

The Fiat Standard – Lecture 3 (Fiat Technology) • Study Notes

A dispassionate “engineering study” of fiat: how the network functions, how money is actually created, and why central banks’ monopolies undermine savings, trade, and long-term growth.

1) Defining Fiat

- **Author’s definition:**
“A compulsory implementation of debt-based centralized ledger technology monopolizing financial and monetary services worldwide.”
 - **Key properties:**
 - **Compulsory:** Required by law (e.g., taxes must be paid in fiat).
 - **Debt-based:** Money emerges as credit; the native token is **debt**.
 - **Centralized ledger:** Managed by banks & central banks, with the **Federal Reserve as the ultimate full node**.
 - **Monopolistic:** Until Bitcoin, all global financial services required fiat.
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2) Origins in Default

- Fiat arose from **government defaults on gold obligations**, not from careful design.
 - Never debated, voted on, or presented honestly—introduced as a **temporary measure** that became permanent.
 - **Every fiat currency** derives value from a past gold peg (or another fiat that once had one).
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3) How Fiat Creates Money

- Popular misconception: Governments simply print paper and hand it out.
- Reality: **Money is created via lending.**
- Future promises are treated as if they were present money.
- Banks with lending licenses can conjure credit that counts as money.
- All credit risk ultimately externalized to society through inflation.

Example: Buying a House

- Gold/Bitcoin standard: present goods (gold/satoshis) exchanged for house.
 - Fiat system:
 - Buyer borrows \$1m → bank *creates* \$1m that never existed.
 - Seller gets spendable cash; buyer gets house.
 - No present good sacrificed; risk absorbed by all currency holders.
 - **Analogy:** Fiat “block rewards” vary daily with net lending (new loans – repayments – defaults). No fixed issuance schedule.
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4) Network Topography

- **190 central banks** = nodes (members of IMF).
 - Thousands of private banks under them.
 - **One true full node:** U.S. Federal Reserve.
 - Can effectively exclude participants (e.g., Russia sanctions, SWIFT removal).
 - Holds global authority over validity of settlements.
 - Native token: **debt**, denominated in **USD**.
 - All other currencies = “USD ± country risk.” Long term, none outperform USD.
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5) Central Bank Functions (The Four Monopolies)

1. **Currency monopoly:** Issue national fiat, set supply & interest rates.
2. **International settlement monopoly:** Exclusive authority for cross-border payments.
3. **Banking monopoly:** License/regulate domestic banks, hold reserves, clear interbank payments.
4. **Government bond buyer:** Finance government by monetizing its debt.

*These four combined = society's entire liquid wealth becomes **collateral for government borrowing.***

6) Consequences of Monopoly Design

- **Conflict of interest:** Same entity controls money, trade, banking *and* funds government.
 - **Capital destruction:** Citizens' savings constantly devalued to back government spending.
 - **Trade distortion:** Inflationary policy politicizes international trade; tariffs and restrictions follow.
 - **Stifled tech progress:** Restricting capital & trade undermines technological advancement.
 - **Analogy:** Mixing sewage water with drinking water pipes → poisonous and unsustainable.
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7) Global Reserve Breakdown (2020)

- **USD:** ~50% of reserves.
- **Euro:** 18%.
- **Gold:** 13%.

- **Yen:** 5%.
- **GBP:** 4%.
- **CNY + others:** <2% each.

Shows the USD's dominance as the global reserve unit.

8) Core Takeaways

- Fiat's **native token = debt**, created through lending.
 - Central banks hold **dangerous monopolies** combining money, trade, banking, and government finance.
 - This structure systematically undermines:
 - **Capital accumulation**
 - **Trade**
 - **Technological advancement**
 - Result: **Century of crises, defaults, and hyperinflations** far more common than under gold.
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9) Study Prompts

1. Why is fiat better described as a **centralized debt ledger** rather than just printed paper?
 2. How does lending function as the equivalent of **mining** in fiat?
 3. What are the four monopolies of central banks, and why do they create systemic risk?
 4. Why does the Fed function as the **global full node** of the fiat system?
 5. How does fiat's structure destroy the drivers of growth (capital, trade, technology)?
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10) Quotable Ideas

“The fundamental engineering feature of fiat is treating future promises of money as good as present money.”

“The government secures central banks’ monopolies, and in return central banks finance the government with society’s wealth as collateral.”

“Fiat destroys the three drivers of economic growth—capital accumulation, trade, and technological advancement.”
