
ON BITCOIN AND SIMMEL'S IDEA OF PERFECT MONEY

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ABSTRACT

Georg Simmel in his book *Philosophy of Money*, described how money evolves through history and predicted that it will evolve to the point where it no longer relies on any substance. He called this stage “perfect money,” which he described as “money detached from every substantial value”. Today we are faced with the development of cryptocurrencies, of which Bitcoin is the best known. Bitcoin presents a new system of transaction which does not require governments or middlemen to regulate trade. Since such currencies are completely beyond substantial value, the philosophical question emerges whether Bitcoin is “perfect money.” This essay will argue that Bitcoin can be understood in connection with Simmel’s idea of “perfect money.” But will also consider Simmel’s claim that perfect money is only possible in a stable society and will show the limitations of cryptocurrencies and Bitcoin in light of this.

Keywords: Money; Bitcoin; Cryptocurrency; Simmel; Philosophy of Money

Introduction

Georg Simmel in his book *Philosophy of Money*,¹ written in 1907, described how money evolves through history towards the point where it no longer relies on any substance. He claimed, for instance, that the development of paper money, represented a move from substantial to functional value, and that the evolution of money will not be finished until money becomes fully abstract and functional. He called this stage “perfect money,” which he described as “money detached from every substantial value”. This however, did not occur in Simmel’s time. But today we are faced with the development of virtual currencies and cryptocurrencies, of which Bitcoin is the best known.

Cryptocurrency emerged with the evolution of Internet in the 1990s. One of its characteristics is that it is not authorized or controlled by a government. This has led to resistance too its widespread use as a medium of exchange. However this is beginning to change, “the usability of the currency has increased rapidly and today it is possible to pay in digital currency, Bitcoin, for a wide variety of commodities and services from electronics and computer hardware to restaurant meals, legal services, and even college education”². The increasing use of cryptocurrency has caught the attention of every international economic organization, and has become one of the most interesting and heated topics in economics. Not only is it attracting public attention, it is increasingly attracting scholarly interest.

According to FATF³, virtual currency is “a digital representations of value that can be digitally traded and functions as (1) a medium of exchange; and/or (2) a unit of account; and/or (3) a store of value, but does not have legal tender status in any jurisdiction”⁴. It performs its functions based upon agreement within the community. However, virtual currency is different from e-money because e-money is considered a digital transfer instrument for fiat currency, but, “digital currency can mean a digital representation of either virtual currency (non-fiat) or e-money (fiat) and thus is often used interchangeably with the term virtual currency”⁵.

FATF divides virtual currency into 3 kinds; **Closed Virtual Schemes** – this currency cannot exchange for any virtual goods or services for real goods. It usually functions in online computer games, normally known as Gill. **Virtual Currency Schemes with Unidirectional Flow** – this can be purchased by real currency for exchange goods and services, however it is unable to be exchanged back to real money. Examples would be Facebook credit or coin in Line application. **Virtual Currency Schemes with Bidirectional Flow** – this currency can be purchased by state money and also exchanged back to state money such as Bitcoin, OMG and other cryptocurrencies.

There are many virtual or cryptocurrencies being used over the internet, but Bitcoin is the most well-known and discussed. Bitcoin was developed as an alternative monetary from traditional economic system. It also functions differently than state money.

Bitcoin was conceived in a “White Paper” in January 2009 by “Satoshi Nakamoto” an assumed name for either a person or group of researchers. Satoshi Nakamoto announced in this White Paper that “we the author himself defines Bitcoin as an electronic money system operating within the Peer-to-Peer system”⁶. It is explained that it is a truly virtual currency and “refers not only to a unit of money, but also to software and the P2P network”⁷. Bitcoin from then on became a new form of money which had an autonomous payment system removing middlemen from financial transactions.

To defend the move to the use of Bitcoin, many complain that in the traditional financial system “national governments often impose undesirable controls, such as restrictions on convertibility, while central banks may facilitate an oversupply of currency, leading to hyperinflation”⁸. Furthermore, banks often charge exorbitant fees without justification. They point out that in the peer-to-peer system of Bitcoin these injustices are avoided.

In a report of the Bank of Boston, Stephanie and Christina has listed the advantages of Bitcoin:

1) Bitcoin conduct less prone to exploitation or corruption because it is not associated with any sovereign entities; 2) it features pseudonymous accounts; 3) it imposes no direct fees on transactions and promises the potential for lower transaction fees in general.⁹

This is obvious that many people in society support cryptocurrencies and Bitcoin as a form of money. They see it as addressing certain problems that plague the current financial system.

It is obvious that Bitcoin is created and adopted with respect to various political, economic and sociological considerations. It can be studied academically from these perspectives. But based upon the many questions emerging with Bitcoin, we must first ask the question: “How is Bitcoin money?”

Bitcoin as Money

To explain Bitcoin as a legitimate form of money, first, it is necessary to understand the concept of money. Generally, economists consider money as an instrument which serves three functions; as a medium of exchange, as a unit of account, and as a store of value. Money’s main duty to be a medium of exchange. It had the purpose to facilitate trading and was created to replace the bartering system. Furthermore, money also functions as a store of value, because money is a kind of property that maintains its value without depreciating, or as John Locke would point out, without spoiling. Lastly, in its accounting function, money provides a standard measurement of the value for all commodities being exchanged.

In order to determine if Bitcoin can be considered money, we need to analyse how it fulfils these functions of money. The Bank of England observes that;

From the perspective of economic theory, whether a digital currency maybe considered to be money depends on the extent to which it acts as a store of value, a medium of exchange and a unit of account.¹⁰

Bitcoin, in the present day, works as a medium of exchange but it is still limited in its acceptance. Since Bitcoin was launched, it has grown and become widely used as an alternative money in society. “Bitpay, world’s largest Bitcoin payment processor, reported 100,000 transactions in 2015. Bitcoin has slightly over 50% market share of the Bitcoin payment market, if we extrapolate the volume, roughly 200,000 Bitcoin transactions were completed in 2015”¹¹. While Bitcoin is not acceptable in government transactions, it is an increasing medium for payment among businesses.

However, the price of Bitcoin is still very volatile, so establishments which accept Bitcoin as payment tend to still post the price their goods with reference to state money such as Yen, Euros and Dollars. “To the extent that customers incur a psychological cost when they see the posted price (in dollars) of a typical good fluctuate rapidly, Bitcoin’s extreme volatility renders it less, or not at all, suitable as a unit of account”¹². Even Bitcoin’s supporters accept that Bitcoin is diminished in its ability to function as a medium of exchange because its value is very volatile, leading to uncertainty concerning the amount of Bitcoin needed for transactions. In its function as a store of value, Bitcoin is mainly considered to be a vehicle for investment. There are many online markets which trade Bitcoin and other cryptocurrencies for various investors.

If considered from a perspective of economic theory, Bitcoin can clearly claim to be money because it meets all the requirements of money as abovementioned. But to consider the status of Bitcoin as money, we need to move beyond a mere economic perspective, to a philosophical point of view. One of the great writers besides Hegel and Marx that considered the philosophy of money was Georg Simmel. During the time of Simmel, there was no such things as computers or digital transactions,

yet Simmel's reflections on money's substance and value, are still very helpful in understanding the status of a digital currency such as Bitcoin.

His famous book, *The Philosophy of Money*, written in 1907, examined money not merely as an economic phenomenon but also questioned the nature of money itself. Money, for Simmel, is an instrument whose value is not merely intrinsic and can therefore take various forms. "Money is really that form of property that most effectively liberates the individual from the unifying bonds that extend from other objects of possession"¹³. Money is independent from the particular form of commodities in order to make all transactions and all commodities commensurable. In addition, money, for Simmel, is an instrument which creates relationships between humans, and relationship between the humans with the world.

Simmel also writes that "money has been defined as abstract value. As a visible object, money is the substance that embodies abstract economic value"²⁰. It is an instrument to compare the values of objects in exchange, or a way of determining an objects worth in terms of other objects. To use coins and paper money, also requires *trust* in the state which represents the interests of the people in a community. The state has the authority to guarantee the value involved in the exchange process. Therefore, the people in a community can conduct their exchange without worry.

But the material form of money, Simmel claims, is one of the obstacles in transferring money in long distances or large quantities. The state needs to guarantee the substance-value of the material. He writes "the circulation of state money is confined to the geopolitical borders of that state, since the state cannot guarantee international traders will accept the domestic currency"²¹. Therefore, initially, the state needed to use materials of high intrinsic value, such as gold and silver, in order to insure its acceptance in international trading. But if the state would further wish to facilitate global trading which requires trust and interdependencies, it would require the "diminishing intrinsic value of money and its replacement by functional value"²². This is the reason that

money evolved to paper notes, checks, cards (debit or credit) and online payment systems.

Simmel explains further that through its evolution, money becomes more than a medium of exchange but it also represents a symbol of membership in the economic society. He writes, “this development eliminates all individualistic and isolating elements from the nature of money, and makes the centralizing forces of the most inclusive social circle the representatives of money”²³. Thus, it is necessary for money to become more abstract so it can be accepted by all members of a global society. Furthermore, with the ability to transcend distances or international trading, money requires “perfect form or abstract form” for both parties, buyers and sellers, to be accepted in their trade, while state money is still restricted by geopolitical borders.

State money, for Simmel, needs a third party to organize its transactions and therefore the size of economic and financial institution is limited. However, “the digital currency community reveals a preference for a more coherent and inclusive economic society, mediated instead by the relationship of each transacting member to one another under such a society”²⁴.

Simmel calls money a perfect tool. People in society use it to reach their ends and “it is a special kind of tool since a tool of endlessly diverse and extensive uses; highly flexible and liquid. Therefore, Simmel argues, “money is the purest form of the tool and as a pure means and a perfect tool”¹⁷. He writes:

A tool continues to exist apart from its particular application and is capable of a variety of other uses that cannot be foreseen. Money as the means par excellence fulfils this conditions perfectly; Money is the tool that has the greatest possible number of unpredictable uses¹⁸.

And he continues,

Money's flexibility is only that of an extremely liquid body which takes on any form, and does not shape itself but receives any form it may possess only from the surrounding body¹⁹.

Simmel showed that money has a development process and it does not rely on any material substance. It moves further in the direction of a perfect tool. "In the past, money has often taken substantial, material forms, and did so in the time of Simmel in the form of paper money"¹⁴. Simmel saw that the development of paper money, signified a move from substantial to functional value. He believed that the evolution of money will not be finished until money becomes fully functional, however, this was far from being realized in Simmel's time.

But he believed that money will increasingly become pure symbol and pure function. He called this "Perfect Money" or "money is detached from every substantial value"¹⁵. Money in this case would not have an intrinsic value and would "retain its value unchanged"¹⁶. A perfect money would necessarily have this stability as its property.

According to Simmel, the evolution of monetary form is driven by international economics, then Bitcoin is the next step of money's evolution. "Continuing along Simmel's logic, as money approaches a purely abstract form, further abstraction promotes growth of the economic societies by including a more vast population"²⁵. This would emphasize that the evolution of money is partly driven by the movement beyond the nation state. "Nakamoto's White Paper" indicates an intent to establish an autonomous payment system that eliminates the need for third-party mediation and relying on financial institutions and states to ensure online transactions to purely peer-to-peer online exchange"²⁶.

Hence, following the ideas of Simmel, Bitcoin would be one of the natural stages of money's evolution. It is a money without substance and the adaptation to a global world connected by information. Bitcoin uses the global internet to communicate and trade which reduces the possibilities of counterfeit and double spending. Moreover, the highest purpose of Bitcoin is to eliminate the need for institutions of trust.

However, the state still does not accept cryptocurrency and treats it as a commodity. This is because, unlike state money, it is uncontrollable. And its critics deny its global aspirations: they write “if Bitcoin is truly meant to be a payment instrument that transcends the binds of the state in the name of creating one global economic society, then it appears to have already failed in practice”²⁷. The main reason to deny Bitcoin the status of money is that Bitcoin does not pay state taxes.

Nevertheless, Bitcoin can be understood from Simmel’s evolutionary perspective as money moving toward a more immaterial global form. The resistance to its existence is understandable from the perspective of state control. But now that we have clarified its position, the next question we need to ask is whether it can be completely accepted? Because even if it has the status of perfect money according to Simmel’s criteria, the society which uses it is still not perfect. There are many cases shown Bitcoin is used in black market transactions such as the drug trade and corruption. Therefore we need to consider Bitcoin in relation to society and ethics.

Bitcoin and Ethics

Normally, the study of computer ethics or the ethics of finance focus on human behaviour and the fairness of financial institutions. However, the ethics of cryptocurrency, “focus on the understanding how technologies configure people narrative understanding”²⁸. Because the technology of Bitcoin is based upon new processes of *transaction* and *trust*, it involves changes in the *understanding* of money. *Transaction* and *Trust* becomes the main concepts in the analysis of the ethics of cryptocurrency.

Bitcoin also has a religious dimension. In her article entitled “Money’s Unholy Trinity: Devil, Trickster, Fool” Cameron shows the coincidence between the abstract financial process and religion. She explains that the abstract transaction system of Bitcoin was organised based upon strong ethical considerations. She writes that Bitcoin was created “by presenting an alternative based on the decentralisation of power and the delegation of trust from legal authorities to the authority

of the Blockchain protocol”²⁹. Therefore, the appeal of cryptocurrencies can be explained through ethical considerations.

Furthermore, money is based on trust and belief. It gains its value from the acceptance of people in society, paper money has value because people believe it does. “Money demands faith and belief which is shared by a community”³⁰. Similarly Bitcoin’s value is raised based on the degree people trust and believe in it.

Since it was introduced, Bitcoin’s death has often been predicted, but it continues to live on and gradually widening in global influence and use. Bitcoin is completely abstract, it is not based on anything of material value, and so “it represents a rare intersection of technology, ideology and religiosity”³¹. Furthermore, “with faith, it brings people together, it makes them believe in something strong, and emerge as a strong person”³². It is not limited to the benefit of individual users and investors in cryptocurrency, but it also has the potential to change society or the way people understand society. This is how Bitcoin can be explained in a religious sense. Simmel also discussed the coincidence between faith and consumption in society. He writes “from a shared belief in the stock market prices, the value of gold as money, or believing in national currencies as a method of payment, money operates on the virtue of keeping faith”³³. Consumption and religion have shared an uneasy but close relationship.

Bitcoin uses technology of “Blockchain” to conduct and safeguard its transactions which has the aim to bring all transactions to the same standard. But this equality extends beyond monetary transactions to the very understanding of the world. It can be said that Bitcoin is a kind of vehicle which is brings about a new understanding of the world. It is a revolution in social innovation. This new technology of Bitcoin reflects our interconnectedness through information, networks of computers and the internet. It is obvious that Bitcoin’s system allows peer-to-peer connection through the network. It a sign of the developing global interconnection based upon a common trust. Or as Sharma writes “it would not be wrong to claim that Bitcoin is a religious belief of people which has brought people from across the globe on one platform”³⁴. It has

becomes a revolutionary development not only in the economic system, but in global interaction in general.

ENDNOTES

¹ Georg, Simmel. *The Philosophy of Money* (London: Routledge and Kegan Paul Ltd, 1978), 163.

² Ole, Bjerg. "How is Bitcoin Money?," *SAGE Journals* 33, no. 1 (2015): 53.

³ FATE (The Financial Action Task Force) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destructions.

⁴ FATE. "Virtual Currencies Key Definitions and Potential AML/CFT Risks." (Paper presentation, FATE Conference, Paris, June 2014), FATE.

⁵ Ibid., 4.

⁶ Satoshi, Nakamoto. "Bitcoin: A Peer-to-Peer Electronic Cash System." *Bitcoin*. Last modified March 5, 2015. <https://bitcoin.org/bitcoin.pdf>.

⁷ Nowakowski, W. "Kryptograficzne Aspekty Technologii Wirtualnej Waluty Bitcoin" *Elektronika*, accessed February 12, 2019. http://www.imm.org.pl/imm/plik/elektronika2013-05-2013_mm255.pdf.

⁸ Christina Wang and Stephanie Lo. "Bitcoin as Money?." *Current Policy Perspectives*, no. 4 (2014) (Boston: Federal Reserve Bank of Boston, 2014), 2.

⁹ Ibid., 2.

¹⁰ John, Barrdear et al. "The Economics of Digital Currencies." (Paper presentation, Bank of England Quarterly Bullentin, England, 2014), Bank of England Quarterly.

¹¹ Business which now accept Bitcoin include: various retailers of material goods, music download websites, game providers, gambling sites, software providers, and high-profile online businesses such as Expedia, WordPress, Reddit, Namecheap, and Mega (Nigel, Dodd. *The Social Life of Bitcoin*. (London: The London School of Economics and Political Science, 2017).

¹² Wang and Lo, *Bitcoin as Money?*, 3.

¹³ Simmel, *The Philosophy of Money*. 356.

¹⁴ Mark, Coeckelbergh. "Money as Medium and Tool: Reading Simmel as a Philosopher of Technology to Understand Contemporary Financial ICTs and Media." *Research in Philosophy and Technology* 19, no. 3 (2015): 356.

¹⁵ Simmel, *The Philosophy of Money*. 163.

¹⁶ Ibid., 190.

¹⁷ Ibid., 210.

¹⁸ Ibid., 212.

¹⁹ Ibid., 329.

²⁰ Ibid., 191.

²¹ Andrew, Barber. *Bitcoin and The Philosophy of Money: Evaluating the Commodity Status of Digital Currencies* (New York: LTD Press, 2015), 14.

²² Simmel, *The Philosophy of Money*. 181.

²³ Ibid., 183.

²⁴ Barber, *Bitcoin and The Philosophy of Money: Evaluating the Commodity Status of Digital Currencies*. 14.

²⁵ Ibid., 14.

²⁶ Ibid., 14.

²⁷ Ibid., 14.

²⁸ Mark Coeckelbergh and Wessel Reijers, “Cryptocurrencies as Narrative Technologies.” *SIGCAS Computers & Society Journals* 22, no. 3 (2015): 174.

²⁹ Ibid., 175.

³⁰ Mariam Humayum and Russel Blek, “In Ones and Zeroes We Trust?: Money: Religion & Bitcoin.” *Consumer Research* 45, no. 1 (2017): 677.

³¹ David, Nobel. *The Religion of Technology: The Divinity of Man and the Spirit of Invention* (New York: Knopf Press, 1997), 78.

³² Kumar, Sharma. “Blockchain Council.” *Blockchain Council*, accessed February 20, 2019. <https://steemit.com/cryptocurrency/@danyelk/bitcoin-trust-and-kind-religious-faith-buy-eggs-with-iota-adaptation-continues-and-new-information-on-project-qubic-short>.

³³ David, Graeber. *Debt: The First 5,000 Years* (Brooklyn: Melville House Publishing, 2014), 172.

³⁴ Kumar, *Blockchain Council*.

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