

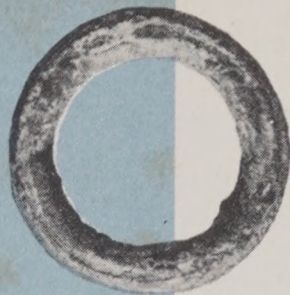


COINS AND CURRENCY

A brief summary of

COINS AND CURRENCY

prepared by **Federal Reserve Bank of New York**



The story of money dates back almost as far as man himself. It began when man learned that he need not produce for himself everything that he needed or desired, that he could trade things he had for things he wanted. Difficulties were met, however, because there was no common standard of value. A fisherman, for example, couldn't get much wheat from a farmer who didn't like fish.

Before long man learned to set up a prized ornament or a long-lasting item of food as a standard to which all other things were compared. These standards — beads, shells, stones, furs, fish hooks, grain and cattle, to name a few — all have been given a turn as money from time to time. Money, then, should be a generally acceptable medium of exchange.

When mankind learned that money was usually more generally acceptable if it was durable and easy to carry, metal money began to gain favor. Our earliest record of this type of money dates back to

2,500 B.C., when the Egyptians produced rings that were used for exchange. Cubes of gold became money in China about 400 years later. The first metal coins were made in Asia Minor, about 700 B.C., by the Lydians. These coins, struck from an alloy of gold and silver called electrum, were bean-shaped and were stamped with rough impressions.

The Greeks and Romans contributed much to the art of coinage. Some of the most beautiful coins ever produced were made by the Greeks during their Golden Age — 400 to 300 B.C. As time went on, coins became the favored medium of exchange the world over.

The origins of paper money probably go back to the clay tablets of Babylon about 2,500 B.C. On these tablets were written due bills, receipts and the like. Marco Polo, returning from his 13th century voyage to China, reported that paper money was in use there. He also reported that Emperor Kubla Khan, in 1273 A.D., issued notes printed on mulberry

bark paper, bearing the red seal of Kubla and the signatures of his treasurers. The earliest specimen of paper money known to exist today is the *Kwan*, a Chinese note issued during the Ming Dynasty (1368-1399 A.D.). The *Kwan* is about the size of a sheet of typewriter paper.

In the Middle Ages when travel became more common, metal coins were looked upon by many as a burden, for they were too heavy to carry from place to place. Then, too, travelers were always easy prey to robbers. Those who traveled began to leave their coins with a goldsmith. In turn the traveler received a receipt which was of no value to a robber. This custom grew in popularity and gradually the receipts were transferred from one person to another in payment of debts, instead of withdrawing the actual coin. In effect, this was paper money at work.

When the early colonial settlers departed for North America, they left behind them a well-devel-

oped coinage system. The few foreign coins that the colonists brought with them were used to pay for European trade. In their new homeland they soon found themselves engaged in primitive barter or using Indian wampum as money. A group of settlers soon learned to counterfeit wampum, however, and it lost its value. For home trade, then, the product most widely used in an area became money. For example, in Virginia it was tobacco and in Massachusetts it was grain, fish, and furs. Throughout all of the Colonies gun powder and bullets were frequently used for small payments.

After trade with the West Indies was developed, Spanish eight-reales pieces were widely circulated. These coins, known as *pieces of eight*, became standard money and remained in circulation with official sanction until 1857. To meet the need for small change, colonists frequently cut these “Spanish dollars” into fractional parts. A half section of the dollar therefore became “four bits” — a quarter section was “two bits.”



Wampum



Spanish piece of eight



Pine Tree Shilling



Excelsior cent

The men of the Massachusetts colony were the first to attempt their own coinage in British America. In 1652 a mint was opened in Boston where the pine tree shilling, so named because it bore the impression of a pine tree, was minted. Sixpence and threepence pieces were also products of this mint, which was closed by the English Government in 1686.

During the time following the Declaration of Independence and up to the adoption of the Constitution, a number of State legislatures authorized the issuance of coins. The first attempt of any significance on a national basis, however, came in 1787, when James Jarvis was engaged by the national Congress to make copper one-cent coins. On one side of this coin the design consisted of a circular chain of 13 links enclosing the motto *We Are One*. On the other side was a dial with the hours of the day marked on it. Above the dial was the noonday sun, and beside it the word *fugio*, the whole

signifying "time flies." Below the dial was the phrase *Mind Your Business* — an admonition to diligence, not the caustic expression of today. Because these expressions were suggestive of the spirit of Poor Richard, it became known as the Franklin cent, although Benjamin Franklin is not known to have had anything to do with the coin. New York State in 1787 issued a coin that was known as the Excelsior cent and bore a design resembling the Great Seal of the State.

After the adoption of the Constitution, Congress established a United States mint in Philadelphia in 1792, and the nation's first cents and half-cents were struck in 1793. They were copper and about the size of present-day quarters and nickels. A silver half-dime, half-dollar, and dollar were added in 1794, and the next year the eagle (\$10 gold coin) and half-eagle appeared. At that time the eagle was the gold and the dollar the silver monetary unit. The motto *E Pluribus Unum* was first used on the

half-eagle of 1795. The next year our first quarters and dimes were issued.

In 1690, men from Massachusetts returned, tired and beaten, from an unsuccessful siege of Quebec. Booty from the anticipated victory, it was thought, would finance the expedition. Tables were turned, however, and debts for ships, cannons, muskets, powder, and shot mounted. And then there were hundreds of hungry soldiers, threatening mutiny if not fed and paid. All this was met with a nearly empty treasury. Out of this dire need, Bills of Credit (in effect mere promissory notes) — the first paper money in America and in the entire British Empire — were issued by the colony.

Other colonies followed by printing paper money of their own. It circulated freely and notes were even torn into pieces to substitute for coins in making change. Issues were excessive, however, and some of them quickly sank to small fractions of the intended value. Despite the disadvantages, however,



Continental currency



Colonial paper currency



State bank note

early colonial paper money seems to have helped to solve some of the difficulties caused by a shortage of metallic money in an expanding community.

Then came the American Revolution and huge expenses with no adequate power of taxation. The Continental Congress, in June of 1775, authorized the first issue of paper money, to be limited to \$2 million. Soon, however, several other issues were put out and the total in circulation greatly exceeded all reasonable needs. Rapid depreciation of value resulted.

George Washington, in commenting on the conditions, said, "a wagon-load of money will scarcely purchase a wagon-load of provisions." The vanishing value of the currency of the Continental Congress led to the term for worthlessness that has remained to this day — "not worth a continental." Congress in 1790 authorized the Treasury to accept the continental notes at a rate of 100 to 1, in payment for bonds of the new Federal Government.

So bitter was the feeling toward paper money that a provision giving Congress the right "to emit bills on the credit of the United States" was struck out of the first draft of the Federal Constitution, and the Constitution as adopted carried a provision forbidding the states to "emit bills of credit." Not until more than 70 years later, in 1862, was paper money again issued by the Government of the United States.

Between 1790 and the Civil War no paper currency was issued by the Government. On several occasions (1812-15, 1837-43, 1846-47, 1857, 1860-61) connected with wars and depressions, the Treasury issued small amounts of notes, almost always interest-bearing, in denominations ranging down to \$50. Some of these notes appear to have had some limited use as circulating currency, but at no time was there much in circulation, and of course they were not intended to serve as currency.

Until 1836 the larger part of paper currency in circulation consisted of issues of the first (1791-1811) and the second (1816-1836) Bank of the United States, a private Federal-chartered bank. At the time of closing in 1836 the Bank of the United States had outstanding note liabilities of \$23,100,000. Afterward, notes issued by State-chartered private banks were the chief form of paper currency. These notes had varying degrees of acceptability, were not always redeemable in gold or silver on demand, and the issues of many banks frequently circulated at a substantial discount from face value. Each bank chose its own design for its notes, and they differed in size, color, and appearance. By 1860, it is estimated, there were notes of 8,000 banks in circulation. Under these circumstances, it is not strange that counterfeiting flourished as never before or (fortunately) since. Bank failures were common throughout the period and people regularly suffered losses on the notes they received and held.

SOME OF THE MORE SI

- 1836** change from hand press to steam-operated coining press.
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- 1840** silver dollar has figure of Liberty seated, a design used on all silver coins thereafter (except for silver dollars) until 1891.
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- 1849** Congress authorized coinage of a double eagle (\$20 gold piece) and a gold dollar.
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- 1851** With the discovery of gold in California, and a need for acceptable money there, some private firms began minting their own gold coins.
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- 1851** minting of silver three-cent pieces of almost paper thinness; soon dropped as impractical.
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- 1853** coinage of three-dollar gold piece.
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- 1854** establishment of San Francisco mint.
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- 1856** Flying eagle cent, made of copper and nickel.
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- 1857** circulation of foreign coins prohibited; the Spanish silver dollar ceased to be legal tender.

SIGNIFICANT LATER DATES IN THE HISTORY OF OUR COINAGE

- 1859** first Indian head cent.
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- 1864** bronze two-cent piece, the first coin to use the motto *In God We Trust*.
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- 1865** three-cent piece of nickel, discontinued 1890.
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- 1866** first nickel five-cent piece (there were earlier silver half-dimes).
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- 1873** coinage of trade dollars, slightly larger than standard silver dollars, intended for use in the China trade where they "competed" with the Mexican peso. Withdrawn from circulation in 1887 because they did not help Far East trade, but tended to circulate at home.
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- 1875** coinage of 20-cent piece, discontinued 1878.
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- 1883** first Liberty head nickels, almost immediately withdrawn because the reverse bore only a Roman letter V and counterfeiters plated them thinly with gold to pass them off as five-dollar coins. The next issue of the coin read "V cents."
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- 1906** establishment of Denver mint.
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- 1909** first "portrait coin," the Lincoln cent.
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- 1913** first buffalo nickel.
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- 1916** first minting of Liberty (full-length) half-dollar.
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- 1921** first minting of present Liberty head silver dollar.
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- 1932** Washington quarter.
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- 1938** Jefferson nickel.
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- 1942** silver (35%) "nickel" produced to save nickel, discontinued 1945.
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- 1943** Zinc-coated steel cent produced to save strategic copper and tin (only year minted).
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- 1946** Roosevelt dime.
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- 1948** Franklin half-dollar.



Shinplaster



2¢ bronze piece

The first paper money actually issued by the Government of the United States consisted of non-interest-bearing Treasury notes issued in 1861 and 1862. These notes were payable on demand at certain designated sub-treasuries, and soon became known as demand notes. The amount first authorized was \$50 million but a second issue of \$10 million was also paid out. In 1862, Congress provided for the issuance of United States notes, and they were substituted for the demand notes, which were retired. The United States notes were first issued in the amount of \$150 million and were designated as legal tender for all debts, except duties on imports and interest on the public debt. They were popularly referred to as “greenbacks” or “legal tenders.” A second issue of \$150 million was also authorized in 1862 and a third issue of the same amount in 1863. The highest amount outstanding at any one time was \$449,338,902 in early 1864. By 1878 the amount outstanding had been reduced to \$346,681,016, and this amount is still outstanding

today, mostly in denominations of \$2 and \$5.

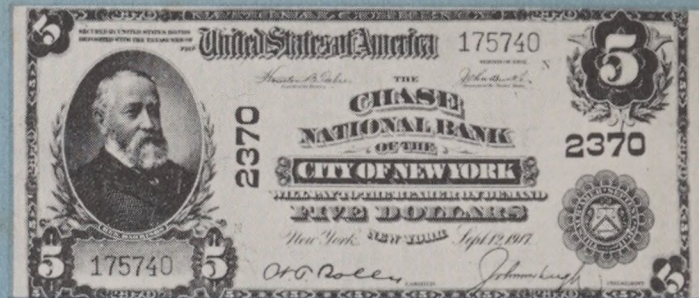
It was also during the Civil War (on January 3, 1862) that the Federal Government suspended specie payments — that is, dropped the provision for redeeming United States notes in coin. It was not until January 1, 1879 that specie payments were resumed. Following the suspension in 1862, subsidiary silver coins largely disappeared from circulation as they were hoarded. For a time their place was taken by tickets, due bills, and other forms of private obligations issued by merchants and others whose business required them to make change. Congress then first authorized the use of postage stamps for change (after people had begun to use them for this purpose), and later issued a modified stamp called postal currency. Finally, fractional paper currency was issued in denominations corresponding to the silver coins. Congress authorized an issue of \$50 million, the highest amount outstanding at any one time was \$49,102,660.27. These “paper coins,”

much smaller in size than our present currency, were known as “shinplasters” and were issued in denominations of 3, 5, 10, 25, and 50 cents (a small amount of a 15-cent denomination was also issued). After the end of the war, when coinage was resumed, this fractional currency was no longer needed, and in 1875 and 1876 Congress provided for its redemption and retirement. One of the most interesting of the few coins minted during the Civil War was the two-cent bronze piece, the first of our coins to bear the motto *In God We Trust*.

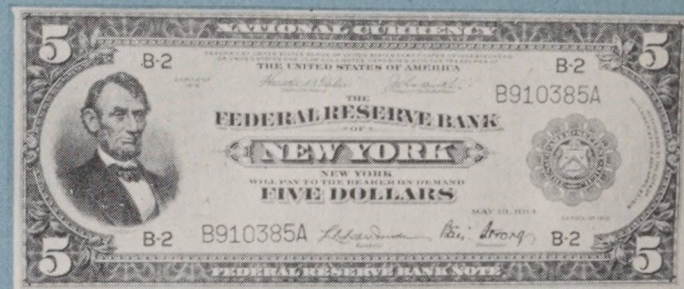
The first gold certificates were authorized in 1863, when Congress directed the Secretary of the Treasury to receive deposits of gold coin and bullion and to issue certificates therefor in denominations of not less than \$20. (Later certificates were issued in the \$10 denomination also.) The first issue was made in 1865, and gold certificates continued in circulation until 1933. The Treasury was authorized to issue silver certificates in 1878; like the gold cer-

tificates, they were given out in return for the deposit of silver dollars with the Treasurer of the United States. In 1934 this authority was increased to authorize issuance of silver certificates equal in value to silver purchased by the Treasury. Before this latter date, however, the Congress in 1890 directed the Secretary of the Treasury to purchase each month \$4,500,000 ounces of silver at the market price and to issue in payment "Treasury notes of the United States." These notes, usually called "Treasury notes of 1890," were redeemable on demand in either gold or silver coin at the discretion of the Secretary of the Treasury and were legal tender. The authority for purchase of silver in this manner was repealed in 1893, when almost \$156 million of the notes were outstanding. Congress later provided for the cancellation and retirement of this issue.

Most of the paper currency in circulation between the Civil War and the First World War, however,



National bank note (old size)



Federal Reserve bank note (old size)

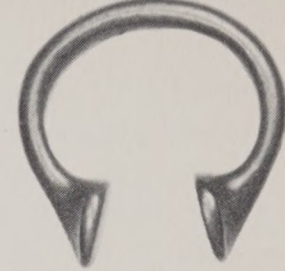
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consisted of national bank notes. This currency, uniform in size and general appearance, was issued by banks chartered under the National Bank Act of 1863, which provided that these banks were required to deliver to the Treasurer of the United States a certain amount (based on their capitalization) of registered Treasury bonds bearing the "circulation privilege." The banks were then entitled to receive from the Comptroller of the Currency paper money equal to 90 per cent of value of the bonds. The total amount of currency for all banks was limited to \$300 million until 1870, when it was increased; in 1875, the limitation was removed. By 1913, national bank notes amounting to almost \$700 million were in circulation and the Treasury, of course, held bonds having the "circulation privilege" as backing. The last of these bonds matured in 1935 and national bank notes have since been retired from circulation as they are deposited in Federal Reserve Banks. The Treasury still keeps

some cash in a special account to pay for these notes as they are presented.

The Federal Reserve Act of 1913 authorized the issuance of Federal Reserve Bank notes against the deposit of United States bonds. These notes were, in effect, very much like the national bank notes. In 1918 Congress authorized the issuance of Federal Reserve Bank notes in place of retired silver certificates, but by 1922 almost all had been retired. In the banking emergency of 1933 and 1934, Congress once again authorized the issuance of Federal Reserve Bank notes secured by direct obligations of the United States or by eligible commercial paper. By the end of 1933 the value of these notes in circulation reached a peak of \$208 million; they were retired over the next two years. During World War II a stock of unused Federal Reserve Bank notes was issued in order to save paper and labor that would have been used to produce other needed currency. These notes are being retired gradually.

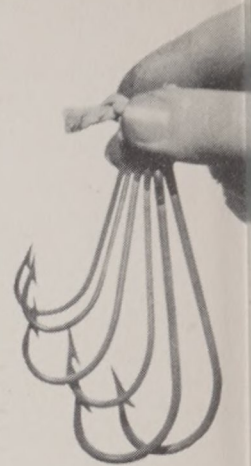
By far the largest portion of paper currency in circulation today consists of Federal Reserve notes issued by the twelve Federal Reserve Banks. These notes are obligations of the United States and are first liens on all assets of the issuing Federal Reserve Bank. Since 1933 they have been full legal tender for all debts, public and private. Each Federal Reserve Bank was originally required to maintain a reserve in gold of at least 40 per cent against its notes in actual circulation. In 1945 this requirement was reduced from 40 to 25 per cent, but in recent years all the Federal Reserve Banks have actually had gold reserves well in excess of the 25 per cent requirement. Federal Reserve notes, issued in denominations from \$5 to \$10,000, are furnished to the Federal Reserve Banks through the Comptroller of the Currency, and under the supervision of the Board of Governors of the Federal Reserve System. They are made by the Bureau of Engraving and Printing, which also produces currency for the Treasury. A Federal Reserve Bank desiring to



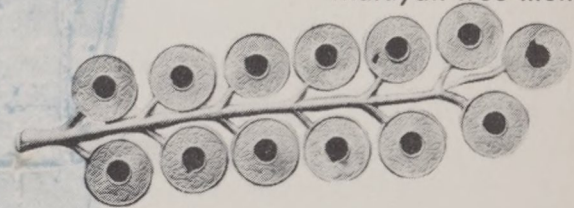
African bronze ring



Aztec gold images



Alaskan bronze fishhooks



Malayan tree money

Money is not always coins and paper currency: people throughout the world have used many curious materials in odd forms, from iron nails to huge stone slabs.

obtain Federal Reserve notes applies for them to the Federal Reserve agent of its district (who is a representative of the Board of Governors) and submits collateral equal in value to the notes requested. This collateral can consist of eligible commercial paper, gold or gold certificates, and direct obligations of the United States. (New currency can also be obtained in exchange for notes no longer fit for circulation.) No Federal Reserve Bank is permitted to pay out the notes issued by another Bank, and therefore notes of one Bank deposited in another Federal Reserve Bank are returned to the issuing Bank (or to the Treasury Department for final destruction by burning). The Federal Reserve Bank of issue is designated on a note by the round seal which appears to the left of the portrait on the face of the note. The full name of the Bank is given in the outer edge of the seal, and a large letter within also identifies the Bank (A for the Boston Reserve Bank, B for New York, C for Philadelphia, and so on to L for San Fran-

cisco). There is also a numerical identification about an inch in from each of the corners (1 for Boston, 2 for New York, and so on).

In addition to these Federal Reserve notes, the only other kinds of currency being issued today are United States notes (issued only in denominations of \$2 and \$5 and limited to an aggregate amount of \$346,681,016) and silver certificates (issued only in denominations of \$1, \$5, and \$10). The chief distinguishing mark for the three types of notes is the color of the seal to the right of the portrait on the face of a note: the seal is green on Federal Reserve notes, red on United States notes, and blue on silver certificates. There is one other note series, but this "currency," consisting of gold certificates issued by the Treasury to the Federal Reserve Banks, does not circulate among the public. The certificates are issued in denominations of \$100, \$1,000, \$10,000, and \$100,000, and they represent pledges of the monetary gold stock of the United States.

