

## Chapter 5

### Paper Money and Shays' Rebellion

"Are your people mad?" General Washington demanded of his correspondent in Massachusetts. His former artillery commander, Henry Knox, had confided that "(t)hey are determined to annihilate all debts public and private by the means of unfunded paper money." Thomas Jefferson, hearing the news while he was ambassador to France,, took a calmer view. "A little rebellion now and then is a good thing," the author of the Declaration of Independence philosophized, for "the tree of liberty must be refreshed from time to time with the blood of patriots and tyrants."

The "little rebellion" to which Thomas Jefferson referred is known in history as Shays Rebellion, and with the single exception of the Civil War, stands as the nation's most famous and most important domestic revolt. Although a rumbling of discontent rocked Massachusetts as early as 1782, the rebellion did not break out until 1786. The rebels, totaling over 1600 men at full strength, roamed the Western sections of Massachusetts, closing courts, intimidating judges, and finally attacking the Federal arsenal in Springfield.

Shays suffered his first defeat in Springfield. Here he and his band of compatriots met the determined opposition of Major General Benjamin Lincoln. Lincoln had raised an army with the help of private contributions from 130 thoroughly alarmed Bostonians, including the state's governor, James Bowdoin. Bowdoin had donated 250 British pounds from his own pocket because his bankrupt state lacked the money needed to restore order within its own borders. Retreating after their unsuccessful attack on the Springfield arsenal on January 26, 1787, Shays was pursued by General Lincoln. Driving his troops for 30 miles in one night through a fierce blizzard, Lincoln surprised Shays' band and captured 150 men. The rest fled in confusion while Shays himself took refuge in New Hampshire and later in New York, where he lived out his days on a \$7.00 a month army pension.

Shays' Rebellion was symbolic of the problems facing the nation after the Revolution. Not only were new men rising into positions of government leadership, but they were also challenging the existing social order. Factions such as debtors contended for control of government, hoping to legislate for a particular interest group. Anarchy threatened to replace order, and the National as well as the State governments seemed helpless in dealing with the problems underlying the revolt. There was widespread disagreement about whether the issues raised by Shays could best be resolved on the state or national level.

#### **Causes of Shays' Rebellion: Paper Money**

Money was the root cause of the rebellion led by Daniel Shays: money, taxes, debts, poverty, languishing trade and agrarian discontent. During the Revolution, every state taxed itself heavily to pay for the war. The Continental Congress requested taxes from each of the 13 colonies. The states often neglected to pay their obligations to the Confederate government. Unable to force the states to support the Continental Army, Congress resorted to the printing presses and issued paper money with nothing of value to back it up. Soldiers were paid in this paper currency. Suppliers for Washington's meager army received paper money and government bonds. It was an age-old way of financing wars, but one that led to disaster. By 1780, the Continental paper dollar was worth one-fortieth of a cent in gold or silver. Merchants simply refused to accept this worthless paper. They wanted gold or silver. Then, in 1780,

Congress called the money back and issued gold and silver at the rate of \$1.00 for \$40.00 in paper. Printing press money had proved an inadequate means of financing the Revolution.

As the war wound to a close, the states faced a tremendous burden of debt. The exact figures will never be known for the states kept inaccurate records, but Massachusetts owed \$41,500,000, and Pennsylvania and Virginia each owed sums approximately three times as great. The result was that the taxpayers faced a tremendous burden. To pay these debts, taxes in Massachusetts took one-third of people's income. The increase in taxes between 1774 to 1786 was over 1,000 percent.

Seven states decided to avoid implementing a crushing tax on their people by issuing paper currency. In some states like New York, Virginia and South Carolina, the plan succeeded. Backed by merchants - who 'hinted' strongly to creditors that their paper money be accepted by enclosing a hangman's noose with the money owed, - South Carolina had their paper issue accepted. Supported by wealthy creditors in Pennsylvania, paper money also proved successful. It enabled these states to pay off parts of their revolutionary war debts without imposing a burdensome tax on their people. In Rhode Island we had a different story. The state legislature issued paper money and passed a law requiring its acceptance by creditors and merchants. When men began to flee the state to avoid receiving payment in money they considered worthless, a law was passed permitting debtors to deposit the money with local judges.

Men who failed to see the advantages of a paper currency controlled the Massachusetts State Legislature. Scared by the example in neighboring Rhode Island,, they resisted demands for paper money. They argued that debts should be repaid in currency of the same value as the money borrowed. Paper money advocates were viewed as shiftless individuals who would cheat the men to whom they owed money. Meanwhile, Massachusetts embarked on an ambitious program of paying state debts to speculators who had bought up all bonds at a fraction of their former value and now demanded payment in full.

## **Causes of Shays' Rebellion: Depression in Massachusetts**

It is likely that Massachusetts could have settled its money problems without resorting to violence, but the war's end brought hard times. A buying spree of largely luxury items depleted the state of the little gold and silver currency in circulation. Meanwhile, England dumped her products in Massachusetts in order to regain her old market. But the English refused to open their ports to American products. She even barred American ships from the once profitable and vital West Indies trade. Deprived of its traditional markets, Massachusetts's commerce languished. Her farmers had no buyers for their harvest; her profitable distilleries were closed; her bustling shipbuilding industry lay idle. Congress was unable to help, for it lacked the power to negotiate a commercial treaty. John Adams, the ambassador to England, was chided over the weaknesses of the Articles of Confederation, which could not compel a state to enforce treaties. He was told England would have to negotiate thirteen separate treaties rather than one. Faced by a shortage of money, the farmers in his native state were unable to pay their taxes.

## **The Causes of Shays' Rebellion: Taxes in Massachusetts**

Taxes in Massachusetts fell hardest on small farmers and on the poorest citizens. A full 40 percent of the tax burden was the poll or head tax which fell alike on all citizens, regardless of income, and the poll was four times higher than in neighboring New Hampshire. The average tax collected, three British pounds per adult male each year, caused the typical farmer to pay about one-third of his income to the state. Most of this money was used to pay debts owed to wealthy merchants and lawyers living in the seaboard towns.

Many Massachusetts farmers were unable to pay their taxes or their private debts. Their difficulties in meeting these obligations led to other problems. Courts foreclosed on farmers whose lands and personal possessions were sold at public auctions often for one-third of their actual worth. Or worse yet, hapless debtors were thrown into cold and dark dungeons called debtors' prisons, where they were left to rot until friends or family could afford to bail them out. Furthermore, lawyers exacted high fees, which the imprisoned were unable to pay, and high court costs added to their woes.

## Protest and Rebellion

In keeping with the Revolutionary spirit of the times, hardships led to protest. As early as 1782, farmers petitioned their government for 'redress of grievances,' but no relief was forthcoming. In 1786, four counties held semi-legal conventions and demanded reductions in court and lawyer fees, reductions in salaries for government officials, reductions in taxes, and above all, the issuance of paper money. The state legislature, which had suspended taxes the previous year, however, was in no mood to postpone collection even longer.

It was not long before the farmers took the law into their own hands. In August, 1500 men took control of the Hampshire County Courthouse and forced it to adjourn to prevent further foreclosures. In Worcester, Judge Artemas was swept out of court after admonishing the rebels for their actions. In Bristol, Chief Justice David Cobb, with the aid of 30 volunteers and a brass cannon, managed to keep court in session.

The legislature made minor concessions and even though it offered to pardon all of the rebels, it refused to issue paper money. Meanwhile, General Knox negotiated unsuccessfully with the Continental Congress to send 1,340 volunteers to protect the state against a revolution, directed this time at the Massachusetts government. Massachusetts was unable to respond when its governor's council authorized a force of 4,400 men to meet the threat to his authority. The \$20,000 needed to fight the rebels was finally raised by contributions from private citizens. General Lincoln was appointed to head the army and was commandeered to suppress the rebellion.

## Student Exercises:

1. Explain the multiple causes of Shays' Rebellion.
2. Take the role of either a Massachusetts farmer about to be thrown in jail for not paying his debts or a merchant who did not want to be paid in paper money, and prepare to discuss each of the following issues:
  - a. Whether or not the rebellion was justified
  - b. Whether paper money would be issued and taxes for farmers lowered, or whether the rebellion would be put down.
  - c. Whether the events in Massachusetts indicated that a stronger national government was needed or Prepare to mediate a solution to the problems posed in the discussion.