Study Bitcoin to Learn About the Current Economic and Monetary System

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One of the best ways to understand any system is by studying the alternative to that system. Whether that alternative system is better than the current system is sometimes beside the point. Naturally, however, a superior system will be able to reveal the flaws of the old one better than an inferior one would. Think of the horse-drawn carriage or *calesa* vs. the automobile, or of landlines and payphones vs mobile phones, or of DVDs and VCDs vs streaming content. Many are okay with existing systems until they understand the virtues or advantages of the new one and see the problems with the old. Looking at one system from the outside is better done through the lens of the alternative, new system.

Studying the Bitcoin Monetary Network will allow you to understand the current economic and monetary order, the *fiat* monetary system: how it operates and affects you, the product of your labor—your money—and the domestic and global economy. Here are a few tunnels within the rabbit hole.

1. *What is "fiat" money*? You will learn that the money that we use today is called *fiat* because the only reason people use it is because they are required by governments through legal tender laws. It is acceptable by mere decree, and not because of market consensus about its value. People will not accept paper with ink printed on it—*fiat* money—unless they are mandated by law to accept it. Thus, strangely enough, while many governments tout the benefits of free markets, they simultaneously have a monopoly over a very important commodity: money.

You will also learn that ever since paper monies were created, they've always been backed by "real money," usually, gold. Paper moneys used to be "mere" gold certificates or evidence of ownership of gold. Paper monies are called "currencies" because they are only representations of real money—the current of gold that runs through them. Since 1971, the tie between real money and paper monies has been severed. For about half a century now, the world has been on a *fiat* standard, with paper (now, digital) money backed by nothing but legal force and confidence.

2. *What is money printing*? Without the discipline or backing of gold (it's both scarce and hard to find), it's easier for governments to become fiscally irresponsible and just debase the currency by printing money. This is dangerous because every society that has debased its money has sunk into disorder and chaos. By just looking at the purchasing power of the Philippine Peso or the U.S. Dollar, you will see that they have consistently gone down in value over the long term. The reason for this is simple: more money printed means less value for that money. The law of supply and demand applies to money.

3. *Fractional Reserve Banking.* You will likewise learn that apart from central banks, private banks are also able to create money through their lending activities. This might come as a bit of a shock, but it's true because banking laws allow banks to operate their lending business with just a fraction of their reserves. It means that if the reserve requirement is 20%, then banks can lend an equivalent of 80% of those deposits. For every PHP100 peso deposit, they can create PHP80 pesos in credit. The consequence of this is to expand the supply of money and reduce the value of people's savings. This expansion of credit, if left unchecked, leads to asset bubbles and eventual economic crashes, hurting citizens and businesses. Under a *fiat* system, this problem is magnified because the check on the money supply is determined by political actors and bureaucrats, and not disciplined by an asset such as gold which cannot be conjured out of thin air. You can't print gold.

4. *Sound v. Unsound Money.* You will also learn about the importance of the distinction between sound or hard money, on one hand, and unsound or easy money, on the other hand. In essence, sound money (like gold) has limited supply, low inflation, and hard to manipulate, while unsound or easy money can expand or contract depending on government policy. Societies have benefited from sound money because it creates a fair and stable base for economic activities. The Romans debased their currency, destroyed their civilization, and brought the west to the dark ages. Thus, inflation is not just the price of goods and services rising, it is the loss of value of people's labor and the creeping death of currencies.

5. *The Cantillon Effect.* You will be introduced to what is known as *The Cantillon Effect* or the idea that those closest to the money printer—agents of the State, banks, investors, speculators—are always first able to take advantage of the increase in money supply to the disadvantage of fixed income earners or, essentially, everyone else. As the money is debased and inflated, the new money first passes through the hands of those close to the printer, allowing them to do two things: first, invest the money in assets like real estate, stocks, and bonds; and second, dump the new money on everyone else, mostly the middle-income class and the poor, as it loses its value. Part of the rising economic inequality the world is experiencing today is a consequence of this effect. It is not simply a result of greed by the wealthy class; it is, more deeply, the result of a monetary system that effectively rewards a few as the money is being debased by those in power.

6. *Fiat Money is the Union of Money and State.* You will learn that *fiat* money is very political because it can be used to control others. In a world where someone else can print your money, you will be that person's slave. In a world where another country can print your country's currency, your country will become that other country's colony. In a world where one nation can print everybody else's currency, that nation is an empire, and all empires extract and dominate with its money printer. Perhaps once you understand these, you might become open to a peer-to-peer, open source, censorship-resistant, immutable, permissionless, decentralized, global, digital monetary network.