

HISTORY OF COLONIAL MONEY



When colonists first arrived in New England, they faced many hardships. In addition to the harsh winters and their lack of experience in the wilderness, colonists were often poor, having spent most of their money for the passage to the new world.

For a variety of reasons, money was almost always in short supply during the early colonial period. The lack of coins and currency forced the colonists to barter. The English leaders felt that colonial exports, such as animal skins, dried fish, and tobacco, should be paid for in English goods. Colonial exports would be accepted in return for an equal value of such goods as fabrics, window panes, pewter dishes, and mirrors. This barter arrangement - an exchange of goods or services without using money - seemed ideal to the British but was increasingly unpopular with the colonists, who preferred coin for their exports to gain more independence over their buying power.

A lesson of history is that trade increases economic well-being by encouraging specialization in production. The use of money as a medium of exchange makes trade easier. It can also be a unit in which values of a wide range of goods can be stated, and money can be a form of holding wealth, eliminating the necessity of buying a good or service at the same time a sale is made. For money to serve these functions, it must, no matter what its form, be widely acceptable in trade. During the colonial period in New England, various monies were utilized. Some of them are described in the following pages.

WAMPUM

Wampum, one of the first money forms, was introduced to New England in 1627 by Dutch settlers in New York who traded with Indians. Wampum was made of sea shells, primarily quahog shells. In 1637, wampum was made legal tender - accepted as payment for taxes - in Massachusetts and proved successful in trading with Indians. But wampum soon proved to have its problems, as the usage of poor shells, along with artificial color, made it lose its value. Wampum was very fragile, and by 1661 it was no longer considered legal tender.

COMMODITY MONEY OR "COUNTRY PAY"

Colonists often resorted to the use of commodity money, where a colony's principal commodity would circulate as a medium of exchange. The Massachusetts Bay Colony used corn and beaver skins as its medium of exchange. In the Southern colonies, it was tobacco and rice; and throughout most of the colonies, animal skins, corn, powder and gun shot, and livestock were often used. Since the market value of commodity money was determined by supply and demand, its value as money often decreased when there was an oversupply in the marketplace. In addition, commodity money lacked uniform quality, and was prone to spoilage, difficult to transport, and costly to store.

FOREIGN COINS

Colonists always preferred specie (gold and silver coin) to other forms of payment, but, when colonists first arrived, they brought very little precious metal with them from Europe. Nevertheless, maritime trade succeeded in bringing foreign coins to New England, because the colonies traded with England and the Spanish West Indies, where many coins circulated.

Foreign coins were also supplied by piracy, which was a fairly common practice in the 16th and 17th centuries. Pirates liked to spend their loot in Massachusetts and other New England colonies because they received attractive rates for their foreign coins. The most common coin circulating in the colonies was the Spanish piece-of-eight, also known as the Spanish dollar. It was divided into eight reals. The coin circulated in the United States as legal tender until 1857. The term "two bits," or reals, meaning a quarter dollar, is still used.

There were problems with the foreign coins circulating in the different colonies. The value of the coins varied from colony to colony, and attempts to place an equal value on the coins failed. Because of the different values, they were used most often in colonies where the purchasers could get the most for their money.

NEW ENGLAND COINAGE

By 1652, the problem resulting from a shortage of coins had become extreme. England had turned a deaf ear to the colonists' plea for specie, and the colonial leaders did not believe that the people should have to continue using the mixture of foreign coins,

wampum, bullets, and barter objects any longer. In an effort to provide more good coin to further trade and commerce, the Massachusetts Bay Colony established an illegal mint in Boston in 1652. The General Court of Massachusetts appointed John Hull as mint master, and the first coin issued by the mint was the New England in 1652. It had the letters NE on one side and the denomination in Roman numerals on the other. It was not a successful coin because the simple design invited counterfeiting and "washing" or "clipping" (the practices of shaving the tops and cutting pieces off the sides). Its production was terminated after four months, but the need for metallic coin continued to exist.

On October 19, 1652, the Massachusetts General Court decreed that "for the prevention of clipping of all such pieces of money as shall be coined with-in this jurisdiction, it is ordered by this Courte and the authorite thereof, that henceforth all pieces of money coined shall have a double ring on either side, with this inscription, Massachusetts, and a tree in the center on one side, and New England and the yeare of our Lord on the other side."

These coins were the famous "tree" pieces. There were Willow Tree Shillings, Oak Tree Shillings, and Pine Tree Shillings. The Pine Tree was the last to be coined, and today there are specimens in existence, which is probably why all of these early coins are referred to as Pine Tree shillings.

In 1684 the charter of Massachusetts was revoked by the king, and the mint was ordered to close.

BILLS OF CREDIT

In 1690, the Massachusetts Bay Colony was authorized to raise troops to help British soldiers fight in King William's War. The King allowed the colony to pay soldiers with Bills of Credit - a promise to pay in the future - printed on paper by the colony. The crudely printed notes were issued in denominations of five, ten, and twenty shillings. They read: "This indented Bill of Five Shillings due from the Massachusetts Colony to the Possessor shall be in value equal to money and shall be accordingly accepted by the Treasurer and Receiver Subordinates to him in all Public payments and for any stock at any time in the Treasury - New England, February the third, 1690. By order of the General Court."

The bills issued by the Massachusetts colony circulated freely, and eventually each New England province began to print its own notes. The bills were meant to represent shares of commodities such as corn, grain, cattle, and ultimately silver. Some of these early experiments with paper money were successful, but in many cases the bills were seldom redeemed as promised because of the shortage of gold and silver coin. As they became more and more popular, the bills were redeemed less often; however, the colony kept issuing them, causing their value to drop.

CONTINENTAL CURRENCY

By 1751, the British Parliament passed a law forbidding the Massachusetts Bay Colony to issue money in any form. But by this time, the colonists had begun to think about independence. When the Revolutionary War broke out in 1775, the Continental Congress issued paper money to finance the war. Although the Congress had no power of taxation, these notes were backed by anticipated future tax revenues. Our young, inexperienced country issued far too much continental currency, causing it to depreciate rapidly. By the end of the war, it had become worthless or, as the saying went, "not worth a continental."

This experience was so disastrous that it created a deep distrust of paper money issued by the government. Experiments with paper money and coin continued after the Revolution, with states and private banks printing their own currencies. Bank notes became unpopular when too many banks began issuing too many different paper currencies without sufficient ability to redeem them in coin. It was not until the 1860s, when National Bank Notes were created during the Civil War, that Americans finally achieved a reasonably stable money system.

In 1695, pirate captain John Avery captured a fortune in gold coin from an Arab merchant ship. New Englanders welcomed his spending of the loot in their port cities because it helped alleviate the chronic colonial money shortage.

GLOSSARY

Barter - To exchange goods or services without the exchange of money.

Commodity - An article of trade or commerce that can be transported especially an agricultural or mining product.

Depreciate - To lessen in price or value.

Medium of Exchange - Anything that is commonly used in a specific area or among a certain group of people as money.

Mint - A place where the coins of a country are manufactured under authority of the government.

Specie - Coined money; generally gold and silver coin.

Wampum - Small beads made from polished shells, used as currency and as jewelry.