

The Bitcoin Standard – Lecture 4 (Government Money) • Study Notes

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Big Picture

- Government money did not emerge by decree — every form of state money began as **redeemable in market money** (gold or silver).
 - The suspension of gold redeemability during **World War I** marked the real birth of fiat.
 - Fiat enabled governments to finance wars, debt, and welfare states on an unprecedented scale.
 - The 20th century became the age of **permanent inflation, hyperinflation, and mass destruction**.
 - Central banking and Keynesian economics provided ideological cover for state control of money.
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Core Claims

1. **No Pure Fiat Emergence**
2. No government has ever successfully declared a worthless token as money by decree.
3. State money always began as a claim redeemable in market-chosen money (gold/silver).
4. Fiat arises when redeemability is suspended, not when decrees are issued.
5. **World War I as the Turning Point**
6. In 1914, gold redeemability was suspended to finance war.

7. Wars lengthened and intensified because governments could now **print** instead of relying on gold reserves.
 8. Collapse of German and Austrian currencies coincided with their military defeat.
 9. **Contained Wars vs. Total Wars**
 10. Under gold: wars limited by available reserves → kings careful about waste.
 11. Under fiat: unlimited paper → 20th century wars became **total wars**, destroying civilians and economies alike.
 12. **Interwar Instability & Great Depression**
 13. Post-WWI currencies distorted by inflation.
 14. Britain tried to return to gold at pre-war parity → unsustainable arbitrage → collapse.
 15. US inflation to support Britain created 1920s bubbles → crash → Great Depression.
 16. Government interventions (Hoover/FDR) worsened depression, despite Keynesian myth of “stimulus.”
 17. **WWII & Keynesian Delusion**
 18. Keynesians claimed war spending = economic recovery.
 19. In reality: war destroyed wealth; prosperity came only after war ended and resources returned to production.
 20. Keynesianism became dominant despite being **morally bankrupt and empirically wrong**.
 21. **Bretton Woods (1944)**
 22. US imposed a pseudo-gold standard: dollar as reserve, redeemable in gold only for central banks.
 23. Gave US privilege to print dollars at will while others held devaluing reserves.
 24. Collapse inevitable → 1971 Nixon shock ended redeemability altogether.
 25. **Fiat Era: Inflation & Hyperinflation**
 26. 20th century = history of inflation, hyperinflation, and state theft.
 27. On average, government currencies grew ~30% annually.
 28. Stable currencies (USD, yen, Swiss franc) still inflate ~2–5% yearly → steady erosion of savings.
 29. **Central Banks Still Hoard Gold**
 30. If fiat were truly money, central banks wouldn't keep trillions in gold reserves.
 31. Gold remains the ultimate settlement asset — fiat is just state-issued **slave scrip**.
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Key Concepts & Mental Models

- **Redeemability principle** → fiat only survives after suspending gold/silver backing.
 - **Gold standard vs. fiat wars** → resource-limited vs. unlimited carnage.
 - **Stablecoin analogy** → pegged currencies collapse if redemption is mispriced.
 - **Stock-to-flow in fiat** → most government monies are “easy money” with low hardness.
 - **Hayek’s Insight** → we need money “by some sly, roundabout way” that governments cannot stop → Bitcoin.
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Examples & Applications

- **1914 Gold Suspension** → beginning of modern fiat.
 - **British Arbitrage (1920s)** → buy underpriced gold in Britain, sell abroad for profit.
 - **Great Depression** → fueled by inflationary bubble of 1920s, worsened by interventions.
 - **US Dollar at Bretton Woods** → backed by gold but redeemable only for states.
 - **Zimbabwe, Argentina, Venezuela** → hyperinflation = collapse of civilization’s division of labor.
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Quotable Ideas

- “There has never been a pure fiat currency decreed into existence — money arises from the market, not government.” — Ammous
- “World War I was the true end of the gold standard.” — Ammous
- “War does not create prosperity; it destroys it.” — Ammous
- “Fiat money is slave scrip; gold remains the real money.” — Ammous
- “We shall never have good money again before we take it out of the hands of

government.” — Hayek

Study Prompts

- Why has no pure fiat money ever emerged by decree?
 - How did suspension of gold redeemability change the nature of war?
 - Why were wars shorter and more limited under the gold standard?
 - How did British monetary policy in the 1920s lead to collapse?
 - What role did inflation play in causing the Great Depression?
 - Why do central banks still hold gold despite claiming fiat is money?
 - How does Hayek’s “sly, roundabout way” foreshadow Bitcoin?
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TL;DR

Government money is not money by decree; it is always born as a redeemable claim on market money. The suspension of gold in 1914 birthed fiat, enabling governments to wage endless wars, inflate, and plunder wealth. The 20th century became defined by hyperinflation, Keynesian ideology, and the destruction of prosperity. Despite fiat dominance, central banks still hoard gold, proving gold — not fiat — remains the true money. Hayek foresaw the solution: a monetary system outside government control. Bitcoin fulfills that vision.
