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Opinion | OP-ED CONTRIBUTOR

The Bitcoin Boom: In Code We Trust

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By TIM WU DEC. 18, 2017

You don't need brilliant financial analysis skills to notice that Bitcoin is in a bubble. It has grown in value from about 39 cents to over $18,000 in just eight years and recently attracted broad media attention by doubling in just a few days. The conventional wisdom had been that illegal and illicit transactions — buying drugs or transferring money out of Argentina — accounted for much of Bitcoin's value. Today the mainstream view sees mere greed and speculation.

Yet as Bitcoin continues to grow, there's reason to think something deeper and more important is going on. Bitcoin's rise may reflect, for better or worse, a monumental transfer of social trust: away from human institutions backed by government and to systems reliant on well-tested computer code. It is a trend that transcends finance: In our fear of human error, we are putting an increasingly deep faith in technology.

Bitcoin may be in a bubble, but not all bubbles are created equal. Some are shimmering nothings, reflecting little more than an underlying pyramid scheme. But others are like ocean swells that could become enormous waves. Consider the tech stocks of the late 1990s — a bubble, to be sure, but in retrospect, was Amazon really overvalued?

What gives the Bitcoin bubble significance is that, like '90s tech, it is part of something much larger than itself. More and more we are losing faith in humans and depending instead on machines. The transformation is more obvious outside of finance. We trust in computers to fly airplanes, help surgeons cut into our bodies and simplify daily tasks, like finding our

way home. In this respect, finance is actually behind: Where we no longer feel we can trust people, we let computer code take over.

Bitcoin is part of this trend. It was, after all, a carnival of human errors and misfeasance that inspired the invention of Bitcoin in 2009, namely, the financial crisis. Banks backed by economically powerful nations had been the symbol of financial trustworthiness, the gold standard in the post-gold era. But they revealed themselves as reckless, drunk on other people's money, holding extraordinarily complex assets premised on a web of promises that were often mutually incompatible. To a computer programmer, the financial system still looks a lot like untested code with weak debugging that puts way too much faith in the idea that humans will behave properly. As with any bad software, it can be expected to crash when conditions change.

We might add that major governments — the issuers of currency, the guarantors of banks and enforcers of contracts — do not always inspire confidence. Governments can be tempted to print money recklessly or seize wealth brazenly from their citizens — Venezuelan hyperinflation and Indian demonetization are recent examples. But even the most trusted governments can be dubious. Europe, riddled by internal struggles among states, is still in shock about the planned departure of Britain from the European Union. China is a secretive authoritarian state that can lash out against its citizens and rivals when it feels insecure. The United States, perhaps the main guarantor of world solvency, is some $20 trillion in debt, constantly on the verge of default and headed by a serial bankruptee who prizes unpredictability. It is little wonder that the world's citizens might be looking for alternatives.

Bitcoin's fans don't entirely distrust human institutions. It is rather that they'd prefer not to need to trust humans to keep their promises, when we know that we humans are deeply fallible. That might seem cynical, but perhaps it is appropriately humble. As Satoshi Nakamoto, the pseudonym for the person or persons who invented Bitcoin, puts it, "the root problem with conventional currency is all the trust that's required to make it work."

This all helps explain the popularity of Bitcoin as an asset independent of government, mainstream banks and their various shenanigans. But still, is it really worth anything at all? It is based on a "blockchain," a technology that creates a decentralized public ledger and rigorously tracks transfers. It is maintained by its users, and no government can mint more coins. Bitcoin isn't backed by any sovereign, and unlike a stock or a bond, it gives you a claim to nothing other than Bitcoin itself. Yet that illusory quality is true of most forms of money, a shared hallucination that we tolerate as long as it works. If enough others value something, that can be enough to make it serve as a store of value. Sure, Bitcoin will crash again, but

over its lifetime, it has already withstood multiple crashes, runs and splits. It actually feels tested.

This isn't to idealize Bitcoin. Despite its virtual nature, it is still a human institution, facing its own misdeeds and governance problems. Odds are that Bitcoin may never function well as a general medium of exchange (something you can buy things with) because of its wild fluctuations, but might work fine as a store of value that you can sell. It may, like Netscape circa 1995, be portending changes to come. But Bitcoin has captured something. As much as we may love other humans, it is now in code we trust.

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