

Re: Commodity Money vs Fiat Money

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- *From:* w_b_ryan@xxxxxxxxxx
 - *Date:* 29 Jan 2006 14:50:07 -0800
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"Commodity money and fiat money are commonly viewed as two quite different kinds of money. The transition from commodity to fiat money occurred in the mid-20th century when the State ended the gold backing of its notes."

No, commodity backing for bank credit in international trade settlement does not alter its fundamental nature as bank credit.

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"When the State declares what kind of asset it accepts in payment of taxes, it assumes a liability equal to the outstanding stock of those assets."

No, because the "assets" do not derive exclusively from government spending, but represent bank credit extended to not only government, but also to private enterprise and to consumers. See the diagram at http://www.geocities.com/new_economics/conrad-borrowing-2005.gif

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"The former is referred to as commodity money, and the latter as fiat money."

No, until quite recently historically, fiat money was the derisive term applied by bankers to money printed and spent by government. Only recently have they begun to apply the term to the money they create through loans.

Re: Commodity Money vs Fiat Money

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"The State sets the face value of the tokens, and accepts them in payment of taxes at that value."

No, there are no "tokens" issued by government in the United States of America, or any of the Western democracies. The governments of the United States and the Western democracies accept bank credit in the form of deposits in payment of taxes.
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"The difference between the face value and the material value of a token is normally positive, and known as the seigniorage gap."

This would be true only if government printed and spent into circulation notes at face value. It does not. What it spends it has either collected through taxation, or borrowed from banks.
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• *Follow-Ups:*

◆ *Re: Commodity Money vs Fiat Money*

◇ *From:* William F Hummel