

Debate: Cryptocurrency as legal tender?

Good afternoon ladies and gentlemen, today I am going to describe why Bitcoin is not a viable method of worldwide legal tender. Firstly Bitcoin does not conform to classical properties of a currency. Successful currency has three main properties, the currency functions as a medium of exchange, a unit of account, and a store of value. Medium of exchange means that those who possess it can participate as an equal market player. Producers know what to produce and how much to charge, and consumers can budget accordingly. (Chen) A unit of account is a standard monetary unit of measurement of value/cost of goods, services or assets. (Author) A store of value is an asset that maintaining its value without depreciating such as gold and other precious metals. (Downey) Bitcoin struggles to meet any of these three criteria to be a successful currency. Secondly, traditional currency is susceptible to counterfeiting but mass counterfeiting requires a lot of resources as well as geographical location for operation and distribution. Counterfeit cryptocurrency requires less resources and thus may be more at risk for mass counterfeit operations. Thirdly, Bitcoin influences illegal activities on websites that follow the Silk Road example because of the anonymity designed into Bitcoin transactions. Fourth, because of the high market volatility, investing in Bitcoins can have very negative side effects for investors should the user base decline.

Bitcoins lack as a medium of exchange because of the difficulty of getting new bitcoin. Bitcoins are introduced through 'mining' where miners solve difficult mathematical problems. The user that solves the problem is rewarded with a Bitcoin, and the difficulty of the problems increases for each bitcoin introduced. The mining industry is dominated by supercomputers and crowd-mining operations that are require large capital investments, so for a typical consumer to acquire bitcoins they need to be traded at an online exchange and store them in an online account. These purchases of bitcoins typically require a direct bank transfer and often have low liquidity, high bid-ask spreads, and some execution and custody risks associated with the transaction. Meaning that there is no standard asking price, anyone that has bitcoins can offer to trade them for as much or as little as they want. Lastly bitcoins are not a viable medium of exchange because transactions require a verification process that takes a few minutes, meaning longer time is spent on a transaction versus traditional currency. Secondly, Bitcoins are not a useful unit of account because its extreme volatility. The value of a bitcoin changes greatly from a day to day basis and the changing prices can cause merchants to lose money, and confuse the customer. Another issue is the price of a bitcoin is far greater than that of an ordinary product, this means that the cost is displayed in four or more decimal places. This is likely to confuse consumers, as well as accounting software that currently does not account for large decimal values and fluctuation of values. As a store of value, bitcoin suffers because there is no physical manifestation of the currency, instead

currency because one of the main factors that attributed to the success thus far is that there are a limited number of Bitcoins available.(McKinney et al.)

Bitcoin is a major contributor, if not directly, to illegal websites like the Silk Road that traded more than 23,000 illegal items, 1.22 million USD monthly in 2012. The anonymity of bitcoin transactions is paramount in the success of illegal websites so that the users of the website are not tracked through financial information.(Saito)

Lastly, Bitcoin has no intrinsic value, the worth of a bitcoin is determined by its usefulness as a currency. This means that as the hype factor diminishes, investors that hold a lot of the money will see significant loss in their investments. If the user base declines and people trade out their coins, the owner base will diminish and if 51% of the owner base want to change something, they can modify the code however they want. Before i mentioned that there are a set number of bitcoins to be distributed, this number can be altered if 51% of the owners decide that a change is necessary.(Sapovadia)

Bitcoin should not be a worldwide method of legal tender because it does not have the properties of a successful currency, there are greater risks of counterfeit operations, Anonymity promotes illegal activity and high market volatility make for bad exchange rates. Thank you.

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