[5]E. James Ferguson, <u>The Power of the Purse</u> (Chapel Hill: Universith of North Carolina Press, 1961), p. 15. This will hereafter be referred to as Ferguson, <u>Power of the Purse</u>."

[6]George Louis Beer, <u>British Colonial Policy 1754-1765</u> (New York: Peter Smith, 1933), p. 186.

[7]Oscar T. Barck, Jr. and Hugh T. Lefler, <u>Colonial America</u> (New York: The Macmillan Company, 1958), p. 375.

[8]William J. Shultz and M. R. Caine, <u>Financial Development of the United States</u> (New York: Prentice-Hall, Inc., 1937), pp. 35-36.

[9]Lawrence H. Gipson, "Virginia Planter Debts Before the American Revolution," <u>The Virginia Magazine of History and Biography</u>, vol. 69, no. 3 (July 1961).

Osgood expresses a more moderate view about Virginia's paper money depreciation: "Exchange in the meantime sank lower than had been customary, creditors lost correspondingly on their long term debts and British and Virginia merchants again began to complain."[10]

One of the purposes of this part of the paper will be to investigate this traditional historical criticism that Virginia's paper money experience was unsuccessful and resulted in severe depreciation. Furthermore, and related to the above, the objections of the British merchants to Virginia's paper money will be analyzed to see to what extent they were justified.

A further purpose is to present an historical survey of the use of paper money in Virginia from the French and Indian War to 1775.

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[10] Herbert L. Osgood, The American Colonies in the Eighteenth Century (New York: Columbia University Press, 1924), IV, 233.

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CHAPTER I

THE DEVELOPMENT OF THE USE OF TOBACCO AS MONEY

I. INTRODUCTION

Between 1607 and 1700 the population of Colonial Virginia increased from several hundred to many thousands. The financial system of Virginia was based to a great extent upon exchange in the simplest and crudest form--barter. An agricultural product was exchanged for a manufactured product or vice versa.[1] The economic success of the colony was assured with the development of the tobacco crop.[2] Tobacco rather than coins was used in all payments whether external or domestic, including taxes, tithes, debts due merchants, free mechanics' remuneration, wages of servants, and land purchases. In the early decades of the colony there was virtually no circulation of coins, and even after nine decades, the supply was quite small. The importance of tobacco in the Virginia economy has been well described by Philip A. Bruce:

In no similar instance has an agricultural product entered so

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[1]Such a barter arrangement was not possible in the New England colonies, which lacking a staple crop in demand by the mother country, had to trade with the West Indies and inter-colonially to obtain money, credit, or other products to settle their balances with England.

[2]Due to the nature of the native plant, Virginia tobacco was of poor quality until John Rolfe revolutionized the industry in 1612 by bringing in the seed of the sweet-scented and the orinoco varieties of nicotiani tobacum. Hugh Jones, Present State of Virginia, ed. Richard L. Morton (Chapel Hill, 1956; orig. ed. London, 1724), p. 197.

> deeply and so extensively into the spirit and framework of any modern community. It was to the colony what the potato had been to Ireland, the coffee-berry to Brazil, the grape to France, and corn to Egypt; and it was something more. It was, as it were, at once an agricultural and a metallic commodity, which owing to the perverse taste of mankind, was as valuable in itself as the potato, the coffee-berry, the grape, the grain of wheat and at the same moment as precious as gold or silver and more precious than iron.[3]

In the early stages of colonization each settler was largely self-sufficient in the satisfaction of his everyday needs. As Barck and Lefler indicate so well, the farmer ". . . was a jack-of-all trades: carpenter, mechanic, primitive engineer, tanner, hunter, and trapper—to mention only the most important avocations. And his wife was just as versatile around the house or the farm, making soap, candles, butter, clothing, and the like."[4] There was, therefore, little need for a medium of exchange. Only the exchange itself was needed, the buyer and seller exchanging articles.[5]

As the population and volume of trade expanded, the colonists desired England's manufactured products in increasingly large quantities, and the English merchants were anxious to obtain all the tobacco

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[3]Philip A. Bruce, Economic History of Virginia in the Seventeenth Century (second editon; New York: Peter Smith, 1935), II, 496.

[4]Barck and Lefler, *op. cit.*, p. 335.

[5]"The contents of the magazine established in 1616 were delivered by the Cape Merchant to the planters in return for tobacco. In later periods such a magazine was practically established upon each estate where imported goods were exchanged for the planters' tobacco." Bruce, *op. cit.*, pp. 498-99. Thus the need for coin was greatly minimized.

available.[6]

II. TOBACCO BECOMES MEDIUM OF EXCHANGE

However, with respect to local transactions the need for a legal, circulating medium of exchange became increasingly acute to pay various local debts, taxes, wages, et cetera. In an effort to meet this need, and because of the scarcity of coins or other satisfactory media of exchange,[7] tobacco was resorted to, becoming the legal medium of exchange in 1621. "That comoditie is become their monny and is valued att 3s the pound certain, (be itt good or badd). . . ."[8] The use of various commodities as money was common throughout the colonial period and is known as commodity money or "country pay."[9]

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[6]This is what England had anticipated and desired at the beginning of the foundation of the colony in accordance with the principle of mercantilism. Importation of Virginia tobacco enabled England to reduce her imports of Spanish tobacco, an important mercantilistic objective because of her unfavorable balance of trade with Spain; and as production increased, England received more than she could consume and re-exported vast quantities to Europe, thereby having a favorable effect on her balance of trade with Europe, obviating the necessity of meeting balances with specie. Arthur P. Middleton, Tobacco Coast, ed., George C. Mason (Newport News, Va.: The Mariner's Museum, 1953), p. 2.

[7]See below, pp. 4-5.

[8]Susan M. Kingsbury (ed.), Records of the Virginia Company of London (Washington, 1906-1935), I, 519.

[9]Corn, sheep, cattle, furs, wheat, rice, rum, flour, whale oil, were among the more commonly used ones, and at one time North Carolina declared more than twenty items to be legal tender in payment of financial obligations. Harck and Lefler, op. cit., pp. 371-72.

III. OTHER SUBSTITUTES FOR A "HARD CURRENCY"

There were several other media of exchange or substitutes for money in the colony. Roanoke and wampumpeke, a form of money originating with the Indians, had legal tender status.[10] Beaver skins were used on the Eastern shore as money. None of these were used except to a very limited extent.[11] Other substitutes for money included bills of exchange, specialties, credit, non-monetary remuneration to indentured servants and slaves, reciprocal labor arrangements among the colonists, and even labor itself.[12]

Bills of exchange. A bill of exchange is an unconditional written order from one person to another to pay some designated person a definite sum of money. They were excellent media of exchange in trade with England, being particularly important in the Northern colonies. Their use in Virginia for inter- or intra-colonial use was very limited.[13]

Specialties. A specialty refers to a contract or obligation under seal or bond usually providing a specified method of payment. For exam-

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[10] William Waller Hening (ed.), The Statutes at Large, Being a Collection of All the Laws of Virginia (Richmond and Philadelphia, 1809-1823), I, 397. This will hereafter be referred to as Hening's Statutes.

[11] Bruce, op. cit., pp. 520-21.

[12] Curtis Putnam Nettels, The Money Supply of the American Colonies Before 1720 (Madison, Wisconsin: University Number 20, 1934), p. 197. See also Barck and Lefler, op. cit., pp. 224-25.

[13] Ibid., p. 374.

ple, cider was used frequently in this manner as a substitute for hard money.[14]

Credit. Because of the lack of a satisfactory medium of exchange in the colony, credit was used extensively as a substitute for money.[15]

Indentured servants and slaves. Indentured servants and slaves were paid in the form of food, clothing and care instead of money, reducing greatly the need for money.

Reciprocal labor arrangements. Such arrangements included house-raisings, corn-huskings, caring for a neighbor's field at a time of misfortune, et cetera. This reduced the need for employing persons at money wages to perform these tasks.

Labor. The individual's labor itself was occasionally the payment for goods and services, such as carpentry work, labor in the tobacco field, et cetera.

IV. NECESSITY OF THE CONTINUED USE OF TOBACCO AS A MEDIUM OF EXCHANGE

There is much evidence of the necessity of the continued use of tobacco instead of coins (because of their scarcity) as the circulating medium of exchange throughout the century, as indicated in the following

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[14] *Ibid.*, p. 225.

[15] See below, pp. 13-14.

illustrations. On July 31, 1619, the General Assembly passed a law to the effect that quit-rents[16] were to be payable in tobacco even though legally they should be paid in coin, an indication of the acute scarcity of specie.[17] On June 26, 1636, Sir John Harvey wrote to Secretary Windebank in England and set forth the scarcity of money in the colony and the injury to trade in Virginia caused by their lack of means to pay for labor until the crops of tobacco were ready, and made, in part, the request "that some farthing tokens be sent over and made current there."[18] On April 6, 1638, coins being extremely scarce, the Crown was petitioned for five thousand pounds sterling annually in coins ". . . whereby artificers might be encouraged to use their trades."[19] In March of 1642, a law was passed providing "that noe debts made within the collony for money shall be pleadable and recoverable in any court within the same" except those contracted for horses, mares and sheep (for the encouragement of those owners).[20] This was passed because of the extreme diffi-

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[16]"Quit-rents were relics of feudalism brought to the colonies. An original part of the old manorial system, they were a money substitute for produce or labor; by paying a fixed money rent, the payee was 'quit' from every other annual feudal requirement." Barck and Lefler, op. cit., p. 319.

[17]Laws of the Assembly 1619, Colonial Records of Virginia (State Senate Doct. Extra, 1614), p. 16.

[18]W. Noel Sainsbury (ed.), Calendar of State Papers, Colonial Series, 1574-1660 (London: Longman and Roberts, 1860), pp. 238-39.

[19]Winder Papers: Being copies of State papers now in British Public Record Office, London, relating to Virginia in Seventeenth Century (2 vols.; Virginia State Library), I, 111.

[20]Hening's Statutes, I, 267-68.

culty of meeting such contracts in coin. This was the law until 1656, when, with specie apparently becoming somewhat less scarce, a repeal was passed so "that all money debts made in the colony shall be pleadable except only such as were made in time of a former prohibition of money debts being pleadable [March 26, 1643, to October 10, 1649]."[21] Thus only contracts that specifically provided for payment in money were enforceable.

In the latter half of the seventeenth century there are many indications of the continued scarcity of coin. A law passed in 1661 provided that quit-rents be payable in tobacco at two pence per pound ". . . quit-rents being due in money which we, being destitute of coine, cannot procure."[22] After the Glorious Revolution (1688), quit-rents were still usually paid in tobacco.[23]

V. SUMMARY

From the foregoing discussions we see that the circulation of coin was quite limited during the entire seventeenth century, particularly during the first half; that a medium of exchange was needed greatly for local transactions; and that tobacco became the medium of exchange.

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[21] Ibid., p. 417

[22] Ibid., III, 31.

[23] Hartwell, Chilton, and Blair, Present State of Virginia (London, 1697), p. 56.

CHAPTER II

TOBACCO MONEY VERSUS COIN AS A MEDIUM OF EXCHANGE

I. QUALITIES OF A GOOD MONEY

The qualities of a good money[1] include wide acceptability, stability of value, divisibility, portability, durability, and cognizability.[2] Let us see to what extent tobacco has or lacks these important attributes of a good money as compared to coins. Some other comparisons with coins, as a medium of exchange, will also be made.

Wide acceptability. Commodity money differs in one important respect from barter. It has legal tender status, and as such must be accepted in all payments, whether public or private. There was always a demand for commodity money, being used in connection with the fiscal needs of the colonial government as well as in various private transactions. So a person could receive such a product with the knowledge that, like coin, it could easily be disposed of either in the payment of taxes or in private transactions, whereas, other commodities could be refused when tendered to meet a debt.

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[1] Money may be defined, apart from its legal tender status, as any medium of exchange which is widely accepted in payment of goods, services, and debts, and is accepted without reference to the credit standing of the person offering it in payment; checks and promissory notes would not, therefore, qualify as money. Jules I Bogen, et al, Money and Banking (third edition; New York: Prentice-Hall, Inc., 1947), pp. 5-6.

[2] Ibid., pp. 14-15.

In simple barter a settler traded an article he possessed for the one he wished to consume. Whereas, in the case of commodity money, the exchange contemplated not the consumption of such money, but using it to purchase some other article. The intermediate commodity thus performed the function of money.

Stability of value. During the century tobacco was used as a standard of value as well as a medium of exchange in the great majority of transactions.[3] When tobacco prices began to fluctuate, it became highly advisable to use the figures of English currencies in most transactions.[4] In 1623 the Assembly passed an act requiring that in calculating the value of estates of deceased persons that ". . . all estates of any deceased person, be appraised after the rates of money and not in tobacco as hath been the custom."[5] Thus, coin alone, rather than tobacco, was required to be used as the expression of value, this being because of the loss caused by any sudden drop in the price of tobacco.

In 1638 office holders were paid in tobacco although their salary was rated in coin, an indication of the importance of using coin as a measure of value.[6] A decline in the price of tobacco would have

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[3]Bruce, op. cit., p. 495.

[4]Ibid., p. 499.

[5]Hening's Statutes, I, 170.

[6]Sainsbury, op. cit., 1638-1639, p. 287.

inflicted a very serious loss on colonial officials since their purchasing power would have been reduced in direct proportion to the price reduction of tobacco. However, in the very great majority of other transactions tobacco was still the standard of value, e.g. in remuneration to doctors[7] and mechanics, tithes, various debts, et cetera.[8] Debtors invariably waited until tobacco was plentiful and prices low inflicting thereby a loss to the creditor.[9]

By 1670, as a protection against the fluctuation of tobacco prices, it had become increasingly frequent to draw specialties[10] in money sterling, although it is doubtful whether they were actually paid in money.[11]

Divisibility and cognizability. In order that money may be used in small payments it is necessary that the fractions be equal in all respects. Silver and gold have this quality, but not tobacco, which has an uneven quality of leaves.[12] As a result, disputes about the quality and amount of tobacco tendered were commonplace.

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[7] In 1670 Dr. Haddon charged 1460 pounds of tobacco for twenty days attendance, including medicine. York County Records for Seventeenth Century, 1664-1672, p. 117. Virginia State Library.

[8] See below, pp. 13-14.

[9] Joseph C. Robert, The Story of Tobacco in America (New York: Alfred A. Knopf, 1949), p. 35.

[10] See above, p. 4.

[11] Bruce, op. cit., p. 507.

[12] Robert, op. cit., p. 35.

Whether in public or private transactions, there was a strong tendency for the most inferior product to be used. In raising tobacco the colonists were actually operating mints since tobacco was money! The temptation was indeed great to put worthless or inferior products into circulation. Gresham's law[13] regarding money was certainly equally applicable to tobacco money, for the colonists were inclined to pass off their worst grades for local use and withhold their best grades for foreign consumption. In 1670 an act expressed these sentiments and required certain duties to be paid in money. "There appeares an inconvenience in the act which allowed the duties to be paid in goods, which are found to be unsaleable or perishable. . . . It is therefore enacted that . . . the duties [are] enjoyned to be paid only in mony or good bills of exchange well secured."[14] Furthermore, tobacco currency could be debased by giving its inferior grades a deceitful appearance of good quality, and by packing trash in hogsheads of tobacco.

Portability. An important quality of any good money is that it has a relatively high value per unit of size and weight. If the value is too low, the cost of storing and transporting it will preclude its

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[13]"Gresham's law" states that "money that has value in a non-metallic use (including use in another country) will tend to move, if it is free to do so, to the use (monetary or non-monetary) in which its value is the higher." Charles R. Whittlesey, Principles and Practices of Money and Banking (New York: The Macmillan Company, 1948), pp. 187-89.

[14]In 1670 an act required certain duties to be paid in money because of the practice of the colonists in making payments in unsalable tobacco. Hening's Statutes, II, 283.

use as a standard money in transactions of any magnitude.[15] Tobacco was bulky and heavy in relation to its value and was for this reason a serious obstruction to all business transactions.[16] Since tobacco worth five shillings often weighed as much as sixty pounds, practically any payment of consequence would require the use and expense of a conveyance. Many expedients were resorted to in the handling of public revenues. For example, ten per cent was allowed the sheriff for such collection, an allowance necessary to meet the cost of shipping the tobacco from the plantation to the auditor at the seat of the government.[17]

Because of the bulkiness of tobacco the problem of storage figured in disputes over payment of debts. Creditors often refused to take tobacco when they had no place to store it, thus leaving the burden of storage on the debtor, and preventing the discharge of his debt. To prevent this practice the Assembly passed in March of 1662 a law that, if a creditor refused such tobacco, it might be viewed by two impartial judges. Should they pronounce it good and merchantable they would have to accept it or the debt would be discharged.[18]

Durability. Tobacco was subject to deterioration and was often damaged while being transported. This reduced further its desirability

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[15] Bogen et al, op. cit., p. 15.

[16] Public Good without Private Interest (London, 1657), p. 21.

[17] Hening's Statutes, I, 313.

[18] Ibid., II, 104. This act was extended to include sheriffs and other collectors of public revenues in 1676. Ibid., II, 358.

as a medium of exchange.[19]

II. OTHER COMPARISONS WITH COINS

Tobacco available only once a year. Another fault of "tobacco money" was that it was available to most persons only once a year. As a result, a tremendous number of payments had to be deferred--a forced extension of credit.[20] This was a particular disadvantage to the free mechanics, who frequently raised no tobacco. "Nothing has hindered the progress of the arts, and manual trades . . . more than want of money among them; among them tobacco is their currency [and] they [the other colonists] do not have it all the year round to pay workmen."[21] Pay to the tradesmen was in parcels of tobacco with the benefit of it coming but once a year. At the end of the year they had to trust their "concerns" to a receiver, who went among the planters that owed them tobacco, received it, and marked it for them, charging ten per cent for his services, "which Receivers, if they want either Skill or Honesty [will] prove very fatal to the Merchant."[22] The forced extension of credit also resulted in bad debts and tardiness in paying. Furthermore, as

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[19] Hartwell, Chilton, and Blair, op. cit., p. 9.

[20] By the provision of an act passed at the session of 1657-58, the creditor was deprived of all right to require the settlement of a debt on demand, if payable in tobacco, except between October 1 and January 31. Hening's Statutes, I, 489.

[21] Sainsbury, op. cit., 1574-1660, p. 80.

[22] Hartwell, Chilton, and Blair, op. cit., pp. 8-9. This relates to entire discussion above.

mentioned earlier, a drop in the prices of tobacco would reduce the creditor's purchasing power proportionately.[23]

Detrimental effect on price of tobacco. Finally, the effect of the use of tobacco as money on the price of tobacco should be mentioned. The use of "tobacco money" made diversification difficult. It was essential as a medium of exchange, the person who didn't grow it failing to supply himself with the accepted medium of exchange. Even the free mechanics felt it necessary to grow tobacco.[24] As a result, it contributed directly to over-production.[25] As C. P. Nettels describes so well:

> Throughout the seventeenth century tobacco prices followed a downward trend; the demand for the commodity abroad did not keep pace with production in America. The underlying remedy was to supplement tobacco growing with other industries. The use of tobacco as money, however, made such a change difficult; it even encouraged most of the planters to rely mainly on tobacco. . . . It, therefore, contributed directly to over-production, unstable prices, and all the evils incident to a currency which represented no settled intrinsic value.[26]

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[23]See above, p. 10.

[24]The Assembly was forced to pass a law in an attempt to curb this practice, the services of the mechanics being in such demand. Hening's Statutes, I, 208.

[25]"As the tobacco colonies increased in population, their production of staple rose phenomenally. When the English market became glutted . . . about 1660, prices fell so low that the plantations were scarcely able to subsist." Middleton, op. cit., p. 2.

Frequent efforts were made to curtail production, usually in conjunction with Maryland, with little success. In 1661 an act was passed providing for the restraining of planting providing that Maryland would accede, Hening's Statutes, II, 32. This was repealed in 1664. Other efforts during the century met with a similar lack of success. See Ibid., 221-22; Ibid., 224-26; Ibid., 229-32; and Ibid., III, 142.

[26]Nettels, op. cit., p. 218.

From these many shortcomings of tobacco it was only natural that much effort would be made to increase the supply of coin.

CHAPTER III

EFFORTS TO INCREASE THE METALLIC CURRENCY DURING THE SEVENTEENTH CENTURY

I. REASON FOR THE SCARCITY OF COINS

We have observed that throughout the century specie or "hard money" was extremely scarce, and that "tobacco money" fell short in many respects as a substitute.

There are many reasons for the scarcity of money during the century, including (1) the majority of settlers were poor, and what money they had was soon spent in purchasing necessities from England;[1] (2) there were no gold or silver mines in any of the colonies;[2] (3) England was both unwilling[3] and unable[4] to supply the colony with coins; (4) through the charter change in 1609 coinage was prohibited;[5] (5) England disallowed the use of arbitrary values for foreign money,[6] and would not allow the colony to prohibit the exportation of coins,[7] and (6) Virginia

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[1] Barck and Lefler, op. cit., p. 370.

[2] Ibid.

[3] Nettels, op. cit., p. 281.

[4] Ibid., p. 170.

[5] Also see Ibid., p. 281.

[6] See below, p. 20.

[7] Nettels, loc. cit.

had an unfavorable balance of trade with England and it was more favorable for them to use specie for purchases abroad than to keep it at home as money.[8]

England's attitude toward the circulation of coins in Virginia and other colonies is very ably expressed by Nettels:

> The English colonial officials of the late seventeenth century held no uncertain views respecting the relationship of coin to the economic independence of a region. They believed that specie stimulated industry and led to a diversification of business activity. Applying these ideas to America, they concluded that if the colonies possessed a large fund of coin, they would develop manufacturing of their own and acquire a self-directed trade. Such, indeed, was the actual intention of the colonists themselves, for they generally asserted that they needed specie in order to stimulate town life, to promote local industries, to encourage shipbuilding, and in general, to lessen their dependence on foreign markets and supplies. It was natural then for England to let the plantations get along without a larger supply of coin. For if a money economy in America should facilitate manufacturing and diversify trade, the colonists might draw more and more away from the parent state. Their imports from England would decline; they would soon control the marketing of their own produce; their commerce would forsake the mother country; and the profits of manufacturer, shipper, and distributor would pass from English merchants to their rivals in the New World.[9]

II. EFFORTS TO INCREASE THE SUPPLY OF COINS

Because of tobacco's many shortcomings as a substitute for coin, it is not surprising to find that many efforts were made to increase the supply of coin in the colony. These efforts in colonial Virginia consisted principally of raising the legal value of coin. Other efforts

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[8] Ibid., p. 283.

[9] Ibid., p. 59.

included prohibition of the exportation of specie, one attempt at coinage, and various requests to England for coins.

Raising the legal value. In 1645 the colonists, being extremely anxious to increase their coin supply, encouraged the influx of Spanish money, probably from the Spanish and English islands in the West Indies.[10] By establishing the arbitrary over-valuation of six shillings at which the Spanish "piece of eight" was to be received in payment of all debts, it was felt coin would be attracted from the outside world and would not leave thereafter.[11] It is evident that the people did not consider it intrinsically worth this much, refusing to accept it in transactions.[12] For this reason, in 1655 it became necessary to lower the local value of the "piece of eight" (silver or non-silver) to five shillings, persons refusing to accept it at that valuation to be summoned to court. "For the greater incouragement of manufacture and other trade be it inacted that all peeces of eight of what mettle soever shall pass for currant

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10 Bruce, op. cit., p. 502.

11 Hening's Statutes, I, 308. An accurate mathematical valuation made the "piece of eight" equal to 4s 6d of English money. No interference with the free flow of the coin would have resulted if that ratio had been maintained. Even the valuation of five shillings was an eleven per cent over-valuation. D. R. Dewey, Financial History of the United States (eleventh edition; New York, London, Toronto: Longman, Green, and Co., 1931), p. 5. See also Nettels, op. cit., p. 232.

Another purpose was to obtain a cheap currency for the payment of debts, the debtor needing fewer coins at the higher valuation to meet a debt. Thus there was a natural reluctance on the part of the creditor to accept them. See below, p. 22, fn. 25.

12 Bruce, op. cit., p. 503.

and lawfull at five shilling per peece. . . ."[13] The act maintained that its intention was to aid the manual trades. However, in allowing "pieces of eight," silver or otherwise, to pass as currency at five shillings, a great deal of spurious coin was passed upon both the manual trades as well as others.[14] For this reason it was necessary to provide the next year that only "pieces of eight" of sound silver could pass at five shillings. "Wee find by experience . . . that nothing can more discourage them/those in the manual trades/; for after they have long laboured for a subsistance they would have soe many counters instead of sterling money for the sweat of their browes. . . . No false money shall be currant in this collony; the peeces of eight that are good and of silver shall pass for five shillings sterling. . . ."[15] In 1658 this act was re-enacted but with the provision that only a refusal of sound silver "pieces of eight" (versus non-silver or unsound coins) should be punished by a fine of twenty shillings.[16] Bruce's inference would seem to be correct that in the popular opinion a "piece of eight," even though of silver and of sound quality, must not have been equal to five shillings; otherwise, there would have been no necessity to compel its acceptance.[17]

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[13] Hening's Statutes, I, 410.

[14] Ibid., I, 397.

[15] Ibid.

[16] Ibid., p. 493.

[17] Bruce, op. cit., p. 505.

Again in 1680 legal values were prescribed on all foreign sterling money in Virginia. The French coin was set at six dollars, the "piece of eight" at six shillings (an advance of one shilling over its earlier rating), half "pieces of eight" at three shillings, and one-quarter pieces at eighteen pence, and the New England coin at one shilling.[18] In 1681 the Crown was requested that permission be given to enhance the value of all coins by twenty five per cent, but there is no indication of this being granted.[19]

In 1686 a similar type of request was made by a petition to the Crown, in which permission was requested to increase the legal value of the "piece of eight," French crowns, and other foreign money. It was expected that the tobacco merchants would import large quantities of coin in order to obtain the margin of profit between the real and the fixed value of the coin.[20]

The proposal was submitted by the governor and the council to the Crown and its reply indicates very accurately the objections to such a practice. The Crown took the position that no rate should be set upon money sterling other than according to its real, intrinsic value and worth; that the proposition, if carried out, would be a great hindrance to trade, and instead of a general advantage, lead only to the advantage

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[18]Ibid., p. 508, citing Randolph MSSS, III, 398.

[19]J. W. Fortescue (ed.), Calendar of State Papers, Colonial Series, America and West Indies, Volume 1681-84, p. 94. London, 1898.

[20]Bruce, op. cit., p. 509.

of certain debtors who would, by the use of over-valued coins, gain the opportunity of defrauding their creditors.[21]

Efforts to prevent exportation of coins. Effort was made by legislative enactment in 1658 to prevent the exportation of coins, apparently with little success judging from the continued shortage of coin throughout the remainder of the century. It was provided that no money sterling in excess of forty shillings could be exported and that "if any shall exceed the said sume [the offender will have] to forfeite double the value thereof."[22]

Attempt at coinage. In 1645 ten thousand pounds of copper was ordered to be bought and coined into two pence, six pence, and nine pence coins.[23] Apparently this was never done because no reference was made to such a coin in 1680 in the General Assembly's listing of the various coins in circulation in Virginia and their legal values.[24]

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[21] Report of Commissioners of Custom, April 30, 1687, Colonial Entry Book, Virginia, no. 83: McDonald Papers, VII, 107-08, Virginia State Library.

"This was striking language to hold in the seventeenth century, when, on account of the failure to recognise money sterling as a simple commodity like iron and wheat, a general belief prevailed that it was perfectly consistent with economic laws to disregard the intrinsic worth of coin and to place upon it any value that mistaken notions as to the true interests of the people suggested." Bruce, op. cit., p. 510.

[22] Hening's Statutes, I, 493.

[23] Ibid., p. 308. Virginia's coinage right contained in her original charter was not renewed in her charter of 1609. Apparently she was claiming the sovereign right of coinage.

[24] Bruce, op. cit., p. 508, citing Randolph MSS, III, 398. See above, p. 20.

Coinage in other colonies was also unsuccessful in accomplishing the desired purpose.[25]

Petitions to the Crown. Another method of attempting to increase the supply of coins, apparently with little or no degree of success, was through various petitions to England to export coins to Virginia. In 1636 a request was made of the King that "some farthing tokens be sent over and made current there" because of the great need of the mechanics.[26] In 1638 another petition was made to the King, this time requesting five thousand pound sterling annually in coins, "whereby artificers might be encouraged to use their trades."[27]

III. SUMMARY

The various efforts made by Virginia to increase her hard currency during the seventeenth century met with but very limited success.

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[25] In 1652 Massachusetts coined her famous "Pinetree Shilling." The mint had been established to provide a local currency, the silver content of the coin being reduced substantially below sterling to give it a higher value at home than abroad. The importers then raised the price of English goods to correspond with the reduction in silver content of the Massachusetts shillings. This practice, said the deputies, brought an under-valuation upon all commodities raised in the colony, and not even the law forbidding exportation kept the shillings home. Nettels, *op. cit.*, p. 171. The Massachusetts coinage is significant because it indicates so well the fallacy behind the colonial view that special coinage arrangements or arbitrary values set on coins would confine the circulation of coins to intra-colonial use.

[26] See above, p. 6.

[27] *Winder Papers*, I, 111. See above, p. 6.

Her one attempt at coinage apparently was never carried out, her efforts at raising the legal value were basically unsound and also discouraged by England, as were her attempts to prevent coin exportation by legislation; and furthermore, England refused to send coin to Virginia.

CHAPTER IV

EFFORTS TO INCREASE THE METALLIC CURRENCY 1700-1754

We have observed that throughout the seventeenth century specie was extremely scarce, and that many efforts were made to increase the supply of coin in the colony, the principal effort consisting of competing with other colonies for specie by raising the legal value of coin.[1] Virginia's success in this endeavor of increasing the supply of hard money was not substantial. Fortunately, her need for coin was far less than that of her less self-sufficient neighbors of the North. In the eighteenth century Virginia continued her efforts at increasing the supply of her metallic currency, regulation of the legal value again being the primary method.

I. REGULATION OF THE VALUE OF COIN BY WEIGHT

During the seventeenth century the value of coin had been regulated by the "piece" (Spanish "piece of eight") instead of by weight. This method became increasingly unsatisfactory in the eighteenth century with the more complex conditions of trade which were fast developing and in conjunction with many abuses that had arisen. Many of the coins in circulation had been so "clipped" as to have lost most of their original value. The different varieties and alloys caused great confusion. For example, the new Seville piece of eight, containing 308.7 grains of

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[1]See above, p. 18.

silver, circulated side by side with the old Seville piece of 387 grains of silver.[2]

Another difficulty in the way of regulating the value of current coins by the "piece" lay in the Act of the 6th Anne (1708), which strictly defined the value of Spanish money, thus making this method of regulation illegal. While this act was honored more in the breach rather than in the observance, it apparently did act as a check on legislation.[3]

These difficulties were overcome by changing the laws and setting the price of money by weight, the ounce or pennyweight, without reference to the denomination. This practice was followed by nearly all of the colonies during the eighteenth century and for a time their values conformed to the ones required by the 6th Anne, six shillings ten pence per ounce; however, the peculiar conditions of each colony led to a breach of these provisions and a continuation of the seventeenth century intercolonial competition for specie by artificial valuation of the coin—now by weight instead of by "piece."[4]

II. REVALUATION OF COIN IN VIRGINIA

As in the seventeenth century the price set upon the "piece of Eight" in Virginia was much lower than in the other colonies with the inevitable result that coin was more scarce in Virginia than elsewhere.

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[2]William Z. Ripley, The Financial History of Virginia 1609-1776 (New York: Columbia College, 1893), p. 124.

[3]Ibid., p. 125.

[4]Ibid.

When the Assembly met in 1710, there was a great depression in the tobacco trade, necessitating large exports of silver to meet balances in England. Petitions were even presented for the commutation of money debts to tobacco, because of this great scarcity of specie.[5] These petitions were refused, but it was felt something must be done to help remedy this situation. The Burgesses, therefore, passed an act setting the value of coin by weight instead of by "piece" and increased the value of the full-weight Spanish dollar from its customary rate of five shillings to about five shillings eight pence. The rate of settlement for foreign debts or Royal revenues were excepted from the law, to ensure the consent of the governor.[6] The valuation of silver under this new law placed Virginia in a more favorable situation to compete with the other colonies for coin, and also helped the debtors through its inflationary effects.

The valuation of Virginia's coins was still not sufficiently competitive with neighboring states; so in February, 1727, an act was passed to bring silver coin nearer in value to the value at which the coin passed in the neighboring states. The act pointed out that:

> . . . The rates of the silver coin . . . are greatly disproportioned to the value at which the same pass in the neighboring plantations, whereby encouragement hath been given to draw thither the several species of the said silver coin, to the great detriment of the trade and commerce of this colony: For remedying whereof, and

[5] William P. Palmer (ed.), Calendar of Virginia State Papers 1652-1781 (Richmond: R. F. Walker, Superintendent of Public Printing, 1875), I, 145.

[6] Hening's Statutes, III, 502; Ripley, op. cit., p. 127.

bringing the silver coin to a nearer proportion to that of the gold currency [this act is passed]. . . ."[7]

In this act the ounce of silver was raised in value from six shillings three pence, as established by the law of 1710, to six shillings eight pence, and silver was brought to a nearer proportion to that of the gold currency.[8]

III. ADEQUACY OF MONEY SUPPLY

The public dues, as well as a great deal of private debts, were paid in tobacco notes after 1730. However, some counties always paid in money, and some were allowed to pay in coin whenever tobacco rose above a certain price.[9]

Virginia was the only colony which was not forced by her needs to issue paper money during a time of peace, or during the first half of the eighteenth century, strongly suggesting that in relation to her needs there was an adequate amount of money available in Virginia in normal times.

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[7] Hening's Statutes, IV, 218.

[8] Ibid.

[9] Ibid., V, 169; VI, 568; VII, 240.

CHAPTER V

TOBACCO NOTES

I. GROWING INADEQUACY OF TOBACCO MONEY DURING THE EIGHTEENTH CENTURY

As we have seen, "tobacco money," in spite of its many shortcomings, served the colonists rather well during the seventeenth century. Changing conditions, however, magnified certain of its shortcomings during the eighteenth century. With tobacco selling at this time in the neighborhood of two pence per pound, as compared to an earlier three shillings, one can easily imagine the great magnification of the problem of transportation of one's "money." Transportation by wagon was next to impossible since the roads were so few and bad. The numerous creeks and rivers were employed but with the extension of the settlements into the interior, transportation became far more difficult and expensive. A more suitable medium of exchange was badly needed.[1]

Another very serious objection to the use of tobacco as commodity money was the fraud and deception, including the introduction of worthless or inferior tobacco, so easily practiced by designing debtors, with the government as creditor (in connection with public dues) being the largest loser in this respect.

These practices, with the resulting deterioration of the quality

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[1]Ripley, op. cit., p. 146.

of tobacco, hurt greatly the reputation of Virginia's tobacco in world markets. Governor Spotswood stated that: "The tobacco trade . . . owes its ruin in a great measure to the pernitious practice of discharging all public debts by Tobacco Payment. This has been the occasion of making all that Trash w'ch hath clog'd the Market and brought this Country's tobacco in discredit abroad and given opportunity to innumerable frauds. . . ."[2]

Commenting further on these fraudulent practices, Spotswood declared: "Many people making it [inferior tobacco] for no other end than to pay off debts and levies, for which purpose they think it good enough how mean soever it be. . . ."[3] Spotswood stated further that those practices "were grown so habitual and general, that it was to be feared there would scarce be found men in Virginia who durst make a law to prevent these fraudulent dealings."[4] "And lastly," continued Spotswood sarcastically, "they call a Poor man's friend . . . [one] who never judges his tobacco to be trash."[5]

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[2]Alexander Spotswood, _The Official Letters of Alexander Spotswood, Lieutenant-Governor of the Colony of Virginia, 1710-22_, ed. R. A. Brock (Richmond, 1882), II, 43. This will hereafter be referred to as _Spotswood_.

[3]_Ibid._

[4]Cecil Headlam (ed.), _Calendar of State Papers, Colonial Series, 1712-1714_ (London: Published by his Majesty's Stationery Office, 1926), p. 277. This will hereafter be referred to as _C S P C_.

[5]_Ibid._

II. TOBACCO INSPECTION ACT OF 1713

For these reasons Governor Spotswood introducted the "Act for Preventing Frauds in Tobacco Payment and the Better Improving the Staple of Tobacco," passed in December of 1713. "And thus it is hoped," declared Spotswood in introducing the act, "the reputation of Virginia Tobacco may be retrieved when none but such as is found to be worth paying the duty at home shall be sent to foreign markets."[6] Forty warehouses were established at convenient places, with all tobacco, whether for legal tender or for export, being brought to warehouses, located at convenient places, for inspection of its quality and type, Orinoco or Sweetscented; and trask tobacco was destroyed. Forty conveniently located warehouses were provided for this purpose.[7] Provision under the act was made for the issuance of tobacco notes, providing a much needed freely circulating medium of exchange. They "gave printed bills," stated Hugh Jones, "as receipts for each parcel or hogshead; which quantity was to be delivered according to order upon return of those bills."[8]

Other advantages of the law were: (1) it lessened greatly the time and trouble in loading ships, (2) limited the amount of tobacco

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[6]Spotswood, II, 48; see also C S P C, 1712-14, no. 530, pp. 274-78.

[7]Richard L. Morton, Colonial Virginia (Chapel Hill: The University of North Carolina Press, 1960), pp. 423-24; see also Middleton, op. cit., p. 121.

[8]Jones, op. cit., p. 88; see also Spotswood, II, 49.

cultivated by restricting it to the higher grades, and (3) the value of rents and other public dues and salaries paid in tobacco increased with the increase in the value of tobacco.[9] Tobacco notes, in addition to providing a convenient method of paying public dues, provided a much needed, freely circulating medium of exchange. They were in effect paper money with a solid backing.

The law certainly appeared to be a good one. In his letter of March 28, 1715, Governor Spotswood declared that, "This Country now feels the good Effects of Ye new Regulation of their Tobacco Trade: the Public Credit, which was one main end therefor, being rais'd 200 per cent."[10] Nevertheless, opposition to it developed both among some of the planters of Virginia and among some of the merchants of England. The merchants felt it was instrumental in causing a reduction of about twelve per cent in tobacco exports during this period. Many planters objected to the expense and trouble of inspection, others to the outlawing of trash tobacco.[11]

III. TOBACCO INSPECTION ACT OF 1730

With the repeal of this act and because of the shortage of money, tobacco continued to be used as commodity money until the famous inspection law of 1730, after which only tobacco notes were permitted. George

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[9] Jones, _op. cit._, p. 88; see also Morton, _op. cit._, pp. 423-24.

[10] _Spotswood_, II, 108.

[11] Jones, _op. cit._, p. 213; see also Middleton, _op. cit._, p. 121.

Hume, a visitor to Virginia, stated in a letter of June, 1723 (before the 1730 Act), "They make a parcell of tobacco wch they make to buy themselves clothes and makes it to go from one to another instead of money and that is all they seek after here."[12]

A protracted depression in the 1720's accentuated suffering in the tobacco colonies and paved the way for Virginia once again to establish an inspection system. This time, however, the governor quite wisely prepared the way for British approval by persuading the London authorities that trash tobacco was largely handled by smugglers and therefore was a negligible source of revenue for the Crown, that many planters would turn to manufacturing unless something was done to improve the situation, and that nothing except an inspection law could improve the quality of Virginia's tobacco.[13]

With this preparation, the memorable inspection act known as "An Act of amending the Staple of Tobacco and for preventing Frauds in his Majesty's Customs" was introduced and passed in Virginia in 1730--becoming a permanent feature of the trade until the Revolutionary War. An excerpt from its preamble indicates the main purpose of the law:

> The laws heretofore made, have been found ineffectual to prevent the exportation of bad and trash tobacco, and the many frauds in deceiving his majesty of his customs, which of late years have greatly increased, /have led/ to the great decay of the trade of this colony.[14]

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[12]George Hume, "Letter to Ninian Hume," in William and Mary Quarterly, V, series 1, p. 254.

[13]Middleton, op. cit., p. 121.

[14]Hening's Statutes, IV, 247-71.

This act established public warehouses, provided for the appointing of official inspectors, and required planters to transport all tobacco in the colony to a warehouse for inspection. The inspectors were empowered to break open each hogshead, remove and burn any trash tobacco, and issue tobacco notes to the owner specifying the weight and kind of tobacco. Forgery of such notes was made a felony.[15]

The act provided tobacco notes "which notes shall be, and are hereby declared to be current and paiable in all tobacco paiments what soever . . . within the county where such inspectors shall officiate, or in any other county next adjacent thereto, and not separated therefrom by any of the great rivers or bay herein after mentioned. . . ."[16]

The act provided that tobacco notes were issued for bulk (loose) tobacco as distinguished from crop tobacco (in hogsheads). If the planter turned in his tobacco loose (bulk), he received a "transfer note," entitling the bearer to a certain number of pounds of loose tobacco drawn at random from the aggregate stock of transfer tobacco. The clergymen, innkeepers, artisans, and others whose main occupation was not tobacco planting, often had a small patch of tobacco in order to meet taxes, and to make purchases in the local stores, because of the relative scarcity of coins. These persons now could carry their small quantities of tobacco to the nearest warehouse, receiving transfer notes that could either be sold or used in payment of various debts. These

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[15] Ibid.; see also Middleton, op. cit., p. 121.

[16] Hening's Statutes, IV, 247-71.

notes were freely transferable, circulating from hand to hand without endorsement, thus serving as currency and greatly facilitating exchange at a time when coin was extremely scarce.[17]

Governor Gooch was very enthusiastic about these notes, stating, "[being the] same as money, [they] will be accepted as payment at any store or shop," enabling the purchaser not to be confined to one merchant, being at liberty to search for the best product and price.[18]

Some opposition to the act did develop in Virginia when some Northern Neck planters burned four warehouses under the impression that the British merchants would discontinue sending ships and supplies to the colony, but when they found that the act in fact had been well received by the merchants, these objections soon died away.[19]

In 1734 a new type of tobacco note was made available applicable to crop tobacco (hogsheads) and they were known as "crop notes." After inspection of his tobacco the planter received a certificate called a "crop note" which gave a complete description of his hogsheads. His tobacco could be consigned to a British merchant or he could sell the "crop note" within the colony, performing thereby the function of money.[20]

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[17] C S P C, 1731, no. 67, pp. 47-50; see also Middleton, *op. cit.*, pp. 123-24.

[18] *Ibid.*, 1732, p. 48.

[19] *Ibid.*, pp. 97-99.

[20] *Hening's Statutes*, V, 388; see also Middleton, *op. cit.*, pp. 123-24.

IV. CONCLUSION

The inspection or warehouse system established by the 1730 inspection law was indeed a great success. While occasional inconveniences did result from poorly chosen inspectors, careless handling, and improper judging of the tobacco, these were overshadowed by the more conspicuous achievements of the system. These included: improvement of the quality of colonial tobacco, elimination of trash tobacco, preventing (loose) shipments, preventing smuggling at the colonial end, easing the burdens connected with freighting ships in many different rivers, providing an excellent medium of exchange through tobacco notes, and, very important, going far toward providing the standardization that the tobacco trade required for its continued prosperity.[21]

Tobacco notes were a good substitute for hard money in a rural community. Because of their solid backing, they were not subject to the abuses of paper money nor to the depreciation in value so often the fate of paper money. As a substitute for "tobacco money," the many shortcomings of that medium were substantially overcome.[22]

It was not until the onset of the French and Indian War in 1754 that tobacco notes and available specie became inadequate to meet the colony's greatly increased needs, necessitating the issuance of paper money.

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[21] Middleton, op. cit., pp. 125-26.

[22] See Ripley, op. cit., p. 153.

CHAPTER VI

PAPER MONEY EMISSIONS IN VIRGINIA 1754-1764

In May of 1754 the French and Indian War began, and the monetary situation in Virginia changed quickly. What little specie there was in the colony was quickly used up for war purposes. The expenses of the war resulted in the need of a large amount of cash. The Virginia Assembly, however, was very reluctant to resort to the issuance of paper money to meet such needs. "Our assembly," said Robert Carter Nicholas, "had so little inclination to it, that at the first commencement of those Hostilities, . . . they preferred borrowing the Sum desired, even at an advanced Interest." Nicholas continued, "The needs of war [were] so great, Sums couldn't be borrowed, and if they could interest would have been large and burdensome. . . . Hence arose an absolute necessity of having Recourse to a Paper Currency."[1]

The governor convened the Assembly on May 1, 1755 to consider the increasing needs of the war. Dinwiddie's task of preparing for the Braddock expedition necessitated the purchase of numerous supplies from the other colonies. The borrowing of the treasurer of Virginia was draining the 20,000 pounds voted in 1754 for war purposes.[2]

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[1]Robert Carter Nicholas, "Letter of July 1773 to Messrs. Purdie and Dixon," in William and Mary Quarterly, XX, first series, 232.

[2]Hayes Baker-Carothers, Virginia and The French and Indian War (Chicago: The University of Chicago Press, 1928), pp. 65-66. See also Lyon G. Tyler, History of Virginia (Chicago and New York: The American Historical Society, 1924), II, 30.

I. FIRST EMISSIONS OF PAPER MONEY

The Assembly, therefore, decided to raise twenty thousand pounds by extra taxes. Yet this money was needed immediately. To wait until the levies had been made in tobacco (or coin if available), and this reconverted to the use of the Assembly would have been ruinous. The Act emphasized this point:

> And whereas by reason of the long time allowed for collecting the duties imposed by this act (which from the distressed circumstances of the people, and the great scarcity of gold and silver coin in this colony, could not be done sooner) the said duties will not be collected in time to answer the purposes hereby intended, Be it therefore enacted . . . up to 20,000 in treasurer notes be issued by the treasurer.[3]

Therefore, 20,000 in treasury notes were issued in anticipation of the taxes and were redeemable June 30, 1756. These notes paid five per cent interest, and werelegal tender except for "his Majesty's Quit-rents."

In August the news of Braddock's defeat showed that the struggle was going to be more serious than had at first been anticipated. Therefore, in a special session of the Assembly 40,000 pounds more in treasury notes were willingly granted.[4] These also bore five per cent interest, and were redeemable on June 30, 1760.

The most usual type of tax levied in connection with the issuance of treasury notes were land taxes and poll taxes. However, "throughout

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[3] Hening's Statutes, VI, 467.

[4] Ibid., VI, 528; Ripley, op. cit., p. 524.

the whole period of the War . . . practically every kind of tax ever devised by the ingenuity of law making bodies was levied. There were direct taxes and indirect taxes. There were land taxes and poll taxes and license taxes. There were taxes on imports and taxes on exports, [and] it was very early found necessary to anticipate the collection of these taxes by the issuance of treasury notes."[5]

In March of 1756 an act was passed providing for "the better protection of the inhabitants on the frontiers of this Colony, and for other purposes therin mentioned." This act initially provided for raising 25,000 pounds by anticipating, through five per cent treasury notes, the taxes levied in the act.[6]

As the French and Indian menace became more critical, the Assembly passed an act which amended this act. It empowered military officers to impress necessary supplies, and provided other war measures. Special taxes were provided for these measures and the money was obtained immediately by the anticipation of these taxes through the issuance of five per cent treasury notes in the amount of 30,000 pounds. Both of these two issuances provided for redemption on June 30, 1760.[7]

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[5] H. R. McIlwaine and J. P. Kennedy (eds.), Journals of the House of Burgesses (Richmond, 1905-1915), 1758-1761, xv. This will be hereafter referred to as J. H. B.

[6] Hening's Statutes, VII, 18; Morton, op. cit., pp. 685-86.

[7] Hening's Statutes, VII, 26-33; Morton, op. cit., pp. 685-86.

II. LOAN OFFICE REQUESTS

After the first issuance of treasury notes in 1755, the success of these substitutes for cash seems to have over-excited some of the popular representatives. "They wanted," said Governor Dinwiddie, "to set up a Loan Office and to emitt 200,000 pounds Paper Money. I did not like the plan." Governor Dinwiddie then proceeded to dissolve the Assembly.[8]

The "craze" still spread, however; in April, 1756, seven of the most populous counties requested, in a petition for the establishment of a loan office, for the emission of 300,000 pounds of paper money, alleging that the scarcity of cash was so great "that families are likely to be ruined by having to sell goods for one half value." The bill was introduced into the House, but it did not get beyond a second reading.[9]

III. FIRST EMISSIONS OF PAPER MONEY CALLED

In April of 1757 all of these earlier issues were called, and new notes without interest were substituted for them. The Assembly desired to issue additional treasury notes for war purposes, but stated that, "Allowing treasury notes to bear interest is found to be very burdensome

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[8] Robert Dinwiddie, The Official Records of Robert Dinwiddie, ed. R. A. Brock (Richmond: Virginia Historical Society, 1884), II, 266. This will hereafter be referred to as Dinwiddie Papers. See also Ripley, op. cit., pp. 155-56.

[9] J. H. B. 1752-1758, xxv; Ripley, op. cit., pp. 155-56; and Baker-Carothers, op. cit., p. 99.

to the country, . . . and it will be prejudicial to have notes of different values [interest versus non-interest bearing notes] circulating at the same time."[10] Therefore, these old notes were called and reissued. Of the 115,000 pounds issued up to 1757, only 15,038 had been redeemed, leaving 99,962 still outstanding at this date. These were called in and the new non-interest bearing notes issued in their place, together with 80,000 in additional notes, also non-interest bearing.[11]

IV. DEPRECIATION PROVISIONS

The various paper money acts always contained a provision making it illegal to "depreciate paper money." Persons could not "demand a greater price unless he be paid for the same in gold or silver coin . . . [and] shall [not] offer to buy or sell bills of exchange at a greater or higher difference of exchange for the said treasury bills than for gold or silver coin. . . ."[12] A penalty of twenty per cent of the transaction was imposed. Apparently this was sufficient because according to Robert Carter Nicholas: "I do not recollect one single Instance of a Drawer's receiving a shilling more in Paper for his Bills than he did in Gold or Silver."[13]

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[10] Hening's Statutes, VII, 69-87.

[11] Ibid.; Gipson, op. cit., p. 264.

[12] Hening's Statutes, VII, 85, 167, 177, etc. See various paper money acts.

[13] Robert Carter Nicholas, "Letters of September 30, and July 29, 1773 to Messrs. Purdie and Dixon," in William and Mary Quarterly, XX,

V. ADDITIONAL EMISSIONS

The policy of Virginia was now definitely decided upon and the issues of notes followed each other in regular succession. In March, 1758, 32,000 pounds was issued; in September of that year 57,000 pounds; in February 1759, 52,000 pounds was issued; in November of that year 10,000 pounds; in March 1760, 20,000 pounds was issued; in May of that year 32,000; and in March 1762, 30,000 pounds, the last wartime issue and the last legal tender paper money issued before the Revolutionary War.[14]

VI. DISTINGUISHING BETWEEN PAPER MONEY AND LOANS

The paper money issued in the colonies was referred to by various names including bills of credit, paper bills of credit, treasury notes, and simply "paper money." As their names imply, such paper money does come within the definition of a credit instrument, being "a written promise, or order, to pay a definite or determinable sum of money to bearer, or to a specified person or his order." When such credit instruments become "widely accepted in payment of goods and services and in settlement of debts without reference to the standing of the person offering it in payment," they are known as credit money—as

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first series, 256. This will be referred to hereafter as either "Letter of September 1773" or as "Letter of July 1773."

[14]Hening's Statutes, VII, 163-67, 171-79, 179-80, 334, 350, 360, 476-88.

distinguished from promissory notes, checks, bills of exchange, et cetera, in which the credit standing of the payor is extremely important, and acceptability is usually more restricted.[15]

Credit money should be further distinguished from fiat money--money by command--having no redemption provisions, and hence not being credit money. The paper money issued in the colonies was almost invariably credit money, not fiat money.[16]

We have seen that the first two issues of paper money in Virginia bore interest of five per cent, and that these early issues were called in June 1757, and new notes without interest substituted for them together with 80,000 pounds in additional treasury notes; and the policy thereafter was the issuance of non-interest-bearing treasury notes. One distinguished author, Richard L. Morton, has made a distinction between these interest-bearing treasury notes and the later issues which bore no interest, suggesting that the former were loans and the latter the first issuance of true paper money in Virginia. Morton said:

> When war started with the French and Indians, the Assembly, rather than issue paper money, borrowed funds at a high rate of interest, but as war continued, money was hard to find and interest on the large sums needed would have been too "enormous" a burden. In June 1757, therefore, Virginia began issuing treasury notes secured by taxes. By March 1762, there were eight issues totalling over 40,000 pounds [400,000].[17]

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[15] Bogen et al, *op. cit.*, pp. 6, 8.

[16] *Ibid.*, p. 8.

[17] Morton, *op. cit.*, p. 745.

The principal source used by Morton in reaching his conclusion almost definitely appears to be Richard Bland's report of May 24, 1763, on the "State of the Treasury Notes," this report showing the date of the first issuance of paper money to be June 1757, listing the eight issues of treasury notes through March 1762, and indicating over 400,000 (424,000) pounds to have been issued.[18]

Further investigation, however, indicates that the issue of 1757 was listed as the first issue only because all treasury notes in circulation had been called and re-issued in conjunction with this new issue.[19]

These early issues of paper money, as did all issues before 1764, contained a provision,[20] legal tender, that they must be accepted in payment of all private debts and business transactions (as opposed to only public payments). This legal tender feature assured their "wide acceptability" and brought such instruments within the definition of credit money (paper money), as distinguished from loans.

Furthermore, contemporary writing referred to the early issues, as well as to the later issues, as paper money. In referring to the issuance of paper money in Virginia, the Journal of the House of Burgesses stated that "provision was made for the first issue of them in May 1755. After this an increase was authorized at every meeting except

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[18] J. H. B. 1761-1765, 177.

[19] Hening's Statutes, VII, 69-87.

[20] See below page 55.

two till the session held in October 1760."[21]

In a letter to the Lords of the Trade on February 24, 1756, Governor Dinwiddie stated, "You will please observe there are two Acts for issu'g paper curr'cy--one for 20,000, the other for 40,000. . . ." In a letter of May 24, 1756 to the Earl of Halifax: "I was obliged," said Dinwiddie, "to give my assent for paper curr'cy."[22]

While the above evidence would seem to suggest rather conclusively that Morton is in error, the first issues of paper money being in 1755 and 1756 instead of June 1757, a further substantiation is Morton's own contradiction in an earlier part of his book: "The Paper-money problem has begun with the session of May 1755. . . . From that time each General Assembly with only two exceptions before October 1760 issued paper money. . . ."[23]

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[21] J. H. B. 1758-1761, xv.

[22] Dinwiddie Papers, II, 354-56, 415.

[23] Morton, op. cit., p. 726.

CHAPTER VII

PAPER MONEY DEPRECIATION

In judging the success of paper money historians have been inclined to make their judgments on the basis of whether depreciation occurred; in turn they have measured depreciation by the "exchange rate"; if paper money went below its legal rate in trade for hard money or in the purchase of bills of exchange,[1] they considered that it had depreciated, the inference being that too much had been issued or that people lacked confidence in it.[2]

I. CAUSES OF DEPRECIATION

The principal factors causing depreciation are improper redemption provisions and over-emissions in relation to taxes and needs.[3]

Redemption provisions. Since the paper money was created and

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[1] "From an early time tobacco was marketed by consignment to a particular London or outport merchant who handled a planter's crop from the time it reached England until it was sold. . . . After depositing the net proceeds of the sale of the tobacco to the planter's account, the merchants sent him a notification of this balance. Against this credit the planter drew from time to time by means of a short note called a bill of exchange, a forerunner of the modern check." Middleton, op. cit., pp. 104-05.

[2] Ferguson, op. cit., p. 157. Depreciation should be distinguished from price inflation, which always produces a rise in the price level, resulting from a disproportionate and relatively sharp and sudden increase of money or credit, or both relative to goods available for purchase.

[3] Nettels, op. cit., p. 277; Ferguson, Power of the Purse, p. 9.

upheld solely by political acts, confidence in the government was essential to its value—confidence that redemption would be continuous, and that future governments would have both the will and the ability to collect them.[4] Providing adequate taxes was essential to proper redemption.

Over-emissions. Over-emissions in relation to taxes and need is related to the above since proper redemption provisions will limit greatly the amount of money to be issued. However, it "must not exceed too far the requirements of trade at the existing price level or depreciation would occur regardless of guarantees."[5]

Other factors. Two factors tending to uphold the value of a paper currency are the legal tender provision and interest payments. It is customary that paper currencies may be used in making public payments such as taxes. When such paper money must be accepted in all private transactions as well, including payment of debts, depreciation is much less likely. To a lesser extent interest payments also helped to uphold the value of such currency, through their use was rare in the colonies.[6]

II. MEASURING DEPRECIATION—THE EXCHANGE RATE

Depreciation is usually measured by historians in terms of the exchange rate. If paper money, as contrasted to specie, went below its

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[4] Ibid.

[5] Ibid.

[6] Nettels, op. cit., p. 277.

legal rate (face value) in the purchase of bills of exchange (or in trade for specie), they considered that it had depreciated, the inference being that too much had been issued or that people lacked confidence in it.

In order to be able to evaluate properly whether this "inference" is justified, or even to understand the actual extent to which depreciation has occurred, an analysis of the causes of changes in exchange rates would appear to be essential.

III. DETERMINATION OF EXCHANGE RATES

Legal value of specie. The first factor involved in determining the rate of exchange between sterling and the current money of a particular colony was the legal price in the colony of silver alloy, and such rate differed from colony to colony and from time to time.[7] In an effort to raise hard money, the colonies competed with one another in raising the legal value of specie, usually Spanish money, above its intrinsic value. Therefore, when money was remitted from England to America, it obviously had to be raised from sterling value to the corresponding value in colonial currency.[8] In Virginia after 1727, foreign coin was overvalued in relation to sterling by approximately 29 per cent, the legal rate of one pennyweight being set at four pence.[9] The actual

[7]Nettels, op. cit., p. 181.

[8]Ferguson, op. cit., p. 157.

[9]Hening's Statutes, IV, 218-20. See also Thomas Jefferson, Notes

sterling value as established by the Tower was 3.086.[10]

Supply and demand. The primary cause of fluctuations in exchange rates are the elements of supply and demand. If the supply of such bills of exchange, in relation to their demand, were exceptionally large, then the rate would fall, or if the supply were unusually low, the rate would rise. A corollary of this is that a scarcity of money will cause and hence be equivalent to a reduction in the demand for bills; a plentiful supply of money will have the opposite effect, increasing the demand for bills. Either specie or paper money would have such effects.[11]

Specie more negotiable. According to E. James Ferguson, a moderate discount on paper currency in exchange for specie or bills of exchange does not necessarily imply that the currency had depreciated because it was normal to discount currency somewhat in such transactions because hard money was more negotiable in foreign or colonial trade.[12]

Freight and insurance charges for shipping specie. The two

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on the State of Virginia, ed. William Peden (Chapel Hill: University of North Carolina Press, 1955), p. 171.

[10] Anne Bezanson, Robert D. Gray, and Miriam Hussey, Prices in Colonial Pennsylvania (Philadelphia: University of Pennsylvania Press, 1935), p. 314.

[11] Ibid., p. 316; Nettels, op. cit., p. 181.

[12] Ferguson, "Currency Finance," p. 158.

principal methods of making remittances to England in payment of debts or in purchases were through bills of exchange or through the shipment of specie. Because of the cost of freight and insurance, bills of exchange were usually more desirable. When during wartime the cost of shipping specie increased substantially, it might be profitable to purchase bills of exchange at unnaturally high rates in relation to the value of silver.[13] The alternative between making an overseas remittance by bills of exchange or specie is well illustrated by the following example:

> A great many people have been obliged to ship dollars [specie] because they could not get bills [at a reasonable price]. I should have done so too if I could have seen that there would be anything got by it, but it does not appear to me that they will make better remittance than bills at 72½ percent [172½ pounds Pennsylvania currency for 100 pounds sterling] when the freight and insurance and all charges are paid.[14]

The legal rate of current money in Pennsylvania was 166 2/3, the above exchange rate representing a slight discount in Pennsylvania money in purchasing bills of exchange, caused apparently by the scarcity of such bills. The high exchange rate apparently caused a number of people to feel it would be more profitable to ship specie in payment of their overseas bills.

Over-emissions of paper currency. For many years the paper money of the colonies did not in fact depreciate noticeably.[15] However, as

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[13] Bezanson, op. cit., p. 317.

[14] Ibid., citing letter of John Swift to his uncle, John White in London, April 27, 1749.

[15] Nettels, op. cit., p. 277.

the issues of paper money became increasingly large in relation to the monetary needs, severe depreciation did result in a number of the colonies, and the effect on the exchange rate did rather accurately reflect the approximate extent of depreciation. In 1740 in Massachusetts, the sterling exchange was quoted at 550; in 1750 at 1100. Since the legal rate of Massachusetts money at this time was 133 1/3 per cent, the above exchange rates indicated a depreciation of approximately 75 per cent and 90 per cent respectively.[16]

Since 133 1/3 pounds of specie was intrinsically worth 100 pounds sterling, it was obviously more profitable to pay a debt in England by shipping silver than by buying bills of exchange with specie at such highly inflated prices. For this reason specie was drained from such colonies, paper currency being used exclusively for the purchase of bills of exchange.[17]

IV. OTHER CRITERIA OF A SOUND OR SUCCESSFUL CURRENCY

It has been suggested by some authors that depreciation should not be the only criterion for determining the success or soundness of paper currency. In spite of mild or even severe depreciation it is suggested that paper money has often been successful in creating a badly needed medium of exchange, equipping the colonial government with the means of incurring and discharging responsibilities, and in meeting the

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[16] Dewey, op. cit., p. 28.

[17] Bezanson, op. cit., p. 314.

needs of war.[18]

"Another criterion is suggested," stated E. James Ferguson, "by Thomas Pownall's remark that in spite of depreciation in New England, 'it was never yet objected that it [depreciation] injured them in trade.'" "It is possible," continued Ferguson, "that a steady and continuing inflation was not wholly injurious to an expanding economy whose people seldom had fixed incomes or a large accumulation of liquid capital."[19]

V. SUMMARY AND CONCLUSIONS

While the exchange rate does provide a yardstick for measuring depreciation, it must be used with great care since other important factors, particularly the elements of supply and demand, can cause a fluctuation in the exchange rate--without necessarily casting any reflection on the soundness of the paper currency.

Furthermore, while the exchange rate offers a guide to the amount of depreciation, we have observed that it is necessary to look elsewhere for the causes of depreciation. Also it is suggested that in judging the soundness or success of paper money experience in a colony, depreciation is not necessarily the only factor that should be considered.

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[18] Ferguson, "Currency Finance," p. 180.

[19] *Ibid.*, pp. 14-15.

CHAPTER VIII

THE EFFECT OF VIRGINIA'S PAPER CURRENCY UPON

PLANTER INDEBTEDNESS

The huge, pre-Revolutionary War indebtedness of Virginia planters to British merchants was estimated by Thomas Jefferson to be at least "two million sterling . . . [and] these debts had become hereditary from father to son for many generations, so that the planters were a species of property annexed to certain mercantile houses in London."[1]

Particularly because of this vast indebtedness, "Of the many matters of highest importance raised in the Virginia Assembly between 1748 and 1764 none bulked larger than the problem of the private indebtedness of Virginia planters to British merchants."[2]

I. INSOLVENT DEBTORS' LAW OF 1748

In 1748 the Virginia Assembly passed a law that judgments for sterling debts could be settled in Virginia currency upon simply adding twenty-five per cent to the face value of the debts as the difference in exchange value between the two currencies. The effective date of the law was to be June 10, 1751.[3]

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[1]Gipson, op. cit., p. 259, citing The Papers of Thomas Jefferson (Princeton, 1950), I, 27.

[2]Ibid., p. 260.

[3]Hening's Statutes, V, 526-40; Gipson, op. cit., p. 261; and Beer, op. cit., pp. 179-80.

This law, partly owing to the carelessness of the Board of Trade and its legal advisers, and partly because of the remissness of the British merchants in not protesting in time, became confirmed by an order in council and thus obtained the legal validity of an act of Parliament.[4]

This act was entitled "An Act declaring the law concerning Execution; and relief of Insolvent debtors."[5] The reason for this act was that prior to 1748 there was no law directing at what rate of exchange sterling debts should be levied when judgments were obtained against debtors. "The consequence was that the Sheriff, when they levied Money by Executions on Judgments for Sterling, demanded what Exchange they thought proper, frequently to the great oppression of the debtor. . . . To prevent this the act of 1748 was passed fixing the rate of exchange at 25 per cent, the real difference of money [the real difference was actually 29 per cent], and the then difference of Exchange."[6] Apparently the sheriffs in levying the executions had in many cases been unfairly allowing an exchange rate in excess of the bill of exchange rate, which was then 25 per cent (125).

Because of the relatively stable exchange rate and the lack of a paper currency at the time the law was passed, it was not obvious how squarely the law struck at the vast indebtedness of the tobacco planters

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[4] Beer, op. cit., pp. 179-80.

[5] Hening's Statutes, V, 526-40.

[6] J. H. B. 1761-1765, 190.

to the British merchants, who long had been accustomed to extending them easy credit in terms of sterling money. They, of course, expected to be repaid in sterling and not in current colonial money subject to sharp depreciation at the will of the Assembly by the simple device of placing into circulation whatever unlimited quantities of paper money seemed desirable.[7] With the ceiling of 25 per cent on the exchange rate, paper money that would, because of depreciation, normally exchange at 50 per cent, 100 per cent or even 1000 per cent would liquidate British debts at the exchange rate of 125 (25 per cent)!

Even without paper money the exchange rate might well rise above 25 per cent. In fact it was at 33 1/3 per cent at about the time the act was to go into effect.[8]

As soon as they were made aware of what had transpired, the British merchants therefore became greatly alarmed as to the security of their loans, as well as to the effect of this law on current transactions. Memorials were drawn up by the British merchants and presented to the Board of Trade in November 1751, all of the merchants taking the position that the law was confiscatory in nature and pointing out that the exchange rate between sterling and Virginia was actually 33 1/3 per cent at the time and not 25 per cent.[9]

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[7] Gipson, *op. cit.*, p. 261.

[8] *Ibid.*

[9] *Ibid.*

II. ACT OF 1755

British administrative machinery apparently moved very slowly because it was May 2, 1755, before a royal instruction was presented to the House of Burgesses to change this law. The Assembly complied with the instructions, providing that in actions for the recovery of sterling debts the local courts should determine the amount owed "at such a rate of difference as would place the money in Great Britain without loss [to the British merchant]."[10]

III. BRITISH MERCHANTS' CRITICISM OF PAPER MONEY

Unfortunately, this did not by any means end the disputes between the Virginia planters and the British merchants over the payment of debts. At the very time that the law was being passed, Governor Dinwiddie was signing, because of wartime conditions, a bill providing for the emission of 20,000 pounds in treasury notes, which were to pass "as a lawful tender in any payment, for any debt demand, or duty whatsoever; except for the payment of his Majesty's quitrents."[11]

Up to 1757, 115,000 pounds were issued with only 15,038 having been redeemed. As mentioned earlier, the outstanding notes of 99,962 pounds were called in 1757 and re-issued with 80,000 in additional notes, all non-interest bearing, the earlier notes having an interest of

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[10] J. H. B. 1761-1765, 190; Beer, op. cit., 179-80; Gipson, op. cit., p. 262; and Hening's Statutes, VI, 478-79.

[11] Hening's Statutes, VI, 461-68. See above page 37.

five per cent.[12]

Until the last issue there had not, in the opinion of the British merchants, been any evidence of depreciation of Virginia's paper currency. By April 1758 the exchange rate had increased five per cent during the year to 40 per cent,[13] and was expected to rise (usually being 25 per cent to 32 1/2 per cent). They felt the Virginia paper currency was becoming badly depreciated.[14]

With the apparent depreciation of Virginia's paper currency, the merchants of Great Britain again became alarmed over the fate of the debts owed them in Virginia, and issued a memorial to the Lords Commissioners for Trade and Plantations against paper money. With regard to this 1757 paper money act "your memorialist therefore beg leave hereon to remonstrate to your lordships the very great injury that may arise to the trading interests . . . from the Virginia act."[15]

They complained that in the first place the act referred to debts already incurred, that it should apply only to debts incurred after the passage of the act. Secondly, it "inerts the nature of trade, from a

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[12]See above page 39; Gipson, _op. cit._, p. 264; _Hening's Statutes_, VII, 69-87.

[13]"A list of Judgments for Sterling Money Obtained in the _General Court of Virginia_ by Persons Residing in Great Britain [1753-1763]," _The Virginia Magazine of History and Biography_, XII, (1904-05), 1. This will be referred to hereafter as _Judgments._

[14]Gipson, _op. cit._, pp. 264-65.

[15]"Letter to a Gentleman in London" (Williamsburg: William Hunter, MDCCLIX).

certain to an uncertain value of Profits and Loss." Third, "it does depreciate the nature of such debts," they complained, "by making debts (payable in Sterling Money of universal value) to be received in paper money of a local, uncertain, and fluctuating Value." Fourth, "[There is] no proper provision for a proper difference of exchange," they stated, "between paper money and sterling." They felt the law of 1748, setting the exchange, had not been effectually repealed despite the repealing act of 1755. They requested, therefore, that the act be inapplicable to old debts and that paper money not be legal tender.[16]

IV. THE VIRGINIANS' DEFENSE OF PAPER MONEY

"Apprehensions of merchants," stated the Virginians in defense of their paper money issues, "proceed from a mistaken notion of our having a law in force for paying off sterling debts in money at 25% per cent Exchange." This law was repealed "that the merchant may have his whole debt remitted to him without those losses they so much apprehend."[17] The repealing act in 1755 empowered "the courts where Judgments should be obtained for sterling money, to settle at the foot of the Judgment, at what Rate of Exchange the same should be discharged; This will enable the English Merchants to bring their Money Home, without any Loss. . . . It is notorious they [the court] have always fixed it at the very

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[16] Ibid.

[17] "Proceedings of the Virginia Committee of Correspondence, 1759, 1767," in The Virginia Magazine of History and Biography, XI, 2.

highest Rate."[18]

The London merchants' apprehensions that the law of 1748 was still applicable and would be used in lieu of the repealing law of 1755 are shown not to be well founded. According to a "List of Judgments for Sterling Money Obtained in the General Court of Virginia by Persons residing in Great Britain" for the years 1757-63 no judgment was at the much-feared figure of 25 per cent. In fact, they ranged steadily upward from 35 per cent in April 1757 to 60 per cent in April 1763.[19]

The Virginians had no uncertain feeling about the importance of the retention of the legal tender feature of the paper money act. By eliminating the legal tender feature, it was stated "the Creditor is at Liberty to refuse this paper unless paid him at such rate of Exchange [as he] is pleased to demand."[20] "As the British merchants have constantly received such notes for their Sterling Debts according to the real Difference of exchange between the colony and Great Britain at the time of Payment, their property is secured as to make alteration unnecessary with respect to them."[21]

After these severe criticisms by the British merchants in 1759, Governor Fauquier earnestly defended the Assembly, writing the Board of Trade that, while he did not approve of paper money, all specie had been

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[18] Ibid., p. 345.

[19] Judgments, p. 1.

[20] J. H. B. 1761-1765, 192.

[21] Ibid., pp. 180-81.

drained out of the colony, and he didn't see how a single man could have been raised for the King's service in the war without it.[22] He did request the Burgesses to make the debts due merchants payable in sterling. The House resolved that the merchants had adequate security for the recovery of their sterling debts, and refused to do anything further.[23]

V. ACT TO ENHANCE PAPER CURRENCY CREDIT

By 1761 the great variety of treasury notes with various redemption dates caused a certain degree of confusion in the treasury and to the public. To remedy this situation an act titled "An Act to Enhance and more Effectually secure, the credit of the paper currency of this colony" was passed. The principal purpose was "to satisfy the public that the paper bills of credit, or treasury notes, are properly sunk." The great majority of the taxes were paid by the treasury notes and one redemption date facilitated the destruction of the whole returns of the collecting officers "to the great diminution of the paper currency and of consequence to the greater value of what remains in circulation." A special committee was established by this act for destroying these notes as they were paid in for taxes, the committee furnishing the treasurer a receipt or certificate for the destroyed treasury notes.[24]

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[22] Ibid., xxvi; Morton, op. cit., p. 746.

[23] J. H. B. 1758-1761, 164; Beer, op. cit., pp. 181-82.

[24] Hening's Statutes, VII, 465-66.

VI. EXCHANGE RATE CONTINUES TO RISE

With the French and Indian War still raging, the currency situation did not improve. Since the beginning of the war, and the last wartime paper money issue in March 1762 in the amount of 32,000 pounds, paper money in excess of 400,000 pounds had been issued.[25]

In 1762 the exchange rate rose to 65 per cent,[26] which to the British merchants suggested serious depreciation of the paper currency. Therefore, the British merchants continued to object to paper money, their objections being along the same lines contained in previous memorials. A further objection at this time was to the practice of the rate of exchange being left to the colonial judges to decide instead of the creditor.[27] In answer to this objection, a committee of the House of Burgesses replied:

> The debtor is left to compound with his Creditor for payment in foreign coin or Treasury Notes, at such Rate of Exchange as they can agree on; if a dispute shall arise on that [matter], . . . to whom can it be referred but as all others are, to the court of justice, the true constitutional resort. . . . By the method proposed instead of this objected to, the Creditor is at Liberty to refuse this Paper unless paid him at such rate of Exchange as he is pleased to demand.[28]

Another complaint of the merchants was that in some instances the exchange had risen five, ten, or even fifteen per cent between the time

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[25]See above page 43.

[26]*Judgments*, p. 1.

[27]*J. H. B.* 1761-1765, 190-91.

[28]*Ibid.*

of the order of the court (setting the exchange rate) and the possibility of obtaining remittance. The Virginians' answer to this was that this loss usually resulted from neglect in not "negotiating it away" before the exchange rises, or from "avarice" in holding it in the expectation that the exchange will go down.[29] In May 1763, Governor Fauquier stated further that "the losses they may have sustained by the sudden rise of exchange will be made up to them by its present declining state."[30]

VII. RISE IN EXCHANGE RATES--EXPLAINED AND DEFENDED

"The great rise of Exchange," stated Governor Fauquier in a letter to the Board of Trade, "is altogether attributed by some men to the Emissions of paper Money," but Fauquier felt there was "a much more fundamental cause," attributing it primarily to "the increase of Imports, to such a height, that the crops of tobacco will not pay for them, so that the colony is far from having money to draw for in England."[31]

This view of Governor Fauquier's as to the cause of the sudden rise of the exchange rate is shared by E. James Ferguson. "Bills of credit held their value till 1760," stated Ferguson, "when a sharp drop in the tobacco prices marked the onset of a long and severe depression. A shortage in the payment of the planters' balances ordinarily paid from tobacco sales in Britain caused bills of exchange and specie to grow

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29"A Letter to a Gentleman in London," op. cit., p. 17.

30J. H. B. 1761-1765, 173.

31Ibid., p. xxvi.

scarce and their value rose in terms of the currency [paper money] offered by planters obliged to make payments to English Creditors." For the next several years planters could hardly sell their crops and prices remained very low, Virginia currency was discounted fifty to sixty per cent in purchasing bills of exchange.[32]

A similar view is expressed by Jerman Baker in a letter to Duncan Rose in 1764. "Now as touching the very extraordinary rise of the exchange," said Baker, it must in general be plac'd to the disproportion the exported produce of the country bears to the imports. . . . Now were the imports and exports nearly equal, having a paper currency wou'd be no disadvantage, for the number of buyers and sellers of bills wou'd be nearly equal, and neither be in the power of the other, as their necessity would be alike."[33]

Similar was the feeling of Robert Carter Nicholas. "That so large a quantity of Paper Currency contributed to raise Exchange," stated Nicholas, "I will freely own as my opinion; Although at the same time I am thoroughly persuaded that the balance of trade being so much against us was the chief governing cause of it." Nicholas continued, "If more money [is available] than Bills, Exchange will rise; if less money than the Drawers have occasion for, Exchange will fall."[34]

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[32]Ferguson, "Currency Finance," p. 160.

[33]Jerman Baker, "Letter to Duncan Rose," in William and Mary Quarterly, XII (1903-1904), 241-43.

[34]Nicholas, Letter of September 1773, pp. 248, 255.

VIII. VIRGINIA CENSURED BY BOARD OF TRADE

In December 1762, the Lords Commissioners (before receiving Fauquier's letter) censured Virginia with respect to her paper currency, stating that the large quantities of paper money issued in Virginia had been issued upon "insufficient and uncertain funds for sinking and discharging them," and that this was the chief cause of the rapid rise of the exchange rate between Great Britain and the colony. Virginia was then warned to pass a proper law relating to its "paper bills of credit" or face retaliatory legislation.[35]

IX. GOVERNOR FAUQUIER'S REPLY TO CENSURE

In the spring session of the Assembly, Governor Fauquier expressed surprise at this censure by the Board of Trade:

> That we imagined, when the courts were empowered to direct at what Difference of Exchange Sterling debts should be discharged, and sufficient funds were established for the redemption of those notes, no persons trading to the colony could receive any Injury, and therefore little expected to be censured as neglecting his Majesty's instructions, the Spirit of which had been, in our opinion, complied with.[36]

X. ACTION TAKEN IN RESPONSE TO MERCHANTS' DEMANDS

In answer to the merchants' demands the Burgesses in 1763 could only be persuaded to appoint a committee to examine the security of the

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[35] Gipson, op. cit., p. 268, citing minutes of December 16, 1762, Journal of the Commissioners for Trade and Plantations from January 1759 to December 1763 I I I (London, 1935), pp. 316, 330-32.

[36] J. H. B. 1761-1765, 172.

treasury notes, again refusing to alter the legal tender status of the notes. The committee reported on May 24, 1763, that the taxes for redeeming them would produce by October 1769 over 11,000 more than the value of the notes in circulation. On this basis they concluded the security (taxes) was adequate.[37]

Four days later they followed this by an elaborate defense of their policy, declaring that Virginia was only following the example of other colonies, and stating again that the "want of specie" was the sole cause of issuing the notes. Continuing the legal tender status, they stated, was considered essential "to preserve the credit of what had already been issued, and prevent the evil consequences of stopping its circulation at this time." Governor Fauquier "candidly acknowledged that the taxes were sufficient."[38]

XI. OBJECTIONS OF GLASGOW MERCHANTS

After further criticism of their paper currency by the British merchants, the House of Burgesses, in a long address and representation to the governor, defended vigorously the practice of making the notes legal tender, and stated that the sterling debts of the merchants were amply protected by the safeguards provided. This insistence, however, did not deter the merchants from continuing to push for adequate

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[37] Ibid., pp. 171-72, 173-74, 177; Ripley, op. cit., pp. 159-60.

[38] J. H. B. loc. cit.; Ripley, loc. cit.

legislation against the legal tender feature of Virginia's notes.[39]

Glasgow merchants claimed that most of the debts due to them were in local currency, not sterling, and had been contracted on the basis of former low exchange rates, so that Virginia in making her paper legal tender for debts amounted to a partial repudiation of her debts--in proportion to the subsequent rise in exchange.[40] On January 10, 1764, the Glasgow merchants signed a petition to the Board of Trade indicating this fact clearly--that the debts owed them in Virginia were not sterling debts but debts in terms of the currency of the colony. Their grievance was that they had purchased goods at home for sterling money and had sold them to the colonists on credit when the difference of exchange between sterling and currency was not more than thirty per cent, and that the difference was now sixty-five per cent, "at which rate the last bills upon Glasgow were drawn."[41] The legal tender feature of the paper money forced them to accept the money at face value, since their debts were made in terms of the local currency, not being sterling debts.

By 1758 thirty per cent of the colonists' tobacco was sold through the Scotch factors, and by 1768 fifty per cent.[42] The credit

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[39]Beer, *op. cit.*, pp. 181-82.

[40]Gipson, *op. cit.*, p. 273, fn. 61.

[41]*Ibid.*

[42]Jacob M. Price, "The Rise of Glasgow in the Chesapeake Trade, 1707-65," in *The William and Mary Quarterly*, third series, XI (1954), p. 180; Middleton, *op. cit.*, pp. 110, 183.

advanced by Glasgow merchants to the colonists, often over-liberal because of competition with other factors, grew alarmingly during the generation preceding the American Revolution. The debt owed to Glasgow by the time of the Stamp Act crisis was estimated at 500,000 pounds.[43] The legal tender feature was, therefore, of great concern to these merchants.

XII. COLONIAL CURRENCY ACT OF 1764

As a result of the merchants' continued objections, the Board of Trade at the beginning of 1764 began investigating the need for legislation for the colonies which were not included in the New England bills of credit restraining act of 1751.[44] Only offending colonies had been included in this act, which prohibited the issuance of legal tender paper currency, except in time of war.

On April 16, 1764, an act was passed entitled "An Act to prevent Paper Bills of Credit, hereafter to be issued in any of his Majesty's Colonies or Plantations in America, from being declared to be a legal Tender in Payments of Money; and to prevent the legal Tender of such Bills as are now subsisting, from being prolonged beyond the Periods limited for calling in and sinking the same," commonly known as the Colonial Currency Act of 1764.[45] As its title implies, future issues of

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[43] Price, op. cit., p. 196.

[44] Gipson, op. cit., p. 273.

[45] Ibid., pp. 274-75. The act of 4 George III, c. 34, Statutes

paper money could not contain the legal tender feature, and the redemption provisions of old issues had to be followed strictly.

Both Gipson and Beer suggest that only two colonies were under very serious attack by British merchants, Virginia and North Carolina, the act being aimed primarily at these two colonies.[46] The declaring of "paper Bills of Credit to be a legal Tender," stated the Lords Commissioners, "was false in its principles, unjust in its foundation, and Manifestly fraudulent in its operation."[47]

Virginia's three subsequent issues of paper money before the Revolutionary War were all in conformity with the law.

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at Large (Eyre and Strahan), VII, 483-84. See also Carl Van Doren (ed.), Letters of Benjamin Franklin and Richard Jackson 1753-1758 (Philadelphia: The American Philosophical Society, 1947), pp. 116, 139, 169; Joseph Dorfman, The Economic Mind in American Civilization (New York: The Viking Press, 1946), I, 176-77.

[46] Gipson, op. cit., p. 274; Beer, op. cit., p. 186.

[47] Gipson, loc. cit., citing Acts of the Privy Council, Colonial Series, 1745-1766, pp. 627-28.

CHAPTER IX

PAPER MONEY 1764-1773

I. INTRODUCTION

There were no additional issues of paper money after the Currency Act until 1769. In the meantime by 1767 Virginia's currency was down to 206,000 pounds,[1] as compared to 288,500 in 1763,[2] even though over 100,000 pounds of notes scheduled for burning had been put back in circulation by secret loans to distressed planters by the "kindhearted" treasurer, John Robinson.[3]

By 1768 all of the extra war taxes were repealed as the ordinary levies were considered sufficient to retire all of the notes then in circulation.[4] The exchange rate, which had fluctuated from 160 to 165 between 1762-1764, was down to 125 by 1766; in 1769 it dropped as low as 120; from then until July 1772 it fluctuated between 15 and 22 1/2 per cent.[5] This was a strong indication that the paper money was now highly

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[1] J. H. B. 1761-1765, 177.

[2] Nicholas, "Letter of September 1763," p. 248.

[3] David John Mays, Edmund Pendleton (Cambridge: Harvard University Press, 1952), p. 181.

[4] Hening's Statutes, VIII, 297.

[5] Judgments, p. 1; Nicholas, "Letter of September 1773," p. 255; Francis N. Mason (ed.), John Norton and Sons Merchants of London and Virginia (Richmond: The Dietz Press, 1937), pp. 110, 117, 255; and Pendleton, op. cit., p. 153.

regarded by the merchants, which proved to be the case.[6]

II. THE ROBINSON AFFAIR

At the time of his death in May 1766, John Robinson was still both Speaker of the House of Burgesses as well as Treasurer of the Colony. Gossip had long been heard about the Treasurer and the state of the treasury; but no one could possibly have been prepared for the immensity of the deficit revealed after his death. As Edmund Pendleton, the principal administrator of John Robinson's estate, "sat in the hot office at the Treasury and poured over the ledgers, and put together scattered fragments of paper, and as he interviewed and cross-examined the debtors, an amazing story was unfolded; for the Treasurer's friends, many of them hopelessly ruined men, owed his estate more than 130,000 pounds, over 100,000 of which Robinson had taken from the treasury of the colony."[7] The money taken from the treasury, probably during the last eighteen months of Robinson's life, were the treasury notes waiting to be burned.[8]

The amounts of the debts due to the estate were so large and numerous that quick, forced liquidation would ruin many Virginia families and perhaps still fail to accomplish the purpose, since the almost simultaneous sale of thousands of acres of land and thousands of slaves

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[6]See below page 70.

[7]Pendleton, op. cit., p. 181. See also J. H. B. 1766-1769, x.

[8]Pendleton, op. cit., p. 177.

would have glutted the market and depressed prices tremendously.[9] Robinson had died in the midst of a financial depression and because of the lack of ready money, Pendleton was faced with the problem of getting money from frozen assets. Because of the course followed to give the debtors every consideration in meeting their debts, it was not until fifteen years later (1781) that the indebtedness of the planters to Virginia (more than 100,000 pounds plus interest) was paid in full.[10]

However, these secret loans issued by Robinson to his hard-pressed planter friends in a time of depression probably contributed greatly to the easement of conditions, restoring, as they did, over 100,000 pounds in paper money to circulation.

III. ROBERT CARTER NICHOLAS BECOMES TREASURER

The death of the late treasurer with its revelations had given a considerable shock to the public confidence.[11] It was, therefore, very fortunate that he was succeeded by the able and high-minded Robert Carter Nicholas, under whose excellent management the treasury notes grew in credit and actually became preferred to gold and silver, being more convenient for transacting the internal business of the colony. The merchants, who in previous years had complained so bitterly about the notes, changed ground, actually bringing gold and silver to the treasury

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[9] Ibid., pp. 185-86.

[10] Ibid.

[11] Ripley, op. cit., p. 162.

to be exchanged for these notes, becoming its warmest advocates.[12]

Colonel Richard Bland, commenting about the merchants' present (1771) feeling about paper money, said, "That tho the time of its redemption has long since expired, they exert every endeavor to prevent its being paid into the Treasury . . . [where it] must be burnt by a standing committee appointed for that purpose." "It really affords diversion to those who remember their Former opposition," remarked Bland caustically, "to see their anxiety to keep this Money in circulation against the repeated advertisements of the Treasury in our public papers, calling upon the holders of it to carry it in and exchange it for gold and silver, which not one of them can be persuaded upon to comply with."[13]

IV. 1769 PAPER MONEY EMISSION

After the Currency Act there were three additional issues of paper money, all non-legal tender in compliance with the law. One issue was in 1769 for 10,000 pounds, to cover 2,500 pounds needed for the survey of the boundary of the Cherokee lands, as well as to cover the cost of providing for the issuance of some copper money, and other contingent expenses. These notes were to be redeemed in two years, and although apparently no copper money was obtained, these notes were duly issued.[14]

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[12] Nicholas, "Letter of July 1773," p. 235; Tyler, op. cit., p. 36; and Ferguson, op. cit., p. 161.

[13] Richard Bland, "Letter to Thomas Adams," in William and Mary Quarterly, X, first series, p. 152.

[14] Hening's Statutes, VIII, 346; Ripley, op. cit., pp. 161-62; Tyler, op. cit., p. 35.

"Since the taxes on which they were based produced over 11,000 pounds," stated William Z. Ripley, "they were promptly redeemed."[15] Examination of contemporary sources, however, suggests that this was not the case. In a letter of July 1773, Robert Carter Nicholas stated, in referring to paper money then in circulation, "7,874 was from the 1769 issue which should already have been redeemed."[16]

V. 1771 PAPER MONEY EMISSION

In 1771, 30,000 pounds was issued "to provide for those sufferers whose tobacco was lost from the Public Warehouse, which, by our law must be made good."[17] The merchants and other persons had sustained substantial losses by a great freshet on different Virginia rivers, which swelled to an unusual extent, necessitating this issuance.[18]

VI. EXCHANGE RATE RISES

The exchange rate in July 1772 took a sudden increase and caused the merchants again to prefer specie to paper money. "Our exchange has fluctuated for a considerable time," stated Nicholas, "and generally under par, 15, 17 1/2, 20, 22 1/2 per cent and I think last July when the misfortune which happened in England began to be felt, rose to

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[15] Ripley, op. cit., pp. 161-62.

[16] Nicholas, "Letter of July 1773," p. 235.

[17] Bland, op. cit., p. 151.

[18] Hening's Statutes, VIII, 647; Tyler, op. cit., p. 35.

30 per cent. . . . This rise put the remitters upon collecting all the specie they could and hence arose a dislike in some to paper money."[19]

A substantial reduction in the supply of bills of exchange, Nicholas indicated, was the cause of the sharp increase in the exchange rate. The "exchange so much complained of, is 30 per cent," said Nicholas, whereas, "in 1766," he continued, "200,000 pounds [was] in circulation with an exchange rate of [only] 25 per cent." Furthermore, Nicholas stated that in October 1752 the exchange rate was "32 per cent above par," and there was "no paper money in circulation," Nicholas concluding, therefore, that this rise to 30 per cent in the exchange rate should cast no reflection on the soundness of the paper money.[20]

VII. EMISSIONS OF 1769 AND 1771 COUNTERFEITED

Both the 1769 and 1771 paper money emissions were badly counterfeited. "The forgeries were executed in so very ingenious and masterly a manner," said Robert Carter Nicholas, "[that even the] Signers, the Engravers, the Printers and Numberers of the Notes could not, for some time, be convinced of the counterfeits. . . . This occasioned a great interruption in almost every line of business," since persons were afraid to accept any paper money, being unable to distinguish the good from the counterfeit.[21]

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[19] Nicholas, "Letter of September 1773," p. 255.

[20] Ibid.

[21] Ibid.

Further light on the tremendous interruption of business caused by this counterfeiting is shed by Kenneth Scott in his book on counterfeiting in the Colonies:

> The counterfeiting of the bills of Virginia in 1773 was so clever that the business of that colony practically came to a standstill. James Hill, George Washington's steward on the Custis plantations, wrote Washington that he dared not take money for corn he had sold but required the purchaser to give a note of hand. When two important horse races took place at "Leedes Town on the Potomac," a New York newspaper reported that not half the money that would normally have been wagered was bet, since the Marylanders would not stake their property against the Virginia currency which had been counterfeited in a manner so unparalleled.[22]

VIII. 1773 PAPER MONEY EMISSION

"Unwilling, as the Assembly really was, to issue more Paper money," said Nicholas, "it was faced, at last, that no other method could be safely relied on."[23] To accomplish this purpose, the Governor was obliged to call an extra session of the Assembly in 1773, at which time 36,834 in treasury notes was authorized to take the place of all notes of the two previous issues.[24]

As of February 1773 the total amount of paper money in circulation was less than 100,000 pounds, including the unredeemed, earlier, legal tender issues. "The whole amount in circulation," stated Nicholas,

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[22] Kenneth Scott, Counterfeiting in Colonial America (New York: Oxford University Press, 1957), p. 8.

[23] Nicholas, "Letter of July 1773," p. 235.

[24] Hening's Statutes, VIII, 647; J. H. B. 1773-1776, 15; Ripley, op. cit., pp. 161-62; and Tyler, op. cit., p. 35.

"does not exceed 98,000; I suppose there never will appear over 70 or 80,000 pounds [because of lost paper money]. . . . Our redeeming funds are amply sufficient."[25]

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[25] Mason, op. cit., p. 302.

CHAPTER X

SUMMARY AND CONCLUSIONS

Virginia witnessed a continuing growth during the colonial period both in its population, standard of living, and in the production of its staple, tobacco. Unfortunately, European demand for tobacco lagged far behind the rapidly increasing supply; markets became glutted, resulting in disastrously low prices. Diversification was needed to use the colonists' time and labor to better advantage, but the use of tobacco as money made this difficult, being needed for intra-colonial currency. Efforts at diversification met with but little success.

With the growth in the population and economy of Virginia, tobacco by necessity was employed as the medium of exchange for local transactions, there being no other satisfactory substitute for coins, which were so scarce throughout the colonial period. As compared to coins, "tobacco money" had many shortcomings. It lacked stability, fluctuating with the price of tobacco; was not suitably divisible for small transactions; resulted in the use of inferior tobacco and various deceptive practices such as packing trash in hogsheads of tobacco; lacked portability because of its bulk; was often damaged in transport; and was available only once a year for payments.

Notwithstanding its many shortcomings, "tobacco money" served the colonists rather well. There are a number of reasons for this. In the first place, "tobacco money" was legal tender, exchanging hands at the market value (vis a vis legally over-valued foreign money) in private transactions, and frequently above market prices in public payments. As a result, it was readily acceptable throughout the colony in all transactions whether public or private. Secondly, tobacco rather than money was used to meet balances in England. Thirdly, the use of credit served as a medium of exchange for a tremendous number of transactions. Also, there were a number of miscellaneous substitutes for money including barter, specialty contracts, bills of exchange, and the occasional use of wampumpeke and roanoke as money. Furthermore, the economy of Virginia was simple and the colonists to a great degree were self-sufficient, making a great many articles that would otherwise have to be purchased with money. Much of their labor was performed by indentured servants, and to a much lesser extent slaves, the remuneration to these persons being non-monetary. Reciprocal labor arrangements, such as house-raisings, reduced further the need for money.

While the use of tobacco as currency, instead of coin, resulted in great hardships to many, particularly the artisans, and some hardships to all, it is seen that during the seventeenth century it met a real need in a fairly satisfactory manner. In the eighteenth century with a number of its shortcomings magnified by changing conditions, tobacco became increasingly less satisfactory as a medium of exchange.

With the many shortcomings of "tobacco money," it is therefore natural that continuous efforts would be made to provide a better currency. Thus, throughout most of the colonial period attempts were made to establish a satisfactory metallic currency. These efforts consisted primarily of raising the legal value of Spanish money above the intrinsic value so that it would be more valuable for intra-colonial use than outside of the colony. This plan met with but little success because of the reluctance of the settlers to accept it in payment of their debts—even though legally required to do so; they knew it just wasn't worth its legal value. Furthermore, England discouraged this practice, refusing permission for such plans. England also had laws against mints and against prohibiting exportation of coins from the colonies to England; and England, herself, would not export coin to Virginia, for Crown expenses or otherwise. During the entire colonial period circulation of coin in Virginia was extremely scarce.

A second and quite successful effort to provide a better currency was through the issuance of tobacco notes. Such notes were a good substitute for hard money in a rural community. Because of their solid backing, they were not subject to the abuses of paper money nor to the depreciation in value so often the fate of paper money. These tobacco notes in conjunction with available specie adequately met Virginia's monetary needs during the eighteenth century until the French and Indian War in 1754 which, with its heavy expenses, necessitated the issuance of paper money.

We have observed that Virginia refrained from the issuance of paper money during the first half of the eighteenth century. The expenses of the French and Indian War, which began in 1754, quickly drained what little specie she had. Borrowing, tried at first, was soon found to be unsatisfactory; and by May 1755, the emission of paper money was essential to the proper conduct of the war.

The need for large sums was almost annual. Therefore, with few exceptions, paper money emissions were provided at every Assembly until, by the end of the war, in excess of 400,000 pounds had been issued. The circulation was down to 206,962 in 1767, and to less than 100,000 by 1773.

The exchange rate, the historian's traditional gauge of depreciation, began rising from its pre-war norm of about 125 to 135 in April 1757, to 140 the following year, and by April 1762 had reached 165. By 1767 the exchange rate was down to 125, and from 1769 to 1772 it fluctuated between 115 to 117 1/2 per cent. The only postwar emissions, all non-legal tender, were in 1769, 1771, and 1773. During these latter several years paper money was usually preferred to gold or silver, being highly regarded, indeed, by the British merchants. This was in contrast to the earlier period of paper money emissions, when their continuous objections eventually culminated in the Colonial Currency Act of 1764, preventing future legal tender issues.

From about 1758 to 1764, when the Currency Act was passed, the British merchants were very vocal in their objections to Virginia's paper currency. Their complaints were on several grounds. In the first place, they were afraid that the 1748 law which set the maximum exchange at 25 per cent (125) had not been properly repealed by the law of 1755 passed for that purpose, and desired the legal tender feature eliminated. Had this been true, it would indeed have been very injurious to the merchants since bills of exchange rates ultimately rose to 165. However, as has been shown, their fears in this respect were groundless, all evidence indicating that exchange rates were consistently established on the basis of the latter law.

Another objection was that the law of 1755 allowed the local court, instead of the creditor, to determine the exchange rate. The evidence suggests that this was the fairest method.

A further complaint of the merchants was that between the time the exchange had been set by the court and the merchants had had time to make remittances, the exchange often had risen five, ten, or even fifteen per cent. The evidence seems to suggest that where losses occurred they were usually limited to five per cent; and that this was sometimes caused by either carelessness in not completing the transaction in time, or in speculating in the hope of a drop in the exchange rate. It should be further pointed out that the merchants profited during periods of dropping exchange rates. For example, between 1764 and 1766 exchange rates dropped from 165 to 125.

It was complained, from time to time, that taxes for redemption were not adequate. Judging from the continuous redemption of the paper money (being paid into the treasury for taxes and then burnt by a standing committee), from the small depreciation that occurred, from the fact that it was never devalued,[1] and from the highly regarded position it ultimately obtained, the taxes would appear to have been reasonably adequate.

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[1]Several colonies devalued their currencies by calling in old paper notes and re-issuing them on a scaled-down basis.

Probably the most justifiable complaints came from the Glasgow merchants, who desired elimination of the legal tender feature. Their business was exclusively through factors located in the colonies. Stores were operated by these merchants on an extensive basis with long term credit being allowed. Such debts were in terms of the local currency, as compared to the sterling debts of the English creditor. A rise in exchange rates meant that the payments they received in paper money, in order to be converted to sterling, would undergo a loss in proportion to the rise in exchange between the date of the sale and the eventual date of payment--perhaps a year or two later. However, their over-liberal credit would appear to have been at least partly responsible for such losses. Furthermore, when exchange rates came down from 165 in 1764 to 125 in 1766, the Glasgow merchants profited in the same manner in which they had previously lost.

One of the purposes of this study has been to investigate the traditional historical criticism that Virginia's paper money experience was unsuccessful and resulted in severe depreciation. Several questions are raised: if Virginia's paper currency depreciated, was the depreciation severe; and secondly, if the depreciation was severe, was the paper money experience successful in spite of such depreciation.

A study of the various historical paper money writings of this period suggests that secondary sources have been relied on heavily in judging Virginia's paper currency, and that where primary sources have been used, quotation of exchange rates has been the usual source material used to "prove" that severe depreciation occurred, and that her experience with paper money was a failure. In none of these writings, however, is any attempt made to analyze other possible causes of changes in the exchange rate, it being assumed that a high exchange rate automatically indicated a lack of faith in the currency of the colony, usually resulting from over-emissions.

The most usual exchange rate quoted was that in 1762 of 165--165 pounds of current money being required to purchase a sterling bill of exchange of 100 pounds. The legal rate of money in Virginia was 129 (129 pounds of current money being intrinsically worth 100 pounds sterling) and even prior to the issuance of paper money the exchange sometimes rose as high as 133. Therefore, the somewhat high exchange rate of 165 was not nearly as bad as it appeared, being a "depreciation" of only 22 per cent. In Massachusetts, Rhode Island, and the Carolinas, depreciation on occasion had reached as high as 90 per cent. For example, in Massachusetts in 1740 the exchange was quoted at 550; in 1750 at 1100. Since the legal rate in Massachusetts at this time was 133 1/3, this represented a depreciation of 75 and 90 per cent, as compared to the maximum "depreciation" reached in Virginia of 22 per cent.

Furthermore, the high exchange rates in Virginia appear to have been caused primarily by supply and demand factors rather than from a lack of confidence in Virginia's currency. As indicated by James Ferguson, the rise in exchange in 1762 was caused primarily by matters of international trade. A scarcity of planters' balances in England, resulting from the depression of that time, caused a scarcity of bills of exchange, and those who were in great need of bills to make remittances in England had to bid high to obtain them.

The exchange rate in 1762 of 165 was the highest ever reached in Virginia prior to the Revolutionary War. By 1766 it was down to 125, and between 1769 and 1772 it averaged between 115 and 125, these rates being below the par of exchange of 129. Paper money was now preferred by the merchants to gold and silver.

Thus we see that during the pre-revolutionary period of Virginia's paper money history, only during the years 1757 to 1764 did exchange rates reflect any depreciation, that such depreciation was not severe, and that it was caused not primarily by a lack of confidence in the paper currency, but by a scarcity of bills of exchange, their price being forced up by those anxious to obtain them. (Because of its scarcity, remittance could seldom be made by the shipment of specie.)

Even assuming that the depreciation which occurred was caused to a certain extent by lack of faith in the paper currency, the currency provided a much needed medium of exchange, equipped the Virginia government with the means of incurring and discharging responsibilities and in meeting the needs of the French and Indian War. It must be concluded that Virginia's paper money experience was successful.

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