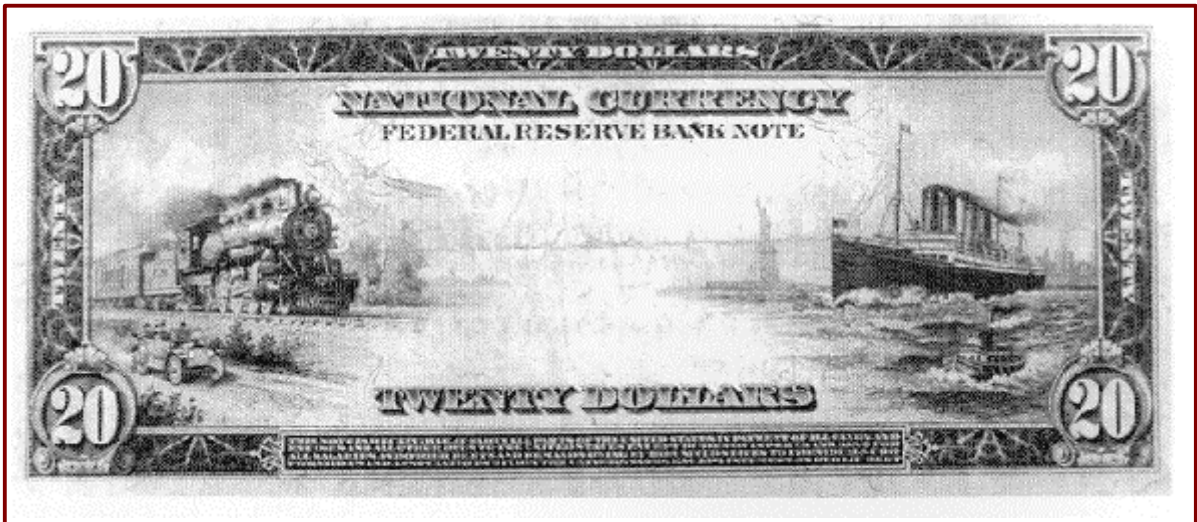


HISTORY AT YOUR FINGERTIPS &  
SPIRIT OF THE NATION  
FEDERAL RESERVE BANK OF BOSTON

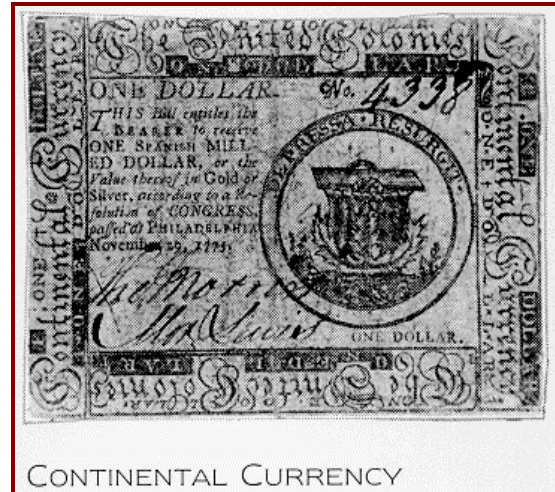
**"HISTORY AT YOUR FINGERTIPS" AND "SPIRIT OF THE NATION"**



*Four panels displayed at the Federal Reserve Bank of Boston exhibit coins and paper currency dating from the early days of our nation to the present. One pair of the panels, titled "History at your Fingertips" and "Spirit of the Nation," focuses on the themes depicted on our paper currency. The subjects of the other pair are "Liberty" and "The American Eagle," the two chief emblems on our early coinage.*

**"HISTORY AT YOUR FINGERTIPS" AND "SPIRIT OF THE NATION"**

Since colonial times, our paper currency has undergone many changes, and its evolution reflects the development of the United States from a land of independent farmers to an interdependent, industrialized nation. In yet another way, our paper currency also mirrors American history: the scenes and images depicted on the various types of bills provide glimpses of moments in our nation's past and moods identified with the American people. The panels "History at Your Finger-tips" and "Spirit of the Nation" show how various themes in American history -such as the westward drive and the transportation revolution -are reflected by the designs on paper currency. This pamphlet briefly describes the evolution of our paper currency and then shows samples of more bills displayed at the Federal Reserve Bank of Boston.



## EVOLUTION OF PAPER CURRENCY

The first paper money in the new world was issued in 1690 by the General Court of the Massachusetts Bay Colony to cover the expenses of an ill-fated military expedition into French Canada. Since there was an extreme shortage of specie, or gold and silver coin, during colonial times, all the other colonial governments soon began to issue their own paper currency. Some of these early experiments with paper money were successful, but in many cases, the bills could not be redeemed in specie as promised, and, as a result, they usually depreciated rapidly.

To finance the Revolutionary War, the Continental Congress issued paper money known as continental currency. Since the Congress had no power of taxation, all that backed these notes was the "anticipation" of future tax revenues - a somewhat dubious prospect during the middle of the war. In addition, the notes were crudely printed and thus easily counterfeited. (Even the British turned to counterfeiting as a method of undermining the colonists' resistance.) Most importantly, far too much continental currency was issued, causing it to depreciate so rapidly that by the end of the war it had become virtually worthless.

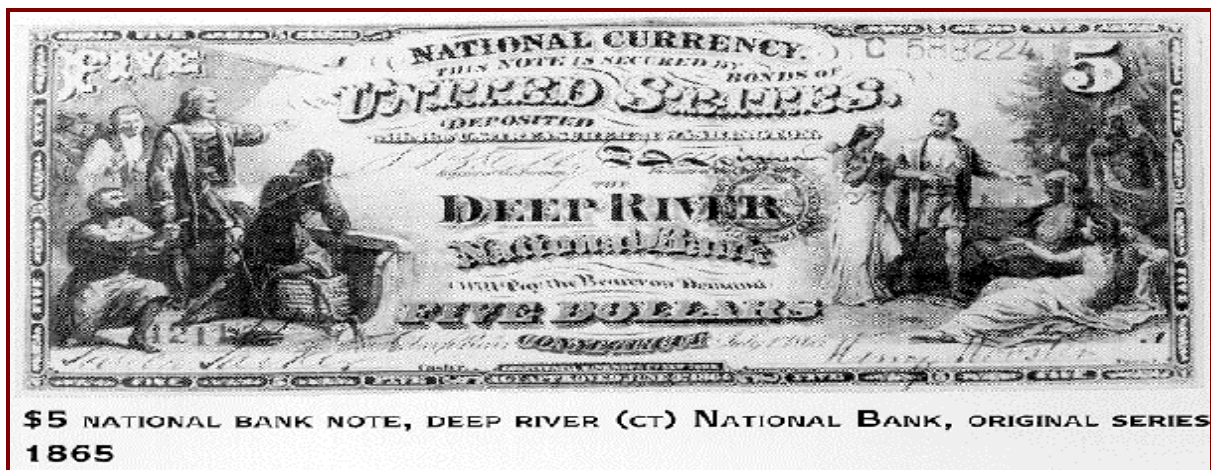
As George Washington put it, "A wagonload of currency will hardly purchase a wagonload of provisions."

The experience was so disastrous that it engendered a deep distrust of paper money issued by the government - a distrust that was not overcome until the Civil War, when the federal government first issued paper money. During the years between the Revolution and the Civil War, however, paper money did circulate - all of it issued by private banks chartered by the states.

One of the functions of banks is to create money by making loans. In doing so, banks provide the credit essential to the growth of enterprise. When a bank makes a loan today, it creates a checking account balance which the borrower then spends, thereby adding new money to the total money supply. Before the Civil War, however, checking accounts were rare, and banks

made loans by issuing bank notes to the borrower which, when spent, became part of the circulating medium of exchange.

The public's willingness to accept these state bank notes depended on people's confidence that the issuing banks would redeem their notes at full face value in specie whenever the notes were presented to the banks. Although some of the early banks were responsibly managed and issued notes only if there was sufficient specie to back them, many others issued notes with little or no hard cash behind them. For a time, some restraint was imposed on the state banks by the First and Second Banks of the United States. These two banks, chartered by Congress rather than any state, were forerunners of our modern central bank, the Federal Reserve System. The First Bank was chartered from 1791 to 1811, and the Second Bank from 1816 to 1836. While the two banks existed, they helped maintain the soundness of the circulating paper by refusing to accept the notes of any state bank that did not have sufficient coverage.



Both banks, however, were unpopular with those segments of the population that wanted easy credit (primarily the western, agrarian interests), and in 1832, Andrew Jackson vetoed the re-charter of the Second Bank. For the next quarter century, America's banking was carried on by a myriad of state-chartered banks with no federal regulation. A bewildering variety of notes of all different sizes, denominations, and designs circulated. Many of these notes were not accepted at full face value because the banks that issued them were unsound. To add to the confusion, counterfeits were common.

The need to finance the Civil War sparked reform: In 1862, Congress authorized the first issue of paper money by the U.S. Treasury. Called United States Notes, these bills were familiarly known as greenbacks. In 1863, further reform came with the passage of the National Banking Act, which established a uniform paper currency to be issued by new "national banks." These banks, chartered by the federal government, were required to purchase U.S. government securities as backing for the uniform national currency they issued, called national bank notes. A 10 percent tax was placed on state bank notes, thereby tending to tax them out of existence. The last series of national bank notes was printed in 1929.

During the years after the Civil War, the circulating paper medium consisted of not only national bank notes but also a variety of bills issued directly by the federal government. The Treasury continued to issue the United States Notes as well as other types of currency such as Silver Certificates and Gold Certificates. In 1913, another major change in our paper currency occurred with the establishment of the Federal Reserve System, our central bank. Congress authorized the Federal Reserve to issue Federal Reserve Notes, which constitute over 99 percent of the paper currency in circulation today. United States Notes, issued directly by the Treasury in denominations of \$100 only, make up the remaining fraction of today's currency.

### **DESIGN OF PAPER CURRENCY**

Many of the designs on our early paper currency are outstanding examples of engraving art. Ironically, a major impetus toward developing high quality paper money was the need to deter counterfeiting. Since counterfeiting was a serious problem during the 19th century, the issuers of notes - both private banks and the government -sought highly detailed, sophisticated designs that would be difficult to copy.

Reproduced on the following pages are samples of the bills displayed in the panels "History at Your Finger-tips" and "Spirit of the Nation." The bills are grouped according to the historical themes their designs reflect.

### **THE DRIVE WEST**

In the 19th century, the promise of cheap, fertile land, the lure of gold, and the opening of transportation routes drew throngs of settlers to the Far West. Although successive western frontiers were established in the expansion from the East, the final "West" was land's end at the Pacific Ocean.

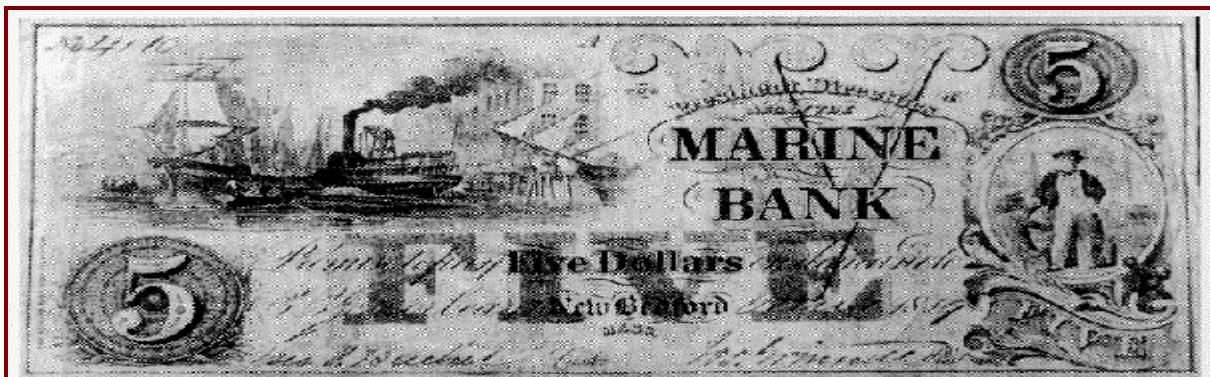




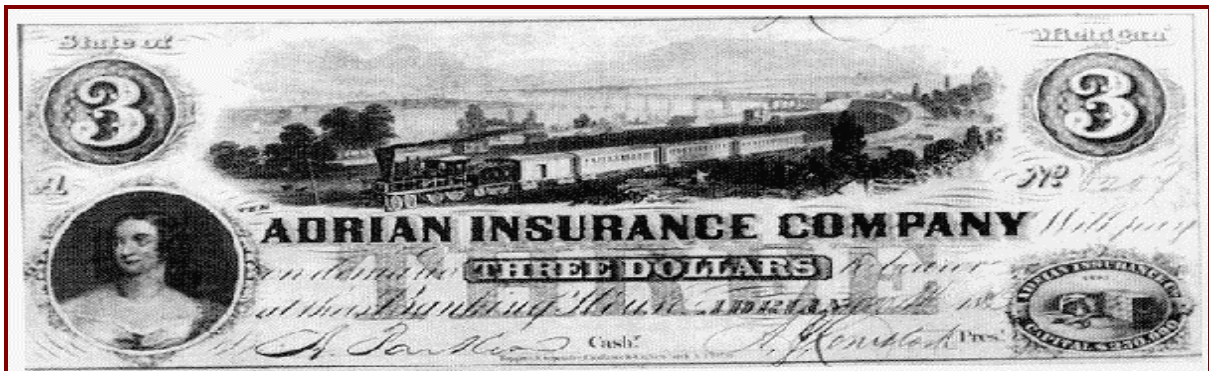
**\$2 NOTE, STATE BANK OF MICHIGAN, DETROIT MI, UNISSUED.** Thirteen million buffalo roamed the plains in 1860. Their destruction in the race to the west doomed the plains tribes, who depended on buffalo for food, clothing and shelter.

### THE TRANSPORTATION REVOLUTION

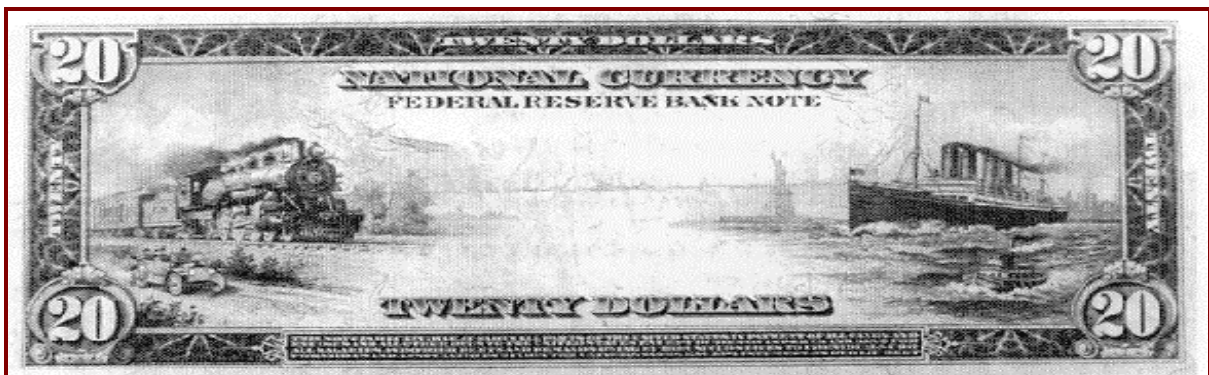
Ever-improving transportation linked the sections of the United States together, cemented economic ties among regions, and mobilized the population.



**\$5 NOTE, MARINE BANK, NEW BEDFORD, MA, 1859.** Wind and steam power carried products along coastal and inland waterways.



**\$3 NOTE, ADRIAN (MI) INSURANCE COMPANY, 1853** By 1900, the United States was webbed with more railroad track than all of Europe, including Russia.



**\$20 FEDERAL RESERVE BANK NOTE, CHICAGO IL, SERIES 1915.** No 20th century form of transportation – by land, sea or air – more drastically increased the mobility of Americans than the automobile.

### **FROM FIELD TO FACTORY**

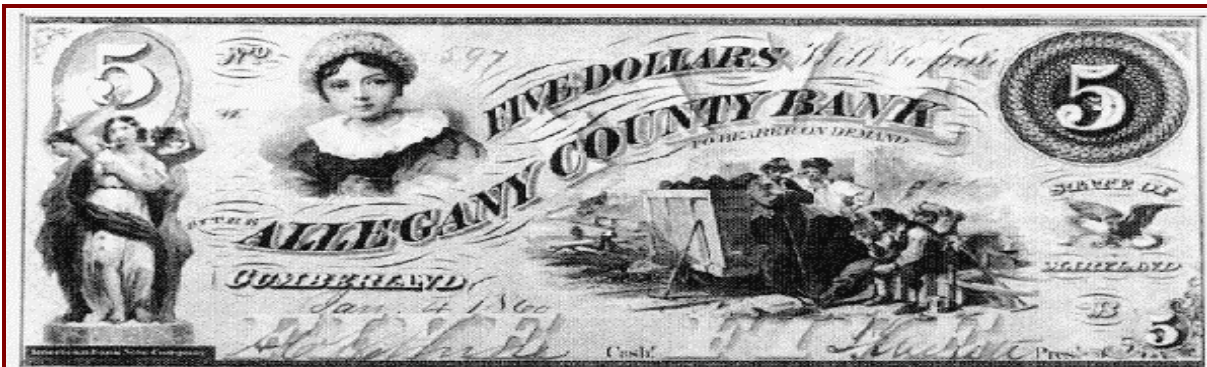
Thomas Jefferson envisioned America as a nation of farmers, but the country's development followed another course. By 1890, almost 5 million Americans worked in factories, and by 1900, 40 percent of the nation's population lived in cities.



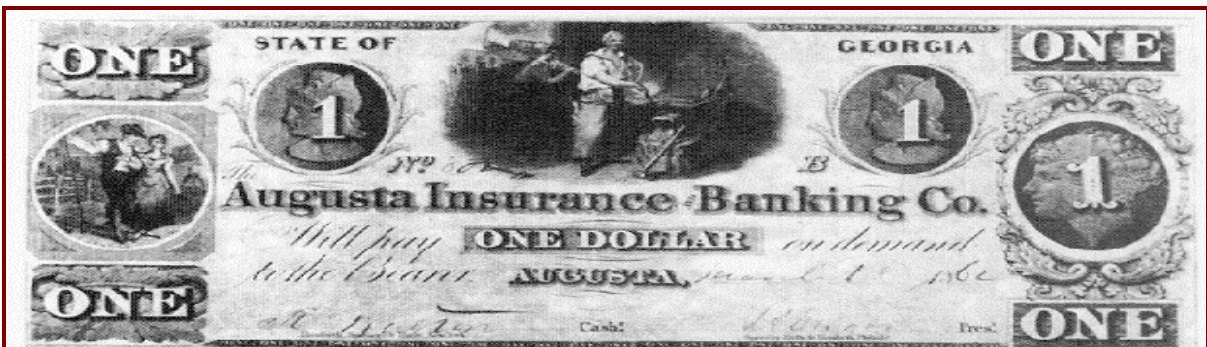


**\$5 SILVER CERTIFICATE, SERIES 1896.** Electricity, a natural force harnessed for everyday use, was emerging as a major energy form by the late 19th century.

**INDIVIDUALISM AND COOPERATION** Americans have blended these often conflicting ideals into a union responsible for much of the nation's strength.



**\$5 NOTE, ALLEGANY COUNTY BANK, CUMBERLAND MD, 1860.** Cooperative effort was the key to successful operation in many lines of work.



**\$1 NOTE, AUGUSTA GA, INSURANCE AND BANKING COMPANY, 1901.** In contrast to group work, the independent blacksmith stood as a symbol of sturdy individualism.



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