

The Bitcoin Standard – Lecture 6 (Capitalism’s Information System) • Study Notes

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Big Picture

- Prices are the **information system of capitalism**, distilling vast, dispersed knowledge into a single variable for decision-making.
 - Hayek’s “Use of Knowledge in Society” and Mises’ critique of socialism show why central planning fails: **without market prices, rational economic calculation is impossible.**
 - Sound money is essential for accurate price signals. Fiat money manipulation distorts interest rates, misallocates capital, and causes business cycles.
 - The foreign exchange system under fiat is a massive inefficiency, turning global trade into partial barter. Bitcoin eliminates this by restoring a single, neutral unit of account.
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Core Claims

1. **Knowledge Problem**
2. Economic knowledge is decentralized; no single planner can know all.
3. Prices condense dispersed knowledge into actionable signals.
4. Example: copper price spike after Chile earthquake → instantly directs producers and consumers worldwide without central command.
5. **Role of Prices**
6. Allow individuals to act on **local knowledge** while aligning with global realities.
7. Entrepreneurs calculate profits/losses only in a common unit of account.
8. Without money and prices, coordination breaks down.

9. **Mises' Critique of Socialism**
 10. Socialism = no private ownership of capital → no market for capital goods → no economic calculation.
 11. Stock market existence is litmus test: if capital can be bought/sold, society is capitalist.
 12. Socialism fails not just due to incentives but due to **calculation impossibility**.
 13. **Capital Market & Interest Rates**
 14. In a free market, interest rate = expression of **time preference**.
 15. Lower time preference → more saving → more capital → lower interest rates.
 16. Historical trend: interest rates have declined with civilization, interrupted by wars/insecurity.
 17. **Fiat Distortion**
 18. Central banks monopolize credit, set artificial rates.
 19. Artificially low rates signal more capital than exists → leads to **malinvestment** (Austrian Business Cycle Theory).
 20. Recessions = liquidation of projects that never should have started.
 21. Switzerland pre-1970s gold standard: virtually zero unemployment, no recessions → proof of sound money stability.
 22. **Global Trade & Partial Barter**
 23. Multiple fiat currencies reintroduce barter-like inefficiency.
 24. Foreign exchange market = \$5T/day, ~25x world GDP, mostly wasted churn.
 25. Businesses forced to speculate in FX just to trade goods.
 26. Gold standard eliminated this; Bitcoin promises to again.
 27. **Bitcoin's Fix**
 28. Neutral, apolitical, global money.
 29. Removes FX costs, restores global unit of account.
 30. Returns prices to accurate reflection of time preference and scarcity.
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Key Concepts & Mental Models

- **Knowledge Problem (Hayek)** → no central planner can know all.
- **Economic Calculation (Mises)** → requires prices in a common unit of account.
- **Time Preference & Interest Rates** → interest reflects society's orientation to future.

- **Malinvestment** → projects started under false monetary signals.
 - **Partial Barter** → fiat FX system = regression away from true free trade.
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Examples & Applications

- **Copper market after Chile earthquake** → price instantly coordinates supply & demand globally.
 - **Swiss gold standard era** → near-zero unemployment due to absence of monetary cycles.
 - **Mises' builder parable** → false signals = projects started that can't be finished.
 - **Foreign exchange inefficiency** → \$1860T/year FX trade = misallocation of global resources.
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Quotable Ideas

- “Prices are the information system of capitalism.” — Ammous
 - “Socialism fails not because men are lazy, but because calculation is impossible.” — Mises
 - “Interest is the measure of a nation’s morality.” — Böhm-Bawerk (quoted)
 - “Adding more fiat currencies is regression to barter.” — Hoppe
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Study Prompts

- Why can no central planner match the knowledge of the price system?
- How do prices coordinate entrepreneurs’ decisions?
- Why is a stock market proof of capitalism?
- How does time preference determine interest rates?

- Explain malinvestment using Mises' builder analogy.
 - Why does fiat turn global trade into partial barter?
 - How does Bitcoin solve the FX inefficiency?
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TL;DR

Capitalism's genius lies in prices, which transmit dispersed knowledge across society. Hayek showed why central planning fails; Mises demonstrated that without private capital markets, rational calculation is impossible. Sound money underpins accurate price signals. Fiat money distorts them, causing malinvestment, recessions, and massive global trade inefficiencies. Switzerland's gold standard prosperity proves the case. Bitcoin fixes this by restoring a single, hard, neutral money that aligns global coordination with reality.
