Federal Reserve Bank
of Kansas City

Currency in U.S. History

Contents

Introduction

The story of the eight types of currency described in this pamphlet is interwoven with history. Changes to currency often came about in times of crisis, times like the Civil War and the Great Depression.

However, some changes to currency occurred in less momentous times. As our nation grew, there was a demand for more and more currency. By the 1920s, the Treasury Department was buying tons of specialized, high grade paper for our currency. It was realized that millions of dollars could be saved by just reducing the size of our currency. This was decided upon and, in 1929, the first of our current, reduced-size notes were put into circulation.

One thing that has not changed, however, is the color of our currency. The Bureau of Printing and Engraving has no definite answer to the question, "Why did the government select green for our currency?" However, when the small-sized notes were introduced in 1929, the use of green was continued because pigment of that color was readily available in large quantity, the color was relatively high in its resistance to chemical and physical changes, and green was psychologically identified with the strong and stable credit of the Government.

This pamphlet was prepared by the Federal Reserve Bank of Kansas City. Like all Reserve Banks, this one is responsible for carrying out the major functions of the Federal Reserve: monetary policy, banking regulation, serving as a bank for the government, and providing services such as check clearing for depository financial institutions. As part of its role as a bank for the government, the Kansas City Fed and its branches at Denver, Oklahoma City, and Omaha put currency as well as coin in circulation. Therefore, we at the Fed have a special interest in this subject.

We hope you will enjoy taking a trip back through history as you read about currency that has been issued within the borders of our country from the Revolutionary War to the present.

State Bank notes varied from good to worthless

State Bank notes flourished during the Free Banking Era (1837-1863). During these years, there was no federal regulation of banking, an experiment that met with mixed success. In some areas State Bank notes were relatively safe and exchanged close to par or face value. However, in other areas there were too many kinds of paper money in circulation, and depreciated and fraudulent currency was common. Special publications known as bank note reporters and counterfeit detectors sprang up to help people learn the value of various notes and determine which were good. However, even some of these publications had a poor reputation and many contemporary writers and latter-day historians were critical of them.

One historian describes a merchant trying to determine if a bill was good after checking in one of the publications described above. "He scrutinized the worn and dirty scrap for two or three minutes, regarding it

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"He scrutinized the worn and dirty scrap for two or three minutes, regarding it as more probably 'good' if it was worn and dirty . . . "

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as more probably 'good' if it was worn and dirty than if it was clean, because those features were proof of long and successful circulation. He turned it up to the light and looked through it, because it was the custom of the banks to file the notes on slender pins which made holes through them. If there were many such holes the note had been often in bank and its genuiness was ratified."

State Bank notes, however, did not originate with the Free Banking Era. They had been in circulation since shortly after the end of the Revolutionary War, and were first issued following the opening of the first bank in this country in 1782. But, until 1836, much of the paper currency in circulation consisted of issues of the two U. S. banks established by Congress, the First Bank of the United States (1791-1811) and the Second Bank of the United States (1816-1836).

It was after the closing of the Second Bank in 1836 that the United States entered the Free Banking Era and State Bank notes became the

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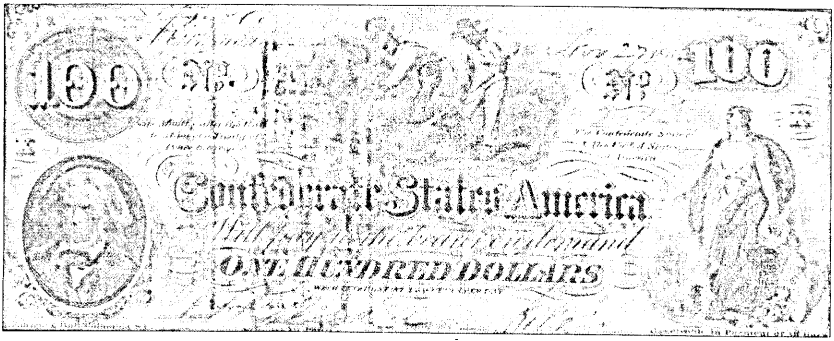
chief form of paper currency. This era came at a time when widespread bank failures caused the public to turn against banking and bankers. Objecting to the monopolistic organization of banks under special charters, the people demanded that banking be operated as free enterprise, subject to special government regulation. By 1860, the banking business was conducted by more than 1,500 state banks.

The Free Banking Era was also the era of wildcat banking and wildcat bank notes. Wildcat banks were opened in mountainous and other inaccessible regions making it difficult or impossible for people to redeem their notes. Some say these banks got their name from the fact that it would have taken a wildcat to locate them.

The National Bank Act of 1863 provided for a uniform national currency and resulted in the elimination of State Bank paper through taxation. A 2 percent tax was levied on State Bank notes in 1862, a tax that was increased to 10 percent in 1866. At this latter rate, there was no more profit in the issue of State Bank notes.



Confederate currency finally totaled $1 billion

Confederate money was printed in every denomination found in the North. This included fractional currency which was needed since there were no Confederate coins in circulation. By the end of the Civil War, over $1 billion worth of paper money printed by the Confederate nation was circulating or stored in warehouses. Since it was easy to counterfeit, considerable amounts were printed in the North and circulated in the South to debase the currency.

Perhaps the most famous of all the counterfeiters was Samuel C. Upham of Philadelphia. Strangely enough, Upham never represented himself as a counterfeiter of Confederate currency; rather, he advertised

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his lithographed notes as "fac-similes" and "mementos of the rebellion." On the margin of each and every note was printed "Fac-Simile Confederate notes sold, wholesale or retail, by S. C. Upham, 403 Chestnut Street, Phila."

He wrote: "I sold the notes as curiosities—mementos of the rebellion—and advertised them as such in several of the most widely circulated papers in the Union." He went on to say, "During the publication of those fac-simile notes I was the 'best abused man' [by the rebels] in the Union. Senator Foote, in a speech before the rebel Congress, at Richmond, in 1862, said I had done more to injure the Confederate cause than General McClellan and his army ..."

At the same time, in the South one found reckless printing of paper money not backed by gold or silver in a time when consumer goods were scarce. The result was the greatest inflation ever seen in America with

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the possible exception of the Revolutionary period. While inflation was a problem in both the North and the South, it was far worse in the Confederacy. For example, in January 1862 the average value of one gold dollar in Richmond as compared with Confederate Treasury notes was $1.25, by March 1865 it was $60 to $70. In comparison, the average value of one gold dollar in New York compared with U.S. currency was $1.03 in January 1862, and $1.79 in March 1865.

Near the end of the war, Confederate citizens' confidence in their national currency eroded completely. The Southern public began to rely on barter or on U.S. currency obtained through a black market. In fact, the superior value of Northern greenbacks even caused them to be used to some extent in paying Confederate soldiers.

Hoarding of coin led to fractional currency

At the beginning of the Civil War, the North was faced with a colossal increase in government spending, a government that was hesitant to levy new taxes, and bad news from the front. By the end of 1861 both banks and the government stopped issuing coins. The public's confidence in the government was shaken, and they increasingly hoarded half dollars, quarters, and dimes. So extreme was the hoarding that one house in New York City is said to have collapsed from the weight of the coin stored there.

For a time merchants and others issued tickets, due bills, and other forms of private obligations so they could make change. Then, in what

Finally, in October 1863, Congress authorized fractional currency which was eventually issued in 3, 5, 10, 15, 25, and 50 cent denominations.

one student of these times regards as panic, Congress authorized the use of postage stamps for change. Physically, this observer commented, these glue-coated bits of paper were the worst form of currency ever used by a civilized people. Congress later approved a modified stamp called postal currency, happily without glue on the back. Finally, in October 1863, Congress authorized fractional currency which was eventually issued in 3, 5, 10, 15, 25, and 50 cent denominations.

The second of the four issues of fractional currency proved to be the most controversial. For one, it was the issue in which the 3 cent denomination was introduced, and doubt was expressed as to the need for

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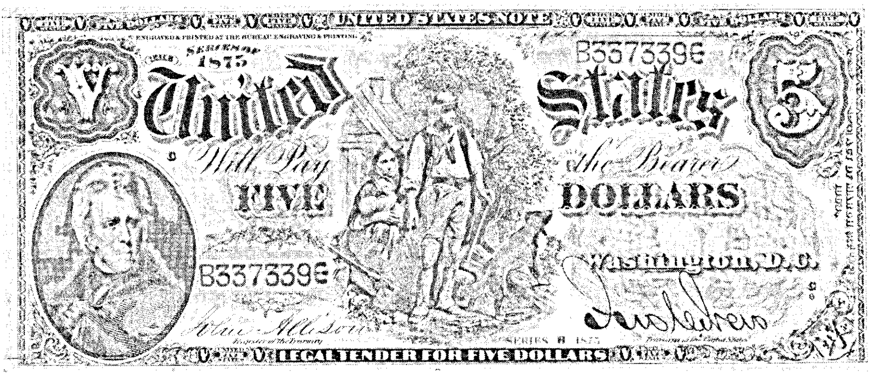
it. There was also an outcry because the portrait of a division chief of the Bureau of Engraving and Printing appeared on the 5 cent note. The controversy reached the floor of Congress and resulted in the passage of a law that remains in effect today prohibiting the use of a portrait of any living person on a security of the United States. The division chief bore the brunt of the criticism despite the fact that the likeness of Francis E. Spinner, the then very much alive Treasurer of the United States, appeared on the 50 cent note.

In time, people learned to use the small pieces of paper, and silver coins were all but forgotten. This occurred even though the small notes wore out rapidly, became ragged and filthy, and were frequently returned for redemption. Fractional currency continued to be issued until February 1876. The total placed in circulation was more than $368 million.



United States notes were known as greenbacks

United States notes, which came to be called greenbacks, were the first real paper money issued by the U.S. government. They became known as greenbacks as they were the first bills to be engraved with green backs.

Greenbacks were put in circulation in April 1862 at a time when the North was struggling with the problem of financing the Civil War which had begun a year earlier. These notes were made legal tender for all private and public debts except payment of customs duties and interest on U.S. bonds and notes. Thus they also became known as legal tenders.

U.S. notes were originally backed by faith in the government rather than gold or silver. However, the Treasury was directed to begin redeeming U.S. notes in coin in 1879, which everyone understood as

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meaning they would be redeemed in gold. This continued until 1933 when the nation abandoned the gold standard. And so, once again, these notes were backed by the full faith and credit of the U.S. government.

The highest amount of U.S. notes ever outstanding was nearly $450 million in 1864. After the Civil War, many of these notes were retired until, in 1878, a law was passed freezing the amount outstanding at more than $322 million. This law still stands today although U.S. notes have not been issued since 1969.

Today, U.S. notes are a liability of the U.S. Treasury, while Federal Reserve notes are a liability of the Federal Reserve System. Since the

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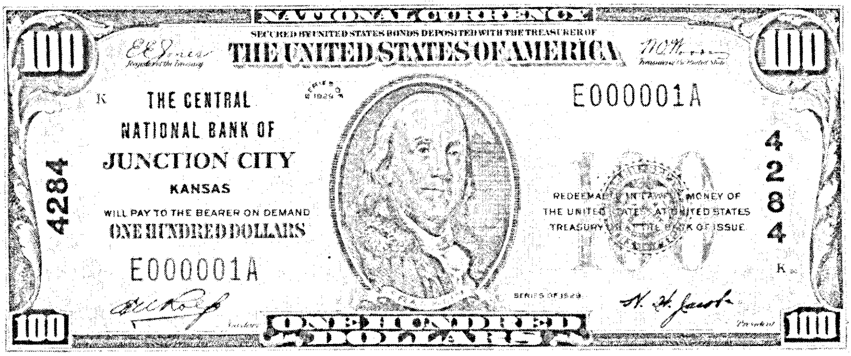
Federal Reserve System has the responsibility for maintaining growth and elasticity in the U.S. money supply, it uses Federal Reserve notes for the active currency part of the money supply. With this is mind, the Department of the Treasury has asked Congress to enact legislation that would allow them to cease issuing U.S. notes on the basis that they are an anachronism.



National Bank notes helped North finance war

In 1863, President Abraham Lincoln, at the insistence of the Secretary of the Treasury, urged Congress to pass the National Bank Act of 1863 as part of the finance program for the Civil War. This act created both national banks and National Bank notes. The new national banks could issue National Bank notes backed by government bonds they purchased, bonds that provided the government with funds needed to finance the war.

Although the National Bank Act had won the approval of Congress primarily because it created a new market for government bonds, its

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long-run benefits were quite different. It provided a uniform currency and made it possible to eliminate the motley array of State Bank notes which had so long plagued the economy. As noted earlier in the section on State Bank notes, in the years before the National Bank Act was passed there had been too many kinds of paper money in certain parts of the country, and depreciated and fraudulent currency had been common. Needless to say, this led to many problems.

The national banking system was immeasurably superior to the old state banking system, but even so it was not completely satisfactory. For example, the volume of National Bank notes was inelastic. In times of prosperity, when the business community wanted more money, National Bank circulation tended to decline because banks had more attractive outlets for their funds than the government bonds needed to back their notes. In recession, the situation was reversed and currency expanded even though there was less demand for it.

Even before the Federal Reserve Act was enacted in December 1913, Congress had failed to increase the amount of government bonds national

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banks could use to back National Bank notes. When the Federal Reserve Act became law it provided that new national banks no longer had to purchase U.S. bonds and deposit them with the Treasurer of the United States in order to commence business. Thus there were not only fewer bonds available, but it was left up to banks to decide whether they wanted to purchase them and issue National Bank notes.

National banks that wanted to retire all or part of their National Bank notes could now sell the bonds that backed them. Federal Reserve banks, in turn, could purchase these bonds and issue Federal Reserve Bank notes against them. In addition, the Federal Reserve Act created a second new type of currency: Federal Reserve notes. All of these events led to a decline in the importance of National Bank notes.

As an emergency measure in the early years of the Great Depression, Congress passed legislation in 1932 making it possible for national banks to use certain U.S. bonds as collateral for National Bank notes. This made possible an increase of $900 million in the volume of currency. However, since there was no demand for more currency, the national banks did not take advantage of the privilege to the full extent and issued only $200 million of the new notes. In 1935, the Treasury redeemed the bonds eligible as security against National Bank notes and this type of currency was gradually retired.

Silver certificates first currency to bear motto

In 1957, $1 silver certificates had the distinction of becoming the first currency to bear the motto "In God We Trust." The motto, coined during the Civil War, now appears on all U.S. currency and coins.

Silver certificates date back to 1878 when they were first issued in denominations of $10 to $1,000. At the same time, the Treasury was authorized to buy $2 million to $4 million worth of silver each month

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and coin it into dollars. However, there was little demand for the silver dollars as the public was not used to such heavy coins. Therefore, in 1886, Congress authorized $1, $2, and $5 silver certificates in the hope that these smaller denominations would make silver money more acceptable.

For many years silver certificates were issued in denominations of $1 to $1,000, and were the major type of currency in circulation. However, a problem arose in the early 1960s when the price of silver began to rise rapidly. As the price rose above $1.29 an ounce, it became evident that a further substantial jump would make it profitable for holders of silver coins to sell them in the open markets. This would have resulted in the disappearance of coins as had happened during the Civil War.

To avert this crisis, Congress eliminated silver certificates in 1963 and empowered the Federal Reserve to issue $1 and $2 Federal Reserve notes for the first time. This was done at a time when the only $1 bills being

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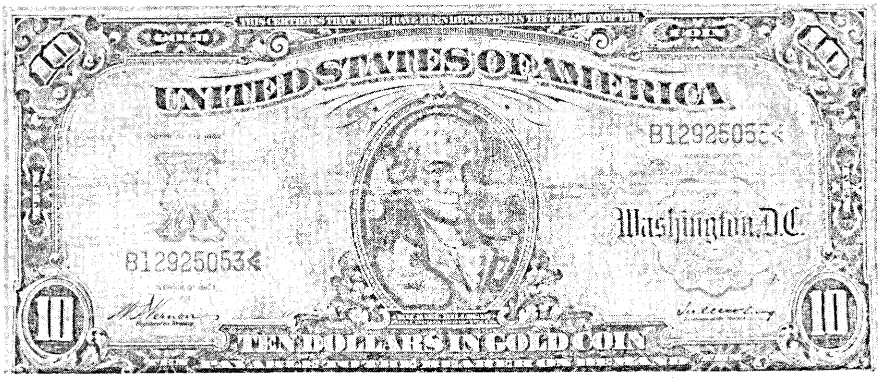
put in circulation were silver certificates. In 1965, Congress discontinued the silver dollar, reduced the silver in half dollars, and eliminated silver from quarters and dimes. In addition there was a ban on exporting or melting U.S. coins for their silver content. However, the Treasury's supply of silver was reduced by a large-scale redemption of silver certificates along with the need for silver for half dollars. Therefore, in 1967 after the "horse had been stolen," the Treasury locked the barn by gaining authorization to suspend the redemption of silver certificates in silver as of June 24, 1968.



Gold certificates put in circulation in 1882

"Get Gold, humanely if possible, but at all hazards get gold."
Ferdinand V.

"You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold!"
William Jennings Bryan.

Gold has a glamour and mystique all its own. So it seems only natural that gold certificates are colorful, vivid, and among the most attractive of all U.S. currency. The backs of the bills are a brilliant golden orange, symbolic of the coin they represent.

Gold certificates in denominations of not less than $20 were first issued from 1863 to 1879 in exchange for deposits of gold coin and bullion.

The backs of the bills are a brilliant golden orange, symbolic of the coin they represent.

However, gold certificates were not put in general circulation until 1882, and were issued for the next 51 years.

In 1933, the nation faced not only a severe depression but also a banking crisis. The public—which had been demanding currency from their banks—began to demand gold. Runs developed on both Federal Reserve Banks and commercial banks. In order to deal with the crisis, only Federal Reserve Banks were permitted to hold gold. A few exceptions were made such as allowing collectors to keep rare and unusual gold coins and permitting the use of gold in industry or the arts.

The following year, the Federal Reserve Banks were required to turn over all gold coin, gold bullion, and gold certificates to the U.S.

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Treasury. In return they received a new type of gold certificate, series 1934, in denominations of $100, $1,000, $10,000, and $100,000. These were never put in circulation and the last ones were printed in January 1935.

In 1964, private citizens could once again hold gold certificates issued before Jan. 30, 1934, thus allowing collectors to hold this type of currency. While gold certificates could be exchanged at face value for other U.S. currency, they could no longer be redeemed in gold. Ten years later, in 1974, private U.S citizens could once again hold gold legally.

Federal Reserve notes now major U.S. currency

When the Federal Reserve System was created by the passage of the Federal Reserve Act in 1913, a new type of currency came into existence: Federal Reserve notes. Today, almost all of the currency in circulation consists of Federal Reserve notes—denomination $1 through $100—issued by the 12 Federal Reserve Banks.

The Federal Reserve Act also created Federal Reserve Bank notes which, it was expected, would eventually replace National Bank notes. Federal Reserve *Bank* notes differ from Federal Reserve notes in that

The Federal Reserve Act also created Federal Reserve Bank notes . . .

Federal Reserve notes are an obligation of the Federal Reserve while Federal Reserve Bank notes were obligations of the individual Federal Reserve Banks which issued them. The Bank notes were issued from 1916 to 1920, and during the banking emergency of 1933, after which they were retired. However, during World War II, a stock of unused Federal Reserve Bank notes was issued for the last time in order to save paper and labor that would have been used to produce other needed currency. Following the war, the notes were gradually retired.

The first issue of Federal Reserve notes (series of 1914) was in the denominations of $5, $10, $20, $50, and $100 notes. The second issue (series of 1918) included $500, $1,000, $5,000, and $10,000 denominations.

During World War II, at a time when there was a threat that Hawaii might be invaded, the Treasury Department decided to withdraw all U.S. currency of regular design from circulation in the Territory and replace it with a special issue of notes that would only be used there. The special Hawaiian issue was made up of $1 silver certificates, and $5, $10, and $20 San Francisco Federal Reserve notes. The bills were identical in

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. . . all denominations were overprinted with the word "Hawaii" . . .

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basic design to the two classes of currency. However, the Treasury seal and serial numbers were overprinted in brown rather than the blue normally used on silver certificates or the green used for Federal Reserve notes. In addition, all denominations were overprinted with the word "Hawaii" in bold type on both the face and the back of these bills. Had the Japanese conquered Hawaii, the distinctively marked currency would have made it possible to take appropriate measures to prevent the enemy from using the money to any advantage.

In addition, American military personnel took these "Hawaiian dollars" with them as they invaded Japanese strongholds in the Central Pacific zone. This step was taken to facilitate identification of the currency being used in the combat zones and to make it easier to isolate this particular currency if military reverses caused a substantial amount to fall into enemy hands.

In 1963, Congress authorized $1 and $2 Federal Reserve notes to replace the silver certificates which were being eliminated. The $2 denomination was included so that Federal Reserve notes would be authorized in all denominations from $1 to $10,000. The denominations of $500, $1,000, $5,000, and $10,000 were discontinued by the Board of Governors of the Federal Reserve System in 1945. This was done due to the lack of demand for them and also to discourage their use in business to avoid income tax. Federal Reserve Banks, however, continued to issue remaining supplies of these large denomination notes until 1969.

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