

Fiat Money vs. Legal Tender: What's the Difference?

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Fiat Money vs. Legal Tender: An Overview

[Fiat money](#) does not have any intrinsic value. What value it has depends on public confidence in the currency's issuer. [Legal tender](#) is any currency declared legal by a government. Many governments issue a fiat currency and then make it legal tender by setting it as the standard for repaying debt.

KEY TAKEAWAYS

- Fiat money has no intrinsic value, while legal tender is any currency declared legal by a government.
- Governments can issue fiat currency and make it legal tender by setting it as the standard for debt repayment.
- The benefit of fiat money is that it gives central banks greater control over the economy, but governments can print too much money and create hyperinflation.
- The U.S. dollar is both fiat money and legal tender.

Fiat Money

Fiat money is not backed by physical commodities, such as gold. Instead, it is government-backed. Most paper currencies today are fiat currencies. Fiat money value is based on the relationship between supply and demand. Fiat holds value because of people's faith in that nation's currency.

In the past, governments minted coins or paper money tied to the value of a physical commodity, which could then be redeemed for a set amount of that commodity. Fiat money cannot be redeemed.

The benefit of fiat money is that it gives [central banks](#) greater control over the economy, as they can control how much money is printed. [Inflation](#) may occur when a government creates too much of a fiat currency, and the money supply increases too rapidly as a result. Governments printing too much money can create [hyperinflation](#).

Legal Tender

Legal tender is any form of payment recognized by a government, used to pay debts or financial obligations, such as tax payments. National currencies, such as the U.S. dollar, are legal tender. In the U.S., the Treasury is authorized to create and issue dollars to the public. The [Federal Reserve](#) notes and coins are recognized legal tender in the U.S.

Laws ensure nothing other than official legal tender gains enough traction to be used as money in the economy. Notably, checks and credit cards aren't legal tender—rather, they are money substitutes.

The U.S. dollar is both fiat money and legal tender. In 1933, the U.S. federal government stopped allowing citizens to exchange currency for government gold. The gold standard, which backed U.S. currency with federal gold, ended completely in 1973 when the U.S. also stopped issuing gold to foreign governments in exchange for U.S. currency notes. Dollars are now backed by the U.S. government itself. As legal tender, the dollar is accepted for both public and private debts.

The dollar's value fluctuates with economic conditions and the federal government's management of interest rates. Since the government controls the money supply, it may print more dollars and create higher inflation as needed to influence economic conditions. As changes in public confidence in the U.S. government occur frequently, the value of the dollar may change rapidly even without ongoing federal management.