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Issue 99 ~ Winter 2011 ~ $4.00

Federal Reserve Bank Notes

Forgotten Currency

By Franklin Noll

We are all familiar with Federal Reserve notes. We use them everyday, and the United States Bureau of Engraving and Printing (BEP) prints billions of them every year. The production of Federal Reserve notes has been going on continually since 1914 when the Federal Reserve System first went into operation following its establishment in December 1913. Yet, in the first half of the 20th century, the Federal Reserve System also periodically issued a second form of currency—Federal Reserve *bank* notes.

Federal Reserve bank notes were authorized by the Federal Reserve Act of December 23, 1913. While the Federal Reserve notes we see every day are the responsibility of the Federal Reserve System as a whole, Federal Reserve bank notes were established as obligations solely of the Federal Reserve bank that issued them. Upon depositing bonds with the Treasurer of the United States, a Federal Reserve bank could issue its own notes as long as it followed the same rules that applied to national banks. While this did not happen very often or to any great extent, issuances of Federal Reserve bank notes are interesting because they always occurred during currency crises.

The National Bank Note Crisis

One of the reasons for the creation of the Federal Reserve System was to eliminate the system of national bank notes and to replace it with a centrally controlled system of Federal Reserve notes. However, with the start of Federal Reserve operations, the dispersion of Federal Reserve notes across the country would take some time, and no one knew how quickly national banks would go out of the currency business and stop issuing their own notes. There was a real possibility that national bank notes might be withdrawn from circulation faster than the new Federal Reserve notes could be issued to the public. This could cause sudden drops in the number of bank notes in different parts of the country, resulting in regional scarcities of currency. To counteract such a crisis, the local Federal Reserve bank was authorized to step in and issue its own currency on a temporary basis to make up the deficiency.

To meet the expected need, in 1915, the BEP printed 3.2 million notes in denominations of \$5, \$10 and \$20 in anticipation of the Federal Reserve System's final start-up. But, as it turned out, few national banks retired their currency as quickly as feared and there was little demand for Federal Reserve bank notes. The crisis never materialized. Consequently, production of Series 1915 Federal Reserve bank notes fell to 264,000 notes by the middle of 1918. However, by this time the United States was facing a new crisis, World War I.

The Silver Certificate Crisis

The United States entered the war in April 1917. A year later, in April 1918, it agreed to sell silver bullion to the British. The US Treasury had lots of silver in the form of \$1 coins and silver ingots that it held as security against the silver certificates it issued. (The Treasury ended the issuance of silver certificates in 1963.) The problem was that for each \$1 in silver sold to Britain, \$1 in silver certificates had to be withdrawn from the money supply. To make up the loss in circulation, Federal Reserve bank notes were issued as an emergency replacement, and the volume of Federal Reserve bank notes in circulation swelled from about \$9 million in the summer of 1918 to a little over \$261 million a year later.

To meet this new demand for notes, the BEP had to increase production in fiscal year 1919 by almost a 1,000-fold, from 264,000 to 227 million notes. Besides the manifold problems stemming from such a massive increase in production, the Bureau also had to face the problem of a linen shortage caused by the war. As a result, the notes were printed on 100% cotton paper, making them more fragile and harder to work with. Series 1918 notes were produced in $1, $2, $5, $10, $20 and $50 denominations until 1922. By that time, the Treasury had replaced the missing silver, and silver certificates were reissued as the Federal Reserve bank notes were retired.

The Banking Crisis of 1933

The next use of Federal Reserve bank notes as an emergency currency occurred in early March 1933 when President Franklin D. Roosevelt closed all the banks for three days to stop a banking panic during the Great Depression. The Treasury feared that once the banks reopened there would be a mad dash by depositors for cash. To counter this threat, Federal Reserve banks were authorized for a limited time to issue their own notes as they saw fit.

The BEP was given an initial order for $2 billion, or over 186 million notes. The problem was that the notes were to be provided immediately and the Bureau did not have the necessary plates, paper or even employees to do the job. The plate and paper problems were overcome by utilizing the existing stock of national bank note blanks. It was planned that these would be overprinted by a single logotype plate for each Federal Reserve bank, blacking-out certain features while adding others. The necessary labor was organized by calling upon the wives and husbands of current employees and all former employees. Within weeks, the Bureau was ready to go into production.

On March 9, 1933, the new Federal Reserve bank notes were officially authorized, and within 24 hours the first shipment of currency was ready. The feared run on the banks for currency never materialized, and many of the notes shipped by the Bureau were not issued. Beginning in 1934, those notes that had been actually issued were retired as the banking industry and the economy recovered. This was also the last year that the BEP ever printed Federal Reserve bank notes.

The existing stock of Federal Reserve bank notes left over from the 1933–1934 printing, $660 million worth, was issued during World War II (1941–1945), much of it in December 1942 when the Treasury was suffering a cash crunch. These notes began to be retired as the end of the war approached; and, in the summer of 1945, Congress amended the Federal Reserve Act to end the use of Federal Reserve bank notes. There really was not a need for them anymore. The Federal Reserve System had become very adept at using just Federal Reserve notes in controlling the money supply and no other currency was needed.

Though Federal Reserve bank notes had a short history, they made a big impact, serving as an emergency currency or, at worst, as insurance against a currency crisis. In all, the BEP produced over 641 million notes valued at over $1.7 billion. In circulation from basically 1915 to 1945, these notes marked the transition from a United States economy using a number of different currencies (national bank notes, silver certificates, gold certificates and United States notes) to one that just uses one form of currency—the familiar Federal Reserve note. FH

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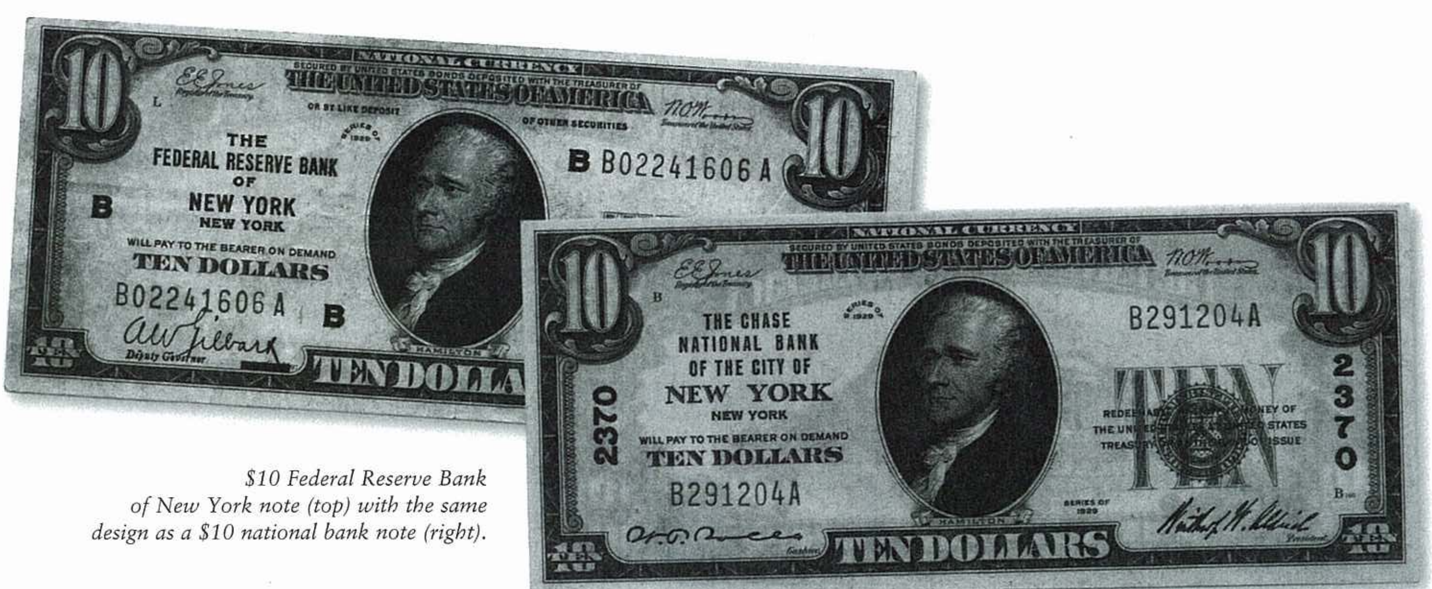

$10 Federal Reserve Bank of New York note (top) with the same design as a $10 national bank note (right).