

The Fiat Standard – Lecture 11 (Fiat States) • Study Notes

Overview

This lecture examines how the fiat monetary system reshaped **global geopolitics**, empowering states through reserve-currency arrangements, central banks, and international financial institutions. Fiat states are not simply domestic entities – they operate within a global fiat cartel where the dollar reigns supreme. The result has been the **export of inflation**, debt slavery for developing nations, and the entrenchment of bureaucratic institutions like the **IMF** and **World Bank**.

Part I: The Reserve Currency Hierarchy

- **Two classes of money** (Emile Moreau, 1920s):
 - **First class:** Gold-backed reserve currencies (historically pound sterling, later U.S. dollar).
 - **Second class:** Dependent national currencies, backed by holdings of pounds/dollars.
 - Consequence:
 - Reserve currencies remain independent.
 - All other currencies lose monetary independence.
 - Core privilege: **Exporting inflation abroad** – foreigners hold your money as reserves, absorbing the cost of your monetary expansion.
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Part II: Why States Want Reserve Adoption

- Larger global holdings = more room for domestic inflation without visible price shock.

- Example:
 - If supply = \$1B, printing \$1B doubles prices.
 - If supply = \$100B, printing \$1B is only 1% inflation.
 - Thus, global reserve adoption incentivizes:
 - **Expansion of fiat networks.**
 - Supporting **new central banks** worldwide.
 - Encouraging decolonization/national liberation that results in more central banks plugged into the system.
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Part III: Hayek's Critique of Monetary Nationalism

- **International money** (e.g., gold standard):
 - Free flows across borders, like dollars within U.S. states.
 - No need for “trade balance” politics.
 - **Monetary nationalism** (fiat world):
 - Each nation tied to its central bank's reserves.
 - Trade and capital flows politicized.
 - Creates friction, trade barriers, and eventual militarism.
 - Prediction: more **protectionism, conflict, and totalitarianism** — borne out in 20th century.
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Part IV: Development Trapped by Fiat

- Nations that failed to industrialize before 1914 faced an uphill battle:
 - Lost chance to industrialize under sound money.
 - After 1914, entered a world of fiat inflation, protectionism, and trade distortions.
 - “Developing world” defined not by poverty alone, but by **lack of exposure to hard money savings.**
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Part V: The International Misery Industry

Institutions

- **IMF**: lender of last resort, provides bailouts with new fiat issuance.
- **World Bank**: funds “development projects” using Keynesian models of growth.
- **WTO/GATT**: manages trade distortions created by fiat currency misalignments.
- **Academia**: development economics justifies loans and debt slavery.

The Cycle

1. World Bank sells nations on debt-financed projects (roads, hospitals, airports).
2. Projects fail due to corruption and central planning.
3. IMF bails them out, imposing policy conditions.
4. Country becomes a permanent client state, locked into dollar system.

Incentives

- Bureaucrats enrich themselves with **lucrative careers**.
 - The U.S. strengthens **dollar hegemony**.
 - Local elites gain temporary spending power via foreign loans.
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Part VI: Central Planning and “Social Cost-Benefit Analysis”

- IFIs rely on **aggregates** (GDP, CPI, literacy rates) — fictitious constructs.
 - Individuals’ lives reduced to spreadsheet numbers.
 - Projects justified if “benefits” (in GDP terms) outweigh “costs” (even if lives lost).
 - Austrian critique:
 - Value is **subjective** and **ordinal**, not cardinal.
 - Welfare cannot be calculated collectively.
 - Central planning always misallocates resources.
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Part VII: Political Corruption and High Time Preference

- IMF/World Bank loans = **infinite credit line** for politicians.
 - Domestic politics degenerates into a contest of **who can borrow the most**:
 - Borrow today, indebt future generations.
 - Use funds to buy votes, expand bureaucracy, consolidate power.
 - Result: **short-termism**, destruction of capital, and debt slavery.
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Part VIII: Why This System Persists

1. **Careers for insiders** – tens of thousands thrive on bureaucracy.
2. **U.S. dollar dominance** – maintains reserve status.
3. **Leverage over other nations** – ensures foreign policy obedience.

On these three metrics, the IMF and World Bank are *successful*. All other “development” rhetoric is window dressing.

Part IX: True Drivers of Development

1. **Capital accumulation** → saving → higher productivity.
2. **Specialization & division of labor** → trade expands wealth.
3. **Innovation & technology** → sustained growth.

How Fiat Undermines Them

- Debt lowers interest rates → discourages saving → undermines capital accumulation.
- Trade distorted by protectionism, tariffs, and current account manipulation.
- Innovation blocked by:
 - Restrictions on trade.
 - Intellectual property regimes enforced through IFIs/WTO.

Key Takeaways

1. Reserve currencies allow core nations to export inflation abroad.
 2. Developing nations trapped by fiat debt slavery never achieve true growth.
 3. IMF and World Bank serve bureaucrats, U.S. policy, and dollar supremacy – not poor nations.
 4. Central planning reduces human lives to statistics, ignoring subjective value.
 5. Fiat politics rewards high-time-preference leaders who sell the future for power today.
 6. True development comes only from **saving, trade, and innovation** under sound money.
 7. Without sound money, poor nations remain permanently vulnerable to predation.
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