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Letter: Why bitcoin can never be a reserve currency | Financial Times

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From Daniel Aronoff, Department of Economics, MIT Cambridge, MA, US

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Ruchir Sharma speculates that bitcoin could replace the dollar as a reserve currency (“Will bitcoin end the dollar’s reign?”, [Opinion](#), December 10).

There are two, interrelated flaws in his analysis.

One is the assumption that bitcoin could become widely used in transactions. This is not likely, as bitcoin processes blocks of transactions once every 10 minutes on average and the digital width of a block is limited. These latency and block-size constraints are an integral part of the trustless, decentralised “proof of work” design of bitcoin. For perspective, it is estimated that bitcoin can process about 4.6 transactions per second, compared with Visa, which processes around 1,700 transactions in the same time.

The second flaw follows from the first. In order for a financial object to fulfil the role of reserve currency, it must be a medium of exchange. Bitcoin cannot fulfil that role.

It may become a valuable investment asset, like gold or rare paintings, as Izabella Kaminska has written in the FT. Bitcoin, or other Turing complete blockchains, may gain value as infrastructure for a proliferation of smart contract applications. But bitcoin cannot ever become a reserve currency.

Daniel Aronoff*Department of Economics, MIT**Cambridge, MA, US*