

Opinion **Bitcoin**

Bitcoin's rise reflects America's decline

Cryptocurrencies have a place in a new world order where the dollar has less of a starring role

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A little over 100 years ago, there was a bubble asset that rose and fell wildly over the course of a decade. People who held it would have lost 100 per cent of their money five different times. They would have, at various points, made huge fortunes, or seen the value of their asset destroyed by hyperinflation.

The asset I'm referring to is gold priced in Weimar marks. If this reminds you of [bitcoin](#), you are not alone. In his newsletter Tree Rings, analyst Luke Gromen looked at the startling similarities in the volatility of gold in Weimar Germany and bitcoin today. His conclusion? Bitcoin isn't so much a bubble as "the last functioning fire alarm" warning us of some very big geopolitical changes ahead.

I agree. Central bankers have over the past 10 years (or the last few decades, depending on where you put the marker) [quashed price discovery](#) in markets with low interest rates and quantitative easing. Whether you see this as a welcome smoothing of the business cycle or a dysfunctional enabling of debt-ridden businesses, the upshot is that it's now very difficult to get a sense of the health of individual companies or certainly the real economy as a whole from asset prices.

The rise in popularity of [highly volatile](#) cryptocurrencies such as bitcoin could simply be seen as a speculative sign of this US [Federal Reserve-enabled froth](#). But it might better be interpreted as an early signal of [a new world order](#) in which the US and the dollar will play a less important role.

The past four years of Donald Trump's presidency and his toxic politics have taken a toll on the world's trust in America. That has also diminished trust [in some quarters](#) about the dollar's stability as the global reserve currency. This feeling reached an apex during the January 6 attack on the US Capitol building. As financial policy analyst Karen Petrou put it in a recent note to clients: "There are many casualties of this quasi-coup, but the US dollar may well be among them. It's no more immortal than any other category-killer brand."

Trump certainly devalued Brand USA. But he is also a symptom of longer-term economic problems in the US — problems which have in recent years been papered over by low rates and monetary policy, [which kept asset prices high but also encouraged debt and leverage](#).

Bitcoin's rise reflects the belief in some parts of the investor community that the US will eventually come in some ways to resemble Weimar Germany, as post-2008 financial crisis monetary policy designed to stabilise markets gives way to post-Covid monetisation of rising US debt loads. There are, after all, only three ways out of debt — growth, [austerity](#), or money printing. If the US government sells so much debt that the dollar starts to lose its value, then bitcoin could conceivably be a safe haven.

Germany's currency debasement [didn't end well](#). This underscores another aspect of the bitcoin boom. We have moved from a unipolar world in which the US was the pre-eminent political and economic power, to a post-neoliberal world where there is no longer a consensus in favour of free trade and unfettered capitalism. We will probably have two or even three poles — the US, Europe and China. China has signalled its desire to become less dependent on the US financial system, buying fewer US Treasuries and rolling out [its own digital currency](#).

In this world, it is easy to imagine that the dollar would continue to be the main reserve currency, with the renminbi and the euro gradually becoming more important stores of value. But one can also imagine that cryptocurrencies that can easily cross borders would have some advantages over fiat money issued by governments. While the migration of people and goods may become [more constrained](#), digital trade and information flows are still growing.

Crypto advocates including technology leaders such as [Tesla's Elon Musk](#), Facebook's Mark Zuckerberg and Twitter's Jack Dorsey believe that digital currencies [are better suited](#) to this more multipolar world. They are largely unregulated and thus less subject to political forces. In the same way that large technology platforms recently demonstrated their power by [removing Trump from social media](#), bitcoin could conceivably float above any currency nationalism that might result from the new world order.

Will cryptocurrency become [the new gold](#) — a hedge against a changing world? Will the Big Tech consensus prove more powerful than either the Washington consensus or the Beijing consensus? Perhaps. But it's also possible that sovereign states will move to regulate this existential threat. In the US, Treasury Secretary Janet Yellen has already raised the issue of [future cryptocurrency regulation](#).

None of this makes me want to buy bitcoin. But I also don't see it as a normal bubble. It was unclear at the beginning of the 20th century which of the hundreds of automakers would win the race to replace the horse and buggy. Now, who knows whether bitcoin, ethereum, or diem, or some yet-to-be-invented digital currency will win out long term. For now, the bitcoin boom may best be viewed as a canary in the coal mine.

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Letter in response to this column:

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