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Book Review

The Fiat Standard: The Debt Slavery Alternative to Human Civilization

Saifedean H. Ammous
Beirut: Saif House, 2021, 382 pp.

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The 18-chapter sequel to *The Bitcoin Standard* (2018) is a book on money and how the technology used as money directs the way a society develops. It is Ammous' (2021) analysis of a world dominated by fiat currency. Dr. Ammous, an engineer with a PhD in Sustainable Development from Columbia University, offers a brief historical account of how and why societies give up proper money and adopt the "fiat standard." More importantly, he reasons on the broader societal consequences of adopting fiat money technology, in particular, on the negative consequences of the use of fiat money that go beyond economics. The book is mainly directed to a non-technical audience of bitcoin enthusiasts, but it also includes technical discussions, for example on fiat money creation, on banking, and on bitcoin that can sound too advanced for the layman.

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A central concept in the book is *money as a technology*. Gold, fiat money, and bitcoin are different technological representations of money. Ammous compares these three technologies, and discusses the switch from the gold standard to a fiat standard, as well as the possibility of a future move to a bitcoin standard. Their comparison is made using the concept of "salability"[2] (Menger 1892) across space and time. This can be defined as the degree to which a good can be brought to market without losing its purchasing power. Or, in other words, the degree to which a given money technology holds its value over space and/or time. Technological improvements generate value for money users because they facilitate exchanges in either space, time or both at once.

In particular, technological improvements allow for better time salability, i.e., money flows more easily across time without losing value (chapter 5); and space salability, i.e., money flows more easily across space (chapter 6). With better money technology, more and more complex entrepreneurial activity and transactions become possible both across space and time. In this analysis gold money has good time salability—it maintains its properties through time—but it performs poorly in space salability because it is hard to carry around. Fiat money makes moving money around much easier when compared to gold, thus it is great in space salability; however, it performs poorly in time salability because it tends to be debased by central bank inflation and fractional-reserve banking. As with gold, bitcoin maintains its characteristics as time passes; as with fiat money, it can be easily exchanged across space. Therefore, the bitcoin standard type of money would perform better than these two alternatives in both time and space salability.

The book has three parts. Part I has 6 chapters and explains the "Fiat Standard." Part II's 6 chapters form the core of the argument and discuss the "Fiat Life" analyzing fiat money influences in society. Part III's 5 chapters discuss pros and cons of bitcoin, how it could become "The Fiat Liquidator," and what could stop this from happening.

Part I sets the stage and provides historical evidence to explain the migration from gold to fiat money based on fiat's technological

[2] In some translations the concept has been worded "saleability" (Menger 2007)

advantage: its greater overall salability. For example, it explains how English banks became the nodes for the settlement of international transactions, and how the English government learned that it could issue more currency (and thus pay for more things without taxing its citizens directly) if it suspended the convertibility of its pound sterling bank notes to the underlying metal. This part discusses the "mastery manipulation" made by the Bank of England to finance the great war and the fact that this manipulation was praised by John Maynard Keynes (chapter 2). It explains how the US dollar became the dominant currency in the fiat era and presents a number of other interesting historical notes on the technological move from the gold standard to the fiat system.

Moreover, Part I digs deeper into fiat money technology. It explains what fiat money is, how it is created and, in particular why it does neither settles transactions nor extinguishes debt (as proper money should do). It deals with how the worldwide fiat money system is organized, and explains inflation and how it is (poorly) measured—the 1967–2020 average annual growth of rate of money in 167 countries is at an astonishing 29 percent. It explains how the purchasing power of fiat currency is debased by central banks and fractional reserve banking and how this debasement is related to government debt. It further suggests a possibly profound modification in the way common measures of inflation, such as the CPI, are to be treated. He suggests that inflation should be seen as a vector instead of a simple index (see Chapter 4). Important as a scholarly contribution, this part also discusses balances held in fiat currencies, debt, and how savings and investments are different economic and financial entities. Specifically, it demonstrates how, in a fiat system, the difference between savings and investments disappears and discusses the serious consequences of this disappearance for the individuals and the economy as a whole.

Chapters in Part I are sometimes technical and can be hard to follow for those not acquainted with money and banking jargon. Ammous closes this part recognizing that the fiat solution has important benefits for the end users. In particular, it behaves much better than gold in the aforementioned space salability.

Part II is where the most important academic contributions are made. It is here that the discussions of the societal consequences

of the adoption of a fiat standard occur. For example, fiat money substantially increases the possibility of using credit, thereby allowing for consumption without production. This shifts and disrupts the natural order of work first, reward later. Further, by debasing the value of money, fiat money alters time preference (another very important concept throughout the book), punishing savings and incentivizing higher time preference exercised as the direction of more funds towards present consumption. More, the constant debasing of money value (of time salability) forces people to invest—to put their savings into equity or debt instruments that would return yields higher than the expected rate of inflation. This need to invest forces individuals to allocate efforts (or, alternatively, part of their savings by hiring someone who does it for them) to try to understand complex business environments exclusively in the pursuit of maintaining the purchasing power of the money they already saved. The (very) poor time salability of fiat money eliminates the possibility for savings to be simple and straightforward, and particularly harms poorer and less capable individuals. Implications for areas such as architecture, family, food, energy, and science—climate science in particular—and education are discussed, sometimes in great detail.

Part III is where the book is most clearly the sequel to *The Bitcoin Standard*. This part is permeated with technical discussions on bitcoin, the technologies that sustain it, and the ones that build upon it. Here Ammous speculates on whether, and how, bitcoin can fix the societal problems discussed in Part II. It digs into the economic and technical problems that bitcoin itself currently faces, as well as some that it may face in the future. The main economic point is that bitcoin, like gold, and contrarily to fiat money, is an asset but not a liability. Transactions made using gold or bitcoin eliminate debt and liabilities for the parts involved, while transactions using fiat money always leave an open liability between the one in possession of the fiat money and the government that issued that money. The conclusion: bitcoin, like gold, properly settles transactions, while fiat money does not, and this is an enormous economic advantage for the former.

Part III is also where Ammous discusses the problems that bitcoin needs to address if it is to become a viable alternative to fiat money. For example, problems of scaling are analyzed and the

solution provided by bitcoin's second layers such as the Lightning network are presented with their pros and cons. A treatment of how banking would work on a bitcoin standard brings back the separation between savings and investments, impossible in a fiat money system. This separation, with bitcoin's good time salability, would release individuals from the burden of having to invest to maintain the purchasing power they already acquired while fiat money inflation works to destroy it. The implications of possible software bugs, speculative attacks, the introduction of the Central Banks Digital Currencies (CBDCs), and even implications for government and international relations are discussed (chapter 18). For example, on the business side Ammous suggests that the adoption of bitcoin would lead to a shift to equity finance, rather than credit instruments (chapter 15), substantially modifying the way financing works. Additionally, Ammous carries out a discussion of the common criticism that bitcoin wastes energy, presenting a number of counter-arguments. Technologically, bitcoin is presented as more advanced and more valuable than gold and fiat money, because it provides better value to users given its greater salability across time and space when compared to the other two alternatives.

The Fiat Standard is a book on money, its technology, and its deep influences on societal development. Importantly, Ammous points to a number of unintended consequences of governmental intervention in what can be deemed as the most important good in an economy. But these important contributions are not without flaws.

One recurrent problem is the lack of sources for historical claims. For example, in Chapter 1, Ammous discusses the popular outcry for the return to the gold standard after World War I in England, and says that the IMF forbids countries from tying their currencies to gold (chapter 1), but fails to provide sources. Other examples can be found in the book, and while this is not a major problem, it opens the door for cheap criticism.

A bigger drawback is the change in tone that happens on a number of occasions in the second half of the book. In Part I and through most of Part III, Ammous' writing is balanced and maintains a scholarly tone, avoiding derogatory language. His discourse focuses on presenting the issues and scientifically analyzing them, providing

sources, historical evidence, arguments, and counter-arguments. This occurs even when he is discussing things he openly despises. However, in Part II and in some of Part III the tone becomes less scholarly and more opinionated. In Part II, wherein we find most of the scientific contribution of the book, scholarly discussion is often replaced by a much less balanced and hardly technical presentation. For example, this happens when certain buildings are characterized as "ugly" (Chapter 7) or when the state is called a "gun-toting nanny" (Chapter 8). This approach leaves Ammous vulnerable to cheap criticism and somewhat obscures the important scientific contributions that are made throughout the book. It shifts the focus of the book, and provides excuses for his opponents to disregard his important contributions.

Above all, the biggest weakness in the book's core argument is its single-minded aim and focus. This approach appears to go overboard in its quest to blame fiat currency as cause of many, if not all, societal problems, ranging from obesity and malnutrition to lack of economic development. The well-defended reasoning presented by Ammous suggests that, indeed, fiat money is one of the causes of those problems, and possibly one of the most important ones. However, recognizing the role of fiat money in the emergence of societal problems is not saying that it is *the* (single) cause for them all. One example illustrates the problems with this claim. The text suggests that fiat money would increase the likelihood for international conflict (p. 217). Though this follows from the reasoning, historical evidence shows that in the last 100 years, while fiat money took over the world, the number of conflicts has actually fallen (see also chapter 12). The common social media claim, "Bitcoin Fixes This" (see also McMaken 2022) is too bold and diminishes the important contributions of the book.

Despite these drawbacks, the book undoubtedly brings to light important factors that need to be further addressed. For example, the suggested implications of using fiat money for entrepreneurship and business—especially in businesses' cost-benefit analysis and finance (see chapter 12)—and the distortions caused by the fiat policies on societies, deserve much further investigation. The same is true for the thoughtful economic and sociological implications of fiat money for economic development (see chapter 11). Overall, the book contributes to Austrian economic

thought with his thoughtful extension of the Austrian school's reasoning to different areas. It suggests a number of research avenues that extend into social and maybe even natural sciences beyond economics.

"Intellectual arguments are very cheap, but actions are very costly" (p. 284). This sentence summarizes Ammous' approach to life and bitcoin (mainly concentrated in his resource-packed website saifedean.com) and his effort in writing and self-publishing this sequel. *The Fiat Standard* is a well-researched, ambitious, thoughtful, and provocative book. It takes a technological stand and illustrates the widespread pernicious implications that follow from the adoption of the fiat standard while providing interesting discussions on how those problems could be avoided and/or solved by the adoption of money proper that would "fix this."

At the same time, the book overestimates fiat money as *the* (single) cause for many problems in society. This technology has many flaws and certainly contributes, as Ammous beautifully demonstrates, to the emergence of these broader societal problems. But the adoption of fiat money is unable to singlehandedly explain it all. Money is essential to a modern economy, but societies are very complex and attributing their problems to one single cause is a very difficult, maybe impossible, case to make. Even if future societies adopt a proper money standard, many of the societal problems that sound money would help to address will linger in a way or another.

Ammous' contributions in *The Fiat Standard* are scientifically important. The book demonstrates the relevance of money for the development of a healthy and prosperous society and exposes the vast range of problems that bad money technology entails. Importantly, it shows the power of the praxeological approach to the study of social sciences. The book ignites discussions on the different—usually negative—societal implications of the adoption of fiat money technology, and on how the praxeological approach could be expanded to help understand social phenomena that go beyond economics (cf. Rothbard 1973). It is up to others to extend and clarify these findings.

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