THE ORIGIN OF THE WORD "DOLLAR"—
THE NAME OF OUR UNIT OF ACCOUNT

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In order to conduct business transactions without direct bartering and to be able to record the exchange values of the items and to express and record the exchange values of all goods, currencies, and services, it is necessary to have a unit to serve such purposes. It is necessary to have a common denominator unit which a person can apply to any item in order to express his idea of the exchange value of that item.

Because the unit used to express exchange value is used in accounting, it is called the unit of account. In the United States the word "dollar" is the name of that unit.

The word "dollar" had its origin in Bohemia in 1519 when a Count Schlick, a silversmith, who lived in St. Joachimsthal, Bohemia, made a large silver coin. He gave the coin the name of the village in which he lived, i.e., he called the coin a St. Joachimsthaler. Just as Henry Ford called the automobile which he made a Ford.

Because St. Joachimsthaler was a long name, people began to call the coin a thaler. In other German speaking areas it was called a taler. Other countries also made a similar coin with a similar name. In Denmark it was called a daler, in Holland a dalder, in Italy a tallero, in Poland a talar, and in Spain a dollar.

After Spain discovered large deposits of silver in Mexico, it used much of that silver to make silver dollar coins. These coins were used as currency for the vast trade which took place between the Spanish American colonies and the English American colonies. It so happened at that time that the Spanish American colonies had an unfavorable balance of trade with the English American colonies. The result was that a large number of the Spanish silver dollar coins passed into English American hands and circulated as the predominant currency in the English American colonies.

As time passed the English Americans began to express the exchange value, i.e., the price of goods and services in dollars instead of in English pounds, as was their previous custom.

When the exchange values of goods and services were expressed and recorded with the word "dollar" rather than with the word "pound," the word took on an additional meaning. It took on the meaning of the word "pound." The word "dollar" was still used
as the name of the large Spanish silver coin, but it also was used as the name of a unit with which to express exchange value.

By the time the English American colonies became independent from England the word “dollar” was so well established in its usage that on July 6, 1785, the United States Congress made the word, dollar, the official name of the unit of account which was to be used in the United States. The Congress called it the official monetary unit, perhaps because the Congress later intended to authorize the minting of a silver coin with the exchange value equal to the value expressed by the dollar unit already in use.

That took place in 1792 when the Congress authorized the mint to make the first silver dollar coins. The price of silver at that time was $1.29 per troy ounce. With the silver at that price it was determined that 371.25 grains of silver had an exchange value of one dollar.

The government declared the coin to be legal tender for a one dollar payment of public and private debts. The coin then had two exchange values:

1. The exchange value of the 371.25 grains of silver.
2. The one dollar legal tender value.

Both values were equal at that time, but they did not remain equal. Between 1794 and 1874 only a small number of silver dollar coins were minted because the exchange value of 371.25 grains of silver was above the legal tender value of the coin.

However, in 1874 large deposits of silver were discovered in Nevada. The result was that the market value of the 371.25 grains of silver in the coin became less than the one dollar legal tender value of the coin. Generally speaking, from 1876 to 1964 the market price of the silver in the silver dollar coin was less than one dollar. At times it was less than fifty cents. With the price of silver today (April 28, 1973) at about $2.25 per ounce the market value of the 371.25 grains of silver may be about $1.75.

We mention these historical facts just to show that the exchange value of the dollar coin is not now and has not been for many years equal to the amount of exchange value expressed by the unit of account called dollar. In other words, the dollar coin and the unit of account called dollar are two different things.

Let us illustrate the point we are trying to make by comparing the dollar unit used to express exchange value, i.e., the unit of account, with a unit we use to express volume. Let us say, the gallon. If a person says that he has a gallon jug, the word “gallon” is used as an adjective. It describes the noun, jug. If a person says that he has a gallon of water, the word “gallon” is used as a noun. It is the name of a unit we use to express a certain volume. A per-
son does not say, I have one gallon, because a gallon as a unit to express volume does not exist as a physical thing. The unit called gallon exists only as a concept.

The same is true for the unit we call a dollar. When the word “dollar” is used as the name of the concept or device we use as a common denominator unit with which we express our idea of the exchange value of goods, currencies, and services, it is used as a noun. When the word “dollar” is used to describe a Federal Reserve note or a coin, it is used as an adjective.

A close study will teach us that the dollar unit of account by itself has no exchange value, because it is not a physical thing. It is a unit concept. It has meaning only when it is applied to something. Just as the word “gallon” has no meaning unless it is applied to something. A person cannot buy a gallon. He cannot carry a gallon. He cannot store a gallon. But a person may buy, carry, or store a gallon of something.

In like manner a person does not receive dollars from a bank. He does not carry dollars in his pockets. He does not store dollars in his safe. But a person may receive, carry, or store dollars’ worth of currency (coins or Federal Reserve notes), because items of currency are physical things. They are not concepts.

Also, when we hear the expression, “the dollar lost value,” we should know that the statement does not tell us what is meant. We know that the dollar unit did not and could not lose value, because the unit being a concept has no exchange value to lose. What is meant by the expression, “the dollar lost value,” is that the currency, the exchange value of which is expressed in dollar units, lost exchange value.

The question might be asked, for what purpose is the dollar unit used? The dollar unit was used and is used to express the ratio of the exchange value of one item with the exchange value of another item. For example, a dollar bill has a specific amount of exchange value, one dollar’s worth, when it is used as a payment for taxes. But when it is used to buy goods or services it will have the amount of exchange value to which the buyer and seller mutually agree at the time of each transaction.

As an illustration, let us say, a person offers to sell his potatoes for a one dollar bill per bushel; the one dollar bill will have the exchange value of one bushel of potatoes. If at a later date, he offers to sell his potatoes for two one dollar bills per bushel, each dollar bill will then have the exchange value of only one-half bushel of potatoes. The dollar unit was used to express the two different ratios of the exchange values of the dollar bills and the potatoes.
We should note that the exchange values of both, the dollar bills and the bushel of potatoes, changed from the first transaction to the second transaction. The dollar unit was used to express the different ratios of exchange values of the dollar bills and the bushel of potatoes at both transactions.

When the people in the early days of our country decided to use the amount of the exchange value of the silver dollar coin as the amount of exchange value to be expressed with the dollar unit, the unit expressed the specific amount of exchange value that 371.25 grains of silver had at that time.

The silver dollar coin was intended to be the embodiment of the concept unit called a dollar. It remained so only so long as the price of silver did not increase or decrease. When the price of silver changed the unit called a dollar might just as well have been called a plain unit or a point. Because it served only as an abstract unit with which the exchange value of one item was expressed in its relation with the exchange values of other items.

However, the word “dollar” continued to be used as the name of our unit to express exchange value. So the exchange values of all goods and services are expressed in the ratio of the exchange value of each item with the exchange value of each other item with the abstract unit called a dollar.

Once the ratio of the exchange value of each item is well established in its relation to the exchange values of other items, the exchange values of all items including items of currencies, could be expressed with an abstract unit called a point, just as well as with the unit called a dollar.

In other words, we could say that a bushel of potatoes has the exchange value of one point’s worth of the currency and that one point’s worth of the currency has the exchange value of one bushel of potatoes. If we did that, then it would be easy to understand that our common denominator unit, that is, our unit of account, is an abstract unit without exchange value in itself.