

The ultimate guide to understanding the role of Bitcoin in our society

What I've tried to do in this article is drill down to the very fundamentals of Bitcoin's role in society. I am aware that there is a multitude of different applications to Bitcoin and its network and that there is (potential) value in all of their other applications. However, for all these other applications, I can (easily) conceive of other projects perfecting these value propositions and building a great story around these value propositions, rivalling Bitcoin. There is (in my opinion) only one **big** value proposition which cannot be rivalled by other projects, which is the one outlined in this article. The article is structured to make you understand three key, fundamental value propositions before showing how Bitcoin serves these propositions. There are six chapters

1. Understanding wealth preservation
2. Understanding trust
3. Understanding (the power of) stories
4. The role of Bitcoin
5. Common skepticisms
6. The noise

Aim of article: Equip you to cut through the clutter when conceiving of Bitcoin's value proposition in our society.

Understanding wealth preservation

As long as there have been civilizations, people have been trying to preserve wealth. Mostly:

- To make sure they had something to spare for a rainy day.
- For when they were unable to sustain themselves any longer through productive activities.
- To give their offspring or other loved ones a better future
- To leave a legacy.

Modern day, long-term, wealth preservation for many people means saving (and investing) for their retirement.

They do this either themselves or by paying a third party to do it on their behalf. Additionally, many have a savings account for medium term wealth storage, to save for bigger expenses, your kids or simply a rainy day.

More affluent individuals may opt for additional forms of wealth preservation. For example Real Estate, Gold or art. We'll get to this later.

Understanding trust

Humans tend to think of trust as an infinite resource. Not as a zero sum game. We may trust our parents, our government, our neighbor, our bank, our dog, you name it. Suddenly having more trust in your parents does not mean you suddenly trust your neighbor less.

In acquiring wealth though, one is **forced** to come to see trust as a finite resource. If you have one million (dollar, euro, yen, etc.) and you are asked where to put this money to ensure you won't lose the value it represents (or even grow its value) over time, where do you put this money? Somewhere in which you have most trust that it will keep its value over time. Easier said than done. This has been the central question for everyone in the history of humanity who wanted to preserve wealth over time. Which 'things' will probably not lose value over time? The answer is simply dependent on what or who you **trust** to preserve that value. Do you trust the stock market? An index fund maybe? Do you trust 'the economy'? One particular company? Money, printed by your government? Do you trust that your house preserves its value? Gold maybe?

We are a species of trust. We have to be. In order to become social animals, we had to rely on trusting other members of our group. We inherently want to trust other people who we 'feel' they earned our trust. As soon as people we identify with have shown that they understand how to grow wealth, we tend to want to put a 'piece' of our trust in them. A piece of your million (dollar, euro, yen, etc.).

However, most of us who grow to be old enough, will at some point have had the experience of someone they trusted, completely breaking their trust. The result: you come to understand that your 'sense for trust' is fallible. You now understand that putting your trust in someone is not a guarantee that they can **always** be trusted. People tend to do stupid and/or selfish things from time to time, which won't always be in your interest. You find out, that over time, most people you trust will at some point in their lives, do **something** that is not really in your best interest. That's not a reason not to ever trust anyone anymore. Just an important realization that your best interests will **never** completely overlap with anyone else's over a long enough period of time.

By extension, this means that there is a possibility that, even if you put your trust in many different people (by extension companies, organizations, governments), there is a possibility that they will all do something with your million (dollar, euro, yen, etc.), which is not in your best interest. In order to be sure that your money is safe over time, you cannot rely on people to manage it. This does not equate to 'people can't be trusted' (!), but rather not trusted blindly, over time.

So you need something that others value...last for a long time... and does not rely on people to manage it...

- Grain? No, people make more of it and it doesn't last over time.
- Clothes? No, people make more of it, last a little longer but not long enough.

- A house? Yes, much better! When build well, it lasts long, it's harder to make but still... people make more of it and probably even make it better over time.
- Aha! Land! Even better! People don't make more of it, people need it, but there is **so** much of it. Moreover, where ever the land is valuable now, doesn't have to be where it's valuable in the future.
- Silver, or ever better, Gold! Yes, much better! It's value is not limited to geography over time, people don't make a lot more of it, it's hard to find, it's easy to transfer, lasts forever, very limited dependency on people, portable, easy to store. Wonderful. Not perfect... but better than anything else. I'll still want to put my trust in people, and hope for the best over time. But in the case all the people disappoint me, I seem to be able to rely on gold. People tested this hypothesis for thousands of years. Gold kept its value, unlike anything else for this long. It seems pretty damn good as a vessel to preserve my wealth. Great. I now have **peace of mind**.

At least, until something hypothetically, magically, comes along that has all of the value propositions of gold but does it better. But what are the odds, right?

**Sidenote: I am fully aware that for short & medium term wealth preservation, there may very well be 'better' options than gold (Like real estate or land in many cases). However, over (enough) time, only gold has shown to truly preserve (and grow) its value, independent of people, their 'fashions' and their laws.*

**Sidenote: I'm from the Netherlands and I will tell you, people do make more land; We made an entire province out of a sea. Pumped it out from underneath the water.*

Understanding stories

You can't understand human history without understanding the power of stories. Stories shape our world. In essence, capitalism is the winning story (for now at least) regarding economic philosophy. People stopped believing in the story of communism. People believe in god through multiple stories (religions). The better your story, the more trust people put into it and by extent, the more people will value your story. We put great value on stories we come to identify with.

It's stories that are at the essence of how we come to shape our history, present and future. Throughout history, people have always put great value on things that represented or even better, were part of, a story we identify with. A great story enhances the value we give to things. This is why marketing works, but it's also why we value 'great' works of art of painters like Picasso, Van Gogh, Rembrandt, Da Vinci, etc. We, over time, collectively decided that they represented a quintessential part of the story of us. The story of human history.

**Sidenote: I am aware of my Eurocentric statement above. Please excuse me and feel free to replace these painters with artists of your culture instead.*

For those who identify with the story, these works of art resemble a scarce resource, which will **never** be made more of and will remain valuable as long as people see value in/ identify with the story and piece of history they resemble. As time goes by, and their role in the story of history holds, people place more trust in it and its value goes up. This is made evident by the consistent increase in their price over time. There is trust... it is transferable... it can act as a store of wealth... it has a damn good story... There are few things better... as long as the story holds...

Imagine it came out that Rembrandt did horrible thing (x, y and z) and a diary was found in which he described that he pretty much just painted whatever he dreamt of that night, without further thought and felt a bit delusional. I'll assure you, the value of his paintings would drop significantly, as his perceived role in the representation of a particular part in history would now be changed and less people would want to identify with his role and what he represents in our history.

This is why a good, trustworthy story which people can identify with, is so damn important for wealth preservation. Gold **is** in essence the story of wealth preservation. It has acted as the best way to preserve wealth for thousands of years. As long as people value wealth preservation, gold seems to be a good bet as a representative of that story. It has history, which can't be taken away from it.

The weakness of gold as a story is that it can still be produced. There is a better way to own part of the story than simply owning a gold bar. One can own a golden coin, made from gold mined in the Californian gold rush of 1849, spent personally by famous person (x). That piece of gold will (by weight) be more valuable than your gold bar, to people attaching value to the story of gold. As stated above, gold, in essence, **is** the story of wealth preservation. The only thing that could challenge that story is a better way to store wealth over time. Even better than gold... Something with the value propositions of gold... but better... More scarce... easier (and more secure) to preserve over time... easier to transfer... even less prone to human intervention/invention...Something which we haven't found in thousands of years of history... Until 2009.

The role of Bitcoin

For decades we have been moving our economy to intangibles. From products to services. It is clear that as technology progresses, the share of intangible assets in our economies, compared to the share of tangible assets is dramatically increasing. Simply put, the money that we **spend**, as a share of our earnings, is increasingly going to things you **cannot** hold in your hand. Not a DVD but a streaming service. Not an office room but a Zoom, Skype, etc. call.

Frankly, the money we **don't spend** (wealth) has not moved to intangibles but has largely been stored in things you **can** hold in/touch with your hands. (Gold, Real Estate, Land, Art, etc.) For me to state 'the' reason for this would be ignorant. There is no way to know. But you now know that in order for people to use something as a store of wealth, they need to trust it holding its value, over time. I will gladly argue that no matter **what** it is, if people can identify with the

story, they can trust it, and it lasts over time, they **will** use it as a store of wealth. Whether that's digital, physical or something different all together. It's form won't matter as long as it satisfies the criteria above. Until 2009, the digital age was a story of abundance, only abundance. This is great for spending, not so much for wealth preservation. In 2009, the story of digital scarcity was born.

You guessed it by the title of this article... that story... is the story of Bitcoin. It checks all criteria for a growing number of people to be a long-term store of value. It represents this to those who identify with the story of the digital age. The older you are, the less likely you will be to identify with the story, and that's ok. I just want the older readers to understand the implications of the growing number of people who **do** identify with this story, simply as a product of the percentage of the live they lived (through) it.

Let me be really clear on one thing. For someone who does not identify with 'the digital story': To say they don't believe in Bitcoin as a long-term store of value is for them to say that they do not believe in a significant and growing portion of other (often younger(!)) people seeing it as a store of value. People who will be (co)defining what is valuable (as a portion of global wealth) in the (near) future.

Now, think again about your belief.

Let me put Bitcoin in a nutshell:

1. It is scarce (there are only ever going to be 21 million Bitcoin)
2. It lasts over time (easily stored **offline**, in something we call a 'Hardware wallet')
3. It is secure (You can prove to the rest of the world that you own your Bitcoin, without losing it, moving it or leaving it vulnerable to hacks)
4. It is transferable (You can transfer it to anyone, anywhere, anytime)
5. It represents the (best) story of digital scarcity (**It is** the invention of it)
6. A critical (and growing(!)) mass of people already identifies with the story
7. It is not prone to human intervention in supply (No person or entity controls it, People can't intervene nor invent a way to make more Bitcoin and cannot reinvent the invention of digital scarcity)
8. Last but not least, it has clear limitations to its value proposition(s) (I'll explain in the chapter 'The noise' why this is a good thing.)

Simply put: it has all of the most important value propositions for something to act as a nearly perfect store of value in the digital age.

Common skepticism

Volatility

Bitcoin is volatile, yes. Simply put, as a long-term store of value, Short-term volatility does not matter. As long as it keeps its core promise as outlined in the 8 points in the previous chapter. Furthermore, as the market has become more liquid and keeps maturing, the trend in Bitcoin's volatility is crystal clear. It's becoming less volatile. Also, let's not forget historic 40% crashes of either Gold, Real Estate or Stocks. This is not a great counter argument for the adoption of Bitcoin as a long-term store of value.

Government ban

Governments may indeed ban Bitcoin. Government controlled markets like Chinas' generally don't allow any kind of free floating, decental store of value to be a means of (easy) exchange. Generally speaking, the less free a market, the less chance that a government will allow it. As a country has markets that are more free, it is more likely to allow Bitcoin.

Moreover, governments are mostly concerned with controlling their vessel for spending (currency). Bitcoin is not a real treat for government controlled vessels for spending, as it does a lousy job as a currency. Better than gold, but much worse than many other readily available alternatives. Lastly, and ironically, as governments may ban Bitcoin, it does not necessarily lose its value. In Argentina for example, Bitcoin is in high demand, though illegal at the time of writing. It's seen as a perfect hedge against an inflating money supply.

Miner centralization (51% attack)

Remember me telling you at point 7 that Bitcoin is not prone to human intervention? I stand by that point. However... to make a complex story simple... if one entity would control the majority of processing power to confirm new Bitcoin transactions, they could stage an attack on the blockchain and take it private. Then change and rearrange the chain and its rules. Effectively creating a new blockchain. Sounds scary? Well, it's not. In fact, this happened, several times. Most notably, BitcoinCash (BCH) is such a spinoff. It has the same properties of Bitcoin but the 'attacking' entities decided Bitcoin wasn't good enough because it did not allow for enough transactions per second. It would never become a means of frequent payment without an upgrade. They are probably right. Bitcoin will never become a means of frequent payment (at scale) whilst consistently preserving all its other value propositions in the same way it does now.

**Sidenote: I am aware of the lightning network and off-chain transactions. This however compromises it's security (trust) somewhat, which is one of Bitcoin's most important value propositions. I am also aware that until the next block is mined (about 10 minutes) there is a possibility of double spending. This would however merely be a drip in a bucket and moreover probably be cost inefficient, taking risks and loss of future revenue into account.*

So, why has BCH not become superior to BTC? People didn't buy the story. It fades next to Bitcoin's story (The invention of digital scarcity). BCH's story is... an attack on the invention of digital scarcity in order to try and make it scarce but also easier to transact with. Yeh... not so catchy.

Furthermore, it tried and be something it simply is not suited for. There are much better ways to transact value from day to day. Even a dinosaur like Mastercard or Visa does a better job at that than BCH. Its story is flawed. In essence, BCH may not have diluted it's available coins, but it surely diluted the story it wants to represent. That doesn't rhyme.

Meanwhile... it added to the story of Bitcoin. People now tried to replicate Bitcoin. In essence make of more it than promised, but did not succeed. Everyone who has tried, did not succeed. Bitcoin, its story, its scarcity, it prevailed. The attack (also called 'Fork') made Bitcoin's story even stronger. Much stronger, much more trustworthy.

Deterministic

There will only ever be 21 million Bitcoin.

All Bitcoin will be 'mined' (available for use) by 2140.

Every 4 years, it becomes twice as hard to 'mine' the same amount of Bitcoin.

This sounds very deterministic. Looked at from a 'logical' angle, it is. The story however, is far from deterministic. In the end, it is the story which will allow Bitcoin be a meaningful store of value. It's value is more than anything, determined by the path we take and choices we make, the history we write. **That** is far from deterministic.

Hacking

Let me be clear. The Bitcoin blockchain has never been 'hacked' and as long as you keep your Bitcoin on a private Hardware Wallet, it is impossible to be 'hacked'. Bitcoin Exchanges can be hacked. Your computer can be hacked (when you are online). Your Bitcoin can be put on a glorified USB stick, hide or put it anywhere, and it will last forever. You can even backup that USB stick with a unique code only you have access too. This can all happen offline. No hacker has access, period.

Just one of many

Bitcoin is just one of many cryptocurrencies. Correct. However, it is the only cryptocurrency that represents the invention of digital scarcity. Its only contenders for this value proposition are rip-offs that tried and make it better at something it does not represent. Bitcoin's current contenders make up less than 7% of the total market for this value proposition. All other Cryptocurrencies have different value propositions. Very distinct from Bitcoin's. They serve other purposes but essentially act like companies, for which you will have to put trust in people, in humans. Nothing wrong with that (!) But a completely different value proposition for which Bitcoin is often a natural antagonist.

Some Bitcoin fans may generalize too much and dub all other crypto 'shitcoins'. Which is a silly way of saying two things:

1. 'I don't think any other cryptocurrency can compete for Bitcoin's value proposition' (I tend to agree with this statement, given the value proposition stated in this article)
2. 'Any other value proposition for cryptocurrencies is irrelevant or even non-existent' This is where the statement becomes silly. Of course there are other value propositions and other currencies that could play an important role in this new ecosystem.

Generalizing those as ‘shitcoins’ seems blatantly ignorant or at the very least too much of a simplification of what you are really trying to say.

**Sidenote: Sometimes other cryptocurrencies represent very practical and powerful use cases (like Ethereum), sometimes they are simply a bunch of hot air, trying to ride the get-rich-quick wave of crypto. Much like any other market, but currently on steroids. I fully expect this market to ‘normalize’ over time, value propositions to crystalize and manifest themselves, and for the crypto/blockchain space to flourish as a significant industry within the world economy.*

Satoshi owns ~5% of supply

The creator of Bitcoin probably owns about 5% of the total supply.

I don’t want to speculate on rumors of the coins being lost. Simply because it’s useless to speculate on this. We don’t know which person or entity owns those coins and frankly, it doesn’t really matter. If, miraculously, these Bitcoins moved or were spent, even at once...(which is highly unlikely), it would surely have a big impact on the short-term price, and increase its volatility for a while, but it would not change its story, nor its core value propositions. There would still only be a maximum of 21 million Bitcoin.

Let it be clear that Bitcoin is not by any means a solution for (re)distribution of wealth. Far from it. As stated in this article, it’s about wealth preservation (!). If anything, it probably has a higher probability to contributing to more wealth inequality (over time), rather than less.

**Sidenote: Redistribution of wealth & undesirable levels of inequality is fundamentally a taxation problem (given a capitalist, free market system). It’s not hard to imagine owning Bitcoin and not reporting it to the Tax agency to be a criminal offense or for Bitcoin transactions to be taxed heavily if the price would rise 100x from where it is today. Expect Bitcoin taxes to become a thing if it lives up to its full potential. Sure you could try to avoid them, just like cash transactions today, but it would become black money, with the Bitcoin residing in undeclared public wallet addresses to be dubbed ‘illegal’. In practice, sure, that would be hard. As it is with e.g.: cash, or gold transactions nowadays. Same principle, different vessel.*

The noise

Not fast enough

It is fast enough for its purpose as described in this article (by a long-shot)
Not to be a means for daily transactions. Nor does it have to be.

Not scalable

1 Bitcoin can be divided in 100 million smaller pieces, called satoshis. There are 21 million Bitcoin. You do the math. It means that even accounting for lost, locked or otherwise (still) unavailable Bitcoin, every person on this planet could in theory own thousands and thousands of Satoshi. With the purpose of it being a global store of wealth, this is easily sufficient.

Stock to Flow

The ‘Bitcoin-famous’ PlanB put out a chart plotting the Bitcoin price on a stock to flow model, alongside gold, silver, US real estate. He himself has already clearly pointed out it is a **model** which is per definition a simplification of reality. It is without a doubt that scarcity and rate of inflation influence the price of a trustworthy, in-demand asset. But they are certainly not the only factors.

There is a huge amount of potential confounding variables to the model, which could prove to be (co)drivers in Bitcoin’s price. (e.g.: adoption rate, perceived trust and availability of other (perceived to be) scarce assets or regulation/taxation, to name a few). That said, his work is a valuable piece in thinking about possible ways of pricing Bitcoin, but is too much of a simplification (and focus on price) to truly grasp the essence of Bitcoin’s value proposition in modern society.

Sidenote: A high P-value (like Bitcoin plotted on stock to flow) is indeed a holy grail in ‘predictions of truth’ in any statement or theory. Let’s not forget that most published scientific studies are not replicated, that P-hacking is a thing and that a theory fitting the data (Like stock to flow for Bitcoin) is more prone to tendencies of self-fulfillment than data gathered after a theory’s inception. All I’m saying: don’t have blind faith in the theory, even if the data looks compelling. That said, there is beauty in this theory being **very falsifiable, so its accuracy will (dis)prove itself over time.*

Maximalism

Bitcoin Maximalists believe that Bitcoin will pretty much ‘eat all money & all wealth’ by being so perfect of a store of value.

First of all, not everyone will believe in the story, as outlined in this article.

Second, there are other stories to believe in, other, arguably better, short to medium term stores of value, where much wealth resides.

Third, this is the kind of deterministic thinking that makes you discount human psychology and most other (subjective/ non-deterministic) elements of the world economy.

Not better money

If Bitcoin would simultaneously try to be a better money for daily transactions AND a better long-term store of value, in our modern, fast-paced economy, its story and hence its value propositions would be compromised. It is not despite but because its value propositions have their clear limit, that Bitcoin is such a powerful invention, such a powerful story. One that will likely last for a long, **long** time and find its unique place in human history.

Sincerely,

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