EIP-1559

There is an additional proposal in the works that could strongly affect the total net ETH issuance: Ethereum Improvement Proposal 1559, or EIP-1559.[11] The goal of this proposal is to simplify the fee markets by replacing the current first price auction model – where users regularly overpay on fees – with one that includes a "basefee" plus a tip for the miner or validators that includes the transaction in a block. The basefee would be burned, making the ETH of everyone more valuable, and miners or validators would only receive the tip. The main advantage of this way to structure fees is that they would be much more predictable: The basefee is known *before* creation of the block. This is in contrast to the current model, where network users only know what the minimum fee to get a transaction included was *after* a block has been mined.

Burning a large part of the transaction fee would also mean that the net issuance of ETH will be lower. As shown on page 29, about 520 ETH per day are paid to miners as fees – or about 190'000 ETH per year. EIP-1559 would result in an additional decrease of the annual issuance rate of about 0.2 %. Depending on transaction volumes and fee markets, this could eventually even lead to negative issuance rates in the future.

Conclusion

Ethereum's largest and most impactful network upgrade is coming in 2020 and the years ahead. The switch to Ethereum 2 will have vast implications for its scalability, security, decentralization, and economics. Throughputs of around 10'000 transactions per second are anticipated, and abandoning proof-of-work might improve decentralization as well as the carbon footprint of the network by strongly reducing the amount of computational work validators have to perform.

After a slight initial increase, the total issuance of ETH/ETH2 will drop to levels significantly below the current benchmark of around 4.8 % in the long run. Over the course of the next years, it will be interesting to see how the ETH market reacts to this shift of the supply and demand equilibrium.

[11] https://github.com/ethereum/EIPs/blob/master/EIPS/eip-1559.md