

My Stance on Cryptocurrencies

Transcript of Charles Eisenstein's Talk

<https://charleseisenstein.org/video/my-stance-on-cryptocurrencies/>

On a basic level, I'm kind of fond of cryptocurrency as a concept simply because it has disrupted the story of money that says, "Here's what money is, here's what it has to be, here's how money is done," and it's saying, "No it doesn't." So even if cryptocurrencies in their current incarnation are not the key to the future, as their proponents think, even so, they still liberate the conversation from its old confines, and that's a really good thing. So even if I have, you know, lots of reasons to disapprove of various instantiations of cryptocurrency, I'm still kind of a fan of just the general, the basic impulse behind them. Just kind of introducing a wild card into the system, I like it.

Now, I think that--and I'll speak mostly of bitcoin, and most of what I say applies to other cryptocurrencies too--I think that it's pretty obviously a speculative bubble. Who knows when it will pop, but it's something that is valuable only because of the *agreement* that it's valuable. Like tulip bulbs. I mean, they have a certain intrinsic--tulip bulbs, at least you can plant them and they make pretty flowers, but the cryptocurrencies are only valuable because of an agreement among certain people that they are valuable.

So, they're supposedly "money", but from what I can see they only embody pretty much one of the defining characteristics of money, which is "store of value". They theoretically can be used as a medium of exchange, but usually if someone is going to buy something, they're not going to use bitcoin. They're going to convert their bitcoins into--unless it's like, illegal drugs or something like that--usually you use money, like dollars or euros or something like that, and "unit of account" is another classic function of money. Most people do not denominate their products in bitcoin. Bitcoin's fluctuating all over the place. If you accept bitcoin as a merchant, usually you accept the equivalent amount of--whatever's equivalent to the dollar price of your product. So it's a bit of a fantasy that bitcoin is at the present point, an actual currency. That depends on how you define it.

My problem--so I'll say a little bit about--bitcoin was created, I think, consciously to imitate gold. And the reasons for doing this were understandable because, looking at the present Federal Reserve System and central bank system, we have a situation where political interests that are not aligned with those of the people control the money system, control how much money is created, control the interest rates, and so forth. So that's not a good situation. So they thought, let's remove politics from it. Let's create an algorithm whereby bitcoin is mined just like gold is, and the more that you mine the harder it is to find more of it and there's an ultimate limit. There's a finite amount of it. So that makes it immune to political machinations and human foibles.

Unwittingly, they also created a situation that also mimics gold wherein the mining of it is environmentally very harmful. Gold mining is one of the most destructive activities on the planet

and bitcoin mining is starting to follow the same trajectory, using at this moment something like the equivalent of, like, the entire electrical output of Bolivia, or something like that, and it's just growing and growing and growing. For what? To basically perform computations to create something called "money" that can be created simply by fiat. Simply by an agreement among people that declares something into existence. Fiat has a bad name these days--fiat currencies. But, really, *fiat* means to create through speech. I think that's what it means--actually, I should look up the etymology. But, really it only works if everyone empowers that act of declaration through their agreements.

So, money in my way of thinking--money is fundamentally an agreement. You can't take the politics out of it. Even gold, when it's used as money, is mostly valuable because people *agree* that it's valuable. Gold mining continues to this day, not because we need more gold for jewelry and electronics--two thirds of all the gold ever mined is sitting in vaults. Two thirds of it, sitting in a hole in the ground. Taken out of one hole, put into another hole. A ridiculous activity. Same with bitcoin. All that effort, for what? For strings of zeros and ones.

So, okay, that might be all right if it actually did remove--well, if it were a good thing to remove the human factor from the process of money creation. But it doesn't actually remove it. It pretends to remove it by making the political process--it takes the political process a step back, and so instead of a bunch of central bank governors deciding how much money to create this quarter, or whatever, you have a bunch of techies and programmers deciding what the algorithm is going to be. That is fundamentally a political decision that benefits some and disadvantages others. In the case of bitcoin it benefits people with the technical know-how and the computing resources, and now the capital, to have dedicated processors to mine more bitcoin. So it advantages some people, disadvantages others. That's a political decision. So that's a delusion, that you've somehow removed human foibles from it. Whatever your biases are, whatever your worldview is, that's going to be embodied in some way in the choice of what algorithm to use.

Now, another problem with bitcoin and most of the other digital currencies is precisely that it has eliminated the--it's not so much that it's eliminated the human factor, but once you've created that algorithm it's kind of frozen there and it can't respond organically to the economy, to the needs of its users. Ideally, the Federal Reserve System is an organism where the central bank listens to the pulse of the economy and, depending on how much money is needed, will create or take money out of the system. So there's a feedback. Now, the feedback is highly dysfunctional today, but in theory that's how it should work.

So, ideally, any currency, whether it's a blockchain currency or anything else, would have some way for the needs of the public, for the needs of the world, for the needs of the economy to feed back into the money creation process. If more money's needed, then it would be easier to create; more of it would be created. If less were needed, then money could be taken out. So how does that decision get made? Well, that is a messy question---gets into democratic decision-making and what's the next iteration of democracy beyond the system that we have today.

This is not a trivial question. How should this sacred process--money creation is a sacred process. It is society's consensus of value. It is the expression of value by a society and in ancient societies, it was the prerogative of the king, or of the priests, to coin money. It was recognized as sacred. If sacredness today is gravitating toward a more inclusive, egalitarian form, then the sacred function should have built into it inclusive, egalitarian decision-making processes. And yeah, in a way, bitcoin and most of the other ones, they're not the product of a broad-based, democratic process to decide what the algorithm is. They are created by fiat, the algorithms are created by the fiat of one or a small group of people.

So whatever the underlying technology is, whether it's blockchain or holochain or something else, the decision about how much is created, who receives it--that's another political decision. Should the money go to those with the technological savvy and the luck? Because bitcoin money is also partly a matter of luck. Is that the way to create money, or could we issue it instead as a universal basic income where when money is created, everybody gets an equal amount, all the users. Or maybe it should be issued to charity workers, charitable organizations. Maybe that's how money should be created, to support the things that we think of as the most important now for the well-being of this planet and of its people.

I don't know how it should be created, but that's the point. I don't know. I shouldn't be the one to decide--it should be a collective decision that draws on collective wisdom. So for me to really fully endorse and support a cryptocurrency, I would like to see those features built into it. Some kind of organic feedback between the algorithm and the users, which could be how the algorithm gets modified and who gets to modify it and how that decision is come to, right? And then that also leads into the political dimension. What values are embodied in the algorithm, and how do we form a consensus around these values?

That's what I want to see in--and I've consulted a little bit informally with people creating cryptocurrencies, and they're like, "Yeah, Charles, we're going to build demurrage into these," which is a good step. It discourages hoarding and makes it--I should explain what demurrage is, it's a decay rate built into the currency so that if you hold onto it it shrinks over time, maybe by five percent a year, or something like that. I think that all money should be subject to a decay rate which then basically drops interest rates to zero or below zero and allows you no longer to profit by merely owning, but only by using wealth well.

Anyway, so they're like, "Yeah, Charles, we have a demurrage rate built into it!" Yeah, that's good, it'll prevent hoarding, it'll prevent speculation to some degree, but that decision also should be part of an organic and democratic process. So that's my current position on cryptocurrencies. And darn it! Boy, I wish I had bought a couple hundred bitcoin when they were at sixty! But I didn't, and now it's too late.