

Money in the Law: Legal Tender

By Richard Banyai ©



Legal tender (*gesetzliches Zahlungsmittel, cours legal, corso legal, curso legal*) is money which a creditor is obligated to accept if tendered by a debtor in payment of a debt. This compulsion of acceptance on the creditor which is inherent in legal tender is created by law. It should be noted, however, that a seller is privileged also to reject legal tender money presented to him in exchange for his goods, and indeed, numerous court cases have arisen because of such refusal.

There are limitations of legal tender. In the case of subsidiary coin or fractional paper currency, a maximum amount prescribed by law can be tendered. If any more than this limit is tendered the recipient can reject it. For

example, the amount of U.S. half-dollars were limited to ten dollars, and the nickel and copper coins to twenty-five cents until the Legal Tender Act of 1933 made all coins and currency of the United States legal tender. The Act did away with the former maximum amounts.

One important aspect of legal tender is the factor of "forced circulation" (*cours force, corso forzoso, zwangskurs*). This term signifies legal tender quality applied to inconvertible paper money or generally a money with no gold or silver backing—credit or fiat money.

An excellent example of forced circulation occurred in Mexico during the revolution from 1913 to 1916. Paper currency, fiat money, was issued by many sources—

States, armies, and business houses—in Mexico at the time to fulfill the need for a circulating medium for exchange and payment. The governments in power as well as the rebel armies issued paper money of the inconvertible nature and declared such issues to be of forced circulation. In some cases, those who refused to accept the peso notes, notably shopkeepers, were punished.

Another example is that of the German military occupation of areas of Europe during World War II, 1939-44. The German military authorities issued through the Reichskreditkassen bank occupation currency denominated in Reichsmarks, the German national money of account. During this period there were a number of legal decrees which declared the reichsmark to be a legal tender currency alongside the local currencies in areas such as occupied Poland, Luxemburg, and Eupen, Malmedy, and Moresnet.

The government has the power to declare a money legal tender, as this provides a means of payment capable of settling legal questions arising out of exchange, contracts and other deferred payments. The government can declare what is to be received as legal tender money, the refusal of which can lead to litigation between the government and the individual or between two individuals.

Shown here are specimens of paper currency, each of which bears a legal tender legend. The first is a 5 peso note (reverse) of the State of Oaxaca issued in 1915 toward the end of the Mexican revolution. The legend in Spanish states:

"This certificate of credit is of forced circulation (*circulacion forzosa*) and has unlimited circulatory power within the territory of the State of Oaxaca."

The second specimen is a 100 dollar bill of the United States. The legend over the "100" to the left of Franklin's picture reads:

"This note is legal tender for all debts, public and private."

The third specimen is a 5 cents fractional currency note of the Government of Hong Kong. The legend reads:

"These notes are legal tender for the payment of any amount not exceeding two dollars."

This note has the legal tender clause with maximum amount stated.

Library Notes

Mr. J. E. Charlton has furnished us with a copy of his enlarged and revised 1971 Canadian catalog. Eighty-six pages of it are devoted to Canadian and Newfoundland paper money. This greatly enlarged section now includes chartered, broken bank and defunct notes and merchant's scrip as well as all government and Bank of Canada issues. Moreover, the listings are not mere bare-bones tabulations but include information about origins of the notes and designs in addition to the pricing.

C-5, Charlton, J. E.—Standard Catalogue of Canadian Coins, Tokens & Paper Money, 19th edition, 1970.

Hawaii Inverted Overprint

By Maurice M. Gould, N.L.G.



Obverse and reverse of Hawaii inverted overprint

An unusual note known to only a few collectors is the \$10 Hawaiian inverted overprint. This error is not mentioned in any of the fine paper money references available and came to my attention recently for the first time in a discussion with the well-known collector and dealer, Tom McAfee of Honolulu, Hawaii.

During World War II, it was feared that an invasion of Hawaii might take place, and notes with the Hawaii overprint were prepared. If an invasion did occur, it would be simple to declare the overprint notes void; they then would be valueless in the hands of the enemy.

On July 15, 1942, all U. S. currency in circulation in the Hawaiian Islands was withdrawn, and the special "Hawaii" overprint placed in use. The regular currency could not be used after the above date and all was withdrawn through banks and other channels.

The overprints were issued in the \$1, \$5, \$10 and \$20 denominations. The \$1 surcharge was on the 1935A Silver Certificate, and the other denominations were on the Federal Reserve Bank of San Francisco. All of them have surcharges on both sides and the signatures of Julian with Morgenthau with the brown seal on the Federal Reserve Notes.

The scarcest one is the 1934 \$20 note, which is quite difficult to obtain in crisp condition. At the present time there are only a few specimens known of the inverted overprint. Possibly this brief article will bring a few other pieces out of hiding.