Benjamin Franklin and monetary policy in colonial Pennsylvania

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The running argument between those who advocate expansionary monetary policies and rising prices, on the one hand, and those who favor stable or falling prices, on the other hand, is very old. American debate on this subject traces its origins to the 17th century. Deflation, accompanied by complaints of a scarcity of money, was present in both England and her colonies in America. British government policies prohibited exporting gold and silver to the colonies. The precious metals earned by Americans in trade with the Spanish colonies were sent to Britain in payment for British goods. In 1722 the Governor of Pennsylvania wrote to his superiors, the absentee Penn family, in England:

> I am to acquaint your Lordships that the people of this place are just now in a very great Ferment on Account that for some time past their usual Trade has stagnated for want of a sufficient currency of cash amongst themselves whereby to Exchange the produce of their Labour according to their accustomed Maner of Bussiness;
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> The Farmer brings his provision to Market but there is no Money to give for it, The ship Builder & Carpenter starve for want of Employment, and we sensibly feel that our usual Export decreases Apace, The Interest on Money is high, and the usurer grinds the Face of The poor so that Law suits multiply, our Gaols are full, and we are justly apprehensive of falling into debt, which we have Happily avoided Hitherto.
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> Under these Circumstances, The clamor is universall for Paper Money. . . .
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> The Example of our Neighboring Province New York, demonstrates, That paper creates a more Current and reddy sale of their product which is the very same with ours. . . .
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> I observe that the Lawyers and a few Rich Usurors here are violent Bent on opposeing the peoples Inclinations to paper Money, But both Merchant and Farmer cry out Incessantly for such a Quantity at least as will serve to Transact the necessary Bussiness between them. . . .[1]

Public opinion was sufficiently strong that in 1723 the Pennsylvania Assembly provided for paper money issues totaling £45,000. The money was to be loaned at 5 percent interest secured by mortgages on land and houses and to be repaid in eight annual instalments. This paper money, which was made legal tender for all debts, was to be destroyed as the loans were repaid. Counterfeiters "were to be punished by having both ears cut off, whipped on the bare back with thirty-one lashes well laid on and fined or sold into servitude."[2]

A brief period of prosperity and rising prices followed the currency issue. "It is inconceivable to think what a prodigious good Effect immediately ensued on all the Affairs of that Province," wrote the Governor several years later. Adam Smith held a somewhat different view of Pennsylvania's paper

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[1]Richard A. Lester, *Monetary Experiments* (Princeton University Press, 1939) (reprinted by Augustus M. Kelley in 1970).

[2]Ibid., pp. 71-72.

money: "It bears the evident marks of . . . a scheme of fraudulent debtors to cheat their creditors" and had the effect "that the price of all goods from the mother country rose exactly in proportion as they raised the denomination of their coin, so that their gold and silver were exported as fast as ever."[3]

Whatever the motives and effects of the expanded currency, the colonists found themselves in another period of falling prices and depressed trade in the latter part of the decade. Benjamin Franklin later told how these conditions induced a renewed

> cry among the people for more paper money, only fifteen thousand pounds being extant in the province, and that soon to be sunk. The wealthy inhabitants oppos'd any addition, being against all paper currency, from apprehension that it would depreciate, as it had done in New England, to the prejudice of all creditors.[4]

The controversy surrounding paper money proposals, always great, was joined this time by Franklin, who supported those proposals in a pamphlet entitled *A Modest Inquiry into the Nature and Necessity of a Paper Currency*. He argued that "a plentiful currency will occasion interest to be low," which "will tend to enliven trade exceedingly."[5] Next to usurious creditors, the principal opponents of paper money, according to Franklin, were "Lawyers, and others concerned in court business," who "will probably many of them be against a plentiful currency; because people in that case will have less occasion to run in debt, and consequently less occasion to go to law and sue one another for their debts."[6]

Franklin's party prevailed and in 1729 the Assembly authorized an issue of £30,000. More paper money was issued in 1739, 1745, and 1759 with, according to Franklin, highly beneficial effects.

> Between the years 1740 and 1765, while abundance reigned in Pennsylvania and there was peace in all her borders, a more happy and prosperous population could not perhaps be found on this globe. In every home there was comfort. The people were highly moral and knowledge was extensively diffused.[7]

Such are the benefits of a monetary expansion. Afterwards, however, in that most candid of autobiographies, Franklin suggested that his motives might not have been altogether altruistic.

> My Friends [in the Assembly], who conceiv'd I had been of some service, thought fit to reward me by employing me in printing the money; a very profitable jobb and a great help to me.[8]

This monopoly, which Franklin retained until 1764, must certainly have been "a great help" to the struggling young printer. He was also heavily in debt, another reason to favor a monetary expansion. Forty years later, however, Franklin, grown prosperous and now a creditor, observed that, "I now think there are limits beyond which the quantity [of currency] may be hurtful."[9]

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[3]Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (Modern Library, 1937), pp. 310, 312.

[4]Benjamin Franklin, *Autobiography* (1771) (Modern Library, 1944), pp. 74-75.

[5]Benjamin Franklin, *A Modest Inquiry into the Nature and Necessity of a Paper Currency* (1729), in *The Works of Benjamin Franklin*, ed. Jared Sparks (Boston, Hilliard, Gray, and Co., 1836) (reprinted by Augustus M. Kelley in 1971), p. 256.

[6]Ibid., pp. 261-62.

[7]C.W. Macfarlane, "Pennsylvania paper Currency." *Annals of the American Academy of Political and Social Science* (July 1896), p. 70.

[8]Franklin, *Autobiography*, p. 75.

[9]Ibid.