

The Fiat Standard – Lecture 13 (Why Bitcoin Fixes This) • Study Notes

Overview

The book is divided into three parts:

1. **How the fiat system works** (Chs. 1–6)
2. **Problems caused by fiat** (Chs. 7–12)
3. **Why Bitcoin fixes this** (Chs. 13–18)

Chapter 13 opens the third part. It explains how Bitcoin possesses four key properties that directly address fiat's failures:

1. **High salability across space**
 2. **Separation of money and debt**
 3. **Anti-fiat technology**
 4. **Neutral global currency**
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1. Bitcoin's Salability Across Space

- **Gold vs. Bitcoin**
- Gold settlement is **expensive, slow, and distance-dependent**.
 - Example: Sending a 400 oz bar (\$750k value) across the Atlantic costs ~\$3,000 and takes at least a day.
- Bitcoin settlement is **instant, digital, and distance-free**.
 - Example: Sending \$750k in Bitcoin costs ~\$1 in fees and confirms in minutes.
- **Key advantages:**
- Transaction cost **independent of distance or weight**.
- **Scales better:** moving \$10M or \$100M in gold is even more expensive; Bitcoin remains ~\$1.

- Even if Bitcoin fees rose **3,000x**, it would still beat gold for large settlement.
 - **Verification**
 - Bitcoin: run a full node for ~\$100–700, verifying all transactions cheaply.
 - Gold: true verification requires melting and recasting bars → expensive, impractical.
 - Result: gold systems centralize (e.g., London Bullion Market Association), while Bitcoin can stay decentralized.
 - **Implication:**
 - High spatial salability prevents monopoly capture by banks.
 - Enables thousands or millions of institutions to settle globally, unlike fiat's <200 central banks.
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2. Separation of Money and Debt

- **Definitions**
 - *Money*: present good, immediate settlement, no reliance on counterparties.
 - *Credit*: future promise of money, carries risk of default.
 - **Gold's weakness**
 - Low spatial salability pushed reliance on banks.
 - Banks blurred the line between money and debt (fiduciary media).
 - Credit masqueraded as money → fractional reserve banking → fiat.
 - **Bitcoin's strength**
 - Every 10 minutes, the network reconciles ownership of all coins.
 - Bitcoin IOUs cannot circulate on-chain; only actual coins settle.
 - Distinction between *present satohis* (real) and *future satohis* (IOUs) is crystal clear.
 - Banks cannot easily inflate supply without being tested by withdrawal.
 - **Result:**
 - Banks return to service providers, not money printers.
 - Governments lose their license to erase debts through inflation.
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3. Bitcoin as Anti-Fiat Technology

- **Core point:** Bitcoin demonetizes government credit.
 - Governments cannot arbitrarily inflate the supply.
 - Credit loses its ability to masquerade as money.
 - **Effect:** defangs fiat power.
 - No more infinite seigniorage.
 - Prevents central banks from financing endless wars, bureaucracy, and distortions.
 - **Bitcoin = reason restored** in a world corrupted by fiat credit.
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4. Bitcoin as Neutral Global Currency

- **Economic growth fundamentals:**
 - Capital accumulation
 - Division of labor & trade
 - Innovation & technology adoption
 - **Fiat destroys all three:**
 - Inflation & debt prevent saving (capital).
 - Trade restrictions & monetary nationalism cripple division of labor.
 - Bureaucratic planning & debt traps block innovation.
 - **Bitcoin fixes this:**
 - Hard money allows savings & capital formation.
 - Non-political currency enables free global trade.
 - Neutral settlement layer bypasses IMF/World Bank debt colonialism.
 - **Limits of Bitcoin:**
 - Cannot “end poverty” in absolute terms.
 - Poverty is partly a result of individual choices (e.g., overspending, lack of discipline).
 - But Bitcoin restores **economic freedom** so that those who *can* save and invest productively are no longer penalized.
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Key Takeaways

- **Salability across space:** Bitcoin settlement is cheaper, faster, and more secure than gold, preventing centralization.
- **Separation of money and debt:** Bitcoin enforces a clear line between present goods (money) and future promises (credit).
- **Anti-fiat technology:** Bitcoin strips governments of their monetary monopoly.
- **Neutral global currency:** Bitcoin enables free market growth by removing political currency distortions.

Conclusion:

Bitcoin doesn't promise utopia. It promises the **economic freedom** that fiat destroyed — enabling saving, trade, and innovation to flourish once again.
