



Bitcoin's 'Authoritarian Hipster'

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June 7, 2021

On Sunday, Salvadoran President Nayib Bukele tweeted out his new profile picture. It featured the popular, young upstart standing at a podium with a bitcoiner's blood-red laser eyes (instead of the usual statesman's stare). In the background stand a few National Guardsmen.

The day before, in a pre-recorded video screened to the 12,000 attendees of Bitcoin Miami, the 39-year-old president announced he had drafted a bill to present to the nation's legislature to make bitcoin (BTC, -8.72%) an official currency in El Salvador. It would be a monumental step for the Central American nation, known less for its technological prowess than its significant underbanked population.

Details during the announcement were scant – a version of the bill wasn't immediately made available – though Bukele sold this move as a way to “provide financial inclusion” for his citizens and “push humanity at least a tiny bit into the right direction.” Changing his Twitter profile to reflect the hodler's creed might be considered a formal statement on how serious Bukele is about making this happen.

“At this point I don't think this is anything more than a symbolic gesture,” George Selgin, a Senior Fellow and director of the Cato Institute's Center for Monetary and Financial Alternatives, said about the plans in a phone interview. “Obviously he's a clever politician that knows how to play up to a younger constituency and build popularity.”

Bukele has been lauded as a populist reformer as well as branded an “authoritarian hipster.” He took the presidency in the nation's most recent election with 53% of the vote after less than a decade holding various mayorships, running on an anti-corruption platform as part of a newly founded third party, Nuevas Ideas (New Ideas).

He describes his politics as neither left nor right, but instead reflective of what everyday Salvadorians want. In most public appearances, Bukele, the son of a rich Palestinian merchant, is seen wearing a backwards hat, aviators and closely trimmed beard. His preferred method of communication? Going direct through social media where he counts millions of followers, often using a tone “more appropriate for tweets about bitcoin or sports,” the Washington Post noted.

More than a year after his inauguration, Bukele's popularity ratings hover between 80%-90%. During the coronavirus crisis he provided food assistance and \$300 direct cash payments, winning him the admiration of his constituents. He has also made an effort to build community centers, expand internet access and put a dent in gang-related crime.

But his governing tactics have, indeed, bent authoritarian at times. In February 2020 he sent armed soldiers into the legislature to demand they approve a loan for security equipment. In April 2020, he released official photos of hundreds of alleged gang members stripped nearly nude and crowded together on a prison floor. On May 1, he led efforts for the legislature to remove five magistrates from the Supreme Court who had opposed his policies. The next day the legislature removed the country's attorney general.

He ignored Supreme Court rulings challenging his COVID-19 lockdowns and has allegedly harassed political opponents, shunned the media and has vilified human rights groups. The Catholic Church, among other leaders in the country, denounced his "persistent efforts ... to erode our democratic order."

The Washington Post called him a "millennial autocrat" and compared the outsider politician to "political bomb-throwers" like former Italian Prime Minister Silvio Berlusconi and "blustery despots" including the Philippines' Rodrigo Duterte and Brazil's Jair Bolsonaro.

His latest turn to bitcoin continues these two trends of courting the most vulnerable while attacking the establishment. In his recorded message, Bukele claimed more than 70% of El Salvador's 6.5 million people were left out of the banking system. A further 2 million or so live in the U.S., from where they send home \$6 billion in remittances – which make up about 23% of the nation's economy – often getting gouged by middlemen.

Further, in his announcement Bukele took aim at central banks like the Federal Reserve that are "increasingly taking actions that may cause harm to the economic stability of El Salvador" by printing money to prop up their own economies. Over the COVID year, Salvadorian exports sank 17%, foreign direct investment dropped \$500 million while the country's debt rose, according to Francisco De Sola, a guest speaker at the Wilson Center.

Making bitcoin a legal tender, Bukele said, fixes this. Not only would it provide a means for people to access an alternative, low-cost financial system, it would also attract investments in the nation. If just 1% of the total BTC supply moved to El Salvador that would grow the nation's economic output by nearly 25%, Bukele said. To that end, Bukele is working to make the nation's tax and regulatory frameworks favorable for crypto businesses, and provide "immediate permanent residence for crypto entrepreneurs."

"We hope that this decision will be just the beginning in providing a space where some of the leading innovators can reimagine the future of finance, potentially helping billions around the world," he said.

Cato's Selgin thinks this is mostly political theater and that there wouldn't be a functional change in how El Salvador operates. "Usually the designation of a currency as legal tender doesn't mean very much. People are already free to ask for bitcoin as payment, if they want." He noted the Bitcoin Beach community, on the coast of El Salvador, has been piloting a circular bitcoin economy since 2019.

Rohan Grey, one of the authors of the proposed U.S. STABLE Act and Assistant Professor at Willamette Law, agreed the move would likely have little effect. Bitcoin is an inherently flawed currency, Grey said, because of its volatility and deflationary aspects – few would choose it as their primary method of payment.

“Bitcoin as a private currency creates far more problems than it solves by trying to bring it into the legal system,” Grey said. For one, in handing over monetary control to a decentralized network, the Salvadoran government would be giving up some of its ability to set policy. Then there’s the matter of finding a peg for foreign exchange.

“If El Salvador does and demands that its citizens have the right to make those kinds of transactions, that’s going to run headlong into the domestic sovereignty of other countries’ legal tender laws,” he said.

Selgin and Grey argue El Salvador would have little meaningful impact for bitcoin itself, as has existed this far without the imprimatur of a government.

“Bitcoin is a phenomenon that has gotten this far on not being a government-based currency,” Selgin said. “It shouldn’t matter what Bukele says.”