

## Fiat money

Scrip that derives its value from the imprimatur of a government. Today's dollar, for instance, owes its value not to the cost of the high-grade paper on which it's printed, but to the legend the Bureau of Engraving and Printing of the Department of the Treasury affixes to that paper, i.e., "This note is legal tender for all debts, public and private."

The word "note" is a telltale anachronism. A note is a credit instrument, a promise to pay. A banknote was a promise to pay money, usually gold. But the 21st-century dollar is itself the thing that is being paid, that and no more. In the language of finance, it is uncollateralized. Under a metallic system, paper notes are convertible into the underlying coin. Again, in the language of finance, the notes are "derivatives," their value deriving from the underlying coin.

From the Founders through the mid-20th century, the mainstream of monetary thinking opposed the fiat dollar. The Continentals of the Revolutionary War and the Greenbacks of the Civil War were demonstrably prone to debasement. In the final quarter of the 19th century, Populist and Greenback agitators were loud and long for an inconvertible dollar—or, at least, a dollar convertible into cheap silver rather than dear gold. But with the enactment of the Gold Standard Act of 1900, which defined the dollar as slightly less than one-twentieth of an ounce of gold, the monetary question seemed to be settled for all time.

But came the Depression and the administration of Franklin D. Roosevelt, and the dollar was redefined, i.e., devalued, to one thirty-fifth of an ounce of gold. This was in 1934. Thirty-five years later came the administration of Richard M. Nixon, and the currency was redefined as no fixed weight of gold. This was on Aug. 15, 1971. At a stroke, the dollar became an uncollateralized, fiat currency, the value of which fluctuates with the supply of, and demand for, slips of green paper of no intrinsic value.

The late John Exter, a hard-money man who came by his views despite, of (or even perhaps because of) his many years of service at the Federal Reserve Board, the Federal Reserve Bank of New York and what is today Citigroup, called the modern fiat dollar an "IOU nothing."

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