

The Counterfeiting Weapon

BY KARL RHODES

Attacks against American currency began in 1776

During the Revolutionary War, Thomas Paine wrote an open letter to British Gen. William Howe to express outrage over the latest Redcoat atrocity. “You, sir, have the honor of adding a new vice to the military catalogue,” Paine charged, “and the reason, perhaps, why the invention was reserved for you is because no general before was mean enough even to think of it.”

What was this new outrage that made Howe seem meaner than Genghis Khan? Firing upon surrendering troops? Abusing prisoners of war? No, worse than that: Howe was printing counterfeit money.

British forces were not the first to use counterfeiting as a weapon of war. “Efforts in war or peacetime to undermine the economies, societies and governments of adversaries by falsifying their money have proliferated since ancient times,” wrote journalist John K. Cooley in his 2008 book, *Currency Wars*.

The British, however, wielded this monetary mace with exceptional skill. Several months before the Colonies declared independence, the British started counterfeiting Continental currency (continentals) aboard the HMS *Phoenix*, a gunboat anchored in New York harbor. By April 1777, New York newspapers were running the following notice: “Persons going into other Colonies may be supplied with any Number of counterfeited Congress-Notes, for the Price of the Paper *per* Ream. They are so neatly and exactly executed, that there is no Risque in getting them off, it being almost impossible to discover, that they are not genuine.”

Plenty of colonists demonstrated their loyalty to the crown by passing counterfeit continentals. Perhaps the most notorious of these Tories was Stephen Holland, a well-respected resident of Londonderry, N.H., who organized an elaborate network of friends and acquaintances, according to the late Kenneth Scott, a historian at the City University of New York who documented Redcoat counterfeiting in his 1957 book, *Counterfeiting in Colonial America*. Holland was captured, but he escaped from prison before the Colonial authorities could execute him.

“Damn him,” said New Hampshire patriot John Langdon, who was helping to finance and fight the war. “I hope to see him hanged. He has done more damage than 10,000 men could have done.”

Was Langdon exaggerating the impact of the British counterfeiting weapon? Benjamin Franklin didn’t think so, according to Scott. “Paper money was in those times our universal currency,” Franklin wrote. “But, it being the instrument with which we combated our enemies, they resolved to

deprive us of its use by depreciating it; and the most effectual means they could contrive was to counterfeit it.” Franklin grasped a nuance that was perhaps lost on Paine and Langdon: Printing *counterfeit* continentals was indeed an instrument of war, but so was printing *genuine* continentals.

The British lost the war, but they conquered the continental. “The artists they employed performed so well, that immense quantities of these counterfeits ... were circulated among the inhabitants of all the States, before the fraud was detected,” Franklin continued. “This operated considerably in depreciating the whole mass, first, by the vast additional quantity, and next by the uncertainty in distinguishing the true from the false.”

Counterfeiting contributed to the complete devaluation of the continental, but the notes probably would have lost their value anyway because the Continental Congress printed enormous quantities of them to fund the war. In a letter to John Jay, president of the Continental Congress, Gen. George Washington noted that “a wagon-load of money will scarcely purchase a wagon-load of provisions.”

Colonial Counterfeiting

Should controlling the currency be a sovereign right or a provincial prerogative? That question arose some 85 years before the Revolution, when individual Colonies started printing their own money, asserting some independence from Great Britain in the process. Massachusetts printed the first Colonial paper money in 1690.

“As soon as that experiment worked reasonably well, other Colonies joined the game,” says Stephen Mihm, associate professor of history at the University of Georgia and author of the 2007 book, *A Nation of Counterfeiters*. “By the 1730s, I believe every one of the original Colonies had issued paper money.”

These emerging Americans demanded substantial quantities of notes because gold and silver coins (specie) were scarce. Colonial counterfeiters did their best to supplement the specie supply with forged coins made of pewter and debased gold and silver, but it was the proliferation of paper money that begat a new breed of counterfeiters in the New World. By the 1730s, counterfeiting was a serious problem throughout the Colonies, according to Scott. North Carolina Gov. Gabriel Johnston expressed concern in 1735 over “the great Number of Counterfeits, which are gone abroad into all the parts of the Province, by the villanous Arts of wicked and ill disposed persons.”

Great Britain reasserted its power over Colonial paper

money with the currency acts of 1751 and 1764, and “Ben Franklin cited them as one of the Colonies’ major grievances,” Mihm says. But on the eve of the Revolution, American counterfeiting had surpassed British imperialism as the No. 1 threat to Colonial currency.

Currency Chaos

Following the Revolutionary War, newly minted American citizens greatly preferred coins over paper money because of their bad experience with continentals, both spurious and genuine. “The Continental Congress itself was kind of a counterfeiter,” Mihm quips.

The Constitution gave the federal government the right to “coin money,” and it prevented the states from issuing coins or paper money. The federal government provided some currency through its national banks, but the federal charters of those banks were allowed to expire.

In 1832, when President Andrew Jackson vetoed a bill to re-charter the Second Bank of the United States, the institution was well on its way to developing a common, uniform, and exclusive currency, Mihm says. “But when that bank was destroyed, lots of new state-chartered banks sprung up in its place,” and the shortage of specie persisted. Much like the Colonies had defied British laws, the states circumvented the Constitution by empowering state-chartered banks to issue bank notes.

State-chartered banks proliferated rapidly in the first half of the 19th century, and most of them issued their own brands of notes. By the 1850s, “the money supply became a great confluence of more than 10,000 different kinds of paper that continually changed hands, baffled the uninitiated, and fluctuated in value according to the whims of the market,” Mihm wrote.

While researching his 1995 book, *Illegal Tender*, historian David Johnson of the University of Texas at San Antonio found a story in the *New York Times* from 1862 that claimed 6,000 varieties of counterfeit bank notes were contaminating the money supply. Johnson questions some of the article’s statistics, but he does not quibble with the story’s conclusion that counterfeiting was “a national evil demanding a national remedy.”

Help was already on the way. The Legal Tender Act, signed by President Abraham Lincoln in February of 1862, designated a new national currency as “legal tender for all debts public and private.” These notes employed higher-quality printing, including the use of green ink on the back of the bills that branded them as “greenbacks.” The anti-counterfeiting measures were largely ineffective, but the



The fine print in the bottom margin of this counterfeit note says, “Fac-simile Confederate Note — Sold Wholesale and Retail, By S. C. Upham, 403 Chestnut Street, Philadelphia.” Upham’s customers could clip off this bottom line and spend the \$5.

new notes represented a giant step toward eliminating confusion and increasing enforcement. The national currency created economies of scale for counterfeiters, but it also made counterfeiting more risky, Mihm explains. “If you were counterfeiting the notes of the Merchants Bank of Virginia, you were attacking the Merchants Bank of Virginia. If you were counterfeiting greenbacks, you were attacking the Union.”

Confederate leaders also attempted to establish a national currency in the South, but they struggled to produce “graybacks” of sufficient quality and quantity. The poor quality was an engraved invitation to counterfeiters, and several Northern printers responded by forging large volumes of Confederate currency. To circumvent counterfeiting laws, Philadelphia printer Samuel Upham expanded the lower margin of his funny money and added a disclaimer that said, “Fac-simile Confederate Note — Sold Wholesale and Retail, By S. C. Upham, 403 Chestnut Street, Philadelphia.” It was easy for his South-bound customers to clip off this disclaimer and spend the money. (Upham’s shop was one block from Independence Hall and directly across the street from the building that had housed the Second Bank of the United States.)

Upham and a New York printer, Winthrop Hilton, openly advertised their Confederate facsimiles in much the same way the British had promoted their counterfeit continentals during the Revolutionary War. U.S. government officials did not actively encourage the counterfeiting of Confederate money, but they allowed Northern printers to continue the practice. At one point, however, they falsely accused Hilton of printing real Confederate currency and smuggling it to the Confederate government. He was arrested but never prosecuted, and after they released him, he continued his counterfeiting enterprise with renewed zeal.

“I now felt pretty certain that I would no longer be interrupted: I had even persuaded myself that my avocation was patriotic,” Hilton confessed in a *New York Tribune* story that



This bogus greenback came from a plate engraved by Ben Boyd, one of the best American counterfeiters of the 19th century. His associates tried to steal Abraham Lincoln's body and use it to ransom Boyd from prison in 1876.

was withheld from publication until his death in 1906. "Had not the British Government authorized or connived at the counterfeiting of our Revolutionary currency, as a war measure?"

According to Hilton, printers in New York, Boston, and Philadelphia (including Upham) produced hundreds of millions of spurious Confederate notes, initially circulating them through newspaper vendors. Hilton expressed no sympathy "for the slave-holders, planters, and brokers who sold their crops for worthless notes; but for the poor whites and the small negro dealers who were deceived by [the bogus bills], I never ceased to entertain the keenest regrets."

Before the end of the war, Confederate money became nearly worthless, and many Southerners were conducting business with the new national currency of the North, Mihm says. "The greenbacks were in some cases conquering the South before the Union soldiers got there."

The Secret Service

According to Secret Service lore, Secretary of the Treasury Hugh McCulloch received Lincoln's approval to create the agency on April 14, 1865, the same day Lincoln was assassinated. It would be many years, however, before the Secret Service started protecting presidents. In 1865, the new agency was charged only with catching counterfeiters.

The first chief of the Secret Service, William P. Wood, had been superintendent of the Old Capital Prison in Washington, and about half of his early Secret Service recruits had criminal backgrounds, according to Johnson.

"They were effective because they hired operatives who

were connected with the underworld," Johnson says. "When they went out on the street and worked a case, they were talking to their friends and acquaintances of long standing." Lacking official police powers, Wood's operatives often made citizens' arrests during sting operations that would qualify as entrapment by today's standards.

Wood left the agency in 1869, and the Secret Service abandoned his questionable tactics, but the agency continued to rely heavily on confidential informants and undercover operations. The most famous of these took place in 1876, when a Secret Service informant infiltrated a gang of counterfeiters plotting to steal Lincoln's body from its tomb in Springfield, Ill. The gang planned to use his remains to ransom their highly skilled engraver, Ben Boyd, from an Illinois prison.

"Ben Boyd was probably worth his weight in gold to the counterfeiters," Johnson says. "He may have been the best engraver of counterfeit notes in the 19th century." Working with Pinkerton detectives, the Secret Service thwarted the plot just as the

counterfeiters were sliding Lincoln's coffin out of its marble sarcophagus.

In the decades that followed, the Secret Service maintained its zealous pursuit of counterfeiters and its zero-tolerance policy toward anything that remotely resembled U.S. currency. The agency confiscated artists' renderings of money, advertising leaflets that looked like cash, even 160 boxes of play money from R.H. Macy's department store.

"It wasn't the play money per se as much as what it symbolized, which was a disrespect for the national currency," Johnson explains.

The zero-tolerance policy seemed to work. In 1911, the *New York Times* quoted a government estimate that only 0.001 percent of the money in circulation was counterfeit. Johnson concedes that this number may have been overly optimistic, but he says there is no doubt that "the Secret Service was so effective that counterfeiting of the 19th century type was no longer a viable occupation."

Communists and Nazis

The Secret Service may have won the war against counterfeiting in the United States, but growing international demand for U.S. currency presented new threats from abroad.

Soviet Premier Joseph Stalin, for example, ordered his intelligence service to counterfeit \$100 bills in the late 1920s, according to a 1984 article by Arnold Krammer, professor of history at Texas A&M. The quality of the Soviet counterfeits was excellent, but their distribution network

was severely flawed. The operation started to unravel in 1930, when Berlin police seized a huge cache of the spurious notes at a German bank that the Soviets were using as an international distribution center. Two years later, large quantities of the bogus bills surfaced in Chicago after con man Hans Dechow (aka Count von Buelow) persuaded some local gangsters to launder the money during the height of the Christmas shopping season. Eventually, the gangsters, the count, and their communist suppliers landed behind bars.

The most famous case of government-sponsored counterfeiting occurred during World War II, when the Nazis identified skilled printers and engravers among concentration camp prisoners and brought them together at the Sachsenhausen concentration camp. Under constant threat of death, the prisoners learned the counterfeiting trade and printed millions of bogus British notes of such high quality that they fooled bank officials in England and Switzerland for a while. The Nazis used them to help fund the war. They also attempted to counterfeit American dollars, but Allied Forces closed in on them before they could circulate any forged greenbacks.

The use of counterfeiting as a weapon of war has not been limited to Nazis, Redcoats, and communists. There are some reports that the United States counterfeited dong, the North Vietnamese currency, during the Vietnam War. Certainly, U.S. forces dropped many millions of leaflets over North Vietnam, including parodies and close approximations of North Vietnamese currency, but it is not clear whether any of those leaflets were passable dong. Versions that came close featured detachable propaganda messages on the sides of the notes, a ploy reminiscent of Upham's counterfeiting dodge during the Civil War.

The United States may have lost the shooting war in Vietnam, but it won the currency war. Today, most Vietnamese people prefer dollars over dong, especially for storing wealth and making large purchases. U.S. currency remains popular in much of Southeast Asia. Dollars are banned in North Korea, but the North Korean government has counterfeited \$100 bills for its own use, according to a

joint study released in 2006 by the Federal Reserve, the Secret Service, and the Treasury Department.

"Since 1989, the U.S. Secret Service has led a counterfeit investigation involving the trafficking and production of highly deceptive counterfeit notes known as supernotes," the report stated. "The U.S. Secret Service has determined through investigative and forensic analysis that these highly deceptive counterfeit notes are linked to the Democratic People's Republic of Korea (DPRK) and are produced and distributed with the full consent and control of the North Korean government." Internationally, from 1996 through 2005, the public received approximately \$22.4 million in supernotes, and the Secret Service seized approximately \$50 million in supernotes. (The Secret Service declined to update these numbers or provide further information about its supernote investigation.)

With \$1 trillion of U.S. currency circulating worldwide, even a large counterfeiting operation may seem more like a numismatic nuisance than a weapon of war. But Secret Service agents aggressively pursue all counterfeiters, whether they produce highly deceptive supernotes or easily detectable inkjet knockoffs. Lessons learned from economic history give them little choice.

In essence, the level of counterfeiting is a function of the value of currency relative to the cost of counterfeiting it, both the production cost and the risk of getting caught and punished. That's why the Treasury Department began adding significant new security features to U.S. currency in 1996. These security enhancements have driven up the production cost of counterfeiting, and stronger enforcement by the Secret Service has increased the risk of getting caught. These dual deterrents have limited the counterfeiting of U.S. currency to low levels. The joint study by the Federal Reserve, Secret Service, and Treasury Department concluded that less than 0.01 percent of Federal Reserve Notes in circulation worldwide were counterfeit in 2005. That's not as stunning as the government estimate from 1911, but it does indicate that U.S. currency stands strong against all enemies foreign and domestic — for now. **RF**

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