

The Fiat Standard – Lecture 12 (Fiat Cost-Benefit Analysis) • Study Notes

Overview

Mainstream critiques of Bitcoin often obsess over its **energy consumption**, comparing it to entire nations. Yet almost no one asks the parallel question: **what are the costs of fiat?**

This lecture weighs fiat's benefits against its costs after a century of global dominance. The verdict: trivial efficiency gains, catastrophic systemic costs.

Part I: The Claimed Benefit of Fiat

- **Engineering advantage:** avoids moving gold around physically.
- 19th century: ships full of gold crossed oceans to settle trade.
- Risks: high cost, time, piracy, shipwrecks.
- With fiat:
- Only need digital communication (telegrams, SWIFT, electronic entries).
- Cheaper and faster than shipping gold.

Estimating cost savings:

- Assume transaction fees to ship gold \approx **0.05–0.5%** of value shipped.
 - If ~10% of global wealth moved annually as gold \rightarrow fiat saves \approx **0.05% of global wealth per year.**
 - This is the **maximum plausible benefit** of fiat.
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Part II: The True Costs of Fiat

1. Inflation

- **CPI is unreliable** (government bias, basket changes, productivity masking).
- Better measure: **money supply growth**.
- 1965–2020 averages:
 - Switzerland: 6.7%
 - U.S.: 7.4%
 - EU: 7.8%
 - Japan: 9.8%
 - U.K.: 10.8%
 - China: 20.3%
 - Simple average (all currencies): 30%
 - Weighted global average: **~14% annually**
- In 2019:
 - Global money supply: \$95T
 - Global wealth: \$360T
 - Fiat = 26% of wealth.
 - 14% debasement of that = **3.6% of global wealth lost annually (~\$15T in 2019)**.

2. Inequality

- Inflation **raises value of hard assets** (real estate, stocks).
- Rich hold assets → benefit.
- Poor hold cash → lose.
- Fiat mechanically transfers wealth from the bottom 90% to the top 10%.

3. Economic Distortions

- **High time preference**: discourages saving, encourages debt and consumption.
- **Business cycles**: credit expansion fuels booms, busts, and capital misallocation.
- **Capital destruction**: projects with negative real returns appear profitable if they lose money slower than inflation.
- **Overconsumption & shoddy goods**: people buy durable goods not for use but as stores of value, even if low quality.
- **Partial barter system**: fiat turns international trade into FX juggling, requiring geopolitical/macro awareness just to run business.

4. Empowered Governments

- Fiat grants states **unlimited financing**:
- Funds wars far beyond taxpayer tolerance.
- Expands bureaucracy and surveillance.
- Human toll:
- **20th century total wars** and genocides financed by fiat.
- ~169 million killed by governments (democide).
- Fiat’s “proof-of-work” is **violence and coercion**, not honest accounting.

Part III: The Cost-Benefit Contrast

Category	Fiat Standard	Gold Standard
Main benefit	Saves ~0.05% global wealth/yr (avoids gold transport).	Slightly higher settlement cost.
Inflation cost	~3–4% of global wealth/yr lost (~\$15T/yr).	Near-zero inflation.
Distribution effect	Extreme inequality, favors elites.	Savings preserved.
Capital allocation	Distorted, capital-consuming projects funded.	Only sustainable projects thrive.
Trade system	Partial barter, FX distortions, tariffs, protectionism.	Seamless international money.
Government power	Unlimited wars, surveillance, debt slavery.	Wars constrained by gold reserves.
Human cost	~169M killed by states in 20th century, endless conflict.	Conflicts limited in scale/duration.

Key Takeaways

1. Fiat's only real benefit: **avoidance of gold shipping costs** (~0.05% of wealth).
 2. Fiat's systemic costs dwarf that:
 3. Inflation = \$15T/year lost.
 4. Widened inequality.
 5. Distorted economies and high time preference.
 6. Enabling of total war and authoritarianism.
 7. Fiat converts civilization into **a debt-slavery system**, financing destruction while enriching elites.
 8. Bitcoin reintroduces hard money discipline without the physical transport problem, preserving savings while enabling digital global settlement.
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