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***Bitcoin's Role and Position in Financial Relations
of the 21st Century***

“Wealth is not important, only independence is.”

André Kostolany

1. INTRODUCTION

The use of Bitcoin as currency, – even in this early stage – is some kind of pioneer behavior. It only happens because this kind of civil initiation has officially been recognized and has an exchange rate to USD. But does official recognition matter? Is it needed for the new currency to work or is it some kind of disadvantage for the creators of this type of money?

Is the state putting out his “well-wisher” influence to make the entry into business easier or to create a new source of income? I am looking for an answer to the following question: Can we bypass the state in money creation and if we can for how long can we do this? What can be the effects of the rise of Bitcoin?

“As self-professed »digital skeptic« David Golumbia explains, Bitcoin is more accurately understood as an ideology than as »cash for the internet,« another conceptual shortcut offered by proponents.”¹

¹ *Bitcoin: The Cryptopolitics of Cryptocurrencies*, Harvard University Press Blog. Available at: http://harvardpress.typepad.com/hup_publicity/2014/02/bitcoin-the-cryptopolitics-of-cryptocurrencies-david-golumbia.html [cit. 2014-02-28].

2. POSSIBLE CAUSES OF NON-STATE MONETARY EMISSION

In Hungary, only The Central Bank of Hungary has the right to issue currency and every other country has his/her own institutes ruled by the law. Yet, citizens try to find other ways to issue money or be more independent, which appears more and more in this economic situation.

2.1. Independent currencies – Economic stimulance or independence?

“The bigger part of money is not issued by the State. The previous hypothesis was only true for cash. The much larger amount of money on bank accounts is the key to the problem. It makes inflation but it does not appear on the revenue side of the budget, it does not decrease taxes. This one, the 5% reserve ratio is a great magic trick, it is the »money multiplier«. It was found out for delusion. It seems that emission is in the hands of the State but – as numbers show – it does not help the budget, only private parties.”²

This process led to the emergence of today's crisis. Since there are no reserves behind money, no warrants, if the system collapses there will be no one to be asked and no one to stand in the gap. Of course – as a last resort – the state is there but may the state be held responsible for wealth which was not created by him/her.

It is a bit like the owners' responsibility in Hungarian civil relations. If the tenant causes damage to a third person, the owner can be sued because of the interest of the third party. And how internal relationship is held by the owner and the tenant is unimportant for outside observers. But is this approach good on global scale? I cannot answer this but in my opinion, the interpolation process does not result in automatic usability. In fact, the current economic situation seems to confirm that this is a destructive effect on global palette.

² Available at: <http://rrr100.wikispaces.com/MaganPenzkibocsatas> [cit. 2013-11-10].

2.2. Is absolute privilege of issuing money needed?

The State's opinion is certainly yes. This is supported by the fact that the U.S. government, in addition to pushing against online piracy, immediately went face to face with Bitcoin. The argument is: it is an untraceable type of money which is not issued under the State's control and can easily become a black market currency and the tool of money laundering. In addition, some U.S. senators said that if Bitcoin would reach a critical mass, it could jeopardize the authority of the government.

The initiative does not seem to be able to be successive but it already has an example of the U.S. government shutting down a quasi-money called E-Gold.³

3. WHAT MAKES MONEY?

“Money appears in very different forms in various ages and takes countless shapes in these times because of the symbolic and social relations by its essence, which is defined by the era and financial conditions in a frame. Without social community, there is no money. Anybody can experience it when one gets to a country where Hungarian currency is not recognized or not recognized as a vain attempt to carry out transactions – Forint banknotes are only a piece of coloured paper. In contrast, we can use an internationally recognized credit card to purchase goods and services.”⁴

An object or symbol that performs functions defined within the community can be considered as money. The common division of these functions are:

1. value measurement;
2. traffic tool;

³ CHEREDAR, TOM: *Forget piracy, U.S. government is going after Bitcoin*. Available at: <http://venturebeat.com/2011/06/08/government-crackdown-on-bitcoin/> [cit. 2013-11-10].

⁴ BOD, PÉTER ÁKOS: *A pénz világa – a világ pénze* [The Money's World – the World's Money], 2003, KJK-KERSZÖV Jogi és Üzleti Kiadó, Budapest, 47.

3. tool of payment;
4. accumulation (savings, treasure) tool.

The State can only consider “money” as currency if each of these four functions is completely satisfied. There may be, however, a species of money, cash equivalents and quasi-money, which can fulfill certain tasks but not others. Hungarian Forint – although, all four functions are completely performed within our borders – internationally no longer serves everywhere as money by definition.

“As an economist puts it, »In post-Keynesian monetary theory money is anything that will settle a legal contractual obligation. And by the civil law of contracts, the government determines what settles a legal monetary contractual obligation.« This is the fundamental point, critical to all monetary theory, that Bitcoin advocates seem unable or unwilling to recognize (and admittedly it is what was until now a fairly arcane point of economic theory): the State decides what money is, and no assertion otherwise by individuals or groups can change that – only the law can.”⁵

3.1. Currency Substitution

There are hundreds of communities around the world whose members are only affected by a limited extent of inflation. They do not use money but also run an extensive service exchange system.

The more narrowly interpreted “classical barter” is a trade exchange: exchange of goods is not related to money, exchange is a simple naturalistic transaction. Goods are usually only associated with quantities: one trader sells a specified quantity of goods to another trader and it accepts goods in exchange, as well. The transaction type is named after the English word around the world.⁶

The system worked out by a personal trainer in Canada in the early 1980s. The Scottish born Michael Linton found that although some people would have offered assistance works for him, if the person just had not wanted to be trained, he would have been unable

⁵ CHEREDAR: *op cit.*

⁶ TÖRZSÖK ÉVA: *Barteriügylet: Üzlet pénz nélkül?* [Barter Agreement? Business without Money?], 1993, KJK-KERSZÖV Jogi és Üzleti Kiadó, Budapest, 92.

to offset. He thought that if he takes a bigger community as a base and includes a wide range of services, sooner or later he would have somewhere to place his service. He should not have to “repay” the same person who provided assistance but through the cycle, we all win. Not to mention the fact that these are not only professions that come to mind but for example coaching, car repair, child care, letter writing and painting, as well. Who knows what else may be needed. Linton called his invention Local Exchange and Trading System (LETS).

LETS networks use interest-free local credits, so direct swaps are not needed to be made. For instance, a member may earn credit by doing childcare (as said) for one person and spend it later on carpentry with another person in the same network. In LETS, unlike other local currencies, no script is issued, rather transactions are recorded in a central location open to all members. As credit is issued by the network members for the benefit of the members themselves, LETS is considered to be a mutual credit system. Hence, no real money is involved, a unit of account, however, must be used. This virtual money – which is just information, a credit on the account of members –has a variety of names around the world. Canada seems to stick to the local money they call Calgary or Toronto –which is dollar, in Bath, Great Britain, however, it is called Oliver. In Bristol it is called “Thanks”, and the largest LETS organization that works with thousands of members in Sidney uses the name “Eco”.

Since the eighties, there has been a modified version, called time. The British and the Americans use it and call it “Time Money” or “Hours”. In the UK 80 time banks operate, in the United States 250 organizations like this are held accountable. The initial “favour banks” first spread in the southern neighbour of Canada, then quickly New Zealand and Australia and it reached Europe, as well. Only Netherlands has 100 “favour banks”.

Most of the quasi money is actually invisible or is only a credit, in some places, however, a note was drawn.

The amount of these local currencies should not be regulated from outside because just as much favour money is created as much

is needed. No interest and no inflation affects is, except if local money is bounded to the State currency.

Community strengthening by currency substitution:

1. Actually, not replacing but complementing the currency, however, it works in times of recession and high unemployment, too.
2. Character and self-improvement – it seems that community needs us.
3. It encourages responsibility as business partners are members of a community.
4. It is built on local needs.
5. The community develops skills, resources, community strength.⁷

3.2. *Quasi money in Hungary*

Today's economic life has been declining and further decline is projected. This case made a difficult position for small and medium enterprises and private individuals. In the current economic situation, businesses and individuals have to operate with relatively high prices and with less availability from the right amount of medium of exchange (quasi money).

The use of quasi money in the market increases the amount of free exchange (operators are replacing their working capital with money substitutes to transact some of their accounts with each other, and working capital tied as deposit increases financial institutions' lending capacity), this may improve the liquidity position of businesses, hence, demands and satisfaction of needs and capacity utilization can be achieved at a higher level, and with this result more local services and trade can come off.

The initiatives that were recently launched in Hungary in order to vivify local currencies and community life use different routes but have similar difficulties.⁸

⁷ *Szivességbankok* [Favour Banks]. Available at: <http://www.slideshare.net/helyipenzek/szveggbankok-intzmnyestett-kalka-8559607> [cit. 2013-11-08] 4.

3.2.1. “Kékfrank”

Money: a measure of value, payroll and a store of value. And a bogeyman as well, causing all the wrong things. Of course, not money in itself is the problem but anomalies and features resulted from the incompatibility of the compound money's characteristics. After all, if you withdraw it from the market, it cannot be a medium. However, money is needed, no one can dispute its role in economic life, only its functions need to be reevaluated.⁹

This has recently been made by the “*Ha-Mi-Összefogunk Európai Szövetkezet*”, which issued “*Kékfrank*” voucher. The new kind of cash equivalent was introduced in the districts of Sopron and its vicinity in the cross-border as well, with the aim of revitalizing the economy.

“*Kékfrank*” is a quasi-money but can be regarded as local. “*Kékfrank*” voucher allows payoff among the members of the civil law partnership without the official currency (HUF), and the inventor hopes that it will move the economy.

3.2.2. “*Pilisi korona*”

“*Pilisi korona*” is a virtual exchange tool related to Piliscsaba and its surrounding area, which proceeds through a local association but membership is not a prerequisite to become a service provider in the “exchange club” network ran by the organization. The system basically consists of individuals, and exchange funds – products and services available for “*pilisi korona*” – are also out of this circle. 200-250 people are currently in the system, however, it is true that not everyone is active. “*Pilisi korona*”-s turnover is a storage facility

⁸ *Helyi piac, közösségi értékteremtés – működik az érme* [Local Market, Communal Value Creation – the Coin is Working]. Available at: <http://www.gondola.hu/cikkek/68252> [cit. 2013-11-10].

⁹ ZAGYVA, GABRIELLA: *Kékfrank*. Available at: <http://humusz.hu/kukabuv-ar/kekfrank> [cit. 2013-11-10].

which directly connects the swap of the voucher to the exchange of objects and services.¹⁰

3.2.3. “ÉrMe-bankó”

“ÉrMe-bankó” is not money, it is only a discount ticket. Companies belonging to the “ÉrMe” business networks – which is considered as reliable and honest by the organization –received the “ÉrMe-bankó acceptor place” status, they undertook to give (at least) 10 percent discount from products and services paid with the ticket. Tickets were printed in groups of 10, their value equals to 10 euros (or approximately three thousand HUF). This means that the ticket can be effectively used if the value of the purchase is at least 30 thousand Forints (HUF). This is not a problem because most of the tickets are used by firms in business-to-business relations. Primarily, companies acquire it themselves (for 50 thousand HUF annual registration fee) but an amount is given to wider circle of “ÉrMe club” members as well, and as payment for volunteers. Now, the first year of implementation is beyond the coins, while the network has printed about half of the 100 thousand bills.¹¹

3.2.4. “Balatoni Korona”

The Balaton regions' money substitute ticket was released in 22nd March 2012 by Tibor Navracsics, Deputy Prime Minister, Minister of Public Administration and Justice.

“Balatoni Korona” is the first system that works with majority government involvement. The issuer of the voucher is “Balatoni Korona” Ltd., which consists of seven municipalities: Veszprém, Várpalota, Balatonfüred, Balatonalmádi, Litér, Tihany and Nemesvámos together with County Chamber of Industry and Kinizsi Bank.

The local currency is designed to boost the economy in the region, plus, it is a source of liquidity to ensure financial market

¹⁰ *Helyi piac, közösségi értékteremtés – működik az érme* [Local Market, Communal Value Creation – the Coin is Working]. Available at: <http://www.gondola.hu/cikkek/68252> [cit. 2013-11-10].

¹¹ *Ibid.*

participants. It is planned that within one – one and half years, there are going to be about three hundred locations in the region where they will have to accept the payment with “Balatoni Korona”.¹²

4. BITCOIN

4.1. Definition, BitCoin Mining

As we have seen before, we cannot count the number of alternative financial systems, virtual currencies or digital cash.¹³

Bitcoin system's mode of operation is unique compared to direct competitors and has reached a critical mass, when we need to deal with it. Uniqueness is because of what, for the first time, it is worth considering what differentiates it from any other digital currencies:

1. There is no one behind it: no multinational companies, well-known banks, not even a country. It is an independent, open, decentralized international system.
2. It is well documented, transparent, it has a public protocol, its client software is an open source, its database is distributed and the connection to the system is peer-to-peer.
3. Those are not the individual transactions which are confidential but the true identity of users. Instead of names and account numbers, here we only find long, nonsensical addresses composed of numbers, which can vary by transaction. Users can hardly be traceable or can be even completely anonymous within the system.
4. Bitcoins (as known as BTC) may be obtained in several other ways as well:
 - a) We can provide a service if we sell a product for BTC.

¹² *Bevezették a Balatoni Korona utalványt* [The Balaton Korona Bill has established]. Available at: <http://www.metropol.hu/gazdasag/cikk/863118> [cit. 2013-11-10].

¹³ Flattr, metacurrency, Open Bank Project, Ripple, virtual currencies of video games (most well known is the Second Life's Linden Dollar), and the PayPal.

- b) We can buy BitCoin for dollar, euro or pound from one of the international retailers (e.g. Hill Trade, Britcoin, MtGox).
- c) We can “mine” Bitcoin either individually or in association with others if we have an appropriate hardware and can pay the electricity bill.¹⁴

“A number of people have tried to identify the creator of Bitcoin – so far without success. Satoshi Nakamoto, after having published the foundations of a revolutionary electronic transaction management system in mid-2010, disappeared from the Internet. His published writings including typical British and distinctively American formulations of words, so many people suspect that behind the pseudonym there is actually a group of mathematicians, hackers and programmers.”¹⁵ The system was found out in a way that when we are engaged in the operation, we can earn Bitcoins.

Bitcoin is interesting because it is a completely digital currency only existing on computers. In order to use it, we do not need anything else, we just have to download the client software, which is actually a digital wallet.

4.1.1. How does mining work?

“Mining is a distributed consensus system that is used to confirm waiting transactions by including them in the block chain. It enforces a chronological order in the block chain, protects the neutrality of the network, and allows different computers to agree on the state of the system. To be confirmed, transactions must be packed in a block that fits very strict cryptographic rules that will be verified by the network. These rules prevent previous blocks from being modified because doing so would invalidate all following blocks. Mining also creates the equivalent of a competitive lottery that prevents any individual from easily adding new blocks consecutively in the block chain. This way, no individuals can control what is included in the

¹⁴ See <http://bitcoins.hu/index.htm> [cit. 2013-11-05].

¹⁵ HARANGOZÓ, CSONGOR: *Megéri-e bitcoint bányászni?* [Is it Worth to Mine Bitcoin?]. Available at: <http://www.chiponline.hu/2013/07/09/megeri-e-bitcoint-banyaszni/> [cit. 2013-11-05].

block chain or replace parts of the block chain to roll back their own spends.”¹⁶ After we have joined, the only thing left for us is to leave the PC on and run the program.

4.2. *The road, its current position*

Without the usual fundamental factors of traditional foreign currencies, most Bitcoin exchange rates are affected by news, rumours, current state of battle with regulators, closing a BTC exchange or re-opening or starting a new Bitcoin start-up. Overall, demand for the virtual currency spectacularly runs up when the focus of attention in international media is on Bitcoin.

On 29th October 2013, the first BTC Exchange called Coin floor opened in London. Initially, only British and European customers could trade with this virtual money.¹⁷

In the Dutch EMG Factors bar guests may pay with Bitcoin, no wallet, only a phone is needed. In order to provide guests with a virtual currency to pay certain sums, specially invented POS¹⁸ terminals were installed in the place. Customers select what they want to drink, scan the corresponding QR code with their phone and the purchase is carried out.

While it was not the Dutch Bitcoin POS system which was the first one in the world and the currency was first not used for real-time, personal pay, this could be a leading practice, since the special NUVOPUS terminal can be introduced anywhere in the future.¹⁹

“In Canada, people have been able to use the world's first Bitcoin ATM, through it they can switch BTC to real money and vice versa. The vending machine has been installed in downtown Vancouver by Robocoin on which ten thousand dollars in cash flow

¹⁶ *How does Bitcoin work?* Available at: <https://bitcoin.org/en/how-it-works> [cit. 2013-11-05].

¹⁷ FALEY, STEPHEN: New UK Bitcoin exchange to bar clients, in *Financial Times*. Available at: <http://www.ft.com/intl/cms/s/0/8223d270-3fe3-11e3-a890-00144feabdc0.html#axzz2jmdJa3Ku> [cit. 2013-11-05].

¹⁸ Point of Sale.

¹⁹ *Bitcoin – mobile payment*. Available at: <http://nuvopos.com/bitcoin/> [cit. 2013-11-05].

occurred during the first 81 transactions. The daily transaction limit is 3000 dollar now.²⁰

After two huge rallies, the currency has worth more than 800\$ for a single unit. This means that roughly 60 times more one than a year ago. According to many, Bitcoin is overpriced and worthless but as Bank of America analysts say, its fair value is around 1,300\$. Although, it is still mainly considered as an investment, long term daily use of accounting unit may mean the fundamentals, which can make the virtual financial system viable. The world's regulators increasingly monitor the independent virtual money: some countries prohibit its usage, others see the potential.²¹

Russian authorities have issued warnings against using Bitcoin, saying the virtual currency could be used for money laundering or financing terrorism and that treating it as a parallel currency is illegal. »Systems for anonymous payments and cyber currencies that have gained considerable circulation – including the most well-known Bitcoin – are money substitutes and cannot be used by individuals or legal entities, « the Russian Prosecutor General's Office said on 6th February. It added that Russian law stipulates that ruble is the sole official currency and the introduction of any other monetary unit or substitute was illegal. On 27th January, Russia's central bank also said that Bitcoin trade was highly speculative and the unit carried a big risk of losing value.

Bitcoin community in the United States is far more developed than the one in Russia, it has already come under intense scrutiny as

²⁰ *Itt az első Bitcoin ATM* [Here is the First Bitcoin ATM]. Available at: <http://hu.socialdaily.com/articles/2013/10/31/itt-az-első-bitcoin-atm> [cit. 2013-11-05].

²¹ TURZÓ, ADÁM PÁL: *Felemelkedőben a virtuális pénzügyi rendszer?* [Is the Virtual Financial System Rising?]. Available at: http://www.portfolio.hu/vallalatok/felemelkedoben_a_virtualis_penzugyi_rendszer.193436.html [cit. 2014-01-04].

authorities crack down on illegal activity carried out using digital currency.”²²

4.3. How secure it is?

Bitcoin was not designed for large institutions and central banks do not have influence over it. Hence, Bitcoin can flow freely between users' machines. We will save the bank commissions, transfers are fast and we can only make transactions from our digital wallet, we do not need to be afraid from a government or a financial institution to lock our money. Of course, Bitcoins can be stolen, so we need to take care of them just like traditional physical funds. The only problem is that the value of Bitcoins fluctuates very frequently. In January 2013, they gave 14 dollars for one unit, on 10th April when the rate peaked, this amount was 266 dollars, then suddenly it plunged to 50. On 02/11/2014 it moves around 750 dollars.

The Bitcoin story has only begun. Well-known investment gurus such as the Winklevoss brothers believe in the future of digital currencies. In the previous quarter, a total of seven major investments were made in America by venture capital investors in the value of 12 million dollars, which amount is much higher compared to the period preceding the quarter of a 2 million investment.²³

Bitcoin's theoretical and mathematical foundations are laid down very well, they are stable and reliable. The identification of account holders, transactions, logging and monitoring is made with known, well-established, – currently – unhackable cryptographic methods.²⁴

For example, to use someone's private signature key for transactions – to transfer Bitcoins to our account – a 48 digit number needs to be found out. The used algorithms, data storage methods, network protocols are tested and there are proven solutions or great

²² *Russian authorities say Bitcoin is illegal*. Available at: <http://www.businessinsider.com/russian-authorities-say-bitcoin-is-illegal-2014-2> [cit. 2014-02-10].

²³ TURZÓ: *op. cit.*

²⁴ SHA-256, RIPEDM-160, ECDSA.

innovations. The system is pretty well protected against DoS attacks, for example if someone wants to transfer very small amounts, he has to pay much higher transaction fees (0.01 BTC), so it would be very expensive for a large scale attack.

Safety of the infrastructure is more problematic, the services are not integral parts of the system. More pools (= mining companies) have also been down for hours or days because of attacks, most recently, the largest Bitcoin exchange (MtGox) users' access data was stolen by hackers. With time, of course, it gets better from this point of view, users learn from their mistakes and will prefer a more reliable service.²⁵

The European Banking Authority (EBA) have issued a warning to highlight the possible risks people may face when buying, holding or trading virtual currencies such as Bitcoin. Virtual currencies continue to hit the headlines and are enjoying increasing popularity.

However, you need to be aware of the risks associated with virtual currencies, including losing your money. No specific regulatory protections exist that would cover you for losses if a platform that exchanges or holds your virtual currencies fails or goes out of business.²⁶

For example MtGox, the big Japan-based exchange, is temporarily halting all withdrawals as it faces technical issues. They sent a note to clients. They cannot serve so many various withdrawals at the current technical level and it is said that the system needs to be in a static state for a while. They temporarily pause all withdrawal requests. Because of this, the exchange rate of Bitcoin made a huge fall from 780 dollars to about 670 dollars on 2nd February 2014.²⁷

²⁵ See <http://bitcoins.hu/index.htm> [cit. 2013-11-05].

²⁶ *EBA warns consumers on virtual currencies*. Available at: <http://www.eba.europa.eu/-/eba-warns-consumers-on-virtual-currencies> [cit. 2014-02-07].

²⁷ *Russian authorities say Bitcoin is illegal*. Available at: <http://www.businessinsider.com/russian-authorities-say-bitcoin-is-illegal-2014-2> [cit. 2014-02-10].

There is no doubt that mining is not so big of a deal than before but with relatively little energy and cash investments a high profit can be generated and because it is independent from any state, – there are no charged commissions, taxes—it is a good way of wealth accumulation and storage or it can be when the market becomes stabilized.

4.3.1. What does this financial security mean? Best way of treasuring?

The best object for saving is preserving quality for a long time. What belongs to the essence of savings is when the market operator does not immediately want to trade his wares or income to goods or activities of others but wants to retain the ability to consume later.

The question is how much this saving tool will be worth later, whether it actually retains its value or not. In traditional societies there are stable exchange rates of commodity money but it may vary depending on the nature of abundance and scarcity of the chosen wares. The value of saving (accumulation) tool should not fluctuate in addition to physical characteristics of the device.²⁸

Since the U.S. Securities Commission (SEC) announced that Bitcoin is a currency, U.S. regulators are dealing more and more with it. It can be used as money; goods and services can be bought for it and it can be changed to another currency such as dollar, Japanese yen, euro and Yuan. The only limit is in the few accept places.

Despite the high exchange rate and volatility, a crowd of “early adopter” merchants have joined the Bitcoin accepting network. In addition to the estimated tens of thousands of online traders, now some physical traders accept it, as well. Collection sites—coinmap.org – info says that there are nearly 2,200 shops around the world where we can pay with Bitcoin; in Hungary there are 6 places which are not online merchant or service providers. In Hungary, a dentist, an exhibition hall, three hotels and a server provider accept payment in Bitcoin.

²⁸ BOD: *op. cit.* 50.

4.3.2. Risks ²⁹

The EBA has identified several characteristics and risks that people should be aware of when buying, holding, or trading virtual currencies.

You may lose your money on the exchange platform. If an exchange platform loses any money or fails, there is no specific legal protection – for example through a deposit guarantee scheme – that covers you for losses arising from any funds you may have held on the exchange platform, even when the exchange is registered with a national authority.

Your money may be stolen from your digital wallet.³⁰ Once you have bought virtual currency it is stored in a 'digital wallet', on a computer, laptop or smart phone. In addition, if you lose the key or password to your digital wallet, your virtual currency may be lost.

When using virtual currencies as a means to pay for goods and services you are not protected by any refund rights under EU law offered, for example, for transfers from a conventional bank or other payment account. Unauthorized or incorrect debits from digital wallet can therefore not usually be reversed.

You should be aware that holding virtual currencies may have tax implications, such as value added tax or capital gains tax. You should consider whether tax liabilities apply in your country when using virtual currencies.^{31,32}

²⁹ *EBA warns consumers on virtual currencies*. Available at: <http://www.eba.europa.eu/-/eba-warns-consumers-on-virtual-currencies> [cit. 2014-02-07].

³⁰ This is the reason of the shutting down of Flexcoin – a Canadian Bitcoin stock exchange – on March 3.

³¹ The Japanese government will set rules for trading Bitcoins, defining the virtual tender not as a currency but as a commodity akin to gold. Significantly, the guidelines will call for taxing Bitcoin transactions. Purchases made in Bitcoins will be subject to Japan's consumption tax, which is set to rise to 8% on April 1. Trading gains will be taxed, and companies will need to pay tax on revenue earned from Bitcoin transactions. But enforcement could prove difficult, as tax authorities will have to track down users.

5. FUTURE OF BITCOIN (AND QUASI MONEY), CONCLUSIONS³³

5.1. Bitcoin helps average people

According to Wences Casares's – growing up in Argentina – opinion, the same thing happens today as it happened in Argentina back then. People are desperately looking for a tool, a reserve to preserve or transfer their money into and for something which will not lose its value and the government cannot take it away. One of these tools can be Bitcoin. Casares, among other banking professionals, agrees that this money can be a tool that will help restore damaged and compromised Latin American and Asian banks.

5.2. Bitcoin is too complicated and will remain the same for some time

Mike Hearn – Google engineer – develops applications for Bitcoin in 20 percent of his time. He and Bennett Hoffman – former Microsoft Engineer – agree that the system that creates Bitcoin is stable and secure but for the average user it is too complicated and it surely will be like that for some time.

5.3. Bitcoin will be regulated

The U.S. Department of the Interior seized the locked property of the owner of MtGox – the largest Bitcoin exchange –, saying that the stock market and the “money” indicate serious security risks and support black economy.

Surprisingly, Bitcoin supporters welcomed the government's increasing intervention. The Ribbit Capital – one of the major Bitcoin investors – says that the regulation is not only inevitable but also desirable. Other Bitcoin Funds also stated that they are less

³² *Japan to regulate Bitcoin trades, impose taxes.* Available at: <http://asia.nikkei.com/Politics-Economy/Policy-Politics/Japan-to-regulate-Bitcoin-trades-impose-taxes> [cit. 2014-03-06].

³³ *The three futures of Bitcoin: Three predictions from experts.* Available at: <http://www.businessweek.com/articles/2013-05-20/the-future-of-bitcoin-three-predictions-from-experts#p1> [cit. 2013-11-08].

attracted by the more liberal ideas and imagine rational and well-defined rules for the new currency.

The virtual currencies volatility is raising a vicious circle problem: it is considered by many as a serious impediment to the widespread of Bitcoin adoption but the hectic movement of price can be reduced through its spread in everyday usage, thus, confirming Bitcoin's accounting unit role, which is perhaps the most important foundation. A much more liquid exchange market would also help in the treatment of this problem.

In the long term, widespread everyday usage can guarantee the rise of Bitcoin along with a virtual, independent financial system.

While many governments do not like the spread of Bitcoin and its popularity, Singapore tax authorities have decided to recognize the virtual money. They released a clever booklet for Bitcoin traders about how to manage tax obligations in that regard.³⁴

The tax office gives comprehensive and detailed information on how to manage profits, trading and tax. Singapore-based Bitcoin broker, Coin Republic welcomed this guide, which means that at least they are aware of their obligations.

For example, if we pay for a product or a service with Bitcoin, we need to pay tax. Bitcoin trade also generates, as well as in stock, so you have to pay the usual taxes after that.

“Nobel Laureate economist Robert Shiller is on a panel at Davos about digital trends in financial markets. Almost immediately he started talking about Bitcoin. He says that he finds it to be an »inspiration« because of the computer science. But he is not into it as an economic advance. As a currency, he says it is a return to the Dark Ages.»³⁵

³⁴ *Singapore Tax Authorities (IRAS) Recognize Bitcoin and Gives Guidance*. Available at: <http://coinrepublic.com/singapore-tax-authorities-iras-recognize-bitcoin-and-gives-guidance/> [cit. 2014-01-08].

³⁵ WEISENTHAL, JOE: *Robert Shiller: Bitcoin is an amazing example of a bubble*. Available at: <http://www.businessinsider.com/robert-shiller-bitcoin-2014-1> [cit. 2014-01-24].

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