# Unbearable Shortages: U.S. Currency, Debt, and the Decision of 1865

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## Abstract

This research paper traces the current U.S. economic crisis back to 1865 and the establishment of the modern U.S. currency and banking system. The history and conditions in which the "greenbacks" were created provide critical insight into the current economic problems. The decision of 1865 and what followed from it helps explain why continued mass debt and inflation are inescapable in the future if our standard of living is to be maintained. This paper argues that the growth in U.S. hard currency since 1865 has been miniscule compared with the phenomenal growth in the U.S. economy and the country's overall value and that this has created "unbearable shortages" within the U.S. economy. As a result, this paper recommends that we update the 1865 currency base to 21st century levels and that the new currency be attached to a tangible asset(s) that can allow sufficient economic growth and prosperity for the rest of this century and beyond. In the end, an examination of the history of American currency provides the basic answers and possible solutions to the current economic crisis.



**Key Words:**

**JEL Codes:**


## INTRODUCTION

As the United States' economy continues to stagnate and recent economic data indicates long-term problems to come, there has been a growing trend to look back in history to find the reasons and, possibly, the solutions to this ongoing economic crisis.[1] A number of authors have analyzed the currency issue as the source of the economic problems and the potential solution (Woods 2009; Brown 2008; Lewis 2007; Goodwin 2003; et al.). Others have focused on the Federal Reserve (Sheehan 2010; Woods 2009; Axilrod 2009; Samuelson 2008; Paul 2008; Batra 2005; Mayer 2001; et al.). Countless articles and reports have been made by experts and the media to assess the daily economic problems. Beyond recommendations to make cutbacks and balance the budget, few offer any long-term solutions to this systemic problem. With 100K-plus new workers entering the labor market each month and 15 million-plus Americans unemployed, the U.S. economy is in increasingly dire straits of being overwhelmed by a constant barrage of unemployment, debt, and stagnation.

For the past decade since the end of the Clinton Administration, the country's economy has been failing. Even before 9/11 and the 2008 financial crash, the U.S. economy was in a free fall. Most literature presents the existing economic problems as part of a typical downturn cycle that will soon lead naturally to an upturn. Some more recent books and articles, on the other hand, argue that the existing economic crisis can be traced back much further in history and is more institutional and political than economic. These authors have investigated the historical underpinnings of our financial system and they have highlighted a number of fundamental flaws that they suggest should be fixed or replaced.[2]

From the multiple perspectives that scholars have taken to address the existing economic problems, the U.S.'s currency is at the center of many of the arguments. Both core problem and future fix, the U.S. currency has become one of the fundamental factors in the present debate on how to save the U.S. economy and return it to significant annual growth levels. Most polls show that a large majority of Americans see the country's economy and debt as being by far the most important issues that need resolution, and currency is at the heart of both. Moreover, considering that much of America's superpower status and national security is based upon American financial power, the ongoing economic problems and the potential instability of the American currency are direct threats to the existing international order and America's leading role in it. Resolving the economic crisis is necessary to maintain the system and America's place in it. The currency issue is central to any solution.[3]

Looking back in American history provides a very rich foundation to understanding our present situation, and it offers a number of important insights and solutions to our economic problems. As we shall see, 1865 is a decisive point in this research paper and provides the crossroads for the pre- and post-1865 economic periods. The transition period from the pre- and post-1865 periods is critical, but the two periods in and of themselves are very important to comprehending why 1865 matters so much. From the end of one period to the beginning of the new one, 1865 becomes the key turning point in our overall American economic system, transforming a previously decentralized and privately controlled currency system to a highly centralized corporate-government controlled currency system. Who ultimately prints and controls the paper currency has been the quintessential factor in the American economy since colonial times. The current economic crisis leads us back to the beginning and evolution of our American economy and currency system. Where we stand today and what can solve our problems tomorrow lays in the past economic developments and decisions that Americans made. 1865 is the critical year that led in many ways to the current economic crisis and, moreover, fundamentally altered the original economic course set down over 250 years prior. American currency was –and, still is- at the heart of the matter.[4]

## THE AMERICAN POLITICAL CONTEXT

The American economy has had many up and down cycles throughout its history. Since most Americans until the 20th century owned farms and were relatively self-sufficient (the classic Jeffersonian view of what American freedom and democracy was all about), these economic downturns rarely hit the general public in any substantial way. U.S. industrialization and urbanization in the late 19th and early 20th centuries, however, changed the socio-economic equation as the majority of the American population moved to the cities and, for the first time in history, became completely dependent on paper currency for their survival. It is in itself a major development in human history for a large population to have no other recourse for their survival than pieces of paper. The Great Depression was the culmination of this socio-economic trend and the subsequent government programs implemented were testament to Americans' newfound dependence on this paper currency system.[5]

Today, we appear in many ways to be heading in a similar direction to the Great Depression but with a number of new factors that are critical to understanding the current economic situation. First, unlike the 1930s, most Americans are no longer relatively poor, so they have much more to lose and further to fall in any future economic downturn. History shows that the greatest internal threat to any system is when middle to upper-class people are threatened with losing their hard-earned social wealth and status in society; the poor alone have never carried out any successful transformation or replacement of a country's system. Second, in the 1930s America had relatively little debt and a tremendous amount of economic potential still available.

Today, Americans have trillions of dollars of personal debt, while the U.S. government has $13.5 trillion in national debt, an annual budget deficit of $2 trillion, $13 trillion in loans to financial institutions, $23.5 trillion in guarantees to the financial, housing, and auto industries, and an estimated guarantee of $70-80 trillion in Social Security and Medicare payments to the baby boomers who are just starting to retire. Not a good combination, especially when the federal government takes in around $2 trillion a year in revenue sources, at this time.[6] Third, the onset of World War II facilitated the greatest wealth transfer in history and the U.S. was the primary beneficiary of it; and, much of this foreign wealth remained in this country for decades after the war. Fourth, for the next fifty years after WWII, America's industrialized competitors had to recover from their vast war-time destruction and America took full economic advantage of it. Finally, the existing international economic system is now completely saturated with competitors, capitalism has expanded to the far corners of the globe, and there are relatively few places remaining that can offer significant economic growth potential for any of the advanced industrialized countries. Even Schumpeter recognized that the fullest and most advanced extension of capitalism held the seeds of its own destruction.[7]

Are we seeing the collapse of the existing economic order or is there a way to save it? The U.S.'s currency is the critical element underlying all of these issues. The history of American currency is a fascinating story of American ingenuity and the subsequent attempts by powerful governments and interest groups to get control of the financial system. Most Americans are not aware that for the first 250 years of American history, from the early 1600s to the Civil War, most American currency was created at the local and regional levels and very little at the national level. The literature on the history of American money suggests that there has been a recurring battle between private and government-controlled currency creators. But this has been actually much more complicated than a business versus government fight. The key factor to this battle has been that major corporate elements have used and sided with the government to create monopolies to protect and promote their interests and, notably, currency has been a critical component of their program. Recognizing this collusion between certain financial centers and the government is important to our understanding of the present currency and economic problems. The financial, social, and political forces underlying this historical currency battle remain a predominant theme throughout American history up to the present.[8]

## THE PRE-1865 ECONOMIC PERIOD

When the first English settlers arrived in America, they had to deal with an economic system that was highly slanted towards England and the European financial structure in general. The first generations of colonists had to overcome these economic obstacles, but they were greatly aided by the three thousand mile separation from the mother country and lack of transportation technology, in addition to the constant distractions England and other European countries had to deal with, particularly wars. The American colonists, first and foremost, had to deal with a currency issue that remained at the center of American economic development for the next 150 years. Americans were told originally like most others that gold and other hard currencies were necessary for all economic interaction and growth. Most American colonists had little if any coinage. Refusing to accept permanent poverty or a completely stagnant economy and future, Americans took matters into their own hands and recognized that gold was nothing more than a shiny trinket, to put it simply. Land and other natural resources were the true wealth of America and the key ingredients that people sought out and demanded. Currency has often been described as having as much to do with psychology as it is with natural and subsistent needs. Gold, on the other hand, was viewed at the time as just one of many bridges to achieve Americans' needs and desires. American colonists concluded very quickly and out of necessity that they had to develop a new currency engine to promote and sustain their economic development. New generations of Americans needed more land and housing and farming materials for their livelihoods and futures. Americans, thus, refused to allow a lack of gold and other metals to deny them the ability to develop the vast tracts of land and natural resources that stood before them.[9]

The American colonial currency developed from an early bartering system of land, wampum, furs, and other raw items to a more fungible and acceptable version of paper currency. Many local transactions of goods and services became based upon paper contracts, or currency. Private community and regional lenders emerged to utilize the vast natural wealth and existing human resources available to produce an acceptable return on their investments. Although virtually all economic transactions and currency at the time developed at a local and private level, historians have traced the earliest forms of American government paper currency to the 1690s and the Massachusetts Bay Colony's war with the Indians.[10] In fact, it should be pointed out that there has been a recurring theme of wars and government paper money throughout American history. Whatever currency that exists at the time of war, the conflict creates a much greater need for supplies and other resources, well beyond the existing local/regional private financial resources available. From the 1690s to the Civil War, the government paper currency was more of an IOU that was expected to be repaid in more favorable and acceptable means after the war was over. It is interesting to note that whenever the government propelled the creation of paper currency and IOUs, especially during periods of war, there tended to be major problems of valuation, inflation, counterfeiting, and general acceptance over time. Americans who took the paper currency often encountered problems later, but since most owned farms for self-sufficiency, most of them were able to survive any currency issues that emerged during or after the war, even a currency's complete devaluation.  This was the case with the first government issuance of paper money in the 1690s and it would not be the last.[11]

Once paper currency emerged in the 1600s as a form of acceptable contract for goods and services, it became a common business practice at the local level. Community banks and lenders negotiated deals with average Americans and businessmen. The paper currency was often unique to the bank and the specific contract negotiated. It worked well for the original participants, but as the currency remained in circulation and was transferred to others that were not part of the original agreement, the fungibility and reliability of the currency led to its devaluation the further the currency went beyond the local populace and the knowledge of who the original bank issuer was. Counterfeiting became a significant problem for currencies/IOU contracts, especially with travel distances and limited technologies and communication. It was clear that a universal currency that could not be counterfeited was the most important element that what was missing from this early currency system. Many Americans recognized this but the power of local and regional interests and banks prevailed over continental trade and interests; economic relations were predominantly local and personal and this parochialism made currencies primarily short-ranged, despite any later consequences that occurred well beyond the area.[12] It is important to note this here since it became one of the key arguments later in the Civil War for a government-created universal currency that was difficult to counterfeit (hence, the introduction of the future greenbacks).

The American currency system for 250 years was very successful at the local level in promoting economic development and satisfying the needs of citizens. The main problem arose only after the paper currency went through several transactions and made its way out of the local/regional zone of 100 percent acceptance and awareness. Thus, the contractual foundation of paper currency worked well in the development of the early American economy as long as most economic interactions were close by. It was a reflection of early American history as to the heavy emphasis on local and intra-colony/state interaction and less so on interstate commerce, which became more prominent as America industrialized and transportation technology (trains etc.) emerged in the 19th century and beyond.[13]

As America progressed into the 1700s, the economy grew at significant rates and provided more than enough opportunities for millions of new colonists, courtesy of paper money. It is a notable historical fact that Benjamin Franklin was one of the most prolific printers of paper money up until the 1760s. Some historians consider him the "Father of Paper Money."[14] It should be stressed that the entire American paper currency system came to an abrupt end when the British government realized during the French and Indian War (1754-1763) that America had developed and separated itself far beyond the imperial reach that any British monarch or official could ever have imagined. America's economic development and prosperity were shut down by the British Currency Act of 1764, which banned the printing of all paper money in the American colonies. Franklin, thereafter, travelled to Britain and argued before a British Parliamentary committee that paper currency was essential to a prosperous and peaceful America that would remain happily within the British Empire. The British saw the effects of American currency as a direct threat and contradiction to the British colonialist and mercantilist policies of the time. As a result, the British refused to allow paper currency to be used by Americans and, thus, deprived a whole generation of young Americans any opportunity to obtain land, a home, and a family for lack of gold and other metal coinage.[15] It is not at all surprising that there was a large pool of eager recruits for the American Revolution twelve years later. Their entire future hinged on the re-introduction of American paper currency and land exchanges to have any chance at all at having a decent life and future.

The American Revolution brought a return to the old system of local paper currency and contracts. The Revolution was in part an act of defiance against the central government's control of currency. It should be pointed out, however, that America's new but very weak central government, the Continental Congress, had to also involve itself in the printing of paper money in order to pay for the Continental Army and other expenses. And, this government paper currency had no convertibility into anything tangible. Not surprisingly, the new central government's efforts led to a mass devaluation of government paper currency and the famous phrase "Not worth a Continental."[16] Nevertheless, America's land and natural resources came to the rescue and won the day. In response to the virtually worthless Continental currency, the new American government quickly turned to promising Americans the opportunity of new land if the British yoke could be overthrown. Thus, the value of land –regardless of whether or not it was directly attached to paper currency- was more than enough to motivate many Americans to fight for and support the newly created government.

After the Revolution, Americans went through another upheaval of governments getting involved in printing mass amounts of paper currency. This time around, the thirteen U.S. state governments were the culprits in overproducing paper currency that, like the Continental, was not at all attached to real property. The new state governments had huge debts from the Revolution and attempted to use the printing presses to resolve their debts quickly, easily, and in a very politically convenient way. Many business and financial leaders, however, recognized the mass inflationary effect of this printing and quickly adjusted their prices and demands. This led to a massive economic downturn and subsequent social unrest, culminating in the famous Shay's Rebellion. Many Americans who took out loans to purchase their homes and farms were now seeing their bills skyrocket well beyond their incomes. Although most Americans owned their property, there were a substantial number who did not. This large-scale social unrest alarmed America's Founders and led them to convene in Philadelphia and create a new constitution to replace the Articles of Confederation. The impact of the post-Revolutionary unrest was at the forefront of the Founders' minds when they created the U.S. Constitution. Paper currency was once again at the center of a new American revolution.[17]

The Founders made it clear in Article 1 Section 8 of the U.S. Constitution that the U.S. government could only coin metals and borrow money on the credit of the United States. Learning the hard lessons of government involvement in the printing of paper money, the new U.S. government denied itself the power to print paper currency and, after bailing out the state governments (courtesy of Article 6 of the U.S. Constitution), it forced the state governments out of the currency business and, moreover, made them balance their budgets on an annual basis. This opened up the doors for local and regional banks to once again become the sole paper currency producers and primary financial lenders in the American economy.[18]

After a brief interlude between 1764 and 1789, America was back to having the private local and regional banks be the engines for economic growth and prosperity. This led to the country's tremendous expansion up to the Civil War. But there were a number of problems, both old and new. There were many types of currencies (thousands, in fact) that went beyond the local area and thus were devalued and counterfeited, just like colonial times. It is interesting to note that Benjamin Franklin and many others had recommended a more universal currency that was difficult if not impossible to counterfeit.[19] Furthermore, the federal government created the First (1791-1811) and Second (1816-1836) Banks of the United States in an attempt to strengthen national control over the economy, but both banks led to financial collapse and greatly increased the public's distrust of the federal government's involvement in economic issues and the handling of money. In the end, the federal government's interference in the nation's economy ran contrary to the interests of many local and regional bankers as well as many of the public who were socialized in this local means of economic growth and production. The economy, essentially, remained into the 1850s a matter of local personal relations and trust, as well as states' rights, over national relations and interstate commerce. It was not until the 1860s and thereafter that America saw a much greater degree of interstate commerce and movement. It is not surprising that the Civil War was a turning point for not only the country's political system and the issue of slavery but also for its economic system and currency.[20]

## THE CIVIL WAR, CURRENCY, AND THE DECISION OF 1865

When the Civil War began in 1861, the U.S. government expected a quick and easy victory and its budget reflected it. When the war continued on for much longer, the government was forced to find other means to pay for the mass mobilization of hundreds of thousands of troops over an extended period of time. The existing currency in the system, which was an amalgamation of many of distinct currencies from (northern) local and state banks, became inadequate for prosecuting the war to its fullest. The Lincoln Administration, under U.S. Treasury Secretary Salmon P. Chase, decided to issue what amounted to IOUs or promissory notes without a due date in order to obtain the necessary war materials. The government declared these U.S. bank notes, or IOUs, to be legal-tender notes but they were not attached/convertible to any tangible asset (their convertibility to gold was quickly rejected; not until after the war did the gold conversion issue return).[21] The federal government decided to put into practice something that had been advocated and dreamed of for centuries: a universal currency that had the exact value everywhere and was difficult if not impossible to counterfeit. Since the Constitution prevented the government from printing paper currency, the government had to officially call the "currency" an IOU/contract and left it up to the receivers as to whether or not they would transfer the IOUs to others at face value, which they often ended up doing, or convert them into government bonds for 5-20 years at up to 6% interest.[22] To make it difficult to counterfeit, the U.S. Treasury Department created a currency with green ink on the back side and black ink on the front, hence the famous term "greenbacks." The federal government produced $300 million of these U.S.

bank notes, or greenbacks, in 1862 and then $150 million more in 1863. The federal government made it very clear that the $450 million worth of greenbacks would be taken out of circulation and replaced with real currency once the war ended.[23]

Although the $450 million worth of greenbacks were officially IOUs, the government declared the greenbacks to be temporarily equivalent to real currency or legal tender and that their value would be equal in any part of the United States. Most people (northerners) supported the reasoning behind the greenbacks and saw it as their patriotic duty to accept the greenbacks as a legitimate substitute for established currency, which they recognized was insufficient in quantity to carry out the war effort. This was the first attempt since the Revolution to make something akin to a national currency, although the greenbacks were officially convertible to bonds or to real currency if and when the government won the war and was able to obtain sufficient new currency to repay the "borrowers." The greenbacks were very popular with those who received them, including soldiers. Northern businessmen and military industrialists received most of the greenbacks and they greatly appreciated the greenbacks' universal value and acceptance.[24] This is important to note since it was this particular interest group that later became the biggest and most powerful supporter for making the greenbacks the dominant national currency in the land. In the end, the establishment of the greenbacks as an acceptable means of exchange/investment/"currency" became the critical component to the emergence of our modern day currency system and our present day problems. It should be re-emphasized that the greenbacks were never meant to remain in circulation beyond the Civil War, a fact stipulated by Congress.[25]

As the Civil War reached its zenith in 1863, the U.S. government laid the foundations of a new currency system that would be the cornerstone of its modern day economic system. To this day there is still no substantial evidence that the U.S. government had decided before 1865 to keep the greenbacks in circulation after the war, let alone make them the primary currency of the land. But in 1863, the government passed the National Bank Act, which not only established a new national bank system (one could say, a Third Bank of the United States) but led later to the imposition of a ten percent tax on all previously issued paper currencies that had originated from state and local banks. The

U.S. government, more specifically, required all state and local banks that issued currency to obtain a federal charter, and it declared that all future currency had to look exactly the same except for the printing of the bank's specific name/emblem and location on the money.[26] Many state and local banks resisted the central government's demands and attempted subjugation and, as a result, the U.S. government followed up with amendments to the National Bank Act of 1863 that would force banks to submit to federal control. The greatest coercive measure intended to destroy the independent state and local banking system was the March 3, 1865 declaration that there would be a ten percent tax (many called it a "death tax") put on all older currency in any bank's vaults that did not comply with the new currency regulations, i.e., were not federally acceptable uniform currency.[27] This, for all intents and purposes, signaled the potential elimination of all state- and local-created currency, since it put the banks under a large degree of federal control and threatened their existence and profitability if they did not comply with the new federally mandated currency standards. In short, the additional ten percent transaction fee on any non-U.S. bank note could be more than enough to make a bank uncompetitive and drive it out of business. Regardless of the fact that the Constitution denied the federal government any involvement in the printing of paper currency, the National Bank Act of 1863 and its culminating amendments in 1865 were a direct contradiction to 250 years of American currency traditions, save for the British act of 1764.

Whether or not this new currency tax was a short-term means of collecting more real currency to prosecute the war and eventually pay off the greenback IOUs is not known. But many historians look back on the National Bank Act of 1863 and see it as an attempt to wipe out all the traditional currencies throughout the country and create a new and centralized universal currency that the national government would control.[28] Considering the extreme circumstances in which the National Bank Act arose, it is hard to determine whether or not the currency tax was an emergency revenue action, an anti-counterfeit campaign, or a long-term plan to create a new currency system. Furthermore, it should be pointed out that many since Hamilton had sought to create a permanent national banking system and that the strongest opponents to this scheme had often been southerners who, obviously during the Civil War, were eliminated from the 1863-1865 debate. Thus, the removal of the “southern obstacle” may have enabled this national banking issue to pass this time around. All in all, this is why 1865 becomes the decisive turning point in the currency system that we have today. Once the war ended, the U.S. government had the opportunity to retract the $450 million worth of greenbacks and give their owners real paper currency, whether the old or new versions. The government, in fact, started to do just that and took back $75 million worth of greenbacks. This suggests that at least a part of the government, particularly the Congress, intended to follow through with its original promise to print the greenbacks solely as IOUs and not as permanent legal-tender currency.[29] So, the state and local banks still appeared to be the sole producers of paper currency once the war ended, even under the new federal charters. What followed then is the critical storyline in today’s currency debate.

As the $450 million worth of greenbacks were being collected by the government after the war, the powerful (northern) businessmen and industrialists that had most of the greenbacks rebelled (ironically, but politically) against this currency retraction. They saw the many benefits of this universal currency and value, and they encouraged anyone who held or used these greenbacks (including, soldiers) to publicly protest the retraction. Since most of the greenbacks were in the hands of a relatively few wealthy people, maintaining the greenbacks meant giving those few a tremendous amount of financial and political power over the public and other interest groups, including the federal government. The historical evidence, unfortunately, does not give justice to what became essentially a financial coup d’état. The greenback holders were able to use their powerful positions to generate enough public unrest and concern to persuade (or coerce) government officials to reconsider their original retraction order, but only after $75 million worth of greenbacks had already been taken out of the system. The greenback powers, moreover, were able to get the government to maintain its policy of eliminating all the real currency that existed before the National Bank Act of 1863 and, thus, ensured that the greenbacks would be the dominant currency of the land for years to come, especially when the currency was thereafter attached to gold.[30]

It can be estimated that approximately two thirds of the currency in the U.S. economy were basically sent to oblivion by the greenback decision of 1865. The vast majority of non-greenback currency was printed before the National Bank Act of 1863 and they remained in circulation for years after the war –forcing most banks to wait until they could replace the old currency with the new, but by then it was too late, as we shall see. Furthermore, the greenback holders understood that by having the bulk of this new national currency in their hands, it was critical to keep the production of future currency to a minimum in order to maintain both their political and financial power. To this end, the greenback powers were able to get the U.S. government and the new federally chartered banks to refuse to replace immediately the two thirds of old currency with greenbacks, meaning the new national currency levels were essentially at one third of the Civil War levels (a massive decrease, especially given the need for Reconstruction). More precisely, the federally chartered banks were unable to carry out substantial business on many levels, especially with the U.S. government (who now accepted only new U.S. currency or gold), since they could not print out large amounts of new U.S. currency given that their assets were still tied to the old currency. Moreover, the greenback powers further ensured their future monopoly on the new U.S. currency by persuading the federal government to attach the greenbacks to gold, at first unofficially and later officially. Connecting the new national currency to gold meant that there would be extreme constraints on producing anything but a modest annual increase in the currency levels, thus emphasizing the maximization of the greenback holders' personal value over the nation's quantitative needs. This led to future mass shortages of currency as the country headed into the last stages of industrialization and urbanization.[31] In the end, attaching the greenbacks to gold was another direct contradiction to 250 years of American currency and economic activity. It was revolutionary in itself and had severe consequences for this country and its people for the next one hundred-plus years.

## THE AFTERMATH OF THE 1865 DECISION

The greenback decision of 1865 guaranteed a substantial shortage of currency in the economic system and stressed the maintenance of the greenback's value over the country's need for sufficient financial resources. With the establishment of the greenback as the dominant currency of the land, it gave the greenback holders a tremendous amount of power to influence the economic and political development of America for the next half century and beyond. The greenback interests, basically, hoarded the money and ensured that relatively little more was printed out on an annual basis, even when the old non-greenback currency was returned to the now federally chartered state and local banks. It is estimated that on average the currency levels grew by no more than a few percent a year, despite the massive economic growth the U.S. experienced in the latter half of the 19th and early 20th centuries.[32]

The greenback decision of 1865 is absolutely critical to understanding our current economic crisis. The 1865 decision made the $375 million of greenbacks the base amount of currency to calculate all inflation to this day. Any additional currency printing beyond this base number has been considered inflation or debt. One may wonder how and why this 1865-level of currency is still used as the base amount. Looking at the key financial powers that controlled most of the new currency, it is not surprising that they sought to monopolize the currency as they did the economy. They used their newfound currency to heavily influence the U.S. government. And, despite the Legal Tender cases in the decade following the Civil War and the Supreme Court's declaration that the greenbacks had been illegal originally as currency (for future reference), the greenbacks remained the sole currency of the country and in the hands mainly of a relative few. Furthermore, their powers and goals led Congress to pass the Resumption Act of 1875, which allowed the greenbacks to be converted to gold at face value, the Gold Standard Act of 1900, which tied the value of the greenbacks to the fluctuating exchange rate of gold, and the Federal Reserve Act of 1913, which ensured that major financial interests would control the printing of U.S. currency and the overall economy. As for the Federal Reserve itself, it is neither truly federal nor has any substantial reserves. The federal government, nevertheless, guaranteed its indirect –or, direct, from some perspectives- control over the Federal Reserve by claiming the right to appoint the Federal Reserve Chairperson. This, of course, raises the question as to whether the appointment power –let alone, any other direct or indirect connection to the Federal Reserve- violates the Constitution's demand that the U.S. government have no control whatsoever over the creation of non-metal currency.[33] In the end, many of our major economic problems today can be traced back to this period in which the financial coup makers, you could say, converted the Civil War's IOUs into the dominant currency of the land and, then, turned their newfound powers to fundamentally change the American economy and way of life. Currency shortages were profoundly influential and necessary for the greenback holders during this time period. Unfortunately, it occurred during the worst stages of industrialization and this generated tremendous social unrest into the 1900s. In the end, this deliberate currency shortage helped to lead the U.S. into its greatest economic depression and only WWII and the largest wealth transfer of all time delayed the inevitable reckoning of this mass currency shortage and the 1865 financial revolution.

The decision of 1865 established the currency base for the country's economic system and then put, unofficially and then officially, a golden straightjacket on the country until 1971. This 1865 decision and the policies that followed were primarily political and social decisions. The policies were motivated by a small group of powerful northern financial and industrial powers who wanted to protect and promote their interests and wealth in the most extreme way. The decision to minimize the expansion of the currency base, let alone not to replace the two thirds of the original currency that was eventually wiped out, suggests that America's economic troubles leading up to the Great Depression were more than an economic downturn. The free market and original currency system would have led to a much greater expansion of the currency base to stay up with the massive industrialization and growth of the country. Instead, millions of Americans were driven into the cities and forced to live and work in terrible conditions for very little money. The underlying causes of the many economic downturns and massive social unrest that occurred between 1865 and the 1930s could easily have been mitigated by a natural and free market growth in the U.S. currency. Instead, the currency was severely limited by a select group of people. Had WWII not come along and the massive wealth transfer and destruction of our competitors not followed, the 1865 greenback decision would have been addressed and resolved one way or the other, either through a new and larger currency base or the eventual collapse of the existing base that was completely inadequate for a modern U.S. economy. The country, however, ended up getting a half-century moratorium on the currency issue.[34]

Today, the U.S. has returned to square one and the whole currency debate has emerged once again. No more can we fall back on the mass foreign wealth that stayed in our vaults from the late 1930s to the 1970s and 80s. Most of the money and other forms of wealth are gone and the massive U.S. trade deficit has ensured that America's hard currency is mostly held by foreigners who now decide whether to return the currency for interest. When you calculate the compound interest of $375 million for the past 145 years at 5.5% inflation, you have relatively the same hard currency amount as in 1865.[35] All the additional "currency" that exists today is on a computer screen and involves primarily massive debt. In other words, any attempt to collect and convert these computer digits into real currency will send the banks plunging into bankruptcy, since banks hold around 10% or less of the value of their hard assets on hand and nothing in "soft screen" assets.[36]

There is approximately $800 billion of U.S. hard currency in circulation right now, with around $250 billion in the U.S. and the rest overseas.[37] This means that there is actually less than a third of the original greenback value in the U.S. for future growth and stability. This is a clear indication that this country's currency has grown at an extremely low rate compared to the country's phenomenal GNP growth and overall wealth production, and its foreign trade policies have seriously eroded even the minimal currency growth levels for the past 145 years. Furthermore, there is an estimated $7-9 trillion of additional U.S. "currency" in circulation, courtesy of bank computer screens. But no one knows how the Federal Reserve and U.S. government back up this "currency" since there are no equivalent reserves of hard cash or gold or any other valuable property.[38] If these computer digits were actually converted into real world currency, then it would clearly lead to greater economic growth on the one hand, but the financial powers would no doubt raise prices and thus produce enough inflation to undermine any increased currency in the system. This is the world that we live in now.

## REFLECTIONS ON THE PAST: A NEW SYSTEM FORWARD?

Overall, the history of American currency is the potential answer to America's future return to prosperity. This research draws out a number of major themes, including the centuries-long battle between private and government forces for the control of the currency, the great success of the paper currency being attached to land and other tangible property, and the importance of setting a large enough currency base to build upon for future growth and prosperity. The decision of 1865 is a critical decision that established the base amount of currency that all inflation to this day is built upon. If the society, government, and world cannot make do with the existing currency base when adjusted for inflation, then they must go into massive debt if necessary. The solution to the current and future economic problems is not more debt and inflation, but the fundamental altering of the 1865 currency base to a reasonable 21st century level.

Throughout history, currency has often been based upon the collateral value of a country or owner. If the U.S.'s total value was ever calculated, then the U.S. would at the very least be worth several hundreds of trillions of dollars, with $500 trillion being a rough and very conservative estimate. It, thus, raises the question as to why the total U.S. currency is pegged at only $8-10 trillion, i.e. approximately 2% of the estimated U.S. value just suggested, with less than a trillion dollars of which is hard currency – and, even worse, only $250 billion inside the U.S. Whether one considers what the currency levels should have grown at for the past 145 years or the two thirds of the currency that was essentially wiped out by the 1865 decision, one can easily suggest that any new currency base that can handle the country's current needs and maintain its standard of living will require at least a doubling or tripling of the existing currency levels. Instead of $10 trillion, the U.S. (and, basically, the world) may need at least $20-30 trillion total in order to establish a solid foundation of long-term growth, prosperity, and reasonably balanced budgets.[39] This would be just a 2% to 4% increase in the currency levels to U.S. collateral value ratio (a 1% increase for every $5 trillion injected into the system). Nevertheless, the primary obstacle to this currency recommendation would most likely be the financial descendants of the 1865 decision-makers, who appear to have kept a shortage of currency under the guise of the gold standard and then, after 1971, the monetary policy. This small but very powerful financial interest group, probably, would seek to inflate prices and cause an economic collapse if the currency base was enlarged significantly. Thus, they are the ones that would have to be neutralized politically and economically for any major currency reform to occur and, hopefully, educated in the benefits of a new currency base. Price controls, nonetheless, would likely have to be enforced for as long as possible to ensure compliance by the financial powers who might seek to undermine the successful establishment of a new currency base. All of this would be necessary if the 1865 currency base was enlarged to meet 21st century economic levels and, thereafter, was attached to sufficient property value in this country.[40]

Regardless of the fact that the financial powers would end up sooner or later with a lot more money under a new and enlarged currency base, the possibility of losing significant power and wealth to the general population and allowing the government to resolve its debt problems would be tantamount to surrendering the ultimate power. In all likelihood, it will probably come down to a very new and strong government direction on currency, or a last-second decision before a major economic crash, that things may change. Nevertheless, the need to replace the 1865 currency base with a 21st century currency number is absolutely essential to having a strong, prosperous, and dynamic economic system for the rest of this century and beyond, especially when you consider that nearly 70% of the U.S. economy is driven by consumer purchasing. It, furthermore, is critical to giving Americans more freedom and opportunity, since the more hard currency in the hands of average Americans, the greater the degree of choice there is without the debt and dependency on any currency "masters." In short, more hard currency equals more freedom. A 145-year currency shortage has now become more unbearable and unsustainable than ever. If the only solution under the existing system is massive deficit spending, inflation, and cutbacks in the American standard of living, then it behooves us to consider a new and better alternative, such as fundamentally altering the 1865 hard currency base to a more relevant 21st century foundation.

In addition to expanding the currency base and putting in effect a price freeze on the currency to ensure that major inflation does not "magically" appear, the new currency must be (re-)attached to real property value. The 1971 decision to remove U.S. currency from the gold standard without any type of public discussion or debate was one of the strangest and most irresponsible acts in political and financial history. Given the historical fact that no currency has ever survived in the long term without being attached to something tangible, one would have expected a major public debate to have preceded the act and serious consideration be given to the implications and possible replacement of gold. Instead, the gold standard went out without even a whimper or a modest public discussion. The current economic situation and mass deficits can be traced back to the purely political shortsightedness of the 1971 decision to detach the U.S. currency from the gold standard without any tangible replacement or public discussion. But like so many things in history, it takes time for some things to build up en masse and eventually explode.[41]

Gold is certainly not enough to back up U.S. currency. It never has and never will be. The world's total quantity of gold, in fact, is valued at an existing price level of approximately $8 trillion. This means that all of the world's gold cannot back up more than the minimal $8 trillion of U.S. currency in circulation (hard and digital), ignores the rest of the world's currencies, and prevents any future economic growth in the U.S. and international system. Gold can be one collateral source, but it is clear that much greater and sustainable property value must be used as the basis of any new currency.[42]

America's first 250 years suggest that land and everything atop and below it can be a very effective source of wealth that translates into paper currency. Properly calculating the land values, natural resources, and other major domestic property values can establish the country's overall baseline for producing a sufficient amount of paper currency. If the U.S. is worth hundreds of trillions of dollars or more, then an increase from a $10 trillion to a $20-30 trillion currency level is but a small percentage growth compared with the country's overall value. This is a reasonable percentage that can be maintained for decades to come. Other countries could follow with their own property-valued base currencies. All of this can establish a very sound, prosperous, and stable currency system that is not based upon massive shortages or daily currency fluctuations that can undermine economic stability and investments. If people can attach their currency to tangible assets as they did for centuries before, then greater peace, prosperity, and stability may be achieved in the international system. American history is a great reference to what a people can do to develop economically and prosper, in order to overcome powerful and centralized financial forces intent on maintaining mass inequality and instability within the economic and currency systems.

## CONCLUSION

In the end, the U.S. government's economic policies are clearly unsustainable in the long term. The current financial shortage of hard currency ensures that only massive debt and inflation can temporarily postpone the inevitable. The only other option is a mass cutback that would lower Americans' standard of living substantially. That would be unimaginable in terms of public acquiescence or political survivability. The policy recommendations made in this paper may offer the best solutions to the current economic crisis. But, like all things, there are opponents and costs to any future action. Yet, the alternative of continuing on with the current system for much longer is completely unrealistic in terms of both spending and cutbacks. A new currency base must be established to reset America's economic system for 21st century prosperity and growth. America must remain the cornerstone of the world's economic system in order to maximize its potential and opportunities. A new currency base that is attached to real property is the essential ingredient to an equation of peace, stability, and prosperity for both the U.S. and the world. America must look to the past to propel itself into the future. This research paper provides a number of good historical lessons that may help in resolving the current economic crisis and lead us to a much better world. Hopefully, America's future still lays green and bright and the best is yet to come for our economic and currency system. We shall soon find out.

## ENDNOTES

1. Jeannine Aversa, "Setback for Recovery: Jobless Claims Spike," *Plain Dealer*, April 16, 2010; Alex Veiga, "Foreclosures Up 35 Percent in Quarter; More At Risk," *Plain Dealer*, April 16, 2010. See also the Department of Labor at www.dol.gov and its Bureau of Labor Statistics at www.bls.gov.
2. See Thomas E. Woods, *Meltdown: A Free-Market Look at Why the Stock Market Collapsed, The Economy Tanked, and Government Bailouts Will Make Things Worse*. Washington, D.C.: Regnery Publishing, 2009; Ellen Hodgson Brown, *The Web of Debt: The Shocking Truth About Our Money*

*System and How We Can Break Free*, 3rd ed. Baton Rouge, LA: Third Millennium Press, 2008; Nathan Lewis, *Gold: The Once and Future Money*. Hoboken, NJ: John Wiley & Sons, 2007; and Jason Goodwin, *Greenback: The Almighty Dollar and the Invention of America*. New York: Henry Holt and Company, 2003.

3. Ibid. See also Matt Miller, *The Tyranny of Dead Ideas: Letting Go of the Old Ways of Thinking to Unleash a New Prosperity*. New York: Times Books, 2009.
4. Robert J. Samuelson, *The Great Inflation and Its Aftermath: The Past and Future of American Affluence*. New York: Random House, 2008, xix-xx.
5. Douglas Rushkoff, *Life Inc.: How the World Became a Corporation and How to Take It Back*. New York: Random House, 2009, 96-105; Richard C. K. Burdekin and Paul Burkett, *Distributional Conflict and Inflation: Theoretical and Historical Perspectives*. New York: St. Martin's Press, 1996.
6. Many recent books, newspaper articles, and TV reports stress these deficit numbers. See also Woods, Burdekin, 1, and Ron Paul, *End the Fed*. New York: Grand Central Publishing, 2009.
7. Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, 3rd ed. New York: Harper & Brothers Publishers, 1950, 81. See also Schumpeter's *Imperialism and Social Classes*. New York: Augustus M. Kelly, Inc., 1951, 7.
8. Goodwin, 40-41, 59; Samuelson, 7-8. See also John S. Odell, U.S. *International Monetary Policy: Markets, Power, and Ideas as Sources of Change*. Princeton, NJ: Princeton University Press, 1982; and Brown, Lewis, and Miller.
9. Brown, 36, Goodwin, 24, 52. See also Jeremy Atack and Larry Neal, *The Origins and Development of Financial Markets and Institutions: From the Seventeenth Century to the Present*. New York: Cambridge University, 2009; and John Chown, *A History of Money: From AD 800*. New York: Routledge, 1994.
10. Ibid., 153-154; and Brown, 36-37; Goodwin, 24, 40-41, 52.
11. Ibid., 153-154; and Goodwin, 24, 40-41, 52.
12. Goodwin, 28, 40-41, 52.
13. Goodwin, 52, 56-57. See also Stephen Mihm, *A Nation of Counterfeiters: Capitalists, Con Men, and the Making of the United States*. Cambridge, MA: Harvard University Press, 2007.
14. Brown, 37.
15. Goodwin, 56-58; Lewis, 154.
16. Goodwin, 59.
17. Lewis, 154.
18. Goodwin, 81. The U.S. Constitution is very explicit and the Founders' writings before and after it support this interpretation of no federal government involvement in the printing of money.
19. Mihm, 3; Goodwin, 52.
20. Goodwin, 81, 113. See also Brown.
21. Arthur Nussbaum, *A History of the Dollar*. New York: Columbia University Press, 1957, 100-101, 108. See also Lewis, 164; and Goodwin 219-220, 256. For some of the original Congressional debate on the Legal Tender Act, see *The Congressional Globe*, "The Official Proceedings of Congress," published by John C. Rives, Washington, D.C., Thirty-Seventh Congress, Second Session, February 24, 1862; Debates of Congress, pp. 929, 938-939. Online at the Library of Congress's website at http://memory.loc.gov/ammem/amlaw/lawhome.html.
22. Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, 1865-1879*. Princeton, NJ: Princeton University Press, 1964, 16-17. See also Nussbaum, 100-101, 108; and Goodwin, 220.
23. Don C. Barrett, *The Greenbacks and Resumption of Specie Payments, 1862-1879*. Cambridge, MA: Harvard University Press, 1931, 130; Nussbaum, 100-101; Goodwin, 220; Lewis, 164.
24. Barrett, 130; Nussbaum, 102-103; Goodwin, 256.
25. Barrett, 130; Nussbaum, 100-101; Goodwin, 256.
26. Unger, 18-19; Nussbaum, 108-111; Goodwin, 248. There appears to have been little, if any, Congressional debate on the National Bank Act of 1863, based upon *The Congressional Globe's* debate transcripts in February 1863.
27. Nussbaum, 110-112; Unger, 19. The "death tax" that destroyed all the other currency had a grand total of five lines in Chapter 78, Section 6 of the "Internal Revenue" law passed on March 3, 1865. See The Library of Congress website at http://memory.loc.gov/ammem/amlaw/lawhome.html, Statutes and Documents, Thirty-Eighth Congress, Second Session, March 3, 1865, Chapter 78, Section 6, p. 484.

Chapter 78 starts on p. 469. There appears to have been no Congressional debate, at least not recorded by *The Congressional Globe*.

28. Nussbaum, 108-112.
29. John Wilson Million, "The Debate on the National Bank Act of 1863," *The Journal of Political Economy* 2, no. 2 (March 1894): 265, 274. See also Nussbaum, 111-112; and Goodwin, 256.
30. Unger, 19-21; Goodwin, 256.
31. Warren M. Persons, Pierson M. Tuttle, and Edwin Frickey, "Business and Financial Conditions Following the Civil War in the United States," *The Review of Economics and Statistics* 2, no. 2 (July 1920): 5-7. See also Nussbaum, 108-112; and Goodwin, 257-258.
32. Goodwin, 256-258; Brown, 26. The author also calculated the hard currency numbers with compound interest for 145 years to confirm the numbers stated by Goodwin, Brown, and the Federal Reserve Bank of New York, among others.
33. Nussbaum, 118-123, 130, 143-144, 154-162. See also Lewis, 164, 177; Goodwin 258, 283; Brown 24-25, 124-25; Kenneth W. Dam, "The Legal Tender Cases," *The Supreme Court Review* 1981 (1981); Gary Taylor, *The Federal Reserve System*. New York: Chelsea House Publishers, 1989, 15, 46, 49-54; and Stephen H. Axilrod, *Inside the Fed: Monetary Policy and Its Management: Martin Through Greenspan to Bernanke*. Cambridge, MA: The MIT Press, 2009, 7-9. Interestingly, Salmon Chase as Chief Justice on the U.S. Supreme Court from 1864-1873 ruled against the greenbacks as legal currency in court cases in 1870-1871, contradicting his policy decisions as Treasury Secretary. Yet, the court's rulings in 1871 onwards essentially legalized the greenbacks, though noting that it was unconstitutional for the government to print out paper currency during the Civil War and in any future time; but what was done was done out of political and military necessity and the greenbacks were to remain in the system.
34. Rushkoff, 99-104; Persons et al., 5-7; Odell, and Schumpeter.
35. Author's calculation used to confirm Goodwin; Brown, 26; Odell; and the Federal Reserve Bank of New York's numbers. Many online sites provide compound interest calculators for 145 years. A good site is www.1728.com/compint.htm.
36. Brown, 26.
37. Ibid.; as well as the Federal Reserve Bank of New York, "How Currency Gets into Circulation". http://www.ny.frb.org/aboutthefed/fedpoint/fed01.html (accessed October 2, 2009).
38. Brown, 26.
39. Brown, 26. See also Miller. Assessing a country's overall value is nothing but a larger version of a state and local government's assessment of people (living and just deceased), property, and businesses. Individual businesses and people do their own wealth valuation. More analysis and evaluation should be done to set up a specific national valuation measurement structure to determine the country's overall value on an annual basis. Making conservative valuations will assure long-term stability of the currency ratio that could last for up to 25 years or more. Currency could be set at nothing more than 10% or less of the overall national valuation, to account for fluctuations and long-term factors. A number of federal, state, and local organizations currently focused on financial/wealth issues (IRS, Treasury, Commerce, Interior, Energy, et al.) should be used to assess the U.S.'s value. Creating a new organization to centralize these functions and goals will be the logical and imperative next step.
40. Burdekin and Burkett, 1, 13.
41. Jack Weatherford, *The History of Money: From Sandstone to Cyberspace*. New York: Crown Publishers, 1997, 184-187; Martin Mayer, *The Fed: The Inside Story of How the World's Most Powerful Financial Institution Drives the Markets*. New York: The Free Press, 2001, 182-183. See also G. Leigh Skene, *Cycles of Inflation and Deflation: Money, Debt, and the 1990s*. Westport, CT: Praeger, 1992, 54-55; Samuelson, 4-5, 7-8; Lewis, iii; Odell, Chown, and Atack and Neal.
42. Gold has been selling on the markets for around $1000 an ounce for over a year, which is relatively high. See also Woods.

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