



SCHWARTZ *Report*

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LEGAL TENDER

“Well I don’t give a damn about a greenback dollar spend it as fast as I can...” That is a line in the Kingston Trio’s Greenback Dollar song which debuted in their New Frontiers album released in 1962. The author of the song lyrics may have been implying that the dollar was worthless or a more general hippie’s disdain for money. Nevertheless, whether by design or happenstance, this song appeared in the centennial year of the 1862 Legal Tender Act which gave America its second, and throughout the Civil War, its most widely used paper money, known as the greenback. Greenbacks eventually became so popular that they even circulated in the Deep South, much to the chagrin of Jefferson Davis and the rebel Congress.



photo credit: Wikipedia.com

80%. Of course, the Confederacy, which relied on the printing press alone without any fiscal backing, suffered to the tune of 9,000%. Even as kids we knew that the offer to pay someone in Confederate money was truly a hollow one.

This may all seem like a Schwartz Reporter aside but discussing currency and inflation is – well, current. All mediums of exchange have to be based on something. As an example in the extreme, the Greek historian Plutarch chronicled that Lycurgus the

mysterious Lawgiver of ancient Sparta was reputed to have based Spartan currency on iron “heavy, symbolic, reasonably difficult to get, without being appealingly precious to others. For who would steal, or receive as a bribe, or rob, or plunder that which could neither be concealed nor possessed with satisfaction, nay, or even cut to pieces with any profit...” It also, he pointed out, effectively discouraged trade. Opinions were certainly divided among mid-19th century Americans about the value of greenbacks as well. To some they must have seemed like today’s electronic cash (Bitcoins, etc.), a speculative and as yet largely utopian currency, money of no obvious intrinsic value unlike gold or silver.

Some folks alive in 1862 may have remembered hearing the phrase “not worth a continental” which was the sobriquet hung on paper money printed during the Revolutionary War by the Continental Congress. That term lasted as part of the American lexicon for more than a century. Prices had doubled in 1776 and doubled again in both 1777 and 1778 and by the end of the war the continental was worth nothing.

It may have come out of this distress or his own fertile mind but Benjamin Franklin, he of the lightning, kite and key and a proponent of the wild turkey as the national symbol, came up with an idea to “coin land” to back the paper money of the American colonies. He pointed out

The author of the bill was New York congressman and chairman of the House Ways and Means Subcommittee on Currency, Elbridge Spaulding. Rather than continue to issue government demand notes, which in the second year of the war were already being rebuffed in some quarters, he sought a universally accepted currency which the Treasury could use to pay for the war. These were not to be bills bearing interest on fixed terms or bank notes, but real money acceptable for the payment of all debts foreign and domestic. As Roger Lowenstein points out in his recently released book *Ways and Means, Lincoln and His Cabinet and The Financing of the Civil War*: “Today, we scarcely think of the fact that the bills in our wallet do not pay interest – after all, they are ‘money’*. In 1861, referring to paper as ‘money’ was blasphemy.” Or as one Ohio Democrat put it, paper as legal tender was a “shock to the mind.” The greenbacks were not to be promises to pay but actual payment. What helped their acceptance was that a system of federal taxes was instituted which backed them up.

Even so, the Union suffered wartime inflation of about

that gold and silver supplies fluctuate with new discoveries, brigandage, etc. These precious metals would be exported in trade and end up in England with the increasing danger of bringing business in the colonies to a halt. He suggested that instead of gold and silver, land could be pledged as collateral for paper money. When money became scarce and barter increasingly difficult, people could borrow more against their land to take advantage of its increasing value in money. When the system was flush with cash causing this currency's value to fall; people would work to accumulate the cheaper notes and use them to pay off their land pledges. Old Ben may have come up with an early re-fi scheme. This process would, he thought, keep trade more in the colonies themselves and foster independence from foreign powers. The notes themselves bore copies of the leaves of trees

found in New England forests. They were printed with a copper plate press. Among his many vocations, Franklin was a printer and he believed that these plate printed notes would be relatively easy to produce and compare but difficult to counterfeit. As a side note they produced a botanical record of 18th century New England foliage. His idea was also an early demonstration of the sentiment in our REALTOR Code that under all is the land.

*Mr. Lowenstein is quick to note that while the greenbacks would be legal tender, US bond holders alone would be "paid in coin as a protection to investors especially overseas who might shun American credit backed merely by the full faith of a government under siege."



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