

Noah Smith and I agree that, as I argued in [my previous post](#), Bitcoins have no chance of becoming a successful money, much less replacing or displacing the dollar as the most important and widely used money in the world. In a [post](#) on Bloomberg yesterday, Noah explains why Bitcoins are nearly useless as money, reiterating a number of the points I made and adding some others of his own. However, I think that Bitcoins must sooner or later become worthless, while Noah thinks that Bitcoins, like gold, can be a worthwhile investment for those who think that it is fiat money that is going to become worthless. Here's how Noah puts it.

*So cryptocurrencies won't be actual currencies, except for drug dealers and other people who can't use normal forms of payment. But will they be good financial investments? Some won't -- some will be [scams](#), and many will simply fall into disuse and be forgotten. But some may remain good investments, and even go up in price over many decades.*

*A similar phenomenon has already happened: gold. Legendary investor Warren Buffett once [ridiculed](#) gold for being an unproductive asset, but the price of the yellow metal has climbed over time:*

*Why has gold increased in price? [One reason](#) is that it's not quite useless -- people use gold for jewelry and some industrial applications, so the metal slowly goes out of circulation, increasing its scarcity.*

And another reason is that central banks now own more than 17% of all the gold in the world. In the 1980s and 1990s, when the value of gold was steadily dropping to as little as \$250 an ounce, central banks were selling off their unproductive gold stocks, until they realized that, in selling off their gold stocks, they were driving down the value of all the gold sitting in their vaults. Once they figured out what they were doing, they agreed among themselves that they would start buying gold instead of selling it. And in the early years of this century, gold prices started to rebound.

*But another reason is that people simply believe in gold. In the end, the price of an asset is what people believe it's worth.*

Yes, but it sure does help when there are large central banks out there buying unwanted gold, and piling it up in vaults where no one else can do anything with it.

*Many people [believe](#) that fiat currencies will eventually collapse, and that gold will reemerge as the global currency.*

And it's the large central banks that issue the principal fiat currencies whose immense holdings of gold reserves that keep the price of gold from collapsing.

*That narrative has survived over many decades, and the rise of Bitcoin as an alternative [hasn't killed](#) it yet. Maybe there's a deeply embedded collective memory of the Middle Ages, when governments around the world were so unstable that gold and other precious metals were widely used to make payments.*

In the Middle Ages, the idea of, and the technology for creating, fiat money had not yet been invented, though coin debasement was widely practiced. It took centuries before a workable system for controlling fiat money was developed.

*Gold bugs, as advocates of gold as an investment are commonly known, may simply be hedging against the perceived possibility that the world will enter a new medieval period.*

How ill-mannered of them not to thank central banks for preventing the value of gold from collapsing.

*Similarly, Bitcoin or other cryptocurrencies may never go to zero, even if no one ends up using them for anything. They represent a belief in the theory that fiat money is doomed, and a hedge against the possibility that fiat-based payments systems will one day collapse. When looking for a cryptocurrency to invest in, it might be useful to think not about which is the best payments system, but which represents the most enduring expression of skepticism about fiat money itself.*

The problem with cryptocurrencies is that there is no reason to think that central banks will start amassing huge stockpiles of cryptocurrencies, thereby ensuring that the demand for cryptocurrencies will always be sufficient to keep their value at or above whatever level the central banks are comfortable with.

It just seems odd to me that some people want to invest in Bitcoins, which provide no present or future real services, and almost no present or future monetary services, in the belief that it is fiat money, which clearly does provide present and future monetary services, and provides the non-trivial additional benefit of enabling one to discharge tax liabilities to the government, is going to become worthless sometime in the future.

If your bet that Bitcoins are going to become valuable depends on the forecast that dollars will become worthless, you probably need to rethink your investment strategy.