

The New York Times

April 14, 2013

The Antisocial Network

By PAUL KRUGMAN

Bitcoin's wild ride may not have been the biggest business story of the past few weeks, but it was surely the most entertaining. Over the course of less than two weeks the price of the "digital currency" more than tripled. Then it fell more than 50 percent in a few hours. Suddenly, it felt as if we were back in the dot-com era.

The economic significance of this roller coaster was basically nil. But the furor over bitcoin was a useful lesson in the ways people misunderstand money — and in particular how they are misled by the desire to divorce the value of money from the society it serves.

What is bitcoin? It's sometimes described as a way to make transactions online — but that in itself would be nothing new in a world of online credit-card and PayPal transactions. In fact, the Commerce Department estimates that by 2010 about 16 percent of total sales in America already took the form of e-commerce.

So how is bitcoin different? Unlike credit card transactions, which leave a digital trail, bitcoin transactions are designed to be anonymous and untraceable. When you transfer bitcoins to someone else, it's as if you handed over a paper bag filled with \$100 bills in a dark alley. And sure enough, as best as anyone can tell the main use of bitcoin so far, other than as a target for speculation, has been for online versions of those dark-alley exchanges, with bitcoins traded for narcotics and other illegal items.

But bitcoin evangelists insist that it's about much more than greasing the path for illicit transactions. The biggest declared investors in bitcoins are the Winklevoss brothers, wealthy twins who successfully sued for a share of Facebook and were made famous by the movie "The Social Network" — and they make claims for the digital product similar to those made by goldbugs for their favorite metal. "We have elected," declared Tyler Winklevoss recently, "to put our money and faith in a mathematical framework that is free of politics and human error."

The similarity to goldbug rhetoric isn't a coincidence, since goldbugs and bitcoin enthusiasts — bitbugs? — tend to share both libertarian politics and the belief that governments are vastly abusing their power to print money. At the same time, it's very peculiar, since bitcoins are in a sense the ultimate fiat currency, with a value conjured out of thin air. Gold's value comes in part because it has nonmonetary uses, such as filling teeth and making jewelry; paper currencies have value because they're backed by the power of the state, which defines them as legal tender and accepts them as payment for taxes. Bitcoins, however, derive their value, if any, purely from self-fulfilling prophecy, the belief that other people will accept them as payment.

However, let's leave that strangeness on one side, along with the peculiar "mining" process — actually a process of complex calculation — used to add to the bitcoin stock. Instead, let's focus on the two huge misconceptions — one practical, one philosophical — that underlie both goldbugism and bitbugism.

The practical misconception here — and it's a big one — is the notion that we live in an era of wildly irresponsible money printing, with runaway inflation just around the corner. It's true that the Federal Reserve and other central banks have greatly expanded their balance sheets — but they've done that explicitly as a temporary measure in response to economic crisis. I know, government officials are not to be trusted and all that, but the truth is that Ben Bernanke's promises that his actions wouldn't be inflationary have been vindicated year after year, while goldbugs' dire warnings of inflation keep not coming true.

The philosophical misconception, however, seems to me to be even bigger. Goldbugs and bitbugs alike seem to long for a pristine monetary standard, untouched by human frailty. But that's an impossible dream. Money is, as Paul Samuelson once declared, a "social contrivance," not something that stands outside society. Even when people relied on gold and silver coins, what made those coins useful wasn't the precious metals they contained, it was the expectation that other people would accept them as payment.

Actually, you'd expect the Winklevosses, of all people, to get this, because in a way money is like a social network, which is useful only to the extent that other people use it. But I guess some people are just bothered by the notion that money is a human thing, and want the benefits of the monetary network without the social part. Sorry, it can't be done.

So do we need a new form of money? I guess you could make that case if the money we actually have were misbehaving. But it isn't. We have huge economic problems, but green pieces of paper are doing fine — and we should let them alone.

More in Opinion (1 of 19 articles)

Op-Ed Columnist: A Blogger on Trial

[Read More »](#)