

On the State of the Currency

Letter from William B. Greene to Edward Atkinson

William Batchelder Greene

October 21st, 1868

Brookline, Mass., Oct. 21st, 1868.

Dear Sir: — In our debate, last Saturday evening, we came, at the end, to a distinct issue, which was the precise issue I wished to have brought forward; but I desired that it should be put into clear light (as it was) by yourself and not by me.

You maintain, and I deny,

1st. *That the legal-tender notes of the United States, now in circulation, represent a debt due on demand, that they are "legal-tender demand notes," and*

2dly. *That these notes ought to be funded in interest-bearing bonds.*

When it devolved on me to close the debate with a general summary of the arguments adduced on both sides, I declined to do so, and left the question still open, giving you the last word. The reasons for my action were not stated at the time, but I will state them now. You affirmed your two points, and enforced them strongly; but you did not argue them, and I deemed it unfair to argue them in my closing summary, leaving you no chance to reply. Besides, there were no reporters present, and it is obvious that a discussion of the two points at issue could not be carried on, under the circumstances, with any prospect of a profitable result, except either in the presence of reporters, or by the direct process of written debate.

I have, therefore, the honor to invite you, now, to state, in writing, if you see fit to do so, the grounds on which you make your two affirmations; and I send you, in this communication, some of the reasons which induce me to dissent from your two positions, and which will keep me from acknowledging their validity, until I am convinced by your arguments, or those of some other person, that you are in the right.

The questions at issue are questions of political and economic science, and are better fitted for calm consideration, and deliberate discussion, than the general subject which was before us Saturday evening, and which demanded a more diffuse and rhetorical treatment than scientific debate allows.

Yours very truly,

W. B. GREENE.

To Edward Atkinson, Esq.

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REASONS

For Dissenting from Mr. Atkinson's Positions.

The bills of the National Banks are *promissory notes*, payable to bearer, on demand; the legal-tender treasure notes are *drafts* or *checks*, drawn by the government on itself, and on every individual inhabitant of the country, payable, not by being convertible into specie, but by being receivable by the government, in lieu of gold and silver, in liquidation of all public claims against the tax-payer, except for duties on imports; and also indirectly, by being receivable, in lieu of gold and silver, in the settlement of all private claims of any nature whatsoever, except in the case of interest on the public debt.

The difference between the National Bank bill and the treasury note which circulates as currency, is this: the National Bank bill assumes to be convertible, since it promises to pay on demand, but is not a legal tender in claims of one citizen upon another; while the treasury note, on the contrary, is a legal tender, but makes no pretension to convertibility, since it bears on its face a mere vague promise to pay, without the specification of any time certain of payment.

Chancellor Kent says, "A bill of exchange is a written order or request, and a promissory note a written promise, by one person to another, *for the payment of money at a specific time, absolutely, and at all events.*" It appears, therefore, that the legal tender note lacks some of the essential qualities of ordinary, negotiable paper, since it is neither running to maturity nor payable on demand in coin, but nevertheless is always mature, no time of payment being specified on its face. The chancellor says further: "A check upon a bank partakes more of the character of a bill of exchange than of a promissory note. It is made payable to bearer or to order, and is transferable by delivery or endorsement, like a bill of exchange." It is concluded, therefore, in view of these statements, and of the nature of negotiable paper, that the circulating treasury note is a bill of exchange, or draft or check (of, it is true, an extraordinary character), and not at all a promissory note. The bill of exchange is, therefore based on actual credit and means, while the promissory note is, on the contrary, a naked acknowledgment of debt. The means, the fund, the provision drawn upon, is, in the case of the legal tender note, first, the whole amount of value in the country which is due to the government in taxes, and secondly, the whole amount which is due by contracts, from citizens to each other. So long as there shall remain a single creditor in the country, public or private, the claims of that creditor will furnish the fund of provision, which will secure the circulation of the legal tender note; but the ultimate redemption of that note, will take place in the process of the reception of the same by the United States, in liquidation of debts due the government. The legal tender note is redeemable, on the part of the United States, by being receivable in lieu of specie, in payment of public claims, and not by the payment of specie on its face. It is the mode of redemption which gives its extraordinary character to the greenback, and which makes it to be a bill of exchange in some respects different from the one contemplated in Chancellor Kent's definition. The legal-tender note is based on credit, and is good so long as anybody, anywhere, has a claim of any kind in his own favor; the simple bank-note is based, on the contrary, on debt, and is good so long only as the bank which issues it is competent to redeem its promises.

If the legal-tender notes were issued by citizens, or by private corporations, they would, the moment demand was made, become notes on interest; at least, it is so supposed. Demand being made, interest would begin to run, suit could be brought, and judgment for debt, interest and cost, obtained, and execution might be levied on property. But private citizens and corporations are not competent to issue legal-tender notes. It required the whole force of the sovereignty of the country, exercised, as many think (and the present writer among the number) in an uncon-

stitutional manner, to put the legal-tender notes in circulation. No suit can be brought against the government of the United States, and it was in view of this fact that the legal-tender law was passed. We have to take things as they are. It will not do to reason on the question of the currency as though we were not dealing with a political problem, and as though we were not facing the sovereign power of the United States. The United States, acting through the federal government, and in their sovereign capacity, are perfectly competent to authorize an issue of bills of exchange differing in form from the bill contemplated in Chancellor Kent's definition. Sovereign authorities are constantly doing things of which no account was previously taken in our routine philosophies.

The legal tender act is on one side, an act of sovereignty, and on the other, a solemn promise on the part of the government that the treasury not shall be "*a legal tender for all debts public and private,*" except etc. To violate this promise, and to deny that debts due from the tax payer to the bondholder, though the government, may be paid in legal tender money, would be a repudiation on the part of the government, of its solemn and voluntarily assumed obligation respecting the currency of the notes, and also an exercise of partiality towards a particular class of citizens at the expense of the whole tax-paying community.

That the legal tender treasury notes are not in any degree or manner, in the true intent and spirit of the law, what are commonly called demand notes, is obvious from the history of the legislation respecting them. Congress authorized July 17th 1861, an issue of \$50,000,000 in treasury notes, "payable on demand." A further issue of \$10,000,000 demand notes was authorized Feb. 12th, 1862. The original legal tender act bears the date Feb 25th, 1862, and authorized an issue of \$150,000,000 of treasury notes payable to bearer, *but not on demand*. The law, in part, reads as follows: "*Be it enacted by the Senate and House of Representative of the United States in Congress assembled, That the secretary of the treasury is hereby authorized to issue on the credit of the United States, \$150,000,000 of United States notes, not bearing interest, payable to bearer, at the treasury of the United States, and of such denomination as he may deem expedient, not less than \$5 each. Provided however, that \$50,000,000 of said notes shall be in lieu of the demand treasury notes authorized to be issued by the act of July 17th, 1861; which said demand notes shall be taken up as rapidly as possible, and the notes herein provided be substituted for them.*" It will be perceived that the law itself makes an express distinction between the legal tender notes and demand notes; and creates the legal tender notes in order that they may be substituted in the stead of the demand notes authorized by previous legislation, which demand notes were to be taken out of circulation. It would seem that this fact ought to be conclusive of the whole question.

The greenback currency possesses an absolute disadvantage which ought to be mentioned at once. It furnishes no adequate standard of value. There is a distinction to be drawn between the measure of value, and the standard of value, and this distinction is not without a difference, for the measure of value is one thing, and the standard of value another thing. The *measure* of value is, in England, the pound sterling; in France, the franc; in Russia, the rouble; in Hindostan, the rupee; in the United States, the dollar; the standard to which values are referred, is, in some countries, silver; in others, gold; in others, belts of wampum; in others, cowrie-shells; in ancient Sparta, it was iron; in the United States it is, under existing laws, *inconvertible paper*. This point shall be illustrated more fully. In the United States the yard is the measure of length, and the standard yard is a certain definite part, determined by law, of the length of a pendulum which vibrates seconds of time. If all the yard sticks in the country should be destroyed to-day we could replace them all to-morrow by a reference to this natural standard of length, which has been sanctioned

by the legislature. Formerly, in the United States, the legal dollar was 25 8-10 grains or 412 5-19 grains of silver; but, at the present day, the United States legal dollar is the United States legal tender treasury note for a dollar. Formerly, when we were entitled to receive a dollar in payment of a debt, we knew what we had to expect; to-day we do not know what we have to expect. The standard dollar is what the sovereignty of the country declares to be receivable as a dollar in satisfaction of just claims; and we are, by existing legislation, devoid of any natural standard of value. The existing standard dollar, which is sanctioned by law, is a dollar that does not itself stand, and which, by its intrinsic nature, is incapable of standing by itself alone. The greenback dollar changes its value every month, and, by its changes, unsettles all business calculations. All business arrangements, which require time for their completion, are, under the fluctuations of our existing currency to a great extent, mere gambling operations. Gold is the standard of value in the cases of duties on imports, and interest on the public debt, and in such cases only; and there is an impassible chasm between gold and the paper currency of the country, so that the value of the paper is in no way regulated by the value of gold.

The remedy for all this confusion is a very simple one, and easily applied. Congress ought, long ago, to have authorized gold contracts, and, if it had done so, we should have had two concurrent currencies, and two concurrent prices (or, at least, we should have had them for a few weeks) a gold price, and a paper price, for all commodities. But the paper price would gradually, and rapidly, have approximated to the gold price, and, at this moment, we should have been in the enjoyment of a sound and steady currency. As soon as prices come to be estimated in gold instead of paper, the greenback, if redundant, will be bought up, and returned to the treasury of the United States, in the natural process of the payment of taxes, until the greenback dollar rises to par with the gold dollar. And this process would involve no derangement of business, no financial crises, because the greenback, which is inconvertible paper, can not, by any possibility, give occasion for a run on the United States for specie. Without doubt, the people of the country demand that a certain portion of the currency should consist of paper money; and an amount of paper money would be floated, under the arrangement contemplated, precisely equal to the amount that ought to be floated. North Carolina, just after the Revolution, issued a large amount of paper redeemable by being received in payment of taxes. Between four and five hundred thousand dollars of this paper continued to circulate, after the adoption of the Federal Constitution, for more than twenty years, at par with gold and silver, with no other advantage than that of being received in the revenue of the State, which was much less than one hundred thousand dollars per annum. The case of Russia may also be mentioned. In 1827, Russia had a fixed paper circulation, in the form of inconvertible bank-notes, of upwards of \$120,000,000, estimated in the metallic rouble, and which remained for years without fluctuation, having nothing to sustain it but the fact that it was receivable in payment of monies due to the government, and that with an annual revenue of only about \$90,000,000.

These facts demand attention. It is supposed that the United States inconvertible greenback currency, if naturally checked and regulated by a concurrent gold currency, which should furnish a natural standard of value, would be the very best currency known to the world. Good and competent business men are of opinion that, if the South were restored to the Union, so that she could productively employ all the useful faculties that are in her, if we should cut off the unnecessary and unconstitutional reconstruction expenses, with the unnecessary expenses that are akin to them, if we should cease keeping up a war establishment, and carrying out war measures, in time of peace,—we should want all the currency that we now have, and that the greenbacks

would at once rise to par with gold. Another objection (and one which appears at first sight to be altogether insuperable) against the greenback currency, is grounded on the fact of its utter and palpable unconstitutionality; but we regard this objection, and for the reason just alleged, to be of minor importance. We are confident that the courts, as soon as they get a good hold upon the question, will declare the greenback currency to be constitutional, defensible, and valid, so far as it is made receivable in payment of all dues to the government (except duties on imports) and so far as it is made receivable in payment of all public debts (interest on the public debt excepted) fairly contracted since the legal-tender law was enacted. We are also confident (the pressure of war necessity being now a thing of the past) that the courts will declare the legal-tender act to be unconstitutional and void, so far as it compels citizens to receive from each other, independently of the terms of their private contracts, and in liquidation of all claims whatsoever, any other money than gold and silver, or their absolute equivalents. The government has a right to draw bills of exchange on itself, payable by being receivable for dues to itself, and to pay such of its creditors in this paper as make contracts with the United States under the law which authorizes the issue of such paper; but it is difficult to see that the power of the government has, justly and legitimately, any greater extent.

We are confident, furthermore, that an amount of paper money fully adequate to the legitimate wants of the community, will be kept in circulation, after the legal tender law is cut down by the courts to its legitimate proportions, and that such paper-money will circulate at a par with gold and silver; just as the bills of good banks, which were legal tender in payments to the banks which issued them, but to no other persons, circulated before the war, at a par with gold and silver. The declared currency of the country ought to consist of gold, silver, and the sound business-paper of the government, and of the government, only; and we have a right to demand shelter from the danger of the ever-recurring commercial crises which are an inevitable consequence of every paper-currency which (like bank-bills) pretends to be convertible, but always shows itself to be radically inconvertible whenever a panic seizes upon the commercial community.

The proposition to fund the greenback now in circulation, in interest-bearing bonds, appears to be ill-advised, since the whole project is fraught with extreme danger. Suppose for a moment, that, the act passed by Congress for funding these notes had really become the law. Suppose that Andrew Jackson, instead of putting the bill in his pocket, had actually signed it. The first effect of the contraction of the currency brought about by a calling in of the legal tender notes, would have been a stringency in the money market; money would have risen rapidly in value; men of the most undoubted means, who are in active business, would have been at this very moment, hard pressed to meet their engagements, not because of a lack of actual wealth, but because of the insufficiency, in amount, of the circulating medium of the country; trade would be gradually becoming blocked up; the merchants, manufacturers, contracting mechanics, and other business men of the country, would be now passing powerless through the mill of the money-brokers, to come out depleted at the other end; a large portion of the wealth of the country would be changing hands, passing from the possession of the productive portion of the community, into that of unproductive speculators and respectable gamblers, who would alone profit by the public distress. The second, and more disastrous, general effect, would result from the sudden terror of the National Banks. The bills of the National Banks are not a legal tender in the liquidation of private debts, and, consequently, not legally sufficient for all the purposes of business; the bills of the banks would therefore be sorted in the clearing houses, and returned, to a great extent, to the banks that issued them. The banks would prepare themselves for the pressure by stopping

accommodations, by drawing in their notes to the greatest possible extent, and by providing themselves with greenbacks; for their notes (unlike the treasury notes) being payable *on demand*, must be redeemed at sight, in lawful money, gold or greenbacks, under penalty of failure and forced liquidation. Some of the greenbacks, having been paid to the government in purchase of the bonds issued in exchange for them, would be locked up in the treasury of the United States, others of them would be locked up in the bank safes; and, if the process should go on, the community would be brought back almost to direct barter, while gold would go up out of sight. And the process would, in all probability, go on; for, if the crisis should once come, and the movement take the form of a run on the banks, it is not easy to perceive that anything could save either the banks or the business men.

The path of safety lies in a direction opposite to the one proposed. The greenback currency is perfectly safe; the National Bank currency is beset with perils on every side—perils to those who own their stock, perils to those who deposit money with them, perils to outside parties who use their notes as currency. By the law of Feb. 25th, 1863, which provides for the National Bank currency, and the circulation and redemption thereof, it is plainly declared: that the shareholder is personally liable to twice the amount of his shares; that the bill issued are payable on demand; that, in case of failure to redeem, in lawful money of the United States, their circulating notes, the United States, shall redeem the notes of the banks so failing, and at the expense of the banks so failing; that if a bank fail to redeem its bills, the comptroller of the currency may appoint a receiver to take charge of the books, assets, etc., of the bank, and, with the concurrence of a competent court of record, wind up the affairs of the bank; and many more stringent provisions, of similar nature, are recited in the law. It is obvious that banks, with all these swords hanging over them by a single hair, will not dare to come forward, in a moment of commercial crisis, and, by a free issue of paper money, tide the commercial community over the dangers which may happen to beset them.

Again (but this consideration is of less moment) the National Bank currency is expensive. The people pay interest on the bonds deposited by the banks as security, and the United States furnish the banks gratuitously with circulating demand notes to the value of ninety per cent of the bonds deposited, which notes the banks lend out again at interest; thus the people pay a double interest on such of their bonds as are deposited with the comptroller by the banks as security. The proposition to fund the greenbacks now circulating, so that the people may pay interest (and perhaps a double interest) on them also, would almost seem to indicate a desire to break the back of the tax-paying camel.

Furthermore, the bonds deposited with the comptroller, would furnish an utterly delusive security in a time of financial panic; for, with a currency deficient in actual amount, and at a moment of general doubt and public distress, the bonds (if sold at all) would sell for a mere song.

The National Bank currency is expensive, is based on debt and not on credit, is the embodiment of a false system, gives governmental power over the circulation to private corporations, is always in danger of toppling over, and is in every way dangerous. The greenback currency on the contrary, cost nothing beyond the expenses of printing and paper, is eminently safe, and leaves the issuing of paper money where it ought always to be left, in the hands of the government. The reform called for by the necessities of the case, consists, therefore, not in the funding of the greenbacks in interest-bearing bonds, but in the calling in of all the National Bank notes, and in the substitution of greenbacks in their stead, cancelling as far as possible, with the notes of each bank, the bonds which are deposited as security for such special notes, thus diminishing

the amount of the public debt by the whole amount of the existing bank circulation, and, at the same time, improving the character of the currency of the country.

W. B. G.

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