

MONEY: A HISTORY

OBJECTIVES: *Students will be able to:*

- *Understand the evolution of money in America*
- *Explain how the change from many different bank-issued notes to one federal currency helped unify the country*
- *Define the gold standard and explain why it helped make the US a global power*
- *Identify two ways the Bureau of Engraving and Printing protects against counterfeiting*
- *Explain why and when people in the US and other countries hoard currency*

VOCABULARY

Banknote – A bill or piece of paper money issued by a bank that may be used to buy goods or services.

Counterfeit Money – Fake money which tries to look like the real thing. Counterfeiting has been a problem throughout America's history.

Currency – A country's official paper money, a medium of exchange.

Foreign Exchange –The value of the currency of one country in comparison to another.

Gold Standard – A formal commitment to fix the prices of a currency to a set amount of gold. The Gold Standard Act was in effect from 1900 until 1933.

Monetary Policy – The management of the money supply, interest rates, and credit availability by a central bank such as the Federal Reserve to influence the economy.

Scrip – A certificate that represents something of value and is used as a medium of exchange, although it has no intrinsic value.

Watermark – A design that is embossed into a piece of paper, such as a dollar bill, during its production. Watermarks can be seen when the bill is held up to the light, and are one way that the government prevents the counterfeiting of paper money

CURRICULUM UNIT GUIDE: CURRENCY

We take our dollar bills and coins for granted, but money in America has a rich history. Our responses to the threats of war, crime, and economic crisis have shaped money's design and value. Inspiring faith in paper notes is an enduring theme in the history of American currency. Over time, the dollar's role as a stable currency known everywhere helped to unify the country and made the US a global economic powerhouse.

Currency in America's early days was a continually changing and somewhat chaotic medium. When the Dutch settled Manhattan, Native Americans used beaver pelts and shells to trade. The colonies pioneered the use of paper money in America. As trade and the colonies grew, foreign coins were imported from Europe and were used well into the 19th century. The US did not mint its own coins until 1792, when Secretary of the Treasury Alexander Hamilton personally prepared plans for a national Mint., and states were banned from each issuing their own coins.

Although the US Mint began producing coins in 1792, it was not given the job of printing paper currency. Before the Civil War, there was no standard national currency; and it wasn't until the Civil War period that bill design became consistent. Banks, which were chartered by the states, each issued their own paper currency, called "banknotes." Banknotes were among the most forged documents in the history of counterfeiting. The huge amount of counterfeit paper led to shifting monetary values, and the lack of a standard exchange made it hard to do business or go shopping. Driven by the need to borrow money for the Civil War, the Federal government began issuing national currency in 1861. Abraham Lincoln created the Bureau of Engraving and Printing and forbade the exchange of private coins in 1864. The nation moved to an all-Federal currency in 1865, one step towards unifying the divided country.

The largest denomination of note ever issued was \$100,000. Its only purpose was for bank transfer payments. (The highest note to publicly circulate was the \$10,000 bill.) Starting in 1969, all bills over \$100 (\$500, \$1,000, \$5,000, \$10,000 and \$100,000) were pulled from circulation and were no longer printed, because technology made secure interbank transfers possible without dollar bills, and also because government officials believed that large bills made it too easy for drug dealers and other criminals to exchange money. Today, the largest bill in circulation is \$100. It may surprise you to learn that approximately one-half of all US currency circulates outside the US, especially \$100 bills. The money is sought and held by residents of other countries to preserve value when they fear political and economic uncertainty, or a decline in the value of their currency.

Counterfeiting

The evolution of money in America's history was in part a response to counterfeiting. Counterfeiting was a chronic problem in America's early history, because there were so many entities issuing their own currency. Notes were counterfeited crudely by changing the denomination on the bill, and also by changing the markings on the bill. To guide merchants or those suspecting fraud, a periodical called the *Bank Note Reporter* was issued listing counterfeit and altered bank notes.

Today, it is the job of the Secret Service, which is a division of the US Treasury Department, to prevent counterfeiting. The US government is constantly redesigning our paper money to make it harder for criminals to counterfeit. Today, it takes 10 years of training before an engraver is able to work at the Bureau of Engraving and Printing. The biggest US currency counterfeiting activities now occur outside our borders, where they're often linked to drug trafficking. The US Mint has several strategies for preventing counterfeiting in the way it prints money that are on display at the Museum:

- Each note has a strip in the paper that you can only see with a black light.
- Notes are printed with color-shifting ink.
- There is “shadow” micro-printing around the portrait on the bill.
- There is a watermark within the paper at the time of printing. (A watermark is a design that is embossed into a bill that can be seen when the bill is held up to the light.)
- Bills are printed on paper made up of linen and cotton fibers so that the paper has a distinctive feel.

Gold

Gold coins were a medium of exchange throughout much of the nation’s history. The US started issuing gold coins in 1790, and stopped in 1933. During most of the 1800s, the US used gold and silver to set its monetary standard in order to promote confidence. The Gold Standard Act was passed in 1900. It was a formal commitment by the US to exchange the currency of participating countries for a set amount of gold. A country under the gold standard would set a price for gold, say \$100 an ounce, and would then buy and sell gold at that price. This effectively set a value for the currency; in our fictional example, \$1 would be worth 1/100th of an ounce of gold.

During times of uncertainty in US history, such as the Civil War, Americans hoarded coins for security. For example, during the Depression, Americans hoarded gold and currency because they were afraid that banks would close and they would lose their money. Some cities designed and printed their own currency, called scrip, during the Depression, as a response to hoarding and the failure to expand the money supply. Since the US was obligated to exchange paper money for gold, if requested, this put a cap on the amount of money that could be printed and handcuffed the government’s efforts to end the Depression. President Roosevelt ended the gold standard in 1933, and he also outlawed private gold ownership, except for jewelry

Yet even after the gold standard ended, gold continued to be a factor in monetary policy. The Bretton Woods System, enacted after World War II, created a system of fixed exchange rates that allowed governments to sell their gold to the US Treasury at the fixed price of \$35/ounce. This system relied on international confidence in the American economy, and formally established the US as the world’s banker. Dollars were the basis of most foreign trade, and maintained their purchasing power by their convertibility into gold. The US held some \$12 billion in gold, which represented about 75% of all the dollars held by other countries’ central banks. Over time, the emergence of the dollar as a stable, universally recognized currency, helped to make the US a global economic powerhouse.

Eventually, economic and political cross-currents brought the end of convertibility. To stabilize the US economy and combat runaway inflation, President Nixon “closed the gold window” in 1971. This took away the formal links between the major world currencies and gold for the first time in history. This was controversial, because many politicians believed gold convertibility was the only way to protect the dollar and maintain the strength of the US economy. Even today, there are still some conservative politicians who believe that the dollar should be based on the value of gold.

Today gold, which is a commodity, is traded on the CME Group (an exchange). In times of economic crisis, or when investors fear future inflation, like today, gold increases in value, and some individuals cash in their jewelry to take advantage of the price increase in dollars. It is possible for the individual investor to invest in gold by buying the stock of companies that mine gold, by investing in exchange traded funds pegged to the price of gold, or even by buying gold coins.

DISCUSSION QUESTIONS

1. What do you think was the effect of moving from numerous bank-issued bills to one federally issued currency after the Civil War?
2. Have you ever had a merchant in a store feel a bill to check if it is real? What is the smallest denomination you would be concerned about being counterfeit?
3. Why did linking the dollar to gold inspire confidence? Why did the dollar's convertibility to gold help make the US a global power?
4. Is the price of gold increasing in the current market? Would you want to own gold today if you were an investor?
5. Can you think of a country outside of the US where people are likely to hoard \$100 US bills?

CLASSROOM ACTIVITY

The US government is constantly redesigning our paper money to make it harder to counterfeit. Pretend you are the head of the US Bureau of Engraving and Printing and write a new set of guidelines for printing \$100 bills to deter counterfeiting abroad.