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By Karen Flamme

In our society today, money's value is measured by what it can buy--its purchasing power--not by its material worth, but it hasn't always been so. American currency has spanned centuries of evolution and numerous transfigurations to reach the size and shape that we carry in our wallets today. It has been an evolutionary process which often came about in times of crisis--like the Civil War or Great Depression--or to respond to demand as society struggled to put into place a monetary system that would function smoothly and inspire confidence. This development process is ongoing and continues even now as redesigned currency is issued in 1996. But the legacy of the process is a rich heritage of United States currency that gives us a fascinating, colorful, and reflective glimpse into the growth of our nation.

The Federal Reserve Bank has a special interest in this subject. As part of our role as the government's central bank we are responsible for putting currency, as well as coin, into circulation. Indeed, the warehousing, shipping, processing, and handling of currency are major functions of the regional Reserve banks.

Colonial and Continental Currency

The Massachusetts Bay Colony issued the first paper money in the colonies in 1690. Other colonies soon followed suit to meet the high demand for money fueled by trade between the colonies and the scarcity of coin (which was the common form of money up to this date). Some of this early money was readily accepted, but some was not redeemed in gold or silver as promised and thus depreciated rapidly. These currencies, however, set a precedent for the first national currency which was issued during the War for Independence.

To finance the Revolutionary War, the Continental Congress in 1775 authorized the limited issuance of paper currency. These notes, called Continentals, were denominated in dollars and backed by the "anticipation" of future tax revenues, with no backing in silver or gold. They could be redeemed only upon the independence of the colonies.

Continents were an interesting expression of the new nation's sovereignty, as they did...
not feature pictures of the crown or King of England. In fact, some were printed from plates engraved by Paul Revere to read "The United Colonies" and bore pictures of colonial minutemen.

Without solid backing and with rising inflation, the Continentals soon became worthless, thus the expression "not worth a Continental." Or, as George Washington put it, "A wagonload of currency will hardly purchase a wagonload of provisions."

In 1777 after the Declaration of Independence was signed, the first notes bearing the words "The United States" were issued and signed by well-known revolutionary figures to give them credibility.

The remnant of this experience was a deep distrust of paper money which was not issued again by the federal authorities until the Civil War when the Federal government first issued paper money. The Continental was significant, however, in that it marked the first time that the worth of U.S. currency lay in its purchasing power and not in its intrinsic value.

**Free Banking Era**

In 1791 the Bank of the United States received a charter to operate until 1811, followed by the Second Bank of the United States from 1816 to 1836. These two banks, chartered by Congress rather than a state, performed several central bank functions. Although privately owned, they were authorized to issue paper bank notes and serve as the fiscal agent of the government. Both banks, however, were unpopular with those wanting easy credit--primarily the western, agrarian interests--and in 1832 Andrew Jackson vetoed the recharter of the Second Bank.

Thus followed the "Free Banking Era"--a quarter century in which American banking was a hodgepodge of state-chartered banks with no federal regulation or uniformity in operating laws. State Bank notes of various sizes, shapes, and designs were in circulation. Some of them were relatively safe and exchanged for par value and others were relatively worthless as speculators and counterfeiters flourished. By 1860, an estimated 8,000 different state banks were circulating "wildcat" or "broken" bank notes in denominations from ½ cent to $20,000. The nickname "wildcat" referred to banks in mountainous and other remote regions that were said to be more accessible to wildcats than customers, making it difficult for people to redeem these notes. The "broken" bank notes took their name from the frequency with which some of the banks failed, or went broke.

**Civil War**

Once again the need to finance a war provided the impetus for a change in the monetary system. In 1861, to finance the Civil War, Congress authorized Demand Notes--the first issue of paper money by the government since the Continentals. These Notes were printed in $5, $10, and $20 denominations, redeemable in coins on demand, and green in color--hence the name "greenbacks." A total of about $10 million was issued, a relatively small series. These notes, and all paper money issued since 1861, are still valid and redeemable in current cash at face value. While most early money is now in the hands of collectors or museums, it is important to note the record of currency stability which this represents.

In 1862, Congress discontinued issuing Demand Notes and issued Legal Tender Notes, also known as United States Notes. These new notes--issued in denominations from $1 to $1,000 (later $5,000 and $10,000)--were the first national currency used as legal tender for most public and private debts. The design of these notes incorporated a Treasury seal, fine-line engraving, intricate geometric lathe work patterns, and later incorporated various forms of distinctive cotton and linen papers with embedded red and blue fibers. Confidence in the notes waned somewhat when the Treasury stopped redeeming them in coins during the Civil War to save gold and silver. However, redemption resumed in 1879 following the war.

Coin hoarding and the need to use metals for war purposes created a shortage of coin during the Civil War and led to the circulation of small change substitutes. In some cases these included tickets, bills, and even postage stamps. From 1862 to 1876 the government issued more than $368 million in Fractional Currency in three-to fifty-cent denominations. These "paper coins," which were much smaller in size than our present
currency, were nicknamed "shinplasters," as the hardships of war often forced troops to line their worn-out boots with them. These fractional notes are still redeemable today.

Between 1861 and 1865 Confederate currency was being issued to millions of Southerners, gambling that a Confederate victory would ensure the currency would be redeemable. In an effort to debase this currency, the North printed counterfeit Confederate money and circulated it in the south. Inflation was soon rampant in both the north and south, but far worse in the Confederacy. As the end of the war neared, Confederate citizens completely lost confidence in their currency and came to rely on barter or black-market greenbacks. In some cases Confederate soldiers were even paid in Northern greenbacks. By the end of the war, Confederate notes were totally worthless.

**National Bank Act**

President Abraham Lincoln, urged by the Secretary of the Treasury, convinced Congress to pass the National Banking Act in 1863 which established a national banking system and a uniform national currency to be issued by the new "national banks." The banks were required to purchase U.S. government securities as backing for their National Bank Notes. In 1865 a 10-percent tax was levied on State Bank notes eliminating the profit in issuing them and basically taxing them out of existence.

Although United States Notes were still widely accepted as a medium of exchange, most paper currency circulating between the Civil War and World War I consisted of National Bank Notes. They were issued from 1863 through 1932. From 1863 to 1877 National Bank Notes were printed by private bank note companies under contract to the Federal government. The Federal government took over printing them in 1877.

**Gold and Silver Certificates**

The economy was in turmoil in the late 19th century. The government, in a move to increase its reserve of precious metals, offered certificates in exchange for deposits of silver and gold.

Gold certificates, colorful and vivid, were first issued in 1863 and put into general circulation in 1882. They are among the most attractive of all currency issues, with the reverse a brilliant golden orange, symbolic of the gold coin they represent. In 1933, when the country faced a severe depression and a banking crisis, the public began to demand gold.

Runs developed on both Federal Reserve Banks (which had been established under the Federal Reserve Act in 1913) and commercial banks. In order to deal with this crisis, only Federal Reserve Banks were permitted to hold gold. In 1934, Federal Reserve Banks were required to turn over all gold coin, bullion, and certificates to the U.S. Treasury in return for a new type of gold certificate. These were never put into circulation and the last ones were printed in January 1935. In 1964, private citizens could once again hold gold certificates issued before January 30, 1934, but they could no longer be redeemed in gold. This changed in 1974, and private U.S. citizens could once again hold gold legally.

Silver certificates were first issued in exchange for silver dollars in 1878. They offered many varieties of design and subject matter including inventors, military heroes, a Sioux Indian, and the famous Educational series of 1896. An 1886 $1 silver certificate is also the only piece of U.S. paper currency to bear the portrait of a woman--Martha Washington.

For many years silver certificates were the major type of currency in circulation. However, in the early 1960s when the price of silver jumped to over $1.29 an ounce it was evident that further increases would make it profitable for holders of silver coins to sell them in the open market. To avert this crisis, Congress eliminated silver certificates in 1963, and empowered the Federal Reserve to issue $1 and $2 Federal Reserve Notes for the first time.

**Federal Reserve System**

In 1913 a major change in paper currency occurred with the passage of the Federal Reserve Act aimed at
resolving some long-standing money and banking problems which had led to bank failures, business bankruptcies, and general economic contractions. The Act created the Federal Reserve System as the nation's central bank to regulate the flow of money and credit for economic stability and growth. In 1914, Federal Reserve Notes, which comprise more than 99 percent of today's paper money, were issued by Federal Reserve Banks as direct obligations of the Federal Reserve System. They replaced National Bank Notes as the dominant form of paper money.

Federal Reserve Notes were issued in denominations ranging from $1 to $10,000. The $100 note has been the largest denomination printed since 1946, and in 1969 all notes greater than $100 were retired because of declining demand.

The design of Federal Reserve Notes has changed little over the years. In 1929, the size of the notes was reduced; in 1955, the inscription "In God We Trust" was added; and in 1966, the Latin wording on the Treasury seal was replaced by an English translation. In 1929, it was also decided that all currency would have a portrait on the front, and denominations under $100 would have buildings or monuments on the back. Higher denominations had the denomination on the back.

A New Look for Currency

In 1990 a new series of notes was introduced to improve security and stay ahead of counterfeiters and advances in technology which make it easier to reproduce currency. These notes include microprinting and an embedded security strip.

A more complete redesign is being introduced starting with the issue of new $100 bills early in 1996 and will continue as new designs for the lower denominations are introduced at intervals of about a year. The most noticeable changes in the $100 bill are that the portrait of Benjamin Franklin is larger and off center and the borders are simplified. This creates more space to incorporate a watermark in the paper to the right of the portrait depicting the same historical figure as the portrait.

Other new or modified features include the use of a unique security thread which glows red when exposed to ultraviolet light, color-shifting ink, microprinting, and fine-line printing. A universal Federal Reserve seal appears on the new note, rather than an individual seal for each Reserve Bank. This is expected to create some efficiencies in production ad inventory. The Federal Reserve District letter ("L," in the case of San Francisco) is being retained, however, and will be included in the serial number.

The Future of Currency

Despite predictions of a "cashless society" relying on electronic payments, the public demand for currency continues to grow. Debit cards used for purchases and transaction records could greatly reduce the need for cash, but paper currency still has the advantage of privacy.
Did You Know?

- During much of the 17th and 18th centuries, the Spanish Dollar coin served as the unofficial national currency of the American colonies. To make change the dollar was actually cut into eight pieces or "bits." Thus came the terms "pieces of eight" from these early times and "two bits" from our time.
- More than half of a dollar bill is considered legal tender, and only the front of a dollar bill is valuable. If you could separate the front of a bill from the back, only the front half would be considered "money."
- In 1955 a law was passed that all new designs for coin and currency would bear the inscription "In God We Trust." Those words had first appeared on a U.S. coin--the two-cent piece--in 1864.
- Until 1929 currency measured 7.42 x 3.13 inches. Since then it has remained at its present size of 6.14 x 2.61 inches--an easier size to handle and store. Since that size requires less paper, it is also less expensive to produce.
- By 1865 approximately one-third of all circulating currency was counterfeit, and the Department of the Treasury established the United States Secret Service in an effort to control counterfeiting.

The lobby of the headquarters building in San Francisco will soon house one of the preeminent exhibitions of historical United State currency in existence. This Bank's collection is outstanding in terms of the diversity of notes and rarely seen denominations and series, long forgotten by the public. It contains more than 1,700 individual notes and is considered by numismatists to be irreplaceable.

Many pieces in the collection date from the 1880s, with the oldest being an 1862 $10 Legal Tender note bearing the signatures of Treasury officials Chittenden and Spinner. The most valuable item in the collection is one of only two known, remaining $10,000 gold certificates printed in 1882, signed by Treasury officials Teehee and Burke and marked with a small red seal. It is valued at over $200,000 by numismatists. Another item, a series 1890 Treasury/Coin $1,000 note, with Rosecrans and Neibeker signatures and a small red seal, is one of only two known existing bills and is valued at $150,000. Several items in the collection are the only remaining notes of their type in existence.

This collection, interestingly enough, was rediscovered in the vaults below the Federal Reserve Bank of San Francisco in 1992. Long forgotten in the Bank's day-to-day operations, the currency had remained sequestered in a padlocked, steel currency cart for more than 40 years. It was when one of the nation's foremost experts on U.S. historical currency learned of the Bank's collection and asked to view it that the rediscovery process began.

It is believed that at least parts of the collection were sent to the Bank long ago from the Treasury department as historical currency specimens. Other pieces were acquired during the 1950s when the Bank exchanged duplicate pieces in an effort to increase the collection and create a display--a project which never materialized at that time.

The new exhibition is an addition to the existing "World of Economics" and will be of interest to the general public and educators as well as numismatists. It is designed to integrate both the economic and chronological history of the United States.