

The Failure of the Continental Dollar: A Chaos of Congressional Commitments, 1775-1797

From 1775 through 1779 the U.S. Congress financed the American Revolution by issuing paper money—the Continental Dollar. Over three-quarters of congressional spending in this period were in this medium. Almost \$200 million were emitted and inflation ensued. By the end of 1779 Continental Dollars were worth 40 to 1 in specie, and Congress permanently discontinued their emission. By 1781 Continental Dollars ceased to circulate as a currency and markets for trading Continental Dollars soon disappeared. “Not worth a Continental” became a common derogatory phrase. At the 1787 Constitutional Convention, congressional power to emit paper money was removed from the new U.S. Constitution. In 1790 Congress redeemed the remaining Continental Dollars outstanding at 100 for 1 dollar in Federal government bonds. Few were redeemed. All requests for better redemption terms thereafter were denied. Today, Continental Dollars, as souvenirs, are still purchasable on E-BAY.

The monetary havoc caused by the collapse of the Continental Dollar is considered to be an important lesson illustrating the inherent weaknesses of pure fiat paper monies. In the early 1780s, Benjamin Franklin interpreted the collapse as simply an inflation tax, and John Adams likened it to colonial fiat currencies where governments had no obligation to redeem depreciating currencies at face value in real money. The Continental Dollar fiasco showed that a pure fiat paper money was truly dangerous, that the temptation for mischief in its use was great among elected bodies, and thus it had to be avoided.

The lesson was clear, or at least the rhetoric of the lesson was clear. What I will show in this paper is that the lesson is far more complicated. The Continental Dollar was initially designed not as a pure fiat currency but as a zero-interest bearer bond. Specific redemption dates and specie exchange rates were established. Early denomination structures were more akin to bond holding than currency spending. However, Congress did not make this design clear to the public nor were there many colonial precedents, only the 1733-1764 Maryland pound. Congress also allowed this design to fade from view in subsequent emissions, making the Continental Dollar appear like a pure fiat currency. In 1779, the initial design was restated, but it was too late. The specie value of the Continental Dollar shows that it was not effectively treated as designed, being overvalued early on and then undervalued after 1777. Congress also failed to give a clear signal from 1779 through 1790 whether it would adhere to the Continental Dollar’s zero-interest bearer bond design. The chaos of commitments presented by Congress is shown to bear some responsibility for its failure. The Continental Dollar was not just doomed because it was a pure fiat money experiencing massive wartime over issue. The value of money is not just determined by its quantity, but by the government’s articulation of, and commitment to, its structural design.

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