Bitcoin in the Longue Durée: Money, the State and Cryptocurrency

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FOR MANY OF ITS PROPONENTS, ONE OF THE GREAT VIRTUES OF CRYPTOCURRENCY IS THE existential threat it allegedly poses to the state. According to Julia Tourianski,

> Bitcoin is inherently anti-establishment, anti-system, and anti-state. Bitcoin undermines governments and disrupts institutions… Bitcoin needs not entities of authority to acknowledge it, incorporate it, regulate it, and tax it. Bitcoin does not pander to power structures, it undermines them… Bitcoin means to channel economic power directly through the individual. (Tourianski)

Like most, if not all of her fellow believers, Tourianski is an ardent individualist 'libertarian'.[1] From this perspective, the state's control of the medium by which transactions are conducted—together with its quasi-conspiratorial relationship with the banks—is central to its capacity to monitor and tax individuals. Such monitoring is anathema in itself: only a system that allows transactions to take place with complete anonymity can properly guarantee freedom from surveillance and hence liberty (Ferguson 151).

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[1] For a full account of the 'libertarian' roots of Bitcoin see Brunton. For a critique of the politics of Bitcoin see Golumbia. Like many Bitcoiners, Tourianski is a follower of Ludwig von Mises.

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The system first elaborated by 'Satoshi Nakamoto' for a 'Peer-to-Peer Electronic Cash System'—by replacing trust in issuers with trust in supposedly failsafe digital protocols that simultaneously ensure both personal anonymity and complete transparency concerning the provenance of the units of payment — therefore carried an implicit promise to put the state and banks out of the money business (Nakamoto). The state would be fatally compromised by its inability to tax or ban transactions by anonymised individuals and its inability to control the money supply. Banks would no longer be necessary either for money creation through lending or mediation of transactions. Moreover, because the system would be truly international, with no need for foreign exchange between national currencies, the exercise of economic sovereignty within national borders would be rendered meaningless. This last point echoed many other predictions of the imminent end of the nation-state in an era of instantaneous global flows of information and regulatory, economic and financial globalisation and regionalisation.

Such claims are based on long-standing ideas about the nature of money and its relationship to the state, which although repeatedly discredited, retain their influence on the popular imagination, in some business circles and even the economics profession.[2] These need to be unpicked not just to dispose of the more hyperbolic claims about the state-dissolving future of cryptocurrencies, but in order to develop a perspective from which to assess the place of cryptocurrencies in the long history of money and the state. All such claims must assume on the one hand that cryptocurrencies are money (or at least have the capacity to become money) and on the other that the state's current role in the creation and regulation of money is contingent rather than necessary. In what follows I will argue that neither assumption can survive theoretical or historical scrutiny. This should dispose of the more extravagant claims about the stateless brave new world of cryptocurrency. I will then consider some more nuanced arguments about the historical novelty of the emerging monetary landscape and cryptocurrencies' place in it.

In practice, the idea that cryptocurrencies are or can be money hinges entirely on the assumption that anything that can be used as a medium of exchange is money. Even if this were true, the monetary pretensions of cryptocurrencies would be deeply problematic. As numerous scholars have argued, cryptocurrencies' chronically unstable prices make them practically useless for most purchases. Rather, they should be seen primarily as speculative investment vehicles (Dodd, 'Social Life' 38; Mellor 123; Yermack 16). In David Yermack's view, price instability

[2] Many observers have noted the obvious similarities between the monetary ideas of Bitcoiners and advocates of a return to the gold standard Brunton (111, 69), Dodd ('Social Life' 42-3). Maurer, Nelms and Swartz (262) have coined the useful term 'digital metallism' for this phenomenon.

also leaves cryptocurrencies unable to fulfil the other functions listed in conventional definitions of money, namely store of value and unit of account (Yermack 11-12). While strongly based in empirical observation of cryptocurrencies' real-world behaviour, such arguments are vulnerable to the possibility that cryptocurrencies may become money at some point in the (albeit unlikely) event that price instability turns out just to be an initial phase.

The more fundamental problem is not that the price of any given cryptocurrency is unstable; it is that it has a price at all. The characteristic of money that distinguishes it from the commodities it buys is that it does not *have* a price; it *is* the price. [3] What this means in the current context is that contrary to cryptocurrency advocates' fixation on the medium of exchange function, it is the function of being the unit of account—the universally accepted measure of how much we have, how much we owe and are owed, and the apparatus by which we compare the economic cost of any commodity with any other—that is uniquely distinctive to money. And it is this characteristic that cryptocurrencies conspicuously lack. The fact that a few prices are quoted in Bitcoin does not thereby make it a unit of account. Such prices are invariably pegged directly to the price of Bitcoin in actual units of account of national monies. If the dollar price of Bitcoin were to halve tomorrow, every quoted Bitcoin price would immediately double as a result. As a number of scholars have pointed out, the only reason such quotations occur at all is ideological, requiring a shared commitment among users prepared to bear the risk of monetary losses entailed by its price instability in order to sustain a Bitcoin ecosystem. Despite the vision of its founders and current adherents, Bitcoin depends upon its own community of faith to function as anything but a speculative investment. As Nigel Dodd puts it, insofar as Bitcoin succeeds as money it fails as ideology (Dodd, 'Social Life' 37).

Museums are full of objects that once were but are no longer money because they have lost the capacity to transfer monetary value, whatever price they might now fetch as commodities in the numismatic collectors' market. In every case, the transition of these objects from money to not-money, from medium of exchange to artefact, has been the result either of the decision of a political authority to 'demonetise' them or, far less frequently, the dissolution of one political authority and its replacement by another through war or revolution. More rarely still, the demonetisation of media of exchange has been accompanied by a political decision to replace one unit of account with another, as when newly independent nations have launched their own currencies or when states have joined monetary unions.[4]

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[3] This concept of price is quite distinct from interest, or the cost of hiring money, which is sometimes colloquially referred to as its 'price'.

[4] Remarkably, the Baltic States took both of these steps in the space of less than a quarter of a century, from their secession from the USSR and the establishment of three new national currencies in the early 1990s to their progressive adoption of the Euro in the early-mid 2010s.

Historically then, money is a creature of the state, or more correctly, of some form of centralised political authority. This point is widely accepted. What is at issue is whether this is desirable or even legitimate, how and when it came to be, or whether it is ontologically necessary to either money or the state.

In these debates, much depends on our account of money's origins. The conventional story, which originated with the speculations of Aristotle and was elaborated by Adam Smith and still appears in economics primers, posits a pre-monetary barter economy whose obvious inconveniences are overcome when two economic actors agree to exchange tokens of some kind instead of the products of their labour (Smith, Book I, ch. IV).[5] When a network of traders agree to accept these tokens money is born. It is soon understood that the only way for the network to expand is to use tokens made of something that is widely accepted to be inherently valuable. Being scarce, malleable and non-perishable, silver and gold are the ideal choice. Only at this point does political authority have a role, which is merely to ensure that the tokens are of constant weight and purity and to stamp them to warrant their value. It is worth reflecting that this account could stand *mutatis mutandis* as an account of the origin of bitcoin, with the crucial difference that cryptocurrency has dispensed with the need for any 'trusted third party' like the state to be involved in the process at all. On this account, separating the state from money should be a fairly simple matter of sidestepping, a manoeuvre that cryptocurrencies are uniquely well-equipped to perform.

By contrast, anthropological accounts suggest that political authority has always been essential to the foundation of money, as rulers have decreed how debts owed to them and by them would be reckoned (units of account) and by what means they could be paid (means of exchange).[6] Only the former could give the latter meaning. Moreover, it was perfectly possible to sustain the former on the basis of book entries or the like, such as notched sticks or paper chits. These inherently worthless objects could be generally accepted in exchange by anyone who was liable to be taxed, or who had dealings with such a person. They thus became a medium of exchange among those who participated in the exchange economy within the whole area of the ruler's capacity to levy taxes, who naturally reckoned those exchanges in terms of the units of account represented by the objects, whose value in terms of the units of account was also fixed by the ruler. In short, the empirically supported accounts we have of the origins of money put political authority at the very centre of the process, and place the origins of monetary value not in the inherent value or scarcity of the medium of exchange but in the acceptability of these representations of the units of account, first and necessarily

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[5] It is worth noting that similar accounts were commonplace in discussions of money during the seventeenth century: see for example Fleetwood.

[6] For an ethnographically based demolition of the barter myth, see Graeber, ch. 2. See also Desan, ch. 1.

by their issuer, and consequently by other economic actors in a self-reinforcing process. Typically, rulers further reinforced this process by ordering that the monetary objects they issued must be accepted in satisfaction of any debt between any two parties.

These competing accounts imply differing conceptions of the nature of money and the state's monetary role. Most obviously, the barter story privileges the medium of exchange function while the political account maintains that the unit of account function is temporally as well as logically prior to the medium of exchange. It also suggests that some form of territorial jurisdiction has been indispensable to money's existence and circulation from its very origins, long before the emergence of the modern nation-state in Europe in the seventeenth century and the subsequent widespread consolidation of unified systems of national currency (Helleiner).

Observing the emergence of these systems, some respected monetary scholars, including Nigel Dodd and Eric Helleiner, have argued that the state enjoyed an historically unique degree of monetary control during the recent past. They point to pre-modern and early modern states' chronic inability to guarantee an adequate supply of money; their general ineffectiveness against monetary crime; the existence of informal local currencies in the form of low-denomination tradesmen's and municipal tokens, and the widespread circulation in every jurisdiction of coins from their neighbours and trading partners. Only in the nineteenth and twentieth centuries, with the development of industrial techniques of minting and printing to guarantee consistency and minimise forgery, workable systems of low-denomination token coinage, the suppression of private banks' right to issue banknotes, and the growth of effective state bureaucracies (including law enforcement) did nation-states secure effective control of unified monetary systems.

Dodd is surely correct to suggest that there is no reason to take this state of affairs as anything but historically contingent, much less to view it as normative. Instead, he argues, the 'relatively brief period in which money was defined *exclusively* by the state is coming to an end' and 'money is returning to a condition of pluralism' (Dodd, 'Redeeming' 436). Bitcoin is 'a symptom' of this development (Dodd, 'Social Life' 36). To make this argument Dodd follows Georg Simmel in emphasising the social construction of money, and rejects the kind of 'neochartalist' theoretical stance advanced here, which insists on the centrality of political authority in money's construction and of the primacy of the unit of account function in its conceptualisation.[7]

[7] See specifically Dodd's reference to the ideas of the leading contemporary neochartalist thinker, Geoffrey Ingham (Dodd, 'Redeeming' 438). Ingham develops his position fully in *The Nature of Money* (Ingham).

To be sure, any theoretical or historical account of money that ignores the social and cultural constitution of money will be seriously inadequate: blind to much of the rich variety of monetary experience and practice, tone-deaf to dissenting monetary voices, and unable to properly explicate episodes of monetary disorder and collapse. But Dodd's unwillingness to accord primacy to the unit of account function has led him to overstate some of the differences between modern, early modern and pre-modern money and hence to misconstrue cryptocurrencies' place in the monetary future.

It could be argued that any historical account of money without the unit of account at its theoretical centre will forgo the conceptual glue that enables us to understand that what is transmitted in a routine EFT transaction is the 'same thing' as was transmitted when an agricultural day labourer received a silver penny as a wage payment, that is, money. Unit of account is the concept that allows us—as it allowed contemporaries—to make sense of the apparently chaotic pre and early modern monetary order. For example, what made the clipping and counterfeiting of coin so lucrative was the fact that clipped and counterfeit coin could transfer the same units of account (the same amount of money) as their unclipped and genuine counterparts. Indeed, the state typically mandated acceptance of money that was clipped to a specified maximum extent until it instituted one of the periodic recoinages that was essential to sustain any system based on circulating bullion coin. The widespread circulation of foreign coin illustrates similar points, being enabled only by the fact that the sovereign authority recognised them as having value in local units of account: thus the British government periodically decreed the value in shillings and pence of French, Spanish and other coins and made them payable in taxes at those values. Likewise, the salient fact about the proliferation of monetary instruments other than official currency, not only in the early modern, but also in the (allegedly monolithic) late modern period was that they were denominated in the official units of account. 'Tradesmen's tokens', typically for a penny or a halfpenny, functioned to transfer that value within local communities (Whiting). When cheques and bills of exchange based on bank debts circulated as money in commercial circles—as they did on a large scale in the nineteenth and twentieth centuries—their values also were denominated in official units of account. The fact that they traded at a discount reflected the extraction of interest by their issuers and purchasers and the risk of default on the debt; so, while they undoubtedly were part of the money supply, they remained 'near-money' rather than money itself.

There is then nothing new about alternative and non-official media of exchange. Monetary pluralism has been an historical commonplace, although its precise forms have varied very significantly. But money's singular, defining feature has been the unit of account determined by political authority, in which all 'plural' monies have specified their own value. By imagining that the creation of digital media of exchange will follow the script of the barter myth and somehow create units of account because those who exchange them will it to be so, the proponents of cryptocurrencies have enacted the hoariest myth about money. In doing so, they have produced nothing other than what that myth imagines money to be: a commodity.

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