

The Haskayne Report



Bitcoin's Paradox in the Modern Monetary World

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The Rise of Cryptocurrency

Developed in January 2009 by the pseudonymous “Satoshi Nakamoto”, Bitcoin is a decentralized currency backed by a blockchain ledger and generated via the computation of complex problems. Since 2017, Bitcoin has garnered mainstream media attention driving its price to over \$60,000.00 USD (Coinbase) placing its market capitalization at 1.044 trillion USD (Coinbase). Bitcoin’s recent publicity has arguably made it one of the most controversial and revolutionary developments in the monetary exchange system. However, 12 years after its creation one major question still stands: “What is

Bitcoin’s place in the global economic system?” Knowing the answer to this question would provide significant clarity to the future of monetary exchange, government regulation, and categorization of different asset classes.

Asset, Currency, or Investment

Asset

The problem arising in the present time is that Bitcoin and other cryptocurrencies such as Ethereum, can act as a decentralized payment method, a hedge

against inflation, and a tradable investment through Exchange Traded Funds (ETFs). Since 1973, no nation in the world has their currency backed by assets with intrinsic value. This is because in 1973, President Richard Nixon took the United States off the gold standard in response to France's pressure on the nation's gold reserves (Kenton, 2020). Thus, for the last 48 years, the world has been dominated by fiat currency. Furthermore, Swish Goswami (CEO and co-founder of Trufan) highlights that, "in countries like Canada and the United States, Bitcoin can be used to counter a weakened dollar." Like gold, Bitcoin has the potential to act as a safe haven asset and a hedge against inflation. Volatility is the only obstacle in Bitcoin's way from becoming a better substitute for other investments. Despite the inherent benefits of blockchain technology and security, the entire crypto market is comprised of hundreds of coins that's value is derived from supply and demand. According to Anton Lartchenkov and Taylor Van Hell (Haskayne '24), "the traction of bitcoin does not imply the climax of cryptocurrency, but the demand for advancement." Bitcoin, along with every other cryptocurrency, has zero intrinsic value as it is always possible to code a new ledger or blockchain, thus developing a new cryptocurrency.

Currency

In terms of currency, Bitcoin and its blockchain provide a solution for modern monetary exchange through increased security and the absence of a central authority such as the Federal Government or the Bank of Canada. The development of the blockchain provides a way in which Bitcoin is not backed by gold or silver but rather by mathematics and algorithmic computation. Swish Goswami (CEO and Co-Founder of Trufan) highlights that

Bitcoin enables "transactions online (especially as more business comes online) and lower processing fees." These factors grant blockchain technology the ability to shape the future of currencies. However, Bitcoin's continued volatility inhibits the cryptocurrency from becoming a widely adopted currency in present time. For perspective, AUD/JPY, the most volatile forex pair over one year, has a volatility that is 56.12 times less than that of Bitcoin. At this point, Bitcoin is not a sensical method of day-to-day monetary exchange due to its volatility and lack of government support. However, it would be impossible for society to adopt a currency or form of monetary exchange without government support. For example, the Canadian Deposit Insurance Corporation (CDIC) as a crown corporation would never ensure a currency that limits government control. This paradox present in the crypto world is one major barrier that divides blockchain technology and governmental adoption. As a result, it is most probable that if blockchain technology were to be adopted by governments, it would be a form of their own cryptocurrency. However, blockchain being controlled by a central entity would marginalize the entire purpose of a decentralized monetary system. Herein lies the dilemma.

Investment

With an unparalleled possibility for double- or triple-digit returns, Bitcoin has been one of the most lucrative investments over the last three years. However, to call Bitcoin an investment at this time would be a stretch. Rather, Bitcoin (and the cryptocurrency market) is a store of value that, like fiat currency, only has value based on buyer perception. The key difference is that instead of society having trust in the government to generate value in a dollar, investors have trust in the value of the

blockchain technology behind Bitcoin and Ethereum. However, with the entire market having zero intrinsic value it makes investing in crypto extremely risky. Furthermore, price action in Bitcoin is driven by a variety of different factors than typical stocks, options, indexes, and even ETFs. A corporation's stock price such as Apple Inc. (AAPL) is fundamentally driven by value, a strong balance sheet, and an income statement. Commodities such as gold and silver ETFs are driven by the price of the metals which is based on global economic conditions. These basic investments are rooted in the fundamentals of supply, demand, and inflation, along with monetary and fiscal policy. This is not to say that Bitcoin is not affected by these forces, however, it can simply be influenced by factors that have nothing to do with its value. For example, Elon Musk adding "#bitcoin" to his Twitter bio caused Bitcoin's market capitalization to move over \$120 billion USD (a rise of over 20% at the time). Evidently, Bitcoin is nothing more than a volatile asset, for now.

The Future

Bitcoin's recent widespread public attention has allowed it to break unimaginable boundaries. At the end of the day, Bitcoin is a revolutionary technological advancement to the modern financial system and society through fast peer to peer transaction, low fees, the inability to counterfeit, and decentralized process (Arora, 2021). Joel Hansen (TEDx Speaker and LinkedIn Influencer) also notes that, "Bitcoin and its utility as a currency is completely transforming the world of social media... via new platforms emerging, such as Bitclout" where people can invest in creators through tradable coins such as Sigmund coin. Lastly, use of blockchain has provided a decentralized form of monetary exchange that enables

a digital form of currency to be backed by algorithmic computing. Bitcoin has become a technology that can revolutionize the future of money and banking. According to Robert Schmidt (President of Tuscan Capital Management Ltd.), "Bitcoin's use of blockchain technology and hashing enable it to be a catalyst in changing the economic system." While Bitcoin is likely not the end result for a new global currency, it has and will continue to enable the development of other tokens and technology while spurring future innovation in the decentralized digital currency world. There is still a significant amount of progress that needs to occur in the cryptocurrency sphere for blockchain and hashing technology to gain validity. That stated, Bitcoin is the first step in the right direction, and it is a large one.

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