The Fiat Standard — Lecture 18 (Can Bitcoin Fix This?) • Study Notes

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Introduction

- Final lecture of *The Fiat Standard* course and book.
- Builds on the question raised in *The Bitcoin Standard*: **can Bitcoin fix fiat?**
- Not a definitive prediction (future is uncertain), but an exploration using the analytical tools of fiat and Bitcoin.
- Examines:
- **Threats to Bitcoin's survival.**
- **Why these threats may fail.**
- **Possible scenarios for Bitcoin's coexistence or dominance.**

The Nature of Bitcoin as Money

- **Digitally scarce, verifiably fixed-supply asset.**
- Like cash or gold: held for its own value, not yield.
- Cash = low risk, no yield → hedge against uncertainty.
- Fiat century destroyed true cash → forced reliance on:
- Government bonds
- Gold
- Real estate
- Equity
- Even art
- **Bitcoin adds a new form of cash**:
- No dependence on political institutions.
- Strict, credible scarcity.

Total Addressable Market (TAM) for Bitcoin

- $90T fiat cash balances.
- $90T sovereign bonds.
- $40T corporate bonds.
- $10T gold.
- ~$280T real estate.
- ~$3T art.
- **$230T in addressable cash-like assets**.
- Bitcoin (~$350B at time of lecture) = **0.15% rounding error** in TAM.
- Bitcoin competes as a **store of value and cash substitute**, potentially absorbing demand from all these asset classes.

Threats to Bitcoin

1. Government Bans

- Fiat worldview: government decrees reality.
- But bans often fail (see drug trade, black markets).
- Bitcoin optimized for surviving bans:
- Decentralized, distributed nodes.
- One block of ~1–3.7 MB every 10 minutes → trivial to transmit globally.
- Billions of devices can join network.
- **Economic incentive ensures circumvention**: bans highlight Bitcoin's core value—financial sovereignty.
- Political economy: small, motivated Bitcoin minority vs. indifferent majority → likely successful lobby (like corn subsidies in U.S.).

2. Software Bugs

- Bitcoin is open source: "with enough eyeballs, all bugs are shallow."
- Incentive alignment: holders, companies, and developers all motivated to protect code.
- Defense is **distributed and constant**, not centralized.
- Bugs possible, but catastrophic failure unlikely.

3. Return to a Gold Standard

- Theoretically strong competitor: hard money with higher liquidity ($10T vs. $300B Bitcoin).
- Could undermine incentive to use Bitcoin.
- But unlikely:
- Requires governments to give up fiat control.
- Even if adopted, gold supply inflates ~2%/year vs. Bitcoin's <0.5%.
- Governments could still confiscate gold.
- Bitcoin remains scarcer and seizure-resistant.

Growth Scenarios for Bitcoin

1. Central Bank Adoption

- Possible: neutral settlement asset, independent of U.S. Fed/ECB.
- Benefits: balance sheet appreciation, citizens save without debt.
- But unlikely:
- Central banks staffed by fiat loyalists.
- They benefit from fiat privilege.
- Low-time-preference mindset rare in bureaucracies.
- El Salvador exception: no central bank, dollarized → Bitcoin as legal tender.

2. Hyperinflation Scenario

- Common Bitcoin narrative: fiat collapses, Bitcoin rises.
- Ammous: **unlikely**.
- **Hyperinflation requires supply explosion**, not just demand decline.
- Bitcoin *reduces* demand for debt instruments, thus *reduces fiat creation*.
- **Punchline of the book**:
- Bitcoin encourages saving, discourages debt.
- Less debt = less fiat issuance.
- Transition may resemble a **debt jubilee** rather than hyperinflation.

3. Orderly Transition Scenario

- Bitcoin reduces fiat demand *and* fiat supply growth.
- Parallel Bitcoin economy grows as fiat economy shrinks.
- Could avoid major collapse → **gradual downsizing of fiat into irrelevance**.
- Savers and entrepreneurs flourish; central planners wither.
- Analogy: Wright brothers → innovation funded by savings, not fiat credit bubbles.

4. Speculative Attack Scenario

- Borrow fiat → buy Bitcoin → repay in devalued fiat.
- Accelerates fiat decline, Bitcoin rise.
- Examples: George Soros vs. Bank of England.
- Could prevent slow transition.
- Limits:
- Lenders may refuse to enable Bitcoin leverage.
- Governments could restrict borrowing for Bitcoin.
- Volatility discourages leveraged speculation.

5. CBDC (Central Bank Digital Currency) Scenario

- True systemic threat.
- CBDCs = fiat without credit discipline: pure money printing.
- Optimized for surveillance, censorship, inflation.
- Resembles Soviet Gosbank model: one account for everyone.
- Inflation “managed” by restricting spending:
- Meat quotas
- Fuel limits
- Rationing, lockdowns
- Digital + propaganda → force compliance (fiat science: climate, nutrition, medicine).
- Creates **economic apartheid**:
- CBDC world: surveilled, centrally planned, soy-bug diet, metaverse escapism.
- Bitcoin world: free market, hard money, energy abundance.
- CBDCs advertise Bitcoin’s advantages: censorship-resistance and inflation-resistance.

Possible Outcomes

- **Debt Jubilee Scenario**: Bitcoin allows fiat debts to be devalued without hyperinflation → peaceful transition.
- **Speculative Attack Scenario**: fiat collapses faster via leveraged arbitrage.
- **CBDC Scenario**: authoritarian dystopia coexists with Bitcoin free market → financial apartheid.
- **Mixed Scenario**: some regions manage fiat responsibly → coexistence for decades.

Conclusion

- Bitcoin is reintroducing **free-market competition in cash balances** after a century of fiat monopoly.
- Threats exist, but economics favors Bitcoin's survival:
- Bans are impractical.
- Bugs unlikely catastrophic.
- Gold standard revival unrealistic.
- Two paths forward:
- **Orderly Transition** → debt deflation, fiat shrinks peacefully.
- **CBDC Dystopia** → authoritarian control vs. Bitcoin black market freedom.
- Either way: **Bitcoin remains the escape hatch.**
