



Why Is **Bitcoin** Valuable?

BITCOIN'S SUPERIOR MONETARY ATTRIBUTES

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Why Is Bitcoin Valuable?

In one sense, you can understand the skepticism. Bitcoin is a novel technology, and most people don't know how it works. But if you dig deeper, you realize the question isn't about bitcoin; it's about money. Why do we value any money? Is it a collective hallucination, or are there some necessary qualities that are so fundamental that we just don't stop to think what they are?

Bitcoin is an ideal springboard for the inquiry. We accept that a dollar, euro, or yen is valuable because, throughout our lives, they have been. But take a step back and ask the same question about those currencies. Could you explain why they have value? Do you actually know how fiat currency markets work? If you had blinders on and were told you had the option of holding a money that could be printed at will or one with a hard limit, which would you choose to own?

Indeed, bitcoin isn't yet as widely accepted as the dollar, but then again, it hasn't been around nearly as long. As people become more familiar with bitcoin, we believe they will quickly recognize that it is superior money.

Why Money Has Value

Bitcoin has value for the same reasons any other money does. We value goods as money if they exhibit specific, tangible properties. The six characteristics¹ of sound money are:

01

Durability

Poor money makes for poor money because it spoils. Gold, on the other hand, doesn't rust or otherwise decay.

02

Portability

Cash is easy to carry, but gold can be physically taxing to transport in large amounts. It's hard to trade when you have to hire an army just to pay your bills.

¹ Federal Reserve Bank of St. Louis: Functions of Money - The Economic Lowdown Podcast Series

03

Divisibility

U.S. dollars can be broken down into cents for small purchases.

04

Fungibility

A dollar is a dollar, but one barrel of apples could vary significantly in quality and quantity from another barrel. If a currency isn't fungible, every transaction requires an audit.

05

Scarcity

Currencies aren't exempt from the law of supply and demand. The easier it is to find or create a good, the less value it has. Money needs to have a limited supply to ensure that its purchasing power will remain stable.

06

Acceptability

If a money fulfills the first five criteria, the more likely it is that people will use it. The more people that adopt a currency, the easier it will be to spend. Acceptability can be thought of as money's network effect.

How credibly a good displays these characteristics will determine if it can fulfill the role of money. Clearly, a good doesn't become a currency out of a collective hallucination. Instead, people have continually adopted new monies based on how well they function as such.

How Bitcoin Stacks Up

Analyzing Bitcoin through the lens of the six characteristics of sound money shows that it is quite possibly the best currency ever created:

01

Durability

Bitcoin cannot be destroyed. So long as the blockchain is maintained on even a single computer, Bitcoin exists. Since its inception, the network's uptime has been a remarkable 99.99%, and it has gone more than 3,200 days without an outage. For a point of comparison, the Federal Reserve's money transfer system went offline for several hours in February 2021.²

02

Portability

Bitcoin can be sent anywhere there's an internet connection in seconds with probabilistic final settlement within an hour. A bitcoin user who has memorized their private key literally carries their bitcoin with them wherever they go.

03

Divisibility

A single bitcoin consists of 100 million smaller units known as satoshis.

04

Fungibility

Bitcoins are all the same. No coin is any more valuable than the next one. Unlike with gold or paper currency, counterfeiting is impossible.

05

Scarcity

Bitcoin is the first provably scarce object. There will only ever be 21 million bitcoins. Anyone can check the protocol's code to confirm this limit. A vast majority of nodes, the enforcers of Bitcoin's rules, would have to act against their own economic self-interest for the limit to be altered.

06

Acceptability

While estimates for the number of bitcoin holders vary, some peg adoption as high as 114 million people.³ This number grows each day as knowledge of the protocol spreads and bitcoin becomes easier to buy, spend, and store.

² CNBC: The Fed's System That Allows Banks to Send Money Back and Forth Went Down for Several Hours

³ Crypto.com: Measuring Global Crypto Users

Bitcoin combines the hardness of gold with the portability and fungibility of fiat and comes built for the digital age. Its supply is strictly regulated by its code and enforced by those who use it. Bitcoin can be sent anywhere in the world in seconds without incurring the prohibitive costs so often charged in the traditional financial system.

Copying Bitcoin

If Bitcoin is just open-source code, why can't it just be copied? Would a new protocol that looks and feels like Bitcoin have the same monetary properties?

Yes and no. Certainly, the new Bitcoin would ostensibly act like the original, but it would lack something that can't be programmed: credibility.

We recommend reading Parker Lewis' article *Bitcoin Can't Be Copied*⁴ on the Unchained Capital website to understand this point. Lewis explains why there's more to money, specifically digital money, than just satisfying the six characteristics mentioned above.

Lewis argues that Bitcoin's code isn't money, in and of itself. What makes Bitcoin sound money is that its rules have been dependably enforced for well over a decade. There have been no sly changes, and no person or organization has managed to take control of the network. If anything, Bitcoin has become increasingly decentralized and censorship-resistant over time.

These two properties cannot be programmed. Bitcoin's value then is tied as much to how the network has evolved as to its code. Bitcoin will continue to fulfill the six characteristics of sound money because no one can change it so that it doesn't. That couldn't be said about a clone.

“The credibility of Bitcoin’s scarcity (and monetary policy) only exists because it is decentralized and censorship-resistant, which in itself has very little to do with software,” Lewis wrote. “In aggregate, this drives incremental adoption and liquidity which reinforces and strengthens the value of the Bitcoin network. As part of this process, individuals are, at the same time, opting out of inferior monetary networks. This is fundamentally why the emergent properties in Bitcoin are next to impossible

⁴ Unchained Capital: Bitcoin Can't Be Copied

to replicate and why Bitcoin cannot be copied or out-competed: because Bitcoin already exists as an option and its monetary properties become stronger over time (and with greater scale), while also at the direct expense of inferior monetary networks.”

That’s all to say that a replica would always be less than the original. Holding an inferior, less proven version of Bitcoin would mean willingly holding a weaker form of money. How many people really want to do that?

Key Takeaways

01

Bitcoin derives its value in the same way any currency does: by fulfilling the six characteristics of money. Those characteristics are: durability, portability, divisibility, fungibility, scarcity, and acceptability.

02

We believe that Bitcoin is superior to any other money that has ever been created.

03

Bitcoin can't be copied. Yes, its code is free for all to see and use as they see fit, but the properties of the network go beyond pure programming. In over a decade of existence, Bitcoin has proven itself to be decentralized and censorship-resistant. Its rules have withstood the test of time.

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