

50th Anniversary!

The End of Legal Tender Notes



Figure 1. \$2 Legal tender notes ceased being printed in 1966. Heritage auction archives photo.

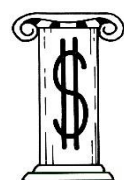
The Treasury Department stopped issuing \$100 United States notes on January 21, 1971. This brought to a close the longest running class of United States currency. This is the 50th anniversary of that event.

The purpose of this article is to explain why and how this took place.

Background

United States notes, usually referred to as legal tender notes, were circulating Civil War debt. The first of them was authorized by Congress on February 25, 1862, as an emergency Civil War measure to provide the Treasury with money primarily to support the war effort. At the time, the Treasury was for all practical purposes bankrupt and it had suspended specie payments to conserve what little gold it could accumulate, mostly through borrowing, in order to pay interest on its debts.

The Greenbacks as they were called were in effect little bonds that paid no interest that promised to pay the bearer dollars of unspecified value at some unspecified future date. They were fiat money but, having been awarded legal tender status by Congress, creditors had to accept them from debtors.



The Paper Column

Peter Huntoon

The notes were sharply discounted against gold coin until January 1, 1879, when, through a deadline set in an Act of Congress passed January 14, 1875, the Treasury would exchange them for gold coin. They were considered cheap, soft, inflationary money by mostly eastern hard money financiers yet were embraced by laborers and farmers who saw them as a means to easier credit so that they could prosper as well.

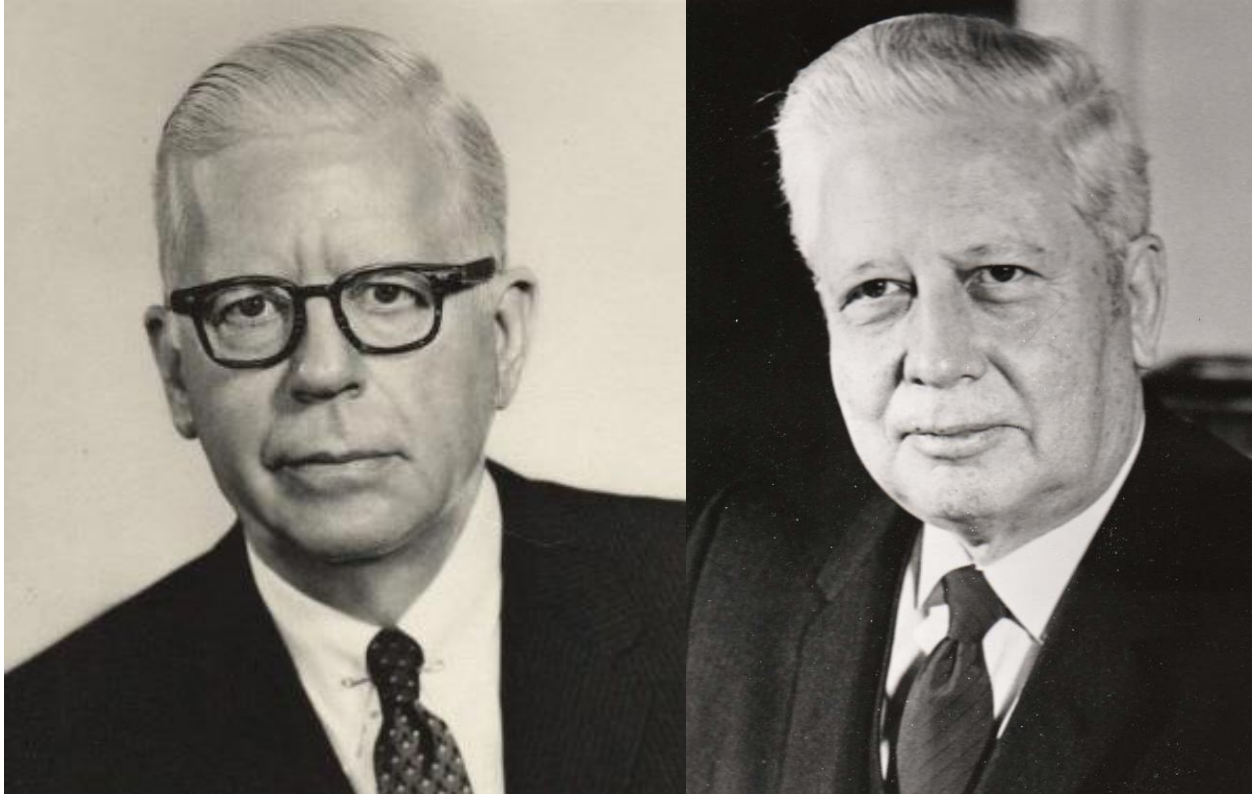


Figure 2. The phaseout of issuance of legal tender notes to the public began during the tenure of Secretary of the Treasury Henry H. Fowler (left) in office April 1, 1965-December 20, 1968, under president Johnson; and was completed during the tenure of Secretary David M. Kennedy (right) in office January 22, 1969-February 10, 1971, under President Nixon. Wikipedia photos.

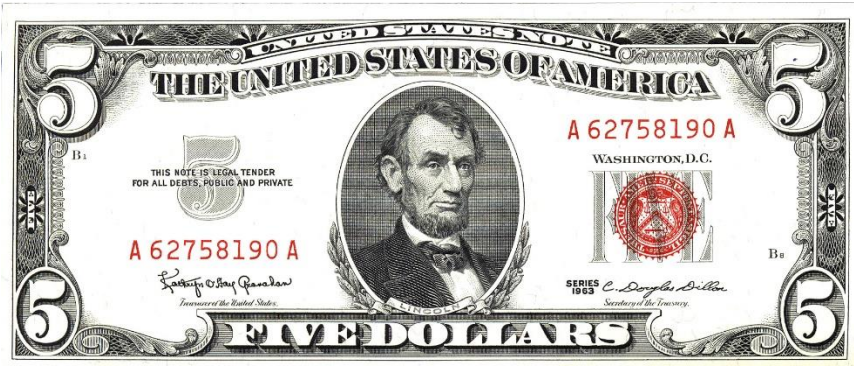
Western and southern interests felt they were essential in allowing their economies to develop.

Thus, the United States notes became highly politicized to the point that their use caused splits within the major political parties that resulted in vacillating policies and legislation. The sound money faction wanted the Treasury to redeem them as rapidly as possible whereas the soft money types were happy to live with them forever. The staunchest supporters of the greenback currency broke from their respective parties and formed the Greenback Party and fielded their own presidential candidate in 1876. Generally, Treasury officials with occasional prodding from Congress desired to redeem them as quickly as possible, but the will to do so waxed and waned as did their total outstanding circulation.

Republican Rutherford Hayes took office in March 1877 and appointed John Sherman Secretary of the Treasury. The House had a Democratic majority; the Senate split 38 Republicans, 37 Democrats and one independent. Sherman pursued a policy to continue redemption of the greenbacks but the Greenback faction in Congress took a potent stand against redemption. On May 31, 1878, Hayes signed a bill pushed through Congress requiring the Secretary of the Treasury to cease redeeming legal tender notes from circulation forthwith and to replace those that wore out in circulation thereafter. Even Sherman supported the bill. (Hepburn, 1924).

The outstanding greenbacks stood at \$346,681,016 when Hayes signed the bill. That circulation was maintained by the Treasury until \$24,142,000 was written off as irretrievably lost leaving \$322,539,016. The write-off consisted of \$24,000,000 in November 1964 and \$142,000 in June 1966 pursuant to the Old Series Currency Adjustment Act of June 30, 1961 (Barr, 1967, p. 19). Left was \$322,539,016 of Civil War debt passed down to 1971 in the form of money with distinctive red seals in our wallets.

Figure 3. A final printing of 20,000 sheets of \$5 legal tender notes was run in fiscal year 1967-8 bearing obsolete Granahan-Dillon signatures. This note is from that printing. Heritage auction archives photo.



The Small Note Era

Only Federal Reserve and legal tender notes were current in 1970. On June 30 there were \$54,494,462,000 worth of Federal Reserve notes and \$322,539,016 of legal tenders. The legal tenders amounted to only 0.59 percent of the total (Kennedy, 1970, Table 56).

Although \$322 million was a huge amount of money during the Civil War era, thanks to inflation it was a drop in the bucket in 1971 when the national debt stood at \$400 billion (The Street.com),

The mandated circulation of the legal tender notes was nothing but a nuisance for the Treasury and all the Federal Reserve banks, primarily because they had to be sorted from the stream of worn notes that were redeemed by the Treasury and the banks. Of course, their use also entailed extra printing and bookkeeping expenses.

One way the Treasury minimized the inconvenience of the legal tenders was to issue them in \$2 and \$5 denominations after 1949. All the \$2s in circulation were legal tenders so they required no sorting during redemption. However, the \$5s remained a thorn in the sides of the sorters because the huge volume of \$5s containing a tiny fraction of them.

The Treasury discontinued the \$2s in 1966 followed by the \$5s in 1968. After discontinuance of the \$5s, redemptions were replaced by \$100s. Then \$100 red seals contaminated the \$100 redemption stream, but that stream was far smaller to deal with than the \$5 stream.

Treasury really desired to get rid of the legal tenders entirely, but this required Congressional legislation.

Treasury press releases heralding the eliminations of the \$2s and \$5s tell their respective stories.

Treasury Announces No Further \$2 Bills Will Be Printed

August 10, 1966

The Treasury Department announced today that no further \$2 United States notes will be printed, because a lack of public demand indicates that this note serves only a limited public interest.

As of June 30, 1966, the \$2 currency outstanding amounted to \$139,231,994, approximately one-third of 1 percent of the total currency outstanding. Most of the \$2 notes issued lie for long periods unused in bank vaults. Because the \$2 bill is not circulated freely, the average life of each \$2 bill is about six years, compared to the \$1 and \$5 bills which wear out in 18 to 20 months. Movement of the \$2 bills out of inventory has been so slow that none has been made since the end of Fiscal Year 1965 (June 30, 1965).

Existing stocks of the new \$2 United States notes will be issued, and \$2 bills returned to Federal Reserve banks in a condition fit for continued circulation will be recirculated as long as the current supply lasts.

Appropriations for the current fiscal year did not provide funds for printing \$2 United States notes, and the Treasury has no plans to seek funds for this purpose in the Fiscal Year 1968 budget.

(From Bureau of the Public Debt).

Treasury to end \$5 U.S. Note issue Will distribute \$100 notes instead

October 17, 1968

The Treasury Department announced today that it will soon stop issuing \$5 United States Notes—the only denomination of such notes now distributed—and begin issuing \$100 United States Notes.

The Treasury explained that the change has nothing to do with the amount of currency available to commerce but only with cutting the cost of sorting notes unfit for continued circulation.



Figure 4. The last legal tender issues consisted of \$100s that were released between October 17, 1968, and January 21, 1971. The first were shipped to Puerto Rico. Amon Carter obtained the first pack. The unreleased remainders were destroyed in 1996. Heritage auction archives photo.

The Federal Reserve System, whose currency comprises 99 percent of paper money in circulation, will continue to issue the familiar Federal Reserve notes in all present denominations. United States Notes make up less than one percent of circulating currency and the change will have no practical effect on money users.

In fiscal year 1967, 340 million unfit \$5 notes of both types—United States and Federal Reserve—were retired compared to only 5.5 million in the \$100 denomination. With elimination of \$5 United States Notes there will be fewer notes to sort by type for retirement and thus a cost saving.

By law, the Treasury must keep \$322,539,016 of United States Notes outstanding, but retired notes may be replaced by any denomination. Eventually \$100 will be the only denomination in which both Treasury and the Federal Reserve System issues currency.

Like the current \$100 Federal Reserve Note, the new \$100 United States Note will bear a portrait of Benjamin Franklin. Differences in the two notes—including designations on the front side and colors in which seals and serial numbers are printed—will make them easily distinguishable. (From O'Donnell, 1982, p. 113).

The first deliveries of \$100 Series of 1966 notes were delivered from the BEP on October 14, 1968 (BEP, 1969, p. 2).

End of Legal Tender Notes

Treasury officials finally won Congressional authorization to terminate the legal tender issues through an obscure provision they slipped into a very technical regulatory act that came before Congress in 1994. Their ploy was to nullify the provision in the 1874 act that required the issuance of replacements for worn notes redeemed from circulation.

The bill was called the Riegle Community Development and Regulatory Improvement Act of 1994. Its formal label was “an act to reduce administrative requirements for insured depository institutions to the extent consistent with safe and sound banking practices, to facilitate the establishment of community development financial institutions, and for other purposes.” Included in the other purposes were a slew of repeals and revisions to existing Federal banking laws. One was the following.

SEC. 602. TECHNICAL AMENDMENTS TO THE FEDERAL BANKING LAWS.

(g) amendments to other laws

(14) Section 5119(b)(2) of title 31, United States Code, is amended by adding at the end the following: "The Secretary shall not be required to reissue United States currency notes upon redemption."

The act was signed into law September 23, 1994, by President Bill Clinton. Gone was the requirement that the Treasury had to replace worn legal tender notes redeemed from circulation. At this point, the Civil War debt represented by the outstanding legal tender notes simply became a liability of the Treasury and was folded into the existing national debt where it was but a tiny drop in the bucket that could be forgotten. Any additional legal tender notes beyond the \$24 million already written off will constitute debt that the Treasury never will have to pay.

Fate of the \$100 Legal Tender Notes

Burnett Anderson, a paper money collector living in the Washington, DC, area, who presented himself as the Washington Bureau of the Bank Note Reporter, dogged the fate of the unissued legal tender \$100s. The following are excerpts from his invaluable reporting in 1996 (Anderson, 1996).

The U.S. Treasury has destroyed its entire supply of \$100 United States Notes, some \$43,341,900 worth.

Last October, I took up the question with the Bureau of Engraving and Printing and Treasurer of the United States of a possible sale of some of the notes to collectors. The reaction in some quarters was enthusiastic and it appeared to be under serious consideration at the Treasury.

After a wait of more than six months, I came across a lead on June 20 that a decision on the disposition of the notes was imminent.

I sought confirmation with the office of U.S. Treasurer Mary Ellen Withrow, who has oversight responsibilities.

The response came June 25 at 5 p.m. from Larry Felix, spokesman of the BEP, who said he had been authorized to answer my questions about the notes.

He confirmed that various elements of the Treasury had opposed the sale and in answer to the question of how many notes remained the answer was none.

Felix explained that the legal counsels of the Treasury's Bureau of Public Debt, the Financial Management Service and the BEP had interpreted the applicable statutes and all agreed that the notes should be destroyed.

The change was simply incorporated into the bill at the request of the Treasury, which for some time had been seeking congressional authority to get completely out of the business of issuing U.S. Notes for circulation.

As it was, the Treasury had been meeting a long-standing requirement to maintain [\$322] million in circulation only in a technical sense. As old Legal Tender Notes were turned in through normal banking channels, they were redeemed in Federal Reserve Notes.

Then an equal face value of \$100 U.S. Notes [was] moved from a vault area of the BEP marked [unissued] to another area marked [issued]. Abolition of the legal requirement ended this internal waltz.

A Discrepancy

The information provided to Anderson was not quite accurate as revealed by data in the quarterly Treasury Bulletins published by the U.S. Treasury Financial Management Service. The dollar value of legal tender notes shown as issued but held by the Treasury increased steadily from March 1983 through June 1996 for the period when such data are available. This is entirely consistent with moving unissued \$100s to issued but unreleased status to offset worn legal tender notes that were being redeemed from circulation.

However, \$43,506,600 was abruptly moved on the books to active circulation in two batches; respectively, \$43,166,100 between June 30 and September 30, 1996, and \$340,500 between June 30 and September 30, 1967. The issued but unreleased \$100s, which accounted for the bulk of the value of those amounts, were immediately retired after the moves.

The point here is that the destruction of the unreleased \$100s didn't occur until after Anderson's article was published in July 1996. It appears that giving Anderson the impression that the notes were already gone was designed to quell the drumbeat in the numismatic press and among collectors for the

Table 1. Printings of Series of 1963 and 1966 legal tender notes, which comprised the last of the legal tender notes.

Fiscal Year	Series 1963 \$2	Series 1963 \$5	Series 1963A \$2	Series 1966 \$100	Series 1966A \$100
1963-4	15,360,000	62,720,000			
1964-5					
1965-6			3,200,000		
1966-7					
1967-8		640,000			
1968-9				768,000	
1969-70					
1970-1					512,000

Treasury to allow the sale of some of the unreleased \$100s to collectors!

Procedures and Last Printings

By the time the \$100 legal tender notes came along, the Bureau of Engraving and Printing wasn't physically shipping finished notes over to the Treasurer's office. Instead, the notes were shipped directly to the Federal Reserve banks from the Bureau upon receipts of authorizations for their releases from the Treasurer. That authorization was the action that legally monetized the notes and it was the reason for the shuffle that Anderson described between the unissued and issued areas in the BEP vault.

The BEP simply didn't receive orders from the Treasurer's office specifying where to ship the accumulating issued legal tender \$100s between January 21, 1971, and mid-1996.

The high serial number printed for the Series of 1966 \$100 notes was A00768000A; the high for the 1966As was A01280000A. Subtracting the 433,419 notes that were destroyed from 1280000 leaves 846,581. However, Series of 1966A notes with serials higher than A00846581A are reported so it is evident that not all the notes that were released before January 21, 1971, were shipped from the BEP in serial sequence.

The printings for the last series of \$2, \$5 and \$100 legal tender notes are listed on Table 1.

The second printing of 640,000 Series of 1963 \$5s during fiscal year 1967-8 appears as if it should be Series of 1963A. This is not a mistake on the table. The Bureau used obsolete overprinting plates with Granahan-Dillon signatures for this group as an economy measure. See Figure 3.

With regard to the \$100 Series of 1966 \$100s, BEP Director James Conlon had this to say after they went into production.

This year, the Bureau changed its techniques for applying the signatures of the Secretary of the Treasury and of the Treasurer of the United States on currency notes. Under the wet-print process formerly used, it was more economical to overprint the signatures and series typographically, after the face design was intaglio printed. Upon complete conversion to the dry-print method on its high-speed sheet-fed rotary presses, the Bureau found it a more efficient and economical operation to apply the signatures and series designations as integral parts of the face intaglio design on the engraved plates. This engraved-signature technique was used in the printing of the \$100 U.S. note, Series of 1966, first delivered on October 14, 1968. (BEP. 1969, p. 2).

Conclusion

There were two types of paper money circulating in the country going into the 1960s, Treasury currency (legal tender notes and silver certificates) and bank currency (Federal Reserve notes). All were issued under the authority of Congress so ultimately all were obligations of the United States. The legal tender notes and silver certificates were issued by, and were obligations of, the U. S. Treasury whereas the Federal Reserve notes were issued by, and were obligations of, the banks. Each of the three classes required separate accounting. The practical consequence was that when worn notes came in for redemption, the incoming stream had to be sorted by class to maintain the respective sets of books.

The issuance of silver certificates was terminated by an act of Congress passed June 3, 1963. This left legal tender notes as the only remaining Treasury currency; a currency that represented a miniscule

fraction of the total currency supply but a big accounting headache. Treasury officials simply wanted to eliminate them so that the entire currency supply would consist of Federal Reserve bank currency. Elimination of the legal tender notes would take the Treasury out of the currency issuing business and thus place that entire burden on the Federal Reserve banks.

The fact was, the legal tender notes, which represented circulating Civil War debt, served no function other than to satisfy an obscure Congressional mandate dating from 1878. Maintaining them in circulation was burdensomely expensive for both the Treasury and the Federal Reserve banks. It was time to eliminate them.

Acknowledgments

Lee Lofthus brought to my attention the discrepancy in the timing of the destruction of the \$100 legal tender notes between Burnett Anderson's Coin World report and the data in the quarterly Treasury Bulletins. Jamie Yakes provided the press release pertaining to the discontinuance of the printing of \$2 legal tender notes that he found in the Bureau of the Public Debt files in the National Archives. Adam Strop provided invaluable editorial corrections.

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Figure 5. Small size \$1 legal tender notes were printed in 1933 to help alleviate a perceived shortage of \$1s and 2,738 were released through the Treasury cash window then. They weren't needed so the rest weren't released to avoid the redemption sorting hassle. Rather than let them go to waste, the Treasury ultimately released them in Puerto Rico in 1948 and 1949 where they would be largely confined to the island, thus minimizing the redemption sorting problem. National Numismatic Collection, Smithsonian Institution photo.