

The Fiat Standard – Lecture 5 (Fiat Balances: Universal Debt Slavery) • Study Notes

Fiat balances are not neutral “savings accounts” but negative, fragile, and revocable debt positions. The system incentivizes borrowing over saving, subsidizes debtors at savers’ expense, and erodes the very notion of financial security.

1) Comparing Balances Across Systems

- **Gold standard:**
 - Balance = **physical ounces/grams** in your possession.
 - Ultimate finality; atoms of gold cannot be arbitrarily revoked.
 - **Bitcoin:**
 - Balance = **satoshis** movable by your private keys.
 - Entire ledger reconciled every 10 minutes across all nodes.
 - **Fiat:**
 - Balance = **ambiguous, shifting debt claims**.
 - Supply definition disputed (M0, M1, M2, M3, M4).
 - No precise tally—new fiat constantly created/destroyed via lending/repayment.
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2) Properties of Fiat Balances

1. **Unquantifiable**
2. No agreement on what “counts” as money (cash, demand deposits, near-money assets).
3. “Future fiat” (claims with maturity) often conflated with “present fiat.”
4. M2 is often used for comparability, but even that is inconsistent across countries.

5. **Irreconcilable**
 6. No universal ledger; no network-wide reconciliation like Bitcoin.
 7. Balances are opaque and prone to fraud, laundering, and manipulation.
 8. Banks simultaneously act as money creators and destroyers.
 9. **Tentative & Revocable**
 10. Deposits can be frozen/confiscated (e.g., Canadian protestors, sanctioned nations).
 11. Cash itself can be devalued overnight (demonetization, hyperinflation, redenomination).
 12. True final settlement does not exist.
 13. **Negative in Aggregate**
 14. Outstanding debt > money balances.
 15. Most households, firms, and governments **owe more than they hold**.
 16. Net result: **global balance sheet is deeply negative**.
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3) Why Negative Balances Dominate

- **Debt = money creation.** Every loan expands supply, creating systemic incentives.
- **Rich:**
 - Use leverage to acquire **hard assets** (houses, businesses, stocks).
 - Run **negative fiat balances** but hold appreciating collateral.
- **Poor:**
 - Limited/no access to credit.
 - Forced to hold **positive balances** (cash/small deposits).
 - Constantly robbed by inflation and excluded from Cantillon effects.

*In fiat: **Borrowers = winners. Savers = losers.***

4) Fragility for All

- Even the wealthy are insecure: two missed payments can mean repossession.
 - Assets are collateralized; financial security is contingent on **constant debt servicing**.
 - Fiat system destroys the concept of **secure savings**.
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5) Collapse of Savings as a Strategy

- **Gold coin era:** anyone could save simply by holding gold.
 - **Fiat era progression:**
 - **Cash savings** → rapidly devalued.
 - **Savings accounts (1930s–1970s):** offered interest above inflation briefly.
 - **Bonds (1970s–2000s):** became “savings vehicle,” but were a subsidy for governments.
 - **Stock indices (post-2008):** became default “savings,” though investing ≠ saving.
 - Result: individuals must become **portfolio managers**, learning:
 - Risk management
 - Macro trends
 - Monetary policy
 - Real estate, commodities, global markets
 - A doctor, engineer, or athlete must “earn money twice”:
 - First in their career.
 - Again through sophisticated investing just to preserve value.
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6) Inflation and the Cantillon Effect

- **Cantillon effect:** those closest to money creation (governments, banks, large corporates) benefit first.

- Savers & wage earners lose purchasing power.
 - Borrowers enjoy devalued liabilities.
 - Financial success in fiat = acquire hard assets, financed with debt.
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7) Universal Debt Slavery

- **Individuals:** mortgages, car loans, consumer credit.
- **Corporations:** operate as leveraged entities, issuing credit to customers.
- **Governments:** largest debtors, enabled by central bank monetization.
- **Everyone:** forced onto the treadmill—borrow, service debt, borrow again.

“Not taking on debt is reckless financial responsibility” in the fiat world.

8) The Narrow Bank Case

- Proposed: depositors’ funds parked directly at the Fed, earning its safe interest.
 - Would have offered low-risk savings, albeit still under inflation.
 - Regulators rejected it—not to protect consumers, but to protect the **fragile banking system**.
 - Reveals the truth: **the fiat system cannot tolerate safe savings options**, because they would expose the unsustainability of debt-driven finance.
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9) Civilization, Savings, and Time Preference

- **Hard money** (gold, Bitcoin): encourages saving, lowers time preference, builds long-term culture.
- **Fiat:** undermines savings, raises time preference, fosters insecurity and short-

termism.

- Civilization progresses with hard money, regresses with soft money.

10) Study Prompts

1. Why is the total fiat balance globally **negative**?
2. Contrast reconciliation in Bitcoin vs. fiat. Why does irreconcilability matter?
3. How do incentives differ for rich borrowers vs. poor savers?
4. Trace the historical progression of savings “vehicles” in the fiat era.
5. What does the rejection of The Narrow Bank reveal about systemic fragility?
6. How does fiat alter human **time preference** and social cooperation?

11) Quotable Ideas

“In fiat, the rich hold negative balances and hard assets, the poor hold positive balances and paper.”

“Not saving, but borrowing, is the rational strategy under fiat.”

“Fiat has effectively destroyed savings as a financial instrument with enormously negative consequences.”

***“The age-old wisdom of every grandmother—save for a rainy day
—has been inverted. Fiat makes you borrow against all your
sunny days.”***