Five minutes with Nigel Dodd: “Bitcoin has opened up the debate about the future of money”

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23/10/2014

Should our understanding of money change in light of the emergence of new forms of currency such as bitcoin? In an interview with EUROPP’s editor Stuart Brown, **Nigel Dodd** *discusses the origin stories of money, how these stories have underpinned the response to the financial crisis, and what bitcoin and other digital currencies mean for the future of money.*

One of the key arguments in your book, *The Social Life of Money*, is that our understanding of the origin of money overlooks a number of possible social explanations for its development. What role might social factors have played in the adoption of money?

For a long time there’s been this idea that money essentially comes from bartering. The classic statement of this is Carl Menger’s work from 1892, *On the Origins of Money*, where he basically says that in a barter economy there’s a problem called the ‘double coincidence of wants’. So a person might have what I want, but I haven’t got what they want and money evolves as a way of mediating that situation through indirect exchanges. Money therefore becomes something which is commonly sellable, such as precious metals.

This explanation is still taught in basic economics courses, it still appears on the websites of central banks, and you’ll still find it in chapter one of some really good books on money. But all the historical evidence we have suggests that it’s complete nonsense. There was never a pure barter economy in the way described. It’s simply a myth. Instead, money emerged as a form of payment, often between unequal parties, not as part of an equal exchange at all. It emerged as forms of tribute – such as fines, taxes, or sacrificial payments attached to religious leaders – and for a variety of other reasons.

So there’s a whole history of money which has until recently been untold. David Graeber’s book on debt covers this really well, as do some other recent books, but still you find the barter theory coming through. What I do in my book is I outline the barter theory, but I also give a number of other stories. These are that money comes from language, that money comes from deep associations with value and the way that we value things, that money emerges from violence, and there’s even a psychoanalytical explanation that money is an expression of deep cultural neuroses.

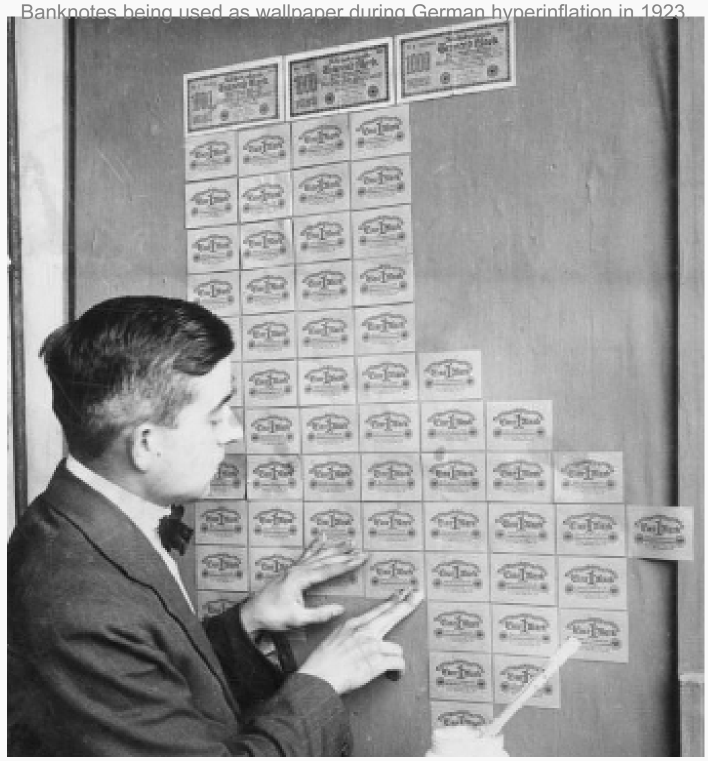
We all have ancestor stories, and what I find interesting is that whenever we discuss current issues involving money these origin stories always come back. It doesn’t matter whether we’re discussing the Eurozone crisis or the bitcoin, these stories always appear: ‘money comes from a particular place; therefore we need to handle it in such and such a way’. Origin stories are extremely powerful, but I don’t believe there’s only one story – there are lots of stories and the really interesting thing is seeing how these stories are used in contemporary debates.

Would a different conception of money improve our ability to solve the problems generated by the financial crisis?

Well we’d be less hooked on austerity, for sure. The politics of austerity are based on a conception of money as something which is precious and where the value of money needs to be preserved. The austerity perspective buys into the old theory from Menger that money is a commodity and that if we issue too much of it through quantitative easing, for instance, we’ll end up with hyperinflation. It plays to the image of the Weimar Republic in Germany, with people pushing wheelbarrows of money through the streets.

The other thing that we can see after the financial crisis is the return of the discourse around gold. The idea being that if somehow we had been more attached to the principle of money as a precious commodity we’d never have experienced all of the questionable financial practices which led to the crisis. The argument then becomes that we need to return to this kind of system in order to recover the value of money and the value of our economies.

Banknotes being used as wallpaper during German hyperinflation in 1923



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Funnily enough, even though it seems like a completely ‘unreal’ form of money, the ideology underlying bitcoin is the same as the ideology underlying gold. The idea of bitcoin is that you can completely limit the quantity of money in circulation – the whole software is programmed so that there will never be any more than 21 million bitcoins available. So with bitcoin we can control the supply of money through technology and we don’t need to rely on central banks or politicians to control it – the software will do it all for us and in that sense it’s taken as the perfect form of money.

Some commentators such as Jeffrey Robinson have argued that bitcoin shouldn’t strictly be classified as a currency at all. He cites, for instance, the fairly limited number of transactions made and the tendency of people to hoard bitcoins rather than actually use them. Has the significance of bitcoin been overstated?

Clearly the way that the price has gone up and down quite rapidly has led a lot of people to argue that bitcoin simply represents a kind of bubble. But there are also a whole raft of other digital currencies. There are well over 70, of which about 10 are more or less viable. Bitcoin is only one of those and people do use it as money, but what it hasn’t done yet is embed itself in every day transactions – so for the most part you can’t go and get a coffee with bitcoins. However I don’t think this means it won’t succeed in the long-run.

What bitcoin has done, which is really exciting, is open up the debate about the future of money. We’ve had local currencies and other forms of alternative money for a long time, but once bitcoin emerged in 2009 suddenly all kinds of people were converging around the issue and becoming really engaged in the nature of money. So bitcoin has led that conversation and taken it into areas where these questions weren’t previously discussed.

Certainly I’ve noticed since around 2010 that people are coming to me to talk about the future of money from a whole variety of perspectives and bitcoin is usually the reason. So in a sense it doesn’t really matter what happens to bitcoin itself – and in any case most people who have a background in this area are saying that it’s the block chain technology used by bitcoin which is being picked up in other areas or used for other purposes such as Dark Wallet. Most people who are excited by bitcoin in this regard are more excited by the technology than its use as a form of money.

As well as being used as a currency, a social movement has also built up around bitcoin. With reference to the origin stories we have already discussed does this offer a good example of the role social factors can play in the adoption of different forms of money?

Bitcoin is actually a great example of the paradox in all of this because it appeals to its supporters precisely on the basis that they think they’ve excluded the ‘social life’ of money. The whole ideology of bitcoin is that you don’t need trust, governance, regulation or even human beings because it’s software which is already programmed. That’s incredibly powerful as an idea – it’s even better than gold, you don’t even need to dig it up from the ground and it will never be oversupplied.

So in one sense it might appear that if bitcoin succeeds it will go against what I'm saying about the social life of money. But when you actually look at how bitcoin operates, it's sociologically rich. It has a hierarchy, it's well organised and it's got a very clear sociological texture to it. It also has its own 'one per cent' and its own forms of inequality, with a relatively small number of people owning a very large share of the bitcoins available.

However, above all bitcoin has its own community of extremely dedicated people who meet on a regular basis and are always in communication. The real value of bitcoin comes from the belief and the trust of the people who are investing in it, buying it and getting excited by it. So for me, paradoxically bitcoin is confirmation of the social life of money, it's just that the people who believe in it don't see it that way.

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About the interviewee

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