

Hi all. I'm new here, and this is my first thread. I hope this is the right place for a discussion of such.

This piece was originally intended as a response to the MEV burn thread, but I opt to make it a top-level one to have a broader and purer discussion about economic/monetary policies of the network, independent of other more technical topics such as ePBS.

Let me start by saying that EIP-1559 was an amazing invention. It is an elegantly designed solution that address the problem of requiring inflationary ETH emission to secure the network, and offset it with the burning of base fees, which is deflationary.

I'm sure we all understand why inflationary currencies are bad or why bitcoin is created in the first place. Fiat regimes throughout the history have engaged in reckless monetary expansions that decimated savers and eventually destroy their currencies. And many of us are here because we found ourselves in the middle, if not near the end, of this unprecedented monetary experiment.

In light of the recent success of the EIP-1559, it is only natural to desire to further embrace ETH burn policies to make ETH even more 'ultra-sound'. Many on social media has been gloating about ETH's record burn. Proposals like MEV burn, which could triple the current burn rate have been generally viewed favorably. I do not, however, share this sentiment, and argue that we should examine the cost and benefit more carefully before venture deeper on this path toward more burns. Here are some of my reasonings:

1. Data has been clear that we already more than offset all the inflationary pressure from ETH emission for network security, ETH supply is already on a slightly deflationary path while we are still in the middle of a bear market.
2. Additional burn (the like that could come from potential future implementation of MEV burn) are not designed to address any existing monetary concerns. With EIP-1559 in place, the monetary system of ETH is already sound. It is not broken, and therefore, does not require fixing.
3. Further burn is often justified as it making ETH more valuable to ETH holders, or in other words, make ETH holder richer, in fiat terms. I have several issues with that:
4. So far there is no real-world evidence that suggests the more ETH is burned the more ETH value in fiat goes up. While I would agree that, in theory, over the long run the statement should be true. But 'long run' can be arbitrarily and excessively long. I'm sure many of the so-called 'goldbugs' foresaw USD to hyperinflate in the 'long run'. (I should know, because I'm one of them). For many, it's been more than two decades, and USD is still the world reserve currency. The 'long-run' effect of further burn may be meaningful for many ETH holders.
5. So far there is also no evidence that suggest the more ETH we burn, the more we outperform competitors such as bitcoin (let alone meme tokens like PEPE). In shorter term, fiat market liquidity or speculative pressures, rather than token burns, are by far the dominant drivers of the price performance of any tokens.
6. As I recall, one of the criticisms from the POW coin camp against Ethereum's POS system is that it is a system that makes the rich richer, suggesting that ETH stakers get more ETH without doing anything. I obviously don't agree with that. ETH stakers, at least the solo stakers, operate nodes, take on risk of slashing and illiquidity to help secure the network in exchange for staking rewards. However, one could argue that getting richer from ETH burn is actually somewhat like getting richer for doing absolutely nothing, and the more ETH one has, the more one stand to benefit from doing nothing. I think this might be controversial, but I personally think it is not the network's job to make ETH holder richer by just holding ETH. We are not PEPE.
7. One thing I love about the ETH core dev calls is that they keep it professional and never talk about ETH price in fiat. When it comes to issues related to the monetary policy, I also find it to be short-sighted to appeal to the greedy nature of token holders. Fiats should eventually destroy themselves, as history suggests, independent of how much we burn. We should instead, focus on the impact of such policies on all economic actors in the system, including those who do not yet own any ETH, but will eventually join the ecosystem.
8. There are ample literatures that studies the benefits and costs of an inflationary vs. deflationary systems. I would not have much to add on top. But what I do want to argue is that: inflationary or deflationary, there is always wealth transfer from one group to another, whether it's the savers, the borrowers, those who have, or those who don't. Why can't we be satisfied with a neither inflationary nor deflationary monetary system, which should hurt no one?
9. In a recent Bankless podcast regarding MEV burn, [@JustinDrake](#) suggests that '[with MEV burn enabled, ETH burn could triple the current rate and ETH supply could eventually reach an equilibrium between 50 million to 100 million over the next century](#)'. From over 120 million to potentially 50 million, now that is quite a dramatic decrease. While I don't pretend to understand how this equilibrium range is estimated, I do know that there has not been any monetary system in the history of mankind that has been this deflationary. The potential long-term effect of such a system is entirely unknown. This to me, feels 'experimental'.
10. Inflationary monetary experiments conducted by central planners of fiat regimes are something we are all too familiar with. They cut rates too low, make money virtually free, do too much QE, and then inflation shoots up. In response, they had to turn around, and raise rates too high, and do QT too fast and then crash the economy. The constant theme is: conduct experiment in one direction, go too far; stop and turn around and go the opposite way until they go

too far again, rinse and repeat. I'd argue that excessive deflationary policies could be the same monetary experiment, but in the opposite direction. Everything will be fine for a while, then one day, the network as whole may wake up and realize we have gone too far, at which point we'd either risk some death spiral or we'd have no choice but to change monetary policies back to be inflationary. It might work out in the end, but I would not be surprised if ETH's monetary policy is going to be viewed as subjective and controlled in the hands of a small group of folks that are acting like reckless central bankers. I'd rather this not happen.

In summary, with EIP-1559 in place, ETH already has a sound monetary policy. There is no existing monetary issue that requires the introduction of further deflationary monetary policies. ETH's monetary policies should be carefully examined and rigorously debated with all current and future stakeholders in mind, independent of fiat price, and decoupled from discussion of technical issues.

Monetary experiments, in either direction, are dangerous. Caution is advised