
THE GLOBAL SPIN-OFF REPORT COMPENDIUM

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Post-Musings

TECHNICAL PROBLEMS OF A FIXED MONEY SUPPLY

When the colony of Virginia made tobacco legal tender, the first problem was that the incentive was created to increase production. The second problem was the creation of very low-grade tobacco that some people refused to accept as payment. The policy ultimately created low tobacco prices for farmers. In 1682, there were riots and the tobacco crops of various farms were destroyed.

The non-uniformity of a currency (apart from paper) is a not a trivial problem. Throughout history, it has been a significant issue. In colonial Plymouth, Massachusetts, the Wampanoag Tribe's wampum was made legal tender at the rate of six white beads or three purple beads per penny. Unfortunately, supply of beads was limited. It was hard for prices to rise in the sense that the bead, as an instrumentality, was not divisible.¹

Historically, therefore, the government really needed to take over responsibility for coinage. That created another problem. How does one prevent the government from abusing the privilege by basically destroying the value of the currency by issuance?

Enter Bitcoin. It is very hard to counterfeit since all Bitcoin in existence are always visible in the Blockchain ledger. Supply of Bitcoin is fixed; it is hardwired in the code. This is a possible revolution in currency design. If nothing else, it is a new asset class.

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¹Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (New York: Oxford University Press, 2011), 9-10