# THE BITCOIN STANDARD RESEARCH BULLETIN

**Dr. Saifedean Ammous**

**March 2019, Volume 2, Issue 2**

# Bitcoin and the developing world

## Contents

Bitcoiners have long thought of poor countries as the poster child for the problems bitcoin solves. Many have pointed to the potential for bitcoin to bank the unbanked and allow them access to global markets, reduce transaction fees, and make remittances cheaper. Yet, ten years after its inception, it has made very little progress on these fronts. The belief in bitcoin's ability to achieve these feats comes from the common mistake of assuming that its primary use case is a cheap mass payments network, as opposed to a base settlement network inextricably linked to a native hard money. Bitcoin does not offer the poor a cheaper, more inclusive Visa or Paypal, it offers the entire world an alternative to central banks' monopoly on money. Unlike Paypal or Visa, which can run on top of any currency, Bitcoin the payment network is completely worthless without people demanding to hold its native token, and the network's utility rises in direct proportion to the value of cash balances held in its native token. This constitutes the pool of liquidity available to potential traders, and the larger the cash balances, the more frequently opportunities will naturally emerge for trade with bitcoin as the medium of exchange. For individuals holding their government's money and looking to trade with one another, bitcoin is highly inconvenient as it would involve the conversion into and out of government money, with significant transaction costs.

Does this mean that Bitcoin offers no benefit to the world's poor? On the contrary, if Bitcoin succeeds as a base global settlement network, the benefits would be of far greater significance than a cheaper payment network. To understand why, one must first understand how utterly disastrous and destructive the current global monetary system has been for the world's poor. And to understand this monetary system we must first begin by examining its sordid history, which started in the fateful second decade of the twentieth century.

# I. WWI and monetary nationalism

As discussed in The Bitcoin Standard, the major European economies of the world moved away from the gold standard (imperfect as it was) toward a system of 'Monetary Nationalism', a term coined by Friedrich Hayek in a volume of lectures entitled Monetary Nationalism and International Stability. For all the popularity of Hayek's work (at least relative to other Austrian economists), it always astonishes me how few people have ever read this series of lectures, or have any inkling of its content.

Hayek defines the title of the series of lectures:

> *By Monetary Nationalism I mean the doctrine that a country's share in the world's supply of money should not be left to be determined by the same principles and the same mechanism as those which determine the relative amounts of money in its different regions or localities. A truly International Monetary System would be one where the whole world possessed a homogeneous currency such as obtains within separate countries and where its flow between regions was left to be determined by the results of the action of all individuals.*

On the detrimental effect of the centralization of banking, Hayek explains:

> *It was only with the growth of centralized national banking systems that all the inhabitants of a country came in this sense to be dependent on the same amount of more liquid assets held for them collectively as a national reserve.*

Hayek makes it clear that the gold standard as it existed in the late nineteenth century did not conform to his International Monetary System ideal, as it was not based only on gold but also on bank deposits as base money. This undermined the uniformity of the monetary asset and allowed governments some margin to inflate the money supply. But for all its faults, the gold standard was far superior to what followed after 1914.

The centralization of gold reserves with one national bank, and the granting of that bank with monopoly privileges in the issuance of currency, and tasking it with counteracting financial crises was always going to be a recipe for inflationary disaster, and Hayek explained why very presciently:

> *I would emphasize that bank deposits could never have assumed their present predominant role among the different media of circulation, that the balances held on current account by banks could never have grown to ten times and more of their cash reserves, unless some organ, be it a privileged central bank or be it a number of or all the banks, had been put in a position, to create in case of need a sufficient number of additional bank notes to satisfy any desire on the part of the public to convert a considerable part of their balances into hand-to-hand money.*

It led Hayek to conclude with a startling observation:

> *the fundamental dilemma of all central banking policy has hardly ever been really faced : the*

> ***only effective means by which a central bank can control an expansion of the generally used media of circulation is by making it clear in advance that it will not provide the cash (in the narrower sense) which will be required in consequence of such expansion, but at the same time it is recognised as the paramount duty of a central bank to provide that cash once the expansion of bank deposits has actually occurred and the public begins to demand that they should be converted into notes or gold.***

This last excerpt is one of the most eye-opening sentences I have read, and it has fundamentally altered the way I view money and central banking. The ability of banks to expand the money supply through the creation of bank deposits rests entirely on the presence of a larger institution capable of converting the banks' deposits into banknotes or gold. Without the growth of central banking, individual banks were restricted in their ability to expand credit, as the increase in their supply would immediately devalue them compared to gold and note bills. The only way a bank can maintain the value of its expanded deposits on par with the fractional cash reserve backing them is if it had a central bank provide it with liquid cash reserves to meet the demands of depositors, but that would result in the devaluation of the media of circulation, or the exit of gold from the central bank's nation to other nations as it is used to settle global payments.

While the global monetary system before 1914 was superior to what came after it, it nonetheless was not a globally homogeneous international system and allowed for a certain degree of inflationary credit expansion as central banks existed to backstop banks when their reserves ran out. But as national currencies were redeemable in gold, credit expansion by banks would inflate the supply of the monetary media of exchange beyond the gold backing them, thus devaluing the currency compared to other international currencies. As the problems of this monetary expansion were magnified in the late nineteenth and early twentieth century, the solutions proposed by banks and governments were to seek more centralisation and nationalisation of banking systems, not less. Although this only exacerbated the problem, it nonetheless gave them more margin for inflation. Rather than nip the inflationism of the banking system in the bud, the early twentieth century central bankers indulged inflationism by erecting barriers to limit the conversion between various national currencies; this allowed each nation a larger margin with which to engage in inflationary credit expansion. The vicious cycle of increased centralization leading to more inflationism only intensified in the century since. As Hayek explains:

> ***Ever since the British Government in 1694 sold the Bank of England a limited monopoly of the issue of bank notes, the chief concern of governments has been not to let slip from their hands the power over money, formerly based on the prerogative of coinage, to really independent banks. For a time the ascendancy of the gold standard and the consequent belief that to maintain it was an important matter of prestige, and***

***to be driven off it a national disgrace, put an effective restraint on this power. It gave the world the one long period--200 years or more--of relative stability during which modern industrialism could develop, albeit suffering from periodic crises. But as soon as it was widely understood some 50 years ago that the convertibility into gold was merely a method of controlling the amount of a currency, which was the real factor determining its value, governments became only too anxious to escape that discipline, and money became more than ever before the plaything of politics. Only a few of the great powers preservers for a time tolerable monetary stability, and they brought it also their colonial empires. But Eastern Europe and South America never knew a prolonged period of monetary stability.***

What came to be known as the developing world, in my view, consists of countries that had not yet adopted modern industrial technologies by 1914, when a relatively sound global monetary system was replaced by an inflationary one. These societies' development was continuously compromised by the dysfunctional global monetary system that enabled governments to expropriate the wealth produced by their people in order to finance increasingly stupid and destructive policies.

By 1914, the only nations that had achieved a considerable degree of industrialization and accumulation of capital resources were those of Western Europe, as well as the United States, Canada, and Australia. Modern industrialization was making its way into eastern Europe, the north and south of Africa, and many parts of Asia and South America around 1914. The more a country engaged in trade, the more technologically advanced it became, and the closer to the technological frontier it was. The first World War stunted this progress, and the global monetary system that emerged after (and consequently the Great Depression) undermined it even further.

The development of the global monetary system in the post-World War I period is discussed in detail in ***The Bitcoin Standard***, and this piece will only recap a few relevant highlights. After all major economies engaged in large scale inflation to finance the war, their currencies were devalued against gold and were no longer redeemable at the pre-war rate. The healthy step would have been to acknowledge reality, admit to inflationism, and reinstitute a new exchange rate; but that would have been politically unpopular, and the political and monetary authorities instead tried to maintain the previous pre-war rate. But markets cannot be made to lie in order to suit the needs of politicians, and the overvaluation of the pound resulted in the drain of gold from Britain to both France and the US where it was more fairly valued. It's important to understand the arbitrage opportunity available here, as it would become far more common in the fiat-based future of developing countries. Since all currencies were fixed in terms of gold, it necessarily followed that the exchange rates between these currencies were fixed too. So if a country drastically increased its currency's supply while trying to maintain the same pre-inflation gold exchange rate, it would essentially be offering its gold reserves for sale at a steep discount to arbitrageurs and foreigners from countries that hadn't increased the supply of their own currency as drastically.

As Rothbard described it in America's Great Depression:

> *Great Britain, in particular, faced a grave economic problem. It was preparing to return to the gold standard at the pre-war par (the pound sterling equaling approximately $4.87), but this meant going back to gold at an exchange rate higher than the current free-market rate. In short, Britain insisted on returning to gold at a valuation that was 10–20 percent higher than the going exchange rate, which reflected the results of war and postwar inflation. This meant that British prices would have had to decline by about 10 to 20 percent in order to remain competitive with foreign countries, and to maintain her all-important export business. But no such decline occurred, primarily because unions did not permit wage rates to be lowered. Real-wage rates rose, and chronic large-scale unemployment struck Great Britain. Credit was not allowed to contract, as was needed to bring about deflation, as unemployment would have grown even more menacing—an unemployment caused partly by the postwar establishment of government unemployment insurance (which permitted trade unions to hold out against any wage cuts). As a result, Great Britain tended to lose gold. Instead of repealing unemployment insurance, contracting credit, and/or going back to gold at a more realistic parity, Great Britain inflated her money supply to offset the loss of gold and turned to the United States for help. For if the United States government were to inflate American money, Great Britain would no longer lose gold to the United States. In short, the American public was nominated to suffer the burdens of inflation and subsequent collapse in order to maintain the British government and the British trade union movement in the style to which they insisted on becoming accustomed.*

As these imbalances began to appear around the world, politicians would of course refuse to return to the gold standard and instead sought to solve them in ways that amplified their power and enabled their insatiable addition to inflationary expansion. The major economies of the world met in Genoa in 1922 and agreed to use the British pound and the US dollar as global reserve currencies. This magic step would now allow Britain to export its inflation to the rest of the world, by having central banks hold its shitcoin as if it were gold, thereby reducing its depreciation in terms of gold. The Treaty of Genoa was the beginning of the use of political money as an international reserve, and the first in an endless series of international summits between central banks and governments catastrophically centrally-planning the global money markets.

From then on, it became the prime imperative self-interest of the US and the UK to get as many central banks in the world to hold as much of their currencies as possible. This was money printing and inflationism on a global scale never seen before. As other countries began to settle their trade in dollars and pounds, they needed larger quantities of these reserves, and that prevented these currencies from depreciating to the extent that their inflationary expansion would have otherwise dictated. World politics has since been to a large degree motivated by major governments' desire to get their inflationary currencies adopted as international reserves in order to allow them more inflation.

The inflationary policies of the US and the UK in the 1920's would eventually lead to the 1929 crash and subsequent Great Depression, as described in meticulously researched detail by the great Murray Rothbard in one of his most important books, America's Great Depression. The combination of a global depression and monetary nationalism led to global catastrophe on an unprecedented scale, presciently described by Friedrich Hayek in Monetary Nationalism and International Stability, published in 1937.

***Centrally-planned easy money is not only responsible for financial crises and depressions as illustrated with Austrian Business Cycle Theory; it is also the root cause of tensions over international trade and finance.*** As the abandonment of the gold standard allowed central banks to diminish the value of every country's currency, international trade and finance became the release valve through which national inflationary economic distortions would correct themselves. A devaluing currency would incentivize citizens to unload their country's currency for foreign currencies, or foreign goods, which would reduce its demand and; further decrease its value, undermining the government's ability to rob their people through inflation. Rather than try to reverse that trend through reducing inflation, of course, the statist economists of the time sought to fix it by limiting the free movement of capital and goods. More and more trade barriers came up during the Great Depression, and international hostilities around trade continued to increase.

The imposition of trade barriers in turn resulted in further deterioration of the economic situation of the countries imposing them, even as their own citizens suffered from them. The governments imposing them, and their paid actors who play economists in university and TV, would of course never admit that it was the inflation, increasing centralization, and trade barriers that are the causes of the progressively worsening depression. Instead, the blame was placed on other countries and on local ethnic minorities. Years of growing hostility to and scapegoating of foreigners and minorities came to a head in 1939, as the world's totalitarian socialist regimes began to turn on each other and on their minorities. It was this threat to global peace that Hayek had identified in his Monetary Nationalism and International Stability lectures, but his warnings fell on deaf ears. As the monetary standard was no longer a homogeneous money freely moving around the world to where its owners found the best use for it, it became a tool for increasingly omnipotent governments worldwide to finance their warmongering regimes.

Government control of money allowed central planning of the economy in a way that was probably last seen in the western world during the final days of the Roman Empire. To fight the growing unemployment and inflation caused by their inflationist monetary policies, governments imposed price controls, minimum wage laws, work-sharing laws, and various others brands of destructive statist economic insanity. As the economy shrank further and people's lives suffered, they became more and more dependent on the government that could conjure money from thin air, which reinforced governments' power.

The history of the second World War is far too sordid to recount in this space, but suffice it to say that government-approved history and economics textbooks are completely silent on its monetary origins, and the role of monetary nationalism in fostering it. Far from inventing a new alchemy that allowed governments to build a bright future (as its promoters had promised), government control of money destroyed the world's economies by the late-1930's, crippled global free trade, created omnipotent totalitarian governments with many reasons to be hostile to one another, and increasingly turned previously prosperous populations into serfs dependent on government and canon fodder for its wars.

There was one more subtle yet important impact of government control of money and the economy: it allowed government control of the education system, and essentially transformed universities from places for learning and training into propaganda indoctrination centres. A titan like Mises could no longer find a job at a university system whose only imperatives were the dissemination of government propaganda and central planning. It is this class of statist that has shaped the understanding of economics and politics for generations of developing country leaders and economists. This intellectual and historical context is essential to understanding the economic catastrophes of the developing world in the postwar period.

The number and influence of third world leaders who were educated in British and American universities from the 1930's onward is staggering. I have seen no systematic study or data on the topic, but any familiarity with the economic history of developing countries, particularly those that have made "development" a priority will reveal the extent of this influence, which is so persuasive as to not even be worthy of discussion. **This piece gives a flavor of some important names in the third world** who were heavily influenced with the leftist curriculum of the universities of the time. More generally, any perusal of **any economic development textbook**, or familiarity with the rhetoric of any development agency or ministry in a developing country will clearly convey the distinct stench of Marxist and Keynesian notions of central planning. The entire framing of the question of economic development is driven ultimately by a highly socialist view of how an economy functions. The alert reader will not miss the fascination with macroeconomic aggregates and the way in which the government and the development sector are viewed as the omniscient, omnipotent forces of justice working to achieve the holy goals of development.

# II. WWII and Bretton Woods

The failure to return to the gold standard after World War I had doomed the world to experience the growth of government control of the economy, monetary nationalism, and growing isolationism; as a result, a growing sense of militant nationalism developed that had previously been alien to most of the civilized world, and would eventually culminate in World War II. The US emerged as the prime military and economic world power from the war, and so it took the lead in shaping the contours of the global monetary system.

The rest of this section of the paper is an excerpt from ***The Bitcoin Standard***, starting page 56, on the contours of the postwar global monetary system which is relevant background for the rest of this paper.

It is well-known that history is written by the victors, but in the era of government money, victors get to decide on the monetary systems, too. The United States summoned representatives of its allies to Bretton Woods in New Hampshire to discuss formulating a new global trading system. History has not been very kind to the architects of this system. Britain's representative was none other than John Maynard Keynes, whose economic teachings were to be wrecked on the shores of reality in the decades following the war, while America's representative, Harry Dexter White, would later be uncovered as a Communist who was in contact with the Soviet regime for many years. 11 In the battle for centrally planned global monetary orders, White was to emerge victorious with a plan that even made Keynes's look not entirely unhinged. The United States was to be the center of the global monetary system, with its dollars being used as a global reserve currency by other central banks, whose currencies would be convertible to dollars at fixed exchange rates, while the dollar itself would be convertible to gold at a fixed exchange rate. To facilitate this system, the United States would take gold from other countries' central banks.

Whereas the American people were still prohibited from owning gold, the U.S. government promised to redeem dollars in gold to other countries' central banks at a fixed rate, opening what was known as the gold exchange window. In theory, the global monetary system was still based on gold, and if the U.S. government had maintained convertibility to gold by not inflating the dollar supply beyond their gold reserves while other countries had not inflated their money supply beyond their dollar reserves, the monetary system would have effectively been close to the gold standard of the pre-World War I era. They did not, of course, and in practice, the exchange rates were anything but fixed and provisions were made for allowing governments to alter these rates to address a "fundamental disequilibrium."

In order to manage this global system of hopefully fixed exchange rates, and address any potential fundamental disequilibrium, the Bretton Woods conference established the International Monetary Fund, which acted as a global coordination body between central banks with the express aim of achieving stability of exchange rates and financial flows. In essence, Bretton Woods attempted to achieve through central planning what the international gold standard of the nineteenth century had achieved spontaneously. Under the classical gold standard the monetary unit was gold while capital and goods flowed freely between countries, spontaneously adjusting flows without any need for central control or direction, and never resulting in balance of payment crises: whatever amount of money or goods moved across borders did so at the discretion of its owners and no macroeconomic problems could emerge.

In the Bretton Woods system, however, governments were dominated by Keynesian economists who viewed activist fiscal and monetary policy as a natural and important part of government policy. The constant monetary and fiscal management would naturally lead to the fluctuation of the value of national currencies, resulting in imbalances in trade and capital flows. When a country's currency is devalued, its products become cheaper to foreigners, leading to more goods leaving the country, while holders of the currency seek to purchase foreign currencies to protect themselves from devaluation. As devaluation is usually accompanied by artificially low interest rates, capital seeks exit from the country to go where it can be better rewarded, exacerbating the devaluation of the currency. On the other hand, countries which maintained their currency better than others would thus witness an influx of capital whenever their neighbors devalued, leading to their currency appreciating further. Devaluation would sow the seeds of more devaluation, whereas currency appreciation would lead to more appreciation, creating a problematic dynamic for the two governments. No such problems could exist with the gold standard, where the value of the currency in both countries was constant, because it was gold, and movements of goods and capital would not affect the value of the currency.

The automatic adjustment mechanisms of the gold standard had always provided a constant measuring rod against which all economic activity was measured, but the floating currencies gave the world economy imbalances. The International Monetary Fund's role was to perform an impossible balancing act between all the world's governments to attempt to find some form of stability or "equilibrium" in this mess, keeping exchange rates within some arbitrary range of predetermined values while trade and capital flows were moving and altering them. But without a stable unit of account for the global economy, this was a task as hopeless as attempting to build a house with an elastic measuring tape whose own length varied every time it was used.

Along with the establishment of the World Bank and IMF in Bretton Woods, the United States and its allies wanted to establish another international financial institution to specialize in arranging trade policy. The initial attempt to establish an International Trade Organization failed after the U.S. Congress refused to ratify the treaty, but a replacement was sought in the General Agreement on Trade and Tariffs, commencing in 1948. GATT was meant to help the IMF in the impossible task of balancing budgets and trade to ensure financial stability—in other words, centrally planning global trade and fiscal and monetary policy to remain in balance, as if such a thing were possible.

An important, but often overlooked, aspect of the Bretton Woods system was that most of the member countries had moved large amounts of their gold reserves to the United States and received dollars in exchange, at a rate of $35 per ounce. The rationale was that the U.S. dollar would be the global currency for trade and central banks would trade through it and settle their accounts in it, obviating the need for the physical movement of gold. In essence, this system was akin to the entire world economy being run as one country on a gold standard, with the U.S. Federal Reserve acting as the world's central bank and all the world's central banks as regional banks, the main difference being that the monetary discipline of the gold standard was almost entirely lost in this world where there were no effective controls on all central banks in expanding the money supply, because no citizens could redeem their government money for gold. Only governments could redeem their dollars in gold from the United States, but that was to prove far more complicated than expected. Today, each ounce of gold for which foreign central banks received $35 is worth in excess of $1,200. Monetary expansionism became the new global norm, and the tenuous link that the system had to gold proved powerless to stop the debauching of global currencies and the constant balance of payment crises affecting most countries. The United States, however, was put in a remarkable position, similar to, though massively exceeding in scope, the Roman Empire's pillaging and inflating the money supply used by most of the Old World. With its currency distributed all over the world, and central banks having to hold it as a reserve to trade with one another, the U.S. government could accrue significant seniorage from expanding the supply of dollars, and also had no reason to worry about running a balance of payment deficit. French economist Jacques Reuff coined the phrase "deficit without tears" to describe the new economic reality that the United States inhabited, where it could purchase whatever it wanted from the world and finance it through debt monetized by inflating the currency that the entire world used.

The tenuous link of gold exchangeability was an annoying detail for the U.S. government's inflationism, and it manifested in two symptoms: first, the global gold market was always seeking to reflect the reality of inflationism through a higher gold price. This was addressed through the establishment of the London Gold Pool, which sought to drop the price of gold by offloading some of the gold reserves that governments held onto the market. This worked only temporarily, but in 1968, the U.S. dollar had to start getting revalued compared to gold to acknowledge the years of inflation it had suffered. The second problem was that some countries started trying to repatriate their gold reserves from the United States as they started to recognize the diminishing purchasing power of their paper money. French president Charles de Gaulle even sent a French military carrier to New York to get his nation's gold back, but when the Germans attempted to repatriate their gold, the United States had decided it had had enough. Gold reserves were running low, and on August 15, 1971, President Richard Nixon announced the end of dollar convertibility to gold, thus letting the gold price float in the market freely. In effect, the United States had defaulted on its commitment to redeem its dollars in gold. The fixed exchange rates between the world's currencies, which the IMF was tasked with maintaining, had now been let loose to be determined by the movement of goods and capital across borders and in ever-more-sophisticated foreign exchange markets.

Freed from the final constraints of the pretense of gold redemption, the U.S. government expanded its monetary policy in unprecedented scale, causing a large drop in the purchasing power of the dollar, and a rise in prices across the board. Everyone and everything was blamed for the rise in prices by the U.S. government and its economists, except for the one actual source of the price rises, the increase in the supply of the U.S. dollar. Most other currencies fared even worse, as they were the victim of inflation of the U.S. dollars backing them, as well as the inflation by the central banks issuing them.

This move by President Nixon completed the process begun with World War I, transforming the world economy from a global gold standard to a standard based on several government-issued currencies. For a world that was growing increasingly globalized along with advancements in transportation and telecommunications, freely fluctuating exchange rates constituted what Hoppe termed "a system of partial barter." Buying things from people who lived on the other side of imaginary lines in the sand now required utilizing more than one medium of exchange and reignited the age-old problem of lack of coincidence of wants. The seller does not want the currency held by the buyer, and so the buyer must purchase another currency first, and incur conversion costs. As advances in transportation and telecommunications continue to increase global economic integration, the cost of these inefficiencies just keeps getting bigger. The market for foreign exchange, at $5 trillion of daily volume, exists purely as a result of this inefficiency of the absence of a single global homogeneous international currency.

## III. The balance of payments: a novel catastrophe

The new global monetary system that emerged after World War II placed every government in control of its country's economy in an unprecedented and dangerous manner. Understanding the role of central banks in managing the international cash reserve and settling the international balance of payment accounts, and how these functions interact with monetary policy and banking regulation is pivotal to understanding the nature of the catastrophes and crises that have befallen developing countries in the past decades.

Under an ideal gold standard, or Hayek's homogenous international monetary standard, the monetary unit would be uniform the world over. Under monetary nationalism, each country's government and central bank decide on the provisioning of the money supply while also being the only entity capable of performing international settlement. The confluence of these two monopolies has been at the root of many economic disasters, particularly in the context of countries indulged by foreign benefactors who supply it the global reserve currencies on which it survives globally.

Under the modern monetary system of the twentieth century, there are four functions of central bank reserves, the intermingling of which is the fundamental design flaw at the heart of most economic problems of the twentieth century. The four main functions of the central bank reserves can be classified into:

1. Backing the value of the national currency. While statist economists like to speak of the state's ability to decree what money is, central bank reserves' existence strictly debunks that. No government is able to decree its own debt or its own paper as money without offering some kind of reserve for redemption. Even if a government were to force its people to accept its paper at an artificial value, it would not be able to force foreigners to accept it; if its citizens want to trade with the world, the government must create a market in its currency in other currencies. Unless the government accepts foreign currencies in exchange for its own, then that market cannot emerge and its own currency is rendered worthless since nobody would want to hold it. There has never in history been an example of a form of money that emerged purely through government fiat. All moneys that exist today are issued by central banks that hold gold in reserve, or central banks that hold in reserve currencies issued by central banks that hold gold. This thought experiment not only illustrates the absurdity of the state theory of money, it also illustrates the fundamentally unworkable nature of political money at an international level. If every government issues its own money, how can they trade next to one another, and at what value? The answer in the current system is that the backing happens with the US Dollar, which is the currency of the country that had accumulated the largest gold reserve at this system's inception, and whose monetary role was only secured through backing by gold in the first place. Thus, for any government to issue a currency, it must have global reserves it can use to settle its international trade deals. This means it must make its currency tradable for its reserves, and that the quantity of reserves is pivotal in determining the value of the local currency.

2. The international cash account. Central bank reserves also settle the international current account (which includes international trade transactions) and the international capital ac-

count (which settles international movements of capital). All international payments to and from a country have to go through its central bank, allowing it a strong degree of control over all international trade and investment. Central bank reserves are thus enriched when foreign investment flows into the country or exports increase, but reserves are depleted when foreign investment leaves the country or imports increase. As individuals across national borders seek to transact with one another, they must necessarily resort to a system of partial barter, as Hoppe termed it, wherein they need to buy a foreign currency before buying the good. This has led to the emergence of the enormous foreign exchange industry, which only exists as an artificial middleman to profit from the arbitrage opportunities generated by the ever-shifting values of national currencies. This also effectively makes the government and central bank a third party in every international transaction involving the citizens of the country.

3. Banks' reserves. Central bank reserves are what ultimately back the reserves of the banking system. The essence of central banks was to be the entity where individual commercial banks would hold part of their reserves in order to settle with each other without moving cash reserves around. With a fractional reserve banking system, the central bank also uses its reserves to provide liquidity to individual banks facing liquidity problems. This means that credit expansion by the banking system that leads to a boom and then an inevitable credit contraction will be remedied by the central bank using its reserves to support illiquid financial institutions, in effect increasing the money supply. Although the banking system in each country primarily deals with the local currency, the central bank nonetheless makes a market in its currency and foreign currencies, and when its own currency's supply increases while the reserves remain unchanged, the currency would be expected to depreciate compared to foreign currencies.

4. Buying government bonds. The modern central bank and government song-and-dance routine adopted the world over involves the central bank using its reserves to purchase government bonds, thus financing the government. Central banks are essentially the main market maker in government bonds, and the extent of a central bank's purchase of government bonds is an important determinant of the value of that national currency. As a central bank buys larger quantities of its government's bonds the value of the currency declines, since it funds this purchase by inflating the money supply. As time has gone by and monetary continence has continued to erode, central banks today do not just buy government bonds but are also engaged in the monetization of all kinds of assets, from stocks to bonds to defaulted debt to housing and much more.

The intermingling of these four functions in the hands of one monopoly entity protected from all market competition is ultimately the root cause of the majority of crises afflicting the developing world. It is easy to see how these four functions can conflict with one another, and how a monopolist will have the perverse incentives to look out for their own interest at the expense of the long-term value of the currency and thus the wealth of the citizens.

Maintaining the value of the currency would arguably best be served by using hard assets as reserves, in particular gold. But the second goal, settling payments abroad, is only doable with the US Dollar and a handful of government currencies used for international settlements. So central banks' first conflict is between choosing a monetary standard for future needs vs one for present needs. This dilemma of course would not exist in a global homogeneous monetary system such as a true gold standard, since gold would offer liquidity across the world today, as well as into the future.

As governments ultimately control central banks, in spite of the constant protestations to the contrary, it is quite possible for them to lean on the central banks to purchase bonds, allowing for more government spending. As a result, the local currency's money supply is inflated, and selling pressure for it increases compared to international currencies. Governments are also likely to lean on their central banks to engage in expansionary monetary policy to "stimulate the economy", which similarly inflates the money supply and bring its value down compared to international currencies. As governments centrally-plan their economies using inflation, they do so while endangering their foreign reserves: individuals start looking to sell the local currency and hold on to better currencies, which creates more selling pressure on the currency compared to the international currency; this forces the central bank to sell some of its international reserves. These individuals will also seek to send their newly purchased international currencies abroad to be invested in foreign countries, which could then lead their government to impose capital controls to stop that flow in order to maintain its foreign reserves.

Similarly, as these individuals expect the value of their national currency to decline, they are also more likely to purchase durable goods rather than hold on to cash balances. This can mean a lot of imports of expensive foreign goods, which also depletes the central bank's foreign reserves. The government is then likely to retaliate with trade barriers, tariffs, and subsidies. The rationale for trade barriers is to reduce the local population from converting their local currency to international currency and sending it abroad. The rationale for tariffs is to reduce the flow of foreign exchange abroad, and to force importers to hand over part of their foreign exchange to the government as they import. And the rationale for export subsidies is to promote local exporters to increase the inflow of foreign reserves. We can now understand how the collapse of the global inflationary bubble of the 1920's, and the presence of a global system of national reserves used along with gold, was ultimately one of the main drivers of protectionism in the 1930's.

The last two points are extremely important for the developing world because they are enormously significant to the only three drivers of economic growth and transformation: capital accumulation, trade, and technological advancement. As governments restrict the ability of individuals to accumulate or move capital and goods, it becomes harder and harder for individuals to engage in capital accumulation, trade and specialization, and importing the most advanced technologies.

The global monetary system built around government monopoly central banks effectively puts the entirety of the local capital markets and all imports and exports under government control. It is able to dictate what can enter and exit the country through its control over the banking sector. The fact that it can always squeeze import/exports and capital markets for foreign exchange revenue makes the government a very attractive borrower for international lending institutions. The entirety of the private economy can now be used as collateral for the government to borrow from the global misery industry, which is built to lend. Understanding the monopoly function of international central banks, and how it interacts with the monopoly function of international development agencies is key to understanding how destructive the global monetary system and the misery industry have been to the world's poor.

## IV. The global misery industry

The IMF, World Bank, and IMF, as explained in the above excerpt of The Bitcoin Standard, were the brainchild of a devout communist lunatic, Harry Dexter Brown. This fact obviously does not feature heavily in these organizations' enormous and slick marketing material which they refer to as "scholarship", but it nonetheless makes a lot of sense when one examines what these institutions actually do.

The function of central banking itself is the essence of communist and socialist thought. Back in 1844 when the lunatics Karl Marx and Friedrich Engels penned their Communist Manifesto, a central bank was one of the ten main pillars of a communist program they sought to implement. The IMF was nothing but the communist attempt at creating a global central bank, which was a necessary attempt at controlling the world economy, which was, after all, the real goal of the megalomaniacal progressives and communists in the US who were pushing for international organizations and global control.

The IMF's main role was to act as a global lender of last resort. Since individual governments could suffer from foreign reserve payment problems, and since the currency on which this monetary system runs is an easy one, it was almost inevitable that expansionary monetary policy would be used to keep this system functioning. With a line of financing from the US Federal Reserve, the IMF is able to issue large amounts of credit for central banks around the world, and has performed this function continuously over the past seven decades. It is critical to realize that the existence of the IMF in this system is absolutely necessary for the US dollar to maintain its role as the global reserve currency. Without a global lender of last resort, every third world country would have run out of its dollar reserves, and its central bank would have gone bankrupt, and its banks and individuals could start trading globally using other currencies or gold. The IMF being there to constantly bail-out these banks and give them more dollars whenever they run out is essential for the dollar continuing its global monetary role, not essential for the people of that country, who could perform global trade using gold or other currencies. It is no coincidence that the IMF strictly forbids its members from tying their currencies to gold, after all, even though a global gold standard would spontaneously achieve all the goals the IMF pretends to be working for. Because it does not involve allowing the US dollar to continue as the global reserve currency, however, the IMF is very hostile to it.

The problem with the lender of last resort role for the IMF is the same problem that exists with a monopoly central bank. Its ability to bail out individual banks is a huge moral hazard that incentives banks to take on more risk, since they know there is a lender of last resort that can bail them out. As the IMF looks to maintain the role of the dollar as the global reserve currency, it encourages all governments to use it, and lends to them when they run out of it. Under the gold standard, countries that ran out of gold and went bankrupt were effectively taken over by their creditors. Kings would abdicate if bankrupted, ultimately, and entire lands would be taken over by other countries. There were very serious consequences to government defaults and bankruptcies. But with the IMF able to bail out countries, there is a larger margin for error and governments can be far less responsible in their actions without worrying about bankruptcy.

The US also created the International Bank for Reconstruction and Development, later to be renamed the World Bank, whose initial purpose was to finance the reconstruction of Europe and the development of the world's poor countries. Inspired by the terrible Keynesian and socialist ideas infesting British and American universities, the Americans decided that what was needed for the world's poor countries to develop was funding for massive government development efforts. From the perspective of the average US or UK bureaucrat and academic at the time, the Soviet Union was the exemplar of economic success, and its brand of central planning would provide substantial economic growth and development for poor countries. Also, in order for the US to prevent countries from going Soviet, it must be the one to lead global development efforts by centrally planning economic development. (See page 55 of The Bitcoin Standard for Samuelson's quote for a good representation of the economic thinking dominant at the time, and how it led to the establishment of the World Bank.)

The World Bank was also financed with a line of credit from the US Federal Reserve, and it was the main driver of development planning around the third world from the 1950's. Its main business model is to issue development loans to poor countries and help them plan their development around these loans. When the planning inevitable fails and the debts cannot repaid, the IMF comes in to shake down the deadbeat countries, pillage their resources, and take control of their political institution. It is a symbiotic relationship between the two parasite organizations that generates a lot of work, income, and travel for the misery industry workers, at the expense of the poor countries that have to pay for it all in loans.

The Global Agreement on Trade and Tariffs, later to evolve into the World Trade Organization, has been the forum in which governments seek to reach agreements on trade. After the value of currencies became arbitrary and unconnected to a neutral free market commodity, and as capital controls limited the free movement of capital, trade became a significant pressure release valve for monetary distortions; the GATT/WTO was built on the insane premise that a central global authority could somehow regulate the flow of trade to prevent imbalances, as if the trade flows were the cause of the imbalances, rather than just a symptom of monetary manipulation. The GATT/WTO severely undermined the free movement of goods and services in the twentieth century, even though technological advancements allowed for faster and cheaper movement of goods than ever before. One of the most important functions of the WTO today is to stifle the free spread of technological innovations worldwide by forcing countries into accepting US patent and copyright law. By forcing countries to apply US intellectual property laws domestically, it becomes much harder for developing country industries to build on new technologies.

These measure are a huge impediment to the spread of ideas, but they do benefit the large corporations that are capable of influencing the IFI's.

In addition to these three main institutions, commonly referred to as the International Financial Institutions, there has been a large growth in international and national development organizations worldwide. These organizations are involved with all aspects of life in the average third world country and have grown into monopoly central planners of many sectors of developing countries.

The misery industry is so far removed from the free market that it operates in a complete vacuum of accountability and responsibility. As explained by William Easterly, these organizations have a fundamental and intractable principal-agent problem: the supposed beneficiaries of their services are not the ones paying for them, so the providers will never be accountable to them. They are instead accountable to their donors and funders in the rich countries, and as such, their actions are always driven to satisfy the demands and interests of their employees first, and their donors second, but never the beneficiaries. The misery industry is full of legendary stories of projects that sound great to the donors, but are terrible for the recipients.

Since the donors are not the ones benefiting from the project, they will never have more than a passing interest in its outcomes (as opposed to the beneficiaries whose lives are dependent on it, despite not having the power to control the project). This asymmetry creates highly skewed incentives for the project's providers, and ensures they do not face real accountability for their actions. The World Bank has for decades been the butt of many jokes because it alone is responsible for assessing the success of its own projects. Whereas in a free market the consumer is the beneficiary who decides which companies to 'finance', and in a government there at least is the pretence of political accountability to democratic institutions, in the misery industry self-accountability is the closest thing you get to accountability.

The World Bank itself decides on which project to undertake, how much to fund it, and then conducts its own internal reviews and issues assessments. As you would expect from any bureaucracy, it is not really possible for any real critical self-assessment to emerge, because it does not have to. The funding to the World Bank is essentially limitless. So long as the Federal Reserve's magic money printer is accessible, there is no market pressure to deliver goods and services or go out of business; without real consequences, there can never be real accountability.

The misery industry is also notorious for retaining and rewarding the most incompetent of its staff members, an ideal and lucrative gig for anyone seeking to avoid accountability and responsibility. In free markets, any job entails significant responsibilities and accountability, but working in development organizations comes with even less accountability than working in the public sector. At least in the public sector the beneficiaries, or citizens, are also the one funding (albeit involuntarily) the projects , and the government at least pretends to want to serve them. To manage a hospital in a developed economy, you will need extensive background in the job and face real accountability and consequences. In the misery industry, a bachelor's degree in human rights, conflict resolution, gender studies, or other vacuous nonsense from a liberal arts college is enough to land you in charge of large projects while staying in cushy five star hotels, ordering local subordinates and servants around like a colonial administrator, and never facing any real accountability.

The final component of the misery industry is the academic wing, composed of thousands of pointless academics studying development, and planning, executing, and assessing development projects and strategies worldwide. 'Development economics' makes no sense whatsoever as an independent discipline of economics, since the realities of economics are equally true in developing and developed countries, and nothing is gained from isolating developing countries' economies and studying them as if they were different. There is no intellectual reason for this separation, nor is there market demand for this ridiculous field of study. The demand is purely manufactured by the misery industry via unfettered access to endless supplies of printed money. There is no good market reason for the talents and abilities of paper-pushers to be dedicated to this industry; it is just another example of unproductive and parasitic activity supported by government money.

Readers who are unfamiliar with the development economics literature should consider themselves lucky. In seven decades, thousands of scholars have produced endless heaps of reports, papers, studies, and books on development economics, all of which concludes essentially nothing, but provides very rich case studies in how central planning fails. A brief history of development economics as a field is discussed in a little more detail in the next section, but the essence is that it is a story of continuous self-reinvention with ever-more ridiculous feel-good buzzwords and corporate boilerplate that never questions one universally important tenet: development requires debt and financing, which require growing bureaucracy, and more funding. No matter what the latest global menace is, operationally, the solution is to convert a Federal Reserve line of easy money into third world debt to produce more jobs for misery industry bureaucrats and their foot soldiers.

## V. Freedom from accountability

***Projects in the misery industry pay lip service to serving the population of the poor country, but their underlying motivations can be best summed up in one phrase: self-preservation.*** Like any bureaucracy isolated from the healthy feedback of the free market, the organization does not exist to serve its customers, but rather the insiders within it. Failed policies can continue for decades as long as they are financed. For the International Financial Institutions, their access to a line of credit from the Federal Reserve grants them immunity from failure on the market. It's worth remembering the crucial fact that they face absolutely no opportunity cost to their lending, since they do not incur a loss if their investments are unprofitable. After seven decades, their budget and staff have continued to grow each year and show no sign of abating. It is the nature of every bureaucracy to behave in its own interest, and in the case of the International Financial Institutions, this incentive is even more unchecked than in national bureaucracies because of the larger disconnect between the beneficiaries and the funders. National bureaucracies operate mostly within the countries from which they are funded, but international bureaucracies operate on different continents from their funders. William Easterly has written extensively on the failures of the development industry, and his paper **The Cartel of Good Intentions** provides a good overview of some of the main problems.

The more one reads about it, the more one realizes how much of a catastrophe it is to have this class of omnipotent unaccountable bureaucrats unleashed on the world's poor with their endless line of Federal Reserve credit allowing them to buy and control entire nations. These organizations can easily override domestic property rights and institutions in the name of development. The World Bank can decide on a development project, and have the local government work on implementing it regardless of the domestic impact. Indigenous populations are removed from their lands, private businesses are closed to protect monopoly rights, taxes raised, and property confiscated to make the projects happen for the sake of development. Tax-free deals are provided to international corporations, under the auspices of the IFI's, while local producers need to pay ever-higher taxes to accommodate their thieving governments' fiscal incontinence. Individuals' lives are repeatedly destroyed in pursuit of the greater good, as measured by dimwit economists with ridiculous mathematical models.

The utilitarian and totalitarian impulses of the demented socialist and Keynesian textbooks taught to these development planners come to the fore in their dealing with poor populations. These textbooks teach that welfare and human well-being can be judged through statistical aggregates which central planners need to manage, and through measuring the impact of policies on society. The fact that economics is fundamentally subjective, as Austrian economists teach, and that welfare metrics cannot be meaningfully measured any more than feelings can be measured, is not something that has ever occurred to the kind of "economist" miseducated with Marxist and Keynesian drivel.

The misery industry never lets methodology or logic get in the way of a good third world loan, and so they have devised astonishingly ridiculous, and downright criminal, ways of measuring the welfare impact of their policies and loans. Since the goals of development pertain to things like health, education, and general well-being, development planners will put prices on all these things, and attempt to make economic plans to maximize national welfare, which would be a measure that includes GDP, years of schooling, life expectancy, and all sorts of other development metrics. This might sound innocuous at first, but its application is the best argument against the mathematicization fetish in economics. By putting a price on human lives, it becomes possible for central planners to come up with projects that destroy human lives and go ahead with them as long as the return financially is larger than the "cost" in human terms. As everything has a price, nothing is outside the purchasing power of bureaucrats with a limitless credit line, and the entirety of poor countries exists like these bureaucrats' plaything. And since these values placed on human lives, health, and education are a product of the fictions of these economists, they can always be manipulated in whichever way makes the project sound good. World Bank project projections always look great on paper, while always failing in implementation. The failure is an inevitable outcome of planning based on fictitious numbers whose sole purpose is to entice third world governments for signing up to the loans.

So, a coal plant that would require the displacement of an entire village of indigenous populations, and that produces enough pollution to ruin the lives of thousands of people who live on a river downstream for it, will look great on the World Bank's projections studies, because they will find that the extra benefits from tax revenue for the government and jobs created is more valuable than the lives ruined by the factory. This is simply the inevitable outcome of using the demented collectivist mathematic fetish of twentieth century dimwits economists as the guiding light for planning people's lives. In a free market, no coal plant is able to displace the local population, but with World Bank loans, greedy governments can. Proper economic analysis is methodologically individual because it recognizes there can be no basis for collective decisions, because welfare is not comparable between individuals, and it cannot be added or subtracted, so all collectivist calculations are fundamentally invalid, and the economists who engage in them are no better than actors being paid by the IFI's to play that role in front of third world governments.

## VI. Development's ugly history

The main ideas driving international development in the early years were theories of Walt Rostow on linear stages of economic growth and modernization, the Harrod-Domar model on capital accumulation driving economic growth, and Rosenstein-Rodan's big push model. These are largely silly modern economic models with which I will not waste the reader's time, except to offer a broad characterisation of the general conclusion which motivated development planners at the time. The Harrod-Domar model assumes and concludes (all of these models basically assume the conclusions they want) that growth is a direct function of the savings rate. The growth rate in an economy in this model is simply the saving rate multiplied by a made-up constant. The model argues that the reason developing countries do not have the desired economic growth is that they do not have enough savings. In order for them to have higher growth, they need higher savings. But since, the model assures us, developing countries cannot save because they are poor, it is incumbent upon their governments to borrow to fill "the savings gap", or the deficiency in the savings needed to achieve the growth desired.

According to Rosenstein-Rodan, capital would be spent on a big push, to build out critical infrastructure and transform the economy from agrarian, rural, and isolated to educated, modern, urban, and industrial under government planning.

While any economist (including myself) would agree that capital accumulation is key to growth, it does not follow that government borrowing capital would have the same effect as capital accumulation. Borrowing is the exact opposite of saving, and if investments are financed by loans, they will incur extra costs related to interest; whereas investments financed with capital will have no interest to pay. But more importantly, when governments borrow to spend, they are simply centrally-planning their economies and gaining massive power over the productive members of their society.

One of the key insights from Austrian economics concerns the role of government in the allocation of capital. If the government owns capital goods, a market is not possible in these goods and the government will fail at allocating them efficiently. (See the discussion of the Socialist Calculation debate in The Bitcoin Standard starting on Page 109). As governments are handed large amounts of funds to spend, they are able to engage in all kinds of politically popular projects with little regard for opportunity cost or alternatives. Whereas in a free market capital is allocated by people who have generated it, and is lost by those who do not use it productively, in a government-planned economy politicians who did not earn the money are able to do with it as they please without facing the consequences of their folly. Government can continue to tax and borrow to finance itself as it makes bad economic decisions, while private actors are not afforded such a luxury.

As such, capital allocation by governments cannot be compared to capital allocation by individuals. It makes little sense to think of the money that they spend as capital investment, as it really behaves more like consumption, and not investment. Governments face little restrictions on their spending, and with money printing, there is no meaningful opportunity cost to their spending. Governments spend the money to buy votes and loyalty more than investing in the future, and the profligacy of government development projects, and the conspicuous consumption by everyone involved only highlights this point.

Had development economists understood economics they might have realized this point, but having been miseducated at Keynesian and socialist universities, the conclusions they arrived at blamed everything and everyone except international lending and the World Bank. A new round of models, buzzwords, and development strategies were announced, and lending and central planning were to resume under their banner. This ritual would continue for seven decades of insanity, and has proven highly rewarding for the parasites who work in the misery industry and highly destructive to the helpless victims of their relentless "help". The misery industry constantly judges its failures and concludes the problem was in some of the cosmetic meaningless terms they use to impress each other ("more participatory planning is needed", "stakeholder engagement needs to be improved.", etc…) and that the solution is bigger budgets, more debt, and more central planning.

After the failure of the initial generation of development plans, development economists moved on to more convoluted models that viewed development as a more complex transformation of society. With lots of meaningless mathematical models, the misery industry started moving toward a more hands-on approach to central planning, getting into smaller projects, managing critical infrastructure, and targeting poverty alleviation directly. The results were not much better than before.

By the 1970s the development failures piled high, and a lot of soul-searching within the misery industry inevitably resulted in the leftist direction of desiring more government control and planning. As the "dependency school" approach became more popular, full blown Marxists and communists further infested the misery industry's debt and central planning apparatus and sought to use their usual unhinged economic policies of nationalization and inflation. The catastrophic result was consistent across everywhere it was tried, and particularly extreme in Latin America, the continent that has been cursed with the most prolific infestation of Marxist economic ideas.

The 1970s was also a pivotal time for the developing world and the misery industry because the US government's decision to suspend gold redeemability had unleashed the Federal Reserve's inflationary instincts, resulting in the artificial manipulation of interest rates downward, a massive increase of the money supply, and easy global lending worldwide. The combination of Marxist lunatics in power and global easy money was to prove disastrous.

Global banks had a flood of liquidity they wanted to lend, while Marxist and Keynesian governments had insatiable demand for more money to run their catastrophic central plans. The misery industry was more than happy to be the match-maker in this, as more and more developing countries were saddled with massive debt in the 1970s while interest rates continued to drop.

Toward the end of the 1970s, the inflationary pressures unleashed by the Keynesians at the US Federal Reserves had escalated wildly, leading to increasingly high prices, speculative bubbles, and a fast rise in the price of gold as wealth holders worldwide started to dump their highly inflationary government moneys in favor of gold. The price of gold had risen from around $38 in 1971 to $800 in 1980, and there were serious concerns in Washington for the survival of the dollar.

As things got serious for the dollar, it was time for the US government to change its inflationary course, and it did so by bringing in adult supervision to rein in the Keynesian children who had almost driven the dollar off a cliff. Austrian-leaning economist Paul Volcker was placed as chairman of the Federal Reserve board, and he immediately set to work saving the dollar from destruction by reigning in monetary policy and limiting the ability of people to own and speculate on gold.

Volcker raised interest rates, which drastically reduced new loan creation and also raised repayment costs for all variable rate borrowers worldwide. Suddenly, all the third world governments that had an unsustainable but manageable debt burden on low interest rates were now unable to make the increasingly larger interest rate payments. The 1980s would be the decade of third world debt crises.

As a third world central bank's foreign reserves become insufficient to cover the government's debt obligations, the problem of the balance of payment functions described above turns the government's own insolvency into a national catastrophe. Under the classical gold standard, life could continue normally for citizens of a country whose government went bankrupt. The king or government would be considered personally liable for the debts, and would have to sell lands or property or abdicate their rule to their creditors.

But under monetary nationalism, the first thing that sovereigns can do when facing repayment problems is to lean on the central bank to use its monopoly control over virtually all of a country's capital to finance the government. This can of course take many forms, all of which have been tried by your favorite kleptocratic regimes of the twentieth century. The simplest is for the government to issue more local debt and have the central bank sell it, which in turn would increase the local currency supply, bringing its value down. Inflation is but the simplest and most inevitable outcome of the debt and central planning foisted on poor countries. Far more terrible consequences follow as governments attempt to fight this inflation.

Should the government try to prevent the exchange rate from declining, it would witness a collapse in its reserves as people redeem their local currency for global reserve currencies. As it seeks to stem the bleeding of reserves, it will start to compromise the other functions of the central bank, with devastating consequences. It could begin to restrict trade to prevent people from sending their foreign exchange abroad. It could prevent capital from exiting the country. It could confiscate bank accounts. In typical interventionist style, of course, each of these interventions will have the exact opposite consequence of their intent. As capital controls proliferate, the government may maintain the foreign reserves already in its possession, but it immediately scares away any kind of new foreign capital from entering the country for a very long time, snowballing to an even bigger problem for the balance of payment accounts. Trade protectionism can prevent the loss of foreign reserves in the short run, but its second and third order effects are highly destructive to the economy. It leads to a large increase in costs of crucial goods and puts more downward pressure on the currency, driving people to hold more foreign reserve currencies instead. It also leads to an increase in the costs of imported inputs for domestic industries, which are usually fairly significant for developing countries reliant on developed countries for their most advanced capital goods. As the cost of importing capital goods increases for local producers, the competitiveness of local industries is severely compromised and exports decline, which in turn hurts the balance of payments further. While confiscating bank accounts can prove a quick short-term fix, it destroys the trust people have in their banking system and makes them far less likely to save for the future, reducing the amount of capital that accumulates in banks.

As governments fell into debt servicing problems, their entire economic systems collapsed because their central banks allowed them to pillage productive capital to keep financing themselves, and to keep paying off the misery industry loan sharks. As the misery industry's raison d'etre is to lend and create more development programs, it also had a vested interest in the continuation of the status quo; it did everything to help governments avoid defaulting on their debts so that the circus of 'economic development financing' could continue by having them borrow ever-larger quantities.

The IMF shined in its role as global lender of last resort in the 1980s, with its famous stabilization policies and structural adjustment programs. As countries were close to default, the IMF would provide them emergency financing conditional on their compliance with the IMF's package of stabilization policies and policy reforms. These policies were marketed around the world as free market reforms, but in reality they were nothing more than a continuation of debt-financed government central planning.

The IMF's privatization programs were immensely corrupt, replacing the government monopolies with private monopolies usually owned by the same people. As part of the debt relief deals signed with the misery industry, governments were asked to sell of some of their most prized assets. This includes government enterprises, but also natural resources and entire swathes of land. The IMF would usually auction these to multinational corporations, and negotiate special deals for them with governments for exemption from local taxes and laws. After decades of foisting the world with easy credit loans, the IFI's spent the 1980's acting as a repo man, going through the scrap heap of third world countries devastated by their policies and selling whatever is valuable to multinational corporations and giving them protection from the law in the scrap heaps in which they operate. This reverse Robin Hood redistribution is nothing but an inevitable consequence of the dynamics created with endowing these organizations with easy money.

As part of these "free market reforms", the IMF would recommend imposing more taxes to close the budget gaps, because the IMF essentially uses "free markets" as a market cover to pass off its global debt entrapment scheme. The role of the IFI's as enablers for Multinational Corporations is something that has of course been repeated often by the IFI's leftist critics, such as John Perkins in his Confessions of An Economic Hitman. While there is some hint truth to Perkins' sensationalist conspiratorial stories, there is of course much that is missing and much that is clueless, primarily due to the fact that the author himself is a clueless lefty economist incapable of understanding the depth of the depravity in which he partook for decades. Having worked for these organizations for decades, Perkins is very typical of the leftists who critique these institutions while living off of their paychecks, and conclude that the problem with them is that they are free market institutions. In fact, it is no exaggeration to say that 90% of the people who work for these organizations can be classified as 'leftist critics' of the institutions, paychecks notwithstanding. It is only to alleviate their conscience that these lefties start lashing out at Multinational Corporations as if Coca-Cola and McDonald's are the most serious problems facing the third world. This superficial ritual prevents them from coming to terms with harder questions that leftists are incapable of even comprehending: Why is there a global lender of last resort in the first place? Why do these countries have to get into debt in the first place? Why should the IFI's get to plan economic development? Contrary to Perkins' vision, the problem is not that the IFI's allow free trade or free capital movement. The problem is that they control and centrally-plan trade and investment, and that their loans are impossible to repay. These problems don't start when the country defaults and needs a bail-out; the problem starts the moment that the first misery industry plutocrat sets foot in a country and begins to centrally-plan its economy.

The work of Perkins and many others exposes clearly how much large multinational corporations benefit from the special arrangements that the IFI's negotiate for them with developing countries, but that cannot be understood as the root problem, but rather, a symptom of it. It is the fact that these organizations have the enormous power of a credit line from the US Federal Reserve that makes them so powerful over developing countries, making them ripe for capture by multinational companies looking to do business in the developing world.

What happened in the 1970s and '80s with third world debt is no different from standard business cycles as explained by Austrian business cycle theory: the manipulation of interest rates downward causes an unsustainable increase in credit, which can only then be sustained with even lower interest rates, and will implode as soon as these artificial rates normalize. The case of third world debt here was similar to dotcom's in the 1990s, housing in the 2000s, or stocks in the 1920s.

In order to get an idea of how utterly destructive the misery industry is, one need just pick up any **development economics textbook** and read the laughable explanations of this third world debt crisis. It's astonishing to see the mental gymnastics needed by these paper-pushers to pretend that the problem has nothing to do with the monetary policy of the central bank that bankrolls the misery industry, or with flooding the third world with debt, or with their central planning of their economies. In the misery industry, the reason developing countries took on a lot of debt is because Arab countries raised oil prices in the aftermath of the 1973 war, which lead to them having excess amounts of capital stored at banks, which banks then had to lend out. To the extent that the US Federal Reserve is ever blamed for this, it is only blamed for raising interest rates in 1980, not for the decade of low interest rates that had ensnared these countries in debt. Suddenly, central banks stop mattering when they do something bad, it's just "market failure". The masochistic reader is invited to read Chapter 13 in the above linked textbook and see for themself the explanation.

Whereas the misery industry had grown enormously while destroying the economies of the third world and bringing them to bankruptcy, it would also thrive while "rescuing" them from the debt crises. The staff and budget of these organizations has continued to rise, before and after the debt crisis, irrespective of any success or failure metrics. IFI internal reports will forever bemoan their failures at achieving their macro goals and the individual failure of the their projects, but organizations cannot survive for so long if they continue to fail at their objective. The only way to understand their continued survival is to realize that feel-good buzzwords (development, growth, sustainability, children's education, disease elimination, etc…) are not their actual objective. Their survival can only be understood as the result of their success in meeting their real objectives: 1- Providing lucrative careers for the insiders in these organizations 2- Maintaining the dollar's role as the global reserve currency. 2- Allowing the US government an unprecedented degree of control over the economies of the world. On all three counts, the IFI's have succeeded remarkably. It makes no sense to speak of any real objectives for these organizations outside these three.

## VII. A real impact assessment

The impact of the misery industry has been to constantly pillage the people of the world's poor countries to the benefit of their governments, and to the benefit of the US government that issues the reserve currency they use. By ensuring the whole world stays on the US dollar as a standard, the IMF guarantees the US can continue to operate its inflationary monetary policy and export its inflation to the whole world. It is only once one understands this grand larceny at the heart of the global monetary system that one can understand the plight of developing countries. And it is also because of this that the thousands of actors playing economists in the IFI's cannot ever be taken seriously or conversed with as adults. Having had the misfortune to have studied with hundreds of these people, I have yet to meet one of them who is cognitively capable of even understanding the horrific redistributive implications of the US exporting its inflation to the world, or the fact that their own jobs merely exist to keep this system alive. It is hard to convince a man of something when his paycheck and third world Raj status is dependent on not understanding it.

Domestically, the impact of the misery industry has been mainly to allow governments to take on larger quantities of debt, and a disruption to the flow of financial and human capital. Instead of allowing entrepreneurs and individuals to reap the rewards of their productive work and naturally reinvest back into the economy (thus shaping the decisions of other producers to meet their demands), the average third world government confiscates the wealth of the productive and puts capital in the hands of clueless unaccountable misery industry central planners and their subordinates in local governments.

In the absence of a free market (thanks to the misery industry's central planning), the misery industry itself ends up being the most lucrative employer in developing countries. Instead of the brightest talents of developing countries seeking to work in a productive capacity and serve their fellow citizens, they are attracted to worthless jobs as assistants to the misery industry foreigners, and end up shuffling papers, writing reports, and conducting the studies nobody reads but that are necessary to keep the funding flowing. One of the most depressing facts about poor countries is that the few educated young people whom would hope could change things seem to be primarily interested in careers in the misery industry.

On top of destroying the market economies of poor countries and turning them into centrally-planned failures, the large amounts of debt enable them to persist longer in failed policies, which conveniently gives the donor governments a great excuse to politically control these governments. The net result is that the third world is not just centrally-planned, but also accountable to foreigners instead of locals. Without the misery industry to bail out every kleptocrat in the third world, the alternative would not be constant inflation and recession. On the contrary, it would only take one of these crises to completely destroy the government that engaged in it, and allow the country a new start. Had kleptocrats not constantly had recourse to the IFI's endless credit line, they'd quickly bankrupt themselves until they are replaced by governments that behave responsibly, and only spend less than they earn. While hyperinflation is never fun, having it destroy a government and replace it with a better one with a hard money is a far better outcome than the eternal purgatory of constantly high inflation, fiscal crises, capital controls, and protectionism that the IMF promotes.

If you live in a poor country, you are witnessing the value of your money collapse through your government's own inflation and the US Dollar inflation. You are suffering from monetary central planning on a local and global level, you are witnessing the complete distortion of your local markets through the intervention of foreign central planners, and the brightest minds in your country will be tempted to enter into parasitic careers in the misery industry rather than produce something of value. It is obviously not the argument of this paper that the misery industry is responsible for making poor countries poor. Rather, in light of all the ways presented in which the misery industry disrupts and destroys the economic and political institutions in a poor country, it is very hard to argue that the misery industry has not hampered developing countries from developing, growing, and eliminating poverty.

# VIII. Development successes

Within the development industry, there is an almost mystical air to the question of how development can happen. The time of simple answers is well past us at this point, and the gibberish reports produced by the international organizations of today offer nothing concrete in their meaning-free but grammatically and politically correct platitudes. While these organizations cannot in any meaningful way claim to have succeeded in their original missions, nonetheless, the world has witnessed significant improvements in standards of living, and the steady elimination of poverty, absolute poverty, illiteracy, and many diseases.

But the idea that these organizations are in any way to thank for this progress is a fiction that not even their own economists do not entertain seriously. An examination of the history of economic development over the past seven decades shows very clearly how there is no mystery to it, and that it conforms to the fundamental tenets of economics. All over the world, and not just in developing countries, societies that have secure property rights, free markets, relatively open international trade are the ones that have prospered and eliminated poverty the most. As nineteenth century industrial technology has spread around the world in the twentieth century, in spite of government restrictions and controls, it has brought the living standard improvements that it always brings. As modern telecommunication technology has also spread worldwide, it has helped people integrate into markets, learn skills, and improve their productivity massively.

The most important stories of growth and transformation have come in the countries that have escaped socialist regimes to more market-friendly political institutions. China is the most important example, of course. In the 1970's, China had little private property and almost complete central planning of its economy. After the death of Mao and the gradual movement toward a market economy, things improved drastically in China, and poverty has almost been entirely eliminated in four decades. India's move away from heavily-socialist rule of British boarding school-educated Fabians started in the 1980's, and with it has come a huge change in the living standards of many of the world's poorest. Neither of these countries had significant presence of World Bank or IMF lending and projects driving its development, nowhere as much as African and Latin American countries languishing in poverty.

Within Africa and Latin America, the only two examples of countries to successfully maintain economic growth for any appreciable period are Botswana and Chile, both of whom are the freest market economies in their continents. Across all continents, and without exception, every single example of a political regime that tried government control of capital has ended with economic disaster and hyperinflation.

***There is no mystery to achieving economic development. The mystery is purely in how to centrally plan economic development while taking on large amounts of loans from the international financial institutions.*** This is why development economists are ultimately mystified; their job is not to end poverty or bring about development; it is to try to do these things while securing jobs for themselves and furthering the institutional arrangement that makes their job possible.

Among development economists, who subsist on "jobs" from the misery industry, the success of India and China is viewed as a testament to the wise policies followed by their governments, and proof that active government management of the economy is necessary and good. But anyone without a paycheck from the misery industry can clearly see that the real driver of growth is the massive reduction in the role of government in the economy, and that further limiting of the state and the misery industry will result in even faster growth and development. It is not the criminally bad policies of Chinese and Indian bureaucrats and politicians that are driving their economies forward, it is simply the fact that these bureaucrats and politicians have far, far less influence over the lives of their citizens since the death of Mao and the increasing marginalization of the Indian Fabian socialists who destroyed their economies for decades.

# IX. Why bitcoin matters

So, how can Bitcoin help the poor?

There is nothing secret, complicated, or elusive about economic growth. It is a very simple process that happens when people accumulate capital, trade, and adopt new innovations. These are the three drivers of economic growth in any time and place, and today's poor countries are no different. They have had little capital accumulation in the past, little to no integration into sophisticated global markets, and cannot innovate or adopt the innovations of others.

The correct question, then, is not 'How can poor countries grow?', but rather, 'What is stopping these countries from accumulating capital, integrating into world markets, and utilizing advanced technologies?' The answers are as obvious as they are impossible to ever find in the thousands of development agencies' unreadable reports published yearly. Capital accumulation is punished severely through inflationary government policy and control over the banking system. Government debt, prompted by the all-powerful International Financial Institutions, shackles the population with debt that lasts generations and requires endless taxes to repay, reducing their ability to accumulate savings from their income. When these debts are used to finance government central planning, the majority of the population's productive capital is put in the hands of central planners. Meanwhile, government control of the balance of payment accounts scares away a lot of potential foreign investment, free trade, and technological imports. On a national level, the division of labor and the natural workings of a market economy are sabotaged through the central planning that IFI's impose on developing countries, which destroys the price mechanism and leads to misallocated resources. On a global level, free trade is hampered by Mercantilist bureaucratic parasites who don't see how critical it is for people's lives, and only deem it a threat to the international cash balance that allows them to continue extracting seigniorage. To cap it all off, IFI's and puppet-master foreign governments impose trade restrictions and prevent technological transfer under the name of "free trade agreements" and patent protection.

The three International Financial Institutions are inherently set up to destroy the only three mechanisms for economic growth and prosperity. The World Bank's central planning destroys the division of labor, the IMF's monetary stipulations destroy the chance of having sound and hard money and thus accumulated capital, and the WTO prevents technological advancement of poor countries through patents.

Bitcoin's promise is to undo the twentieth century's uninvention of a global money. Bitcoin could then save the world's poor from those who have been relentlessly and catastrophically "saving them" for decades. There was no World Bank, IMF, United Nations, or World Trade Organization under the gold standard, and that is likely to be the case in a bitcoin standard.

Without governments' national currencies, protectionist policies, and capital controls, the movement of talent, technology, and capital around the world would be far more free. Had the IMF never existed as an enabler of the worst inflationist impulses of the world's governments, one can only imagine what sort of prosperous world we would live in today.

Important to keep this in mind in light of last month's bulletin and possible bitcoin failure scenarios. This is what Bitcoin is up against, and as long as this system continues to be as dysfunctional as it is, demand for bitcoin around the world will continue to rise.

Will there be corrupt governments under hard money? Of course, but they will face the consequences of their corruption far faster, as they run out of money and can no longer afford to pay the henchmen that prop them up. This global system will not be ended by the people who benefit from it, and they will not want to reform it. They are a bureaucracy whose raison d'etre is perpetuating its raison d'etre.

Not about credit card access or lower transaction fees. We have far larger fish to fry.

Poverty cannot be ended in absolute terms any more than ill-health can be ended, because it is a consequence of individual actions (both chosen and sometimes unchosen) that cannot be stopped. Humans who choose to spend more than they regularly earn will eventually be left destitute, just like how those who consume junk food will be left unhealthy. ***Bitcoin cannot end poverty, of course, and it cannot save those who cannot save themselves. But***

***what it does offer is far more valuable than anything the misery industry can: economic freedom.*** A world financial system built around bitcoin would replace International Financial Institutions with the normal workings of the free market. There can be no global lender of last resort in that world, and there can be no global bureaucracy to centrally-plan the world's economies or restrict its ability to trade with the rest of the world.

# Acknowledgement

The author thanks Adam Tzagournis for his thorough editing and feedback, and Jamie de Rooij for graphic design.

Thank you very much for subscribing to *The Bitcoin Standard Research Bulletin*.

Please feel free to share this bulletin with any friends you would think might be interested in subscribing to this newsletter, and also, to share excerpts or screenshots from the text on social media.

All the best,
Saifedean Ammous

To subscribe: **www.patreon.com/saifedean**.
Or email **thebitcoinstandard@gmail.com** for instructions on how to subscribe through bitcoin or paypal.