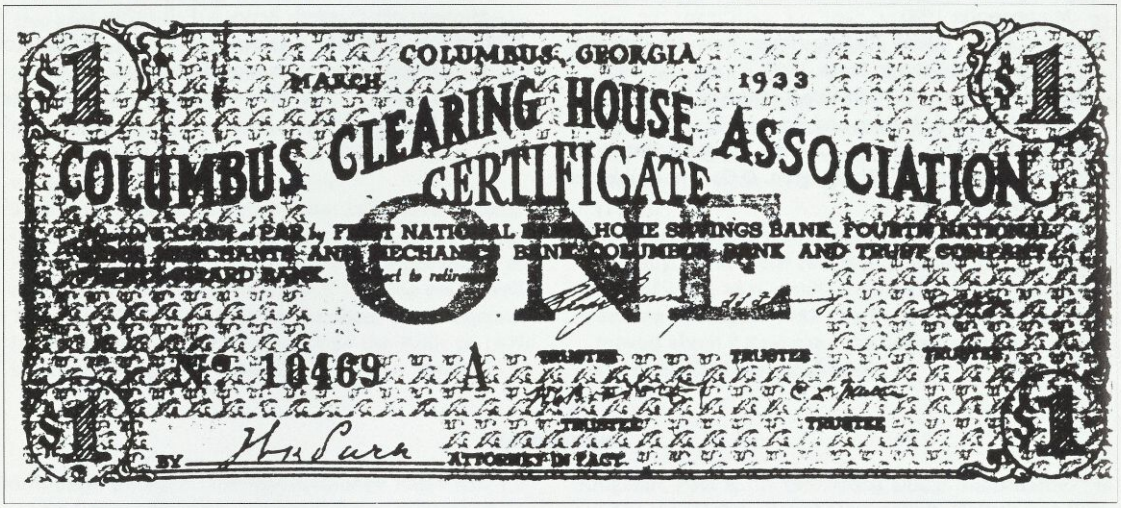
Lenders of the Next-to-Last Resort: Scrip Issue in Georgia during the Great Depression



The most recent scrip issue in the United States occurred during the 1930s, after the establishment of the Federal Reserve System, which technically was the lender of last resort. The author reports on his ongoing project to describe scrip issues in Georgia during the Great Depression. His account provides a detailed look at a transitional period in the country's financial history with possible implications for private moneylike instruments in today's economy.

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Today, the term *cash money* means exactly one thing to residents of the United States: Federal Reserve notes. These notes constitute a type of currency known as fiat money, the dominant if not sole type of currency circulating in the world today. One reasonable definition describes fiat money as "a form of credit where the issuing party is the state and the recourse of an individual creditor is negligible against the state, but by the law of the state the fiat money must be accepted in payment to extinguish other debts" (John Eatwell, Murray Milgate, and Peter Newman 1987, 317). In short, fiat money is money because a sovereign government deems it so.

Throughout most of our nation's history other forms of cash have circulated either in place of or alongside fiat currency. Until 1933 the United States was (more or less) on a gold standard, meaning that the value of the U.S. dollar was legally defined as a certain weight in gold.[1] While the gold standard was in effect, both gold and silver coins circulated as means of cash payment. In addition to coinage, bank notes, which promised to pay a specified amount in coin on demand, were widely used as money during the gold standard era. To guard against overissue of such notes, their issuance was generally restricted by law to banks chartered by the federal or various state governments. Notes were also issued by the federal government itself.

During much of the gold standard era, money for everyday transactions was often in short supply. This shortage was particularly acute in the rural South and West. Studies by Richard H. Timberlake (1978, 1981) attribute the currency shortage to a number of factors, among these the natural scarcity of gold and

the official valuation of monetary silver below its market price. But the most important factor contributing to the money shortage was the stringency of legal restrictions on the issue of paper money. A congressional act of 1865 imposed a prohibitive 10 percent tax on bank notes by state-chartered banks and practically ended their issue (A.T. Huntington and Robert J. Mawhinney 1910, 362). The same act required that national banks maintain strict reserve and collateral requirements against their note issue. Congressional acts of 1873 and 1875 extended the 10 percent tax on circulating notes to those issued by nonbank entities.[2] The most onerous restrictions were reserved for small-denomination currency, reflecting the curious nineteenth-century view that strict control over the issue of notes in small denominations was necessary for a sound currency. Unfortunately, small-denomination currency was sorely needed in a country where per capita annual income was well below $1,000.

Ironically, the very stringency of these restrictions on private money created a powerful incentive to disobey them. The chronic shortage of circulating cash offered a tremendous profit opportunity to anyone who could convince others to take his own manufactured currency in return for goods and services. In the nineteenth century, such issue of unauthorized currency by private firms, towns, and, in some cases, even states was a common practice. These unauthorized notes, often known as "scrip" or "shinplasters," took the form of tokens, railroad tickets, "tax redemption certificates," and so forth.[3]

Historical evidence suggests that the use of scrip declined as both coin and official paper money became more widely available toward the end of the nineteenth century. During the 1907 panic, there was a brief but important resurgence of scrip issue, particularly in the form of "clearinghouse loan certificates." At that time, federal banking law allowed clearinghouse associations of banks in a given city to issue such certificates for purposes of interbank settlements or settlements between a clearinghouse association and a given bank. During the 1907 crisis, however, a large number of these certificates were printed in smaller denominations and circulated generally as a form of emergency currency. In Georgia alone, the 1908 report of the U.S. Comptroller of the Currency estimated that roughly $2.5 million in certificates was issued by clearinghouse associations in Atlanta, Augusta, Macon, and Savannah and noted that many of these certificates were given general circulation.

The last major occasion of scrip issue in the United States occurred during the Great Depression of the 1930s. This period presents one of the most unusual episodes of scrip issue in our nation's monetary history, particularly because it took place after the founding of the Federal Reserve System. In its role as a lender of last resort the Fed could have, given congressional approval, theoretically met all emergency needs for currency (and did eventually meet most such needs). Nonetheless, numerous issues of "depression scrip" circulated locally as money, especially during the 1932-35 period.

These scrip issues merit serious study for at least three reasons. The first is that the depression scrip represented a form of privately issued money that received relatively wide use. In this sense, many forms of depression scrip resemble more modern forms of money such as money market mutual funds. The second reason is that the depression issues represent the most recent examples of scrip in the United States. Depression scrip does not seem as remote from the modern world as nineteenth-century issues or those associated with the 1907 panic. The third reason for studying the depression scrip issues is that little detailed information is available concerning scrip issues during this period. Scrip issues during the Great Depression tended to be very localized and short-term in nature

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and were often found in rural areas. For various reasons, these issues were until recently seen as something of an embarrassment for everyone involved. It is rare to find any mention of depression scrip in local chamber of commerce-type histories, and monetary histories of the Great Depression generally mention scrip only briefly if at all. A fortunate exception is Joel W. Harper's (1948) nationwide survey of depression scrip. More recently, an excellent numismatic survey has been conducted by Ralph A. Mitchell and Neil Shafer (1984).

With the goal of augmenting knowledge of the depression scrip episode, this author has undertaken a project to identify and describe scrip issues in Georgia during the Great Depression. In the case of each scrip issue, the research begins with identifying a particular issue, the total amount of its circulation, and its duration. The second step is to ascertain the "moneyness" of the issue by considering historical evidence on market valuation of the scrip relative to its face value, the general acceptability of the scrip as a transactions medium, and the velocity or rate of the scrip's turnover. The third and final step is to relate each scrip issue's "moneyness" to the circumstances associated with its issue. The present article is a progress report on this ongoing research project. It contains a brief history of the scrip issues that have been studied thus far and a summary of the conclusions that might be drawn from the depression scrip episode applicable to present-day or future monetary institutions.

The Banking Holiday of 1933 and the Issuance of Clearinghouse Scrip

One of the most important causes of scrip issue in Georgia during the early 1930s was the sequence of events leading up to the nationwide banking holiday of March 1933. In fact, the period from the stock market crash of 1929 through the first half of 1933 was the most turbulent in the nation's banking history. The number of banks nationwide dropped from about 24,500 at midyear 1929 to roughly 15,000 by midyear 1934. During the same period deposits fell from $58 billion to $46.5 billion (Board of Governors of the Federal Reserve System 1943, 24-25). The banking situation in Georgia mirrored the nation's, as the number of banks operating in the state fell from 420 in 1929 to 322 in 1934 and deposits fell from $342 million to $300 million (Board of Governors of the Federal Reserve System 1943, 26-27).

As emphasized in Susan E. Kennedy's (1973) study, the banking crisis of 1933 was a complex sequence of events that cannot be unambiguously attributed to a single cause. What is clear, however, is that the culmination of the crisis was the national banking holiday of March 6-12. President Franklin D. Roosevelt ordered this one-week closing of all banks on Monday, March 6, under the doubtful authority of the Trading with the Enemy Act, a wartime emergency measure dating from the First World War. Roosevelt's first term had begun only two days earlier, and the closing of the banks was his administration's first significant act. Such an extreme measure was necessitated by a banking crisis that had begun to take on the character of a nationwide bank run.

A chain reaction of statewide banking moratoriums had been set in motion when, on February 14, the governor of Michigan declared a statewide banking holiday to prevent the total collapse of the state's largest banks.[4] This moratorium set off more statewide banking holidays as depositors, anticipating the spread of the bank closings, frantically tried to withdraw their deposits at banks that were still open. By Friday, March 3, more than 5,000 banks had closed their doors and thirty-six states had declared at least partial restrictions on bank withdrawals (Kennedy 1973, 147). In Georgia bank holidays in neighboring states forced newly elected Governor Eugene Talmadge to declare a bank holiday on March 3.[5]

Roosevelt's closing of the banks was a bold and well-conceived gesture that did much to break the panic that had gripped the nation's banking system. However, in his proclamation declaring the bank holiday Roosevelt did not propose any detailed plan for ending the crisis and reopening the banks—apparently because no detailed plan existed at the time of

the announcement (Helen M. Burns 1974, 42-49; Kennedy 1973, 173-75). Instead, the bank holiday declaration touched off a furious debate among the new administration's members about how to best deal with the crisis. Amazingly, one of the proposals Roosevelt considered called for instantaneous monetization of all U.S. government bonds then outstanding, in the amount of $21 billion. Fortunately for the nation, this plan raised as many eyebrows then as a similar plan might now, and the president was persuaded to abandon it (Kennedy 1973, 173-74).

Another plan, generally favored by the larger city banks, called for the issuance of clearinghouse scrip on a nationwide basis.[6] The plan finally agreed on was historically significant in that it gave broad powers to the Federal Reserve banks to advance cash to member banks on virtually any collateral and allowed cash advances to any individual, partnership, or corporation against collateral of U.S. government securities. This plan was written into law by the passage of the Emergency Banking Act on March 9, 1933, and banks furnished with new infusions of Federal Reserve notes began to reopen in the twelve Federal Reserve cities, including Atlanta, on Monday, March 13 (Kennedy 1973, 180).[7]

For many Georgians, however, the reopening of the banks under the Emergency Banking Act came too late. Cash had been scarce to nonexistent in most communities since the imposition of the statewide banking moratorium on March 3. The imposition of the nationwide moratorium and the subsequent delay in the reopening of the banks meant that even the reserve city of Atlanta was virtually without cash for ten days, and towns in the southern part of the state went without cash for two weeks or longer.

The economic hardship caused by the loss of paper currency was much greater than might result from a similar event today. Georgia in 1933 was a poor state by both modern and contemporary standards. Per capita personal income in Georgia in 1929 has been estimated at about $350, equal to about half the U.S. average at the time and about ten times that amount in 1990 dollars.[8] Although checks did circulate during the bank holiday, checking accounts were much less common than today. Particularly hard hit by the cash shortage were workers in the cotton mills and other blue-collar workers in urban centers, who were accustomed to receiving their weekly pay in the form of cash.

One factor that mitigated the economic impact of the bank closings in Georgia was that a significant portion of the state economy was accustomed to operating without cash, even in 1933. In rural areas, tenant farming for store credit was a common practice if not the norm (see, for example, Michael S. Holmes 1974). And according to oral accounts recorded by Clifford M. Kuhn, Harlon E. Joye, and E. Bernard West (1990), it was still not uncommon for mill workers to be paid in company scrip, store credit, or commodities. In these sectors of the economy, it seems doubtful that the bank holiday would have caused any significant disruption of normal activity.

In 1990 it would be difficult for most of us to imagine a financial crisis such as occurred in early 1933 not being met with immediate federal government intervention. In 1933 the equally common presumption appears to have been that the cash shortage would be dealt with by issuance of clearinghouse scrip. As mentioned in the introduction, Georgia had a strong tradition of scrip issue during the latter half of the nineteenth century, a tradition reinforced by the widespread use of clearinghouse scrip during the 1907 panic. The prospect of clearinghouse scrip issue during the 1933 bank holiday was generally seen as a retreat by banks to a conservative, time-tested solution to the money shortage.[9] At the onset of the bank holiday, even federal and state officials seemed resigned to the likelihood of scrip issue. The presidential proclamation establishing the bank holiday empowered the secretary of the treasury to "permit issuance of clearing house certificates or other evidences of claims against assets of banking institutions."[10] In Atlanta, Federal Reserve Bank Governor Eugene R. Black declared that the bank holiday was "a fine and constructive measure and will help to bring about normal business conditions through the issuance of scrip."[11] One of the most enthusiastic proponents of scrip issue was Georgia's Governor Talmadge, who viewed scrip issue as a useful means of increasing the

circulation of funds. On March 14, Talmadge vetoed an emergency banking measure hastily passed by the Georgia legislature at least partly because, in his words, it "would annul [scrip] issues already made in the state."[12]

Clearinghouse associations in Atlanta, Augusta, Columbus, Macon, and Savannah began preparations for scrip issues almost as soon as the national bank holiday was announced. In Atlanta, an unprecedented $20 million issue of clearinghouse certificates was planned by the Atlanta Clearing House Association. Some idea of the magnitude of this issue can be obtained by noting that total January 1933 deposits of Atlanta Clearing House banks amounted to only $104 million.[13] Upon receiving authorization from the secretary of the treasury, the association began stockpiling the scrip for use by its member banks. At least $3 million in $1 notes had been printed and delivered by the time the plan was called off on March 9.[14] The reopening of the Atlanta Clearing House banks on March 13, and the subsequent reopening of other "licensed" banks, seems to have eliminated the need for clearinghouse scrip in Atlanta and in nearby communities in northern Georgia.[15] However, clearinghouse scrip did find its way into circulation in the southern part of the state. Below are specific instances of clearinghouse scrip issue and the scrip's impact on the communities in which it circulated.

Clearinghouse Scrip Issue during the National Bank Holiday, by City

Augusta. As soon as President Roosevelt ordered the national bank holiday, the Augusta Clearing House Association (January 1933 deposits of $9 million) announced plans to print and circulate clearinghouse certificates.[16] Interestingly, the story in the *Augusta Chronicle* carrying the announcement of the scrip issue also pointed out that in the opinion of one local banker, the scrip notes were subject to a 10 percent federal tax. This mention of the bank note tax is the only one (that this author is aware of) in contemporary accounts of clearinghouse scrip issue.

By March 10, a $5 million scrip issue had been authorized and delivered to the clearinghouse banks. On March 11, roughly $200,000 of scrip was paid out by the clearinghouse banks, much of it for the purpose of allowing manufacturers to meet their weekly payrolls. This scrip constituted the only circulating money in the city until the banks were reopened on March 14. Newspaper reports suggest that the scrip generally circulated at par and was accepted by almost all retail merchants other than national chain stores. The par valuation of the scrip was no doubt encouraged by threats from the city solicitor to prosecute any persons found to be discounting the scrip.[17]

The Augusta Clearing House scrip issue was short-lived. By March 16, two days after normal banking activity resumed in the city, Augusta banks were recalling the scrip. Of the $5 million in scrip printed, less than $300,000 ever circulated.[18] Still, the arrival of even this small amount of scrip came at a timely moment in the banking crisis. The circulation of scrip on March 11 meant that manufacturers' employees, who had already missed one week's pay because of the banking holiday, could receive their weekly wages and that local merchants could carry out business on something resembling normal terms.

Columbus. The issue of clearinghouse scrip in Columbus in many respects paralleled the Augusta issue. Shortly following the announcement of the national bank holiday, the Columbus Clearing House Association (January 1933 deposits of $11 million) sought and received permission for a $1 million scrip issue. "Over $100,000" of the scrip was paid out on March 10 to meet manufacturers' payrolls, and, according to Mitchell and Shafer (1984, 64), the entire $1 million issue was eventually circulated. As was the case with Augusta, scrip apparently was the only money circulating in the city until March 14. Welcomed by most merchants, the scrip generally circulated at par. There is even one report of a merchant offering a premium for the clearinghouse scrip.[19]

Two unusual aspects of the Columbus scrip experience bear mention. The first is that the scrip apparently continued to circulate for some time after the banking crisis had

passed, although exactly how long is not clear. In the weeks immediately following the bank holiday, the banks in the Columbus Clearing House Association did not publish any notice that the scrip was being withdrawn from circulation. Mitchell and Shafer (1984, 64) put the duration of the scrip issue at twenty-seven days, but the memoirs of an employee of the clearinghouse, W. Roy Luttrell, Sr., suggest that the scrip continued to circulate locally for a period of about three months.[20] The second unusual feature of the Columbus scrip was that it circulated concurrently with another type of scrip, that is, scrip printed and circulated by Phenix City, Alabama. The Phenix City scrip and other municipal scrip issues will be discussed in a later section.

Macon. The experience with clearinghouse scrip in Macon was also very similar to the Augusta episode, although less detailed information concerning the scrip issue is available in contemporary newspaper accounts. Scrip issued by the Macon Clearing House Association (January 1933 deposits of $7 million) began circulating in the city on March 10. Approximately $100,000 in scrip was issued on March 10 and 11 to meet manufacturing payrolls. The clearinghouse banks reopened their doors for normal operations on March 14, and much of the scrip was immediately withdrawn from circulation. Newspaper accounts indicate that the scrip was welcomed by city merchants and largely circulated at par.[21]

Savannah and Valdosta. Savannah, the second largest banking center in the state, did not escape having to use clearinghouse scrip during the bank holiday. Contemporary newspaper accounts indicate that the Savannah Clearing House Association (January 1933 deposits of $66 million) printed at least $1.5 million in scrip, though probably only a fraction of this amount actually circulated. Mitchell and Shafer (1984, 65) put the total amount of the issue at $1 million, of which only $535,000 is supposed to have circulated. The scrip began circulating on March 10 and apparently circulated at par. Local banks began reopening on March 14, and the public was urged by the president of the clearinghouse association to redeem the scrip promptly.[22]

An unusual feature of the Savannah scrip issue is that some of the scrip printed by the Savannah clearinghouse also circulated in Valdosta. Although Valdosta had its own clearinghouse association at the time, the small size of its banking market (January 1933 deposits of $1.9 million) made it more convenient to use the Savannah scrip than to print a separate issue. Issue of the Savannah scrip in Valdosta was no doubt facilitated by the presence of branches of the Citizens and Southern National Bank (headquartered in Atlanta) in both cities. The Savannah scrip was first issued in Valdosta on March 11 and apparently circulated until at least March 29, when a general announcement withdrawing the scrip was published. As was the case with the Columbus scrip issue, the clearinghouse scrip apparently continued to circulate after the Valdosta banks' reopening on March 14 and also circulated alongside scrip issued by the city of Valdosta. Research has uncovered no mention of the clearinghouse scrip's being circulated at par in Valdosta, though the lack of evidence to the contrary and the par valuation of the same scrip in Savannah suggest that it did circulate at face value.[23]

Other Cities. In addition to the cities listed above, a number of others in Georgia had clearinghouse associations in 1933. The Rand McNally *Bankers Directory* for 1933 lists clearinghouse associations at Albany, Brunswick, Elberton, Griffin, Newnan, and Rome. Reflecting the population of the communities they served, these associations were relatively small in size, each having combined deposits of its member banks totaling less than $4 million. Of these associations, only Brunswick's has been investigated at this point; the possibility of scrip issue by the other associations remains to be investigated.

Contemporary newspaper accounts indicate that clearinghouse scrip circulated in Brunswick beginning on March 11, 1933. The exact amount of the scrip issue is not mentioned. Numerous accounts report the scrip circulating at par and, in one case, even at a 10 percent premium, suggesting that the Brunswick clearinghouse scrip was as readily accepted as were similar issues in the cities listed above. A general call for redemption of the scrip was published on March 23.[24]

On the whole, contemporary accounts indicate that the March 1933 clearinghouse scrip issues in Georgia were highly successful as emergency local currency. Apparently these issues enjoyed the full support of the local business establishments (perhaps in part because of the reluctance of chain stores to accept the scrip) and were by most accounts circulated at or above par. Two important factors reinforced the success of the clearinghouse scrip issues. The first of these was the virtual certainty, thanks to the Emergency Banking Act passed on March 9, of being able to exchange the scrip for Federal Reserve notes in the near future. The second was the positive experience with clearinghouse scrip issues following the Panic of 1907. Any positive assessment of these scrip issues must be tempered, however, by the fact that most contemporary accounts reflect the opinions of community leaders and not the mill workers and small merchants who were the most likely recipients of the scrip.

Scrip Issues by Local Governments

Clearinghouse associations by no means had a monopoly on scrip issue during the Great Depression. In nationwide surveys of depression scrip, Harper (1948) and Mitchell and Shafer (1984) list issues made by private businesses, self-help groups, business groups, and local governments. To the author's knowledge, in Georgia only the last type of scrip was issued in significant amounts. Harper's survey lists seven issues of depression scrip by local governments in Georgia. Since the scrip issued by the city of Valdosta (see below) is not listed by Harper, it seems safe to conclude that this list is not complete. Mitchell and Shafer's survey only lists issues by the city of Atlanta.

One factor that makes the municipal scrip issues difficult to identify is that the reasons for issuing the scrip tended to vary from community to community rather than being tied to a single national event such as the national banking holiday. The most common reason for issuing scrip, according to Harper, seems to have been a combination of revenue shortfalls and the inability of the local governments to obtain financing by more conventional means. But other motives did influence the decision by municipalities to issue scrip. The general shortage of circulating cash during the early depression years led many community leaders to feel that issuing scrip would provide their communities with a much-needed circulating currency. As shown in Timberlake (1981), the widespread use of municipal scrip in the nineteenth century provided ample precedent for this sentiment. At least one scrip issue in the state was made for the explicit purpose of putting the unemployed back to work. Below are described the experiences of a number of Georgia communities with scrip issued by local governments during the 1932-35 period.

Local Government Scrip Issues, by City or County

City of Atlanta. The most prolific issuer of depression scrip in the state appears to have been the city of Atlanta. Although no exact estimate is currently available, the total amount of scrip issued by the city from 1930 through 1936 can be placed at more than $2.5 million, only a fraction of which circulated as money. A total of fourteen issues were planned, and at least eight of them were distributed to municipal employees. What is currently known about these issues is summarized in Table 1.

The cause of the Atlanta scrip issues can be traced directly to the city's rapid population growth during the 1920s. Between 1920 and 1930 the population of Atlanta grew from about 212,000 to roughly 270,000, and the city's school population grew from 33,000 to 65,000.[25] By 1930 municipal finances were severely pressured by the obligation to provide city services, particularly schooling, to the swelling population and by the loss of tax revenue caused by a faltering economy. Finding itself short of funds for December 1930 salaries, the city entered into an agreement with Rich's department store to issue scrip to city schoolteachers in lieu of December salaries. The scrip could

Table 1.
City of Atlanta Scrip, 1930-36

Date of Resolution	Interest Rate	Date of Issue	Amount of Issue	Corporate Sponsorship	Date of Redemption
?	?	12-18-30	$200-238K	Rich's	01-01-31?
12-15-32	6%	12-20-32	$380-400K	Rich's[a]	01-27-33[b]
02-07-33	6%	02-15-33	$280-300K	Rich's	05-20-33
04-03-33	4%	?	?	?	"During 1933"
04-19-33	4%	*	*	*	"During 1933"
11-20-33	6%	?	$260K	?	05-01-34
01-12-33	2%	?	$500K	Coca-Cola	05-19-34
11-05-34	4%	12-05-34	$200K	Rich's	05-01-35
12-07-34	?	?	$400K	Coca-Cola	?
02-04-35	4%	?	?	?	?
11-04-35	4%	?	$800K	Trust Co.	05-13-35[b]
01-20-36	3%	?	?	?	"During 1936"
05-04-36	3%	?	?	Trust Co.?	10-30-36?[b]
11-02-36	?	?	?	?	?

[a] *Rich's offered to give half cash and half store credit for the notes of this issue. See text, page 25.*

[b] *Actual payment dates from Mitchell and Shafer (1984).*

* *Probably not issued because of early payment of property taxes by Atlanta Clearing House banks. See* Atlanta Constitution, *May 22, 1933, or Atlanta Clearing House Association (1950, 60).*

Source: Resolution dates and interest rates are from Atlanta City Council Minutes. Dates of issue, amounts, and corporate sponsors are from reports in the Atlanta newspapers or Mitchell and Shafer (1984). Redemption dates are either the dates cited in the enabling resolutions (scrip was callable before the indicated dates) or actual payment dates from Mitchell and Shafer.

then be redeemed at Rich's for its full face value.[26] A 1934 newspaper account reported that Rich's absorbed a total of $238,000 in scrip.[27]

Although little, if any, of the December 1930 issue circulated as money, it is nonetheless of interest because it set the pattern for subsequent issues. As a means of borrowing money the issue of scrip seems unnecessarily costly and elaborate. An unresolved question is why the city did not borrow the money directly from Rich's or other firms in Atlanta's business community. Perhaps Rich's and other corporate "sponsors" of the city's scrip issues preferred the issue of scrip as a means of increasing public awareness of their role in shoring up the city's finances. Another possible explanation is that the city charter's restrictions may have led local leaders to prefer the issue of scrip. Chapter 12 of the 1924 Atlanta City Charter did not allow the "annual expense of the City . . . to exceed the annual income." Given the longstanding use of scrip as an emergency currency in the South, its issue may have seemed less in contradiction to that clause than a direct loan. A third possibility is that the issue of scrip may have served as a means of effectively signaling to the business community that the city indeed lacked the means to pay its employees.

The city's fiscal situation continued to deteriorate in 1931 and 1932. The assessed value of the city's property tax rate rose by a scant 2 percent in 1931 and fell by more than 10 percent in 1932.[28] By February 1932 Mayor James L. Key and the city council had imposed stringent economizing measures in an effort to bring the city's finances under control. Municipal employees other than teachers were given pay cuts of 10 percent and ordered to take payless vacations. The labor union representing many Atlanta teachers, the Atlanta Public School Teachers Association, voted to accept even deeper pay cuts, ranging up to 16 percent on a sliding scale. In spite of these measures, by November 1932 the city found itself short of funds to meet its payroll. Negotiations between the city and local banks to obtain emergency loans were broken off when the two parties could not agree on the size of the city's 1933 budget (Melvin W. Ecke 1972, 236-37).

In 1932 the issue of scrip to cover the city's payroll seemed to be the natural, though reluctantly applied, solution to this dilemma. City employees did in fact receive their pay for November and December in the form of scrip. The November payroll amounted to some $400,000, and scrip in this amount was issued on December 20, 1932. The scrip promised to pay to the bearer interest equivalent to 6 percent per annum upon redemption on or before March 1, 1933. The December 1932 payroll amounted to $300,000 and was not issued until February 15, 1933. The smaller size of the latter issue was made possible by imposing two-week payless vacations on city teachers and thus halving the size of the school system's payroll for that month. The February 1933 scrip issue was redeemable on May 20, 1933, and again promised to pay 6 percent annualized interest upon redemption.[29]

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In contrast to the clearinghouse scrip issues described above, the Atlanta city issue did not always circulate at par, despite its rather generous interest rate. The city did not and could not legally require that the scrip be accepted at par. Nor is there any evidence to suggest that Atlanta's banks (which had their own set of problems at the time) were willing to cash either the December 1932 or February 1933 city scrip issues. Although contemporary newspaper accounts do not mention any explicit discounting of the city scrip, newspaper statements by prominent Atlanta retailers suggest that par valuation of the scrip was far from universal. For example, the Atlanta Retail Merchants' Association initially recommended to its members that no more

than 25 percent of the scrip's face value be given in change for any purchase made with scrip.[30] Apparently Rich's department store, which had offered to cash the 1930 scrip, was not in a position to absorb the entire December 1932 issue. It did offer more generous terms than most merchants and promised to exchange the scrip for half cash and half store credit. Rich's also offered to cash the February 1933 issue outright.[31]

Oral history accounts recorded by Kuhn, Joye, and West (1990, 144-45, 201) confirmed discounting of the Atlanta city scrip. One Atlanta teacher recalled that "most of the stores, they wanted a percentage for it, for cashing that scrip." Some idea of the prevailing rate of discount is provided in the (unpublished) recollections of a city fireman whose large savings allowed him to carry out a small business in cashing scrip at 95 percent of face value. This rate of discount would have put the annualized yield on the scrip at close to an unheard of rate of 27 percent, giving an idea of the public's lack of confidence in the city's finances. Even higher rates of discount and downright nonacceptance of the scrip were also common, according to the oral history accounts. An Atlanta policeman curtly summarized the situation in one sentence: "Nobody wanted that scrip."[32]

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Fortunately for Atlanta municipal employees, the statement was not literally true. The city itself was willing to take the scrip at par for payment of taxes and utility bills but refused to give any change for payments in scrip.[33] In oral history accounts, Rich's offers to redeem the scrip were recalled as crucial to the scrip issues' success. One Atlanta teacher recalled, "You could go to Rich's and just put the scrip up on the counter and say, 'I'd like to get this scrip cashed.' You didn't have to spend anything." In the opinion of another teacher, Rich's acceptance of the scrip "saved our lives. It saved the public school system." A school administrator noted that because of its ready acceptance of scrip, Rich's was heavily patronized by the city's grateful teachers for years afterward (Kuhn, Joye, and West 1990, 144-45, 201).

Atlanta's fiscal crisis of late 1932 was to be repeated, to a somewhat lesser degree, in 1933, 1934, and 1935. The city's tax base fell by about 12 percent in 1933 from an already depressed 1932 level, and it changed relatively little from 1933 to 1936 (see Douglas L. Fleming 1984, 203). Because the generally improved financial condition of Atlanta's corporate community somewhat offset the effects of the reduced tax base, it was easier for the city to find sponsors for its scrip issues than it had been in 1932.

In November 1933 the city found itself again unable to meet its payroll, and $260,000 in scrip bearing 6 percent interest was printed. The November 1933 scrip apparently was not backed by any corporate sponsor and may not have been issued.[34] The remainder of the city's financing needs for 1933 was covered by a subsequent $500,000 scrip issue. However, the latter issue probably did not circulate since it was redeemable, at par, at several of the larger Atlanta banks who in turn resold the scrip to the Coca-Cola Company under an agreement with the city. This scrip issue bore a much-reduced interest rate of 2 percent.

In November 1934 the city tried to negotiate a loan for its year-end cash needs from a group consisting of the city's banks and Coca-Cola. When these negotiations broke off, the city planned scrip issues to meet payrolls for the last half of November and all of December. City employees were paid the issue for the last half of November 1934, amounting to $200,000, on December 5. Rich's immediately offered to redeem all the scrip in cash, and presumably most of this issue ended up with Rich's and did not circulate as money. An agreement between the city and the Coca-Cola Company was announced December 7,

whereby Coca-Cola agreed to absorb the $400,000 scrip issue needed to meet the city's December payrolls. As in 1933, the scrip was still paid out to city employees, who were able to cash the scrip at various local banks. Because of the sponsorship of the 1934 issues by Rich's and Coca-Cola, it is doubtful that much, if any, of these issues circulated as cash.

According to City of Atlanta records, and to Mitchell and Shafer (1984), five more scrip issues were authorized and printed in 1935 and 1936. At the present time it is unclear how many of these actually circulated. Contemporary newspaper accounts indicate that Trust Company Bank of Georgia was willing to cash the entire $800,000 amount of the November 1935 issue.[35] A photograph of a canceled May 1936 scrip note in Mitchell and Shafer (1984, 64) also bears the Trust Company Bank logo, implying that the issue was absorbed by that bank.

Atlanta's experience with municipal scrip issue suggests that such issues worked better as vehicles for emergency municipal financing than they did as circulating money. The inability of Atlanta's government to obtain emergency financing for its cash needs did little to enhance the fungibility of its scrip. Individuals or firms who had accepted the scrip also had an incentive to hold on to the scrip to receive the promised interest payment. Little in the historical evidence suggests that the Atlanta city scrip was widely used for any more than a single transaction.

Still, the scrip did prove useful in avoiding a complete shutdown of city services during the fiscal crises brought on by the Great Depression. The fact that the Atlanta scrip was often discounted suggests that the interest rate paid by the city was probably lower than what the city would have paid for financing through more traditional channels. In this sense, the scrip issue may have served as a politically acceptable method of imposing a temporary pay cut on municipal employees; it forced them to absorb the difference between the nominal (that is, face) and market valuation of the scrip issue.

Valdosta and Phenix City. Atlanta's experience with municipal scrip was repeated on a smaller scale in other cities in the state. The City of Valdosta issued "less than $10,000" in scrip on March 7, 1933, to meet its payroll while the banks were closed.[36] Apparently the Valdosta scrip bore no interest and was redeemable on or before July 1, 1933, at the option of the city. Newspaper accounts do not indicate whether the city's scrip circulated at par, but numerous exhortations by civic leaders to "keep the city scrip circulating" indicate that the city's scrip was less popular than the simultaneously circulating Savannah Clearing House scrip.[37]

Likewise unpopular was the municipal scrip issued by Phenix City, Alabama, which circulated in Columbus, Georgia, during the banking holiday alongside scrip issued by the Columbus Clearing House. A particularly unattractive feature of the Phenix City scrip was its "stamping" or "self-liquidating" requirement. As originally issued, the Phenix City scrip notes required with each use the cancellation of a coupon on the back of the note, each cancellation costing the note holder three cents. The scrip could not be redeemed until thirty-five cancellations had been performed or, at the latest, on March 18, 1935. The self-liquidating scheme was a common feature of depression-era scrip issues, according to Harper (1948), who traced its origins to the *Freiwirtschaft* movement of early twentieth-century Germany. Early versions of the stamping scheme required periodic cancellation of the scrip coupons, whether it had been used in a transaction or not. The basic idea behind stamping was to stimulate business activity by imposing a tax on holding money. However noble the scheme's original intentions may have been, in practice it usually amounted to little more than a backhanded way of imposing a tax on transactions. The unpopularity of the Phenix City scrip led to several attempts to weaken the stamping requirement, as well as early retirement of the scrip issue.[38] According to Harper's (1948) accounts, such experiences characterized scrip issues with the stamping requirement.

Other Cities. In addition to the cities mentioned above, Harper (1948) lists issues of depression scrip by Americus, Dublin, Macon, Sparta, and Thomasville.[39] Other than the fact that the last two cities' scrip required stamps, relatively little information is available at the current time about these scrip is-

sues. According to Mitchell and Shafer (1984), the Americus issue was authorized on February 1, 1933, in an amount not to exceed $10,000. Municipal employees received 40 percent of their pay in scrip for an unspecified period of time. William B. Williford (1975) notes that the Americus municipal scrip served as an emergency currency during the 1933 bank holiday. Nancy B. Anderson (1979) states that Macon paid its employees in scrip for a period of about one year. Though technically not a municipal issue, some scrip was issued by the Sea Island Company during the 1933 bank holiday to serve residents of the resort as an emergency currency.[40] Details concerning the amounts, duration, and valuation of these issues are being investigated.

Fulton County. Harper (1948) also lists a scrip issue by Fulton County. The scrip issue was small and of short duration, but a number of interesting circumstances surrounded the county's decision to issue scrip. The proximate cause of the issue was a demonstration at the Fulton County courthouse on June 30, 1932, in which almost one thousand people participated. Local Communists organized the demonstration in response to the Fulton County commissioners' decision to cut relief expenditures in the face of falling tax revenues (Kuhn, Joye, and West 1990, 206).[41]

On July 1 the commissioners voted to spend $6,000 on a program "to support paupers." An additional $2,000 was voted to this program on July 29, and the program was continued until September 21, 1932.[42] Contemporary newspaper accounts indicate that this relief effort largely consisted of employing jobless men to help maintain county parks. The men were paid in scrip, which was redeemable in food staples at a county commissary. Women and disabled men were given the scrip without being required to work.[43] It is not known whether any of the Fulton County scrip ever circulated. Given that the scrip was issued in bearer form, it seems reasonable to assume that some of it did. To the author's knowledge, Fulton County's was the only scrip issue in the state made for the explicit purpose of providing relief to the unemployed, although Harper (1948) lists five municipalities in other states that had similar relief programs.

Some Lessons from Georgia's Depression Scrip Experience

Monetary systems have historically consisted of a combination of private and public money, sometimes called "inside" and "outside" money. The U.S. monetary system in 1990 is no exception: outside money such as cash circulates alongside inside money such as money market mutual funds. This pattern is likely to continue, although some economists have considered the possibility of an entirely private monetary system (for example, Lawrence H. White 1989). In a quantitative sense, private or inside money has in recent years become increasingly important in our economy. The impact of deregulation and technological innovation has been to create a large new set of financial instruments that possess some degree of "moneyness."

In such an environment, the depression scrip experience in Georgia, and in the United States more generally, provides some interesting lessons as to the usefulness of certain forms of private money. The depression scrip issues essentially represented attempts to create forms of private money whose acceptability would match that of cash, at least in the community where they were issued. Given the current pace of technological change in the financial services industry, it is conceivable that private instruments of a similar nature could circulate sometime in the foreseeable future.[44]

The most obvious implication of the episodes described above is that the real bills doctrine was as applicable in 1930s Georgia as anywhere else; that is, scrip notes issued in excess of the value of their backing were likely to be deeply discounted or simply not accepted as payment for goods or services. The clearinghouse scrip issues of 1933 largely circulated at par because of the virtual certainty of being able to exchange the scrip for Federal Reserve notes, usually after a few days or weeks from the date of the scrip issue. The clearinghouse certificates were in essence backed by the provisions of the Emergency Banking Act that drastically liberalized collateral requirements for advances from the discount windows at the district

Federal Reserve banks. By contrast, the municipal issues studied thus far were often discounted or simply not accepted as payment. The public's reluctance to accept the municipal scrip reflected the fact that these issues were backed only by the uncertain flow of future property tax receipts and were redeemable only after a period of months or even years. The very issue of the municipal scrip, particularly in the case of Atlanta, signaled an unusual disruption in the flow of tax receipts. Under such circumstances, some discounting of the municipal issues would be expected to get people to bear the risk of holding scrip that might not be promptly redeemed.

A second lesson that can be gleaned from the municipal scrip issues is that their riskiness severely limited their usefulness as transactions instruments. The risk associated with the municipal issues could and often did result in a high rate of return for those who accepted the scrip at a discount and held it until the promised date of redemption. The presence of such high returns effectively divided the public into those people willing to accept the risk of holding the scrip at the going rate(s) of discount and those who were not willing to hold the scrip. Once an exchange took place between members of the two groups, further use of the scrip in transactions was unlikely.

A third implication can be drawn from the experience with stamped or self-liquidating scrip issued by Phenix City, Alabama, that was used in Columbus. The unpopularity of this issue, relative to the scrip issued by the Columbus Clearing House Association, suggests such self-liquidating instruments will not be used when alternative means of payment are available. Given that the only real backing behind such an issue was a claim to tax receipts generated by its own use, it is not surprising that the public preferred to use scrip that did not require the payment of this tax. By using the clearinghouse scrip (or cash) instead of the stamped municipal scrip, residents of Columbus were able to avoid the tax on transactions imposed by the stamped scrip as well as any uncertainty concerning redemption of the municipal issue.

Research to this point has provided only a thumbnail sketch of Georgia's experience with scrip money during the Great Depression. Many more details are needed to better evaluate the success of the scrip issues described above, and no doubt other issues have not yet been discovered. One important area that needs to be addressed is the legal status of the various scrip issues. The clearinghouse scrip issues of 1933 were issued under authority of the secretary of the treasury, but the conditions under which the issues were approved are not known. It is also not known how or why the depression scrip issues were able to avoid the restrictions imposed by federal banking law on bank note issue. Another area that needs to be addressed is the possible use of scrip issued by textile mills and other private firms during the 1933 banking holiday. Future research by the author in this area will aim to provide a more complete picture of this fascinating episode in U.S. monetary history.[45]

Notes

[1] To be meaningful, this legal standard had to be backed by the willingness of the U.S. Treasury and private banks to exchange gold for paper money. Periods when holders of either government or private banks' notes were unable to carry out this exchange were generally referred to as "suspensions of convertibility." For purposes of this survey, the various suspensions of convertibility that occurred under the gold standard have been ignored. Also, the "bimetallic" standard of the late ninetenth century has been ignored. See Friedman and Schwartz (1963) or Timberlake (1978) for an introduction to these topics.

[2] See Huntington and Mawhinney (1910, 379 and 424). Article I, section 10 of the Constitution prohibits the states themselves from issuing paper money.

[3] There were almost as many names for scrip as there were issues. Two of the author's personal favorites are "soap wrappers" and "doololly."

[4] See Kennedy (1973, chapter 4) for a detailed account of the Michigan crisis.

[5] *Atlanta Journal*, March 3, 1933.

[6] See Burns (1974, 44-45). Harper (1948, 90-92) notes that Professor Irving Fisher was among the most enthusiastic supporters of a nationwide scrip issue.

[7] See also *Atlanta Journal*, March 13, 1933.

[8] Figures for 1929 are from U.S. Bureau of the Census (1975, 243). Adjustment to 1990 dollars uses the Consumer Price Index (CPI). The estimate in 1990 dollars is probably best thought of as an upper bound because of the use of the 1929 personal income figure, which is probably above the 1933 level, and the inflation of this figure using the CPI, which tends to overstate the rate of inflation over long time periods.

[9] See, for example, "Business Quickly Restored by Atlanta Scrip in 1907," *Atlanta Journal*, March 7, 1933, or "Scrip Means Good Business," *Columbus Enquirer*, March 11, 1933.

[10] *Atlanta Constitution*, March 6, 1933.

[11] Ibid.

[12] For Talmadge's favorable view of scrip, see *Macon Telegraph*, March 13, 1933; also Lemmon (1952, 148). For Talmadge's veto of the state banking bill, see *Atlanta Constitution*, March 14, 1933.

[13] January 1933 figures on the clearinghouse associations are from Rand McNally (1933, 57-58).

[14] See Atlanta Clearing House Association (1950, 36-47). The ACHA called off the scrip issue when it became clear that congressional passage of the Emergency Banking Act would allow all cash needs to be met in Federal Reserve notes.

[15] A March 13 report in the *Atlanta Constitution* indicated that the clearinghouse banks were already open on March 10 for purposes of meeting payrolls and other such "emergencies." Judging from the experience of Georgia communities where scrip was issued, the early availability of this "emergency" currency was probably an important factor in the Atlanta banks' decision not to issue scrip.

[16] "Local Clearing House Perfects Cash Program," *Augusta Chronicle*, March 7, 1933.

[17] *Augusta Chronicle*, March 11-14, 1933. "Par" valuation of the scrip means that prices paid by holders of scrip were the same as customary cash prices.

[18] The *Augusta Chronicle*, March 16, 1933, puts the circulation at around $200,000. Mitchell and Shafer (1984) put the circulation of the Augusta issue at about $275,000.

[19] See *Columbus Enquirer*, March 7-14, 1933; also Luttrell (no date, 11).

[20] Luttrell served as secretary to the Columbus Clearing House Association for the duration of the scrip issue.

[21] *Macon Telegraph*, March 7-15, 1933.

[22] *Savannah Evening Press*, March 8-14, 1933.

[23] *Valdosta Times*, March 7-29, 1933; *Brunswick News*, March 7-23, 1933.

[24] *Brunswick News*, March 7-23, 1933.

[25] Population and school enrollment estimates are those reported in Racine (1969).

[26] *Atlanta Constitution*, December 14, 1930; *Atlanta Journal*, December 18-19, 1930.

[27] *Atlanta Constitution*, December 20, 1932; February 16, 1933; December 5, 1934.

[28] Fleming (1984, 203) presents figures that put the assessed value of the city's tax base at $418 million for 1930, $425 million for 1931, and $381 million for 1932.

[29] Atlanta City Council Minutes, December 15, 1932; December 19, 1932; January 2, 1933; February 3, 1933; February 6, 1933. See also *Atlanta Constitution*, December 13-20, 1932; January 29, 1933; February 7, 1933; February 16-20, 1933.

[30] *Atlanta Constitution*, December 16, 1932.

[31] *Atlanta Constitution*, December 20, 1932; February 16, 1933.

[32] See Kuhn et al. (1990, 144-45 and 201); also unpublished portions of an interview with Hugh McDonald, Living Atlanta Oral History Collection, Atlanta Historical Society.

[33] Almost all of the enabling resolutions in Table 1 have a clause to this effect.

[34] See Atlanta City Council Minutes, November 20, 1932, and Mitchell and Shafer (1984, 62). The *Atlanta Constitution*, November 21, 1933, mentions printing of the scrip but no report of its issue has been found.

[35] *Atlanta Constitution*, November 5, 1935; November 7, 1935.

[36] *Valdosta Times*, March 7, 1933; March 8, 1933.

[37] *Valdosta Times*, March 16, 1933; March 23, 1933; March 25, 1933.

[38] *Columbus Enquirer*, March 22, 1933; April 5, 1933. According to Mitchell and Shafer (1984, 30), the entire issue was retired by June 26, 1933.

[39] Holmes (1974, 326) mentions the use of municipal scrip in Americus and Thomasville.

[40] *Brunswick News*, March 7, 1933.

[41] See also the minutes of the Fulton County Board of Commissioners, June 25, 1932.

[42] Minutes of the Fulton County Board of Commissioners on the indicated dates.

[43] *Atlanta Constitution*, July 12-14, 1932.

[44] As noted in White (1989), the creation of par-acceptance automatic teller machine (ATM) networks constitutes a significant step in this direction. Timberlake (1978) notes that U.S. travelers checks often serve as a quasi-currency in foreign markets.

[45] The author would welcome any information concerning depression scrip issues in Georgia and nearby states from people who had personal experience with scrip. Please contact the author at: Research Department, Federal Reserve Bank of Atlanta, 104 Marietta Street, N.W., Atlanta, Georgia 30303-2713; telephone 404/521-8970.

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