

Small Notes

by Jamie Yakes

Silver Made Gold Certificates Legal Tender

CONGRESS MADE GOLD CERTIFICATES LEGAL TENDER in 1919, to entice banks to hold them instead of legal tender notes as the legal tender payments required for redeemed contracts.¹ In turn, the released legal tender notes would fill the void left by an anticipated reduction in the supply of Silver Certificates. The whole cycle was sparked by the dramatic increase in the price of silver during World War I.

During the war, increased global demands for silver coinage and a concurrent decrease in global production combined to raise the market price of silver to \$1.37 an ounce by November 1919 from 46 cents in late 1915.² The 1919 price exceeded the Treasury's monetary value for silver of \$1.29, and made the silver dollar worth more as bullion than its face value.

It then became profitable to redeem Silver Certificates for silver dollars and sell the coins as bullion—an action that would permanently remove Silver Certificates from circulation. If conducted on a large scale, this could hamper commerce because Silver Certificates comprised the majority of small-denomination bills. Fearing such a dire situation, treasury officials immediately countered with a simple solution.

The act of March 4, 1907, gave the Treasury the option, when the supply of Silver Certificates contracted, to break up large-denomination legal tender notes and issue smaller denominations in their place. They had implemented this option two years earlier when they issued Series of 1917 \$1 and \$2 legal tender notes, and is how they intended to resolve the current situation.

A problem they faced was that many large-denomination legal tender notes were being held by banks. Although limited in scope,³ legal tender notes were the only legal tender paper money circulating in 1919. Financial institutions often held them, in addition to gold coin, as the obligated payments for

contracts that stipulated payment in legal tender, such as bonds.

To encourage the banks into releasing legal tender notes, Congress moved to allow them to hold Gold Certificates as legal tender. Circulating Gold Certificates were first authorized by the act of July 12, 1882, and again in the acts of March 14, 1900, and March 4, 1907. The notes were issued against deposited gold bullion and redeemable for legal tender gold coin, but by law weren't legal tender themselves.

By an act of December 24, 1919, Congress gave legal tender

status to Gold Certificates, meaning banks could now hold them for legal tender payments. The Treasury could now break the legal tender notes into smaller denominations, buttressing the Silver Certificate supply. The first Gold Certificates bearing a legal tender clause wouldn't appear for three more years, until the Treasury issued the Series of 1922 notes.

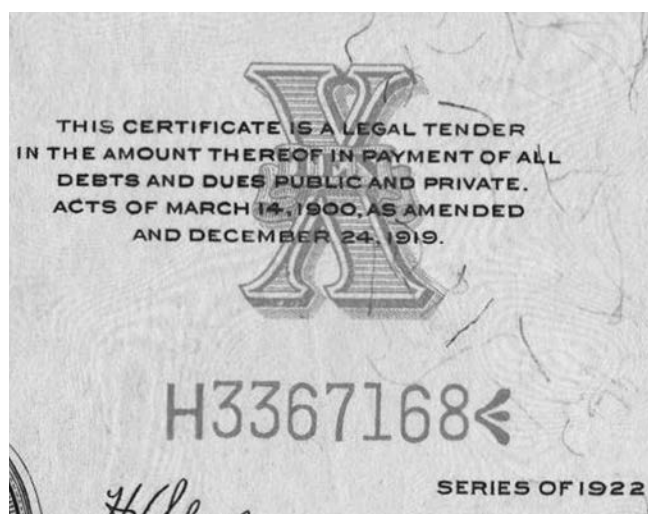
Acknowledgments

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provided support for the research. Image courtesy of Heritage Auction Galleries.

References Cited

1. Mills, O., Undersecretary of the Treasury, May 14, 1929 letter to Ms. A. Vaughan, about Gold Certificates becoming legal tender in 1919: Record Group 53, Bureau of Public Debt, Series K Currency, Box 12, File K741. National Archives and Records Administration, College Park, Maryland.
2. Leavens, D. *Silver Money*. Bloomington, IN: Principia Press. 1939, pp. 135-139.
3. Huntton, P. and Yakes, J. "New Deal Changes to the Legal Tender Status of Currency." *Paper Money* 51, no. 2 (Jan/Feb 2012), pp. 7-20. ♦



SPMC Web Blogger Appreciates recognition

Dear Shawn,

I just wanted to thank SPMC for the Social Media Award that you guys sent me. It was really unexpected and greatly appreciated. I'll definitely keep SPMC at the top of my volunteering list and I hope to meet some of you at the next Memphis get together. Let me know if there is anything additional I can help with in the future and again "Thank You"!

— Jim Phillips ♦