Volume III: Issue 4

The BEACON OF LIBERTY

A Structured Curriculum of Constitutional Study

Clause Discussed:
• Article I, Section 8, Clause 2

Concept Discussed:
• To borrow Money

To Borrow Money

Article I, Section 8, Clause 2 of the Constitution for the United States of America reads:

> ("The Congress shall have Power…) To borrow Money on the credit of the United States."

This power to borrow money is, understandably, a power of pressing importance. The independence of the United States from Great Britain owes its success to such an ability.

Every subsequent war has proven the practical necessity of such a power to the extent and duration of the war. Many a successful outcome of war has been determined, not necessarily by the military might of the opponents, their resolve or even the justness of their cause, but by adequate financial strength. Military might wanes if not properly supported financially.

Even in times of relative calm, the power to borrow money can be of great significance. The income of the government cannot always be easily tied to the disbursement of those funds. Borrowed money bridges the gap between current income and necessary outgo.

The borrowing of money also helps spread the real payment for needed capital improvements (post offices, post roads, Army forts, magazines, arsenals, dock-yards, capitol buildings, Naval ships, etc.) over a period of years and even decades, allowing larger projects than otherwise could be met from monthly, quarterly or yearly revenues.

The power to borrow money needs little direct explanation — it is self-evident and easily understood. The internal workings necessary to bring about this activity, however, are more involved.

The power of the government to borrow money is but in actuality merely an authorization to do so. This power, by itself, does not guarantee that even one dollar would actually ever be loaned. The determining factor regarding the ability of government to borrow money reflects its creditworthiness. The government merely requests others to loan it money — if it were a forced exaction — it would be a Tax, Duty, Impost or Excise.

That the power is listed in the Constitution — that the government is authorized *to borrow Money* — is but an indirect admission of the actual limitation of the power to lay Taxes, Duties, Imposts and Excises. There would be no purpose to incur debt and a responsibility for repayment if government had the unlimited power and ability to raise all the revenue it ever needed by the imposition of those fees.

The acknowledgement that government borrows money is a fissure in the dam of its oft-professed omnipotence.

The government here bows to Murphy and his Golden Rule: *whoever has the gold makes the rules.* The glitter of gold trumps the guns of government (at least until those guns are used — or at least until their use is threatened). The logical extension of Murphy's Rule is that the strings of government can be pulled (as any borrower could attest), at least indirectly and to some degree, by those who lend it great sums of money.

Obviously today, due to the size of government and its debt load, government determines much of the credit markets. This again does not necessarily place it in the driver's seat. The government must meet the market and satisfy lenders in order to obtain its necessary borrowed funds.

Distributed by: Foundation For Liberty.org
1500 Highway 2
Leavenworth, WA 98826

www.FoundationForLiberty.org
Copyright 2004, 2005 by Beacon of Liberty, LLC.
www.BeaconofLiberty.org

There must, of course, be written evidence of that debt when money is loaned. Article I, Section 8, Clause 6 of the Constitution ("The Congress shall have Power… To provide for the Punishment of counterfeiting the Securities and current Coin of the United States") touches on those written evidences of debt, labeled there as government *Securities*.

The *securities* of the United States are those written documents which bear witness to the money loaned to the United States; especially its amount, duration, interest rate, and repayment terms. The United States gives these financial securities to those persons or entities who loan them money. The actual security document given depends upon the parameters of the particular agreement.

Given the vast amounts of money borrowed by government, and its corresponding impact into the financial affairs of all Americans, a close inspection of this power is necessary.

It is difficult to begin study of Clause 2 with the constitutional government which began March 4, 1789, for the first legislative Act under the Constitution involving the borrowing of money necessarily dealt with existing debts from the Revolutionary War era. It is thus necessary to begin study earlier.

The primary purpose for establishment of the Constitution was to institute a financially-capable government; a government capable of servicing the outstanding war debt.[1] Readers of the Convention Debates should be well-familiar with the Delegate's complaints at the convention that the Confederate Congress was ill-powered to raise necessary sums for payment of government debts. Unfortunately, the earlier Continental Congress had even less ability than that to pay the mounting bills.

The colonies met together briefly (as the Stamp Act Congress) in New York in September and October of 1765 and issued their Declaration of Rights and Grievances. Almost a decade later, in 1774, the First Continental Congress convened in Philadelphia to discuss the colonies' growing disillusionment with the British King and Parliament.

1. Independence was fought for and won under the Continental and Confederate Congresses. These forms of government therefore proved adequate to the task of liberating the United States (protecting them from undue foreign influence and aggression). Peace was established and State governments were in the full exercise of their powers and becoming better-established. The primary obstacle yet remaining was financial instability of the Union (the individual State governments were, to varying degrees, proving their growing financial strength).

The credentials given by the colonial assemblies detailed the purposes for which the Delegates met. **New Hampshire**, for example, charged her delegates with the authority to:

> "consent and Agree to all Measures, which said Congress shall deem necessary to Obtain redress of American Grievances."[2]

Massachusetts Bay instructed her delegates to:

> "direct and order such farther measures, as shall to them appear to be best calculated for the recovery and establishment of American rights and Liberties, and for restoring harmony between Great-Britain and the Colonies."[3]

Connecticut directed her delegates:

> "to join, consult and advise with the Delegates of the other Colonies in British America, on proper Measures for advancing the best Good of the Colonies."[4]

The colonies met (without any formal structure initially) under such charges to work towards solutions to their common problems. As such, no official method existed for them to raise revenue collectively by taxation or by formal loans.

Even the colonies themselves (and, later, as States) were quite rudimentary, in that most of their important legislation had previously occurred overseas in Parliament (the General Assemblies enacted only minor legislation).

It would thus be years after their declaration before Congress could even recommend that the States raise taxes for purposes of Congress. This reality placed a greater need on “creative” action on Congress to raise the necessary funds to fight for liberty.

The power *to borrow Money* is perhaps easiest studied when viewed chronologically. As there are many nuances in the manner by which government may raise money (not all of them can be strictly called taxation or the borrowing of money), a study of how Congress raised funds will be looked at broadly before delving into the particular details of the separate authorities.

The Continental Congress had such a minuscule amount of formality initially that official loans were out of the question, as the colonies were simply not credit-worthy. The colonies were without formal means to raise revenue for common purposes as would later be supplied by Taxes, Duties, Imposts and Excises, nor did they have the ability to borrow money in an ordinary manner.

2. Volume 2, Journals of the Continental Congress, Page 13.

3. Ibid, Pg. 14.

4. Ibid, Pg. 15.

Congress found themselves in the position which many Citizens find themselves: when they truly had great financial need, no one would loan them any money.

Bills of Credit

Congress, however, had available to them a route which ordinary Citizens do not. On June 22, 1775, the Second Continental Congress raised their first sums of money through the emission of *Bills of Credit*.

The chart below lists the Resolution dates, authority citations and amounts of the Bills of Credit authorized to be emitted: [5]

Statement of Emissions of Continental Currency			
	Journals of the Continental Congress		Amount of Currency Authorized
Date	Volume #	Page #	
June 22, 1775	2	103	$2,000,000.00
July 25, 1775	2	207	$1,000,000.00
November 29, 1775	3	390	$3,000,000.00
February 17, 1776	4	157	$4,000,000.00
May 9, 1776	4	339	$5,000,000.00
July 22 & August 13, 1776	5	599, 651	$5,000,000.00
November 2 & December 28, 1776	6	918, 1047	$5,000,000.00
February 26, 1777	7	161	$5,000,000.00
May 20, 1777	7	373	$5,000,000.00
August 15, 1777	8	646	$1,000,000.00
November 7, 1777	9	873	$1,000,000.00
December 3, 1777	9	993	$1,000,000.00
January 8, 1778	10	28	$1,000,000.00
January 22, 1778	10	82	$2,000,000.00
February 16, 1778	10	174	$2,000,000.00
March 5, 1778	10	223	$2,000,000.00
April 4, 1778	10	309	$1,000,000.00
April 11, 1778	10	337	$5,000,000.00
April 18, 1778	10	365	$500,000.00
May 22, 1778	11	524	$5,000,000.00
June 20, 1778	11	627	$5,000,000.00
July 30,1778	11	731	$5,000,000.00
September 5, 1778	12	884	$5,000,000.00
September 26, 1778	12	962	$10,000,100.00
November 4, 1778	12	1100	$10,000,100.00
December 14, 1778	12	1218	$10,000,100.00
February 3, 1779	13	139	$5,000,160.00
February 19, 1779	13	209	$5,000,160.00
April 1, 1779	13	408	$5,000,160.00
May 5, 1779	14	548	$10,000,100.00
January 14 & May 7, 1779	13/14	64/ 557	$50,000,400.00
June 4, 1779	14	687	$10,000,100.00
July 17, 1779	14	848	$5,000,180.00
July 17, 1779	14	848	$10,000,100.00
September 17, 1779	15	1076	$5,000,180.00
September 17, 1779	15	1076	$10,000,080.00
October 14, 1779	15	1171	$5,000,180.00
November 17, 1779	15	1285	$5,000,040.00
November 17, 1779	15	1285	$5,050,500.00
November 29, 1779	15	1324	$10,000,140.00
			$241,552,780.00

5. Note: The Resolution of May 7, 1779 reduced to $50,000,395 the $50,000,400 amount originally authorized under the Resolution of Jan. 14, 1779 when the bills authorized to be emitted were changed.

On January 2, 1779, Congress, due to excessive counterfeiting of certain issues (by "our enemies at New York"), ordered the emissions of May 20, 1777 ($5 million) and of April 11, 1778 ($5 million) taken out of circulation and destroyed (13 Journals, 21 & 22).

Out of the $50,000,400 authorized to be emitted on January 14, 1779, $10 million replaced the said recalled emissions.

Total authorized emissions therefore amount to **$231,552,775**.

Bills of Credit are just what they sound — bills, or written documents, signifying the extension of credit to the issuer by whomever accepts the bills in trade for goods or services. These I.O.U.'s reflect an often-indeterminate future promise for redemption in items of real or inherent value.

As shown below by a bill of eight dollars issued under authority of the May 9, 1776 Resolution, the Bills of Credit promised to the Bearer, redemption to the amount of the denomination of the bill, for "*Spanish milled DOLLARS* or the Value thereof in *Gold* or *Silver*".



In theory, any person can give out such *promises to pay* to anyone who would accept such an offer.[6] Unlike governments, however, private individuals cannot often compel others to accept payment of such personal I.O.U.'s. The easiest way to compel acceptance is when reciprocal obligations occur. By the issuer accepting such securities for payments owed to itself (such as the I.O.U.'s being receivable for payment of government taxes), others are likely to accept them in payments themselves.

Bills of credit, despite their attractive attributes (simply print the amount needed), are seldom the security-of-choice except other than by bankrupt administrations and immoral regimes. The lack of any inherent limitation on the amount of emission invariably diminishes their circulation through the severe depreciation of their purchasing power.

6. In practice, such individual I.O.U.'s are only accepted in larger amounts and single instances in formal loans by banks or other entities (or individuals) in the business of loaning money.

Individual promissory notes are not routinely traded other than in a limited amount in the financial markets, where they serve as the fundamental security for the lender, generally coupled with some form of physical collateral.

Today, banks routinely monetize debt; they accept public or private debt (bonds, personal promissory notes, etc.) and transform them by bank loans into a type or variety of security that others will readily accept (i.e., Federal Reserve notes).

The excessive issuance of bills of credit by a penniless government can succeed for a period of time because the risk of owning these bills is spread over a great number of people. No small group of investors can tolerate the concentrated loss of their assets by formally loaning their wealth to an over-extended debtor. If that debtor can spread the depreciation of such bills over a whole community, county, or even country, the damage is less readily-apparent (but no less real).

Monetary debasement therefore acts as a hidden tax to confiscate small proportions of the assets of Citizens in the area where such bills circulate. A government insufficiently-established (without necessary government officers filling positions with regulated powers) can thus "tax" in an indirect manner simply with establishment of a printing press (Continental Currency, as well as Loan Office Certificates and Bills of Exchange, were contract-printed for Congress by the private printing firm of Hall and Sellers in Philadelphia).

At every moment, depending largely upon the productivity of the printing presses, small amounts are taken from the value of those bills. The intermediate holders (temporary owners) of those bills will suffer the depreciation dependent upon the time they hold onto them. This is not unlike the games of *Old Maid*™ or *musical chairs* where the object of the game is not to be left holding the wrong card or without a chair when the dealing or music stops. In that one does not desire to hold depreciating currency long, it is also like a *hot potato*, to be received and quickly dropped (spent) before it burns one's hands (before it is worth less [worthless] tomorrow).

Unlike normal loan documents, bills of credit are seldom interest-bearing instruments. These bills thus answered the call of paper money, issued on the (shaky) credit of the United States.

The bills were commonly referred to as *Continental Currency*, supported in 1775 by the faith of the "twelve confederated colonies" (Georgia then absent). In issuing these first bills of credit, Congress resolved:

> "That a sum not exceeding two millions of Spanish milled dollars be emitted by the Congress in bills of Credit, for the defence of America."[7]

Spanish milled dollars were the money of trade throughout the colonies and much of the world. "Milled" refers to the process of raising the visible edges of the coin to curtail the clipping or filing of the coin's edges to fraudulently obtain silver from the coin (for re-melting into bullion for later re-coining) and yet pass the clipped coin off as being of full weight.

7. Vol. 2, Journals of the Continental Congress, Page 103.

The Spanish and Mexican dollars (shown below), also called *Pillar* dollars after the twin pillars (columns) on the coin's obverse, were silver coins divisible into *eighths*; each eighth referred to formally as a "Real"; informally as a "piece" or "bit". Each bit was therefore equivalent by calculation to 12.5 cents; two bits (two Reales) was therefore $.25. This is the origin of the American quarter-dollar referred to as *two bits*. The American dollar was created by legislative statute in 1792, modeled after the Spanish dollar (a.k.a., "peso de ocho" ["piece of eight"]) in size, weight, and purity.





Though the most familiar monetary unit in the colonies was the Spanish or Mexican dollar, the "money of account" in each of the colonies were variations of the English *pound Sterling* (£); divisible into 20 *shillings* and these into 12 *pence*. The primary drawback of the colonial pound monetary system, as will be later seen, was that there were five different values for these coins depending upon the colony. Trade between any two colonies which had coins of the same name with differing weights of silver (and therefore trade value) was difficult, with exchange rates necessary. As later study will show, differing money with the same name easily leads to confusion.

Thus was the obvious advantage to using the dollar, for its uniform value was understood throughout the colonies (and the world); there was no need for conversion, calculation, or exchange rates when trade was bargained and settled in dollars (everywhere the dollar had the same meaning).

Emitting Continental Currency was the primary method used by the Continental Congress to raise necessary sums of money for their first five years of existence.

One must realize that should the colonies' attempt at independence had failed, so would have this currency (the currency of the Southern Confederate States of America suffered such fate after the Civil War).

So devastating anyway was the ultimate depreciation of the Continental Currency from over-emission that many Americans yet today have heard the phrase "Not worth a Continental", used when someone is speaking derogatorily of any worthless item.

The extensive *monetary debasement*, also known as *hyper-inflation* for its corresponding high prices of goods (because the money is worth so little, more of it is needed to buy real goods; hence the high relative price of goods *in that money*), occurs precisely because the supply of money (monetary claims) rapidly rises in quantity in contrast to a more stable supply of real goods.

Conversely, prices rise also when the quantity of money is stable, but real goods are rapidly being consumed or destroyed. War unfortunately often causes prices to rise on both ends because of such causes (increase of paper money issuance, minimal productive output of consumer goods, and destruction of property).

Throughout history, many short-sighted individuals have urged and pleaded with government to print more money; that the problems of society could be eased by having more money. In every instance for thousands of years, over-emission has resulted in economic destabilization and even devastation, depending upon the degree of over-supply. It is not more money (more claims to wealth) which is really desired, but more actual wealth (more houses, cars, washing machines, etc.). Increasing the claims to wealth without a corresponding increase of wealth only devalues those claims.

War generals have known this truth for centuries. A common tactic in war is to print the currency of one's enemy and disburse it within their boundaries so economic devastation aids military destruction. Both Britain during the Revolutionary War and the North during the Civil War carried out such tactics on the colonies and on the South.

Because the Hawaiian Islands stood geographically exposed to the Japanese threat of such practices before and during WWII, American currency of that era was there stamped "Hawaii". The use of such *Hawaii notes* served as a precaution which limited the exposure should such an attempt occur there (it helped keep counterfeits from the mainland).

That printing excessive notes has proven itself as a successful tactic of war for centuries should remove any doubt that such practices should be prevented at almost any cost. The economic destruction caused by the over-emission of notes does not depend upon who happens to be the printer; it is an equal-opportunity destroyer.

Continental Currency was America's most notorious and widespread example of (hyper-)inflation, but it was not the first. The Massachusetts Bay Colony issued the first paper money (later referred to as "Old Tenor" notes) in Colonial America in 1690. Though these notes were first accepted at full par (stated) value (legislation even gave them a small premium for a time) debasement proved progressive.

In the 1730's, Massachusetts issued new money, referred to as "Middle Tenor" or Three-Fold Tenor" notes (reflecting a three-fold reduction of the value of the old notes compared with the new).

In the 1740's, Massachusetts again issued new money, called "New Tenor" or "Four-Fold Tenor" notes.

While three of the *Old Tenor* notes were worth one *Middle Tenor* note, it took four of the *Old Tenor* notes to equal the value of one *New Tenor* note.

Monetary reform did not succeed in Massachusetts until the two prerequisites for monetary stability occurred — the recall and redemption of (excessive) notes and a drastic increase in the availability of coined money.

In the late 1740's, the British government brought over several tons of Spanish silver coins and British copper pennies to help pay for colonial assistance during the prelude to, and early skirmishes of, the French and Indian Wars. Redemption of all outstanding notes could then proceed.

Even after the successful re-establishment of stable money, Massachusetts thought she was safe in emitting new (small currency) notes. As any alcoholic quickly learns after a failure of self-restraint, one drink leads to another. With inflation quickly reappearing, British Parliament later stopped all further emissions, curtailing the ability of the colonial legislature to emit such currency.

Other colonies had similar experiences with their emissions of colonial currency. Depreciation and monetary devaluation occurred in every instance where such legislation occurred (colonial, State, and Continental). The lesson learned through the school of hard knocks was not lost on the Constitutional Convention delegates who later drafted the Constitution.

That the dollar amount totals listed in the chart preceding (pg. 3) do not always add up to round figures is due to the *number* of bills authorized and their *denominations,* which are odd by today's standards. For example, on August 13, 1776, the following bills and denominations were authorized:

August 13, 1776 Continental Currency		
Number of Bills	Denomination	Amount
76,923	$30	$2,307,690
76,923	$8	$615,384
76,923	$7	$538,461
76,923	$6	$461,538
76,924	$5	$384,620
76,923	$4	$307,692
76,923	$3	$230,769
76,923	$2	$153,846
615,385		$5,000,000

On September 26, 1778, Congress authorized the following number and denominations of bills:

September 26, 1778 Continental Currency		
Number of Bills	Denomination	Amount
45,455	$60	$2,727,300
45,455	$50	$2,272,750
45,455	$40	$1,818,200
45,455	$30	$1,363,650
45,455	$20	$909,100
45,455	$8	$363,640
45,455	$7	$318,185
45,455	$5	$227,275
363,640		$10,000,100

Early on, it was well-known that the issuance of more bills of credit was only a stop-gap. With few tricks up their sleeves, futile legislative attempts were made to support the currency. Congress went so far as to recommend to the State legislatures that they enact legislation to "prevent such pernicious practices" as the discounting of the bills from their face value.

With such a purpose in mind, Congress passed a **January 11, 1776 Resolution**:

> "That if any person shall hereafter be so lost to all virtue and regard for his country, as to 'refuse to receive said bills in payment,' or obstruct or discourage the currency or circulation thereof, and shall be duly convicted…such person shall be deemed, published, and treated as an enemy of his country, and be precluded from all trade or intercourse with the inhabitants of the colonies."[8]

Calling persons who sought to maintain their wealth unpleasant names did not stop the discounting of the Continental bills of credit.

Though Americans realize that prices for property then were but a fraction of those today, this is only when figured in gold or silver coin (or stable paper). With Continental Currency depreciating at at well over 100-to-1 rates, a house worth $200 in specie was worth $20,000 (even to values familiar today) in currency.

On January 14, 1777, the delegates of Congress acted in a manner of boldness where one would think they would cower in shame. They proposed new legislation to support the continental money.

Since the deriding of those persons who sought to maintain their wealth as "enemies of American liberty" did not have an effect, Congress recommended that State legislation be enacted to confiscate the assets which were bought and sold with bills discounted from face value.

It could have been correctly pointed out to the Congress that the real "enemies of American liberty" at that time were the British government and her soldiers (and Hessian mercenaries). It was for purposes of fighting the war that the bills of credit were emitted in the first place. Rather than acknowledging the true situation and ask for the indulgence of the Citizens, Congress sought unbecomingly to offend the very source of their real strength.

Congress passed a **January 14, 1777 Resolution**:

> "That all bills of credit, emitted by the authority of Congress, ought to pass current in all payments, trade, and dealings, in these States, and be deemed in value equal to the same nominal sum in Spanish milled dollars; and that whosoever shall offer, ask, or receive more in the said bills for any gold or silver coins, bullion, or any other species of money whatsoever, than the nominal sum or amount thereof in Spanish milled dollars, or more, in the said bills, for any lands, houses, goods, or commodities whatsoever, than the same could be purchased at of the same person or persons in gold, or silver, or any other species of money whatsoever; or shall…refuse to sell the same for the said continental bills; every such person ought to be deemed an enemy to the liberties of these united States, and to forfeit the value of the money so exchanged, or house, land, or commodity so sold or offered to sale."[9]

Later that day, Congress yet had the nerve to authorize the further issuance of two more millions of dollars of Loan Office Certificates (discussed below).

That Congress had no authority to dictate the true value of the currency was acknowledged in the Resolution — that "all bills of credit…*ought* to pass current in all payments".

It is true that the bills of credit were emitted under the authority of Congress. However, once emitted, Congress had no ability to control their value other than indirectly, by controlling future emissions (since they had no gold or silver). Simply declaring *paper* equal in value to *silver* or *gold* could not make that falsehood a reality.

Simply declaring *paper* equal in value to *silver* or *gold* could not make that falsehood a reality.

Even severe threats of confiscation could not stop the discounting of the bills from their face value. If a seller voluntarily accepted the bills at face value, the effect of this decision would be that the property being offered was essentially given away.

8. Volume 4, Journals of the Continental Congress, pg. 49.

9. 7, Journals of the Continental Congress, 33 @ 35-36.

If the seller traded at face value, 97.5% (at 40-to-1 exchange rates) of every item sold would be effectively confiscated (the percentage would ultimately climb to over 99% [100+-to-1 rates])!

By ignoring the resolution, sellers kept more of their wealth intact. Only if caught and then successfully prosecuted could they theoretically be punished by law, but the penalty there was less severe than volunteering to trade at face value. Such realities of severe devaluation made these harsh laws without effect. If a trader was caught and punished nine-times-out-of-ten, he could still be better off than if he volunteered ten-times-out-of-ten.

Lotteries

The issuance of Continental Currency met, brusquely, a financial need — value was thus indirectly taken from the community-at-large. Payment was incrementally extracted from each hand through which the currency passed.

Alternative methods to raise government funds were sought — voluntary methods were closely inspected. *Lotteries* had proven themselves relatively successful when instituted by the colonies, with Massachusetts again first paving the way (in the 1740's). Rhode Island proved most adept at such practices, with scores of such lotteries up to this period. Congress thus authorized a "scheme of the lottery" on November 18, 1776.[10]

The Continental Lottery improved upon the colonial scheme in theory, being that it was for larger prizes, national in scope, and progressive in nature. The lottery could be played in four consecutive plays, with the early winners letting their winnings ride and with 20% of the sales carried forward to the next drawing for growing prizes.

100,000 tickets were available to be sold, each ticket being divided into fourths (into four *billets*). In the first drawing, each billet ticket cost $10; prizes were as follows:

First Lottery

First Class, at $10 each billet

Number of Winners	Prize	Prize Totals
1	$10,000	$10,000
2	$5,000	$10,000
30	$1,000	$30,000
400	$500	$200,000
20,000	$20	$400,000
Carried to the Second Class		$200,000
Government's cut		$150,000
100,000 tickets at $10 each		**$1,000,000**

The "fortunate adventurers" winning prizes of $20 could take their winnings in cash or accept $20 tickets for the next drawing with larger prizes.

20% of the prizes from the first drawing were carried through to the next to make the stakes there higher (due to this carry forward, and also due to the tickets for the second round being twice as expensive as the first).

Winners of larger amounts of money took their prizes in the form of Loan Office Certificates payable initially at four percent interest annually, with the principal due in five years.

The government also took a 15% cut in the proceeds from each drawing.

The “unfortunate adventurers” who had no winnings were pre-authorized to buy the next billet of their ticket numbers. After a set amount of time, unsold tickets were then made available to all-takers.

Tickets for the third round were $30 and the fourth-round tickets were $40 (with the largest single-winner in the last round capable of winning $50,000).

Had all the tickets been sold in all four lotteries, $10 million would have been raised. $1.5 million would have been retained by the Congress for their cut. $8.5 million of the $10 million was to be paid out in prizes for the four lotteries. Only $3.1 million of this amount, however, was in *cash* — $5.4 million of this was *deferred* (other than yearly interest payments) for *five* years (allowing Congress use of this money for that amount of time).

$1.5 million in cash and $5.4 million in five-year loan office certificates would have been a successful fund-raising scheme by any standards (even today).

Unfortunately for Congress, Citizens then proved more frugal or philosophically-opposed such forms of gambling than anticipated. Perhaps the main reason for the lack-luster sales, though, was the people’s distrust of the ultimate value of their winnings. Low sales greatly diminished the success of the lottery.

The first drawing was in 1778; the fourth in 1782. Between this period occurred the greatest monetary devaluation of the currency. Though cheaper deferred dollars were ultimately paid to the first winners (aiding Congress), the depreciated dollars received into the Treasury on the later lotteries produced negligible income for Congress (as exchange rates plummeted).

10. Vol. 6, Journals of the Continental Congress, pg. 957 @ 959 - 961.

Loan Office Certificates

The first borrowing of money in a more formal or normal nature consisted of *Loan Office Certificates*. These certificates were first issued on October 3, 1776 when Congress authorized the issuance of $5 million. These certificates differed from Continental Currency in two important ways. First of all, these certificates bore *interest*, initially at the rate of four percent per annum. Secondly, they were issued in *denominations* of $300 and greater.[11] Such notes were indented along one edge to help aid detection of counterfeiting.[12]

11. For comparison purposes, recall from *Beacon* II:12 that when houses were assessed with a direct tax in 1798, that valuations between $100 and $1,000 were common, with the top rate given at $30,000 (houses existed under $100 in value, though they were exempted from the tax).

Loan Office Certificates were issued over the years in various denominations from $200 per certificate to denominations of $1,000 and even $10,000. So, even the lowest denomination was twice the standard rate for the cheapest assessed houses, and the highest denomination was the rate one-third of the amount assessed of the most expensive houses. One might extrapolate from such relationships to houses that equivalent denominations of such certificates today would be $100,000 to $5 million.

Even if one used other barometers for monetary equivalence (arguing that houses reflect technical and structural improvements, for example), by almost any standard one would have to value the certificates at some multiple of face value (perhaps nominal gold equivalence of 20 times — ($4,000 to $800,000).

Even today, when Federal Reserve notes only of $1 to $100 are found in circulation, one would have to conclude that notes of $200 to $10,000 would not circulate well *even now* (even at face-value).

Obviously, then, these initial denominations of Loan Office Certificates of $300 and greater did not circulate freely as money (but were investment vehicles).

12. *Indenting* a certificate refers to a process of cutting one edge of the certificate in a unique fashion into two mating pieces. The smaller portion, or *stub*, often also containing *registration* numbers as also found on the certificate (the sequential numbering of [registered] documents so officers can relate a given stub number to a given document number and distinguish them from the next), is kept by government officers while the *certificate* is given to the owner.

When the certificate is later redeemed for repayment, the registration numbers can be matched and the proper owners (or their assigns) verified. If the numbers matched but the indented or cut edges of the stub and certificate did not mate up properly, then the certificate was almost certainly a counterfeit (owners knew of this purpose and would thus protect such indented edges from damage). Indenting was a age-old and simple method to help verify authenticity.

Statement of Loan Office Certificates

	Journals of the Continental Congress		Amount of Certificates Authorized
Date	Volume #	Page #	
October 3, 1776	5	845	$5,000,000
January 14, 1777	7	36	$2,000,000
February 22, 1777	7	143	$13,000,000
January 17, 1778	10	59	$10,000,000
February 3, 1779	13	141	$20,000,000
June 11, 1779	14	717	$20,000,000
September 5, 1780	17	804	$1,000,000
Total			**$71,000,000**

Loan Offices were directed to be established in each State by the October 3rd Resolution for the convenience of the lenders and to keep track of the money lent and the certificates issued.

A close relative of the Loan Office Certificates were certificates issued by the Commissioner of Army Accounts (for war materiel and supplies).

Interest-bearing certificates were of more-moderate issuance as compared with Continental Currency.

Both factors, being of an interest-bearing nature and moderate issuance, meant that the certificates were better-received than the currency, and suffered less depreciation. The certificates unfortunately still depreciated 40-to-1 (40 dollars in certificates equating-to-one dollar in gold or silver coin).

The Confederate Congress, on June 28, 1780, authorized a progressive rate of depreciation for valuing loan office certificates.[13]

Using September 1, 1777 as the day which a certificate was determined to be yet at face (par) value, each subsequent day it was to lose a progressive amount of value, so that by March 1, 1778, one and three-quarter dollars in certificates were equal to $1 in specie (1.75:1 ratio); On September 1, 1778, the proportion was 4:1; on March 1, 1779, 10:1; on September 1, 1779, 18:1, and on March 18, 1780, the ratio was 40:1.

By March 18, 1780, *one hundred dollars* in certificates were worth *two and one-half dollars* in specie.[14]

13. 17, Journals of the Continental Congress, pg. 566 @ 567-568.

14. Then written $2 45/90 ths. Prior to acceptance of a decimal-based system, montary accounts in dollars were divided into *ninetieth* parts of a dollar; and each1/90th part was in turn divided into *eighths.*

Distributed by: Foundation For Liberty.org
1500 Highway 2
Leavenworth, WA 98826

www.FoundationForLiberty.org
Copyright 2004, 2005 by Beacon of Liberty, LLC.
www.BeaconofLiberty.org

