

Challenges to the Rise of Bitcoins

Why in news?

\n\n

\n

- Bitcoin value hit yet another lifetime high of \$6000 recently and is expected to touch \$10,000 very soon.

\n

- While bitcoins have grown in popularity, its immediate and long-term prospects may not be too bright.

\n

\n\n

What are the challenges?

\n\n

\n

- **Volatility** - Volatility in trading price of Bitcoins indicate that it is not reflective of its fundamental value.

\n

- This is a sign that many bitcoin buyers purchase the currency solely for the purpose of gambling.

\n

- Accumulation by investors who are betting on its future potential as a standard medium of exchange is also a possible explanation.

\n

- But one will have to wait to know if this is true.

\n

- **Political Risks** - Rise of bitcoins is a serious challenge to national fiat currencies issued by central banks.

\n

- National currencies allow governments to easily tax their citizens by printing a fresh supply of money whenever they need it.

\n

- Bitcoin strikes at the root of this centuries-long government monopoly power over money held by governments.

\n

- As political risks are too huge, market-based currencies will either be discourage by governments or completely banned.

\n

\n\n

What lies ahead?

\n\n

\n

- When bitcoin will meet its end, is very hard to predict.
- Its volatility in future might taper down if it survives for long.
- Although, replacing national currencies is a far cry, it definitely has potential to survive as a medium of exchange on the fringes of the monetary system.

\n

\n\n

What should be the policy towards Market Based currencies?

\n\n

\n

- A free market for private money can bring in serious competition that can improve the quality of our monetary system.
- This will either reign in inflation or make it more predictable.
- Speculative frenzies can indeed occasionally occur in such markets, as they do in fiat currencies issued by central banks already.
- But it is simply bad public policy to fully dismiss the market's tremendous ability to regulate our money.

\n

\n\n

\n\n

Source: The Hindu

\n