

The Fiat Standard – Lecture 15 (Bitcoin Banking) • Study Notes

Overview

- Banking historically provides **two essential services**:
- **Custody (deposit banking)**: keeping money safe and accessible.
- **Investment allocation**: channeling capital into productive enterprises.
- Under fiat, both functions have been distorted by inflation, debt, and state monopolies.
- Question: **How would banking work under a Bitcoin standard with fixed supply money?**

This lecture explores custody, investment, savings evolution, and why Bitcoin likely leads to **equity-based banking** instead of debt-based banking.

1. Custody (Deposit Banking)

- Homes are not designed as vaults; specialized custodians provide security.
 - In a Bitcoin world:
 - Custodians will still exist.
 - Clients trade off some censorship resistance for convenience.
 - Risk of abuse is limited because:
 - Bitcoin is cheap and easy to withdraw on-chain (~500k daily transactions available).
 - Users can take custody at any time.
 - **Key point**: Even if much Bitcoin is custodied, monetary policy remains secure as long as individuals retain exit options.
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2. Investment Allocation

- Banks act as intermediaries: match savers with businesses needing capital.
- Requires **human judgment** (entrepreneurship) — cannot be automated fully.
- Two models:
- **Credit-based lending (interest).**
- **Equity-based investment (ownership shares).**

In fiat, credit dominates because debt = money creation. In Bitcoin, equity will dominate (explained below).

3. Evolution of Savings

- **Gold standard:** saving was simple — hold gold coins.
 - **Fiat eras:**
 - **Bank deposits** → inflation eroded value.
 - **Bonds** → became “savings accounts” but eroded over time.
 - **Stocks (index funds)** → became surrogate savings vehicles, detached from fundamentals.
 - **Real estate, art, gold, etc.** → pressed into service as savings due to fiat decay.
 - Result: individuals juggle complex portfolios just to preserve wealth.
 - **Bitcoin fixes this:**
 - High salability across time and space.
 - No yield = no distortion from monetary demand.
 - Returns simplicity: **saving = holding Bitcoin.**
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4. Bitcoin Demonitizes Assets

- In fiat, stocks, bonds, and houses are treated as money → inflated valuations.
- In Bitcoin:

- Houses = consumer goods (not savings vehicles).
 - Stocks = real investments (valued on dividends, not “store of value”).
 - Bonds = largely unnecessary.
 - **Bold prediction:** Bitcoin may **end the bond market.**
 - Bonds exist because fiat credit creation rewards lending.
 - Without inflationary credit, bonds lose purpose.
 - Bitcoin provides better liquidity and homogeneity than bonds (all satoshis are fungible).
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5. Fragility of Fiat vs. Robustness of Bitcoin

- Fiat system: built entirely on debt → fragility.
 - Bank runs, crises, contagion.
 - Needs central banks as “lenders of last resort.”
 - Bitcoin system:
 - Value not dependent on credit repayment.
 - Final settlement always possible on-chain.
 - Removes systemic fragility from interconnected debt webs.
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6. Why Equity > Debt in Bitcoin Banking

Three main reasons:

1. **No more money-printing via debt**
2. Lending doesn’t “mine” new money.
3. Removes artificial incentive for credit expansion.
4. **No lender of last resort**
5. Credit = high risk of total loss.
6. Without bailouts, fixed-interest contracts are unsustainable.
7. Equity absorbs risk honestly (both upside & downside).
8. **Cash abundance & declining interest rates**

9. Hard money encourages accumulation of cash balances.
 10. More savings → lower interest rates.
 11. Austrian view: interest = measure of civilization/time preference.
 12. Trend over 5,000 years: falling interest rates → eventually ~0% nominal.
 13. At 0% nominal, lending unattractive → equity dominates.
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7. The Endgame: Banking on a Bitcoin Standard

- Banking separates cleanly into two roles:
 - **Deposit banking:** full-reserve custody, funded by depositor fees.
 - **Investment banking:** equity investment, maturity-matched, sharing upside & downside.
 - Credit shrinks to marginal role (loans among family/friends).
 - Broader system = **more robust, less fragile, equity-driven finance.**
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Key Takeaways

1. **Custody remains** but is disciplined by Bitcoin's withdrawability.
2. **Investment allocation persists** but shifts from debt to equity.
3. **Bitcoin restores saving simplicity** — just hold Bitcoin.
4. **Bonds lose purpose** without fiat's debt-creation incentive.
5. **Interest rates trend toward 0% nominal** as time preference declines.
6. **Equity-based banking** becomes dominant: honest risk-sharing replaces fixed-interest illusions.

Conclusion:

Bitcoin banking = **full-reserve custody + equity finance**. This eliminates fiat's debt fragility, collapses the bond market, and restores stability to global finance.
