The politics and social life of Bitcoin underline the significance of the new currency

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Bitcoin is a technological innovation – a currency that exists outside of the control of any central bank or government. However, there is a gulf between the ideology behind Bitcoin and the practical reality of its operation. The ideology behind Bitcoin treats money as a thing whose production is controlled by technology, not as a process whose value is sustained by its users. But Bitcoin is currently being sustained by sociological features that are directly at odds with the political ideology and theory of money that underpin it. We can only reach a proper understanding of the politics behind Bitcoin once we appreciate that it has a social life, writes ***Nigel Dodd****.*

The Bitcoin network has grown rapidly to become the most widely used alternative money system, encouraging doubts about the future of state money that are going mainstream perhaps for the first time in the modern era. The technology behind Bitcoin is crucial to its appeal, but is only half the story when it comes to understanding the real significance of the new currency. My interest in these debates concerns the connections that are being made between monetary reform and social reform. In my new book, *The Social Life of Money*, I argue that almost all forms of money contain a utopian strain. By this I mean the belief that money, far from damaging society as the classical social thinkers feared, can improve society. This is the context in which I think we should be engaging with the politics of Bitcoin.

Bitcoin was launched in January 2009, using open-source software, as a peer-to-peer payment network. Bitcoins are created within the network, and their creation is strictly controlled without being governed by a central issuing authority. The network is programmed to ensure that the total number of Bitcoins in existence will never exceed 21 million: half of that total supply was generated by 2013. Bitcoins are created through dedicated rigs (PCs), which mine for new coins through a series of tasks that require considerable computational power. The network is designed to produce a fixed number of Bitcoins per unit of time: 25 new Bitcoins will be generated every ten minutes until 2017, and that number will subsequently be halved every four years after that, until 2140. The more people (or rigs) there are mining for coins, the harder they will be to produce: now, only the most powerful rigs, i.e., several computers working together, are able to create new coins.

So what makes Bitcoin different? Whereas it is usually up to institutions like central banks and the IMF to protect the value of money, Bitcoin delegates the task to machines. This makes it sociologically interesting and problematic, because as sociologists of science and technology will tell you, machines never do anything quite by themselves. This is where a gulf opens up between the ideology behind Bitcoin and the practical reality of its operation.

Public discourse about Bitcoin often focuses on the idea that this is money created out of nothing – it is 'virtual' rather than 'real' money. But there is nothing unusual about this. On the contrary, one of the most interesting things about Bitcoin is the material paraphernalia that supports it, and the materialistic language that justifies it. Bill Maurer has characterized the philosophy behind Bitcoin as a form of 'digital metallism' that relies on the semiotics of metallic money, with its language of mining and rigs. It seems that Bitcoins are being dug up from the ground. It is the 'natural' limits of supply that underpins the argument that gold should be money because governments cannot artificially increase its supply. It was this philosophy that led Locke to associate sound money with liberty, because it emancipated money from government control.

According to Nakamoto (the anonymous individual or collective from whose ideas the Bitcoin project was derived), the root problem with most conventional forms of money is the trust that's required to make them work. The central bank must be trusted not to debase the currency, for example. Nakamoto's proposals sought to get rid of this central authority by using a block chain (shared by all computers or nodes within the network) through which the transaction history of each coin could be publicly known. Privacy would be maintained, meanwhile, by encrypting the public keys, ensuring that the history of every “coin” is anonymized. (Most Bitcoins are not really coins, of course: this is a ledger-based monetary system.)

Nakamoto’s idea has been extraordinarily powerful, capturing the imagination of a wide range of people. At its heart are four powerful ideas: first, the Bitcoin network is decentred and flat – with no hierarchy and no single point of authority; second, Bitcoin offers failsafe technological solutions to age-old problems of monetary governance, such as inflation; third, Bitcoin dispenses with the need to trust others, whether they are experts, politicians or ordinary people; and fourth, Bitcoin is debt free money, just like gold.

Politically, Bitcoin resonates with the post-2008 Occupy movement, not just because it challenges the role of banks in creating money, but also due to its horizontalism. Social media such as Twitter epitomize a brave new world of the network, governed not by central sources of authority but by the wisdom of crowds. Perhaps the ultimate financial expression of the wisdom of crowds is P2P lending, while the fast-growing sharing economy – couch surfing, for example – has taken the principle into the consumer world. Bitcoin seems to belong to this world – the only caveat being that it automates the crowd.

Bitcoin could be seen as something of a protest currency. The currency attracts many supporters because of dual disintermediation – it separates money from both banks and states. This resonates with two major axes of political debate about the relationship between finance and the state. First, Bitcoin resonates with debates about the nature of money and banking that were triggered by the 2008 crisis. Bitcoin therefore feeds on the same vein of discontentment as Positive Money in the UK, which argues that banks should be deprived of their right to create money through lending. Much of this is related to the problematization of debt, too.

Second, Bitcoiners have major issues with the state. Arguably, this is Bitcoin’s biggest source of public notoriety, fuelled by Silk Road, the website through which one could buy drugs and pornography, free from state regulation. This, I think, explains Bitcoin’s appeal in a post-2001 world. Bitcoin could almost be a mirror image of the state’s increasing use, post-9/11, of the mainstream financial system for security purposes.

But simply calling Bitcoin horizontalist renders it sociologically anaemic, buying into the ideology that it is essentially a machine. Paradoxically, the ideology behind Bitcoin is premised on denying that money even has a social life: by treating money as a thing whose production is controlled by technology, not as a process whose value is sustained by its users. But the idea that money is a thing cannot withstand close scrutiny. On the contrary, there is a strong sense of community around Bitcoin, as reflected in discussion groups, Internet forums and the organizations that are associated with it. Bitcoin is currently being sustained by sociological features that are directly at odds with the political ideology and theory of money that underpin it. These include leadership, social organization, social structure, sociality, utopianism and trust. Technological artifacts cannot simply enact organizational forms on their own. Social factors inevitably emerge as those who interact with and use these artifacts both shape and are shaped by their practical use. We can only reach a proper understanding of the politics behind Bitcoin once we appreciate that it has a social life.

You can watch or listen to Nigel Dodd’s recent LSE public lecture, The Social Life of Money, here.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting. Featured image credit: fdecomite CC BY 2.0

About the Author

Nigel Dodd is Professor of Sociology at the LSE and Editor-in-Chief of the *British Journal of Sociology.* His new book, *The Social Life of Money*, is published by Princeton University Press. His personal website is: http://www.nigeldodd.com/ and he can be found on Twitter: @nigelbdodd