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Bitcoin bashed in China and France: what that means for the crypto-currency

China banned its financial institutions from using Bitcoin, while the Bank of France warned against currency not backed by any government. But a Bank of America report sees a 'clear potential for growth.'



This April 3, 2013 file photo shows bitcoin tokens in Sandy, Utah. China has banned its financial institutions from using Bitcoin, but a Bank of America report sees a 'clear potential for growth' for the digital currency.

(Rick Bowmer/AP/File)

By Gloria Goodale, Staff writer / December 5, 2013 at 8:15 pm EST

Los Angeles

Bitcoin, the virtual money with the odd name, is raising hackles in European and Asian capitals.

On Thursday, China banned the nation's financial institutions from using the virtual currency, while the Bank of France warned against the use of a currency not backed by any government.

Does this spell the beginning of the end for this new kind of online cash?

Hardly, say experts in crypto-currency. Just this past month, the US government held hearings on virtual currency without taking any official positions.

A Bank of America report issued Thursday, for instance, states "Bitcoin has clear potential for growth." And then there is the Kentucky town of Vicco, where officials have announced they will pay their police chief in Bitcoin.

These varying attitudes suggest the future of crypto-currency is anything but clear, say experts in the field.

Merely “discouraging” the use of Bitcoin, or BTC, or issuing warnings in any jurisdiction will not have much impact on its use, says James Jalil, a partner at the New York law firm Thompson Hine who specializes in Bitcoin issues. “Those who wish to use Bitcoin technology do so for a purpose, and for the most part understand the technology,” he adds via e-mail.

Indeed, the very fact that the governments of two of the top five world economies chose to weigh in on an emerging form of currency can be counted as a major “win” for the new technology.

“You could argue that even allowing this new kid on the block to be seated at the table bestows a legitimacy on the Bitcoin advocates,” says William Luther, assistant professor of economics at Kenyon College who specializes in emerging currencies.

“The fact that major governments are merely talking about Bitcoin rather than outright banning it could be seen as an implicit endorsement of its right to exist,” he says, noting that while the Chinese government did ban its national institutions from using it, the ban does not extend to individuals.

The Bank of France merely extended warnings.

“Even if Bitcoin is not currently a credible investment vehicle and therefore do not pose a significant risk to financial stability, they represent a financial risk for those who hold them,” the bank said in a statement. The bank also pointed out that the anonymity of Bitcoin presents the risk the currency could be used for money-laundering and terrorism.

The US has already cracked down on sites such as Silk Road that specialize in illicit drugs and weapons, a move that Bitcoin advocates say has helped distance the currency from becoming the preferred means of exchange for those operating outside the law.

However, another major concern of many observing the new currency is its ongoing volatility.

Following China’s announcement Thursday, the price of the electronic cash swooned as Chinese traders cashed in, leading to a nearly 20 percent drop in the trading price for a bitcoin – a figure that has seen a nearly 400 percent run-up over the past year, recently topping \$1,000.

These swings spotlight the instability of Bitcoin, says Usha Haley, a business professor at West Virginia University and author of “Subsidies to Chinese Industry.” Bitcoins are inherently volatile with speculation based on emotion and not rationality, she says.

“Bitcoin speculators understand that it is unregulated, online money not backed by central banks, governments, or physical assets,” she says via e-mail. But, she adds, most speculators expect, “irrationally as with the 17th century tulips, to cash in before the bubble bursts.”

The attention focused on Bitcoin at the moment will not necessarily help stabilize its value, adds Professor Haley. “This current government-generated publicity may actually increase Bitcoin’s medium-term value as people become more aware of its potential markets,” she says.

Ultimately, despite the fact that Bitcoin is beloved by its early adopters for its independence of government, regulation may be the key to stabilizing BTC for the future.

“Bitcoin could evolve into a currency, but a government will need to control it,” says Peter Cohan, an adjunct lecturer at Babson College in Wellesley, Mass., and president of Peter S. Cohan & Associates, a management consulting and venture capital firm.

The most important hurdles would be that government would need to register each bitcoin to an individual and be able to track each transaction to make sure it is not being used for illegal ends, he says. “If governments supported it, then the other hurdles would be easier to overcome – such as getting retailers and other businesses to accept it as a means of payment.”

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