February 3, 2014

Bitcoin: The Revolutionary Currency

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In 2009, an innovative form of digital currency premiered in the marketplace — Bitcoin. Bitcoin is a peer-to-peer payment network developed by Satoki Nakamoto (Nakamoto). Nakamoto created Bitcoin to be the ultimate digital currency, meaning no governmental oversight, central database, or tracking system. Bitcoin, a so-called “cryptocurrency,” is a digital currency with encrypted messages that are not accessible to third parties. Bitcoin is leading the cryptocurrency market with pioneering technology concepts such as limited distribution and secure information...
Bitcoin has become the world’s first anonymous and decentralized currency, which may be stored online, in hardware, or on paper printouts. Bitcoin now boasts millions of global computer connections with owners converting paper currency at money exchanges into a “virtual wallet.” A virtual wallet contains the digital currency and identifies owners by addresses rather than personal identifiable information.

Bitcoin is gaining popularity worldwide, particularly after the prosecution of Silk Road, which accepted the digital currency as a form of payment. Silk Road gained a reputation as the “eBay for illegal drugs.” In 2013, the Federal Bureau of Investigation shut down Silk Road after alleged purchases of narcotics, forged documents, hacker tools, and astonishingly hit men. However, Silk Road has purportedly revitalized its image and is planning to once again “open for business” with a new marketing strategy.

Aside from illegal purchases, why would anyone use Bitcoin? Bitcoin offers two important benefits: (1) security and (2) privacy. Bitcoin security is far more reliable than paper money as a result of decentralization. The ability to circulate Bitcoin is not contingent upon the economic stability of a government or central banking system. Bitcoin does not have a single point of failure as it would flop only if the entire Internet crashed permanently. Bitcoin owners relish the privacy and lack of a paper trial when using funds from their virtual wallets. And, unlike paper money, Bitcoin proponents assert that it provides anonymity.

Additional end-user benefits include: zero transactions fees, no chargebacks, liquidity, as the account cannot be frozen, and payments to anyone worldwide without a market exchange rate.

The value of Bitcoin, however, is highly debatable. Bitcoin’s value is measured by online market exchanges that operate continuously 24 hours a day and 7 days a week. The value of Bitcoin is determined by the last amount of digital currency sold on an online market exchange. In 2013, according to Bloomberg, Bitcoin traded at an all-time high of $323 each on Bitstamp, an online market exchange. Bloomberg further stated that there are approximately 30 Bitcoin transactions per minute. The digital currency’s value is nevertheless extremely volatile. Bitcoin remains an untamed digital currency comparative to paper currency and subject to speculation as a result of mining.

Bitcoin mining is the process of issuing the digital currency and recording transactions in its public ledger. Miners were designed by Nakamoto to expand the digital currency by using various types of computer equipment and mining mechanisms to find a defined number of block chains. The block chains confirm the amount of Bitcoins available for trading in the network. Miners receive a production reward of Bitcoins or fee for service. Miners supplant the role of a central government or bank by ensuring security and stability of the Bitcoin network. According to Bloomberg, “the maximum number of minable Bitcoins worldwide is currently 25 every 10 minutes.” The key to preserving Bitcoin value is apparently providing the digital currency in obscurity and offering smaller increments in online market exchanges.
While mining protects Bitcoin value, most intriguing is the commodities concept, which is synonymous to a video game. Bitcoin mining is not child’s play- the stakes are extremely high. Bitcoin miners often get rich through their cutting edge expertise and investment in computer technology.

Unfortunately, profitability has cajoled others, known as unauthorized miners, who seek to take advantage of Bitcoin. Unauthorized miners are cyber pirates who engage in covert Bitcoin mining. There have been several incidents of Bitcoin theft in the amount of approximately $1 million traced to unauthorized mining. Another scheme is to use malware and destroy virtual wallets belonging to unsuspecting Bitcoin owners. Unauthorized miners use these tactics to deflate the supply, which devalues the digital currency set for mining in the amount of 21 Billion Bitcoins.

In 2013, Bitcoin value suffered a setback when China’s central bank — the Peoples Bank of China — barred it as a government authorized form of payment. According to the Associated Press, China’s central bank stated that Bitcoin does not qualify as currency but private individuals are allowed to trade using it at their own risk. China’s Bitcoin ban on financial institutions and payment systems caused downward market fluctuations.

In the United States, there is a crusade to regulate Bitcoin primarily by invoking the Commerce Clause and law enforcement powers. Bitcoin legitimacy may be enhanced through regulation. Some government leaders argue that any form of digital currency should adhere to the same regulatory requirements as paper currency with respect to taxation, law enforcement, and reporting compliance. The regulation of Bitcoin appears to be the next reasonable step after the recent Silk Road scandal and suspected exploitation by criminal enterprises. Recently, law enforcement officials charged a prominent Bitcoin promoter with conspiring to commit money laundering and operating an unlicensed money transmitting business. This breaking news is further impetus for government regulation of Bitcoin. Those in favor of Bitcoin regulation seek to prevent use of the digital currency for narcotic drug sales, money laundering, or other suspicious online activity.

Administrative and law enforcement agencies such as the Federal Bureau of Investigations, Drug Enforcement Agency, Internal Revenue Service, and Homeland Security are actively involved in setting an agenda on the regulation of Bitcoin.

In 2013, United States Senators convened to discuss the efficacy of digital currency including Bitcoin. The Senate hearings focused on the promises and risks of engaging digital currency in our global economic system. The Senate hearings were primarily informational with an emphasis on the fact that Bitcoins are not illegal when used for legal purposes.

The future of Bitcoin hinges on the ability to comply with governmental authorities and maintain stability in the online marketplace. Curtailing criminal activity will certainly promote Bitcoin’s significance as the “go to” digital currency. Increased security measures to protect Bitcoin wallets from unauthorized miners may provide an added incentive for investors interested in this hot new market. Investors might be more optimistic when price volatility is stabilized with regulatory intervention.
As of 2013, there were approximately 1.5 billion Bitcoins in the global economy. This is fascinating as Bitcoin offers an online alternative for consumers, investors, and merchants who seek to do business outside of brick and mortar market exchanges. Even so, the overwhelming approach to accepting Bitcoin as a viable medium of exchange is “wait and see.”

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