

The Fundamental Flaws of Bitcoin as Money

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ABSTRACT

After a slow beginning in 2009, the digital currency Bitcoin has edged closer to the mainstream, and regulators are scrambling to determine what to do with it. So far, they have focused on harms that its use creates, such as easy money laundering and sales of illicit goods. But Bitcoin's ability to grease the wheels of crime is not the only risk we should worry about. Rather, due to its status as decentralized, open-source software, Bitcoin poses a risk that money has not historically been subject to – the risk that the money will just stop working one day due to a technology problem. This makes Bitcoin unsuitable to serve as money, and means that regulators must act to bring about Bitcoin's demise.

Illuminating the importance of reliable money to our society, this paper unpacks the operational risks generated by Bitcoin's very structure, such as the inherent vulnerabilities of software to bugs and hacking, the governance problems spawned by its decentralized structure and open-source nature, and the lack of monetary expertise of the coders who run the currency. Examining the difficulties with holding anyone accountable for a Bitcoin technology failure, this paper demonstrates how Bitcoin's operational risks, coupled with the lack of accountability for harms wrought by its failure, make Bitcoin unfit to be money.