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Have Blockchain Forks Shown Hayek to be Right or Wrong?

() December 2, 2017 4:03 pm

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Few would have experienced a more intense feeling than on November 12th when Bitcoin Cash kept on rising and rising with great speed, while bitcoin kept on falling at the same time with equal speed.

Many felt scared and as many felt jubilant at a time when it seemed like the entire value of bitcoin was to move to Bitcoin Cash. But as that thought was considered, the question of whether it would be right, just and equitable, rose.

That's because, undoubtedly, if there had been such instant transition, many would have lost a lot of money while many would have gained considerable sums. If we imagine this at the level of an economy, even a small town, we can probably see what chaos such instant transition would have caused.

However, after a few tense hours, bitcoin cash stopped rising. Relative normality returned. Bitcoin then went on to rise in value while bitcoin cash retained the vast majority of its gains.

During some of Britain's greatest financial difficulties in the 70s, when inflation rose to double digits, one of the most distinguished economist of the last century, Friedrich Hayek, stated that there was a great fundamental and systemic problem. ^

As central committees that manage our money do not have all the necessary information, he said, they will necessarily mismanage it and make wrong decisions despite their best intention. This, he said, leads to constant economic crisis.

His solution was the idea of free market money, whereby instead of it being just one money issued by one body, there are many currencies issued by anyone who wants to issue one.

This competition between currencies within an economic local would lead to the best form of money and to the greatest economic gains, he said. With myriads of individuals, so being closest to the decisions that most affect them, choosing what money to accept.

As such, instead of having just one currency, the dollar, within the united states, there would be ten, one hundred or even thousands dependent on market demand. States, towns, or cities, might themselves have their own currency, even neighborhoods within them might have their own money.

This theory espoused 50 years ago is now being seen in action to some extent with thousands of digital currencies proliferating and with the main ones having their own, albeit somewhat limited, ecosystem.

As one might expect one currency might be mismanaged, a charge some levy towards bitcoin. Hayek's suggestion was that individuals can simply freely move between currencies to the better managed one, but is it that simple?

Technically, it is. As we saw on November 12th, individuals can freely and somewhat very quickly move between digital currencies, but to expect them all to do so and instantly would be to think that one has all the informations of the market.

If there had been an instant transition on November 12th, to say whether that was right or wrong would have been difficult, but it is somewhat easier to lean towards the latter because an instant switch would have been chaotic.

A gradual recalculation of value between digital currencies, therefore, might be preferred. With niches forming and some of them, like arguably bitcoin, even transforming themselves into digital assets.

But an interesting question is whether there's an innate tribalism of sorts to digital currencies, with emotional attachment similar to sports teams, which blinds one to perhaps objective qualities of better.

So that even if it is mismanaged, it retains some level of use, allowing it to be "captured" and be mismanaged further. From experience that question doesn't have an answer, but logically one would think that's not the case to a relevant extent because the more astute ones would gain by using the better currency, thus showing the rest through example, and so be copied.

As such, the mistake so far, on the part of some, has been to expect instant and quick results and even when there are considerable gains, to be unsatisfied because they are not above, say, bitcoin.

Bitcoin Cash, for example, rose 4x from \$300 to a current price of \$1,400, yet they continue being obsessed with bitcoin and frame their entire nature against bitcoin, instead of focusing on their own aims.

Ethereum, on the other hand, largely ignores bitcoin, except to learn from its mistakes and except where there are relevant milestones in comparable metrics such as transaction volumes.

The currency can not be said to be obsessed with btc, like bch is, and focuses to a great extent on its own aims, developments, ecosystem, and projects.

Because although the number one title is quite a privilege, if that is the only metric then the dollar is obviously number one by far. That won't change any time soon because as we are seeing any transition will be very gradual, but likewise that does not mean that what is currently number one is better or that it will be number one or at the same level in a few years time.

The judgment of the free market, therefore, has a time constant and is gradual, without instant shifts, but with incremental relative gains, as those most affected and closest to the decision choose by the second what money to use or what asset to hold, with the multitude of such decisions leading to a better outcome than if all were forced to use one money managed by a central committee which can not possibly make the right decisions as it has limited information and which can not possibly accommodate all the relevant needs to the same extent as competing free market money which may develop a long tail of niches.

In conclusion, and to answer the title question, it is probable that many were relieved when matters cooled down slightly on November 12th, because a gradual adjustment, to give all the necessary time, is better.

Thus Hayek seems to be right with this idea of free market money because even when there is mismanagement (assuming reasonable levels of mismanagement), there would not be instant chaos, but gradual readjustment.

So allowing the economy and its actors to smoothly transition, with the better money constantly refined by learning from experience and past mistakes. In the process aiding the economy and refining its efficiency rather than acting as a catalyst for economic crisis like central money undoubtedly does do currently.

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