

## The value of fiat money and Bitcoin



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Not many seem to understand the value of fiat money.

I read articles online and everything seems to come back to fiat money not really being worth anything. It is “worth” what the government tells you it is worth, even though it is backed by nothing.

In my view, that is false.

Here’s how it really works.

Governments around the world own between 25% and 35% of all the available labor hours of their citizens. How? Through the largest financial power in the world: taxation.

If Amazon creates “Prime coupons” that allow me to buy some products on their website, I trust the value of these coupons because I know the financial power of Amazon. The financial power of the US government is many, many, times larger. Amazon does not own  $\frac{1}{4}$  of the total productivity of the United States.

Of the total goods and services produced by Americans, 25% belongs to the US government. They own 25% of their citizens’ time. It doesn’t matter the number you want to assign to that. Thinking the absolute number is key is like thinking Amazon stock is 24X more expensive than Apple stock because the price of 1 share is \$3,463 vs \$146. To really compare the price, you need to use the market capitalization (\$1.8T for Amazon vs \$2.4T for Apple). The number of shares is irrelevant when comparing the market valuations of 2 stocks.

Whatever way you want to use to measure the value of 1 hour of labor (in fiat money, gold, silver, bitcoin, x \* devalued fiat money, etc.), 1 hour of labor is worth 1 hour of labor and the US government owns 25% of all the productivity of its people.

Fiat money is like a *loan* to the government. The government is guaranteeing you that their “coupons” will provide you the goods and services that you want, and people trust that guarantee, just like they would trust “Amazon Prime coupons”, because the government owns 25% of all the goods and services. You can add to that backing the network effect of all the other market participants who then back those government coupons as well.

Now that we understand fiat money is worth something, just like a loan to a strong borrower is worth something, what is Bitcoin worth? I would look at it the same way. Who’s backing it and how strong and reliable are these backers? Who are you “lending” money to? Who is guaranteeing your store of value in labor hours? In this case, there is no one backer that comes close to the size of the US government, but there are probably tens of millions of backers. They can all collectively give you some guarantee. It could be the ultimate network effect. As more and more people join in, the bigger the guarantee, the more powerful and solid the decentralized backing, the more valuable Bitcoin *might* be getting. On the other hand, if most of these “backers” are speculators, the reliability of the network must be discounted to some degree as those speculators are susceptible to run every time the price drops.

Careful, I still think there are many risks involved. This article is not trying to give any advice for or against fiat money or Bitcoin.