“As Phony As A $3.00 Bill”

(Money and its relationship to postage stamps)

by A. Don Jones

“As phony as a $3.00 bill” has been heard by many, but is the statement justified?

Was / is there any such thing as a $3.00 bill? If so, who produced them? Who used them? What were they used for?

Perhaps a clarification of situations and terminology is needed before taking this any further.

What is money?

- A medium used in conducting trade.
- A psychological abstraction.
- Anything that is accepted as a medium of exchange.
- Anything that can reasonably sustain purchasing power over a period of time.
- Anything that can serve as a convenient unit of measure.

A government edict is not necessary to create money.

The United States Constitution contains only two sections dealing with monetary issues.

Section 8 Permitted Congress to coin money and regulate its value.

Section 10 Denied states the right to coin or print their own money.

The writers of the Constitution intended for the United States to have a national monetary system based on coin and for the federal government to regulate the system. United States coins were to contain the amount and type of metal equivalent to the value of the coin. In other words, the coins were to have real worth.

The Constitution Convention Delegates rejected a clause that would have given Congress the authority to issue paper currency. They also rejected a measure that would have specifically denied the federal government the ability to issue paper currency. (Hammond).

The Constitution does not state that the federal government has the power to print paper currency. The Supreme Court ruled unanimously that the Second Bank of the United States and the (paper) banknotes it issued on behalf of the federal government were constitutional. (*McCulloch vs Maryland* 1819) **Therefore, if only the federal government were permitted to issue money, coin or paper, how could state banks produce it?**

State banks are banks that were chartered by an individual state, not by the federal government. State banks did not coin money, nor did they print any “official” national currency. State banks could print, or have printed, bills of credit in exchange for specie deposits. The notes would bear the issuing bank’s name and entitle the bearer to the note’s face value in gold or silver upon presentation to the bank.

State banknotes were a representative form of money. They were not gold or silver, they merely represented it. The state banknotes were more convenient for conducting large transactions than their specie counterparts and, more importantly for the extension of credit, could be produced easily while the nation’s gold and silver stock was relatively small and for the most part dwindling. (Hixson).

No paper currency was issued by the federal government prior to the Civil War.

With this general groundwork in place, a time line can be laid out to put the events into context.

1792

President George Washington signed into law on April 2, 1792 an act to establish a United States mint, which went into effect immediately.

Note the “Incorporated – 1792” at the bottom center of the bearer bill above (arrow).

The first “American” banks were founded in New London, Conn. (Union Bank) and Hartford, Conn. (Hartford Bank), and paper currency was issued almost before the ink was dry on the Bill which Washington signed. But this was not federal government currency.

1796 – 1807

The draped bust, flowing hair cent was minted—the first “American” coin.

1800s

Insurance companies expanded their scope of business to cover fire and marine losses, not bank deposits or loans. Banks, essentially, stood on their own with no insurance, or were “self insured”, or in a few instances where more than one bank was owned by an individual or group, were “self insured” through partnerships or associations.

The stand alone banks were just that. They were usually owned by one person or a small group with all decisions for loans, interest rates, etc. being in the hands of one individual. Also, salaries paid and profits taken were determined by that individual. Those banks that were self insured set aside some portion of their profits to cover losses and in some cases part of that would be used for expansion, salary adjustments or other contingencies.

The self insured banks that formed partnerships or associations had the ability to insure themselves at lower rates (smaller percentages of their profits) or have the ability to expand farther, faster, etc.

Characteristics Of Selected Early And Modern United States Coins

To offer some perspective of how United States coins varied in size and weight and consequently an idea of how coin was worth and an idea of the weight to be considered for shipment / handling, the following chart was derived. The United States 1/2-cent and 1-cent coins were used due to their range of size and weight over approximately two centuries.

	1793 1/2¢	1793 1¢	1838 1¢	1982 1¢
Dia. mm	22	25 to 28	28 to 29	19
Dia. in.	55/64"	63/64"-13/32"	13/32"-19/64"	3/4"
Grams	6.74	13.48	10.89	2.50

50 coins would weigh

The quantity of 50 coins was used as it is the amount of coins in a modern roll of 1¢ coins (pennies) and gives a reasonable and recognizable reference to size and weight.

	1793 1/2¢	**1793 1¢**	**1838 1¢**	**1982 1¢**
Grams	337.0	674.0	544.5	125.0
Ounces	11.887	23.775	19.207	4.4092
Pounds	0.7429	1.4859	1.2004	0.2756

1808 – 1814

Classic Head large cent minted 1813

1816 – 1857

Coronet large cent minted 1844

The following chart is not intended to be an accurate depiction of how an individual could affect the monetary system. It is a very "loosely translated" example of the evolvement of how banks (hence, the monetary system) were tied to insurance after a negotiated compromise of the individual and bank desires. In order to put this into perspective, a liberal license is taken with the United States monetary system in order to give it meaning.

Let's assume that someone wants to buy a big ticket item, such as a house or a car. Generally, the payment for such an item is spread over a number of years. In order to do this, money has to be borrowed from somewhere or some one, usually, a bank. To make the example even easier, let's get rid of any zeroes to the left of that decimal point and say that the big ticket item costs $5.00 That stated, the bank would, generally, ask for some sort of down payment (or "good faith money") to secure the loan.

That down payment is generally 10% to 20% of the principle amount of the loan—let's assume 20%.

Now, we have an agreed upon price ($5.00), a willing seller, a willing buyer, a willing lender and an agreed upon down payment of 20%.

With those factors in place, we have a $5.00 item being sold by a seller who gets his / her money immediately. We have a buyer, who for 20% of the cost of the item (or $1.00) gets the full use of that item immediately. And we have a lender (the bank), who is paying off the seller immediately, the full selling price, or $5.00 and gets its profit over time by charging interest on the loan.

Any interest rates, etc., are being pushed aside, as this example only has to do with the principal amount.

With that same basic system, the bank can now go to the Federal Reserve and ask for $25.00 based on the fact that it holds the lien or title / ownership of the big ticket item ($5.00), or 20% of the amount that the bank is asking from the Federal Reserve.

Now, we have $1.00 "purchasing" $5.00 which in turn is "purchasing" $25.00. Hence, $1.00 just became worth, or justified the movement of $25.00. That is the first and second step of inflating the dollar. That can be carried to higher levels, but for the sake of simplicity, that should be sufficient, as the chart below illustrates a far broader and deeper group of four scenarios.

At any rate (pun intended) that is a brief and basic bit of background for the shortfalls of the United States' monetary system.

THE (INFLATED) DOLLAR

Loan Based on	**What Individuals wanted "5 %"** Security	**What Banks wanted "20 %"** Security	**Initial Compromise "10 %"** Security	**Final Compromise "10%" Security** w/Insurance
Individual outlay	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Local Bank loan to individual	$ 20.00	$ 5.00	$ 10.00	$ 10.00
Federal Reserve Branch loan to bank	$ 400.00	$ 25.00	$ 100.00	$xxxxxx
Federal Reserve Bank loan to Federal Reserve Branch / bank	$8,000.00	$125.00	$1,000.00	$100.00

After 1834

Silver was undervalued at the mint and the market value was constantly higher than the coin value. The result was that gold replaced silver in the monetary stock (especially after the discovery of gold in California in 1849) and became the "unofficial standard".

1836

Another institution that evolved during the period was the clearinghouse, or Federal Reserve (Bank). One function of the Federal Reserve, or any central bank, is to act as a lender of last resort for banks that are temporarily short of liquidity.

When the Second Bank of the United States failed in 1836, the nation was left without a supplier of banking services, which served as a safety valve of monetary liquidity. By the start of the Civil War there were (at least) 1,562 state / company / merchant / municipality banks operating with less than standard regulation. It became impossible for local merchants to track the risk and / or value of dozens of different notes along with the other concerns of their business.

1837

The Supreme Court ruled that state banks, and the notes they issued were constitutional. *(Briscoe vs Bank of Kentucky)*. During the "free banking era" (the period up to / through the Civil War), there were 712 state banks operating in the United States, each with its own currency (Kidwell).

Additionally, not only were banks issuing currency, but there were companies, merchants and municipalities also issuing it.

An Aside

In the 1860s, paper was scarce due to the civil conflict in the United States. One of the results of this scarcity was that any paper that could be re-used, was re-used. The 3-dollar note above is (was) printed on the back of the paper shown at the right which was initially used to print (at least) two different denominations of notes, though the reason for its re-use is not obvious on this example, it was re-used. In fact, some of the design / printing on the circulated note can be seen through from the back.

However one thing is obvious and that is that the design of the original notes is different from that of the note that was placed into circulation.

1837-1863

The federal government distanced itself from almost all attempts to regulate the banking system during the "free banking era", as problems with state banking were numerous. Four of those problems were obvious.

First, frequent bank runs resulted in large depositor losses.

Second, the nation had no unified currency and state banks issued their own banknotes, a system which invited counterfeiting and brought uncertainty in determining the relative value of each banknote.

Third,* with no control on issuing banknotes, the money supply and the price level was highly unstable, causing more volatility in the business cycle. This was partly due to the fact that banknote issuance was frequently tied to the market value of the bank's bond portfolio, which the law required them to have.

Fourth, banks could issue currency far in excess of their specie deposits

1847

Also, during the "free banking era" the first United States postage stamps were issued.

Generally (a) the public did not like to buy and hold the new stamps. Five or ten cents was more than many could afford to take a chance on misplacing or losing; and (b) most of those who used them did so at the post office or as a part of business.

1851

The second United States postage stamp series was issued between 1851 and 1861 in the following denominations: 1¢, 3¢, 5¢, 10¢ 12¢, 24¢, 30¢ and 90¢.

Four key factors had an impact on the United States' stamp program and on the monetary system.

1. The discovery of gold in California in 1849 caused an influx of gold on the market that drove silver prices up to a point where silver coins were worth more as bullion than as coins. Consequently silver coins were hoarded for their silver content.

2. A reduction of the domestic postage rate from five to three cents in 1851 made postal communication more affordable to individuals and businesses.

3. The issuance of the second series of postage stamps in 1851 put the available stamps in line with the postage rates.

4. The issuance of two new denominations of coins in 1851 specifically intended to facilitate the sale of the new stamps made (at least) a modest inroad for the use of stamps as postage.

1851

The 3 Cent Silver "Fishscale" and the $3.00 Gold "Princess" coins were minted to encourage the purchase of postage stamps.

The 3 Cent Silver ("Fishscale")

The 3-cent coins were so small that they were easily misplaced or lost, consequently they were not well received by the public, and due to their size (about the size of a little fingernail) and color (silver), they soon acquired the nickname of "Fishscales".

The 3-cent coins were directed towards individuals while the $3.00 gold coins were directed toward businesses.

$3.00 Gold "Princess"

1853

To relieve the small coin famine, caused by the hoarding of silver coins, Congress reduced the weight of 1/2 dollars, quarters, and dimes (silver coins) by 7 percent.

Because the new coins then became worth more as money than as bullion, it was possible to keep them in circulation and relieve the burden of the coin shortage that began in the early to mid 1830s.

1856 – 1858

The Flying Eagle cents were minted to stem the complaints about the public having to use the large, heavy coins that had been in circulation up to that time. These were the first United States coins that did not have a metal value equal to their monetary value.

1859 – 1909

The smaller 1-cent Flying Eagle coins gained favor with the public and were followed by the Indian Head cents, which remained in use for fifty years.

The United States never returned to minting large cents after introducing the smaller 1-cent coins.

1862

Not long after the start of the United States' Civil War, hoarding of copper, silver and gold coins became so widespread that the United States (Federal) Government became desperate to find a way in which the citizens could honor small monetary obligations. One of the first solutions tried was by using "Encased Postage" as a medium of exchange.

John Gault received a patent for his design of encasing United States postage in a mica "shell" so that it could be reused. The patent was issued on August 12, 1862. Gault's design called for a regular United States postage stamp to be folded around a cardboard disc, which was then covered by a thin, transparent mica shell which was held together by a metal frame, making it secure. The mica shells were about the size of a quarter, but much lighter. The stamps used for the project were the 1¢, 3¢, 5¢, 10¢, 12¢, 24¢, 30¢ and 90¢ denominations of 1961

5¢ encased postage, Sc. EP96, with John Gault's name and patent date on the reverse brass frame

12¢ encased postage, Sc. Ep12, with "Take Ayer's Pills" on the reverse brass frame

Gault was able to make his profit by charging a small fee above the cost of the stamp used and the cost of manufacturing. The sponsors, or companies which paid for the encased postage were able to offset their costs by using the brass back (or frame) of the item to advertise their product / company.

Gault's venture was short lived, as on August 21, 1862, the Federal Government began issuing its own solution to the coin shortage problem with "Fractional Currency".

The fractional currency notes were approved by Congress and President Abraham Lincoln in the Postage Currency Act of July 17, 1862 and issued from August 21, 1862 through February 15, 1876. Five separate issues were printed during this period.

The first issue included the 3¢, 5¢, 10¢, 25¢, and

50¢ denominations. They soon became known as "Postage Stamp Currency" because of their designs being similar to the then current 5 and 10 cent postage stamps.

It was not until the third issue that the 15¢ denomination was included.

Fractional currency was never considered "Legal Tender", but could be exchanged for United States Notes in quantities of $5.00. Please note that in both the encased postage and the fractional currency that the ever present 3¢ denomination remained throughout.

To combat the numerous issues of state (and other) banknotes, the federal government levied a 2% tax on the banknotes and

1866

during the mid-1860s the tax on state banknotes was raised to 10%. At that point a rapid decline in the issuance and use of state banknotes began.

About the same time, the federal government began issuing its own currency—national banknotes. If a bank, or other entity, wanted to continue issuing its own currency, it had to obtain a charter from the federal government and buy the federal government produced notes. Some of the banks which opted to continue became national banks and survive today.

1873

Far eastern countries did not trust the United States dollar and wanted only Mexican silver pesos for trade, as they had a true weight in pure silver.

The United States Government and businesses trading with the far eastern countries had to pay a 15% premium for the Mexican silver. Such a situation created a severe handicap in many business deals.

That led to the minting of trade dollars.

The United States trade dollars were minted primarily to conduct business with far eastern countries (mostly Japan and China). The trade dollars were minted with their silver content and purity stamped onto the back of each coin to encourage the confidence in their value to far eastern businesses and governments.

Silver dollars were omitted from the list of coins authorized to be minted as a result of revising the coinage laws.

1878

Coinage of silver dollars resumed ("Morgan" dollars) generally for domestic use, but the metallic gold dollar remained the monetary standard and the gold standard was adopted.

Now return to the original questions and the conclusion

"As phony as a $3.00 bill" has been heard by many. ***Is the statement justified***? No, $3.00 bills were used for many years.

Was / is there such thing as a $3.00 bill? If so, who produced them? Who used them? Yes, they were issued, produced and used by banks, companies, merchants and municipalities from the time they were printed in 1854 until the United States began issuing currency after the Civil War and were available for use by anyone. None were issued by the United States Government.

What were they used for? Essentially, $3.00 notes were used throughout the United States while the 3-cent and $3.00 coins were used to encourage the use of postage stamps.

In Conclusion

By the end of 1878:

• The coin shortage had been resolved.

• The gold standard had been adopted.

• The United States monetary system was stabilized and recognized as a "world currency".

• Stamps, rather than manually computed postage rates had been accepted by the public and adopted.

Since that time, the United States has undergone the following:

UNITED STATES MONETARY STANDARDS

Metal Standard	1792-1851
Bi-metal Standard	1851-1873 (78)
Gold Standard	1873 (78)-1933
Silver Standard	1933-1964
Paper Standard	1964-present

It follows that if the United States' monetary standards follow the banking system (cited earlier) and our monetary system is based on paper, our stamps are paper, therefore the most essential part of our monetary system is paper, then therein lies the heart of it all—***STAMPS!***

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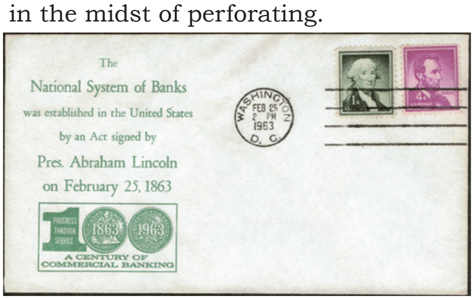
Editor's Note: There are three instances in which U.S. coins are shown on U.S. stamps. The first is the Banking and Commerce issue of 1975, shown here on a most unusual First Day Cover.

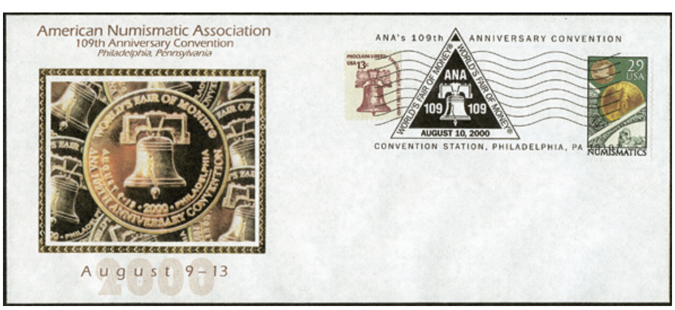
The Banking half of the se-tenant pair shows an Indian Head penny and a Morgan silver dollar. The Commerce section features a Seated Liberty quarter and a gold Double Eagle.

The Indian Head penny made a repeat appearance on a small 13¢ stamp, issued in 1978; part of a failed experiment to see if the smaller stamps wold be accepted by the public, would work in the postal system, and would allow cost cutting through production of more stamps per sheet of paper. The design is shown here in a chunk of torn and misperforated printers's waste.

Parts of two panes are visible on this misperforated 1977 piece of sheet waste, which resembles the Statue of Liberty. It was found in a post office in Wisconsin between two normally printed panes. It was probably the result of a paper jam in the midst of perforating.



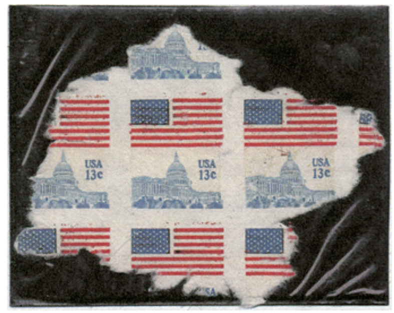
Also shown above is a commemorative cover marking the 100th anniversary of the legislation establishing the National System of Banks.



Our final U.S. coin stamp (bottom of previous column) is the 29¢ 1991 commemorative honoring Numismatics, on a commemorative cover for the 2000 Convention of the American Numismatic Association, the "World's Fair of Money." It contains an 1858 Flying Eagle cent, a 1907 Standing Liberty Double Eagle, a Series 1875 $1 note, and a 1902 $10 National Currency note.

Other Examples of U.S. Part-Perforated, Misperforated and Imperforate Printers' Waste

As postage stamps have monetary value, care is supposed to be taken in the handling, distribution, and disposition of what is secure paper. Occassionally, some pieces. Shown here are examples of pieces that made it out and reached the public.



Not perforated, 13¢ + 6¢ Booklet of 1977. No legitimate imperf material is known for this issue. This piece is from an 832-subject sheet prepared in booklet format. It has parts of two, maybe three panes. It has both colors and tagging, but no gum. At this time, waste material was partially destroyed at the Bureau, then carried away to another site to be burned. This piece was picked up in the street outside the Bureau, having fallen out of a dumpster.

Not perforated horizontally, Issue of 1875, Continental Bank Note Co.