

Scottsdale, Arizona **Reprinted Article from The Daily Reckoning**
July 3, 2019

Dear Reader,

My “poor dad” believed in saving money. "A dollar saved is a dollar earned," he often said. The problem was that he didn't pay attention to changes in monetary policy. All his life he saved, not realizing that after 1971 his dollar was no longer money. You see, in 1971 President Richard Nixon changed the rules of money. That year, the U.S. dollar ceased being money and became a currency. This was one of the most important changes in modern history, but few people understand why.

Prior to 1971, the U.S. dollar was real money linked to gold and silver, which is why the U.S. dollar was known as a silver certificate. After 1971, the U.S. dollar became a Federal Reserve note — an IOU from the U.S. government. Instead of our dollar being an asset, it was turned into a liability. Today, the U.S. is the largest debtor nation in history due in part to this change.

Taking a brief look back at the history of modern money, it's easy to understand why the 1971 change was so important. After World War I, Germany's monetary system collapsed. While there were many reasons for this, one was because the German government was allowed to print money at will. This new flood of money caused uncontrolled inflation. There were more marks, but they bought less and less. In 1913, a pair of shoes cost 13 marks. By 1923, that same pair of shoes was 32 trillion marks!

As inflation increased, the savings of the middle class were wiped out. With their savings gone, the middle class demanded new leadership. Adolf Hitler was appointed chancellor of Germany in 1933 and, as we know, World War II was the deadliest war in history. In the closing days of World War II, the Bretton Woods system was put in place to stabilize the world's currencies. This was a quasi-gold standard, which meant currencies were backed by gold. The system worked fine until the 1960s, when the U.S. began importing Volkswagens from Germany and Toyotas from Japan. Suddenly the U.S. was importing more than it was exporting and gold was leaving our country. In order to stop the loss of gold, President Nixon ended the Bretton Woods system in 1971 and the U.S. dollar replaced gold as the world's currency. Never in the history of the world had one nation's fiat currency been accepted as the world's money.

To better understand this, my “rich dad” had me look up the following definitions in the dictionary. "Fiat money: money (as paper money) not convertible into coin or specie of equivalent value." The words "not convertible into coin" bothered me. So my rich dad had me look up the word "fiat." "Fiat: a command or act of will that creates something without or as if without further effort." Looking up at my rich dad I asked, "Does this mean money can be created out of thin air?" Nodding his head, my rich dad said, "Germany did it and now we are doing it." "That's why savers are losers," he added. "I fought in France during World War II. That's why I never forget that it was after the middle class lost their savings that Hitler came to power. People do irrational things when they lose their money." It's a lesson I never forgot. Savers really are losers in today's world of fiat money.

Regards,
Robert Kiyosaki
for *The Daily Reckoning*