A BRIEF HISTORY OF AMERICAN PAPER MONEY, WITH EMPHASIS ON GEORGIST PERSPECTIVES

(By Scottt Baker, New York, NY

Here in the New York City/Metro chapter of Common Ground, we have had discussions not only on the Land question, which we all support in the Georgist reformist sense, but on the relative role of money in setting things up for a more just and fair society.

Finally, during the Spring of 2011, we took a vote on the following ballot proposal (submitted by me):

Writing in a 2003 issue of Common Ground's newsletter GroundSwell, Stephen Zarlenga quotes Henry George on his concept of Money:

"Writing on money and government, at age 44, in Social Problems (1884), he had an advanced concept of how a money system should operate:

"It is not the business of government to to direct the employment of labor and capital..."On the other hand it is the business of government to issue money... To leave it to everyone who chooses to do so to issue money would be to entail general inconvenience and loss, to offer, to offer many temptations to roguery, and to put the poorer classes of society at a great disadvantage. These obvious considerations have everywhere... led to the recognition of the coinage of money as an exclusive function of government.

"...The evils entailed by wildcat banking in the United States are too well remembered to need reference. The loss and inconvenience, the swindling and corruption that flowed from this ended with the war, and no-one would now go back to them.

"Yet instead of doing what every public consideration impels us to, and assuming as the exclusive function of the General Government the power to issue money, the private interests of bankers have, up to [now], compelled us to the use of a hybrid currency." (Social Problems, 178-9)

The complete speech can be found here: http://commonground-usa.net/zarhg03.htm and the full 80-page research paper, sponsored by the Robert Schalkenbach Foundation here: http://www.monetary.org/henrygeorgeconceptofmoney.htm.

Should Common Ground-NYC officially support Money only produced by the Federal Government and not by individual banks via the fractional reserve system?
Yea _____ or Nay ______

The vote came back:

Should Common Ground-NYC officially support Money only produced by the Federal Government and not by individual banks via the fractional reserve system?

yea 8 nay 4

The membership has grown and changed since then, but the local chapter has continued to support its previous vote. We have undertaken several activities to support our secondary position on money creation – producing and passing out fliers on the money issuance issue, speaking on Public Access TV (me), writing articles (me), etc.

More recently, I started attending the Money and Credit course now being given at the New York City Henry George School – I would like to think that our members were somewhat instrumental in persuading the school to tackle this aspect of Georgist economic reform and education, as we argued for it for nearly a year, and one of our members, former school Director Cay Hehner, and long-time member Lindy Davies, actually submitted a course curriculum to the school, though a shorter, less intensive curriculum was ultimately adopted.

The nature of the course inspired me to write the following paper, also published as an article on Op Ed News: http://www.opednews.com/articles/A-Brief-History-of-America-by-Scott-Baker-121012-421.html.

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. The same option exists for paper money.

Henry George, writing in The Standard, (December 1889), during the height of the Greenback era, said (The Issue of Bimetalism and Money Creation - http://www.cooperativeindividualism.org/george-henry_issue-of-bimetalism-and-money-creation-1889.html, 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 (continued on page 4)

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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 (I do not know how it is now in California, as I have not been there for some years), 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, 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. Therefore it is a sheer waste that we should be buying and hoarding up in treasury vaults immense quantities of gold and silver that might as well be in the mines from which they are taken for any useful purpose they are serving. 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.

Pre-Revolution

Paper money, like other kinds of currency, has a long and complex history in the United States. Paper Notes were in use before and during the Revolution (www.philadelphiafed.org/publications/economic-education/ben-franklin-and-paper-money-economy.pdf):

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. Ben Franklin rescued Pennsylvania from depression caused by lack of currency, by issuing state-sanctioned paper money (1723).
Paper money became so popular that the English Crown banned it in 1764, preventing the colonies from paying debts to creditors in paper money 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. 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" during the Revolution, debasing the currency greatly (metals (Zarlenga, Steven – "The Lost Science of Money" Pgs. 365-380). This, combined with the States' own continued over-issuance of paper money, contributed to tremendous inflation.

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 (cont. on page 5)

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"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 ratifies, 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 later 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 (Lincoln's Populist Sovereignty: Public Finance Of, By, and For the People, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1489439).

"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, 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 (The Greenback Party - http://en.wikipedia.org/wiki/Greenback_Party).

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 the States ever having paid their debts in species (gold or silver coin).

(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).

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

From the opening of the court decision (Justica.com – U.S. Supreme Court Center – Legal Tender Cases, - 110 U.S. 421 (1884) – Julliard vs. Greenman - https://supreme.justia.com/cases/federal/us/110/421/case.html):

"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" (continued on page 6)

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encompassed paper, for an affirmative answer would render the implied-powers arguments of both sides unnecessary. 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 action phrase (a verb) "to coin" they meant to make. They were neither inarticulate, nor "cute," in using the phrase "to coin" but were using the frequently used nomenclature of the times. For example, under the Supreme Court's decisions, (http://law.justia.com/constitution/us/article-1/38-fiscal-and-monetary-powers.html#02) McCulloch v. Maryland, (1819) and Veazie Bank v. Fenno, (1869) (http://caselaw.lp.findlaw.com/scripts/getcase.pl?navby=case&court=us&vol=75&page=533), 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:

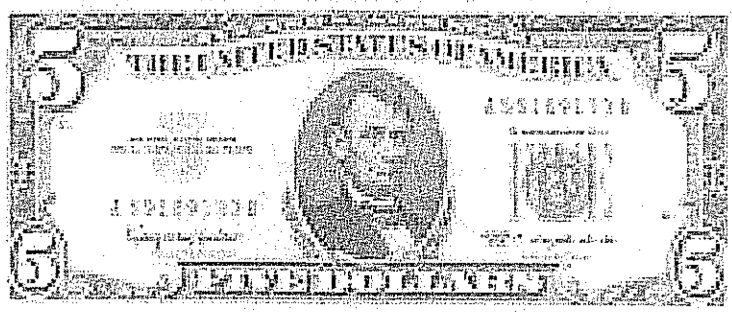
"It cannot be doubted that under the Constitution the power to provide a circulation of coin is given to Congress. And it is settled by the uniform practice of the government and by repeated decisions, that Congress may constitutionally authorize the emission of bills of credit."

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."

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. LaHood proposed reissuing $360 billion, roughly 100 times the last authorized amount – $346,681,016 -- of Greenbacks when they were finally



[From Wikipedia - 1963 $5 U.S. Note - http://en.wikipedia.org/wiki/United_States_Note].

phased out in 1999, in order to rebuild transportation infrastructure. (http://www.pacificprogressive.com/2010/02/reviving-the-economy-via-public-transportation.html) Although that bill was defeated, 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: Johnson, Cliff - The American Crisis: To Free a Lender-Owned Nation (Part 1) (http://www.opednews.com/articles/The-American-Crisis--To-F-by-Clifford-Johnson-120103-997.html)

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

It is telling that United States Notes are excluded from the debt limits, 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.

Double entry accounting, an accountant friend of mine assures me, is not a God-given law, or something without which financial accounting cannot function. This 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. Franklin did it. The Mint does it 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" (George, Henry - http://www.progress.org/2003/moneyz05.htm; see also, Mihm, Stephen – "A Nation of Counterfeiters: Capitalists, Con Men, and the Making of the United States") (continued on page 10)