

[The libertarian fantasies of cryptocurrencies](#)

MARTIN WOLF

Digital money needs tough regulation rather than bleating in favor of 'innovation'

"Move fast and break things" was the famous [motto of Mark Zuckerberg](#), Facebook's founder. Among those broken things have been norms of trustworthiness essential to democracy. An activity as dependent on trust as democratic politics is money and finance. This is why developments here cannot be left to **the greed and fanaticism** we see in the world of cryptocurrencies. Careful assessment needs to be made of this world and its relationship to the broader one of digital money. Change is indeed on the way. But it cannot be left to happen.

The cryptocurrency movement would reject that, because its roots lie in anarchistic libertarianism, as [Nouriel Roubini of New York University](#) argues. This ideology also beats in the hearts of many Silicon Valley entrepreneurs. They are not altogether wrong: **the state can be a dangerous monster. But it is also essential**: it is humanity's **ultimate insurance mechanism**. The world of anarchy is one of competing bandits. It is far better to have just one, as the late Mancur Olson argued in *Power and Prosperity*. Moreover, he added, liberal democracy helps tame that bandit. States exist to provide essential public goods. Money is a public good par excellence. That is why dispensing with the role of governments in money is a fantasy. The history of the so-called cryptocurrencies demonstrates this.

Money is a store of value, a unit of account and a medium of exchange. To be a really good currency, it needs to be durable, portable, divisible, uniform, limited in supply and acceptable. How do cryptocurrencies measure up against these requirements? **They are clearly neither a store of value nor a good unit of account**, as their vast swings in price show. They are not a good medium of exchange, because law-abiding people and businesses do not want to own assets that are, by virtue of their anonymity, ideal for criminals, terrorists and money launderers. While an individual cryptocurrency can be limited in supply, the aggregate supply is infinite; according to [the International Monetary Fund](#): "As of April 2018, there were more than 1,500 cryptocurrencies." There could just as easily be 1.5m.

The best way to view **cryptocurrencies is as speculative tokens of no intrinsic value**. One could have value if it became the currency of choice of a jurisdiction. Yet there is a compelling reason why, in normal circumstances, people use the currency of their own government: they need to pay taxes. To do that, they need to render money the government accepts - principally, **deposits denominated in national currency at banks with accounts at the central bank**. This, in turn, is the government's bank. The state can enforce this: that is why it is the state. You may have an online existence. But you also have a physical body, which the government can put in prison if you don't pay your taxes. This is why the state can enforce its domestic monetary monopoly. **Only those operating in the shadows would seek to operate outside this framework - and even they will find it very dangerous**.

As the Financial Times' Izabella Kaminska and Martin Walker of the Center for Evidence-Based Management argued in [evidence](#) for the House of Commons Treasury committee, **so far the cryptocurrency craze has made online criminality easier**, created bubbles, fleeced naive investors, imposed grotesque waste in so-called "mining", offered funding for malfeasance and facilitated tax evasion. -That is the social value in any of this? There is no good case for new anonymous currencies. **Cryptocurrencies are not yet important**. But they need tough regulation. It is no longer enough to bleat in favor of "innovation" or "freedom".

The totalitarian fantasies of Martin Wolf

OSWALDO LAIRET

The otherwise brilliant analyst surprised me in this entitled, dismissive, and shortsighted attack against Bitcoin *Not cryptocurrencies, mind you. Those interested in discrediting Bitcoin, use the word cryptocurrency to label it together with the thousands of useless copycats of its open-source software algorithm.

In less than 50 words, Mr. Wolf accuses the creators and caretakers of Bitcoin of **greed and fanaticism**, while dismissing the privileges that easy money policies have bestowed upon generations of undeserving politicians and bankers, safe from bankruptcy and criminalization from stealing their compatriots' wealth through monetary gimmicks and privileged access to information.

Mr. Wolf bypasses the calamities engendered by easy money over the past 100 years with the phrase "**the state can be a dangerous, but essential monster**." For him, this is enough to sweep under the rug, the unmeasurable damage caused to the general population by the greed and stupidity of the financial and political system he calls **humanity's ultimate insurance mechanism**. A system where monetary intervention leads to asymmetries that reward malinvestment, distort pricing, incentivize corruption and expand poverty. An "**insurance mechanism**," where centralized players encroach on the private information of citizens whose personal data, belief-system, time-expenditure, private assets or political choices should be solely under their own control.

Mr. Wolf's ideal currency **is a store of value** (see [Money](#) link) that has shrunk over **80% over the past 45** years, and if anyone knows the dollar is NOT a store of value in the sense meant for Sound Money, that would be Mr. Wolf. **They are clearly neither a store of value**. The only monetary media that have survived history's test of time, are those whose supply growth is severely restricted. And if there is one thing that Bitcoin has achieved is what Nick Szabo defines as "unforgeable costliness." Meaning **Scarcity**, the most important attribute for a store of value. **nor a good unit of account**. It took gold several centuries to transition from being incipient store of value to true medium of exchange. Thus, why expect Bitcoin to take less than a decade to transition from store of value to unit of account?

cryptocurrencies as speculative tokens of no intrinsic value. According to Mr. Wolf, Money is not a concept we, humans can establish, the way we have done for over 12,000 years, using collectibles and other items to accomplish cooperation, altruism, trade, or the mitigation of aggression. I suppose none of humanity's money precursors count as Money for Mr. Wolf, because they were not fiat currencies and therefore, had no intrinsic value. **deposits denominated in national currency at banks with accounts at the central bank**. Based on his definition of money then, any country that can force its citizens to pay taxes with a useless fiat currency, such as Venezuela's or Zimbabwe's is, in fact, issuing non-speculative Money with intrinsic value! **Only those operating in the shadows would seek to operate outside this framework - and even they will find it very dangerous**. For Mr. Wolf, then unless we submit to a state of pervasive surveillance, we must have something to hide. Apparently, we have no right to privacy.

so far, the cryptocurrency craze has made online criminality easier. So, let's get rid of the Internet, computers and all other technologies that could be used for evil deeds. In fact, since cash can be used for any of the activities he describes here, let's replace it with central bank digital currencies (CBDCs), as he proposes later in the article.

Cryptocurrencies are not yet important. Obviously not for those who intend to judge their importance based on price or market capitalization. Had it been for Mr. Wolf, fiat currency would have never passed from the first stages. Fortunately, the importance of Bitcoin is that it represents the first time in the history of humankind, that it is possible to transfer value between distant peoples in a completely trustless way, without relying on a trusted intermediary, such as a bank or government.

Whatever the dangers of cryptocurrencies may be, "distributed ledger technology" including "**blockchain**" **might prove valuable** in making activities dependent on safe record-keeping, notably finance, more efficient and secure. A huge number of experiments is under way. A recent Geneva Report on the [Impact of Blockchain Technology on Finance](#), argues that such technology can "mitigate the 'cost of trust'" and so "lower overall costs, reduce economic rents and create a more secure and fairer financial system". That would be welcome, if true. Let us experiment. But all the important public policy requirements of transparency and financial stability must continue to apply.

One of the most important potential innovations in the broad area of digital money is potentially the opposite of cryptocurrency: **central bank digital money**, perhaps as a substitute for cash and possibly as something more radical than that. Analysis at the [IMF](#) and the [Bank of England](#) demonstrates that we need to be clear about what central bank digital money is to achieve, how it relates to cash or bank deposits, and whether it could be a substitute for central bank reserves, which at present can only be owned by commercial banks.

Replacing cash with digital tokens of some kind would be relatively simple. It would mainly raise questions about the degree of anonymity of such replacements. Far more potentially revolutionary and destabilizing possibilities would arise if the public at large were able to switch from deposits at commercial banks to absolutely safe accounts at the central bank. This radical idea has obvious attractions since it would remove the privileged access of one class of businesses, banks, to the monetary services of the state's bank. But it would also transform (and surely destabilize) today's monetary system, in which the state seeks to guarantee and regulate a money supply largely created by private banks and backed by private debts. Yet the revolutionary fact is that it would now be easy for everybody to hold an account at the central bank. Technology is eliminating the historic difficulties over such access.

As everywhere else, **innovation is transforming monetary possibilities.** But not all changes are for the better. Some seem clearly for the worse. The right way forward is to reject libertarian fantasy, but not change itself: our monetary system is far too defective for that. **We should adapt.** But history reminds us, we must do so carefully.

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blockchain" **might prove valuable.** Unfortunately, Mr. Wolf is four years behind on this argument. He hasn't learned yet that the "blockchain not Bitcoin" parade suffered a [premature death](#). **Nothing**, except Bitcoin has yet become fully functional using blockchain, whether in finance or in any other economic sector.

central bank digital money. Mr. Wolf has a definite taste for the surveillance state. When cash is gone, I wonder where he will hold the digital money in his bank account, when negative nominal interest rates start eating it away, as they are currently doing in real terms. Or, where he will turn to transact if he ever needs/wants a basic level of privacy.

Replacing cash with digital tokens of some kind would be relatively simple. What if Mr. Wolf ends up living in a country like China, where cash payments shrunk from 96% in 2012 to 15% in 2019 and digital payments have become a tool of social control, serving as a backbone for its "social credit system." But of course, Mr. Wolf wouldn't see anything wrong with CBDCs or where they lead to. Conversely, Bitcoin's first and most important value is its aptness for **Individual Sovereignty**. Being the first true form of digital money, anyone who owns Bitcoin achieves a degree of economic freedom which was never possible before its invention.

innovation is transforming monetary possibilities. Yes, here are 3 that Bitcoin can provide: (1) allowing anyone to send value across the planet without anyone else's intervention, (2) maintaining value that doesn't rely on anything physical anywhere in the world and thus: (3), value that can't be impeded, destroyed, or confiscated by the physical forces of **the political or criminal** worlds. **We should adapt.** Yes, Mr. Wolf. **You and your newspaper** need to be repopulated with a generation of journalists that is more open-minded and technologically literate.

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