



CoinDesk

2016: The Year That Wasn't For Bitcoin

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It's been another banner year for bitcoin investors.

The cryptocurrency's price, even in strengthening US dollars, rose more than 75%. Network effects continue to benefit bitcoin – it's arguably a currency's most important dimension – so there is good reason to think that it will be an engine of wealth for 'hodlers' into the foreseeable future.

But if the bitcoin price is driving ever upward against fiat currencies, what's with all the smoke coming out the tailpipe and steam billowing from under the hood?

2016 has been the year that wasn't for bitcoin – its continued growth in importance, usage and price belie retrenchment. Deficits in social capital that were front and center this year suggest that it could be decades, not years, before bitcoin and cryptocurrency reach their true potential.

It's true, as Ariel Deschapell wrote for CoinDesk this year, that bitcoin is increasingly recognized as a safe-haven asset. Unlinked to any fiat currency or other macroeconomic factor, bitcoin is a good way to diversify a portfolio.

If 5% of the \$7tn invested in gold were to migrate to bitcoin, a possibility Barry Silbert of the Digital Currency Group likes to ponder, that implies a bitcoin market cap of \$350 billion, or a little under \$22,000 per bitcoin.

The gold comparison

What is keeping the world's bitcoins from reaching 1/20th the value of gold?

Well, take a look at the /r/Gold subreddit. Compared to bitcoin's, it's a languid, unpopulated island. The bitcoin subreddits, of course, are warring hives of intense activity and acrimonious debate. There aren't a lot of directly valid data points in the observation, but the suggestion is that wealth accumulates where there is peace.

Disharmony in Bitcoinland reflects the dearth of social capital around the project.

'Social capital', of course, refers to the human institutions that enable physical or technical capital to function effectively, fulfilling its purposes. A widget manufacturing plant has value not only because of what went into its design and construction, but because people know how to run it, they know how to secure it against theft, how to fix it, how to sell the products of it and so on.

Social capital includes knowledge in broader society of how to use widgets, where to buy them, how to preserve them and a sense of their value.

Gold has literally thousands of years of social capital built up around it: Everyone knows what it is. A lot of people own or covet gold themselves. Most people have a sense of how to secure it. There are locations across the globe where gold can be purchased, sold and stored. Everyone has a sense of its lasting value.

They have this sense because gold has been thoroughly tested over centuries to establish the physical properties that make it shiny and rare. A substantial worldwide storehouse of customs and expectations also makes it specially prized.

There are few unknown or controversial dimensions of gold.

Issues with bitcoin

By comparison, bitcoin has almost no social capital.

It's relatively unknown. Of those who know about it, many doubt its viability. They're not wrong to doubt because information suggesting bitcoin's lasting value is very hard to find. This includes understandings of value itself, open-source software, cryptography, monetary economics and more.

In contrast to gold's shiny, self-advertising color, bitcoin has the scaling debate. It's one of the first things any careful investigator of bitcoin will discover upon pulling back the curtains onto the strange crypto world. The most consequential technical development since the Internet itself has a pronounced way of putting people off.

For all the smarts and dedication seen in the bitcoin community, it is a collective computer nerd with all of a computer nerd's faults – as Urban Dictionary says, "somebody who knows more than the speaker about computers, who by implication has no social skills".

Many bitcoiners also have the Millennial's trait of not knowing how much they don't know.

A tale of gridlock

At scale, social skills are political skills, and this dimension of social capital is also in short supply.

Consider the capacity of anyone in the bitcoin world to convince just about anyone of anything. The year began with the stalling out of the effort to shift to Bitcoin XT, an alternative to the dominant implementation of bitcoin's code.

Bitcoin Classic came next. It, too, was introduced without sufficient groundwork to attract broad support in a community that is part utterly indifferent and part rigidly partisan. The year ends with Bitcoin Unlimited making its own run at toppling Core and even its preferred improvements appear unlikely to achieve critical mass.

Bitcoin implementations really shouldn't be "toppled", of course, for the sake of public confidence. Whatever happens in the debate over the block size limit, the present-day bitcoin community is its own worst enemy.

The social capital that the bitcoin space still needs crosses many domains. If it is going to help deliver on global financial inclusion, financial privacy, liberty and monetary stability for the world's people, bitcoin still needs to be popularized and demystified.

When it comes to the block size limit and similar matters, the ground beneath those debates should be like a Roman road, deeply underlain by scholarly study of the issues in all their dimensions, including the code, of course, but also security and risk management, economics, cryptography, networks, data storage and more.

Ray of light

The forthcoming publication of *Ledger*, a peer-reviewed scholarly journal focusing in on cryptocurrency and blockchain technology should be widely anticipated. *Ledger* must establish itself as a universally credible publication.

Leading figures and groups should be voluble communicators, not just on bitcoin forums and social media, but in mainstream and trade media, as well as each on their own, easily found channels. Bitcoin business leaders should act consistently with professional standards at all times. This year made clear that bitcoin needs better communications.

There are social capital efforts underway, of course.

Coin Center continues to calm and educate regulators in the US, whose lead many other countries will follow. The Open Bitcoin Privacy Project is another such effort meant to aid users in protecting their financial privacy. The Bitcoin Foundation was supposed to help develop Bitcoin's social capital, but the enormity of the task, the diffuse (or lacking) vision of its varying leadership, and some significant early missteps relegated that organization.

Despite the appointment of another well-meaning executive director mid-way through the year, the foundation has been achievement-free in 2016.

Why does this matter? Technology is about people. It only exists with reference to humans and human ends.

The bitcoin ecosystem is not self-actuating or self-correcting. It requires attention and maintenance like any system of human organization. The story of bitcoin in 2016 has been one of retrenchment back from the highs and successes that it could be achieving by now, which go beyond capital gains for tech-savvy investors.

It masks the long way the cryptocurrency ecosystem has to go before it truly delivers on its revolutionary potential.

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