How the U.S. Dollar became fiat currency

By: John Pico, BA, JD

Except for an embargo on gold exports during World War I, the United States had been on a gold standard, a monetary system in which a nation's currency is pegged to the value of gold, from 1879 until June 5, 1933, when Congress enacted a joint resolution nullifying the right of creditors to demand payment in gold. 48 Stat.L. 112 (1933), 31 U.S. C., § 463

In a gold standard system, paper money can be converted into gold. Consequently, the U.S. could not increase the amount of paper money in circulation without also increasing their reserves of gold.

Also, while the U.S. was on the gold standard commercial banks and Federal Reserve banks had a gold reserve requirement and had to keep maintain gold reserves equal to a 40% of the value of the money they issued. 12 USC 226: "Federal Reserve Act"

When the stock market crashed in 1929, banks failed and the country went into a depression. As a result, citizens began hoarding gold to the extent that there was not enough gold in circulation for the Federal Reserve banks to maintain the required reserves.


The New York Times.
LATE CITY EDITION
NEW YORK, THURSDAY, APRIL 20, 1933.
GOLD STANDARD DROPPED FOR THE PRESENT TO LIFT PRICES AND AID OUR TRADE POSITION; PLANS FOR CONTROLLED INFLATION DRAFTED
BRITAIN ORDERS BAN ON CHIEF IMPORTS FROM SOVIET UNION
Embargo, Effective in a Week, Would Bar 80 Per Cent of Goods From Russia.
AIM IS TO AID 2 PRISONERS
ALL MARKETS BOOSTED
Stocks Rise 1 to 9½ and Commodities Spurt as Bonds Move Lower.
Dollar Developments
PRESIDENT TAKES ACTION
Moves to Bring Dollar Closer to the Pound and Raise Prices.

In order to increase the amount of gold reserves at Fort Knox, President Roosevelt, on April 5, 1933, signed Executive Order 6102, requiring that all gold coins, gold bullion and gold certificates in denominations of more than $100 be turned in for paper money. At that time the price of gold was set at $20.67 per ounce.

In order to print more money, the United States, on June 5, 1933, abandoned the gold standard. Increasing the money supply allowed President Roosevelt to stimulate the economy.

The following year, under White House Statement on Proclamation 2072, January 31, 1934, the government increased the price of gold to $35 per ounce, thus increasing the value of its gold reserves by 69.3275 percent, allowing the Federal Reserve to further inflate the money supply.

> 1. Acting under the powers granted by Title 3 of the Act approved May 12, 1933 (Thomas Amendment to the Farm Relief Act), the President today issued a Proclamation fixing the weight of the gold dollar at 15 5/21 grains nine-tenths fine. This is 59.06 plus percent of the former weight of 25 8/10 grains, nine-tenths fine, as fixed by Section 1 of the Act of Congress of March 4, 1900. The new gold content of the dollar became effective immediately on the signing of the Proclamation by the President.

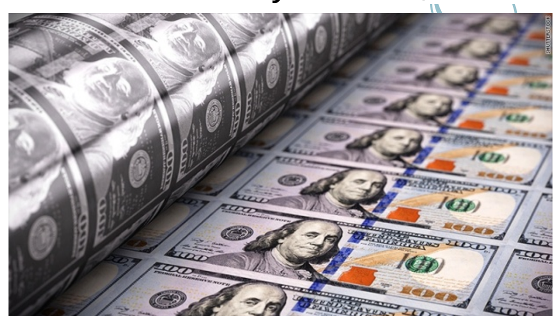
By the end of 1964, the shortage of silver caused by increased industrial use, and the rise in silver's value, made it impractical for the government to keep minting the mineral and U.S. stopped making silver coins.

Then, on July 23, 1965, Lyndon Johnson approved the Coinage Act of 1965, Pub.L. 89–81, 79 Stat. 254, which eliminated silver from circulating coins and authorized that clad coins be used for the half dollar, quarter, and dime.

Insofar as gold is concerned, the government held the $35 per ounce price for gold until August 15, 1971, when President Richard Nixon abandoned the gold standard. This action effectively ending the agreement the Bretton Woods Agreement which required countries to guarantee convertibility of their currencies into U.S. dollars to within 1% of fixed parity rates, with the dollar convertible to gold bullion for foreign governments and central banks at US$35 per troy ounce of fine gold (or 0.88867 gram fine gold per dollar).

Finally, in 1974, President Gerald Ford signed a bill allowing citizens to once again own gold bullion.

With the U.S. dollar now backed only by the worlds' governments' faith in the stability of America, politicians were free to do as they wished, without the previous restrictions.



This action opened the door to buying votes by printing or borrowing money.

Note: Members of the Federal Reserve Board serve 14-year terms and are supposed to be free of political influence, as Governors may not be removed from office for their policy or political views.

The appointment procedures are political, however, as they are nominated by the President in power and the nominations are sent to the Senate to be confirmed. In addition, governing members, such as Jerome Powell, the Chair, Vice Chair, and Vice Chair for Supervision, serve terms of four years, and they may be reappointed to those roles and serve until their terms as Governors expire.

(While the current Chair, Jerome Powell, is paid over $200,000 per year, as chairman and the 12 district Fed presidents are paid even more than Powell, the salary should not be an influence. Powell is wealthy in his own right. In April of 2023, www.wealthypersons.com pegged his net worth at $55 million.)

Mr. Pico is a retired attorney and managing partner of Advising Automobile Dealers LLC, with 50-years experience in mergers/acquisitions, dealership valuations and bankruptcy workouts. His expertise has been recognized by both state and federal courts.