The bitcoin rhapsody to continue

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At the end of February, Mt. Gox, a Tokyo-based exchange for bitcoin, filed for bankruptcy protection in Japan after a huge amount of money vanished. In a week or so, the Japanese government issued an official statement that it regarded bitcoin neither as a currency nor as a financial commodity but as a taxable "thing" under Japanese law.

The statement was in response to the anger of Mt. Gox customers, mostly foreigners, who suffered losses or, more correctly, to clarify that the Japanese government was not responsible for the trouble. This was no surprise because bitcoin is not a national currency like the yen. No state has accepted it under a national/international political or economic framework.

Yet, it seems that bitcoin will survive and likely spawn an increasing number of subspecies. Why are people so much charmed by this stranger?

Bitcoin is not a general term for a digital currency but just a name for a measure of online payment, devised by a Satoshi Nakamoto in 2009. The name sounds very Japanese, but it is not important who he is or what authority he has. He did not issue bitcoins but merely described in an article an idea for online payment without having to go through financial institutions.

Nakamoto wrote that because online payments were often expensive and with unavoidable uncertainties, "what is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party."

Certainly the fact that bitcoins accrue only a small transaction cost, if any, for use in remittances or transfers, especially in international transactions, was one of the main reasons that bitcoin has become popular. With this excellent measure of payment, sellers and buyers with the support of peer-to-peer computational cooperation could make transactions within a limited community, regardless of national boundaries.

Bitcoins, unlike past community currencies such as Oumi, used in Shiga Prefecture, or Ithaca Hours, used in Ithaca, New York, have been treated more as general money than as a function.

The strength of bitcoin as a means of storing value, another major function of money, became apparent in the crisis of Cyprus banks in 2013. Many depositors had used Cyprus as a tax haven. Confronting the crisis, they looked around and found a virtual haven in bitcoin, whose value as much as doubled in two weeks to almost 2,000 times the starting value. Bitcoin as money thus became an object of speculation.

Historically tax havens developed with the emergence of the eurodollar (no connection with the present euro) and offshore markets during the Cold War. Eurodollars, which were dollars exchanged offshore in Europe outside the control of the United States, were at first regarded as a temporary anomaly. But its transactions as a haven to avoid political or other risks grew so rapidly that it has acquired a position in official markets in a few decades.

Friedrich A. von Hayek, who warned against excessive intervention by the state, proposed denationalization of money in 1976. He must have not imagined money developing so as to circumvent the international system. Still, offshore currencies like eurodollars were linked to some national currency and were kept in accounts in a different but official book of authorized banks.

In our post-Cold War period, we still see political conflicts and economic risks while tax havens have gradually come under criticism as a hotbed for crime. In this sense, there remain few secure places in the real world.

During the Cyprus crisis, plenty of wealth was converted into bitcoins, the virtual haven within a computer system. But it was the same virtual space, a cutthroat battlefield where normal financial transactions are made. Hence, bitcoin came to be recognized as a new but normal option for traders.

The contradiction is that once bitcoins are exchanged with other national currencies, their function deviates from their originator's aim to do without financial institutions. Bitcoins turned out to be extraordinarily fragile without institutional support from any authorities.

Kenji Saito, a specialist in digital currency in Japan, said bitcoins as money were misdirected from the start since they were to circulate "without trust" and only by cryptographic proof.

Money in general is valid only as far as people believe in it, either by the force of authority or by mutual trust within the community. Bitcoins, apart from the intention of the inventor, can function as money if its holders become aware enough of the belief or the dream it embodies: creation of a hyper-globalized, elitist libertarian world free from the constraints of national and international frameworks.

We must watch how bitcoin develops. But as is well known, using bitcoins is not indispensable as a measure of online payment.

Attempts to save on remittance fees by using bitcoins could lead one to become addicted to bitcoin. That involves the risk of losing one's savings. People cannot be too careful about bitcoin.

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