

DEALBOOK NEWSLETTER

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Weekend reading: In money we trust

El Salvador this week became [the first country to adopt Bitcoin](#) as legal tender, beginning [a new chapter](#) in a [digital revolution](#) that's already [transforming finance](#). The economist Eswar Prasad of Cornell University, a senior fellow at the Brookings Institution and a researcher at the National Bureau of Economic Research, spoke to DealBook about this evolution, outlined in his new book, "[The Future of Money](#)." The interview has been edited and condensed for clarity.

Is Bitcoin a success, in light of the developments?

Whether the first generation of cryptocurrencies will succeed is unclear. Bitcoin has failed spectacularly at its purpose. It's bad for transactions because it's impractical and volatile, and is by and large used as a speculative vehicle. But the promise of blockchain technology is phenomenal.

Why is blockchain promising?

This open system creates lots of opportunities. It could make payments cheaper and faster. It could democratize finance by allowing people with only a mobile phone to use new services. But the question is whether people will trust the new system, because it turns out that trust is very important.

Isn't this digital system "trustless"?

Take an example from digital payments rather than cryptocurrencies. In Kenya, an established telecoms company sought a license for a mobile phone-based regulated payments system. It was a great success because trust made a difference. People knew the company and it got a license, so trust in the government was also an element. But in Somalia, a similar experiment did not work so well because of civil strife. There just wasn't a functioning government.

So do we need to trust whatever the technology?

We do seem to require trust. And that gets to the heart of why next generation cryptocurrencies succeed where Bitcoin fails. Stablecoins — digital tokens with value tied to a stable asset like the dollar — will gain traction. But their value comes from the government, and the irony is that the trustless financial system is undergirded by digital tokens representing trust in the dollar.

What makes the dollar trustworthy?

The institutional framework that supports the dollar gives the currency its strength, and there are three main elements that create trust within this frame. They are an independently controlled central bank; rule of law; and a system of checks and balances.