Saifedean Ammous: The Emergence of Money

Fama's mistake is to conflate the emergent characteristic of money, stability, which results from it being chosen as money, for a fundamental property that causes it to become as money.

In fiat economics, benevolent wise economists and bankers bestow upon society a stable money that allows trade to take place. Something unstable in value cannot become money because it is unstable. If fiat economics is right, bitcoin died by 2012 at the latest. It didn't.

In real world economics--unburdened by having to lie to get Federal Reserve research grants--money emerges on the market through people's actions and trades with one another, because of its inherent economic properties. Money that is hard to make rewards its holders with more purchasing power, whereas money that is easy to make destroys the purchasing power of its holders. Over time, liquid wealth concentrates in the best store of value, which means it becomes the thing in which people have the largest cash balances. This makes money the most salable good with the largest liquidity. That salability and large liquidity is what causes the market value of money to become relatively stable: the larger the market the less likely any particular transaction will move the price too much. Because of the very deep cash balances people hold, they stand ready to buy and sell large quantities of the money with the least amount of variation in price of any good.

The stability of money emerges as a consequence of it being chosen as money by the market, it does not cause it to become money. Things aren't born stable. They can only become relatively stable when there are large cash balances held in them. What causes something to become money is its ability to hold value as I explain in The Bitcoin Standard.

This is of course not taught in fiat universities as a result of fiat central banking propaganda polluting economic understanding of the last century to try to justify the original sin of fiat money, which is that it was never chosen freely on the market, but imposed through coercive government action. They have to pretend the desirable properties of money are the superficial consequences of its role as money, which fiat can be shown to have, and not the fundamental properties which fiat will never have, but gold and Bitcoin have.

Hence Fama's Confusion:

> "Cryptocurrencies are such a puzzle because they violate all the rules of a medium of exchange," Fama explained during an interview on the *Capitalisn't* podcast with hosts Luigi Zingales and Bethany McLean. "They don't have a stable real value. You know, they have highly variable real value. That kind of medium of exchange is not supposed to survive."