

THE ART OF POLITICAL FINANCE

MONEY, TAXATION, AND PRECURSORS TO REVOLUTION

Lesson by

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Subject

Economic and Financial History of America and the United States

Academic Level

Secondary/Collegiate

Bloom Level

Knowledge

Comprehension

Unit

The Art of Political Finance—Chapter 1

Time Required

Three 60-minute classes

Lesson Number within Unit: 1**Lesson Description**

Money, Taxation and Precursors to Revolution explores points in American history related to money and banking in colonial and revolutionary periods and some of the acts imposed by Great Britain leading to and around the time of the Revolutionary War. It will also identify different forms of money and the advantage over bartering. This lesson and unit can be used within an American History unit or lesson, or independently.

Purpose

To augment traditional history lessons of the period.

Objectives

Students will be able to:

1. Define and identify different types of money used in Early America
2. State the reason money is more efficient for commerce than barter or specie
3. Begin to understand the evolution of currency and the American economy
4. Define currency and who has had the authority to issue it in the United States
5. Define where early tax revenue came from

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Concepts & Terms

Colonial Paper

Money the colonies printed due to a shortage of material for minting coins.

Continental Currency

The Continental Congress issued this paper money during the Revolution. Continental currency was not redeemable for gold or silver and continued to lose value with more printing.

Currency

Circulation as a medium of exchange. Money that is in use.

Duties

A duty is a kind of tax levied by a state. It is often associated with customs, in which context they are also known as tariffs or dues.

Excise Taxes

Taxes paid when purchases are made on a specific good, such as gasoline. Excise taxes are often included in the price of the product. There are also excise taxes on activities, such as on wagering or on highway usage by trucks.

Coincidence of Wants

Money makes trading easier by replacing barter with transactions involving currency, coins, or checks. A coincidence of wants occurs when each participant in a trade is willing to trade what he has in exchange for what the other participant is willing to trade. Barter requires a coincidence of wants.

Economics

A social science concerned chiefly with description and analysis of the production, distribution, and consumption of goods and services.

Economy

The management of household or private affairs, especially expenses and efficient use of resources.

The structure or conditions of economic life in a country, area, or period; also : an economic system

Eco- Etymology: Late Latin oeco- household, from Greek oik-, oiko-, from oikos house.

Money

Something generally accepted as a medium of exchange, a measure of value, or a means of payment.

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Specie

Money in the form of coin. In the colonial period and in the early years of the United States, specie often referred to gold or silver coins.

Commodity Money

Money based on a good, often a precious metal such as gold or silver, which has uses other than as a medium of exchange.

Representative Money

Money as a claim on the commodity rather than the actual good. Example: a check or fiat money.

Fiat Currency

Currency which derives its value from government regulation or law. The term derives from the Latin fiat ("let it be done", "it shall be").

Spanish Dollar

The Spanish dollar was the coin upon which the original United States dollar was based, and it remained legal tender in the United States until the Coinage Act of 1857.

Medium of Exchange

Something tangible used for executing a transaction, especially a commercial one.

Paper Money Value

The intent was a ratio of the quantity of paper money to the volume of trade.

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Materials/Equipment

Computer with internet connection, Preferably a Large Screen Monitor, Copy of *The Art of Political Finance Volume I*, Corresponding Presentation, Copy of Benjamin Franklin and the Birth of a Paper Money Economy

Procedures

Day 1

1. Optional Motivation
 - a. Go to slide 1 - Show Red Pill vs. Blue Pill Clip
2. Go to slide 2 - Introduce of objectives
3. Preassessment
 - a. Ask students to summarize Early American historical events and life in the colonies prior to the Revolutionary War
4. Ask questions to elicit divergent answers on the concepts below. Have someone in the class record the answers to form an aggregate. Compare these answers to answers to the same questions at the end of the lesson. Use a dictionary for prerequisite terms
 - a. Ask these questions
 - i. What is Economics?
 - ii. What is Money?
 - iii. Who Issues Money in the United States now? Leave this open unless students demand an answer
5. Teacher Introduction – Read to Class

Most people don't realize that the issuing of money today is essentially a private business, and that the privilege of issuing money has been of contention throughout history. Wars have been fought and depressions have been caused in the battle over who issues the money; however the majority of us are not aware of this. Why?

6. Recommended Reading Activity – Have students read Benjamin Franklin and the Birth of Paper Money. <https://www.philadelphiafed.org/-/media/publications/economic-education/ben-franklin-and-paper-money-economy.pdf>

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In the mid 1700's Britain was at its height of power but was also heavily in debt. Since the creation of the Bank of England, they had suffered four costly WARS and the total debt now stood at £140,000,000;ⁱ

Day 2

7. Go to slide 3 - Math & Web Awareness Exercise: Can anyone figure out how much that is today, in Pounds, Dollars?). Show students financial calculator/conversion rates if they cannot find them on the web.

<http://www.edmundconway.com/2013/07/value-of-the-pound-1750-to-2011/>

<https://www.google.com/#q=currency+converter>

<http://www.westegg.com/inflation/>

<http://projects.exeter.ac.uk/RDavies/arian/current/howmuch.html>

8. Have students create a bookmark page on their chrome books, or whatever device they are using, relative to this course/unit, and begin bookmarking significant pages (like the ones above) for further inspection, learning, and reference.
9. Go to slide 4 - Teacher continue to read below

In order to make their interest payments to the bank, the British government tried to raise revenues from their American colonies, largely through an extensive program of taxation. *Emphasize the statement - In order to make their interest payments to the bank, the British government - and ask why it sounds strange. The government was beholden and indebted to the bank!*

The controversy of paper money vs. specie arose prior to the revolution of course.

Benjamin Franklin argued that money was simply a convenient human invention, a symbol of labor. Pennsylvania should issue paper money to make it easier for its citizens to trade: **a nation measured wealth not in gold, but in its labor power.** The colonies used paper money to stimulate trade, but also to finance Indian wars and eventually the Revolutionary War itself.ⁱⁱ

Before the revolution though, colonies began to issue their own paper money to serve as a convenient medium of exchange. In 1690, the Province of Massachusetts Bay created "the first authorized paper money issued by any government in the Western World." This paper money was issued to pay for a military expedition during King William's War. Other colonies followed the example of Massachusetts Bay by issuing their own paper currency in subsequent military conflicts.ⁱⁱⁱ

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England found these money experiments distasteful, even immoral. Conventional wisdom insisted that only gold or silver could serve as money, because they had "intrinsic value." That is, they were in and of themselves valuable, by their very nature. Paper money seemed even to some colonists like a cheat, an attempt to make something out of nothing. It seemed like a way for debtors to escape paying the interest they had agreed to pay, as this 1740 attack on Boston paper money argues:

Our Paper Money Colonies have carried the Iniquity still further; the Popular or Democratic Part of the Constitution are generally in Debt, and by their too great Weight or Influence in Elections, have made a depreciating Currency, a Tender for Contracts done many Years before; that is, they impose upon the Creditor side in private Contracts, which the most despotic Powers never assumed.^{iv}

Translation: Most colonists are in debt, money by way of arbitrary governance has become too readily available and cheap. This puts the burden on creditors – not being able to reap the benefits of lending. Even the worst tyrants never imposed such a limit.

This is a very controversial statement and possibly one of religious preference as it was usurious to charge interest to debtors in some religions, especially Christianity.

Day 3

1. Read the following

For most of our nation's history, individual taxpayers rarely had any significant contact with Federal tax authorities as most of the Federal government's tax revenues were derived from excise taxes, tariffs, and customs duties. Before the Revolutionary War, the colonial government had only a limited need for revenue, while each of the colonies had greater responsibilities and thus greater revenue needs, which they met with different types of taxes. For example, the southern colonies primarily taxed imports and exports, the middle colonies at times imposed a property tax and a "head" or poll tax levied on each adult male, and the New England colonies raised revenue primarily through general real estate taxes, excises taxes, and taxes based on occupation.^v

There was a shortage of material for minting coins in the colonies, so around the 1750s they began to print their own paper money, which they called Colonial Paper. This provided a very successful means of exchange and it was debt free paper money not backed by gold or silver [specie].

In 1752 Franklin states that paper money furnishes "...the country with a medium of trade, and of a kind that could not, to any purpose, be exported..." and that without paper money "...the province will then be left without any currency, except that precarious one of silver, which cannot be depended on, being continually wanted to ship home, as returns, to pay for the manufactures of Great Britain."^{vi}

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America had learned that the people's confidence in the currency was all they needed, and they could be free of borrowing. That would mean being free of the Bank of England.

Subsequently, the British parliament passed the Currency Act of 1764. This act made it illegal for the colonies to print their own money and forced them to pay all future taxes to Britain in silver or gold.^{vii}

Other Acts that were passed by British Parliament to raise revenue for Great Britain:

- The Sugar Act of 1764
- The Stamp Act of 1765
- The Quartering Act of 1765
- Townshend Revenue Act (Townshend Duties) of 1767

In 1766 when the House of Commons asked [Ben] Franklin why the colonies did not have the same respect for Parliament, he responded, "To a concurrence of causes: the restraints lately laid on their trade, by which the bringing of foreign gold and silver into the colonies was prevented; the prohibition of making paper money among themselves, and then demanding a new and heavy tax by stamps, taking away, at the same time, trials by juries, and refusing to receive and hear their humble petitions."^{viii}

Duties on tea, glass, lead, paper and paint to help pay for the administration of the colonies, were named after Charles Townshend. In 1767 and 1768, John Dickinson published "Letters from a Philadelphian Farmer" in protest; another factor toward colonial assemblies in the condemnation of "taxation without representation."

Other significant events leading to the war:

- British Troops arrive in 1768
- Boston Massacre in 1770
- The Tea Act and subsequent Tea Party of 1773
- Intolerable Acts of 1774

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Closure

Like its political system, America's monetary system changed dramatically when the United States adopted a Constitution, in 1788. Before that, many different forms of paper money circulated widely in this country. These monies could not be redeemed for specie (gold or silver); they were generally known as bills of credit. During the colonial period, each colony could and did issue its own such bills.^{ix}

Optional, go to slide 5

In 1775 much of the gold and silver had been taken by British taxation. They were left with no other choice but to print money to finance the war. These paper monies were called Continentals.^x

Why did the colonies need money to fund the war effort? How do you think they raised money?

We needed arms. We borrowed from France and The Netherlands.

Recommended Reading

The Currency of the American Colonies, 1700-1764

The Economy of British America, 1607-1789

Benjamin Franklin And the Birth of a Paper Money

Websites

For a more granular view of events leading to the revolution see the links below:

<http://www.digitalhistory.uh.edu>

<http://www.digitalhistory.uh.edu/timelines/timelinetopics.cfm?tltopicid=2>

ⁱ Adetula, Emmanuel. 2011. *The Naked Truth*. Xlibris Corporation, 2011. 120. Print.

ⁱⁱ Douglass, William, and Thomas Hutchinson. *A Discourse concerning the Currencies of the British Plantations in America Especially with Regard to Their Paper Money: More Particularly, in Relation to the Province of the Massachusetts-Bay, in New England*. Boston: Printed and Sold by S Kneeland & T. Green, over against the Prison in Queenstreet., 1740.

ⁱⁱⁱ Newman, Eric P. *The Early Paper Money of America*. 3rd edition

^{iv} Douglass, William, and Thomas Hutchinson. *A Discourse concerning the Currencies of the British Plantations in America Especially with Regard to Their Paper Money: More Particularly, in Relation to the Province of the Massachusetts-Bay, in New England*. Boston: Printed and Sold by S Kneeland & T. Green, over against the Prison in Queenstreet., 1740.

^v History of the US Tax System, US Department of the Treasury - Undated. Added August, 2003.

http://www.policyalmanac.org/economic/archive/tax_history.shtml

^{vi} Benjamin Franklin And the Birth of a Paper Money Economy Farley Grubb 2007 page 7

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vii <http://00prcoelho.iweb.bsu.edu/econ309/Weber%20et%20al.%20Monetary%20Union.pdf> page 4

viii Bancroft, Hubert. *The Great Republic by the Master Historians*. Vol. II. N.p.: n.p., n.d. N. pag. Print.

ix In Order to Form a More Perfect Monetary Union* Federal Reserve Bank of Minneapolis Quarterly Review
Fall 1993, Volume 17, No. 4, Page 2

x <http://www.history.com/this-day-in-history/congress-issues-continental-currency>