

Creating Maryland's Paper Money Economy, 1720–1740: The Confluence of Political Constituencies, Economic Forces, Transatlantic Markets, and Law

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Abstract

The British North American colonies were the first western economies to rely on colony-specific legislature-issued paper money as a medium of exchange for domestic transactions. The creation of paper money regimes arose piecemeal among the colonies, making each story unique. Maryland's story is the most complex among the colonies, since the emission of paper money resulted from an attempt to control and manipulate the tobacco market. The paper discusses how market forces, legal maneuverings, and the power of various constituencies combined to shape Maryland's particular paper money system, assesses its successes and failures, and identifies the winners and losers among Maryland's political classes as a result of this paper money experiment.

Keywords

land banks – paper money – sinking funds – tobacco markets – tobacco taxes

Supplementary Material

TABLE 1 *Gaming the Tax System by Selecting in What Medium to Pay Taxes*

Cases	Shillings per 100 Pounds of Tobacco		Preferred Measurement for Tax Payments Based on a Given Quantity of Tobacco	
	Market Value	Par Value	Taxpayer	Tax Collector
A	12	10	Current Cash Equivalent of Tobacco at Par Value	Tobacco at its Market Value
B	8	10	Tobacco at its Market Value	Current Cash Equivalent of Tobacco at Par Value

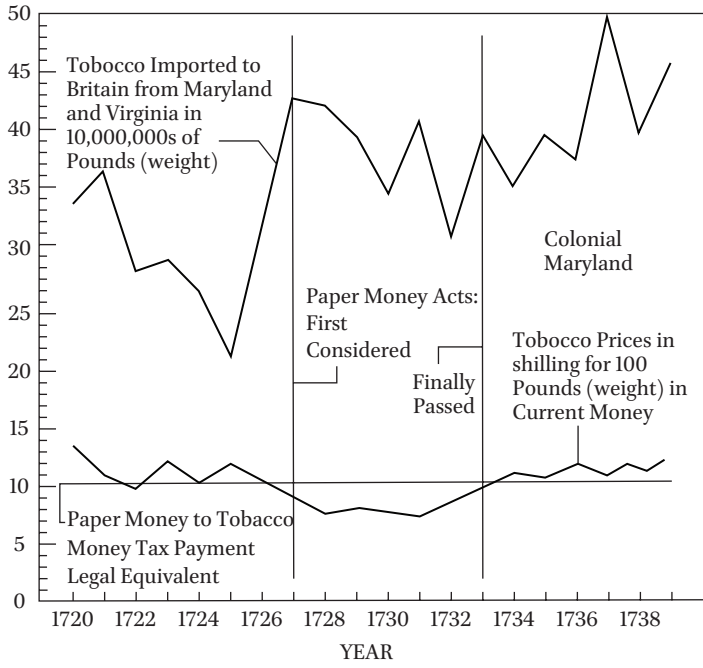


FIGURE 1 *Colonial Maryland, 1720–1739: Tobacco Prices and Exports*
 Sources: Carter, *et al*, *Historical Statistics* 5: 752; Carville V. Earle, *The Evolution of a Tidewater Settlement System: All Hallow's Parish, Maryland, 1650–1783* (Chicago: University of Chicago Press, 1975), 227–228.

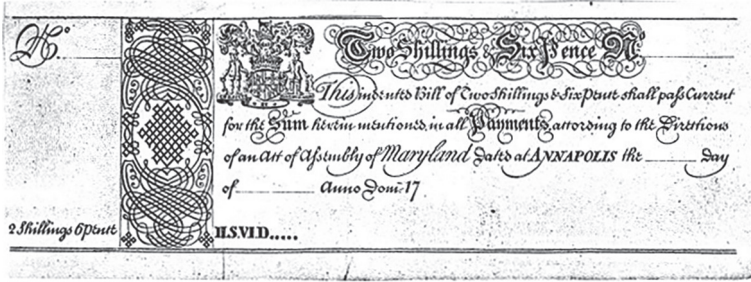


FIGURE 2 *A 1733 Maryland Bill of Credit (Paper Money)*
Source: Eric P. Newman, *The Early Paper Money Of America* (Iola, Wi: Krause Publications, 2008, 5th edn.), 168. Reproduced with permission of the Eric P. Newman Numismatic Education Society.
Notes: The plates were in England, and sheets of these printed bills were shipped to Maryland.

TABLE 2 *Estimates of Tobacco Exports from Maryland, 1734–1739*

Year	Face Value Of the Sinking Fund in Pounds Sterling [F] ×	Bank of England Share Price in Pounds Sterling [SP] =	Market Value of of Sinking Fund in Pounds Sterling [VF]	Implied Tobacco Exports per Year in lbs. [$\Delta VF_{i-2} \times 16 \times 856$]	Implied Tobacco Exports per Year in lbs. [$\Delta VF_{i-2} \times 16 \times 400$]	Percentage of all Chesapeake Tobacco Imported to England (the last estimate)
1734				40,841,472	19,084,800	54.2%
1735				39,074,688	18,259,200	45.9
1736	2,000 ×	1.4045 =	2,982	[17,613,056]	[8,230,400]	21.8
1737	4,000 ×	1.4588 =	5,835	[17,613,056]	[8,230,400]	16.5
1738			[7,121]	29,172,480	13,632,000	34.2
1739	6,000 ×	1.4012 =	8,407	38,540,544	18,009,600	39.3
1740	7,500 ×	1.4049 =	10,537			
1741	9,500 ×	1.4054 =	13,351			

Notes and Sources: Brackets indicate interpolated values. The source for [SP] is Philip Mirowski, “The Rise (and Retreat) of a Market: English Joint Stock Shares in the Eighteenth Century,” in *Journal of Economic History* 41, no 3 (1981): 569–570; for [F] is Price, “The Maryland Bank” and Smith, “Some Colonial Evidence,” 1204–1205. Tobacco exports were taxed at fifteen pence sterling per hogshead to be supplied to [VF]. Assuming production took two years before being realized as a value in the sinking fund gets [ΔVF_{i-2}]. $240d/15d = 16$ converts pounds sterling into pence and then determines how many hogsheads must have been taxed at fifteen pence to get [ΔVF]. Multiplying by 856 converts average hogshead weight into pounds of tobacco, see Carter, *et al*, *Historical Statistics* 5: 684–685. The law, however, rated hogsheads at four hundred pounds each for tax purposes, *Archives of Maryland* 39: 105. Total tobacco imports to England from the Chesapeake (Virginia and Maryland) are taken from Carter, *et al*, *Historical Statistics* 5: 752.

TABLE 3 *Maryland Paper Pounds (Bills of Credit) in Circulation 1735–1739*

Year	Total Maryland Paper Pounds in Circulation	Bills Distributed to the Taxables of the Province Still Outstanding	Bill on Loan Still Outstanding	Annual Charges of Government	Residual
1735	56,595	47,924	7,374	3,108	-1,811
1736	57,864	47,924	11,198	3,108	-4,366
1737	69,856	47,924	16,160	3,108	2,664
1738	...	47,924	...		
1739	79,820	47,924	19,728		12,168

Notes and Sources: *Archives of Maryland* 33–39; Behrens, “Paper Money,” 20–30; Brock, *Currency*, 100–105; Smith, “Some Colonial Evidence,” 1204–1205. The annual charges of government or “journal expenses” totaled 9,324 for the years 1735, 1736, and 1737. I apportioned this sum equally across these years. The residual captures the distribution of bills to the taxables of the province not completed in 1735–36, the annual charges of government not being equally apportioned across years, and special sums to build a house for the governor (3,000), repair public buildings in Annapolis (500), and paid to each county to erect a prison (500 each) not being known. The high residual in 1739 may largely account for these last special sums. For example, Maryland has 14 counties (in 1750) * 500 + 3,000 + 500 = 10,500.

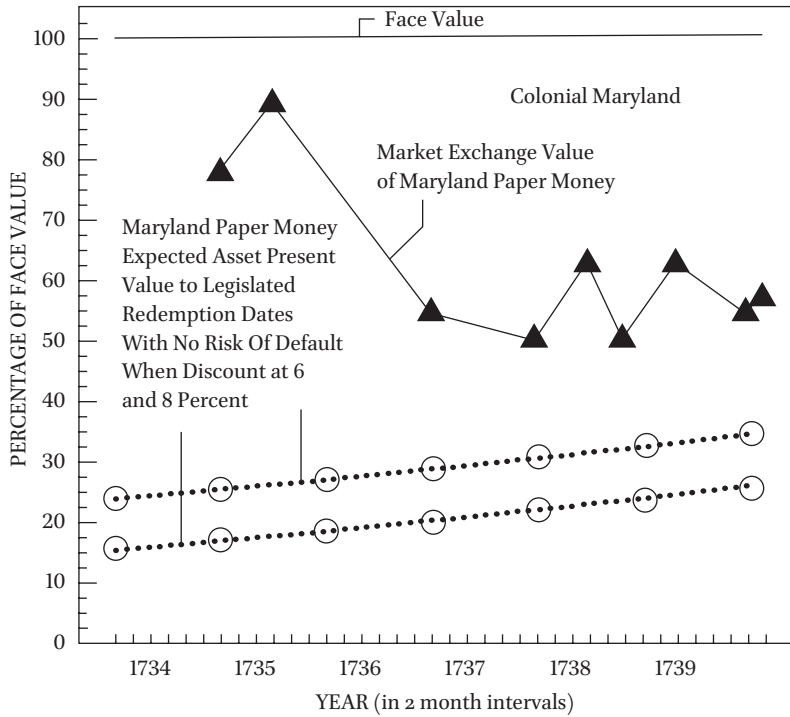


FIGURE 3 Value of Paper Money Relative to Face Value (*Par*), 1733–1740

Source: McCusker, *Money and Exchange*, 202.

Notes: Face value (*par*) is 1.3333 Maryland paper pounds equal to £1 sterling. The Market Exchange Value is the observed number of Maryland paper pounds needed to buy a sterling bill of exchange drawn on London. A seven percent transaction and time cost expense is added to that value to cover the cost of getting the bill of exchange liquidated in London and the sterling money returned to Maryland. The present value (time-discount current value) of Maryland paper money as a percentage of face value is calculated pre-1748 as $[1/3e^{-r(1748 - i)} + 2/3e^{-r(1764 - i)}]$ where i is the current year and r is the discount rate. Circles are the October to October year markers.