

E-currency:

Bitcoin's Viability in the Future

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"Bitcoin is a remarkable innovation ... it will fail," says economist David Evans (2013, title). Bitcoin is what is known as cryptocurrency. Cryptocurrency is a digital commodity, or money, that is electronically created (mined), stored, and exchanged for products and services, physical or digital. This new electronic currency shows potential in an increasingly digitizing world. However, economists are skeptical as Bitcoin is relatively novel, and users could be vulnerable to hackers, frauds, and schemes. Furthermore, distrust in Bitcoin jeopardizes its survival and viability as a medium of exchange. Bitcoin will only gain footing in the future economy if it learns from its predecessor's mistakes - the E-gold, collaborate and integrate alongside fiat money, and provide a positive impact on society.

Cryptocurrency is a new concept itself, but it is not the first electronic currency. Before Bitcoin, E-gold was the dominant electronic currency. It is commonly revered as "the first successful digital currency system to gain a widespread user base and merchant adoption" (Dixon, 2013, para. 5). Unlike cryptocurrency, E-gold was backed by gold that was centrally reserved in Gold & Silver Reserve Inc. under E-gold Ltd. Essentially, E-gold was a currency that exchanged grams of gold instantly via the Internet. By 2008, four million accounts had been opened, more than sixty million dollars were deposited, and millions of dollars were exchanged every day (Foley, 2013, para. 2). Despite its long prosperity, the E-gold collapsed.

Underneath E-gold's success were hackers, exploiters that took advantage of its weaknesses, and the black market. Hackers took advantage of E-gold's lack of effective identity verification and stole information from thousands of E-gold accounts. (Dixon, 2013, para.9) Because of the lack of identity verification, phishing ran rampant as well. E-gold was also difficult to refund. As a result, exploiters began to sell fake or non-existent items on sites such as eBay, insisting on payment in E-gold only. As E-gold gained popularity, burgeoning fraudulent sites "promised" great investments for E-gold users if they linked their accounts to the sites -

subsequently leading to robberies. Lastly, E-gold's reputation began to tarnish as it became the popular currency for drug trafficking and the distribution of child pornography (Dixon, 2013, para. 23).

E-gold's mistakes were the lack of safety in securing the user base's account information, the lack in the user base's education in avoiding frauds, and the distrust built around E-gold as it became synonymous with drug trafficking and child pornography. As a result, E-gold was suspended in 2009, and the founder and owner of E-gold, Douglas Jackson, faced up to "three years on probation and six months under house arrest, after pleading guilty to running an unlicensed money transmitter business and aiding money laundering" (Foley, 2013, para. 5). Soon after, the FBI confiscated all the gold in reserve, effectively destroying the value of the E-gold. Despite its awful reputation, even today E-gold is still regarded as one of the most successful electronic currency to have existed. But its flaws are important to consider for today's generation of electronic currency - Bitcoin.

Luckily, Bitcoin has taken the steps to ensure its survival as a viable medium of exchange. Bitcoin ensures the user's account security by storing the commodities in a Bitcoin Wallet. A Bitcoin Wallet is comparable to an email account; both have an address, a private key or password, and a client in order to access Bitcoins or emails (Beigel, 2014). While the mining and transactions of Bitcoin must take place online, Bitcoin storage can take place offline which "most careful of investors do" (Mcmillan, 2013, para. 3). Thus, users can protect their Bitcoin Wallets from hackers by storing their addresses and private keys in an encrypted computer file, in a USB, or even on a piece of paper. Unfortunately, fraudulent schemes are inevitable.

Ponzi schemes and fake sites that claim to assist Bitcoin users in making great investments are a potential danger to the Bitcoin community (*Fraud, chargebacks, and how bitcoin*, 2013). Like E-gold, Bitcoin is difficult to refund. While this functionality does protect

one's identity from other users since little to no information is recorded beyond a transaction, it is what made E-gold a popular choice for frauds. Fortunately, the Bitcoin community has recognized this issue and tackles it by constantly reminding users that a great investment is no guarantee. To further instill such message, many Bitcoin related forums or sites include a real-time Bitcoin price index chart which display Bitcoin's erratic price-changing nature. Although the community's efforts are not fool-proof, it does take steps to educate users about frauds.

It is no mystery that drug traffickers and child pornography distributors are using Bitcoins for their illegal operations, which damages Bitcoins reputation. However, the FBI and has assisted in shutting down these trade markets. Most notably, the FBI arrested the owner of infamous Silk Road, a popular drug trafficking site that is "under the radar" of most search engine (Poladian, 2013, para. 2). After collecting the owner's 144,336 Bitcoins, approximately 28 million dollars at the time, the site's market came to a halt. By eliminating such sites, trust in a electronic currency that is not synonymous with illegal activities can grow. Though, while large illegal operations are easier to trace, Bitcoin is and will most likely still be plagued by smaller unlawful markets and micro-transactions. Granted, this hasn't stopped the increasing number smaller businesses and merchants from accepting Bitcoins - indicating a rise in trust and confidence in Bitcoins (Spaven, 2013, para. 3). With mixed results in battling with illegal transactions, the trust and confidence of Bitcoin still rises and attracts newer users - further ensuring Bitcoin's acceptance as a viable medium of exchange.

The problems inherit to Bitcoin today will inevitably be fixed as the push for solutions will be advocated by not only its user base, but governments as well. However, as Bitcoin becomes an ever more popular currency in the digitizing world, it will eventually have to clash with fiat money - "inconvertible paper money made legal tender by a government decree"

(Oxford online dictionaries, n.d.). While other mediums will begin to progress into purely electronic forms, Bitcoin cannot simply replace fiat.

Bitcoin has some disadvantages that makes it impractical to serve as a country's commodity. Bitcoin is an electronic currency - emphasis on electronic. Not everyone has access to a computer, a smartphone, or the Internet to store or mine Bitcoin. Even so, user's are not guaranteed access to the network of computers that creates blocks, chunks of data that permanently store transactions (Delono, 2013, para. 1). Furthermore, the concept behind cryptocurrency (e.g. how it works, how it is mined, what block chaining does, etc.) is complex. Although background complexity doesn't stop people from using computers or credit cards, Bitcoin's novelty further adds to its mysterious nature. Most importantly, Bitcoin's volatile price index can discourage new users who are not experienced with such risky investments.

In contrast, fiat money is usually paper and coins, which is more ubiquitous. It is also relatively easier to use, has been around much longer for its nature to be confidently predictable, and does not inflate or deflate greatly in short periods of time (Delono, 2013, para.1). While these facts pose a danger for Bitcoin's viability in the future, a better method of expanding and introducing Bitcoin into society is by creating a hybrid economy.

Fiat money and Bitcoin's co-existence in the mainstream market will benefit each other. Fiat money suffers from slow, expensive, and insecure transfers; sending money requires lengthy stops at checkpoints and numerous fees to compensate "administrative frauds and access to private car network rails" (Neville, 2014, paras. 4 - 13). There is also the possibility that the money may get lost. Bitcoin can help alleviate this by allowing users to exchange fiat into Bitcoin and exchange electronically for an instant, inexpensive, and more secure transaction - in turn could introduce businesses to Bitcoins. To further integrate Bitcoin into everyday society, BitCoinnect aims to bring Bitcoins closer to the public by introducing ATM's that exchange

Bitcoins on the spot with little to no hassle (Scott, 2014, paras. 6, 10). This helps fiat currency by introducing healthy competition and benefits Bitcoin as competition will help stabilize its price index. Hybridization will help introduce Bitcoin to every day society and expedite its popularity. Nevertheless, its current impacts on society must be analyzed.

Within Bitcoin's small period of existent, it has proven to be not only benevolent, but also a powerful tool. Bitcoin has helped fund many charities, most notably, the homeless shelter in Florida, Sean's Outpost (Reisenwitz, 2014, para. 8). Because of Bitcoin's ability to instantly transfer money, help can be sent quicker to shelters. What's more is Sean's Outpost whole, "operating budget is almost entirely made up of bitcoin donations by reddit users" (Reisenwitz, 2014, para. 8), further displaying Bitcoin and its community's positive impact. More importantly, Bitcoin shows promising power. In 2013, Cyprus announced that it would be seizing bank accounts of its citizens (Reisenwitz, 2014, para. 7). In consequence, many citizens moved most of their savings into bitcoin investments, offering an "escape hatch." Although the occurrence brought the world's attention to Bitcoin, it demonstrated Bitcoin's power to retaliate against oppressive regimes. Even further, the event displayed the power of Bitcoin's decentralization - its inability to be shut down by any government.

Bitcoin will succeed in becoming an integral part of everyday society. It's conveniences makes it of interest and possibly lucrative to further improve upon its weaknesses. While there is no doubt that Bitcoin will play an important role in the future, society must also prepare for the competition that may burgeon from the growing popularity of other cryptocurrencies, such as Litecoin and Peercoin. Would society be ready for yet another cryptocurrency?

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