Historical account of the pre-1934 Gold Certificates

The gold certificate was a form of United States paper money which in effect read like a warehouse receipt certifying that full value in gold coin had been deposited in the U.S. Treasury for each dollar represented by the certificate. But under one of the GOLD CLAUSE CASES, the U.S. Supreme Court ruled that gold certificates were currency and, constituting legal tender, were not to be regarded as warehouse receipts. Gold certificates circulated in lieu of the equivalent amount of actual gold, in which coin they were redeemable at the U.S. Treasury. They were therefore secured by 100% gold reserve.

Gold certificates were first circulated in 1863. The Act of March 3, 1863, authorized the secretary of the Treasury to receive deposits of gold coin and bullion in sums not less than $20 and to issue certificates therefor in denominations not less than $20, said certificates to be receivable for duties on imports. Under this act, deposits of gold were received and certificates issued until January, 1879, when the practice was discontinued by order of the secretary of the Treasury. The purpose of the order was to prevent the holders of UNITED STATES NOTES from presenting them for redemption in gold and redepositing the gold in exchange for gold certificates. No certificates were issued after January 1, 1879, until the passage of the Bank Act of July 12, 1882, which authorized and directed the secretary of the Treasury to receive gold coin and issue certificates, and made them receivable for customs, taxes, and all public dues.

This act, however, provided that "the secretary of the Treasury shall suspend the issue of gold certificates whenever the amount of gold coin and gold bullion in the Treasury, reserved for the redemption of United States notes, falls below one hundred millions of dollars." The Act of March 14, 1900, reenacted this provision and further provided that the secretary could, at his discretion, suspend such issue whenever and so long as the aggregate amount of United States notes and silver certificates exceeded $60 million. It provided further that of the amount of such certificates outstanding, one-fourth at least should be in denominations of $50 or less, and authorized the issue of certificates in $10,000 denomination, payable to order.

The Act of March 4, 1907, provided for the receipt of deposits of gold coin in sums of not less than $20 and the issue of gold certificates therefor in denominations of not less than $10; the Act of March 2, 1911, authorized the issue of certificates against the deposits of gold bullion or foreign coin, the latter at its bullion value, although the amount of gold bullion and foreign coin so held would be limited thereunder to one-third of the total amount of gold certificates outstanding (changed to two-thirds by Act of June 12, 1916). Act of December 24, 1919, made gold certificates, at long last, legal tender for all debts, public and private.

Gold certificates, pre- 1934, were issued in denominations of $10, $20, $50, $100, $500, $1,000, $5,000, and $10,000. These certificates had largely disappeared from public circulation in the decade preceding 1933, as they were eligible to secure Federal Reserve notes and were largely held by the Federal Reserve banks as collateral therefor.

Under the Emergency Banking Act of March 9, 1933, the secretary of the Treasury was authorized, whenever at his discretion he deemed it necessary to protect the currency system of the united States, to require the delivery to the Treasurer of the United States any or all gold bullion, gold coin, and gold certificates, upon payment therefor of an equivalent amount of any other form of currency coined or issued by the United States. Any person failing to comply with any requirement of the secretary of the Treasury in this connection was subject to a penalty equal to twice the value of the gold or gold certificates involved.

Acting under this authority, the secretary of the Treasury issued orders dated December 28, 1933, and January 15, 1934, the latter requiring all gold coin, gold bullion, and gold certificates to be delivered to the Treasurer of the United States on or before January 17, 1934.

A new type of gold certificate, series of 1934, in denominations of $100, $1,000, $10,000, and $100,000, was issued only to Federal Reserve banks against certain credits established with the Treasurer of the United States, and do not appear in circulation. They bear on their face the wording: "This is to certify that there is on deposit in the Treasury of the United States of America dollars in gold, payable to bearer on demand as authorized by law."

Under the Gold Reserve Act of January 30, 1934, all gold held by the Federal Reserve banks was transferred to the U.S. Treasury, in accordance with Presidential Proclamation of January 31, 1934, the former receiving the gold certificate credits on the books of the Treasury at the former statutory price for gold $20.67 per ounce.

Gold assets were valued at $35 per fine troy ounce, giving effect to the devaluation January 31, 1934, until May 8, 1972, when they were revalued at $38 pursuant to the Par Value Modification Act, P.L. 92-268, approved March 31, 1972. The increment amounted to $822 million. Gold assets were subsequently revalued at $42.22 pursuant to the amendment of Section 2 of the Par Value Modification Act, P.L. 93-110, approved September 21, 1973. This increment amounted to $1,157 million.

All of the U.S. Treasury's monetary gold stock valuation, including the preceding revaluation increments, has been monetized by the U.S. Treasury by the issuance to the Federal Reserve banks of $11,160,104,000 for their gold certificate account (total as of close of 1980). In addition, the U.S. Treasury monetized $2,518 million (as of close of 1980) of the U.S. special drawing rights by issuance to the Federal Reserve banks for their special drawing rights certificate account.

On the books of the Federal Reserve banks, neither the gold certificate account nor the special drawing rights certificate account plays any restrictive role in Federal Reserve banks' operations. With the U.S. losing monetary gold in recent years of balance-of-payments deficits, causing decline in gold certificates (credits), two restraints were eliminated:

- P.L. 89-3, March 3, 1965, eliminated the requirement contained in Section 16 of the Federal Reserve Act for the maintenance of reserves in gold certificates by Federal Reserve banks of not less than 25% against Federal Reserve bank deposit liabilities, and;

- P.L. 90-269, March 18, 1968, eliminated the remaining provision in Section 16 of the Federal Reserve Act under which the Federal Reserve banks were required to maintain reserves in gold certificates of not less than 25% against Federal Reserve notes.

Gold certificates (credits) held by the individual 12 Federal Reserve banks, therefore, merely reflect the total of monetary gold held by the U.S. and also the individual Federal Reserve bank holdings of gold certificates (credits) to their credit on the books of the INTER-DISTRICT SETTLEMENT ACCOUNT. Nevertheless, both the gold certificate account and special drawing rights account at Federal Reserve banks were utilized as eligible assets to serve as part of the 100% collateral pledged with the Federal Reserve agent at each Federal Reserve bank for issues of Federal Reserve notes. (The DEPOSITORY INSTITUTIONS DEREGULATION AND MONETARY CONTROL ACT OF 1980 removed the collateral requirements for Federal Reserve notes held in the vaults of Federal Reserve banks.)

Source: Charles J Woelfel, *Encyclopedia of Banking & Finance (9h Edition)*