

Greenbacks "First Legal Tender Act" February 25, 1862

The first year of the Civil War brought a great crisis to the Northern economy. Though around the country citizens used many and various paper currencies issued by banks and redeemable in specie (gold and silver), the federal government was required by law to pay its debts in specie only. The enormous costs of war borne by the government seriously depleted its reserves of gold, and the uncertainties of war were causing private citizens to hoard vast amounts of the precious metals. When the dwindling precious-metal reserves of banks in New York, Philadelphia, and Boston caused those institutions to suspend paying out specie to back their notes, the Union was on the verge of a calamitous financial disaster that threatened its ability to continue the war.

"Immediate action is of great importance. The treasury is nearly empty", Treasury Secretary Salmon P. Chase told Congress on February 3, 1862. The country clearly had to revamp its policies or face financial ruin. The solution was first proposed by New York Congressman Elbridge G. Spaulding, who suggested that the government issue its own paper currency. The paper currency would be considered fiat money that was not redeemable in gold or silver but would be legal tender for all public and private debts except import duties and interest due on government bonds, both of which would still be paid in specie. Because the Constitution empowered Congress only "to coin money", there was much debate about the legality of the proposal, as well as concern that a national paper currency would bring on rampant inflation. "The bill before us is a war measure", countered Spaulding. These were "extraordinary times, and extraordinary measures must be resorted to."

On February 25, 1862, Congress passed the first Legal Tender Act, which authorized the printing of \$150 million in Treasury notes. The bills were printed on only one side with green ink and soon became known as "greenbacks". They proved to be universally popular and remarkably sound.

Fascinating Fact: The value of greenbacks fluctuated with the Union's fortunes in the war. At times they were worth no more than 40 cents in gold, but were more often closer to par.