

HOW MONEY GOT FREE

BITCOIN AND THE FIGHT FOR THE FUTURE OF FINANCE

BRIAN PATRICK EHA

Oneworld: Bitcoin has only been around for eight years or so. Why is now the right time to do a deep dive into the history and implications of what some have called not only the money of the Internet but “the Internet of money”?

Brian Eha: While the ultimate fate of Bitcoin is anyone’s guess, we’re well past the point where we know the technology is good for something—it has been praised by Bill Gates, Ben Bernanke and former Treasury secretary Larry Summers, among others—so it makes sense to look back at its origins and take stock of how we got here. On a human level, the story of those who risked their money, time and freedom to build the foundations of a new economy is fascinating.

Looking back is also a prerequisite for looking ahead. Bitcoin is now at a crossroads, with its advocates arguing over various methods to ensure its future success, even as governments debate how to regulate it, cybercriminals use it for lucrative extortion schemes and big banks try to build their own versions of its underlying technology. Bitcoin—and the technology underpinning it—have implications for finance, commerce, law enforcement, politics, digital privacy, citizenship and more. Its story provides a window onto some of the most important issues of our time.

OW: Over the past several years, you’ve spoken at length with many of the major players in the Bitcoin space: Roger Ver, Charlie Shrem, Nic Cary and Barry Silbert, to name a few who are profiled in your book. Whose story resonates with you the most?

BE: Charlie’s story resonates with me, because he was just a young middle-class guy living with his parents in Brooklyn before he discovered Bitcoin. He co-founded one of the major early Bitcoin startups, the first to receive serious venture capital funding. Of all the major players in those days, he was perhaps the one most gratified by the attention and most eager for the publicity, fame and respect that came from his leadership role in the community. He also ended up suffering more than most, having to spend better than a year in federal prison as a result of his activities. So there’s a pathos there—the story of a middle-class kid made good, and his fall from grace and, now, his attempt at a comeback—that is compelling to me.

OW: What do you think is the biggest misconception about Bitcoin?

BE: The biggest is probably the idea that Bitcoin is good only for buying drugs and other contraband on the dark web, or is somehow itself illicit. That isn’t the case at all, though it’s true that Bitcoin got

an early and perhaps vital boost from Silk Road, an underground black market that mostly sold drugs. A second big misconception is that Bitcoin is dying, or has died—a declaration that has been made many times by this point. In fact, Bitcoin so far continues to bury its undertakers.

OW: Bitcoin's roots lie in a revolutionary, libertarian quest for freedom—you get rather philosophical discussing it in the book. Can you talk a little about the outsider philosophy of the “crypto-anarchists” who drove the formation and early years of Bitcoin?

BE: Crypto-anarchists are essentially people who want to use encryption technology and peer-to-peer network culture to increase personal liberty and undermine the state. As a philosophical movement, crypto-anarchy emerged in the early 1990s in California among a group of people who called themselves “Cypherpunks”—organized around an electronic mailing list not unlike the one on which Satoshi Nakamoto would later announce his invention of Bitcoin.

By the time Bitcoin came along, crypto-anarchists had been talking for years about the need for digital cash, and a few attempts were made to create such a system—but no one could figure out how to make it work until Satoshi, who was inspired by these early efforts. Crypto-anarchists, unsurprisingly, were among the first to see the potential of Bitcoin and start using it. Although later Bitcoin users often clashed with the ideals of these radical early adopters, ordinary people today would probably never have heard of Bitcoin if not for the crypto-anarchists.

OW: Do you personally own any digital currency?

BE: No, I haven't owned any bitcoins or other digital currency for a long time. I did buy some in the early months of working on my book, because I wanted to see how Bitcoin trading and transactions worked for myself. And then, when dozens of new digital currencies—many of them near-clones of Bitcoin—began popping up online, and unregulated exchanges opened to allow trading in them, I swapped some of my Bitcoin stash for these “altcoins.” I made (and then promptly lost) some money doing it, but in the process I learned a lot about this strange Wild West of finance.

OW: What is “Silk Road,” and what role did it play in the evolution of Bitcoin?

BE: Silk Road was the world's first “cryptomarket”—a new kind of secretive online black market that did a booming trade in illegal drugs. It was run by a twentysomething Texan named Ross Ulbricht, who called himself Dread Pirate Roberts, after *The Princess Bride* character. Ulbricht was a kind of libertarian philosopher-druglord, and he did a lot to associate radical free-market principles with Bitcoin in the popular imagination.

The importance of Silk Road can't be overestimated. The illicit commerce on Ulbricht's market, which opened in January 2011, drove early demand for Bitcoin, the only form of payment allowed there. Soon after Silk Road launched, the price of Bitcoin went above \$1 for the first time ever, and has never dropped below it since.

In *The Princess Bride*, the Dread Pirate Roberts bestowed his title on a successor, ensuring that his legacy would live on. Just so, even the shutdown of Silk Road and Ulbricht's life sentence in prison haven't stopped copycats from following in his footsteps. Bitcoin remains to this day the preferred currency of the digital underground.

OW: Define “Bitcoin” for a layperson. How does it differ from “blockchain technology” or “cryptocurrency”?

BE: Bitcoin is a digital currency, also known as cryptocurrency—a form of commodity money. It can serve as a unit of exchange, something with which you buy a plane ticket or a pair of shoes, or as a store of value, like gold. It is also a revolutionary payment system that can send money—in the form of bitcoins—directly from person to person in minutes, anywhere in the world. The blockchain is the technological breakthrough that makes Bitcoin possible—basically a decentralized, tamper-proof ledger for recording transactions.

Most financial institutions remain wary of Bitcoin itself, but they have seized eagerly on blockchain technology because it eliminates the need for third parties to verify transactions. Large tech firms have done the same. To them it holds out the promise of huge cost savings and faster, better payments. In fact, nine out of 10 banking professionals recently surveyed at large North American and European

commercial banks said their company is exploring the use of blockchain technology for payments, and nearly a third are in advanced stages of adopting it.

OW: This is a comprehensive, propulsive story of Bitcoin's first several years. Why were you first attracted to the subject?

BE: I got interested in Bitcoin very early on, but the first time I wrote about it was in August 2012, when I was filling in at CNNMoney for a staff writer who had broken her collarbone. I was interested in all kinds of cutting-edge technology and fringe startup stuff back then, and Bitcoin fit the bill.

That first story involved going to the New York office of BitInstant, Charlie Shrem's company. As I talked with him and his coworkers—his brothers-in-arms, really—I was overwhelmed with the sense that Bitcoin was more than a digital curio, more than a plaything for crypto-anarchists; that it had real potential and was going to be big. I knew that I wanted to keep writing about it.

OW: In what ways were the early days of Bitcoin similar to, or different from, the early days of the dot-com bubble?

BE: The early days of Bitcoin were not much like the dot-com days: for the first few years, the digital currency received hardly any mainstream attention at all. Only when venture capital started pouring into the Bitcoin industry did it start to resemble an overheated market like that of the early Internet startups. Every investor wanted a piece. But the dot-com bubble only burst once, whereas the hype bubble around Bitcoin has burst and reinflated any number of times.

OW: What's the most important thing to know about the future of Bitcoin?

BE: The most important thing to know is that Bitcoin's future is not yet written. Jamie Dimon, the chairman and CEO of JPMorgan Chase, has said that governments will flatten Bitcoin before it can become a true competitor to the dollar, the pound and the euro. There are good reasons to believe he's wrong. And yet there are challenges to overcome if Bitcoin is to succeed—some of them inherent in the very rules of the Bitcoin software. It's still

unclear whether Bitcoin can scale up sufficiently to serve the needs of a global user base while staying true to its origins as digital cash, or whether it will stay a niche technology and perhaps eventually die out.

OW: When will the Bitcoin story end?

BE: Hopefully I've provided a good ending in my book, but it's only an ending of a sort. Most of the characters in my book are still active—their work continues, as I say in the epilogue. What's more, Bitcoin's death has been prematurely reported so many times that I'm not willing to predict just when or how its story will end. Bitcoin advocates might say it will end when it has gained acceptance as a universal global currency, when it has helped lift the two billion unbanked people in the world today out of poverty, or when a single bitcoin has risen to \$10,000 or even \$100,000 in value.

OW: Can you explain why you chose the title "How Money Got Free"?

BE: The idea of money "getting free" ties in to several major trends of our time. The way people live and work is changing: international travel is easier than ever, social media and Skype have expanded everyone's reach, and many people today, especially young people, see themselves more as citizens of the world—or of some Internet subculture—than of their actual homelands. Meanwhile, a number of countries have started selling citizenship, which means that the global rich and people living under oppressive regimes can buy a second passport as an insurance policy.

The time is ripe for a universal currency, and Bitcoin is that currency—it works all over the world and spends just as well in Tokyo as it does in Toronto. It represents the freeing of money from control by central banks as well as from the constraints of physical cash, wire transfers and other old forms of payment.

Financial institutions, left to their own devices, would not have set money free; they had no hope of doing so without incurring the wrath of regulators, and no incentive to do so when their profits depended on keeping it in chains. It took a bunch of oddballs, eccentric geniuses and rebels to make it happen.

OW: Did anything surprise you whilst writing the book?

BE: What surprised me most was how much I came to sympathize with Bitcoin pioneers' points of view. Back in 2013 and 2014 especially, a lot of the coverage of these guys in newspapers and magazines made them sound like nutjobs, and studiously avoided examining their principles or taking their ideas seriously. Usually the best an article would do is to namecheck a few of the economists that had influenced them.

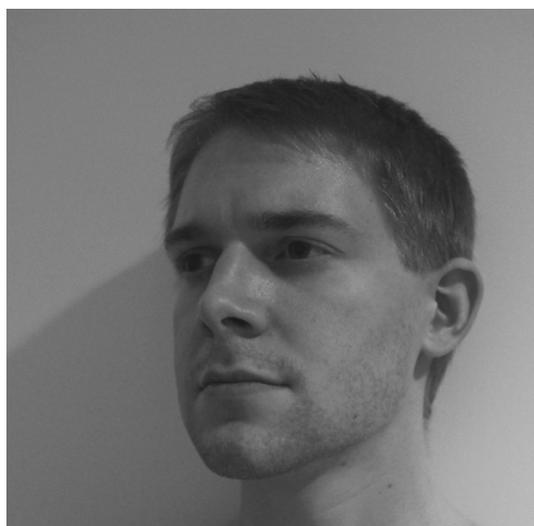
A book can go deeper, of course, so I happily dove into the primary sources—in the process coming to understand a lot more about what these individuals thought and why they did what they did. That was essential because my book's narrative is told largely through their eyes—though of course I provide plenty of context and correct half-truths and evasions where necessary.

OW: What has been the most significant event in the life of Bitcoin so far?

BE: The day the price of Bitcoin reached parity with the U.S. dollar was a major event, because for the first two years of its existence Bitcoin was almost worthless. After that, no matter how the price fluctuated, a bitcoin always had real value.

The feds' shutdown of Silk Road in October 2013 was a watershed moment: they arrested Ross Ulbricht, one of the early pioneers, and simultaneously made Bitcoin known around the world, albeit as the currency of Internet crime. The collapse of the world's first Bitcoin exchange, Mt. Gox, in February 2014 is the biggest disaster to hit the industry so far. And the day when, in the fall of 2015, the total amount of venture capital raised by Bitcoin and blockchain startups surpassed \$1 billion was a milestone that would have seemed incredible only a short time before.

From \$1 to \$1 billion: between those two numbers were a lot of other significant events, scandals and controversies—enough to fill a book. Such is the rollercoaster ride of a potentially world-changing technology. And the ride is far from over.



Brian Patrick Eha is a former editor at *Entrepreneur* and a journalist who has spent nearly five years following the rise of Bitcoin. His work has been published by the *New Yorker*, the *Atlantic*, *Fortune*, *CNNMoney*, *American Banker*, *Outside*, *Port*, *Avaunt*, and the *Los Angeles Review of Books*, among other publications. He lives in New York City.

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