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Expert Commentary

James Angel, Professor of Finance at Georgetown University, on Bitcoin popularity and its future prospects

Bitcoin is an attempt to create an electronic currency that is not controlled by a government. It is controlled by a computer standard that allegedly limits the total number of bitcoins that can be created.



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Currently Bitcoin is the world's fastest growing currency. What are the main features of Bitcoin and why investors' interest in Bitcoin is increasing?

I agree that Bitcoin is "the world's fastest growing currency". Bitcoin is an attempt to create an electronic currency that is not controlled by a government. It is controlled by a computer standard that allegedly limits the total number of bitcoins that can be created. Right now, bitcoins are created ("mined") by computers that do calculations to verify Bitcoin transactions. Bitcoin has attracted quite a bit of interest from four distinct groups:

- 1) "The end-is-near" types, who fear financial doomsday, view Bitcoin as a potential inflation-free haven similar to an electronic gold standard.
- 2) Cyber-libertarians, who see the near anonymity and lack of government oversight as an attraction.
- 3) Operators in the underground economy such as the infamous Silk Road web site, who perceive Bitcoin as a payment system for drug purchases, money laundering, etc.
- 4) Entrepreneurs, who want to cash in the fad. Indeed, given that the total number of bitcoins will allegedly be fixed, the total growth will soon be zero.

Bitcoin is traded online without any kind of central bank or institutional supervision, thus making the currency attractive to drug dealers, terrorists. Do you see that further Bitcoin trading might be restricted or even prohibited to prevent tax fraud, money laundering, and other illegal activities?

Governments will do everything in their power to crack down on money laundering and tax fraud. This means that in order for Bitcoin to be anything other than an underground service on the run from the authorities, the institutions that operate in the Bitcoin realm will have to be regulated just like other financial institutions. There are very good reasons why we regulate financial institutions to protect the public from fraud and to protect the economy from financial meltdowns. Governments will expect payment processors in the Bitcoin realm to be regulated just as they are for other currencies.

Can Bitcoin legally co-exist with the traditional currencies taking into consideration that in a majority of countries central banks are the only institutions, which can issue legally recognized tender?

There are plenty of currency-like things that nicely co-exist with traditional currencies. These include casino chips, subway tokens, frequent flyer points, and currencies/points for online game sites. Thus, I believe that Bitcoin can legally co-exist, but I do not think that Bitcoin will ever become a mainstream financial product. The existence of one particular currency as legal tender for paying debts and taxes in one country does not usually preclude the citizens from owning and using other currencies.

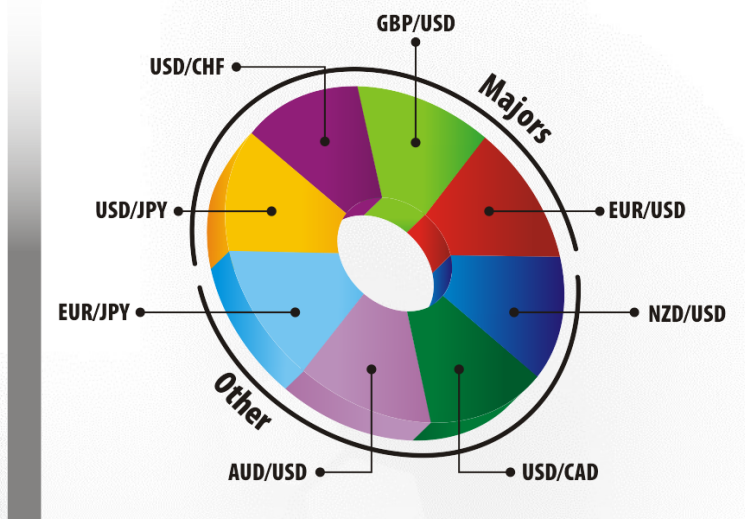
” *I am very skeptical about the long-term prospects for Bitcoin. I think it is a fad that will soon fade away.*

As you once said: “Bitcoins are not the first attempt to create digital money. Other ventures, such as Cybercash, have come and gone.” What future do you see for Bitcoin?

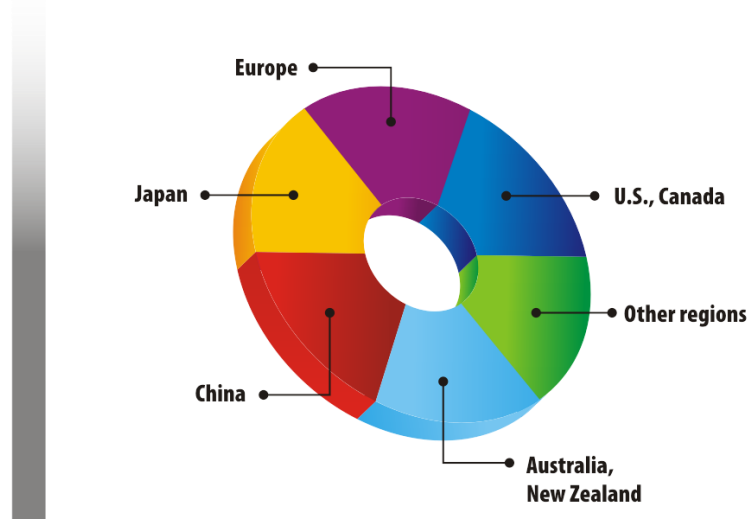
I am very skeptical about the long-term prospects for Bitcoin. I think it is a fad that will soon fade away. Unlike gold, I do not see Bitcoin being of much value if civilization collapses. Bitcoin depends on the sophisticated technological infrastructure of the internet, which arguably would be severely disrupted in a collapse of civilization. An electronic gold standard would have all of the same instability problems as the physical gold standard, hence I do not expect countries to adopt it. I do think there will be plenty of innovation coming in the payment space over the next few years, but Bitcoin will not be it.

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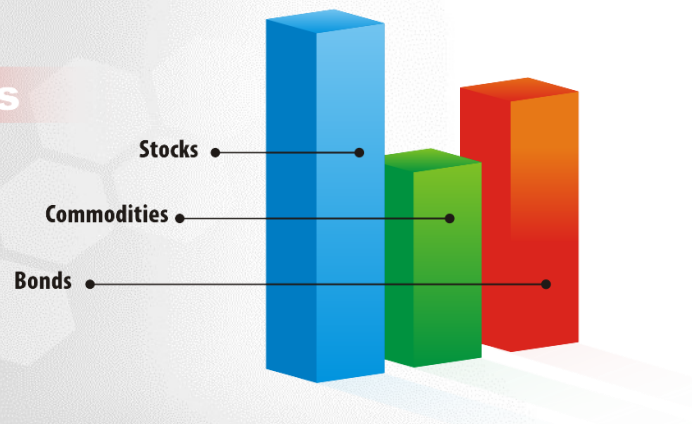
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