

Six Kinds of United States Paper Currency

Optimum Window Width



On 10 July 1929 the United States replaced its large size currency, like the Series 1923 Silver Certificate One Dollar bill above (click on the image for the reverse design), with small size notes, like the corresponding Series 1928 note following:



The purpose of this change was simply to save some money on paper, but the timing inadvertently signified a new era in United States money. When the change was made there were no less than **six kinds** of United States paper currency, but only three months later the stock market crash ushered in the era of the Great Depression, during which three of those kinds of currency would disappear. Thirty years later, two of the remaining kinds of currency would also disappear, leaving only one.

The six kinds of currency in 1929, colored coded with the colors of their seals and serial numbers, and with the denominations they were issued in series 1928 and 1929 (though not always in those years themselves), were:

- **United States Notes** (Series 1928: \$1 \$2 \$5) [Go!](#)
- **Gold Certificates** (Series 1928: \$10 \$20 \$50 \$100 \$500 \$1000 \$5000 \$10,000) [Go!](#)
- **National Bank Notes** (Series 1929: \$5 \$10 \$20 \$50 \$100) [Go!](#)
- **Silver Certificates** (Series 1928: \$1) [Go!](#)
- **Federal Reserve Bank Notes** (Series 1929: \$5 \$10 \$20 \$50 \$100) [Go!](#)
- **Federal Reserve Notes** (Series 1928: \$5 \$10 \$20 \$50 \$100 \$500 \$1000 \$5000 \$10,000) [Go!](#)

The three kinds of currency that remained after the Depression were:

- **United States Notes** (Series 1953: \$2 \$5) [Go!](#)
- **Silver Certificates** (Series 1953: \$5 \$10 -- Series 1957: \$1) [Go!](#)
- **Federal Reserve Notes** (Series 1950: \$5 \$10 \$20 \$50 \$100) [Go!](#)

And all that remained by 1970 were:

- **Federal Reserve Notes** (Series 1969: \$1 \$5 \$10 \$20 \$50 \$100 -- Series 1976: \$2) [Go!](#)

The origin and nature of these kinds of currency will be considered below. Although the color of the seals and serial numbers on Gold Certificates was yellow, here orange is used for greater contrast. The reverse of large note Gold Certificates had actually *been* orange, "goldbacks" as opposed to "greenbacks"; but small note Gold Certificates were made "greenbacks" also. (That was reversed with series 1934 Gold Certificates, which again had orange reverses, but those notes never circulated to the public).

That large note was for



was part of a process to unify the design of all the currency. The variety of design gave way to common elements and a common look for the small notes. This changed little over the years, until a radically redesigned \$100 bill introduced in the 1990's, inaugurating a gradual change in all the currency security reasons. United States currency had never featured anti-counterfeiting devices like watermarked paper and security threads, which had appeared in foreign money decades earlier.

All the small notes featured a portrait of **Washington** for the \$1 note, **Jefferson** for \$2, **Lincoln** for \$5, **Hamilton** for \$10, **Jackson** for \$20, **Grant** for \$50, **Franklin** for \$100, **McKinley** for \$500, **Cleveland** for \$1000, **Madison** for \$5000, and **Chase** for the \$10,000. When one series of \$100,000 notes was issued (1934 Gold Certificates), **Wilson** was put on them. Although these portraits are often called "dead presidents," three of them, Hamilton, Franklin, and Chase, were never Presidents. Large notes had featured many more portraits, including Martha Washington, William Tecumseh Sherman, John Marshall, James Monroe, the Sioux Indian Takokainyanka, Samuel F.B. Morse, and many others.

Salmon B. Chase, on the \$10,000 bill, was an old Abolitionist lawyer and politician (from the pre-Republican **Liberty Party**). As it happened, he was appointed by Abraham Lincoln to be Secretary of the Treasury and was responsible both for the introduction of federal paper money during the Civil War and for the motto "In God We Trust," which was introduced on the coinage at that time (but which did not appear on currency until 1957). In 1864 Chase was appointed Chief Justice of the United States Supreme Court, and in that capacity he ruled that the "Legal Tender" United States Notes had unconstitutionally voided private gold obligations previously contracted (*Hepburn v. Griswold*, 1870). Later his decision was reversed (*Knox v. Lee* and *Parker v. Davis*, 1871) with the help of politically reliable justices appointed by President Grant, opening the way for future use of fiat paper money and the wholesale voiding of private and public gold obligations by the New Deal court (*Norman v. Baltimore & Ohio Railroad Co.*, *Nortz v. United States*, and *Perry v. United States*, 1935).

The largest collection of \$10,000 bills, 100 (Series 1934) to make for a total value of \$1,000,000, used to be on display at **Binion's Horseshoe Casino** in Las Vegas, Nevada [one note shown right] -- probably not the kind of place that Salmon B. Chase would have approved of. The collection, however, was sold (January 2000) and has now (June 2000) been broken up for individual sale. This sad outcome seems to be the result of deaths and financial disputes in the Binion family.

The reverses of small notes remained much the same, until the recent complete overhaul of the designs. The reverse of the \$1 bill was changed in 1935, as discussed under "Silver Certificates" below. The reverse of the \$20 was changed after Harry Truman remodeled the White House. The subsequent image shows the "Truman Balcony," with more trees and adjoining structures, in contrast to the original. Now, in 1998, the redesigned \$20 (series 1996) shows the front of the White House, rather than the back, on the reverse. The new 1999 \$5 reverse still shows the Lincoln Memorial, as before. The new 1999 \$10 reverse has a different perspective on the Treasury Building than the old one. Indeed, the full face view seems rather too similar to the new view of the White House, and the charm of the vintage automobile is lost. The reverses of large notes, again, showed a lot more variety, especially in the reproduction of the great paintings of American history such as still hang in the Rotunda of the United States Capitol. The painting of the signing of the Declaration of Independence, by John Trumbull, which was introduced on the reverse of the "Bicentennial" \$2 Federal Reserve Note in 1976, was originally on the reverse of the \$100 "first charter period" (i.e. banks chartered between 1863 and 1882) National Bank Note.

The Series 1928 notes were signed by Secretary of the Treasury **Andrew W. Mellon (1855-1937)**, one of the great men of American History. Often called the greatest Secretary of the Treasury since Alexander Hamilton, for reducing the United States war debt from World War I and cutting income taxes, which had soared during the War, Mellon has nevertheless often been smeared and belittled since then for his tax program, even though the next Presidents to favor and carry out similar tax cuts were Democrats John F. Kennedy and Lyndon B. Johnson.

Mellon has been accused of moving the tax burden from the rich to the middle class, of practicing "soak the poor" taxation, and of justifying all this with "trickle down economics," i.e. the poor will get the crumbs from the tables of the rich. These accusations are equal parts **lies** and either confused or overtly **anti-capitalist** economic myths. They are lies because the high tax rates of World War I had motivated the "rich" to hold down their incomes and escape the highest brackets, actually reducing tax revenues. Mellon's recommendation, which reduced tax rates for everyone, and reduced them to almost nothing for the poor (in 1929 those with incomes under \$10,000, a large sum in those days, carried only 1.3% of the tax burden), ended up *increasing* revenues from the highest tax brackets, as the rich paid *more* as *smaller* percentages of *higher* incomes. After the same effect was seen when President Johnson cut taxes, economist **Arthur Laffer** explicitly formulated the theory of the "Laffer Curve" in the 70's, that lower tax rates can produce higher revenue. This was then implemented again by President Reagan, to the same effect, though leftists continued to think that they would get even *more* revenue just by raising the rates again. The political slogan of disparaging "trickle down economics" was based, of course, on the false notion that prosperity comes from money that is taxed by government and distributed by political largess, rather than by private capital investment which increases productivity and production. It is the same error we see in the continuing failure to understand Say's Law.

One peculiarity of the small note series is that until 1976 the only \$2 bill issued was a United States Note. These turned up occasionally when I was a child in the 1950's. There was also a \$1 United States Note in 1928, but this was discontinued and is now very rare. All \$1 bills until 1963 were Silver Certificates, but there were no \$2 Silver Certificates. Why so little use was made of the \$2 denomination is a little mysterious. Part of the problem may have been the peculiar reputation that \$2 bills had gotten. They were thought of either as **bad luck** or as the proper tender for **houses of prostitution**, neither of which made them appealing for most people. The attempt to revive the \$2 bill in 1976 is discussed below under "Federal Reserve Notes."

Issuing any notes larger than \$100 was discontinued during World War II because of fears of German counterfeiting. With the development of other financial instruments, and now wire transfers, there is now felt to be no need for larger notes -- though, when a 1995 \$100 bill is only worth about \$22 in 1967 dollars, it has been suggested that a \$500 bill (1967 \$111) might be appropriate. Another consideration, however, is that the Police State tactics used for the War on Drugs include eliminating any money that can be used anonymously. If cash could be entirely replaced, Drug Warriors figure, the drug trade would not survive: People could not put drug purchases on their MasterCards. This strategy means that the United States government will adopt no measure to make the use of cash easier, like \$500 bills.

Until 1963 all United States currency stated that its value was "Payable to the Bearer on Demand," which reflected the circumstance that real money was originally considered to be **gold or silver coin**, not a paper document. In that year, however, when Silver Certificates were discontinued and the first \$1 Federal Reserve Note and the last \$2 and \$5 United States Notes were issued, the ancient formula was deleted from the new series. A year later the last silver was eliminated from United States coins. Thus paper and tokens became United States money. This entire process, starting with the New Deal, or perhaps even the Civil War, and culminating in 1963, was unconstitutional. Article I, Section 10, Paragraph 1 of the United States Constitution says, "No State shall...make any Thing but gold and silver Coin a Tender in Payment of Debts." So the question is, if the States can't do it, this must mean that the Federal Government can. No... The Tenth Amendment says, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." The Constitution, as it happens, does not "delegate" the power to "make any Thing but gold and silver Coin a Tender in Payment of Debts" to the Federal Government. Therefore, government at *no level* has the power to make anything but gold and silver coin tender in payment of debts. James Madison himself called paper money a "wicked scheme." It is, when its purpose is to inflate debts and license fiscal irresponsibility by government (the greatest debtor). That is the kind of government we now have.

United States Notes

United States Notes were the first permanent kind of federal paper money, the original "greenbacks." Previously, what the Treasury had issued in wartime were bonds and interest bearing notes. These were also issued during the Civil War, but then the innovation was introduced of Legal Tender Notes that paid no interest but were intended for "all debts public and private, except duties on imports and interest on the public debt." To this was wide objection on the grounds that the Constitution granted the federal government the power "to coin Money, regulate the Value thereof....," which implied that "Money" was coinage and could not simply be replaced by a paper obligation, however appropriate the latter might be for instruments of federal borrowing. As noted above, this issue was fought out in the Supreme Court, ultimately to the advantage of the federal government. However, after the Civil War, Congress had no intention of relying on paper money. That would have been unacceptable in international trade and finance in that day and age of the ascendant Gold Standard. Also, the evils always associated with paper money had already manifested themselves in a price inflation. This was all the more evident at the time in that gold coinage had not been withdrawn or demonetized but continued to circulate at a premium alongside the greenbacks. So people could see day to day that gold dollars were more valuable than paper dollars.

United States Notes				
1	\$	1		
2	\$	928	953	963
5	\$	928	953	963
100	\$			966

Congress therefore determined to withdraw the paper currency. This, however, helped produce a deflation, which hurt debtors, especially politically powerful farmers. The **Greenback Party** thus promoted more paper money, to inflate debts, not less. This political agitation stopped the actual withdrawal of the greenbacks, but the rapid growth of the United States economy nevertheless continued the deflation (see "Say's Law"). By 1878 greenbacks were trading at par with gold dollars, and the United States government "resumed specie payments," i.e. began to honor all its gold obligations and would "pay the bearer on demand" gold dollars. United States Notes were then frozen at a total value of \$346,681,016.



Over time, United States Notes became an increasingly minor part of United States currency, and the large notes conservatively reflected designs of Civil War currency, as can still be seen in the Series 1917 \$1 [reverse] and \$2 [reverse]. By 1910, U.S. Notes only accounted for a *tenth* of all currency, and by 1960 for only a *hundredth*. Thus, this form of currency came to be considered a nuisance. In 1966 it was decided to discontinue current issues (\$2 in 1966 and \$5 in 1968) and to simply concentrate on satisfying the law of 1878 with a new \$100 note issue. Few of these, however, made their way to the public. The Treasury adopted the practice of moving notes into a certain room where they were regarded *de jure* as being in circulation. By the 1990's, when U.S. Notes would count for less than a *thousandth* of U.S. currency, it was considered about time to end this farcical, dishonest procedure, and Congress finally eliminated the statutory requirement that the Treasury issue them.

The 1966 \$100 United States Note has the distinction of having introduced a new seal for the Treasury of the United States, which has been used on all subsequent notes. The old seal (left) had said "THESAUR. AMER. SEPTENT. SIGIL.," a Latin abbreviation for "Seal of the Treasury of North America," while the new seal (right) simply says, "The Department of the Treasury."

Gold Certificates

Gold Certificates were first issued in 1863, perhaps to reassure people that the United States Government did not intend to replace all U.S. money with greenbacks. The distinctive orange reverse marked them as different in kind. A "Certificate" signified that the notes were backed by 100% reserves of gold coins, for which they could be redeemed on demand. This was the hardest of hard money short of gold coin itself, since for other currencies the Treasury would never maintain more than a fractional gold reserve. The \$10 large note of series 1922 showed **Michael Hillegas** on the obverse [& orange reverse]. Hillegas, the Treasurer of the United States under the Articles of Confederation (1775-1789), was such an obscure historical figure, then as now, that he was identified in small print under his name ("First Treasurer of the U.S.").

In small notes, the orange reverse of Gold Certificates was abandoned. This might be seen as a portent of the future; for once the Depression started, and the widespread failure of banks, as the Federal Reserve System refused to support their liquidity, led to a massive deflation, gold came under attack, as it had in the previous century, as the culprit. The refrain that there "wasn't enough money" was heard again, and Congress decided to give President Roosevelt the power to call in all the gold coinage, "regulate the Value therefore," and create more money. The Gold Reserve Act of 1933 thus required that all gold coins and gold certificates be surrendered to the Treasury. This was at first said to be a temporary measure, as would have been consistent with age old practices of recoinage, but then it became permanent. Americans were soon forbidden to hold gold (or gold certificates) as a store of wealth, though amusement (e.g. jewelry) was allowed. This appalling, tyrannical, and unconstitutional (as discussed above) measure was allowed as "necessary" under the "necessary and proper" clause, though all it accomplished was to turn Fort Knox into the tomb for a grotesquely Mediaeval hoard of useless metal.

The Series 1934 gold certificates, consequently, were not a public issue. They were only intended to circulate among Federal Reserve Banks and therefore read, "Payable to the Bearer on Demand as Authorized by Law." Like contemporaneous Silver Certificates, the 1934 Gold Certificates also now specified payment "in gold" rather than "in gold coin," so that the value of the dollar could be easily pegged -- though that value actually remained at 35\$ a troy ounce from the 1930's to the 1970's.

It became legal to hold gold certificates on April 24, 1964. The obligation, of course, to "pay the bearer on demand" in "gold coin" would not be honored. By the 1970's Americans could again freely own and trade gold, but this was probably allowed only because President Nixon ceased redeeming U.S. dollars held by foreign governments for gold. The amount of U.S. Currency (Federal Reserve Notes at that point) had come to exceed what could be covered even by the reserves of Fort Knox; and, after all, the federal government still wanted to maintain its hoard.

Gold Certificates		
\$10	<u>928</u>	<u>1</u>
\$20	<u>928</u>	<u>1</u>
\$50	928	1
\$10 0	928	1 934
\$50 0	928	1
\$10 00	928	1 934
\$50 00	928	1
\$10, 000	928	1 934
\$10 0,000		<u>1</u> <u>934</u>

National Bank National Currency

Bank

Notes,

National Bank Notes, or "National Currency," were established by the National Banking Act of 1863. This was in part a device to raise money for the federal government, since it required that National Banks that wished to issue banknotes deposit United States Securities with the Treasury as backing for the notes. This effectively multiplied the money with which such securities were purchased, turning the money itself over to the Treasury, for its purposes, but then enabling the banks to issue currency against it. The desire of the federal government to monopolize banknotes is evident in the tax that was subsequently levied on all banknotes issued by State banks. This effectively eliminated them -- and incidentally inaugurated the federal practice of pretending to (constitutionally) tax things when its real purpose was to (unconstitutionally) forbid them. This dishonest device was later extended to opium, marijuana, etc.; so that today there is a general impression that the federal government can forbid anything.

National Bank Notes	Bank
\$5	1929
\$10	<u>1929</u>
\$20	<u>1929</u>
\$50	1929
\$100	1929

The other rationale for the National Banking Act was to "protect" the public from fraudulent and poorly managed banks, whose banknotes might become worthless. The device of "National Currency" did make the notes obligations of the Treasury, which meant they were good even if the banks failed; but why the solvency of the banks otherwise was thought to be a federal concern, when the States were perfectly capable of regulating their own banks, is a good question. Indeed, aside from the evident self-interest of the federal government in raising money for the Treasury during the Civil War, the principal motivation seems to have been a political debt that the Republican Party owed to its Whig and Federalist Party antecedents. Nevertheless, while the Federalists had always wanted, and for a time had, a real Central Bank (the Bank of the United States), nothing of the sort was politically possible in 1863. The National Banking Act therefore simply chartered individual National Banks, whose *bona fides* and solvency could be supervised by the Comptroller of the Currency.

Large size National Bank Notes had displayed wonderful design work and are still avidly collected, both because of that and because of their association with local banks, many of which still exist. Designs were uniform for each "charter period," i.e. for each 20 year period after which the Banking Act had to be renewed (a provision now replaced by perpetuities). A \$20 note [reverse] from the "third charter period" shows Hugh McCulloch, the first Comptroller of the Currency (1863-1869), with real inkpen signatures of the President and Cashier of the First Marine Bank of Erie, Pennsylvania. Small size National Bank Notes, however, were a miserable



affair, indistinguishable in most design elements from other small currency. Even the characteristic traditional practice of displacing portraits and vignettes so as to center the name of the bank on the face of the note was abandoned.

If the problem during the Great Depression had really been that there was "not enough money," then it would be surprising that National Bank Notes were suppressed in 1935 -- the bonds that had been issued to secure banknotes were all discontinued. If, however, it is understood that the political answer to the Great Depression was that **only the federal government can be trusted with power over the economy, banking, and money**, then the move is self-evident. That the Depression dragged on for another four or five years has never been taken as evidence against this inference -- as it has rarely been noticed for any other purpose in American politics.

Since National Bank Notes were not directly backed by gold, the obligation, like that of United States Notes, stated that they were not for the "payment of duties on imports or interest on the public debt."

Silver Certificates

Silver Certificates were created by Act of Congress on February 28, 1878. This was a response to "Free Silver" agitation. If the partisans of inflation could not get paper currency, then retaining the monetary status of silver seemed like the next best choice. Putting the United States on the Gold Standard in 1873 (the "Crime of 1873") had set off the controversy. But while the United States was never formally off the Gold Standard, Congress did respond to Free Silver forces with various laws for the Treasury to purchase and coin silver (as dollars, on the 1837 weight). This continued for many years after 1878, though fatal blows were dealt against it by Grover Cleveland, who was a hard money Democrat, and the defeat of William Jennings Bryan in 1896. While Bryan contended that ordinary people were being crucified on a "Cross of Gold," he ended upon crucified on his Cross of Silver.

Silver Certificates						
1	<u>928</u>		<u>934</u>	<u>935</u>		<u>957</u>
5			<u>934</u>		<u>953</u>	
10		<u>933</u>	<u>934</u>		<u>953</u>	

Although cowboys may have liked silver dollars, heavy coins were never popular with most people. Silver Certificates therefore allowed the Treasury to mint its silver dollars, let them sit, and just issue paper instead. Silver Certificates originally were in denominations up to \$1000; but after 1896, notes were kept to \$10 and under. The Series 1896 \$1, \$2, and \$5 Silver Certificates were the stunning and celebrated "Educational Series," featuring various allegorical designs, such as "History instructing youth" on the \$1 [& reverse]. These rare and valuable notes have probably the most elaborate designs (subsequently never repeated) of any United States currency.

Except for the rare 1928 \$1 United States Note, all small \$1 bills until 1963 were Silver Certificates. Starting in 1934, these simply said they were redeemable "in silver" instead of "in silver dollars"; and, strangely enough, they could be redeemed in silver at the United States Treasury all the way until 1968 -- the last hard money activity of the United States government.

The major change in design that took place in the history of Silver Certificates was that the reverse of the 1928 \$1 bill was replaced in the Series 1935 notes with the familiar Great Seal of the United States design, though still without "In God We Trust," which only appears starting with Series 1957.

Federal Reserve Bank Notes,

Identical to National Banks Notes in form and function but issued by Federal Reserve Banks, these notes were retired in 1945.

This variety of notes was originally, as large notes, much more distinctive, sharing elements with the traditional design of National Bank Notes but unified in design with the new Federal Reserve Notes. Thus the Federal Reserve Bank Note \$5 of Series 1914 simply displaced the portrait of Lincoln to the side from the contemporaneous Federal Reserve Note \$5 and replaced it in the center, as in National Bank Notes, with the name of the bank. The reverses are identical, except that "National Currency, Federal Reserve Bank Note" replaces "Federal Reserve Note" and the obligations are different -- Federal Reserve Notes were redeemable in gold, while National Currency could not be used for duties on imports or payments on the public debt.

Federal Reserve Bank Notes	
\$5	1929
\$10	<u>1929</u>
\$20	1929
\$50	1929
\$100	1929

One of the most popular and valuable notes of all U.S. currency was the Series 1918 Federal Reserve Bank Note \$2. The reverse of this note displays the picture of a Battleship -- hence the "Battleship \$2." For many years, it was not clear whether the ship was intended to be the battleship *Texas*, which survives on public display at the San Jacinto Battlefield outside Houston, Texas, or its sistership, the *New York*. Recently the Bureau of Printing and Engraving, however, announced that the ship was supposed to be the *New York*. Why it was necessary to wait more than 70 years to do this is not clear. The companion Federal Reserve Bank Note \$1 [reverse] is much more common.

The large Notes from the Federal Reserve Bank of New York will be seen to be signed by the Governor of that bank, **Benjamin Strong**, who powerfully influenced the policy and actions of the entire Federal Reserve System, especially the Governors Committee on open market operations, which was responsible for the purchase of securities (the principal means of expanding the money supply), until his death in 1928.

Evaluation of Strong and his role reveals the division in Free Market economists between the *Monetarists* and the *Austrians*. For **Milton Friedman**, Benjamin Strong's policy of maintaining price levels in the 1920's, during which there was no deflation despite tremendous economic growth, and his willingness to maintain the liquidity of banks during Panics -- both tasks accomplished through the open market purchase of securities by the Federal Reserve -- was precisely the job, and a good one, that the System had been created to do. Thus, Friedman quotes Clarence A. Woolley, one of the directors of the New York Federal Reserve Bank in 1932, as remembering, "Governor Strong had said further that if this power were used in a big way, it would stop any panic which might confront us" [Friedman & Schwartz, *A Monetary History of the United States, 1867-1960*, Princeton, 1963, p. 412]. But by the time the banking crisis started in the Depression, the leadership of the Federal Reserve System had forgotten the purpose that Strong understood so well.

On the other hand, Austrian School economists like **Murray Rothbard** have seen Benjamin Strong as a villain for expanding the money supply beyond its hard money base. Without that expansion, there could have been no credit collapse, no banking crisis, and the Depression would not have begun. This kind of criticism, however, is based on the ideas that (1) any kind of fractional reserve banking is fraudulent in the first place and (2) that inflation is not an overall rise in prices but *any* expansion of the money supply beyond a commodity base (specifically gold). These are both strange ideas. Fractional reserve banking cannot be "fraudulent" when there is nothing secret about it and when it is clear that people would have to pay for banks to hold their savings with 100% reserves, while banks will pay *them* for savings that can be (prudently) loaned to others. Similarly, redefining "inflation" not to refer to price levels ignores the importance of prices, especially the economic and political damage that deflation can cause -- as *was* caused by the 1865-1896 deflation and *was* avoided by the maintenance of prices in the 1920's. As Friedman would agree, expanding the money supply too much does cause inflation, and this has been the evident policy of the Federal Reserve System for decades now, constituting a continuing regime of **theft** by the Federal Government; but the maintenance of price levels by monetary expansion is *not* inflation and it actually prevents the theft which results from the *deflation of debts*, which bankrupted many people and businesses in the 19th Century and at the beginning of the Depression. Thus, although Rothbard has a perfectly valid criticism of the irresponsibility of the Federal Reserve in maintaining a regime of constant inflation, what he would prefer instead is really a kind of utopianism that ignores both the good faith, contractual validity of fractional reserve banking and the real economic damage done by deflation.

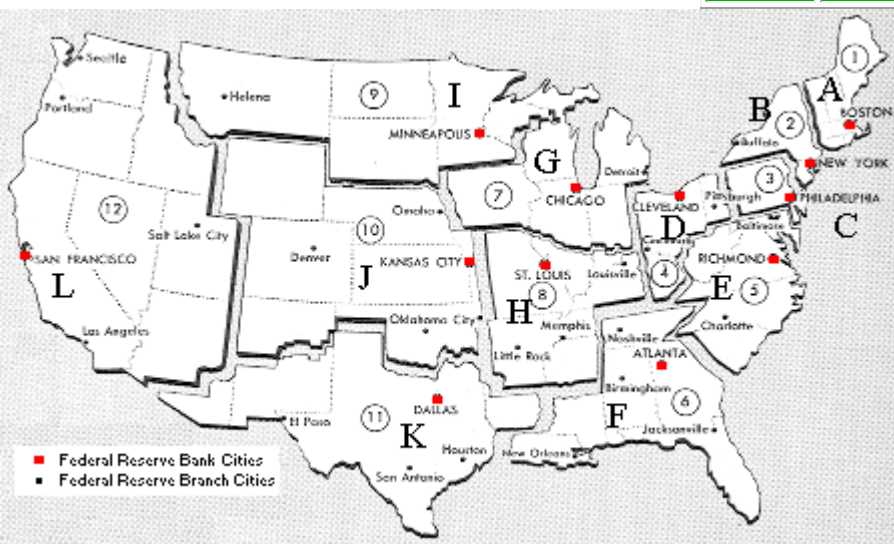
Perhaps the most noteworthy thing about the small Federal Reserve Bank Notes is that there is absolutely nothing to distinguish them in any of the ways that the large notes were distinctive. Even the names of the banks seem printed in a perfunctory way; and the pre-printed "President," to show where the name of the president of the bank is to be printed, is simply *blacked out*, since Federal Reserve Banks had "governors," not "presidents"!

Federal Reserve Notes

A new kind of currency was created by the Federal Reserve Act of December 23, 1913. This was in part a response to continuing political agitation for the creation of a Central Bank for the United States, but the more immediate prod came from the Banking Panic of 1907. The Aldrich-Vreeland Act of 1908 had expanded the securities that banks could use to secure their currency, but this was regarded as unsatisfactory for the long run. There did not seem to be good provision in the banking system to support the liquidity of banks during panics and runs. The banks themselves had survived the Panic by suspending cash payments and relying on checks and "clearing house certificates" in lieu of cash. This had actually worked well enough, but the argument was made that it had been irregular and illegal and that something needed to be done about it.

So the United States got the **Federal Reserve System**. Since a Central Bank was still anathema, under the fading but still happy and adequate influence of Thomas Jefferson and Andrew Jackson, the Federal Reserve System was designed to be a decentralized organization of no less than twelve **Federal Reserve Banks**: **Boston** (1-A), **New York** (2-B), **Philadelphia** (3-C), **Cleveland** (4-D), **Richmond** (5-E), **Atlanta** (6-F), **Chicago** (7-G), **St. Louis** (8-H), **Minneapolis** (9-I), **Kansas City** (10-J), **Dallas** (11-K), and **San Francisco** (12-L). The names of the banks and their characteristic number or letter have always appeared on Federal Reserve Notes and Federal Reserve Bank Notes issued by them. This assignment clearly reflects the distribution of population and economic development in 1914. It has not been modified since.

Federal Reserve Notes, until 1981									
\$1				963	969	974		977	981
\$2							976		
\$5	928	934	950	963	969	974		977	981
\$10	928	934	950	963	969	974		977	981
\$20	928	934	950	963	969	974		977	981
\$50	928	934	950	963	969	974		977	981
\$100	928	934	950	963	969	974		977	981
\$500	928	934							
\$1000	928	934							
\$5000	928	934							
\$10000	928	934							



The first Federal Reserve Notes, like the \$5, \$10, and \$20, were handsome and dignified, initiating design features that would become permanent in small notes. The allegorical reverses, never repeated, are reminiscent of the "Educational" Silver Certificates. The reverse of the \$5 shows the landings of Columbus and the Pilgrims, the reverse of the \$10 images of agriculture (no tractor yet) and industry, and the reverse of the \$20 transportation, by land (i.e. railroad, with the auto and airplane as minor details) and sea (with the Statue of Liberty in the background). The reverse of the \$50 was an allegorical figure of Panama, flanked by a liner and a battleship in each ocean. The \$500, \$5000, and \$10,000 notes repeated historical paintings, by John Trumbull and others (which hang in the Rotunda of the United States Capitol), that had already appeared on first charter period National Bank Notes. The only such painting to subsequently reappear on

Federal Reserve Notes was the Signing of the Declaration of Independence (by Trumbull), originally on the first charter period (series 1863 & 1875) \$100 notes, on the Bicentennial \$2 bill.

The significance of the multiple Federal Reserve Banks and the decentralized system, however, has declined. The system was made a lot **more** centralized in the 1930's, as part of the aforementioned conclusion that **only the federal government can be trusted with power over the economy, banking, and money**. The Depression at the time was seen as resulting from the misbehavior of "speculators" and loose practices by the financial and stock markets. However, it is now much clearer that one of the prime villains at the beginning of the Great Depression was the Federal Reserve System itself, whose mistakes had nothing to do with lack of power or centralization. Indeed, the System could have responded better if it had been even **less**, not **more**, centralized than it was. Nevertheless, centralization continues, and the new, redesigned Federal Reserve Notes no longer bear the seal of their bank of issue,



though the bank is still indicated, without name, by the letter and number code. Compare the Series 1996 \$50 Federal Reserve Note with the previous Series 1993 \$50 Federal Reserve Note [reverse].

The original notion behind Federal Reserve Notes was to replace the "clearing house certificates" upon which banks had relied instead of cash during banking panics. Since Federal Reserve Notes were redeemable in gold (though perhaps only at the United States Treasury), they would have been just the kind of reassuring currency to supply to banks during a run. Since there was only a fractional reserve behind the Notes, however, the temptation would always be there to overextend them for political purposes. Although the Treasury had been unable to print money since 1878, it was now given an indirect ability to do so, whenever it could persuade the

Federal Reserve to create money by buying United States securities itself, either directly from the Treasury or indirectly off the open market.

Nevertheless, things seemed to work well enough during the 1920's. The beginning of the System had coincided with a sharp inflation, so perhaps too much money had been abruptly pumped into the economy. But then during the Twenties, despite swift economic growth and confusing factors like large foreign lending and investment, a remarkable price stability was maintained. As long as the Federal Reserve System saw this as its goal, then it could well have aspired to a reputation like the Bank of England, whose notes were thought to be "as good as gold."

The problem is what happened during the Depression. Banking panics were nothing new -- that is what the Fed was created for. But when banking panics started (as unemployment abruptly jumped from 6% to 15% at the end of 1930), the Federal Reserve suddenly didn't trust banks enough to back them up. If the banks were insolvent, evidently, they must be allowed to fail. Unfortunately, so many banks were seen as insolvent and allowed to fail that it took the whole United States economy down with it. But the Federal Reserve could be proud of being financially solid itself!

This turns out to be a classic example of bureaucrats who do not have to pay the cost that results from their actions. The banks may fail, the economy may collapse, but *they* still have *their* jobs! Indeed, if the Depression could be blamed on "speculators," the bureaucrats could actually see their status, pay, and power increase! In 1907, it is obvious that the banks could work out their own salvation because they actually did not *want* to fail. Failed banks means bankers out of a job. Perhaps even bankers committing suicide. But among all the Depression stories about window leaps on Wall Street, there don't seem to be any about leaps from the nearby Federal Reserve Bank of New York.

Thus the Federal Reserve System has become the last thing that was supposed to be possible in America: A Central Bank. And a political football. The inflation of the 1970's never was blamed on the Federal Reserve expanding the money supply too quickly, even though the popular economic theory of the time, Neo-Keynesianism, held that inflation could **cause** prosperity. That didn't work out very well. But it has been more obvious recently that the lower inflation of the 1980's and 90's has been the result of restraint in money creation. On the other hand, President Clinton has been appointing Keynesians to the Federal Reserve Board, and there are still complaints about "tight money." So the potential still exists for follies equivalent to the 1930's or 70's.

Until the new anti-counterfeiting designs that have now come in (the Series 1996 \$100 Federal Reserve Note, obverse and reverse, the Series 1996 \$50 Federal Reserve Note, obverse and reverse, the Series 1996 \$20 Federal Reserve Note, obverse and reverse, the Series 1999 \$10 Federal Reserve Note, obverse and reverse, and the Series 1999 \$5 Federal Reserve Note, obverse and reverse), the only major change in design of Federal Reserve Notes was on the "Bicentennial" \$2 bill, introduced in 1976 and featuring a different reverse, showing the signing of the Declaration of Independence, from the traditional picture of Jefferson's home, Monticello. This new reverse still appears on the current, series 1995, notes. The introduction of the Bicentennial \$2 bill was intended, with the Susan B. Anthony \$1 coin, to accompany the phasing out of the \$1 note. However, the \$1 coins were not popular, and the public also seemed to maintain mixed feelings about the \$2 bill. The \$1 thus continues in its traditional role. With new designs introduced now down to the \$5 note, and with no plans to introduce new designs for the \$2 or \$1, another attempt may be made to phase out the \$1 bill. A new brass \$1 coin is now being introduced (misleadingly called the "golden coin" by the Treasury), with a handsome portrayal of **Sacagawea**, the Indian interpreter of Lewis and Clark. Unlikely to be confused with the quarter (as the Susan B. Anthony was), this design cleverly combines the politically correct themes of (1) a woman, (2) a Native American, and (3) an uncontroversial figure from American History. Whether this will be used as a pretext to launch another effort to replace the \$1 bill has not yet become clear.

Late in 2002, it looks like the Sacagawea dollar is not catching on. Actually, I rather like them. But the only place I've been getting them is from the stamp machine at the post office (when it gives change at all, rather than eating all the money). Now I have begun to get Susan B. Anthony dollars from the machines as well. I don't like them; and if the Treasury *really* wants Sacagawea to make it, the way to do it is *not* to start slipping Susan B. Anthonys out with them. This makes it look like they still just want to unload all the old stuff that nobody wanted.

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