

The Paper Column
Peter Huntoon

The Impact of WW I on Gold Certificates and the origin of the Series of 1922



Figure 1. The gold certificate Series of 1922 was created in order to display a legal tender clause after gold certificates had been awarded legal tender status by Congress through the Act of December 24, 1919. The clause appears under the large overprinted XX to the left of Washington’s portrait. The delay between the act and series dates was due to the fact that gold certificates were not printed during fiscal years 1919 through 1921. Heritage Auction archives photos.

Abstract

The United States adopted a monetary system based on a gold standard in 1900. Shortly after the United States declared war on Germany in 1917, Congress, President Wilson and the U. S. Treasury instituted policies to conserve the monetary stock of gold in possession of the country. One reality of this program was to get the gold out of the hands of the citizens and into the reserves of the Treasury, particularly the Federal reserve banks. No gold coins were minted during 1917-1919. No gold certificates were printed during fiscal years 1919-1921.

In the meantime, Congress awarded legal tender status to gold certificates in 1919. Consequently, when the printing of gold certificates resumed in fiscal year 1922, they now bore a legal tender clause, which gave rise to a new series; specifically, the Series of 1922.

Introduction

Much of the material presented herein is quoted verbatim from the annual reports of the Secretaries of the Treasury. Those Secretaries were the principal officers charged with formulating and carrying out the Federal policy pertaining to conserving the monetary gold resources of the country. Consequently, their reports provide an insider’s perspective. I have included their remarks that directly explain why and how

the Federal policies impacted the mintage of gold coins and the printing of gold certificates. I omitted material that is outside the scope of this article, wherein such omissions are indicated by * * *.

The period of time we will be concerned with spans 1914 through 1922, which bridged the presidencies of Democrat Woodrow Wilson and Republican Warren Harding.

The key dates associated with World War I upon which the statements in this article pivot are the following.

War began in Europe	July 28, 1914
U. S. entry into the war	April 6, 1917
End of the war	November 11, 1918.

The Secretaries of the Treasury who were responsible for the gold policies that were carried out and their periods of service were the following.

Under President Wilson:	
William G. McAdoo	March 6, 1913-December 15, 1918
Carter Glass	December 16, 1918-February 1, 1920
David F. Houston	February 2, 1920-March 3, 1921
Under President Harding:	
Andrew W. Mellon	March 4, 1921-February 12, 1932

W. G. McAdoo – Secretary’s Report – Fiscal Year ending June 30, 1917 (p. 26-27)

The Act of June 15, 1917, vested in the President the power to prohibit by proclamation the export from this country of any article mentioned in such proclamation except at such time and under such regulations as the President might prescribe. Accordingly the President on September 7, 1917, issued a proclamation to the effect that-

* * * Coin, bullion, and currency shall not, on and after the 10th day of September, in the year one thousand nine hundred and seventeen, be exported from or shipped from or taken out of the United States or its Territorial possessions * * *

By Executive order of the same date the President directed that the regulations, orders, limitations, and exceptions prescribed in relation to the exportation of coin, bullion, and currency be administered by and under the authority of the Secretary of the Treasury, and upon the recommendation of the Secretary of the Treasury prescribed regulations providing that application for permission to export coin, bullion, or currency much be filed with a Federal reserve bank, which would transmit the application to the Federal Reserve Board. The board, subject to the approval of the Secretary of the Treasury, was authorized to permit or refuse the exportation.

* * *

At the time of issue of the above proclamation the United States was practically the only large country freely parting with the precious metals, and as a result there was a tendency to transfer to New York by means of exchange operations balances due by foreign countries and to export gold from the United States in payment of such balances. In these circumstances it became necessary for the protection of the gold reserve of the United States to place restrictions on the export of gold.

In the exercise of these powers no obstacle has been placed in the way of the free exportation of silver bullion or silver coin of foreign mintage, nor upon the export of United States notes, national-bank notes, or Federal reserve notes, nor upon Canadian silver coin or currency; but exportation of gold has not been permitted except in those cases in which unusual circumstances have seemed to justify the issue of licenses for its export. * * *

The Act of June 15, 1917, the basis for the foregoing, was a draconian measure entitled “An Act To punish acts of interference with the foreign relations, the neutrality, and the foreign commerce of the United States, to punish espionage, and better to enforce the criminal laws of the United States, and for other purposes.” Title VII of the act labeled “Certain Exports in Time of War Unlawful,” which was completely open-ended, was employed to embargo the export of gold.

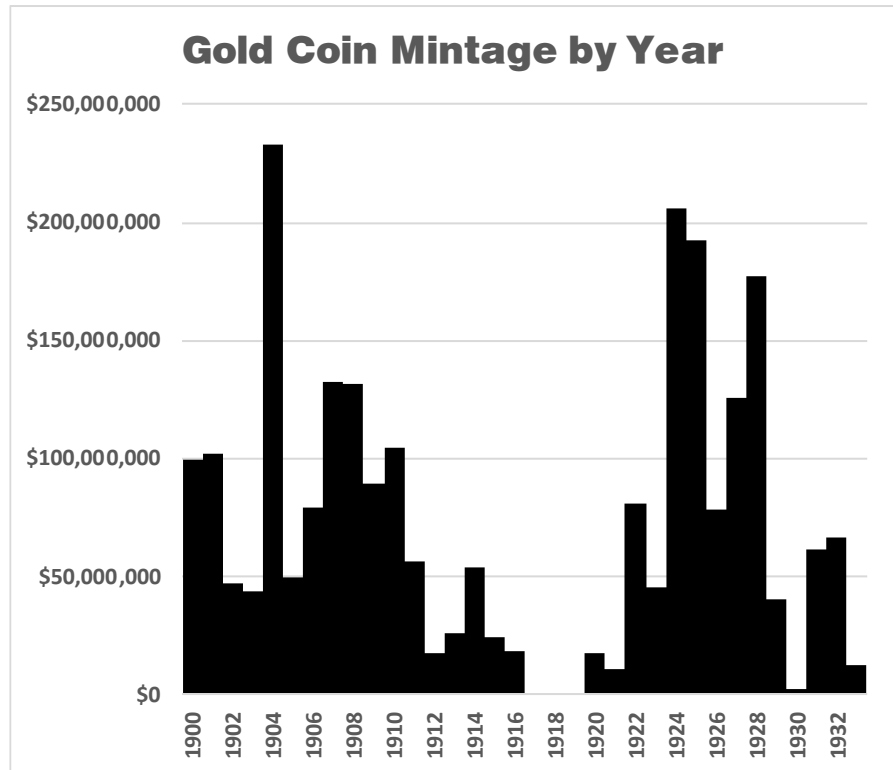
The embargo on the export of gold was lifted June 9, 1919.

D. F. Houston – Secretary’s Report – Fiscal Year ending June 30, 1920 (p. 181-182)

Gold Payments

Since the beginning of the war it has been the policy of the Treasury to conserve gold and discourage its circulation; and this policy has not changed with the cessation of hostilities or the removal of the

Figure 2. Graph showing the mintage of gold coins by year from 1900 to 1933. The 1917-1919 hiatus resulted from the gold conservation policy adopted by the Treasury attending WW I. Data from the annual reports of the Directors of the Mint.



embargo on the exportation of gold. It is just as important as ever that gold, which is the foundation of our reserves and the backbone of all credit transactions, should be concentrated in the Federal reserve banks as reserve and for use in the settlement of balances growing out of international transactions. It is the desire of the Treasury that the conservation of gold should continue and that there should be no revival of the use of gold coin or gold certificates for pay rolls and everyday transactions generally, in which it serves no useful purpose. The circulation of gold coin and gold certificates tends to dissipate the reserves. The circulation of gold coin involves a considerable loss due to abrasion, which is avoided by having the gold carried in the vaults of the Federal reserve banks and the Treasury.

In accordance with this policy, persons requesting gold are invited to accept other currency instead, but gold has not been, and will not be, refused to persons who, after giving consideration to the Treasury's policy, demand it and are entitled to receive it by reason of the presentation and surrender of gold obligations. Wherever gold is demanded it is furthermore the Treasury's policy to pay out available, but not new, gold coin in the denomination of \$20 and gold certificates of large denominations, and to avoid so far as possible the use of gold coin in denominations of \$5 and \$10 and gold certificates in the denomination of \$10, though such denominations will not be refused if demanded. Payments of \$2.50 gold pieces, however, will not be made, inasmuch as no gold has been coined in this denomination for many years, and there is no available supply in Treasury offices. It is the view of the Treasury that the demands for gold coin for domestic use or for export should be satisfied by the issue of double eagles, of which an ample supply has been and will be maintained.

Gold certificates

By the act approved December 24, 1919, gold certificates were made legal tender in the payment of all debts and dues, public and private.

W. Mellon – Secretary's Report – Fiscal Year ending June 30, 1921 (p. 89-90)

The increase in the stock of gold in the country is much greater than for any previous period of equal length. Since 1914 there have been two important periods of heavy gold imports, the years 1915, 1916, and early part of 1917, when the allied nations were paying for war supplies from America, and the past 12 or 15 months. Between these periods there was about a year, from April, 1919, through March, 1920, when the United States was liquidating debts in South American and the Far East, and during that time there was a large excess of exports. * * *

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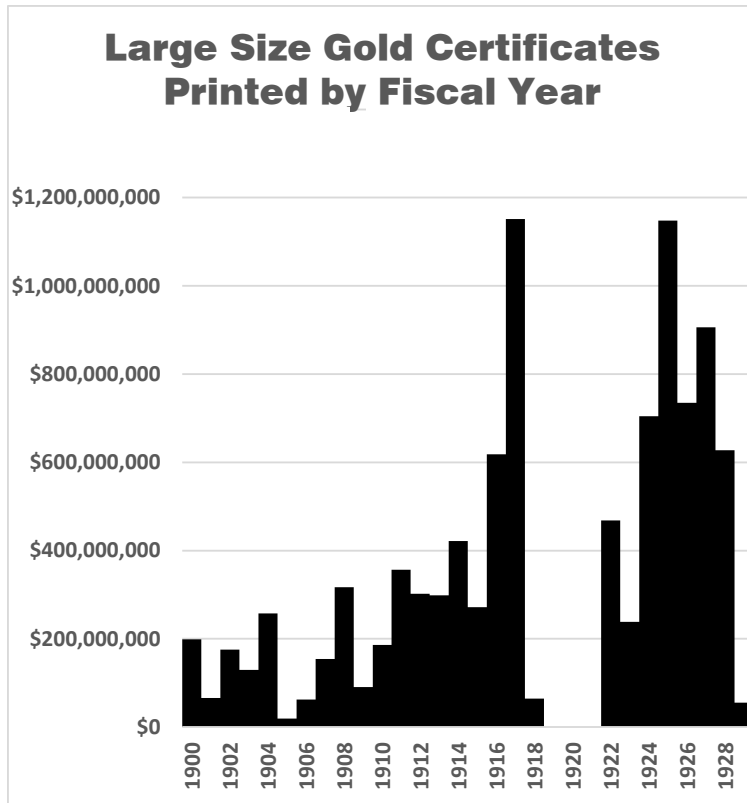


Figure 3. Graph showing the production of large size gold certificates by fiscal years 1900 through 1929. The 1919-1921 hiatus resulted from diminished demand owing to curtailment of gold note circulation as the Treasury continued to implement its gold conservation policy beyond the end of WW I. Data from the annual reports of the Directors of the Bureau of Engraving and Printing.

*** at the present time 80 per cent of the monetary stock of gold in the United States is in possession of the Federal reserve banks. The gold in the country has gravitated toward the Federal reserve banks since our entrance into the war in 1917, when the policy of gold conservation was adopted. During the war period gold conservation was of vital importance as a protection to the growing credit structure, and even in peace times gold is most efficient when concentrated in the form of bank reserves and for use in international transactions. With the increased importation of gold, the liquidation of bank loans, and the general improvement in credit conditions during the past year, the pressure for the concentration of gold no longer exists, but the demand for gold for internal circulation is relatively slight and the increased stock of gold in the country has naturally been reflected in the reserves of the Federal reserve banks. Neither the Treasury nor the Federal reserve banks maintain any restrictions on gold payments, and gold may be had freely on demand in exchange of gold obligations.

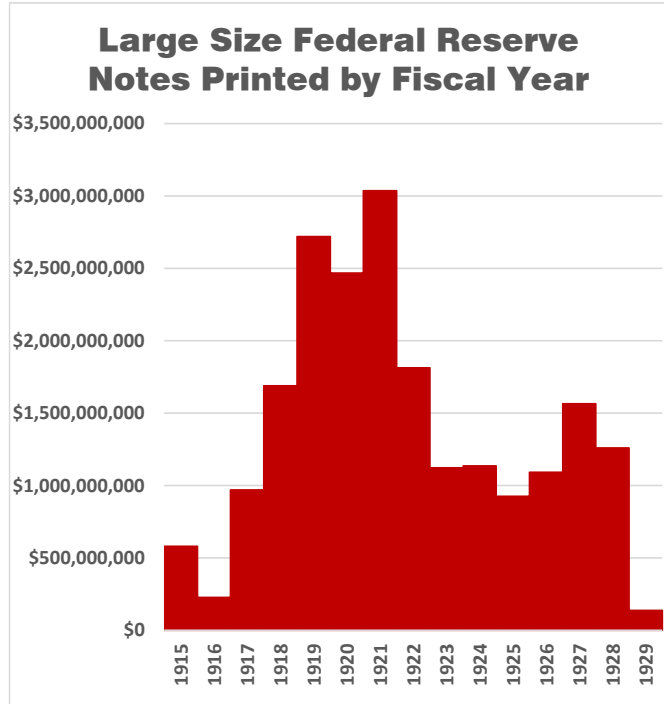
The wholesale movement of gold to the Federal reserve banks is readily, if not simplistically, understood as follows. When gold was received into the Treasury, the Treasury could pay for that gold with an equal value of gold certificates and must by law have deposited on a one-to-one ratio bullion or gold of that value into its reserve for the redemption of those certificates.

If a Federal reserve bank acquired the same amount of gold, it could pay for that gold with Federal reserve notes, which also were redeemable in gold coin of that same value. However, Federal reserve notes required backing of only 40 percent gold, part of which was deposited with the Treasurer, so each dollar's worth of gold owned by the banks could serve as the backing for and thus the creation of \$2.50 dollars' worth of Federal reserve notes. Very obviously, the incentive throughout the Treasury was to move the gold to the Federal reserve banks because it created more money in the hands of the banks.

The relevant sections of the Federal Reserve Act of December 23, 1913, that authorized this structure were the following.

Subsection (a) in Section 14, labeled "Open-Market Operations" that enumerates the powers of the Federal reserve banks," states:

Figure 4. Graph showing the production of large size Federal reserve notes by fiscal year 1915 through 1929. The Federal Reserve Act of 1913 required backing of Federal reserve notes by 40 percent of their face value in gold. The result was that gold flowed to the Federal reserve banks, Federal reserve note circulation soared, and the available national credit grew robustly to support the war effort. This graph does not illustrate Federal reserve note circulation but rather the demand for the printing of those notes following the establishment of the Federal reserve banking system in December 1913. Data from the annual reports of the Directors of the Bureau of Engraving and Printing.



To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold.

Section 16 labeled “Note Issues” states:

Every Federal reserve bank shall maintain reserves * * * in gold of not less than forty per centum against its Federal reserve notes in actual circulation * * * if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates * * *

A. W. Mellon – Secretary’s Report – Fiscal Year ending June 30, 1922 (p. 71-73)

* * * It is estimated that at the present time the United States holds from 45 to 50 per cent of the world’s stock of monetary gold, as compared with about 23 per cent prior to the outbreak of the war in 1914. * * *

As in previous years, practically all of the gold imported during the past 12 months has found its way into the Federal reserve banks. * * * and at the present time approximately 78.9 per cent of the monetary stock of gold in the United States is included in the reserves of the Federal reserve banks.

* * *

The Treasury has within the past year resumed the payment of gold without demand and has thus done everything within its power to restore the free and unrestricted circulation of gold. On March 18, 1922, the Secretary of the Treasury issued the following statement:

The Secretary of the Treasury announces that the Treasury has now resumed payments of gold certificates in ordinary course of business without demand, and that the Federal reserve banks throughout the country will be guided by a similar policy in making current payments for Government account. This action removes the last artificial restriction upon gold payments in this country, though gold has at all times during and since the war been freely paid out by the Treasury and the Federal reserve banks whenever demanded in payment of gold obligations.

This marks a return to the traditional policy of the United States of paying out gold certificates freely with other forms of currency, and a compliance with the spirit, as well as the letter, of the act of March 14, 1900, as amended, under which the Secretary of the Treasury is charged with the duty of maintaining the parity of all forms of money with gold.

Although gold certificates have been paid out freely by the Treasurer since March [1922] of this year, and to some extent by the Federal reserve banks in making current payments for Government account,



Figure 5. Federal reserve notes were redeemable for gold. However, they required only 40 percent backing of gold reserves in comparison to 100 percent for gold certificates, so once the Federal Reserve Act passed, moving gold reserves to the credit of the Federal reserve banks was far more efficient for increasing the money supply. The result was rapid concentration of gold reserves within the Federal reserve banks and a corresponding explosion of Federal reserve note emissions. The change from red to blue seals and serial numbers on the notes was made in August 1915 because the red inks faded. Heritage Auction archives photos.

there has been no increase in the amount held outside of the Treasury. The [gold] certificates which have been issued by the Federal reserve banks have come from their own holdings or have been obtained by exchanging gold certificates of large denominations for those of smaller denominations more suitable for use in everyday transactions. In this way the amount of gold certificates in circulation outside of the Federal reserve banks has materially increased without requiring the setting aside of additional gold as security therefor.

Under the law one-third of the gold held against gold certificates must be in the form of coin. In anticipation of an increase in the amount of gold certificates outstanding, and in order to build up the reserve stocks of the Treasury and the Federal Reserve banks, the coinage of gold has been resumed at the mints. Between April 1 and November 1 of this year the amount of gold coin held in the Treasury increased from about \$32,000,000 to about \$119,000,000.

Coincident with the resumption of current payments in gold certificates and the coinage of gold was the resumption of the printing of gold certificates. As gold certificates had been made legal tender in 1919, the new certificates carry the legend, "This certificate is a legal tender in the amount thereof in payment of all debts and dues public and private. Acts of March 14, 1900, as amended and December 24, 1919."

The Big Picture

There were several different classes of coins and currency in circulation in the United States in the 1890s. Let Charles G. Dawes, the Comptroller of the Currency, explain the exact status of them (Dawes, 1899, p. 55):

Gold coin, standard silver dollars, subsidiary silver, minor coins, United States notes, and Treasury notes of 1890 have the legal-tender quality as follows: Gold coin is legal tender for its nominal value when

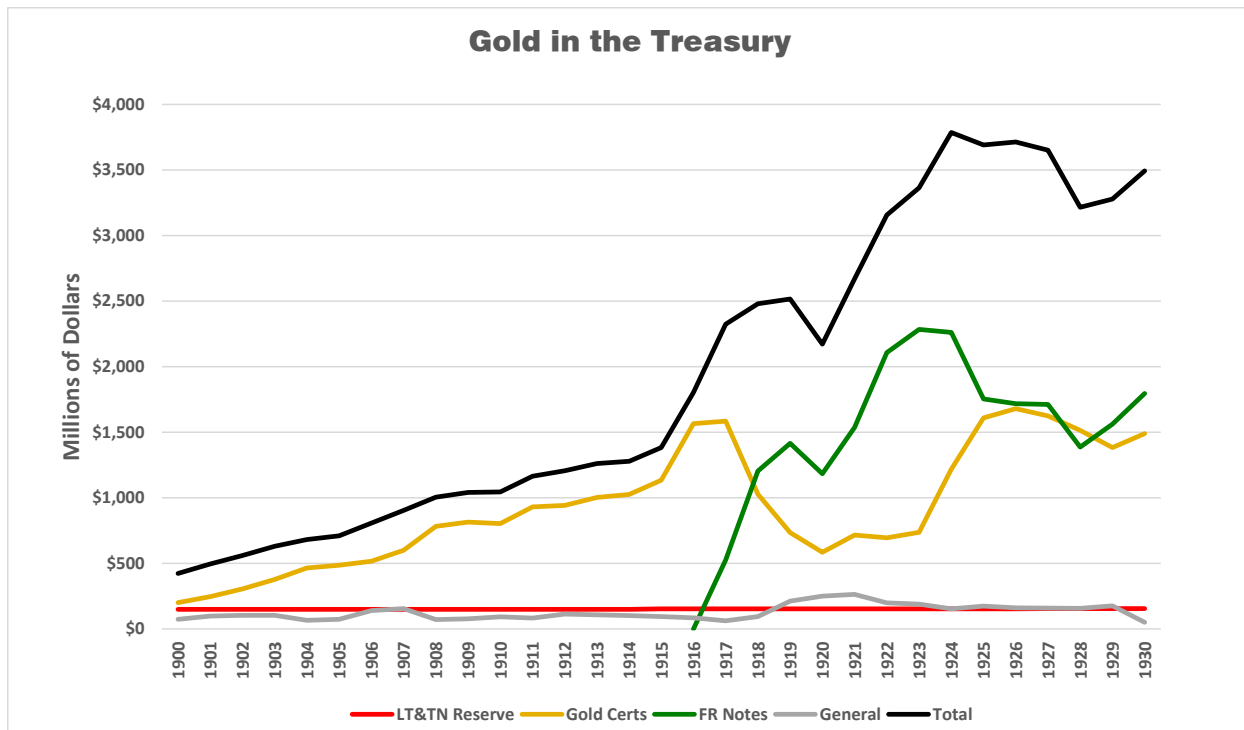


Figure 6. Graphs tracking the quantity and distribution of gold in the U. S. Treasury by fiscal year from 1900 to 1930. When you examine these curves you won't be seriously removed from reality if you think: LT & TN reserve = required gold backing for outstanding United States Notes and Series of 1890 Treasury Notes; Gold Certificates = 1 for 1 gold backing of gold certificates; FR Notes = 40 percent gold backing for Federal Reserve Notes; General = unencumbered working gold account within the Treasury. Notice that the U. S. Treasury benefitted significantly from the horrors of World War I. The credit expansion possible by the introduction of Federal reserve currency—at the expense of the more rigorously backed gold certificates—was a major factor in financing U. S. involvement in the war. Data from the annual reports of the Secretaries of the Treasury.

not below the limit of tolerance in weight; when below that limit it is legal tender in proportion to its weight; standard silver dollars and Treasury notes of 1890 are legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract; subsidiary silver is legal tender to the extent of \$10, minor coins to the extent of 25 cents, and United States notes for all debts, public and private, except duties on imports and interest on the public debt. Gold certificates, silver certificates, and national-bank notes are nonlegal-tender money. Both kinds of certificates, however, are receivable for all public dues, and national-bank notes are receivable for all public dues except duties on imports, and may be paid out for all public dues, except interest on the public debt.

The following four paragraphs are from Huntoon and Yakes (2012).

Gold certificates, silver certificates and national bank notes had not been accorded legal tender status by Congress when Dawes wrote his treatise. So what good were they?

The answer is that all were readily convertible into coin, which was legal tender. In the case of gold and silver certificates, the actual coin represented by the notes was on deposit in the U.S. Treasury waiting to be exchanged for the note if requested. National bank notes were convertible into legal tender notes, which in turn were convertible into gold at the Treasury as well.

All these non-legal tender currencies therefore were as good as gold. Knowing this, why would you go to the bother of converting the notes to coin when you could more conveniently handle the paper?

The fact that Congress hadn't specifically designated these currencies as legal tender didn't hinder the willingness of the public to accept them. They circulated without resistance because they were redeemable for something people considered to have value.

Passage of the Gold Standard Act of March 15, 1900, entitled "An Act To define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to



Figure 7. The Series of 1922 utilized the previously current gold certificate designs, which in the cases of the \$100s and \$500s were designs dating from the Series of 1882. No \$5000 or \$10000 Series of 1922 gold certificates were made. Heritage Auction archives photos.

refund the public debt, and for other purposes” built our gold standard on gold coin, which was legal tender. However, that act did not accord legal tender status to gold certificates, the sentiment being why bother, the two are interchangeable. Treasury officials in 1919 decided that although cosmetic, it was appropriate to grant legal tender status to gold certificates so they proposed the legislation that was passed December 24, 1919, that did so.

However, at that time, Federal reserve notes had not been accorded legal tender status. This was remedied by Roosevelt’s New Deal Treasury with passage of Title III in the Agricultural Adjustment Act of May 12, 1933, which stated: “Such notes and all other coins and currencies heretofore or hereafter coined or issued by or under the authority of the United States shall be legal tender for all debts public and private.” This sweeping clause gave equal status to all money authorized by Congress; but by then, all of it was redeemable in legal tender currency, which was a fiat currency representing outstanding circulating Civil War debt.

Postscript

An amendment to the Federal Reserve Act passed September 16, 1918, authorized \$500, \$1,000, \$5,000 and \$10,000 Federal reserve notes, which came out as the new Series of 1918. The primary reason for printing them was to encourage bankers to swap them for gold coin and gold certificates that they were holding in their reserves so that the gold would flow to the Federal reserve banks. These notes never were intended for general circulation, although they certainly could circulate. Instead they were designed to be easy to count when used as bank reserves. Circulars went out to member banks in each of the Federal reserve districts such as the following from the Richmond district, which is self-explanatory.

April 24, 1919

Subject—FEDERAL RESERVE NOTES IN LARGE DENOMINATIONS
To Banks and Trust Companies of the Fifth Federal Reserve District

You are hereby advised that the Federal Reserve Bank of Richmond and the Baltimore Branch are now prepared to furnish Federal Reserve Notes in the following denominations: \$500, \$1,000, \$5,000 and \$10,000.

A number of banks are holding Gold Certificates of large denominations, instead of Federal Reserve Notes, for the reason that hitherto Federal Reserve Notes in large denominations were not obtainable. As such Federal Reserve Notes can now be obtained in any desired quantities, the necessity for continuing to hold Gold Certificates no longer exists, and any bank holding Gold Certificates or Gold Coin will be performing a distinct service to the Government by exchanging such Certificates and Coin for Federal Reserve Notes.

* * *

Any bank in this District may ship to the Federal Reserve Bank of Richmond (or the Baltimore Branch) Gold Coin and Gold Certificates and obtain in return Federal Reserve Notes of any denominations desired. The expense of shipment both ways will be borne by the Federal Reserve Bank of Richmond, * * *

Until further notice, all Gold Coin (of the United States) shipped to this Bank or its Branch, will be accepted at face value, provided it is not mutilated and the loss in weight, if any, is clearly due to abrasion from use.

* * *

Respectfully,
George J. Seay
Governor

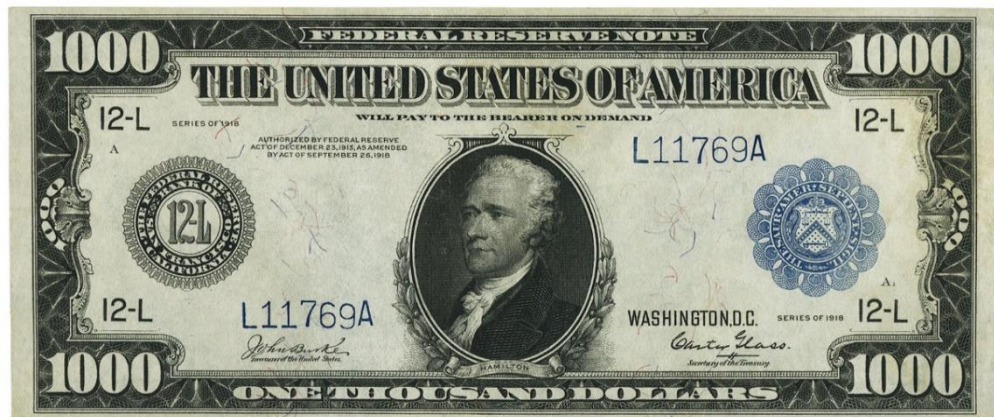


Figure 8. High denomination Federal reserve notes were not intended for circulation, they were created primarily for use as easily counted bank reserves. Heritage Auction archives photos.

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In Memoriam Steve Jennings

Sadly, I must inform you of another loss to the SPMC. Board member and long-time collector/dealer Steven Richard Jennings passed away on March 4, 2021 from a non-COVID-19 related illness. Steve was born on May 5, 1943 in Freeport, Illinois. He taught for 42 years at Highland Community College in Freeport. He obtained his Bachelor's degree in 1966 from Western Illinois University. He furthered his education and earned a PhD in Management and Labor Relations from Northern Illinois in 1976. In 1964, Steve opened Jennings Coin & Stamp in Freeport and with his son, Matthew, opened a second shop in 1992. He is life member #103 of the SPMC and served for the last six years as a Governor. He was also a 60-yr life member of the ANA. The board mourns the loss of this great gentleman and extend our prayers and sympathies to his family.