A Postscript to the Postal Note: Fractional Currency Schemes After the 1890s

By Loren Gatch

IN HIS CLASSIC STUDY OF AMERICA'S SMALL CHANGE, Neil Carothers chronicled how surprisingly difficult it was for 19th century American authorities to establish a circulating medium—coin or paper—that served the modest, yet pervasive, needs of everyday commerce. The inconveniences and disruptions occasioned by the Civil War-era Fractional Currency, vividly illustrated in the January 2006 pages of *Paper Money*, represent the high (or low!) point of this turbulent history.

Yet the story of Fractional Currency does not end with its official retirement in 1876. The continued need for some cheap and convenient method for sending money by mail was only partly met by the short-lived Postal Note (1883-1894). After the 1880s proposals regularly surfaced in Congress for new emissions of Fractional Currency, either through the Treasury Department or the Post Office. Of particular note was Charles W. Post's ingenious "post-check" system, which commanded the attention of Fractional Currency advocates between 1900 and 1905.

Collectors recognize six types of Postal Notes:

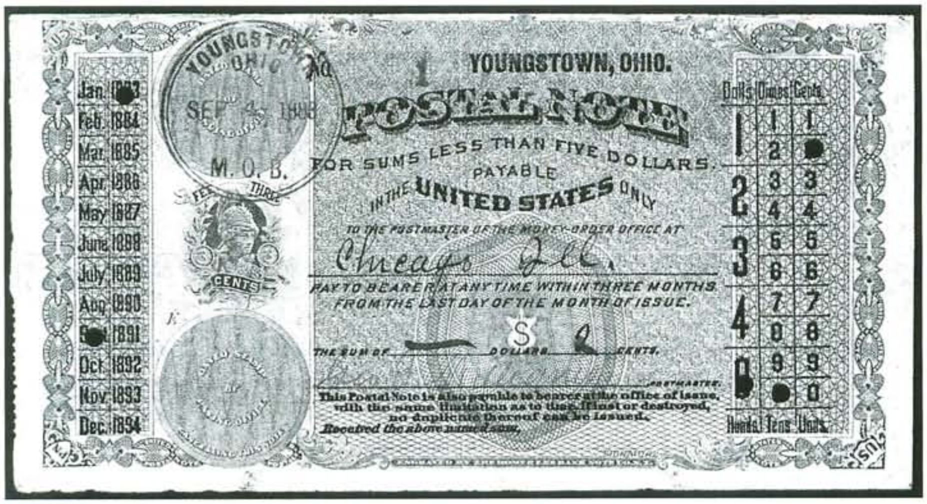
- **Type I:** Engraved and printed by the Homer Lee Bank Note Company; printed on yellow paper.
- **Type II:** Engraved and printed by the Homer Lee Bank Note Company; printed on creamy white paper; the paying city is hand-written.
- **Type II-A:** Engraved and printed by the Homer Lee Bank Note Company; rubber-stamped or hand-written "ANY MONEY ORDER OFFICE" appears on the paying office line.
- **Type III:** Engraved and printed by the Homer Lee Bank Note Company; "ANY MONEY ORDER OFFICE" engraved in straight line.
- **Type IV:** Engraved and printed by the American Bank Note Company.
- **Type V:** Printed by Dunlap & Clarke of Philadelphia.

The Rise and Fall of the Postal Note

Fractional Currency may have been a nuisance to the public and a burden for the Treasury, but for one purpose it proved superior: the sending of remittances through the mail. Indeed, banks saw fit to hold balances of such notes for that reason as a convenience for their customers. For unbanked populations, particularly in rural areas, money orders represented the only safe way to send funds. Yet these were expensive, time-consuming to purchase, and only available at designated post offices.

Thus, to make small payments people resorted to sending stamps (these were not, in any event, redeemable at the post office and had to be used as postage, or sold by the receiver at a discount) and even coins, which led to the common problems of wet and spoiled stamps and even loose change escaping envelopes.

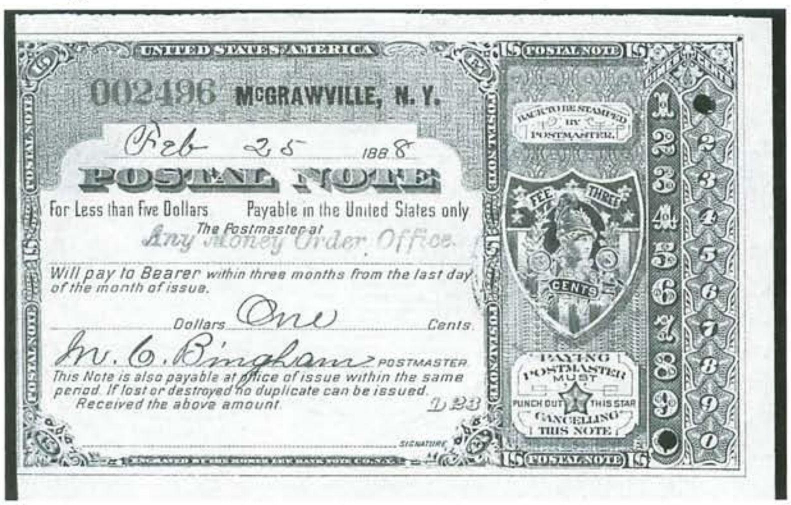
The Post Office itself recognized the need for a better way, and in 1883 Congress obliged by creating the Postal Note. Patterned after the British example, the Postal Note offered its purchasers -- for a three-cent fee the plus face value -- a note in denominations ranging from one cent to $4.99. Payable to bearer but only at the post office specified by the remitter, the specific denomination of each note was created by punching the appropriate hole in each of three columns designating the dollar amount, the ten cent increment, and a final column for cents from one to nine.



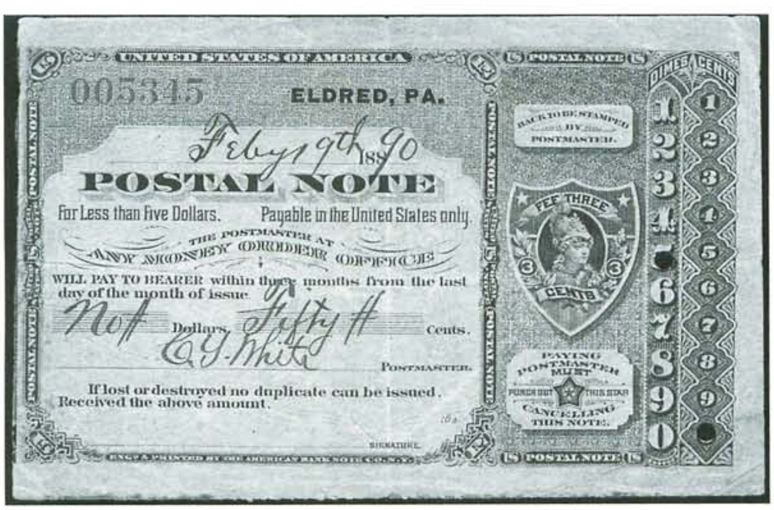
Type I Postal Note payable at a specific post office.

In 1886, the House Committee on Post-Office and Post-Roads reported approvingly on amending legislation to make these notes payable at any money-order issuing post office, and to widen the issuers of notes to include small-town post offices that did not then offer money-order services.

These same amendments were duly passed the following year, enhancing the negotiability of Postal Notes, but also creating the problems that led to their demise. Payable to bearer and cashable at many post offices, the Postal Note gave for its three-cent fee no more security than an ordinary banknote.



Type II-A Postal Note payable at "any money order office," rubber stamped.



Type IV Postal Note payable at "any money order office," printed.

By 1891 Post-office inspectors foresaw the abandonment of the Postal Note, and its replacement by a cheaper version of the money order. Recognizing the need for something better than the Postal Note, the nation's postmasters at their 1892 convention called for a series of standard fractional denomination notes, to be sold at face value, valid for only 60 days and cancelled upon payment in U.S. funds.

Inexpensive, convenient, and free of paperwork, the Postal Note's currency-like attributes also brought with it some corresponding disadvantages. As a bearer note, if offered no security if stolen. If lost, no duplicate could be obtained, and if sent without any advice, wayward notes could not be easily matched to the transactions they funded. As the Postmaster-General reported to Congress in 1893, "this insecurity of the Postal Note gives rise to dissatisfaction and complaint on the part of the public, and seriously diminishes its usefulness as a means of transmitting small sums by mail."

Prodded by the Dockery Commission's report on executive departments, Congress abolished the Postal Note in January 1894, replacing its services with a cheaper, three-cent money order for amounts up to $2.50. As the *New York Times* wrote of the old notes that July, "[t]hey were, in short, a sort of Fractional Currency. The Postal Notes were a source of trouble to the Post Office officials. They were like so many 'shin plasters' lying around the office, and frequently they disappeared. Clerks stole them out of the backs of their books. It was necessary for the officials always to keep a close eye on the Postal Notes."

Despite its brief life, the Postal Note continued to inspire schemes for a Fractional Currency, both as a means of remittances and as an inflationary expansion of the money supply.

Populist Proposals for Fractional Currency

As monetary reformers, the Farmers' Alliances of the 1880s and the Peoples' (Populist) Party of the 1890s are remembered for their advocacy of currency expansion against agricultural staples and the free coinage of silver. Less well known was their support for Fractional Currency, which the Alliance movement placed in its St. Louis platform in 1889. Between 1885 and 1895, rural lawmakers offered 20 bills that sought either some kind of Postal Currency or new emissions of Fractional Currency.

Most of these never received a hearing, though in the 50th Congress the House Committee on Banking and Currency did report a bill favorably, on the grounds that the current Postal Note system did not meet the needs of rural remitters. Favorable petitions to that committee from rural organizations were balanced by a hostile minority report that rued the expense to the Treasury of issuing Fractional Currency. In addition, it was contended, millions of dollars would be lost to the public as Fractional Currency wore out, fell apart, or went missing.

In floor debate, Rep. Samuel Cox (Democrat, NY) inveighed against the re-emergence of "the old, rotten, small-pox fractional paper currency." Nonetheless, the bill passed the House, though it received no consideration from the Senate. Four years later, in 1892, Rep.William A. McKeighan (Populist, NE) proposed a bill to abolish the Postal Note, and replace it with a Fractional Currency denominated in 5, 10, 25, 50, and 75-cent units. Unlike the old Civil War era notes, these would not be legal tender, but redeemable in "lawful money."

Debate on this bill brought out fears of the notes' security. As Rep. Henry Bingham (Republican, NY) warned, "carry out the idea and you will flood the country with a Fractional Currency, and by putting it into your mails you will make the postal employes of the Government dishonest or tempt them to be so." Senator James H. Kyle (Populist, ND) offered an identical plan, except that the notes would be legal tender up to one dollar. As with the other

Fractional Currency bills over the previous decade, this one too never came to a vote in the Senate.

C. W. Post's "Post Check" Plan

If Populist monetary nostrums could not produce a workable Fractional Currency, the demand remained for some sort of remittance device for small amounts that would be cheaper and more convenient than the money order. At the turn of the 20th century, the personal check was not yet the ubiquitous instrument it would later become; moreover, check clearings frequently occurred at less than par, meaning that banks would charge depositors for the service of collecting on out-of-town checks. Yet, with the advent of rural free delivery and the new fashion for mail order purchases, the lack of a convenient yet secure means of effecting small payments grew as a problem.

As one newspaper reported,

> "in the great majority of cases, remittances are postponed or abandoned altogether in the case of those who desire to make purchases by mail or send subscriptions to publishers; and when remittance cannot be avoided, recourse is had to private checks on inland banks, subjecting the receiver to an expense of perhaps ten to fifteen cents for their collection; or to silver pieces placed in holes cut out of cardboard; postage stamps, which are usually stuck fast to the letter, and charms the recipient who has to soak them off an sell them at a reduction."

In 1898, Charles W. Post, the cereal magnate of Battle Creek, Michigan, began a campaign to reintroduce Fractional Currency to the nation's commerce. Better known as the producer of the Postum beverage, Post devoted years to promoting his scheme for a fractional note that could function either as currency or as a check. Patented by Post, he generously offered up his rights to the plan if the government would only put it into effect.

C.W. Post's Post-Check Note

Issued in denominations from five cents to five dollars, Post's proposed notes featured blank lines where a payer might fill in the name and address of a payee. As long as these lines remained blank, the note circulated as currency. But once filled in, signed by the payer and affixed with a two-cent stamp purchased from the post office, the currency note would be converted into a check suitable as a remittance—and immune to theft—through the mails. The payee could then cash his check either at his post office or deposit it at his bank. In either case, the cancelled post check would return to the U.S. Treasury for its replacement (as if it were mutilated currency) by a fresh, blank note. Unlike the hassle of money orders and even Postal Notes, with the "post-note", according to its inventor, "[e]ach individual is his own clerk, and is required to do no waiting, nor subject himself to any inconvenience in procuring a safe form of transmissible money."

An enthusiastic reformer, Post saw nothing but advantage from his plan: small remittances would be encouraged to the public's safety and convenience; the expense of government accounting that plagued money orders would vanish; and with revenue generated by the sale of stamps the "post-check" notes would pay for themselves. The post-check idea rapidly found favor with farm groups, who promoted a cheap remittance system along with other postal reforms like rural free delivery and parcel post. Newspaper publishers liked it as a more reliable way to pay for subscriptions, as did any business dependent upon mail order traffic. Stoked by C.W. Post's publicity efforts, small-town editorialists around the country echoed the inventor's call for the new circulating medium.

In 1900, bills introduced by Sen. James McMillan (Republican, MI) and Rep. John J. Lentz (Democrat, OH) proposed to replace the existing circulation of $1, $2 and $5 notes with such post-check notes, and to replace $50 million in $10 notes with fractional post-check notes from five to fifty cents. Notes above $1 would require a two-cent stamp; fractional notes would require a one-cent stamp. Buoyed by the favorable attention given his plan, Post reprinted the text of their bill, along with endorsements from business interests and sample depictions of his currency, in a pamphlet for national distribution.

Post's ideas gained another ally in 1902, when Sen. McMillan joined with Rep. Washington Gardner (Republican, MI) to introduce a bill providing for a Postal Currency in $1, $2, and $5 denominations convertible into checks with the affixing of a two-cent stamp, with an additional $75 million issue of Fractional Currency. A 1903 Report of the House Committee on the Post-Office and Post-Roads examined the McMillan-Gardner plan in some detail.

C.W. Post

In addition to the Fractional Currency aspect, these versions of Post's plan raised the stakes by proposing to replace a significant portion of the nation's circulating currency (essentially, its small-denomination Silver Certificates and Treasury Notes of 1890, the so-called Coin Notes) with new notes enjoying a conversion privilege into checks.

A joint report on the proposal issued by a committee of Post Office and Treasury officials in 1902 split on predictable lines. Post Office officials favored the post-check as a convenience to small remitters, whereas Treasury feared that the conversion of notes to checks would cause an uncontrollable contraction of the currency. Within the Post Office, the Superintendent of the Money Order System, whose business undoubtedly would have been diminished by the post-check, joined Treasury officials in opposition to the measure.

If sheer popularity foretold the success of an idea, then C.W. Post's post-check ought to have become law. Postmasters-General regularly announced their support for some sort of Postal Currency to replace the old Postal Note. Prompted by the rural press, farmers wrote their congressmen in support of the McMillan-Lentz and McMillan-Gardner bills.

For their part, business interests and other groups dependent upon small remittances—publishers, mail-order houses, and fraternal organizations—praised postal currency as an improvement over the sticky wads of stamps, loose coins, and vulnerable bills they frequently received.

Indeed, Post Office Auditor Henry A. Castle, who signed a minority opinion in the joint report of 1902 favoring the post-check, stressed his concern over the theft of, and black market for, postage stamps, and saw no reason why a post-check system could not be expanded to $10 and $20 denominations.

Grateful for such support, C.W. Post later hired Castle away from the government to work on his post-check campaign. In addition, as noted in the 1903 House Report, "through the continual reissue of bills the small currency of the country would be kept uniformly bright and clean." This was no mere aesthetic concern. The growing awareness of germs in early 20th century America prompted concern over the unhealthful qualities of money. As one endorsement of the post check asked,

> "what can be more unhygienic than old, worn, greasy paper money, passing from hand to hand among all classes and conditions of men? Time and again they have been examined and found literally to swarm with bacteria. . . .Businessmen universally endorse [the post-check]. It now remains only for

the medical profession and all who desire clean, healthful money to see its many good, time-saving, money-saving and health and life-saving qualities..."

A second set of hearings in 1906 for yet a third version of this plan, sponsored by Gardner and Michigan's other senator, Julius Burrows, brought Post Checks back before Congress. Although shorn of its Fractional Currency feature, this version also encountered bureaucratic objections. Loath to get involved again with Fractional Currency, the Treasury Department also balked at surrendering its control over the volume of currency for the mere convenience of remitters. Moreover, it was contended, all the burden of reissue would be borne by the Treasury, while stamp revenue would accrue to the Post Office.

The press had little patience for such arguments. As for any burdens on the Treasury, the *Ohio Farmer* sneered, "the clerks and employees now swing their heavy pens and hammer their typewriters eight long hours every day, and it would be outrageous to increase their burden, merely to add to the convenience of all the people in sending money by mail." Indeed, the paper objected to any retreat from the Fractional Currency feature of Post's original plan.

C.W. Post and daughter Marjorie

Nonetheless, the bureaucratic obstacles to such cooperation would have been formidable. The Treasury Department resisted in particular the reissue of Fractional Currency. Ellis H. Roberts, Treasurer of the United States and chair of the 1902 joint committee that reported against the post-check, dismissed any "restoration of this mosquito money, with the addition of the offensive device of rendering it payable to order, for remittance by mail."

Editorialists hinted at opposition to the post-check from the Post Office's own Money Order Bureau, which would face the loss of much of its business. C.W. Post, who could not understand why a good and popular idea would not become law, also encountered resistance from private interests. Local retailers did not relish the added competition from convenient mail orders. Express companies, competitors of the Post Office which ran their own remittance businesses, were natural enemies, while some bankers objected to the government expanding its checking business at the expense of their own exchange operations.

More nefarious, Post found out, were the activities of Thomas C. Platt, the aging but redoubtable Senator from New York, who also happened to be president of the United States Express Company. Convinced that Platt had stymied his ideas in the Senate, Post sought to have Platt removed from office. While unsuccessful, Post later received some vindication when a scandal broke that Platt had actually paid contacts within the Post Office for information on the 1902 joint Treasury-Post Office report.

While Post's "post-check" idea never became a reality, the promise of some sort of post currency remained alive. In 1906 Postmaster General Cortelyou pressed his own proposal for a Fractional Postal Currency in denominations ranging from 10 to 90 cents, and then in 50-cent increments up to $2.50. Notes would not be negotiable, and would become invalid three months after issue. While customers would pay from one to two cents for these denominations, a second set of notes ranging from one to nine cents, used to make odd sums, would be sold at face value. In this way exact amounts could be remitted without the inconveniences of coins or stamps.

After Cortelyou became Secretary of the Treasury, his successor Meyer continued to promote the idea, now in the larger context of establishing a postal savings bank. While the latter came to fruition by 1910, the Postal Savings System functioned as a bank of deposit and not of issue, despite proposals that its savings certificates serve as a medium of exchange, similar to clearing house certificates, during financial emergencies.

Why, despite years of popular pressure, did Fractional Currency never return to American purses and wallets? Resistance from the Treasury to repeat the experiences of Civil War "shinplasters" must be part of the explanation. Association of Fractional Currency with the monetary radicalism of the Populists may have tarnished its reputation.

Finally, the establishment of the Federal Reserve System in 1913 may have indirectly contributed to the dwindling of interest in Fractional Currency to the extent that the new central bank imposed par collection practices on the nation's banks. Once payees no longer faced the nuisance of collection charges against out of town checks, the increased use of checks for small transactions may have blunted popular demand for fractional paper notes.

Carothers notes a brief interest in fractional paper as a result of coin shortages during World War I; the imposition of state-level sales taxes during the 1930s produced yet another call for federal fractional notes. Ultimately, though, the relentless grind of monetary inflation over the decades has worn down the value of our mighty dollar; reducing it, in effect, to its own *de facto* shinplaster. ❖