

Module #4.6

Government

4.6.0 Introduction

4.6.1 Technology vs Law

4.6.2 Decentralisation

4.6.3 Internationalisation

4.6.4 Ethics

4.6.5 Evaluating policy options

4.6.5.1 Resist, fighter

4.6.5.2 Ignore, gambler

4.6.5.3 Delay, laggard

4.6.5.4 Embrace, innovator

Government

Excluding altruism, money is the motivation driving all voluntary human action. Bitcoin is a neutral, global money with rules, but no rulers. If it can't be coerced, and doesn't fail, the geopolitical implications are unparalleled.

Milton Friedman 1999

4.6.0 Introduction

Once a new technology rolls over you, if you're not part of the steamroller, you're part of the road.

Milton Friedman 1999

The purpose of this chapter is to point out to governments, government agencies, and government employees that ignoring Bitcoin is burying your head in the sand and hoping that either it is coercible or it will fail. If neither of these outcomes eventuate then it will hugely transform the incentive structures for all future human action. The people who inhabit the geography of existing nation states whose governments act first to understand and enact appropriate policy could gain a substantial advantage.

It could be that Bitcoin is coercible and/or it fails, but unless a government learns about the technology and reaches that conclusion through knowledge without prejudice they are taking a huge risk, the consequences of which will be borne by the citizens on behalf of whom they are currently expected to act. After receiving notification by reading this chapter, that would be gross negligence and a dereliction of duty by today's governments, their agencies and employees. If you don't want that responsibility stop reading now, and resign.

Governments can be defined as the entities which exert, or seek to exert, a monopoly of violence over their geographical territory. This arrangement has been arrived at for protection against external physical threat, and to preserve order internally. As societies and economies have developed, governments have tended to expand their roles internally. One of the roles that emerged, fitfully at first, from the late 19th century on was control over money via central banking.

Module #4

The purpose of this chapter is not to make a case for or against central banking and government control of money, but rather to highlight that it may not be possible to exert this power in the future.

Anyone who understands the centrality of control of money to the exertion of other powers will recognise the loss of such central control as a substantial tailwind towards decentralising power within nation states.

History teaches us that short of war or pestilence, significant societal change has more often been driven by technology than law because such change was seldom sought in advance by the people or their leaders. Indeed even had such change been sought, law has no capacity to discover or invent technology.

A lot of the power that nation states have acquired over the last century from taking (historically unprecedented) control of money may have to be ceded. This is not a threat to the people, but it may be for the structure of government and institutions. The leaders of our institutions need to learn about Bitcoin and its implications so that they can understand how the interests of the geography and people who currently constitute their nation state may be affected.

Only in this way will they be able to choose policy actions that optimise the future for their geography and people. Education and humility will be required by all to optimise decision making. There is no hiding from this, changes will be forced upon us at some point anyway, and a better outcome can be achieved by anticipating them. The game theory at play may mean embrace early or lose out.

This is a litmus test for our current politicians and institutional leaders. Are they mainly driven by the desire to improve the future for the geography and people that currently constitute their nation state? Or, are their priorities shaped by other motivations, be it personal, business or ideological?

By learning about Bitcoin governments can plot a chart for the benefit of their current and future citizens. This chapter aims to provide some areas for consideration to help get the planning process underway.

4.6.1 Technology vs Law

The most important causes of change are not to be found in political manifestos or in the pronouncements of dead economists, but in the hidden factors that alter the boundaries where power is exercised. Often, subtle changes in climate, topography, microbes, and technology alter the logic of violence

James Dale Davidson, *The Sovereign Individual: Mastering the Transition to the Information Age*, 1996

Government

History is replete with examples of technology innovation changing how human societies evolved and were governed. The Sovereign Individual, a 1997 book by James Dale Davidson and William Rees-Mogg, explores how technology changes drove the change in the West from a world governed by the Church to one of the nation states we inhabit today. They identify the key technology innovations as the emergence of the printing press and the use of gunpowder as a fuel for violence which changed the returns to violence at scale.

An important observation is that there is no evidence that either the Church or the people at large wanted or instigated the change that occurred. In retrospect it appears inevitable that the power that emerged from the Church's control of information would ebb as the new economics removed its monopoly on producing written materials.

The printing press lowered the cost of reproducing information, and thus increased the decentralisation of the production of written material. History suggests that technology that drove large change was not instigated by the governmental framework, the institutions, the leadership or by the people via democratic processes. More often we see that people and institutions tended to vainly resist, obstruct and delay its adoption. In the 20th century we can observe this in the early responses to the use of automobiles, electricity, cryptography, email and the internet.

The embracing of new technologies by markets drove the reshaping of where people lived, how they worked and sometimes the very structure of what they regarded as their culture, country or leadership entity. In many cases it changed the scale and construction of that very entity itself. Other examples of technology driving wide scale societal change include the rise of electricity, automobiles and the internet.

Taxation and debt are also structured by law and therefore respond to technology. This can be observed through the past. Historically taxation was limited to things like stamp duties and excise / import duties as the necessary technology to support income taxes and others did not yet exist.

This evidence is cited to support the conclusion that technology must therefore be superordinate to law. Law can catch up afterwards, but the flow of causation shows legal means can't reasonably or durably stop change, and nor can legal means cause it. Laws changing are an effect of technology change, not the cause, and new technology innovation can't be voted in, decreed by a ruler or indeed prevented without self-harm.

The truth is incontrovertible. Malice may attack it and ignorance may deride it, but, in the end, there it is.

Winston Churchill

Successful technologies are a kind of "truth". As such, law has been unable to prevent the advance of many technologies which at the time of their inception the society seemed to wish to prevent. Where this has been achieved it has usually reduced the wealth of that nation in the medium to long term.

4.6.2 Decentralisation

There can be little doubt also that the ability of central governments to resort to this kind of finance is one of the contributory causes in the advance of the most undesirable centralisation of government.

F A Hayek, *Denationalisation of Money*, 1976

Hayek argued that the centralisation of money that occurred during the 20th century was an underlying driver of the centralisation of nation states. The rise of Bitcoin may push this into reverse, something which many people support and indeed to which politicians pay lip service, but have been seemingly unable to deliver.

Prior to the 20th century emperors, kings, queens and governments were always constrained by access to money. The wealth that money measures emerges not from above, but from a decentralised below. Until the 20th century the nature of money reflected this reality and thus was itself 'real'. The form of this money, its specific technology, varied in time and place as part of the evolution of human societies.

Since the early part of the 20th century experiments were undertaken to remove the 'realness' of money, culminating in its full dissociation from reality in 1961 when the dollar's convertibility to gold was "temporarily" suspended.

I have directed Secretary Connally to suspend temporarily the convertibility of the American dollar except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States

Richard Nixon, US President, August 1971

Money is a technology and Bitcoin, as a digital money, may be one of the biggest technology innovations in human history.

Government

money is, at root, technology as much as any other basic machine like the wedge, lever or wheel.

Business Insider, 2012.

Perhaps money is comparable in scale to the invention of farming, the printing press or gunpowder. Excluding altruism, money motivates all voluntary human action and therefore it is possible that a new solution in this technology for 8 billion people may turn out to be the most impactful technology innovation in human history.

Money is power, it is a technology, and as such it is superordinate to law, and therefore by deduction it is also superordinate to lawmaking institutions. The decentralisation of money will drive the decentralisation of power.

One of the penalties paid for the blessings of stability of the currency is that the law finds itself unprepared for unexpected and revolutionary changes in the monetary system.

LEGAL THEORIES OF MONEY PHANOR J. EDER, 1934

Today nations specify one or more moneys as legal tender. If the market were to determine something else as a preferred money either locally or internationally then governments may face a situation where the demand for the local tender currency is outpaced by the demand for the global, neutral 'real' money. We will again observe that real money is a market determined good which may cause legislative change, and is not itself created by law. Nations could always choose to keep tender laws that specify the less demanded money, but would be well-advised to consider the self-harming consequences of making such choices :

History shows it is not possible to insulate yourself from the consequences of others holding money that is harder than yours.

Saifedean Ammous, The Bitcoin Standard:
The Decentralized Alternative to Central Banking, 2018

A decorative graphic in the top left corner consisting of a network of white lines and dots on a dark purple background, resembling a circuit or neural network.

Module #4

The argument presented above shows how a decentralised, global and neutral money can drive decentralisation of power. Now we turn to how Bitcoin, a decentralised monetary communications technology, may also be a precursor of the decentralisation of non monetary communications and media.

Decentralisation of communications

Bitcoin is a decentralised, open and neutral network communications protocol which the market appears to value increasingly as money.

There are features of this protocol which may also produce a new paradigm in human communications beyond money. We are beginning to see communication and social media solutions emerge and gain traction which deploy some of these features, for example Nostr and Keet. This may be the beginning of a major decentralisation of services as compared with how the internet is used today. These media services are also likely to have Bitcoin transactability natively embedded.

In light of the recent debates, particularly in the developed world, regarding freedom of speech and censorship, the decentralisation of communications should not be ignored by governments, and it should inform policy today irrespective of Bitcoin itself.

It may be that it is counter-productive for governments to be too coercive seeking to ban, shut down, censor or otherwise interfere with the current centralised solutions. The harder that government acts, the faster alternative solutions are likely to grow. In anything resembling the existing developed world free societies, these alternative solutions will be far more costly to surveil, and hence practically un surveillable for the mass population.

Therefore the optimum approach may be to seek to work with existing centralised solutions voluntarily with a focus only on commonly accepted major harms and not on issues regarding widely held alternative narratives or on individual citizens. A global commitment to complete freedom of speech on existing platforms will reduce the push to the emerging decentralised ones.

4.6.3 Internationalisation

Governments will ultimately have little choice but to treat populations in territories they serve more like customers, and less in the way that organized criminals treat the victims of a shakedown racket.

James Dale Davidson, *The Sovereign Individual: Mastering the Transition to the Information Age*, 1997



Internationalisation through properties

Bitcoin is digital property and therefore occupies no physical space and has no geographic footprint. Further, Bitcoin is not a legal construct. Therefore Bitcoin is a unique innovation that has become valuable property but which has no domicile either physically or legally.

The world has experienced a period in the near past when it was on one monetary standard - the gold standard. Although countries maintained their own currencies, the exchange rates rarely changed as they were valued based on the weight of gold that each represented. However, gold's costly and slow physical portability eventually brought this period to an end. It also limited the internationalisation that gold could deliver beyond simply a common measure of value. Gold's survival as a global monetary standard was limited and ultimately undermined by its occupance of physical space.

Internationalisation through social network

The Bitcoin community has developed as a global social network. Domicile may vary the freedoms that people have by geography, for instance ability to access the open internet, or the list of apps approved on the Apple App Store, or Google Play Store. Domicile may also affect the legal status and regulation of Bitcoin as an asset and medium of exchange. However, the common culture and knowledge that has developed and is growing in the Bitcoin community is a shared global experience.

Consequences of internationalisation

It would seem unconscionable for any of the free world to implement policies that restricted people's freedom of movement to the level of making moving to other countries illegal.

Such an authoritarian move would signal the demise of the developed world and history would suggest that it would not be sustainable long before revolution.

Module #4

Given the above, the combination of the non-geographic nature of Bitcoin and the global social network will unleash an unprecedented competitive force onto nation state governments to deliver value for money services to their citizens or face a falling customer base. This need not be a 'race to the bottom' as some may cast it, but rather an explosion of diversity, and with a strong emphasis on high quality and productive delivery in return for taxes raised at whatever level the market will bear.

The more competitive environment in which nation state governments will find themselves combined with the growth of a new money that is coordinating human action globally will act as a pull outwards. Combined with the decentralisation of money and communications acting as a draw inwards, nation state governments may find themselves becoming stretched from both sides. Areas of competence may separate into regions or communities internally, and disintegrate outwards. The size and scope of nation state governments is likely, on average, to reduce. Whatever the resulting size in a given jurisdiction, the tax paying citizens will be less supplicants and more customers and will thus demand that services are value for money.

The decentralisation inward, and the stretch outward may pull some nation states apart much like spaghetti in a black hole. Bitcoin is at once both localising and globalising.

We already see within the bitcoin economy the seemingly contradictory effects of being at once both a localising and a globalising force. There is more globalism, less intermediation and more decentralisation with both more localised and international economies and social networks, with much less in between.

Here is a, non-exhaustive, list of specific issues upon which governments might want to consider the effects of this internationalisation:

- ✿ Taxation / budgets
- ✿ Money supply / banking system
- ✿ International governmental structures
- ✿ Regional / local governmental structures
- ✿ Economic structures
- ✿ Charities, non profits, religious and community organisations
- ✿ Education / academia



Astronaut falling into a black hole (schematic illustration of the spaghettification effect)

Government

4.6.4 Ethics

The most important ethical issues vary based on geopolitics. We consider two perspectives: The developed world perspective and the Global South perspective. That the existing financial system poses different problems for citizens simply based on where they live may itself be considered an ethical issue related to human equality.

Developed world perspective - wealth inequality and the environment

The Cantillon Effect is named after Richard Cantillon, an 18th century Irish-French economist who first wrote down his observation. The effect describes the uneven effect monetary inflation has on goods and assets in an economy. When new fiat money is injected into an economy its effects are felt by different people and industries at different times. Typically assets grow in value, benefiting the wealthy, whilst the asset poor experience general price inflation.

The existing monetary system is a significant underlying cause of the growth of the wealth gap between the rich and the poor. The ability for the wealthy and politically connected to exploit the existing system for their benefit, at the cost of the less well-off, is a feature of how the existing system of money works. This mechanism is also driving a decline in the middle class, with the few becoming rich, and the many becoming poorer. A return to a neutral money which can only be gained through work, irrespective of the wealth of the person concerned, will stop the increase in these wealth gaps and start to redress them leading to less unequal societies.

Bitcoin appears to provide a number of benefits across an ESG framework. Throughout its short history, new and innovative ways of leveraging the network and its native asset continue to emerge, such as helping to stabilize energy grids, reduce greenhouse gas emissions, and even assist with providing sustainable heat to commercial and residential properties.

KPMG US, "Bitcoin's Role in the ESG Imperative", 2023

As the KPMG research paper above concludes, Bitcoin may be a critical contributor to helping to mitigate climate change due to its economically viable interaction with energy production and use. The paper also notes significant Social and Governance benefits associated with Bitcoin, In a world where money cannot be created to drive consumption of resources, the resources available will be consumed in a more efficient and less wasteful way. We are likely to see a change in the balance of economic incentives between new production and "repair and reuse" with the latter rising relatively. This would drive a reduction in consumerism without economic calamity as the money is no longer based on debt. We would see more sustainable use of resources and growth in wealth for those that work, consume less than they earn and save that excess in hard money.

Module #4

Global South / developing world - financial exclusion and poorly run national currencies

Some of us are born into monetary regimes with good policies and wise rulers...But many of us suffer under poor or poorly run monetary regimes...we have as little control of which monetary institutions we're born into as we have over the biological mothers who bear us.

Resistance Money', Andrew Bailey, Bradley Rettler, Craig Warmke 2024


In the Global South we observe from the perspective of poorly run currencies with high inflation, low international convertibility and low levels of financial inclusion. In many sizable countries half or more of the population are unbanked. A neutral, permissionless and fixed supply global currency has much to offer to such populations.

High inflation makes it hard for citizens to save. Saving is an important factor in being able to build capital in an economy and the absence of it seriously impairs real growth and sustainability. Instead, economies become dependent on external capital or more usually debt to drive production. Such debt usually comes with conditions which drive the type of economic development that the lender considers beneficial and which may not be what the local market would have developed organically. That the debt is centrally organised also provides an opportunity for unethical leaders to siphon some off for personal gain.

High inflation drives a raising of time preference as people discount the future at a higher rate. Lowering time preference is key to the growth of civilisation and economies. Low inflation, and lower time preference make it easier for people to plan and invest for the future.


Excluding substantial numbers of the global population from having access to global money exchange also tends to exclude them from participation in global markets. This harms their ability to provide for themselves by supplying goods and services to willing buyers. Their exclusion also harms customers who could benefit from competitive advantages that those currently excluded could offer; we all lose, some more than others.

4.6.5 Evaluating policy options



**Change is the law of life.
And those who look only to the past or present are certain to miss the future.**

John F Kennedy, US President



Whatever response governments take to this issue, the depth and breadth of its implications mean that the rise of Bitcoin should be added to national risk registers.

4.6.5.1 Resist - Fighter

Some elements of government policy, but more especially those of financial regulators, appear to have taken this position over much of the time since Bitcoin has had a value that gained attention. Where regulations have appeared they have tended to be reactive, slow and to have the effect of stymying growth. However, this may not be intended and may simply be the consequence of an insufficiently strategic approach from governments, and hence regulators below.

If Bitcoin does continue to rise, the history books will see that driving opportunities to others will have been a huge disservice to the populations living in the countries that took this approach. The rise of the internet was fought a little, very early on, in the developed world, but wisdom quickly prevailed and much of the commercial and technological benefits have been developed, built and gained by those countries that embraced it when it was young.

4.6.5.2 Ignore - Gambler

This option appears to have been the one taken by most governments from 2009-2024 with some notable exceptions such as El Salvador and Bhutan. Despite the work policy institutes such as the Bitcoin Policy Institute in the US and Bitcoin Policy UK, most governments have remained largely ignorant of the issues and are thus missing both mitigating actions and opportunities from the Rise of Bitcoin. Where regulation has been forthcoming it has tended to be reactive rather than strategically thought through.

Deliberate ignorance cannot be an acceptable stance as it is gambling with the futures of the people that inhabit the geographies for which the government is currently responsible. Being supportive of misinformation and using political oratory to belittle a substantial technology cannot be an ethical or professional way of conducting the politics of government. Laughing at Bitcoin as 'magic internet money' may have been reasonable in the first few years when it was merely a geeky collectible or had a very low value, but that is no longer an acceptable position to take.

4.6.5.3 Delay - Laggard

Attempting to delay the rise of Bitcoin is a realistic option. However, it will come at the price of a worse outcome for the people who today and in future inhabit the geographies that such a government is responsible for. Given this risk, it should only be pursued from a position of knowledge and informed expertise.

There may be areas where injecting some topic-specific and internationally coordinated delay could be beneficial in smoothing the inevitable transition. One example would be that by reducing the attempts to censor or place undue burdens on centralised social media companies, the move to uncensorable solutions could be delayed. This may reduce the costs of managing international financial and other large scale crimes for an extended period.

4.6.5.4 Embrace - Innovator

If it's going to win, back it. History is kind to leaders that back winners.

James Dewar

If Bitcoin does continue to rise as a global money the early winners will be :

- ✿ Individuals who embraced Bitcoin early
- ✿ Business and their shareholders who embraced Bitcoin early
- ✿ Citizens of countries whose governments embraced Bitcoin early

In the long term everyone will benefit, but the initial outsized benefits will flow into countries whose governments adopt this option. By embracing Bitcoin now governments can:

- ✿ Support education of their citizens
- ✿ Develop Bitcoin law and regulation from a strategic angle
- ✿ Encourage, or at least remain neutral, the growth of new industries
- ✿ Anticipate the reshaping of the economy - size of financial sector, reduction in importance and power of mega corporations
- ✿ Anticipate the reshaping of the economy - size of financial sector, reduction in importance and power of mega corporations



**Will Bitcoin render obsolete the politician that believes
their role is to rule rather than to serve?**

Darren Freemantle

