

Monetary History



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 - The government milled the edges of the coins to prevent clipping.

Commodity Money

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- Silver
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Many commodity moneys such as wampum and tobacco had real problems of substitutability. While an ounce of gold is identical to another ounce, the same cannot be said for wampum or tobacco.

Cigarettes

- World War II POW Camp
- Prisoners used cigarettes to pay other prisoners for services (washing clothes, repairing shoes, etc.)
- Bouts of Inflation and Deflation as Red Cross Parcels arrived and the money went up in smoke.

Paper Money

- Continental Currency used to finance Revolutionary War
- Between 1789 and 1865 over 30,000 different types of paper bills were issued by 1600 banks in 34 different states.

Paper Money

- In 1861, the US government issued greenbacks, the first national paper money to finance the War Between the States.
- The value of greenbacks (in terms of Gold) rose and fell with the fortunes of the Union Army during the War Between the States.

Paper Money

- The *National Banking Act of 1863* gave the federal government permanent authority to issue money.
- Many banks issued these notes themselves, and the consequence was continued uncertainty about the value of money.

The 1876 Specie Act

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- Paper money became commodity backed money.

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- In 1876, the Federal Government guaranteed the convertibility of greenbacks in gold.
- **The government would convert \$20.67 of paper money into an ounce of gold on demand or give \$20.67 in paper money for one ounce of gold.**

The Gold Standard

- From 1876 to 1933, we were on the gold standard. We converted dollars to gold and vice versa at \$20.67 an ounce.
- So too were most European nations. Hence, the exchange rate between dollars and European currencies was fixed.
- 1 £ = \$4.80

The Gold Standard

- In 1933 FDR ended the convertibility of dollars to gold at \$20.67 an ounce, resetting the rate at \$35 an ounce but only for government to government swaps.
- We effectively went off the gold standard.

The Gold Standard

- To be sure, we own a lot of gold, stored in Fort Knox and the basement of the Federal Reserve System in New York.
- Many people still think gold plays a role in our monetary system.
- The next slide provides a definitive list of all the roles gold plays in our monetary system.

End

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