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A Brief History of American Paper Money, with emphasis on Georgist Perspectives

Abstract

Much has been written about the nature of money, but almost all of it treats money as if it was synonymous with debt, i.e. as debt-money. However, there exists a class of sovereign money, largely unknown in our time, but prevalent in large quantities in Henry George's time (1839 – 1897), which was written about, appreciated by a money-starved public, and even used as the foundational issue for a political party, the Greenback Party. The constitution and precedence in the Legal Tender cases of Henry George's time, and beyond, allows for a return to debt-free money.

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Government can, does, and has, created money without debt. It does this currently every time it produces physical coins, and has done so since 1792, under the original coinage act.[1] Although the original coinage act allowed for exact convertibility to gold, silver, and copper,[2] the conversion amounts were changed, and eventually abandoned altogether except for Gold and Silver Eagle coins.[3] Today, and in Henry George's time, coins could be produced without fixed convertibility rates established by the government (this is quite apart from a private market in precious metals, essentially allowing consumers to "buy" precious metals with coins and other monies). The same option for producing money without a convertibility option exists for paper money.

Henry George, writing in The Standard, (December 1889), during the height of the Greenback era, said[4] (emphasis added):

> The constitutional power to issue money comes from the following clauses of the constitution:
> Sec. 8.-The congress shall have power:
>
> > To borrow money on the credit of the United States.
> > To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures.
>
> As to the nature of money…Gold and silver are not of themselves money, nor yet can money be made by legislative fiat. What makes anything money is the common consent to receive it. Where this exists without it, no intrinsic value is needed, Where this does not exist, governments may stamp and issue and fiat in vain. The history of our own governments, as the history of all governments, proves this….
> …gold and silver, and in a less degree, copper, do possess certain natural qualities of permanence, portability and divisibility which peculiarly fit them for use as money so long as intrinsic value is a necessary quality, and which still give to the first of these metals something of the character of an international money as a standard of value and in the settlement of balances. But where there is a credit and confidence behind it sufficiently stable and wide, paper becomes the most convenient and least expensive material out of which money can be made. …
> **The general government should be the only issuer of money, both for the general convenience and the protection (in the true sense of the term) of those who are most liable to have inferior money passed upon them, and because the issuing of credit money for general circulation is a valuable privilege, which ought to be shared by the whole people and not suffered to enrich a few.**
>
> We have at the present time in the United States nine kinds of money in circulation. Copper coins, nickel coins, silver coins, gold coins, silver notes, gold notes, national bank notes and direct treasury notes, or greenbacks. Of these nine kinds of money, only one kind, the gold coins, have an intrinsic value equal to their current value. But this one kind of money, which alone has intrinsic value equal to its current value, is not at all preferred by the people on that account. On the contrary, over the far greater part of the United States … silver notes, national bank notes, or even **greenbacks**, are preferred to gold as having an equal current value and being more portable; and all these nine kinds of money, differing greatly in intrinsic value and representative character,

[1] Coinage Act of 1792 - From Wikipedia, the free encyclopedia - http://en.wikipedia.org/wiki/Coinage_Act_of_1792
[2] United States Statutes at Large/Volume 1/2nd Congress/1st Session/Chapter 16
[3] American Silver Eagle - From Wikipedia, the free encyclopedia - http://en.wikipedia.org/wiki/American_Silver_Eagle
[4] George, Henry, 1889, The Issue of Bimetalism and Money Creation

> circulate interchangeably at par with one another. The induction is irresistible that it is not the intrinsic value of the money, or anything that is pledged for the redemption of the money, or is held by the United States as its representative, but the credit of the government itself which secures the common consent by virtue of which our money circulates. … One uniform currency, consisting of paper and subsidiary coins, the direct issue of the government, and such gold coin as anybody wanted the United States to assay and stamp, would save an enormous sum annually to the people of the United States.
>
> The real thing which gives paper money its validity is not the government stamp, but the common consent and general credit which attend it.

George concluded with a warning:

> What the silver men want are two things, or rather there are two classes of silver men, each wanting a separate thing, who are uniting their forces:
> 1. Those who want the government to buy silver for which it has no need, in the hope that they will get a higher price for their metal.
> 2. Those who want to depreciate the currency by bringing it to a silver basis.
> I am opposed to both these projects. But if we must depreciate our currency let us at least do it in the cheapest and most manly fashion, by issuing directly currency enough to do it, without buying hundreds of tons of silver for which we have utterly no use.

George, then, was a fiat, paper money, advocate, even going so far as to call for inflation in "manly fashion" by over-producing currency instead of depreciation by tying it to hundreds of tons of silver. In practice, it is the private and Central Banks, acting in the private interest, which have over-produced money, not the government.

Pre-Revolution

Paper money, like other kinds of currency, has a long and complex history in the United States. Paper Notes was in use before and during the Revolution[5]:

> There are two distinct epochs of paper money in America.
> The first began in 1690 and ended with the adoption of the U.S. Constitution in 1789. In this first epoch the legislatures of the various colonies (later states) directly issued their own paper money — called bills of credit — to pay for their own governments' expenses and as mortgage loans to their citizens, who pledged their lands as collateral. This paper money became useful as a circulating medium of exchange for facilitating private trade within the colony/state issuing it. By legal statute and precedent, people could always use their paper money to pay the taxes and mortgage payments owed to the government that had issued that specific paper money, which, in turn, gave that money a local "currency." There could be as many different paper monies as there were separate colonies and states.

Several colonies – Massachusetts, New Jersey – issued paper money, *not redeemable in precious metals.*[6]
Ben Franklin rescued Pennsylvania from depression caused by lack of currency, by issuing state-sanctioned paper money (1723).[7]
Paper money became so popular that the English Crown banned it in 1764, preventing the colonies from

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[5] Grubb, Farley, 2006 Philadelphia Federal Reserve, ben-franklin-and-paper-money-economy.pdf
[6] Zarlenga, Stephen 2002, Pg, 368, "The Lost Science of Money"
[7] Zarlenga, Stephen, Pg. 370

paying debts to creditors in paper money[8] despite pleadings from Franklin:

> I'll tell the honorable gentlemen of a revenue that will produce something valuable in America: Make paper money from the colonies, issue it upon loan there, take the interest, and apply it as you think proper.

The Revolution

Both Franklin and economic historian Alexander Del Mar attributed the true cause of the Revolution to the suppression of paper money in the colonies.[9] It was this, and not some small tax on tea, or other duties, they say, which led to the Revolution.

During the revolution, the fate of the Continental is well-known from the phrase "not worth a Continental" but underappreciated is the "Massive British Counterfeiting of the Continentals"[10] during the Revolution, debasing the currency greatly. This, combined with the individual States' own competing issuance of paper money, contributed to tremendous inflation. Later, the constitution under Article 1, section 10, would explicitly prohibit the states from issuing their own forms of money.

The Constitution and the Coinage Clause

"Poor? Look upon his face. What call you rich? Let them coin his nose, let them coin his cheeks." - William Shakespeare

The meaning of the phrase to "coin Money" (capitalization in the original) in Article 1, Section 8, has been greatly debated, by the "coiners" of the phrase itself, as well as the ratifiers, and in subsequent Legal Tender Cases by the Supreme Court.

These Legal Tender Cases were argued after president Lincoln first issued United States Notes to fund the Civil War ($450 million); a move that was challenged after the war, even by his own then-Secretary of the Treasury, Salmon Chase (later the Chief Justice of the Supreme Court)! Timothy Canova, writing for the Nova Southeastern University Shepard Broad Law Center says[11]:

> This was the nation's first fiat currency - "United States Notes," also known as the greenback - which made up about 40 percent of the nation's money supply during the peak of the Civil War.

Forty percent. That is an extraordinary amount of new currency to introduce in about a year, via three Legal Tender Acts (1862 – 1863), but even though there was short-term inflation, in large part caused by shortages due to the war itself and by concurrent borrowing, over the Greenback's heyday in the late 19th century, the Greenback became so popular that a political party was formed to insure its future.[12]

Robert G. Natelson, writing in the Harvard Journal of Law and Public Policy, opens his long and heavily sourced academic paper with the Shakespeare quote above, immediately casting doubt on the popular, but erroneous, interpretation of the constitutional phrase "coin Money" as meaning to "make any Thing but gold and silver Coin a Tender in Payment of Debts…" (capitalization in the original), a phrase which is actually from Article 1, section **10** – *the only place gold or silver Coin is mentioned in the constitution.* The constitution makes it clear that gold and silver Coins are to be used as payment by the *States alone*, not the *Federal* Government. And in fact, there is no precedent for even the States ever having paid their

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[8] Zarlenga, Stephen Pg. 375
[9] Zarlenga, Stephen Pg. 378
[10] Zarlenga, Stephen Pg. 380
[11] Lincoln's Populist Sovereignty: Public Finance Of, By, and For the People, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1489439
[12] The Greenback Party - http://en.wikipedia.org/wiki/Greenback_Party

debts in species (gold or silver coin[13]).

It is clear that, after some rulings, and reversed rulings, but culminating in Legal Tender case **Julliard vs. Greenman**, (1884) that the Federal Government does have the power, albeit under the borrowing clause of the constitution, to issue paper money.[14]

From the opening of the court decision[15]

> Congress has the constitutional power to make the Treasury notes of the United States a legal tender in payment of private debts, in time of peace as well as in time of war.
> Under the Act of May 31, 1878, c. 146, which enacts that when any United States legal tender notes may be redeemed or received into the Treasury, and shall belong to the United States, they shall be reissued and paid out again, and kept in circulation, notes so reissued are a legal tender….
> MR. JUSTICE GRAY delivered the opinion of the Court.
> The notes of the United States, tendered in payment of the defendant's debt to the plaintiff, were originally issued under the Acts of Congress of February 25, 1862, c. 33; July 11, 1862, c. 142, and March 3, 1863, c. 73, passed during the war of the rebellion, and enacting that these notes should "be lawful money and a legal tender in payment of all debts, public and private, within the United States," except for duties on imports and interest on the public debt. 12 Stat. 345, 532, 709.
> The provisions of the earlier acts of Congress, so far as it is necessary for the understanding of the recent statutes to quote them are reenacted in the following provisions of the Revised Statutes:
> "SEC. 3579. When any United States notes are returned to the Treasury, they may be reissued, from time to time, as the exigencies of the public interest may require."
> "SEC. 3580. When any United States notes returned to the Treasury are so mutilated or otherwise injured as to be unfit for use, the Secretary of the Treasury is authorized to replace the same with others of the same character and amounts."
> "SEC. 3581. Mutilated United States notes, when replaced according to law, and all other notes which by law are required to be taken up and not reissued, when taken up shall be destroyed in such manner and under such regulations as the Secretary of the Treasury may prescribe."
> "SEC. 3582. The authority given to the Secretary of the Treasury to make any reduction of the currency by retiring and canceling United States notes is suspended."
> "SEC. 3588. United States notes shall be lawful money, and a legal tender in payment of all debts, public and private, within the United States, except for duties on imports and interest on the public debt."

Natelson further says:

> One might have expected an inquiry into whether the phrase "to coin Money" encompassed paper, for an affirmative answer would render the implied-powers arguments of both sides unnecessary.

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[13] This writer has argued elsewhere that gold and silver, when used simply as a store of value, as in gold bars, should be taxed, like other forms of Land, under a Georgist paradigm, since gold and silver are two of very few metals that never rust, degrade or age. The amount of wasted human and natural resources used simply to store gold and silver bullion, plus the under-taxed pollution costs of this intensely polluting industry, makes it something that should be paid for by those who operate it. George said: "We have deliberately substituted a costly currency for a cheap currency; we have deliberately added to the cost of paying off the public debt… We are digging silver out of certain holes in the ground in Nevada and Colorado and poking it down other holes in the ground in Washington, New York, and San Francisco." (Soc Problems, pg. 168)

[14] Natelson, Robert G. The Coinage Clause in the Constitution.

[15] U.S. Supreme Court Center – Legal Tender Cases, - 110 U.S. 421 (1884) – Julliard vs. Greenman

> But neither side has made such an inquiry, and both have assumed that the phrase "to coin Money" was limited to metallic tokens. They have so assumed even though the Constitution's wording and structure should have encouraged investigation. As explained below, ascribing a purely metallic meaning to "coin" creates serious textual difficulties.

These "textual difficulties" might be summed up thusly: The Founders were perfectly capable of saying when, how, and who, should create actual **Coins** for repayment of debts, and when they used the verb "to coin" they meant *to make*. They were neither inarticulate, nor "cute," in coining the phrase "to coin" but were using the frequently used nomenclature of the times, and still, ours. For example, under the Supreme Court's decisions,[16] McCulloch v. Maryland, (1819) and Veazie Bank v. Fenno, (1869), the Supreme Court has affirmed the…

> FISCAL AND MONETARY POWERS OF CONGRESS
> Coinage, Weights, and Measures
> The power "to coin money" and "regulate the value thereof" has been broadly construed to authorize regulation of every phase of the subject of currency. Congress may charter banks and endow them with the right to issue circulating notes, and it may restrain the circulation of notes not issued under its own authority.

In Veazie, the court said[17]:

> It cannot be doubted that under the Constitution the power to provide a circulation of coin is given to Congress. And it is settled by the uniform practice of the government and by repeated decisions, that Congress may constitutionally authorize the emission of bills of credit.

Conclusion

Today, United States Notes can be bought for about twice their face value on eBay. And…

> As of June 2011, the U.S. Treasury calculates that $230 million in United States notes are in circulation, and excludes this amount from the statutory debt limit of the United States.[18]

1963 $5 U.S. Note - Wikipedia commons..

Options to reissue U.S. Notes have been proposed by both Republicans and Democrats on several occasions, including the current Transportation Secretary when he was in Congress, Ray LaHood.[19] LaHood proposed reissuing $360 billion in 1999, roughly 100 times the last authorized amount - $346,681,016[20] - of Greenbacks when they were finally phased out in 1996, in order to rebuild transportation infrastructure. From the bill summary[21]:

> **H. R. 1452**
> To create United States money in the form of noninterest bearing credit in accordance with the 1st and 5th clauses of section 8 of Article I of the Constitution of the United States, to provide for

[16] http://law.justia.com/constitution/us/article-1/38-fiscal-and-monetary-powers.html#02
[17] http://caselaw.lp.findlaw.com/scripts/getcase.pl?navby=case&court=us&vol=75&page=533
[18] http://en.wikipedia.org/wiki/United_States_Note
[19] http://www.pacificprogressive.com/2010/02/reviving-the-economy-via-public-transportation.html
[20] http://en.wikipedia.org/wiki/United_States_Note#Post_Civil_War
[21] http://www.govtrack.us/congress/bills/106/hr1452

noninterest bearing loans of the money so created to State and local governments solely for the purpose of funding capital projects.

Although H.R. 1452 was not passed, the fact remains that Congress can simply issue Greenbacks *in any amount, at any time, for any reason*. I have created a petition to encourage Congress to do so here: http://www.change.org/petitions/end-the-debt-crisis-with-debt-free-united-states-notes, which is also exhibit B in a lawsuit against Treasury wending its way through the courts, and more fully described here: http://www.opednews.com/articles/The-American-Crisis--To-F-by-Clifford-Johnson-120103-997.html [22]

Additionally, sole use of this kind of Treasury-direct money is specified in Rep. Dennis Kucinich's bill, HR2990, based on Stephen Zarlenga's proposal from the American Monetary Institute[23].

It is telling that United States Notes have been excluded from the debt limits and from directly paying down the debt, but in practice, this is a feature, not a bug, of United States Notes, since it allows this form of currency to be put to more productive use. A better, more productive way to inject this new money into the economy would be via public works jobs (we are still living off the great public works produced by FDR). The national debt can, in any case, be paid off *indirectly* through increased tax revenues resulting from growth and full employment, while the government ends borrowing, *forever*. It is unusual to be living in an age with virtually all money based upon a single form of currency, Federal Reserve Notes. George listed *nine* different types of money (see above), and said Greenbacks were among the most popular.

Double entry accounting, an accountant friend of mine assures me, is not a God-given law, or something without which financial accounting cannot function. Indeed, reforming this part of accounting is part of what the N.E.E.D. Act (HR 2990) would accomplish. There is no reason to stick with a system that *must* produce debt every time it produces *money*. We *can* split debt and money. FDR did it to a limited extent. Lincoln did it more thoroughly. Franklin did it conceptually, as did the founders in the constitution. The Mint does it still today with coins.

Henry George recognized the inherent moral superiority of having the government produce money, debt-free, instead of a private banking cartel, or, conversely, of having "wildcat banking"[24] where dozens of regional banks and even private businesses like taverns, could produce their own money.[25]

So, why not split the difference? Have government provide more money when needed, counter-cyclically, and for big, national projects that only government can do, but *do it in a way that doesn't increase the debt.*

To counter ever-rising levels of debt, provide full employment, end the economic crisis, decrease the dependency of democratically elected government on the unelected elite banks, reduce corruption, and to create jobs for things that need to be done, Congress should create debt-free United States Notes.

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[22] Johnson, Cliff - The American Crisis: To Free a Lender-Owned Nation (Part 1)

[23] American Monetary Institute - http://www.monetary.org/

[24] George, Henry "The evils entailed by wildcat banking in the United States are too well remembered to need reference… and no-one would now go back to them." - http://www.progress.org/2003/moneyz05.htm

[25] This is a separate issue from Local Exchange Transaction Systems (LETS), and beyond the scope of this paper.

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