Bitcoin and the Myths of Neoliberalism

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BITCOIN AS THE INITIATOR OF A WAVE OF CRYPTOCURRENCIES EMERGED AT A VERY critical moment. In 2009 neoliberal, financialised globalisation with its anti-state, laissez faire ethos was faltering. The financial crisis had threatened the stability of the banking system and thereby the money supply. Bitcoin seemed to offer something quite distinctive, a new form of money. As a private digital currency, Bitcoin was designed to be purely a technical mechanism linking anonymous users. The complex computer programme on which it is based does not require the authority of a state or the intermediation of a bank. It does not need a location or a headquarters.

However, although its technology is innovative, the ethos of Bitcoin is rooted in neoliberalism. Bitcoin is presented as a passive enabler of individualised market exchange. This focus on the market chimes with neoliberal 'handbag economics'. Handbag economics adopts the gendered analogy of the public sector as being like a household dependent on the market as the breadwinner. The assumption is that all the funding for public expenditure is drawn from the market. This is a zero-sum view. Money spent in the public sector is seen as a drain of money from the private sector. It is assumed that there is a limited pool of money, that money is inherently in short supply. The state must therefore be as small as possible. Requests to increase public funding are often met by the question 'where's the money to come from?' and the claim that there is no 'magic money tree'. Both neoliberal 'handbag economics' and Bitcoin as a private cryptocurrency are derived from a view of money that is largely mythical (Mellor 2019).

Myths of Money

The model of money implicit in Bitcoin rests on the widespread assumption that the origin of money lies in precious metal and the market. In a story of money that can be traced back to Adam Smith and even Aristotle, precious metal is seen as the original and ideal form of money. Markets were assumed to be originally based on barter. This was very inefficient as people had to find someone who wanted what they had and vice versa. The solution was to choose one commodity to use as a medium of exchange. Precious metals (gold, silver) were adopted as a medium because they were of intrinsic value, portable, divisible and, if gold, untarnishable.

The use of language in relation to Bitcoin echoes the legacy of metallic coin. Like gold or silver coin the encrypted money has to be mined. Like commodity money, Bitcoin is seen as individual units of value held in a wallet. As precious metal money is subject to natural limits, the Bitcoin programme was designed with a built-in limit.

However, the barter to commodity-money story is not true. Money did not originate in the market. The original form of money was not precious metal. There is no evidence of the extensive use of barter in human history and money, including precious metal coin, emerged in human societies thousands of years before what Polanyi called market society (1944).

The anthropological literature indicates that most human societies have had some form of money. In the earliest societies the money form was something socially valued like special shells or stones or something made, like a blanket or cloth. Even then, the 'money thing' was not used to enable market trade. Its core function was ceremonial or fulfilling a social role such as being demanded as retribution for some misdemeanour. Each monetary community recognised its own unique monetary form. Local monies were, however, adopted by traders and colonisers, most notably the use of wampum (shaped shells) by the early European settlers in North America.

While the origin of money in pre-state, pre-market societies is lost in prehistory, the historical record of coin is much more evident. The invention of the coining of metal is dated to the sixth century BCE. However, it did not lead to the growth of markets. Precious metal coinage was, and still is, the prerogative of rulers and states. The first major political use was by Alexander the Great who ruled from 336BCE to 323BCE. He used silver coin in huge quantities to pay thousands of mercenary soldiers to enable him to establish his empire. Since then, both precious metal and base metal coin have been monopolised by ruling authorities.

The mythical history of money raises two questions for the analysis of digital currencies: first whether money is just a symbol or is a commodity-like 'thing' in itself and second what is the relation between private market money and state public money.

Is Money a Thing?

This goes to the heart of the debate about money: whether it is a thing in itself with its own value, like gold, or whether it is just a symbol that measures comparative value like a tape measure indicates distance. Should money be seen as a commodity with value or as merely a yardstick? Does the flow of money comprise individually specified units of value or is it just a flow of information about the obligations and entitlements that people have to each other in human communities represented through a notional currency? Is money a unit of value or a unit of account?

Bitcoin has established itself as a unit of value, a commodity, the new gold. Hence the artificial limit of its capacity to mimic the scarcity of precious metal—although this has been circumvented by splitting the Bitcoin into smaller and smaller pieces. Bitcoin is often bought as an investment rather than a trading mechanism. As such, its value has fluctuated wildly. However, unlike precious metal as a commodity, Bitcoin as a money does not derive its value from any underlying tradeable value, quite the opposite, it is its role as a money thing that creates its value as a commodity. However, being a commodity is not necessarily a good basis for money as a currency.

Resting the value of a cryptocurrency such as Bitcoin on its commodified value re-imports the limitations of precious metal money. Precious metal coin was relatively useless for daily trading as it was too valuable. Despite struggles by the empires of Britain and the US to link their currencies to gold, the demand of the burgeoning markets for liquidity meant that the money form had to become less and less intrinsically valuable. By the early 1970s even the pretence of any superior money thing backing the currency was dropped. Modern money exists by fiat, it rests solely on public authority and social trust.

Modern fiat money, and the abandonment of any links to precious metal, means that there are no 'natural' limits on the creation of money. There is no shortage of base metal to make coin, or paper to print notes, or electronic records to manage accounts or computer codes to build currency units. This is not to imply that there should be unlimited creation of money, but the question of the appropriate size of the money supply should not be determined by an arbitrary artificially created shortage.

The history of money would seem to indicate that the most effective form of money is one which has no value itself. One dollar is worth one dollar. It may move against another currency or rise or decline in purchasing power, but it still remains a dollar. Cryptocurrencies are going to have to choose between acting as a pseudo-commodity, with each of its units carrying a specific value, or being a unit of account that is only a comparative measure of value: something costing ten dollars is twice as valuable as something costing five dollars.

This brings us to second question Bitcoin raises, what is the implication of its status as a privately created money for the sovereign power to create and sustain a public conception of money?

Public and Private Money

The main question for private cryptocurrencies is whether they can mount a real challenge to public currencies. Like them they are fiat money. There is nothing backing cryptocurrencies other than people's willingness to accord them value and/or accept them in payment. Can digital currencies challenge the status of public currency? Can a private money fulfil the needs of an economy? The evidence from the commercial banking sector indicates that this would be most unlikely.

Early commercial banking was largely based on private credit arrangements. In Britain, private banks issued notes that were 'promises to pay' that is, make a future payment in the established sterling currency. Over time bank failures and monetary regulation led to the Bank of England taking control of the issue of bank notes. The early Bank of England itself was privately owned (it was nationalised in 1946), but its notes were so trusted that they became circulated as public currency, although to this day they still carry a meaningless 'promise to pay'. In other countries currency notes were issued directly by public monetary authorities. The US dollar is inscribed as 'legal tender', that is, its legitimacy rests on public authorisation. Even more basic is the euro which merely notes the number of currency units it represents 5, 10, 20, 50.

The advent of neoliberalism saw a reprivatisation of banking. In the late twentieth century high street banks were deregulated, central banks were made independent of government and bank debt was seen as the only way in which governments could access new money. The long history of sovereign control of money systems was derided in the injunction on states not to 'print money.' However, a money system based on debt proved to be a route to crisis and the sovereign power to create money free of debt was exercised by central banks to rescue the banking sector. Money was public after all. Unfortunately, much less money was made available to rescue the people.

Public money is based on social trust backed up by public authority. As a non-state, non-bank digital currency conceived through a computer program, cryptocurrencies are like orphan children. They have no social or public parentage. This does not mean they could never achieve widespread social recognition, but that is unlikely. More seriously they have no public sponsorship. This is a matter of pride for the cryptocurrency fraternity. There are no political constraints, only pure utility. The currency has to embody its own value. This is very different from conventional currencies where the efficacy of national and transnational currencies rests on the stability of the governance of the public economy and the performance of the market economy.

Conclusion

It is not Bitcoin's innovative technology that makes it a private currency. It is already being mooted that the technology could be adopted by central banks. It is that Bitcoin sought to use the technology to insulate itself from the constraints of state or monetary authorities. Bitcoin is not, however, independent of politics. Its structure reflects a particular view of the nature and role of money. It sees value as embodied in each currency unit, in line with the mythical history of the evolution of money from precious metal as a commodity. Its role is as an asocial one-dimensional means of exchange. In contrast, public currencies are multidimensional, they act as a unit of account for governance, enterprise and social purposes. They appear in various forms transferred by various mediums: credit accounts, cash, computers, phones, paper.

A major aim of Bitcoin and similar currencies is to individualise the creation of money through a technological fix. Arguably this goes in the wrong direction. Money is not limited to the market, it forms the basis of social and public economies. Money is not a thing in itself that is in short supply. It is a unit of account that enables the recognition and transfer of value. The recognition of value is not a given: the market economy is not essentially more valuable than the public economy. The state is not necessarily dependent on the market. Despite neoliberal ideology, states retain the sovereign power to create money, and (hopefully) use that public money for public good.

Rather than seeing the future as Bitcoin's asocial atomised system, the social and political nature of money needs to be recognised and opened up to public scrutiny and democratic debate.

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Works Cited

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