Blockchain / Cryptocurrency

Bitcoin’s inherent economics could keep it from ever being very important

A new analysis shows how the cost of securing Bitcoin will constrain its growth.

by Mike Orcutt  July 6, 2018

If you believe Bitcoin has the potential to replace traditional global financial systems, a new economic analysis is here to rain on your parade.

The discussion of digital money thus far has been dominated by libertarians and computer geeks, but...
Some “Bitcoin maximalists”—those who hope the digital currency will squeeze out all competitors—say that it’s a lot like gold: it works as a store of value, even if it’s not very efficient as a true currency. But if Bitcoin got anywhere close to gold’s value, Budish argues, people would attack its network for profit.

Before we dive into the argument, a little context: Bitcoin’s market capitalization over the last year or so has oscillated between $100 billion and $200 billion. Gold stock is worth about $7.5 trillion. So, yeah, in those terms, Bitcoin is nowhere close to being “economically important.”

And according to Budish, it never will be. That’s because if it ever gets too large, the genius of Bitcoin’s design would be its undoing.

Bitcoin’s security arises from a competition between members of the blockchain network called “miners.” Each miner is in pursuit of chances to add new transactions to the blockchain and earn bitcoins in return. Miners use large amounts of computing power in a race to solve a complicated math problem. An attacker couldn’t defeat this system unless it coordinated enough computing power to overwhelm the network and manipulate the record of transactions in such a way that it could spend the same bitcoins repeatedly. A strike of that sort, called a “majority attack,” is Bitcoin’s biggest threat, but for now, mining coins is more profitable than trying to overthrow the network, so the network stays safe. (See “How secure is a blockchain really?”)
but that wouldn’t deter someone who was simply looking to sabotage or destroy Bitcoin.

Although Budish's paper has gotten a fair amount of praise from other economists, some cryptocurrency enthusiasts have been dismissive. Ari Paul, cofounder of BlockTower Capital, says it “may be true” that Bitcoin’s viability is limited because deterring sabotage might become too expensive, but that conclusion has long been a topic of debate in popular online forums. The paper “adds no new data or logic to the debate,” he says.

Joshua Gans, an economist at the University of Toronto, argues that those online discussions lacked scientific rigor. Economists are just beginning to discuss the issues, he says, and the research community will benefit from Budish’s “rigorous work of putting this all together.” Gans adds, “It is that kind of approach that leads to better science.”

The long, complicated history of “people analytics”

Silicon Valley’s belief that it can optimize society goes back a long way, as Jill Lepore argues in her new book “If Then.”
China says it has launched and landed a reusable spacecraft

It’s likely a spaceplane prototype modeled after the Air Force's X-37B, which could allow China to run low Earth orbit missions more efficiently.

Why Facebook’s political-ad ban is taking on the wrong problem

A moratorium on new political ads just before election day tackles one kind of challenge caused by social media. It's just not the one that matters.
Opinion 3 days

What’s missing from corporate statements on racial injustice? The real cause of racism.

An analysis of 63 recent statements shows that US tech companies repeatedly placed responsibility for racial injustice on Black people.

Climate change 4 days

In defense of California

Yes, the state faces serious and growing climate change-fueled challenges. But it’s also better equipped than many regions to deal with them.
Amid the covid-19 pandemic, shifting business priorities

Organizations are reshuffling projects and accelerating investments that were already underway, leaning heavily on technology to stay competitive.

In association with Inference Solutions
Eight case studies on regulating biometric technology show us a path forward. A new report from the AI Now Institute reveals how different regulatory approaches work or fall short in protecting communities from surveillance.

**Artificial intelligence** Sep 04

**This know-it-all AI learns by reading the entire web nonstop**

Diffbot is building the biggest-ever knowledge graph by applying image recognition and natural-language processing to billions of web pages.

Create your own moody quarantine music with Google’s AI

**IBM has built a new drug-making lab entirely in the cloud**