The Bitcoin Standard: The Decentralized Alternative to Central Banking
Saifedean Ammous
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The "crypto world," as the budding industry based on the application of blockchain technology is often called, is a very tribal place. Perhaps the potential for vast riches in "Web 3.0" causes the splintering. Or perhaps it is an example of self-selection that first-movers in a new industry tend to be aggressive and opinionated. Either way, one need only spend a short time in the right corners of Twitter and Reddit to witness the sort of factional competition usually reserved for politics, religion, and sports.

Just as in those other contests, leaders of each crypto-tribe tend to emerge. One such faction is "Bitcoin maximalists," a term coined by Ethereum cofounder Vitalik Buterin, of which Saifedean Ammous has become a leader. He and others in this faction see Bitcoin as the *only* cryptocurrency with a future. In particular, Ammous expects the "Bitcoin standard" to become the new gold standard and the anchor of the international monetary system. Bitcoin maximalists thus resemble old-fashioned gold bugs in insisting that there is only one truly "sound money": alternative cryptocurrencies are to them what silver coinage was to Grover Cleveland Republicans.

In *The Bitcoin Standard*, Ammous presents something of a Bitcoin Maximalist Bible: a guide, from an Austrian school of economics point of view, to the historical context of the now famous white paper written by the mysterious Satoshi Nakamoto and to the economic characteristics of Bitcoin that make it so endearing to those who view it as sound money.

The Bitcoin Standard attempts to make the case that Bitcoin is a digital form of money that can provide a viable alternative to central bank fiat currencies. The first four of the book's 10 chapters explain what money is, how it has evolved over time, and how and why various monies throughout history have succeeded or failed to serve their purpose—namely, to store value and exchange it. The next three chapters dive deeper into the implications for society of sound versus unsound money as defined by Ammous. Finally, the last three chapters explain why the author considers Bitcoin "the sound money of the digital age," while addressing misconceptions and lingering questions about the still young technology

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The Bitcoin Standard certainly has its virtues. To Ammous's credit, the book does a fine job describing historical examples of money and such concepts as salability, hard money, stock-to-flow ratios, and money as a medium of indirect exchange. One of the best things about Bitcoin entering public consciousness is that it has made people stop and think about money itself—what it is, what makes a good or bad money, and why the government has a monopoly on its issuance. *The Bitcoin Standard* should be commended for pushing the narrative forward that free-market money would, to borrow a phrase from those in Silicon Valley, "make the world a better place" by limiting the power of the state over the individual. When central banks can increase the money supply to pay off government debt accumulated by irresponsible spending, the state is less responsive to the classical liberal conception of government, in which operations are restricted to only what its subjects deem tolerable. Ammous deserves kudos for helping to convey these concepts to a wider audience.

However, whatever praise he deserves for disseminating these ideas to a broader audience is diminished by his packaging of them alongside an exaggerated view of the wonders of "sound money." To him, everything from the fall of the Roman Empire and the "breakdown of the modern family" to the apparently disappointing state of modern art has "unsound money" to blame. In Ammous's view, it is no coincidence that "Florentine and Venetian artists were the leaders of the Renaissance, as these were the two cities which led Europe in the adoption of sound money," and "it was hard money that financed Bach's Brandenburg Concertos while easy money financed Miley Cyrus's twerks." Surely such assertions are better suited to Twitter posts than to a work purporting to convey serious lessons about monetary economics, Austrian or otherwise.

When *The Bitcoin Standard* isn't merely glib, it tends to suffer from its author's narrow perspective. For example, his survey of money's history hardly mentions the large part played by credit and the different forms of money based upon it, including most bank deposits. Ammous seems to believe that the only "sound money" throughout history, until the advent of Bitcoin, has been gold. Yet his analysis of the gold standard leaves much to be desired and fails to provide readers with historically accurate facts that are relevant to the book's supposed subject—the future of the global monetary order. For example, his assertion that the rise of Hitler and Mussolini, along

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with World War II, was triggered by European nations' abandonment of the gold standard and the embrace of Keynesian economics is historically inaccurate. Likewise, he lets his imagination run wild in blaming what he calls the "Keynesian deluge" for the murder of classical liberal (free-market) economists in Russia, Italy, Germany, and Austria.

The most offensive of his misrepresentations is the book's strawman treatment of John Maynard Keynes. Ammous accuses him of causing the Great Depression, which broke out several years before Keynes's *General Theory* was published in 1936. He also asserts that Keynes "never studied economics or researched it professionally," an absurd claim to level at a man who almost literally learned economics at his father's knees and who was, among other things, the author of *A Treatise on Money* (1930) and a long-time editor of the *Economic Journal*. Finally, Ammous dwells upon Keynes's notorious pedophilia, presumably to discourage readers from seeing any merit in his economic theory and policies. How Ammous thought such an *ad hominen* attack on Keynes would help his argument that Bitcoin can provide a decentralized alternative to central banking is unclear.

One of the more interesting arguments made in the book is the reference to "zero-to-one" events—a term he borrows from technologist Peter Thiel—in which visionaries pioneer the first successful example of a new technology. According to Ammous, such events occurred more frequently in eras of "sound money"—including the "*belle époque*" of 1871 to 1914, when the gold standard prevailed throughout Europe and the Americas—than in the subsequent era of government-produced fiat monies. That outcome, argues Ammous, occurred because sound money, which holds its value over time, enables individuals to "lower their time preference" such that they can take more time to produce and invest in ever-more complicated goods to "satisfy ever-more remote needs," and, in turn, advance civilization.

Ammous claims that innovations are mostly "one-to-many"—matters of scaling, marketing, and optimization—under the current fiat money system. Although there is nothing wrong with one-to-many innovations, says Ammous, we should think about why there aren't as many zero-to-one innovations nowadays. Bitcoin itself is an example of a zero-to-one innovation: it is the first example of blockchain technology, and it created a verifiably scarce digital cash. Ammous, as a Bitcoin maximalist, has little

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confidence in other applications of blockchain technology like stablecoins, land-title registration, privacy coins, and uncensorable political discussion. In downplaying those applications, he misses Bitcoin's one-to-many opportunity: to scale and optimize free-market money and government-circumvention.

It is disappointing that Ammous spends so little time discussing Bitcoin and its potential as a replacement for central bank money. Only the last three chapters of his book deal with Bitcoin. He therefore passes up the chance to have a fair discussion of several unresolved arguments. To his credit, on the debate over fractional reserve banking in a Bitcoin standard world, Ammous lends credence to the vision outlined by the recipient of the first-ever Bitcoin transaction from Satoshi Nakamoto, the late Hal Finney, on the Bitcoin forum in 2010. There, Finney cited theories of competitive free banking to describe a scenario in which Bitcoin is the "'high-powered money' that serves as a reserve currency for banks that issue their own digital cash. . . . Some would be fractional reserve while others may be 100% Bitcoin backed."

However, Ammous doesn't spend any time addressing the concerns held by many economists that Bitcoin's limited supply—an attribute lauded by Ammous but exacerbated by the unknown amount of Bitcoin lost forever—would eventually result in undesirable deflation. Nor does he summarize and confront the more technical arguments about mining power centralization or whether the incentive system can survive once the 21 millionth Bitcoin is released and miners are only rewarded by transaction fees. These are important questions if a Bitcoin standard is ever going to supplant central banks.

The result is a missed opportunity to provide a foundation from which others can advance the literature on the important question of how cryptocurrencies will interact with the current monetary system. Ammous's choice to cater to "internet Austrians" and his "Bitcoin maximalist" Twitter followers by offering a one-sided view of monetary history may help with book sales, which he can convert to Bitcoin and hoard, but it does little to advance our collective understanding of the topic the book professes to address.

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