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Bitcoins Are the Smarter, Safer Future

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The price of a bitcoin recently crossed $3,000 for the first time. While it has since retreated, the price is up almost 30 percent in the past month, and almost 200 percent over the past year. A $100 investment in bitcoins just two years ago would be worth around $1,000 today. By contrast, a $100 investment in gold two years ago would be worth less than $110.

These have been high times for speculators to be sure, but looking at bitcoins ("Bitcoin" is the software, "bitcoin" is the unit of currency) as a speculative investment misses the most important aspects of cryptocurrency.

Most simply, bitcoins are money. Many businesses accept them as payment, including retailers like Expedia, Dell, Microsoft, Time, Overstock.com and Steam. And this list is growing.

Critics counter that these businesses don't really accept bitcoins, but rather contract with third parties who insert themselves in the middle of the transaction to convert customers' bitcoins to dollars. But it's not important what happens to the bitcoins after the customers hand them over. The point is that the retailers have arranged the transaction so that customers can exchange bitcoins for products.

In spite of this, detractors claim that cryptocurrencies aren't "real" because they have no intrinsic value, which is true as far as it goes. What they overlook is that no currency has intrinsic value, not even gold. In fact, nothing has intrinsic value.

What constitutes value lies not in the thing, but in a person's desire for the thing. Gasoline has value only because humans like moving themselves and their belongings around, and gasoline helps make that happen. Food has value only because humans need and enjoy it. Art has value only because of how it makes us feel. Remove the humans and "value" disappears. Bitcoins are valuable for the same reason that dollars are valuable — because people want them.

And this simple fact underlines the importance of the one way in which cryptocurrencies differ from dollars, euros, yen and every other currency: cryptocurrencies are not, and cannot be, controlled by governments. That means that governments can't prohibit people from spending them, confiscate them, track them (given some simple precautions), or erode their value by printing more of them. In fact, not only are cryptocurrencies government-proof, they're bank-proof. No banking system is required to move them from one place to another; an internet connection will suffice.

This independence is what will make cryptocurrencies like bitcoin one of the most powerful of modern inventions. Cryptocurrencies will not replace government-printed money, but they will become a "currency of last resort." Governments will continue to require that people use their currencies for paying taxes, if nothing else. But cryptocurrencies will thrive in the near term as a fast and low-cost way to move money around the world. Longer term, cryptocurrencies will force governments to curtail their inflationary money printing.

For recent examples, look to China and Venezuela. The Chinese government has cracked down on people trying to move money out of the country. That government, though, has no way to prevent people from using bitcoins to move wealth across national borders. For Chinese citizens looking to get their money out of China, Bitcoin is freedom.

To see how cryptocurrencies can provide a hedge against inflation, one need look only to Venezuela. Chronic mismanagement of the economy there pushed inflation to 800 percent in 2016, wiping out the savings of everyone who held Venezuelan bolivars. Those who converted their bolivars to bitcoins, though, were as protected from their government as they would have been had they converted their savings to gold — more so, because gold is costly to move and can't be stored electronically.

Cryptocurrencies are in their infancy and there are some bugs still to be worked out. But even in their infancy, they allow anyone with an internet connection to circumvent governments telling people what they may do with their own money, to protect their wealth from government-induced inflation, and to bypass banking costs. And that's what cryptocurrencies are doing in their infancy. In their maturity — when cryptocurrency is widely accepted — all sorts of problems go away.

Authoritarian regimes will be less able to confiscate people's property, small entrepreneurs will have better access to capital markets, and nanny states the world over will be less able to dictate what we do with our own bodies and property.

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