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Pre-Crypto Currency Clashes Always Favored Governments

History is clear on the story of money: Nation-states have limited patience for private competition and a whole lot of power.

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To the fast-growing army of cryptocurrency believers, from Matt Damon to Twitter's @Jack, we are at the dawn of a new age. But Securities and Exchange Commission Chair Gary Gensler sees something else entirely: a "Wild West" of money creation that urgently needs a crackdown.

With billions at stake, an increasing amount of it held by powerful institutional investors, who has the upper hand? In terms of global history, it's clear: National governments are undefeated in modern times.

The story of money can be told in many ways, but one perennial conflict is the struggle over who, precisely, enjoys the right to make money. Throughout much of human history, governments of all kinds have often laid claim to this prerogative, while tolerating plenty of competition: coins from other countries, private tokens and other forms of currency.

That changed in the late 18th century, when the rise of modern nation-states went hand in hand with monopolization of money. No matter how well private currencies performed their job, they almost inevitably ran afoul of the authorities.

Britain's struggle was emblematic of the time. Government-minted coins were mostly made of gold and silver, and too valuable for small-time transactions. So the button-makers of Birmingham stepped in. As monetary historian George Selgin chronicled in "Good Money," factory owners and businesses purchased "tradesman's tokens" made of copper to pay wages and make change for customers. Once in circulation, workers used them to buy beer, bread and other necessities.

Leading commentators in London were less than thrilled, sounding a bit like today's crypto critics. "The simple mischief of all these tokens is this: They are bad money, an adulterated coin. They are made as a matter of merchandise and profit," a newspaper wailed.

The arguments made against private tokens contained more outrage than reason, but that was beside the point. If coinage was the domain of the monarchy, then private mints would have to go. By 1817, Parliament banned the tokens. It was a crime to use the coins, much less mint them.

Nation-states were slower to deal with another cryptocurrency-like threat: foreign coins that circulated within their borders, competing with the issues of their own national mints. Chief among these were Spanish and Mexican "pieces of eight," which circulated from New York to China. Initially Great Britain and the U.S. tolerated their circulation, but they eventually created coins with face values greater than the silver itself. In the U.S., for example, the coins lost their legal tender status. Citizens were given four years to exchange foreign monies for copper coins from the government mint. In 1861, they had largely disappeared from circulation.

Foreign coins were one impediment to total control over the currency; private bank notes were another. This issue has a particularly interesting history in the U.S., one that the SEC's Gensler invoked when he likened the crypto craze to the pre-Civil War era of "free banking," when barriers to entry dropped and banks began multiplying. Hundreds, and eventually thousands, of banks began issuing currencies of their own design. Suddenly, according to a historian, it was "somewhat harder to become a banker than a brick-layer, but not much."

Counterfeiting was an issue, and some banks refused to make good on their promises during times of financial distress. Many currencies circulated at small discounts depending on the perceived stability of the bank, subjecting every transaction to complicated negotiations. Nonetheless, approximately 10,000 different kinds of notes dominated the money supply by 1860.

None of this sat well with economic nationalists, but they remained in the minority until the Civil War, at which point the federal government began issuing "greenbacks" that helped underwrite the costs of the war.

This was a watershed moment. Republicans, now dominant in a Congress abandoned by Confederate senators, began passing legislation that transformed the nation's monetary system. In 1862, Treasury Secretary Salmon Chase issued the first of many calls to abolish the older system of money creation, calling for the "establishment of one sound, uniform circulation of equal value throughout the country upon the foundation of national credit combined with private capital."

Some critics trained their fire on the state-chartered banks. Robert Walker, writing in the Constitutional Monthly, called on the federal government to resume "the great sovereign function of regulating the currency and giving to it uniformity and nationality." More pointed still, he linked the state-chartered banks to the doctrine of states' rights and the Confederacy. Anyone who dared question the nationalization of the currency, warned Walker, spoke "the very language of rebellion — the echo of South Carolina treason."

By the war's end, Congress passed a punitive 10% tax on state-chartered bank notes, effectively making their issue impossible. The free-banking era was over — and the nation-state triumphed once again.

In the 1930s, Washington once again flexed its muscles to stem the rise of "Depression scrip." The money, printed on paper or occasionally on sheepskin, oilcloth and even clam shells, was issued by businesses and government entities struggling through a national cash shortage.

Some scrip pledged redemption; others did not. Most functioned as a kind of informal IOU until "real" money returned. At first, federal authorities turned a blind eye to the practice because it helped mitigate the ongoing banking crisis. Then, the New Dealers under President Franklin D. Roosevelt correctly recognized that companies who used it to pay workers might effectively undercut the growing number of wage regulations. In 1938, the Fair Labor Standards Act forbid the use of scrip for payment of wages.

But this was nothing compared to Roosevelt's confiscation of gold. In 1933, he issued Executive Order 6102, which made private ownership of gold illegal, with anyone who refused to comply subject to fines and up to 10 years in prison. Citizens had to take gold coins and bullion to banks and exchange them for paper dollars at a set rate: $20.67 per ounce. Having eliminated gold from the money supply, Roosevelt raised the official price of gold, effectively devaluing the dollar in the process. Gold remained illegal to hold until President Gerald R. Ford repealed the policy in 1974.

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A decade ago, a forerunner of crypto known as E-gold collapsed after prosecutions under the U.S. Patriot Act. More recently, federal officials have expressed concern that crypto threatens the nation's ability to project power abroad via sanctions and other measures. These initial salvos are a harbinger of bigger battles to come. China is already well along in that process: The world's largest economy is implementing a massive crackdown on crypto.

Perhaps national governments have already ceded too much ground. But they wield more power — and have a far more extensive track record of success — than the more credulous promoters of digital currencies realize.