success, arise from the political difficulties in getting different countries to act together. To this time, the monetary conferences of 1867, 1878, 1881, and 1892, seem to have resulted in a total failure to bring about a common agreement. As the object of such a league, moreover, is to furnish a steadier standard of deferred payments (see section 95), a much easier way to effect this, and one which any single country can follow by itself, is to establish a multiple standard (section 97). This would save all long contracts, like national debts, from becoming burdensome, owing to changes in prices due to natural causes, such as the progress of society and the march of improvements.

CHAPTER XXX.

UNITED STATES NOTES.

323. WHEN the Constitution of the United States was adopted in 1789, the colonists were fresh from the destructive experiences of worthless Continental paper money. Consequently there was no expectation of any issue of paper money by the United States, and from that time to 1862 no other money was made legal tender but gold and silver. The Constitution* forbade any State to issue paper money. The prevailing distrust of all paper money at that early time is thus well expressed by Hamilton: † "The emitting of paper money by the authority of Government is wisely prohibited to the individual States by the National Constitution; and the spirit of that prohibition ought not to be disregarded by the Government of the United States." Of paper emissions, he says: "They are of a nature so liable to abuse, and, it may be affirmed,

* The provisions of the Constitution relating directly to money are:

SEC. 8. Congress shall have power—

2. To borrow money on the credit of the United States.
5. To coin money, regulate the value thereof, and of foreign coins.
18. To make all laws which shall be necessary and proper for carrying into execution the foregoing powers, etc.

SEC. 10. No State shall . . . coin money, emit bills of credit, make anything but gold and silver coin a tender in payment of debts.

† "Financial Report," vol. i, pp. 64, 65.

so certain of being abused, that the wisdom of the Government will be shown in never trusting itself with the use of so seducing and dangerous an expedient. In times of tranquillity, it might have no ill consequence; it might even, perhaps, be managed in a way to be productive of good, but in great and trying emergencies there is almost a moral certainty of its becoming mischievous. The stamping of paper is an operation so much easier than the laying of taxes that a Government, in the practice of paper emissions, would rarely fail, in any such emergency, to indulge itself too far in the employment of that resource."

324. The Government chartered two United States banks at different times, which issued notes, but after the second one ceased to exist, in 1837, it became the policy of the United States to have nothing whatever to do with the currency of the country. Gold and silver were the only legal-tender money, although the banks chartered by the various States issued paper money of all grades of honesty and value. In years past, however, the United States had resorted to a form of loan which was not properly paper money, though it has possibly led to the use of such currency. As early as the war of 1812, the Government issued "**Treasury notes,**" redeemable in two or three years, bearing interest, and receivable in payment of duties, taxes, and land-sales. Sometimes the interest was set at a very low rate, and the notes approached the character of non-interest-bearing notes, which might be called paper money. These Treasury notes bore interest like a bond, were of large denominations, and were taken up at the end of their short term of one, two, or three years.

325. When the Civil War broke out, in 1861, the revenues of the country fell far short of the new and extraordinary expenses required by the necessities of the time. The first loan act of the war, that of July 17, 1861, paved the way for our subsequent misfortunes with paper money; for, by a progress of evolution out of the old Treasury notes, permission was given by Congress to issue $50,000,000* of **demand notes.** These were called "Treasury notes" in the act, although they bore no interest, were payable on demand by the United States, were issued in denominations as low as five† dollars, and were of the size and general appearance of the present "greenbacks." Calling them "Treasury notes" did not cover the fact that they were distinctly a variety of paper money. In fact, they were at once recognized as such. "The first demand notes were issued in August, and paid for salaries at Washington. They were received with reluctance, and the merchants and shop-keepers endeavored to discredit them. Railroad corporations refused them in payment of fares and freights, and leading banks in the city of New York refused to receive them except on special deposit."‡ The demand notes, however, were not made a legal tender, and differed favorably in this respect from the later issues of paper money.

326. It is the first step which costs. Secretary Chase was deceiving himself in suggesting the issue of these demand notes, although called Treasury notes; for, in his first report to Congress, he balanced the **arguments for and against emissions of paper,** and came to a decision against them. He saw (1) that, as Hamilton said, the stamping of paper was "easier than the laying of taxes," but yet that the Government could thereby borrow a large sum without paying interest. (2) For this issue of paper there would be no expense beyond the amount of coin to be kept on hand to pay such notes as were presented for redemption.# (3) Instead of a motley

* By act of February 12, 1862, this sum was raised to $60,000,000.

† By act of August 5, 1861. ‡ Knox, "United States Notes," p. 89.

With banks an amount of coin from 50 to 25 per cent of the notes issued is all that is needed to meet demands for redemption of notes.

currency of the various State-bank notes (which people generally used before the war, when gold and silver was not required), the issue of Government paper would furnish a convenient and uniform currency. Over against these advantages he set: (1) The very great temptations which might arise to issue paper bills without providing enough, or even any, coin to redeem them, and keep them at par with the coin. (2) A panic in the money-market, when everybody was wanting specie, might induce the holders of the notes to present them for redemption in sums large enough to remove all the reserve which had been kept on hand. (3) Above all, the danger was always to be feared that notes would be issued in excess, and that this would bring about a host of attendant disasters to the country. Feeling that the disadvantages were far greater than the advantages, he advised against the issue of paper money. This was the general state of the public mind at the beginning of the war.

327. Through want of foresight, and from a lack of skill in offering bonds in such a way that people would take them freely, in the state of alarm then existing, the Secretary found the Treasury literally almost empty in **February, 1862.** The expenses of the war were enormous, few or no taxes had been levied (which was the vital error), and no loans had as yet been successful. To save the Government from a condition bordering on bankruptcy (into which it need never have come), it was proposed, as a temporary expedient, to resort to an emission of paper money in spite of the decisions against such a plan only a few months before. It was pleaded that the issue of paper was an absolute necessity. Probably it was in February, 1862; but it never need have become a necessity had proper foresight been displayed. In fact, at the very time of the passage of the act, it was clearly shown by the bankers * of New York that the Government

could have borrowed money enough, if it had been willing to pay the rate of interest which its credit then demanded. This first issue of "greenbacks," to the amount of $150,000,000 (they were called in the acts "United States notes"), created a paper money which was, as stated by the law of February 25, 1862, to be **"lawful money and a legal tender in payment of all debts, public and private, within the United States, except duties on imports * and interest"** (on the public debt). This kind of money is still in use to-day.

328. It should be noticed that the United States began this issue of legal-tender paper money without any attempt whatever to keep coin on hand with which to redeem the notes. On December 30, 1861, all the banks of the country had **suspended specie payments.** This meant that the banks were unable to pay out specie when called upon. It did not mean that they had failed, or had "suspended payments" of all kinds; for they paid in other kinds of money than specie, such as State-bank notes. If the country generally were at any time unable to pay in specie, it would be impossible for the Treasury to get specie sufficient for its purposes. So that at the very start, there being no fund of specie on hand to redeem the United States notes, they became inconvertible paper money, and their history well illustrates the dangers of such emissions.

329. There was great difference of opinion about the

* Congress had a notion that our bonds should not be sold below par; but, having offered 6-per-cent bonds, if the credit of the United States, for example, required 12 per cent, it made no difference whether it sold the 6-per-cent bonds at $50 (for each $100 bond), or offered a $100 bond at par which paid 12 per cent interest. All other nations, as well as corporations, sell bonds below par, if the rate of interest they offer is not sufficient to attract buyers at par. In that way they pay the market estimate of their credit.

* The duties on imports were required to be paid in coin, whereby the Government got the coin with which to pay interest on the bonds during the time when paper was depreciated.

legal-tender act. Some people regarded it as the only way out of the straits in which the Treasury found itself. Others opposed the act because it was believed that the Constitution of the United States did not permit the issue of legal-tender paper money. It was proposed to strike out the clause which conferred the legal-tender quality, and issue the notes without it; but the vote in the Senate stood 22 to 17 for retaining it. The bill was passed, because the Treasury was empty, and because no one had any desire to modify the proposals of the administration. All regarded it, however, as simply a temporary expedient, by which to tide the country over a present difficulty, or until something better could be devised. How strong this feeling was can be learned from the expression of opinion when a **second issue** of $150,000,000 of United States notes was proposed. This return to what is undoubtedly the last resort in finance attracted great attention.* Those who voted for the first issue hesitated to vote for the second; but, in the end, this bill was passed, July 11, 1862, for much the same reasons as had been offered for the former one. The first $150,000,000 of notes had been paid out, and the Treasury was as badly off as before. The revenue from taxes was scanty, and the loans were not successful. The lack of wisdom in raising funds by taxes and the want of skill in placing loans were lamentable. The resort to more paper money was practically a confession of incompetence in conducting the finances. It was clear that the Treasury had been unable to get money by the usual means of loans. This confession of failure, of course, injured the credit of the Government, and caused the new notes to depreciate † (see Chart VI). The de-

* Senator Chandler, of Michigan, introduced a resolution in the Senate, June 17, 1862, forbidding any increase in the amount of legal-tender notes.

† The depreciation of the paper money drove out gold from circulation, according to Gresham's law, that the cheaper money will

preciation showed itself in a premium on gold; it required, for example, 120 cents in paper to buy 100 cents in gold. So that "gold was at a premium" of 20 per cent.

330. From the time of the second issue (in July) to the end of 1862 the paper steadily depreciated until a dollar of paper was equal to only 66⅔ cents of gold coin. This had its effect on prices, for, instead of paying a dollar in gold for a pair of gloves, one was forced to give the paper equivalent of gold, or $1.50 in paper. Thus the general level of prices expressed in paper rose. Then followed the result which has regularly occurred in the history of previous issues of inconvertible paper money. Since prices had risen greatly, it required more money to perform the exchanges of goods than before; so that, very soon after an issue of paper money, people began, strangely enough, to complain of the **scarcity of money.** Like the use of intoxicants, the more one takes, the more one wants. The rise of prices led people to think that, by buying goods and holding them for the higher prices, they could make a profitable speculation; so this **speculative demand** for goods raised prices still more than they would have risen owing solely to the quantity of the paper. Consequently, at times there seemed to be an insufficient supply of money. Instead, however, of seeing that this seeming scarcity was due to the unsettling of prices by issuing the paper, the public generally clamored for more money to relieve the scarcity. This, however, would, if issued, have increased the difficulty still more. In this way the emissions of paper led to a disorganization

be used instead of the dearer. More than this, when it depreciated (in July, 1862) below even the value of the short-weight silver fractional coin, the silver coins disappeared, and, to enable retail dealers to "make change," the United States was forced to issue (July 17) a fractional paper currency for denominations of 5, 10, 25, and 50 cents. At first, these were imitations of postage stamps, but they soon developed into a full-fledged paper currency.

of legitimate business, and brought about an era of speculation, stock-gambling, and extravagance which produced results wholly unforeseen when the first issue was made.

331. In the beginning of 1863, the Treasury was again unable to meet the expenses of the Army and Navy. Again it was the old story that the sale of bonds had been small, and that little money could be got by borrowing. Again, on March 3, 1863, another issue of $150,000,000 was authorized by Congress, making altogether $450,000,000 of legal-tender paper money.* Soon after this the five-twenty **bonds began to sell rapidly,** and thus the Government was enabled to borrow large sums of money. The very depreciation of the paper made the bonds salable. If the interest on a bond was $6 in gold, and if a $100 bond could be bought by $100 in paper, when the paper dollar depreciated to 60 cents in gold, the buyer of a bond was getting $6 in gold for every $60 of gold invested in a bond. This was equivalent to a higher rate of interest, and, when this rate became high enough to tempt investors to take the risk, bonds sold freely. It will be seen that the result was practically the same, if the six-per-cent bonds were sold below par for $60 in gold, or if the Government sold its bonds nominally at par but received pay in paper which was really worth but 60 cents on the dollar. After the capture of Vicksburg, and the victory at Gettysburg, in July, 1863, the increased confidence in the Government improved its credit, and that also helped the sale of bonds.

332. In the beginning of 1864, the Treasury found that its funds were again running low; new and unfortunate experiments with bonds (ten-forties) were made, and

* Of this sum $50,000,000 was to be kept out of circulation, and used as a reserve for "temporary deposits," which the Government had received in large amounts. But the fractional currency issued was about $50,000,000, and balances this sum.

few were sold. The premium on gold rose* (see Chart VI), and the outlook for the Treasury was very dark. In June, 1864, Secretary Chase resigned in despair. Meanwhile, in February, 1863, Congress had proposed to establish a system of national banks, and the act by which this was created was entitled "an act to provide a national currency." This is suggestive, for it proves that Congress still held to the idea that the **United States notes were only a temporary expedient,** while it proposed to establish the national-bank notes as the permanent currency of the country. In June, 1864, the national banking act was perfected, and in this same month (in a loan act of June 30, 1864) Congress took the opportunity to forbid all further issues of paper money by the Government. Early in 1865 the war came to a close, the premium on gold fell to 40, and every one regarded the "greenbacks" as issues to be withdrawn as soon as possible. By this time the taxes had begun to produce a large revenue, and consequently Secretary McCulloch, carrying out the plan which every one expected, began to pay off the United States notes. Realizing that they owed their origin solely to the stress of war, he proposed to reduce their amount and get ready to redeem them in specie. This wise policy received very general approval.†

333. As we now look back over the war period, it is

* At one time gold rose to a premium of 184 (a quotation of 284), which does not appear in Chart VI, because that is constructed on the average premium of each month.

† The lower House in Congress passed the following resolution, December 18, 1865:

"*Resolved,* That this House cordially concurs in the views of the Secretary of the Treasury in relation to the necessity of a contraction of the currency with a view to as early a resumption of specie payments as the business interests of the country will permit; and we hereby pledge co-operative action to that end as speedily as possible." (Congressional Globe, December, 1865, p. 75.) Only six members voted against it.

easy to applaud the wisdom which at the very first led Secretary Chase to decide against emissions of paper. But the evils which might result from these issues, after we weakly consented to them, were not all foretold by him. He expressed dimly the prevailing opinion of the time, which had been formed by a silent acquiescence in the teachings of history. The past had fully demonstrated the dangers of over-issue. Yet, when the pressing emergency came, all the lessons of the past were overlooked. As we have seen, the **unsettling of prices,** which caused speculation and extravagance, had not been considered; and these results enormously affected the business of the country down to the panic of 1873. The subsequent depression was the more severe because the previous inflation had been the greater. Then this rise of prices also obliged the Government to pay more for all its vast supplies, and so enormously **increased its debt.** Could the United States have bought supplies at gold prices, it need not have borrowed so much. The unnecessary increase in the debt, caused by high paper prices, which we are now in honor bound to pay off, produces a useless increase in the taxes which we are paying to-day. The resort to paper money, without the least pretense of redeeming it, excites natural alarm in the minds of lenders, and **injures the credit of the Government** which issues it. It is a confession that its credit is not good enough to borrow money in the ordinary way; and that, not having any funds, it resorts to irredeemable promises to pay. Lastly, and of greatest importance, is the difficulty of getting out of the situation created by the over-issue of paper. To the minds of most men the period of rising prices seems bright and flourishing, but the rise due to an unhealthy cause must be later followed by a **painful fall of prices.** To submit to this fall is not in human nature. It generally happens that a patient with a bullet inside him will shrink from the suffering caused by a sur-

gical operation which, while causing present pain, may result in future health.

334. This last difficulty was one which Secretary McCulloch unfortunately had to meet when he proposed to contract the notes. The contraction (probably wrongly in this case) was looked upon as causing the fall of prices in 1867. This feeling, together with some personal opposition to the Secretary, who cast in his fortunes with President Johnson, led to a limitation of the process of contraction, April 12, 1866. He was forbidden to retire more than $4,000,000 in any one month, and February 4, 1868, was forbidden to make any further reduction of the United States notes, to which time their amount had been reduced to $356,000,000. Then came soon after a great political movement, based on the demand for more money. This cry for **inflation** was heard loudly soon after the crisis of 1873, and resulted in the passage of a bill by both houses of Congress, expanding the United States notes to $400,000,000, and fixing the like sum for national-bank notes. This inflationist scheme was so diametrically opposed to the ideas of every one at the close of the war, that it furnishes a new warning against the use of so dangerous a thing as inconvertible paper. It was supposed by the inflationists, who were wholly ignorant of the nature of a credit collapse, and of the truth that printing paper does not increase the quantity of wealth in a country, that the suffering of the country would be cured by the issue of more money. Although the inflationists controlled both houses of Congress, President Grant courageously vetoed the bill. Finally a compromise was reached (June 20, 1874), and the amount * of $382,-

* The reason for this odd sum is this: Secretary McCulloch had withdrawn $44,000,000 (400 – 44 = 356), and when Secretary Richardson, without authority, reissued $16,000,000 of this "$44,000,000 reserve," the amount outstanding was raised from $356,000,000 to $382,000,000. This reissue of the $16,000,000 was an extraordinary

000,000 of United States notes was to be left outstanding.

335. The country now maintained the United States notes as a permanent part of its circulating medium, without trying to redeem them, until January 4, 1875, when the (specie) Resumption Act was passed. Under this act the resumption of specie payments by the United States was not accomplished until January 1, 1879. The act provided that for every new issue of national-bank notes to the amount of $100, $80 of United States notes should be retired. Under this arrangement the United States notes were reduced from $382,000,000 to about $346,000,000. Then Congress again weakened in its purpose, yielding to the feeling of the community that contraction was injuring business, and on May 31, 1878, **forbade any further reduction of United States notes.** To-day we have this same fixed amount in circulation.

336. After the passage of the Resumption Act, it was not supposed that it would be effective; but, at the beginning of the term of President Hayes, Secretary Sherman began slowly to accumulate gold in the Treasury, with the intention of trying to resume specie payments on the day named in the **Resumption Act** (January 1, 1879). He was permitted to sell bonds for gold, and, after a conference in New York with some leading bankers, he was given gold for 4½-per-cent bonds. This amount, together with the gold coming in for customs in excess of sums he was obliged to pay out, rose by the end of 1878 to about $134,000,000. On December 17, 1878, the **premium on gold disappeared,** and on January 1, 1879, the United States notes could be exchanged for gold at the United States Treasury; so that a "greenback," since January 1, 1879, has been an example of convertible paper money, while from 1862 to 1879 it was an example of inconvertible paper money. It is not good policy, however, to leave open an opportunity for future over-issues whenever a new emergency shall present itself. It would be better to pay off the United States notes now in time of peace, and learn from the history of the past that "stamping of paper is easier than laying of taxes," and is a very dangerous expedient.*

financial blunder. The Secretary who did it committed other financial blunders.

* It was supposed that the Constitution forbade the issue of legal-tender paper money, and, in fact, the Supreme Court so decided in 1870. Before that year closed, however, the same court rendered a second decision after its membership had been changed by retirements and additions. The first declaration was reversed, and it was decided that in time of war the issue of legal-tender paper money was legal. Many still believed that an issue in time of peace was unconstitutional; but this was settled by a third decision in 1884, in which Congress was permitted, if it thought expedient, to issue United States notes in times of peace. Now the whole question of paper-money issues lies in the discretion of Congress. This is a new reason why voters should prepare themselves to judge intelligently of the measures proposed by Congressmen who represent them.