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The effects of cryptocurrencies on the banking industry and monetary policy

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The effects of cryptocurrencies on the banking industry and monetary policy

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THE EFFECTS OF CRYPTOCURRENCIES ON THE BANKING INDUSTRY AND MONETARY POLICY

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Section I: An Introduction and History of the Modern Banking Industry and Monetary Policy

The modern banking system has a rich and complex history. The idea of what banking should be, compared to what it actually is, has gone through many transformations for better and for worse over the centuries. This section will be a brief history of what the banking system is and why it is this way, as well as about monetary policy and how it has evolved over time. This section will also go into some of the pitfalls of the banking industry with special focus on the Federal Reserve. It’s important to understand that entire national economies and their citizen’s social well-being are balanced on the foundational need for a strong financial system (Beck, T. & Levine, R. 2008). If these systems are threatened or are faced with extreme change, those economies can be rearranged and either create new levels of prosperity or new levels of ruin for every entity involved in the economy.

Original Purpose of a Bank

Before the Gramm-Leach-Bliley Act of 1999 there was two types of banks that served two distinct purposes: commercial banks and investment banks. This distinction was mandated by the Glass-Steagall Act of 1933 making it so that large banks had to split into separate entities to specialize and only do one of the two distinct jobs based on the individual banks’ business model. First, let’s break down what these two types of banks are and what they do. A commercial bank is what most people think of as a traditional or normal bank that functions to accept deposits and proved loans (Singh, J. 2014). These banks make loans, take in deposits by offering checking and saving accounts, they
generally use deposits to make loans, and offer other traditional banking services. An investment bank doesn’t deal with traditional banking but instead is limited to capital markets. Capital markets are financial markets for buying and selling long-term debt or equity backed securities. These banks are great at channeling the wealth of many savers and lending it to entrepreneurs, governments, and corporations who can put those savings to long term productive use.

The reason these banks were forced to form separate business identities is because otherwise the banks would be allowed to take in an individual’s money, money that those individuals thought was safe and secure in a checking or savings account, and take greater risks with that money in the capital markets. If a bank made too many risky investments and over leveraged themselves, all the people who thought their money was safe in the bank suddenly found themselves broke or outright bankrupt. To help further protect American’s savings, F.D. Roosevelt also signed the Banking Act in 1933 creating FDIC to help safely guarantee up to two thousand five hundred dollars in deposits and the number has grown to two hundred and fifty thousand as of 2016. However, this only protected citizens who put money into insured banks. To put it simply, investment banks are for people who want to store their money with the goal of seeing a larger return on investment, in exchange for the guaranteed safety of their money that they would expect from a commercial bank with FDIC insurance.

Commercial banks do offer some loans to businesses and individuals but these loans are relatively small compared to the large volume loans investment banks deal with.
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To put this into perspective, commercial banks would generally have their larger loans be a couple hundred thousand for mortgages and less than a hundred thousand for car loans or personal loans. Compare that to an investment banks that might make loans that are as large a couple hundred million. Commercial banks get the money needed to offer their loans by using the savings of other customers that the bank guards. Not only do commercial banks offer loans to people like aspiring homeowners and car owners but this bank will offer a warehouse function for all of its customers (Donaldson. J. 2016). A warehouse function is the function of the bank safely store and guarding your money in their vault and offer convenience services like online banking, checking and savings accounts, checks, and ATMs. Many of these services may cost a fee. So customers are giving up on the ability to earn a higher return on their money in exchange for the safety and convenience of their money.

All of this changed in 1999 when the Glass-Steagall Act was overturned and individual banks were able to merge and perform both functions of being an investment and commercial bank (Barth, J. et al, 2000). Suddenly one single bank could offer the perceived safety and security of putting money into a commercial bank and highly leverage themselves in the capital markets. A bank that customer thought was safe and thus trusted their money to the bank, may not be as safe as the customer thought. These banks are able to take far larger and riskier gambles with consumer’s savings than just offering relatively small loans to people who want to buy a house or car. Now people’s savings are in capital markets. Banks are able to advertise that consumers can have safety with their money and earn higher interest on it as well. Once it was legal for these banks
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to perform both functions, “too big to fail” was born (Sorkin, A. R. 2010). If banks lose
big in the capital markets, the tax payers would bail them out and protect consumer
savings with FDIC insurance. There was no incentive for these banks to rein in risky
lending. If they won these gambles in capital markets and risky personal loans, they won
big. If the lost, the tax payers would protect them and their customers deposits thanks to
FDIC insurance. This created a moral hazard.

Some people might feel that since consumers are protected by FDIC insurance
and too big to fail banks have the Federal Reserve, aka the Fed, as a lender of last resort,
then why is there a problem? The problem is that, like any firm in an economy, incentives
will drive their behavior. If the government tolerates banks having high-risk behavior
because of tax payer backed insurance on customer deposits, then the banks will push
that tolerance to the max. If the government wants banks to act fiscally responsible, they
don’t need to regulate banks, they need to change the banks incentives (Leonard, T. C.
2008). FDIC insurance robs the tax coffers. The funds go into the pockets of banks that
took on massive risk and thus it takes away from other programs that could have used
those funds to better help tax payers. The Fed can be a lender of last resort but if it
continually has to keep bailing out banks, how and when will it even gain the money
back it loaned out? The Fed will have to turn to the printing press and causes an increase
in inflation that harms everyone in the entire economy. The Fed is a massive drag on the
U.S economy, on citizen’s prosperity, and arguably not worth the cost for what few
perceived benefits it provides to big banks (Rothbard, M. N. 1994). Before getting too
far, let’s break down the history and role of the Federal Reserve.
The Federal Reserve

The Fed was established through The Federal Reserve Act of 1913. This however was not the first incarnation of the Fed. The first idea of a centralized bank was immediately after America's founding after the revolutionary war called the First Bank of the United States (Cowen, D. J. 2000). Jefferson was opposed to a central bank and Alexander Hamilton was in favor of one. Hamilton was in favor of a bank because he felt the U.S needed a strong central force to help handle the post-war economy, which was nearly in shambles from war debt (Sylla, R. 2009). He felt it could bring stability to the country's new monetary system through being a credit provider to both private and public needs. Jefferson was opposed because he felt a central bank would undermine democracy (Flaherty, E. 2010). The First Bank was established in 1791 and only charted for a twenty year period during this time Jacksonian supporters, of soon to be President Andrew Jackson, maintained a high level of hostility towards the bank and in 1811 thanks to their efforts the bank failed to be renewed.

There was one more predecessor before the Federal Reserve called the Second National Bank of the United States. Like the First Bank of the U.S. the Second Bank was born out of the war debt and inflation from the war of 1812 (Paul, R. 2009). Due to the unstable economic times and war debt, nationalists wanted a strong central banking force to help the economy. So in 1816 the Second Bank of the United States was charted for twenty years. The Second Bank would be modeled and perform much like the First Bank. Also like the First Bank, the Second Bank would fail to renew its charter at the end of the
twenties years largely thanks to Andrew Jackson. This put a brief end to the pursuit of a centralized bank until The Federal Reserve Act of 1913.

Also like both of its predecessors, The Fed was created because of war. Except this time the central bank was made before the war began instead of in the aftermath of a post-war economy. World War I was started in 1914 and the Fed was instrumental in America being able to finance and join the war that was looming over Europe (Koning, J. P. 2009). The reason for this is that war is very costly because it could only be financed through bonds, borrowing, and direct taxation. Using a central bank to utilize inflation makes it politically easier to finance a war.

The Fed’s mission per its congressional mandate from 1977 is to maximize employment output, stabilize prices (fight inflation), and moderate long term interest rates. The Fed fulfills its duties in four ways as listed on the Fed’s official website (2016). Firstly, by conducting the nation’s monetary policy by influencing the monetary and credit conditions in the economy. Secondly, by supervising and regulating banking institutions to ensure the safety and soundness of the nation’s banking and financial system and to protect the credit rights of consumers. Thirdly, by maintaining the stability of the financial system and containing systemic risk that may arise in financial markets. Lastly, by providing financial services to depository institutions, the U.S government, and foreign official institutions, including playing a major role in operating the nation’s payments system.
The reality of the situation is that the Fed literally creates money out of thin air using fractional reserve banking instead of 100% reserve banking (Solman, P. 2012). The Fed also does this by using their own special techniques and tools like open-market operations, changing reserve ratios, and discount policy to manipulate interest rates in order to control the money supply. In fact, although part of the Fed’s mandate is to stabilize prices and fight inflation, the Fed and its chairman feel that inflation is actually good for an economy. This is shown from remarks by Governor Ben. S. Bernanke before the National Economists Club in Washington, D.C on November 21, 2002. “The U.S government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S dollars as it wishes at essentially no cost. By increasing the number of dollars in circulation, or even by credibly threatening to do so, the U.S government can also reduce the value of the dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under paper-money system, a determined government can always generate higher spending and hence positive inflation” Central planners like Mr. Bernanke, and their belief in artificially manipulating the banking and monetary system, cause harm to the economy and weakens the dollar. But what alternative is there to the fiat paper money system that can be manipulated on a whim of a bureaucrate?

The Gold Standard

The traditional alternative to fiat money is what is commonly called the gold standard. There are three types of gold standards that have been used in different stages of history (Paul, R. 2009). The first is the gold specie standard which is when actual gold
coins or monetary units are used and exchanged. This gold standard is what America was using prior to President F.D. Roosevelt doing away with and switching the U.S to the gold exchange standard in 1932 (Rauchway, E. 2013). The gold exchange standard doesn’t involve the circulation of gold coins but makes it so that government guarantees a fixed exchange rate to the currency for gold. This creates a de facto gold standard. However, President F.D. Roosevelt confiscated all US citizens’ gold through the Gold Reserve Act of 1934 at $20 an ounce and then made the fixed exchange rate $35 an ounce, creating a $15 per ounce profit for the U.S government essentially out of thin air at the expense of the citizens who could no longer legally own gold (Richardson, G. 2013). The third gold standard option is gold bullion standard in which gold coins don’t circulate, but government agrees to sell gold bullion at a fixed price for currency. It wasn’t until 1975 when President Ford signed bill Pub.L. 93-373 allowing U.S citizens to purchase, hold, sell and deal with gold. Now the average citizen could at least own gold again, even though the dollar was no longer connected to gold but instead to the trust and credit of the United States government.

It was President Nixon in 1971 that officially and completely took the American dollar off of the quasi-gold standard that Bretton-Woods system had created. No longer was the dollar redeemable for any amount of gold at all. It was just paper backed by trust in the U.S. Government and nothing more. While President Lincoln had taken the United States off the gold standard during the civil war and created greenbacks, they were abolished and American switch from a fiat currency back to the gold standard with no major issues ensuing (Bye, J. O. 1963). Roosevelt’s damage to the gold standard through
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confiscation was the second major blow to the gold standard, but Nixon put the final nail in the coffin. This act was completely unconstitutional and was known as the Nixon shock (Paul, R. 2009). This was unconstitutional because it clearly states in the U.S Constitution Article I, Section 10: “No state shall... make anything but gold and silver coin a tender in payment of debts.” The effects of the Nixon shock caused the US to initiate price controls for ten days through Executive Order 11615. Price controls were something the U.S. hadn’t used since World War II. As well the Nixon shock was a primary cause of the stagflation that occurred in the 1970’s and causing the dollar to lose a third of its value just within the decade (Ghizoni, S. 2013).

Why is the gold standard so powerful and so important? It primarily comes down to inflation. A stable money supply that is backed by gold cannot be inflated in the way that fiat money can be inflated. Currently the Fed doesn’t even need a printing press, everything is done digitally, with a few strokes of some keys, and trillions of dollars can be created. In fact this was done for quantitative easing after the Great Recession of 2009 up to 2014 when the Fed was printing tens of billions of dollars a month (Finger, R. 2013). With a gold standard, the Fed cannot create money out of thin air. It forces countries, banks, corporations, and politicians to have financial discipline because they cannot use inflation to create money to bail their way out of bad situations.

Moral Hazard Created by Central Banks

The term moral hazard, according to dictionary.com, means “the risk that an individual or organization will act irresponsibly or recklessly if protected or exempt from
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the consequences of an action". Having the Fed act as a lender of last resort for banks motivates banks to make riskier and riskier loans because they know they will be bailed out and their customers deposits protected thanks to FDIC. The Fed is technically an independent organization that is not officially part of the Federal Government. However, all of the Feds “profits” go into the treasury and all of its board members are hand selected by the President and approved of by the Senate. Also the Fed must report twice annually to congress and at technically any moment congress could vote to abolish the Fed, the Fed is as “independent” as a five year old child is independent of adults (Zarlenaga, S. 2008). The Fed allows the government to expand, offer welfare programs, and enter into wars, more easily because the government can use inflation to pay for everything and not direct taxation. While congress doesn’t explicitly ask the Fed to do such things, the underlying effects of the Fed purposefully creating inflation has this effect for politicians. Remember that inflation is bad for the economy but greatly benefits the first spenders of newly minted money. Since the Fed’s “profits” go to the treasury first, government is one of the first spenders. The Fed allows politicians to make more promises for social welfare programs that don’t require explicit taxation or bonds to pay for. This allows politicians to essential “bribe” the public for votes by offering favorable programs and projects to the demographics that vote them in. This process weakens everyone’s dollars instead of directly and overtly confiscating those dollars from them in the form of traditional taxes. Allowing moral hazards to create mal-investments is what caused the financial crash of 2008 and nearly all crashes that have come before (Mises, L. V. 2007).
The other reason is that, unlike gold, using a fiat currency allows the Fed to distort price signals. In his book *The Theory of Money and Credit* (1953) Ludwig Von Mises explains that prices are signals in a market place that tell investors, entrepreneurs, and consumers, how to behave in the market. Expanding upon this, Nobel laureate F.A Hayek wrote about the phenomena for his highly influential article *The Use of Knowledge in Society* (1945). In the article he explains that no central organization regardless of how intelligent it may seem to be, can know all of the information necessary in an economy to know what the prices should truly be. The true price should be what the market demands under the laws of supply and demand. When a person, group, or organization attempt to control prices and they don’t obey the laws of supply and demand, they distort the market and create artificial shortages and surpluses. True prices are when businesses are allowed to set their own prices, unhindered, based on supply and demand. When the Fed sets interest rates, they are using price controls and distorting the market, sending out unclear signals into the market. For Mises, distorted price signals are what causes mal-investment and causes bubbles and thus booms and busts in the economy. The boom is from people thinking that there is wealth and resources that are being created because of a bubble in the economy. The bust when the bubble bursts and people start to realize that it was all illusionary and there is truly little or no value in what they were investing. Bubble bursts come from the market fixing itself and re-stabilizing to where it should naturally be, although this can often take years or even decades depending on how severe the Fed has artificially tampered with the economy. The market is constantly trying to guess what the Fed is going to do and when the Fed will do certain things, which creates what historian Robert Higgs (1997) calls “regime uncertainty”. He
explains that this is a large reason why markets sometimes take so long to recover from monetary mistakes and distortions. Often the worse the Fed tampers with prices, rates, and markets, the longer the recovery will take.

**Inflation and Money vs Wealth**

There is a very important distinction to make between money and wealth. According to Dictionary.com, money is simply a medium of exchange, meaning it’s a unit of measurement and has value that people are willing to exchange goods and services for. There is nothing intrinsically valuable about money. Having all the money in the world and nothing to spend it on makes having trillions of dollars not only useless but also pointless. Wealth is simply stuff. Wealth is a bed, a car, a book, anything of value to the owner. It’s very easy, and very dangerous to confuse money for wealth. This confusion can cause bankers, politicians and bureaucrats to try and manipulate money, thinking they will change wealth. They are only changing the units of what valuable things are worth, not actually creating any new wealth. New wealth is only created by entrepreneurs in the market who build businesses that sell products or services that other people in the market find valuable (Dorn, J. 2007).

By printing or creating more money, a nation does not create more wealth. Having stable money however, helps entrepreneurs and citizens to more easily create wealth; by creating new innovations, products, and better services. The question is often asked “why gold?” of all the elements and things on the planet why is gold chosen as the so called “right” standard to use for money? The answer is that through voluntary exchange over time, gold evolved into money. The market chose. No international
government or specific bank mandated it, the people chose it. Anything could have been picked: sea shells, salt, gems or jewels, silks, or even animals. The reason is that gold was chosen over everything else was because gold has all the qualities that is associated with good money: it's divisible, portable, high value per unit of weight, durable and has uniform quality. (Rowlat, J. 2013) Rather gold is used for money directly, like for gold coins, or indirectly through currency that is “good-as-gold”, people trust in gold over other commodities. While other commodities like silver have also been used, gold has always been the most valued. Also because there is a set amount of gold in the world and therefore cannot be artificially inflated. Even if more is mined, it cannot be inflated because no one entity in particular controls the supply of gold, unlike fiat money where the entire money supply could theoretically be double at the flick of a switch.

Knowing the difference between wealth and money is critical. Doubling the money supply doesn’t double economic prosperity, allowing the Fed to tinker with the money supply and purposefully cause inflation is legal theft from every currency holding citizen. It allows the Fed to “tax” every citizen, poor and rich, by weakening the purchasing power of each dollar in their pockets.

The graph on the next page shows, using data from the Bureau of Labor Statistics, the weakening of the dollar since the Fed was founded in 1913 up to 100 years later in 2013. The dollar has lost 95% of its purchasing power. Meaning $100 dollars of groceries in 2013 would cost $5 before the Fed and Presidents Nixon and Roosevelt inflated the dollar and removed it from the gold standard. The Fed was so damaging that even while
The U.S. was still on the gold standard the Fed was able to shatter a lot of the dollar's value because it was tampering with the economy and caused the often unspoken of recession of 1920-1921 (Grant, J. 2015). Once the U.S. was completely off the gold standard, the downward spiral never went back up and has landed the U.S. in the position that it is in today with its 95% loss of purchasing power.

By stealing citizens' purchasing power through the use of inflation, the Fed is robbing citizens of their ability to accumulate wealth. Inflation doesn't speed up or stimulate an economy as Fed supporters often claim; it simply creates an illusion by increasing nominal numbers instead of real numbers of economic prosperity and instead destroys the country's currency (Paul, R. 2009). Inflation is deceptive and causes delusions of grandeur with regards to wealth and knowledge. The people who "win" from
inflation are people and nations that are in debt (Aizenman, J. & Marion, N. 2011). This is why central banks were created after times of war and why inflation peaks around times war. By weakening the dollar, the government is able to cheat soldiers and contractors by paying them in weaker dollars. The people who spend first win first. The person who saves money is being robbed right under their nose. Alan Greenspan, one of the most legendary Fed chairman even acknowledged in his article *Gold and Economic Freedom* (1966) stating “In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value.”

A healthy economy needs and depends on savers. It’s people who save their money and thusly allow banks to loan the money to entrepreneurs that create real economic prosperity and help country to flourish. When central banks like the Fed eliminates the incentives to save because of destructive inflation, more people spend money on consumer goods or try to invest in riskier ventures because they need to outpace inflation for a real return on investment. Fed policy causes a circle of accumulating debt and risky leveraging that eats away and rips apart at a country and when everyone begins to realize that all the money that is being spent is being spent for the wrong reasons then bubbles begin to build, and soon after burst, causing recessions and depressions (Mises, L. V. 2007).

John Maynard Keynes actually wrote about the dangers of inflation in his book *The Economic Consequences of the Peace* (1920). In it he states
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"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million in able to diagnose."

For even further proof that a central bank and specially the Fed is dangerous and holds back the U.S economy; Marx’s Fifth Plank of the Communist Manifesto (1964) mandates a strong central bank monopoly. He felt and argued that it was necessary to maintain power over the entire economy to protect and fight back against the encroachment of Capitalism. The Fed doesn’t exist to help the economy. It exists to help prop up powerful elites who are afraid of the competitive forces of a free market economy.

What would happen to America if the Fed ever came to an end and the gold standard restored? In his book *End the Fed* (2009) Dr. Ron Paul answers the question “People worry what would happen in a world without the Federal Reserve. My answer is that you would enjoy all the privileges of modern economic life without the downside of business cycles, bubbles, inflation, unsustainable trade imbalances, and the explosive growth of government that the Fed has fostered.”

Dr. Paul also talks about the effects of reinstating the gold standard by saying that the gold standard with no Fed would impose discipline. There would be clarity in costs of wars and government programs. Accounting rules would come to reign in political ambitions. The federal government will be financed through direct taxation and selling of bonds, no longer through the subtle theft of inflation. Putting both legislatures and executives on a short leash. The question then, is to ask if there is a new system, a new process or way to take all of the benefits of the gold standard and counter all the negatives of the Fed. A way that doesn’t require the permission from congress or bankers. There is such a system; cryptocurrency.

**Section II**

**An Introduction to Cryptocurrency**

What is cryptocurrency? The technical definition according to the Oxford Dictionary is “a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank.” What exactly does this mean though? It means that cryptocurrency is online money that, because of a mathematic algorithm, cannot be inflated or tampered
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with from any single institution like a central bank. In fact, cryptocurrencies are not
backed by any government or central bank in the world. They are an alternative private
currency developed out of the free market and new digital technologies.

This is what Nobel laureate F.A Hayek theorized in his famous pamphlet
Denationalization of Money (1978). He argues that if government removed itself as an
obstacle from the free market, individuals and monetary entrepreneurs would provide the
optimal quantity and variety of monetary products. If the forces of competition can make
virtually all other products and services into better quality products and for a lower price,
why not have that work for the monetary industry as well? What kind of benefits can
come from alternative currencies according to Hayek. More stable purchasing power,
increased difficulty (and sometime the impossibility) of counterfeiting, and increased
divisibility because it’s possible to have more denomination options. All of these benefits
and more have come to fruition in the form of cryptocurrencies.

Here is an example to help better illustrate what an alternative currency would be
like in real life. A private firm could digitally encrypt one million monetary units. The
encryption would make them extremely hard for someone else to produce additional units
because the mathematics behind the encryption would make it impossible to counterfeit.
For this example they will be called Freedom Coins. The firm then contractually pledges
to redeem each Freedom Coin at any time, for either $20 US dollars or 100 Russian
rubles (any currency can be used but for the sake of example we’ll US dollars and
rubles). Assuming that the firm has enough capital to back their promise and that
everyone is fully confident of their redeemability, the Freedom Coins at auction will sell for somewhat more than $20, helping the private firm gain initial profit. The Freedom Coins will be auctioned above $20 because they will always be worth at least $20, but they might be worth more in the future if the relative value of the currency increases. This speculation is what will motivate customers to bid for the new currency. For example, the value of Freedom Coins could increase if and when the Russian government lets the ruble appreciate against the dollar. In this case, investors could redeem each Freedom Coin for 100 rubles, which would exchange for more than $20 US dollars.

An easier way to think about the Freedom Coins in the above example is to think of them as a derivative asset. So how can the private firm get the public to treat the Freedom Coin as money too? The ideal way to do this, as Hayek writes, is for the firm to specify a commodity basket (consisting of whatever they considered was relevant to consumers: milk, gold, cotton, oil) that costs $100 US dollars. The firm would declare a non-binding pledge along the line of “We will use our assets to adjust the outstanding supply of Freedom Coins so that 5 Freedom Coins will always have the purchasing power to buy this specific commodity basket.” This creates a real measure of purchasing power so that people can better compare the power of different currencies over time. If the firm is using inflation-proof mathematical algorithms to ensure that Freedom Coins retain their real purchasing power, then this goal requires vitally no adjusting or managing and will simply happen naturally.
What would happen is that the US dollar and Russian ruble would depreciate, due to inflationary practices of their governments and central banks, via real goods and services over time. So the price of that commodity basket would increase in US dollars and Russian rubles. If the private firm stuck to their word and kept the value of Freedom Coins stable, which using the mathematical algorithm mentioned above would force them to do so, then the monetary market would see Freedom Coins as being the more stable currency that retains value and start to use it more often, making it the dominant currency. Even if the firm was capable of devaluing the Freedom Coins, because they made the contractual agreement to always exchange Freedom Coins for the set amount of fiat currencies, they have every incentive to keep the value of Freedom Coins as high as possible compared to the two currencies to keep and gain real comparative value. Also, If they break this contract the firm opens themselves up to massive lawsuits, which is another economic incentive to keep their promise. Over time, the exchange rates would change (because governments inflate their currencies) and suddenly one Freedom Coin might be worth 150 Russian rubles instead of 100 or be worth $30 US dollars instead of $20. Making the Freedom Coins a stronger, more stable, and more desirable currency for consumers in the market to hold and use. The above example would continue with different firms and different currencies in a way so that only the best currency comes out on top.

Some critics point out that this competition amongst currencies would defeat the original purpose of money; using money as a convenient medium of exchange. If individuals are too busy trying to figure out what the value of one private currency is over
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Another and trying to manage different accounts full of different currencies then this information burden can really drag down an economy. Digital currency however can conquer this issue with ease. A real life example is a website called CryptoCompare.com that lists the up to the minute prices of competitive cryptocurrencies and their relative exchange rates for free online. This dramatically reduces confusion amongst businesses and consumers on the value of one currency over another without adding any costs. Also, programs already exist that will automatically convert one currency into another currency after making a purchase so that businesses don’t need to keep accounts of dozens of different currencies. In fact, websites like Coinbase.com are already providing this service and are currently being used by both big and small companies around the world such as Intuit, Overstock.com, Virgin Airlines, Expedia, Dell, Google and hundreds more.

Another fear that some individuals might hold is that of a nefarious and fraudulent private currency provider trying to take advantage of people. Inflation is overall harmful to an economy but it does benefit the first initial people who get the newly created money before the market prices adjust. A private company could create a currency, attach it to a basket of goods, then hyper-inflate the currency to buy as many commodity assets as possible. Leaving the sellers of those commodities without their goods and holding nothing but a now worthless currency, essentially theft. However this fear is conquered by the fact that, in our example, the Freedom Coins are always legally redeemable for $20 US dollars or 100 Russian rubles. Similar to how the US dollar used to be legally backed by and redeemable in a set amount of gold. The difference is that governments
can change laws to suit their needs but companies entering contracts with customers cannot do this unjust act without exposing themselves to massive legal liabilities. So contract laws would make this a virtually non-existent threat.

Cryptocurrency doesn’t need to rely on private organizations either though. In fact, the world’s most powerful, valuable, and popular cryptocurrency, called bitcoin, was invented for free by a still unknown creator. It’s a self-regulating, peer-to-peer system that is not backed by any bank, firm, institution, or government. Although a few companies have been created that involve bitcoin (companies help people buy, sell, and trade bitcoin), none of them control bitcoin itself. But if bitcoin isn’t owned or managed by anyone or any single entity like every other currency, then what is bitcoin and what does it mean in the world of cryptocurrency, banking, and monetary policy?

**Bitcoin: A Cryptocurrency Case Study**

Bitcoin is considered the “gold standard” of the cryptocurrency market. It combines the strengths of commodity backed money with the convenience of fiat money, while avoiding most of the problems of both currencies. Bitcoin cannot be artificially inflated, stimulated or depressed by the actions of a central bank or government. This is one of the primary benefits that bitcoin mirrors from commodity money like gold. However unlike gold, Bitcoins have fiat money advantages such as easier divisibility. There is no need to carry coins or bars of gold when someone wants to go to the market. No need for melting or printing or high shipping and guarding costs. It’s easier to store
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and transfer. Bitcoin has many of benefits that fiat money has over gold or commodity backed money.

Some people have a fear of what potential hackers could do to a digital currency like bitcoin. They what would happen if hackers could somehow hijack the system and create new bitcoins or cause some nefarious effect with them. However this is a non-existent threat. As mentioned before, bitcoin and cryptocurrencies follow a mathematical algorithm that involves something that will be discussed in greater detail later called the blockchain. Using mathematics, the blockchain can keep track of every bitcoin in existence and where they all are at any given point in time since the bitcoins are first created (Rykwalder, E. 2014). The algorithm is set to only create a set amount of bitcoins at a set time interval. It’s an automatic system that cannot be tampered with. It would be the equivalent of trying to hack gravity or hack the equation Y=mx+b. It’s just not possible to do it, attempting to do it doesn’t even make since. (However, accounts and exchanges that are not cyber-protected can be hacked, just like any other bank account can suffer identity fraud. But the cryptocurrency system itself cannot be hacked.)

So even though bitcoins have the convenience of fiat or paper money, bitcoins are actually “mined” like gold. The creator of bitcoin, whose real name is still unknown but the pseudonym used is Satoshi Nakamoto, created a mathematical algorithm that creates 25 bitcoins every ten minutes, and will gradually decrease over time until the year 2140 when bitcoin will max out at 21 million bitcoins. As of July 2016 there are about 15.8 million bitcoins in circulation, so only 5.2 million are left to be created, according to
Kaiko.com, a site that publishes bitcoin statistics. The next question then is to ask how are bitcoins mined and who gets the new created bitcoins first? The answer is the people who earn them by being miners. Not the traditional hard hat, covered in coal and earth miners, but data miners. These data miners are people who have complex computer setups with massive processing speeds. They are the ones who help process the data in the blockchain and process everyone else's transactions.

The Blockchain

The blockchain is like the accounting ledger for every bitcoin transaction, ever. It is an open and public ledger that lists every transaction in the currency’s history. The blockchain is the answer for how a digital currency cannot be manipulated and duplicated. The big problem with digital goods is the ease of which things can be copied for virtually no cost: music, articles, books, videos. For a money system, the ability for anyone to be able to copy money freely without limit would lead to some massive inflationary issues. The blockchain counters the “threat of double count” because it allows the transference of secure and non-repeatable bits of information on a peer-to-peer basis, with no middle man, between individuals around the world. The blockchain introduces property rights and property title into the digit world.

To put this into a better perspective it’s important to understand that bitcoins don’t actually exist as a physical thing, they are just digital bits. What exists, what is traded, is a transaction and a record for accounts. From the moment a bitcoin is mined the blockchain tracks where it goes for eternity (Santori, M, A. et al. 2016). The ledger keep
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record of amounts, times, and account addresses of every transaction. This information is public and open to the world and is constantly updated. If an account is created and there is no record of bitcoins having ever been transferred into that account, but somehow a person is trying to trade ten bitcoins out of that account, the transaction will not work. It would be like trying to divide by zero, it simply won’t be allowed to happen. The blockchain knows where every bitcoin is at all times, it is mathematically impossible to manipulate it or inflate it. It self-corrects itself by its very nature.

One important note to make is that only the information and transfer of bitcoins is recorded. Not the personal information of either individuals or what was exchanged for the bitcoins. The blockchain keeps the monetary information public for accountability and integrity reasons so that the system cannot be manipulated. However personal and private information is still be kept secret. In fact, personal information never has to be tied to a bitcoin wallet (an account that hold bitcoins) and a single individual can have an endless number of wallets if they so desire. While some individuals feel this makes bitcoins a tool for criminals and money launderers, bitcoin is no more a tool for any crime than any other good or resource is. A gun, a knife, rope, ski masks, all have good uses but can also be used for criminal activity as well. The actions of a few individuals don’t dictate the morality of a morally passive tool or service.

To illustrate the way bitcoin transactions work is that person A will send one bitcoin to person B for a product. Person B will send the good to person A because Person B will know that the bitcoin sent to him is real and now solely owned by him. He
was not ripped off from an inflated bitcoin. This builds trust in the system and a system with more trust leads to more prosperity. A system with corruption and theft (especially through inflation) causes economic harm (Fukuyama, F. 1995). So how do these trustworthy transactions work and how does the system maintain itself?

This is where bitcoin miners come into the picture. Miners are individuals in the real world that have purchased specialized computer hardware and downloaded software that allows them to process massive amounts of data. Hundreds or thousands of individual bitcoin transactions are packaged into a single data block. The miners then go through this data “mining it” and checking to make sure that all transaction are verified with the blockchain. (Volastro, A. 2014) When the miners are done with a block, they are rewarded in two possible ways. They either get newly created bitcoins, or collect a small fee from each individual transaction in the block, or both. There is beauty in this system because it creates a fair payment system for miners investing time and money by providing a service to other bitcoin users, it’s also a fair way for new bitcoins to enter the system by going to those service providing miners.

Currently, most miners don’t charge a transaction cost. As fewer bitcoins are created, or the time comes when no bitcoins are left to be created, their transaction fees will increase according to demand. This is how the bitcoin system will perpetually operate and self-regulate. (Coindesk 2015) The more bitcoin transactions that occur then economies of scale will continue to make each individual transaction lower and lower as more people use bitcoin.
Mises Regression Theorem

One of the most confusing aspects of bitcoin is how they get their value. Bitcoin has been cited as violating Ludwig Von Mises's regression theorem (LeRoux, C. 2014). The regression theorem demonstrates that all money, rather the money is commodity money like gold or government backed fiat currency, must ultimately derive its purchasing power from a historical tie to a commodity that was valued in a state of barter. Jeffrey Tucker (2014) goes into great detail with his article *What Gave Bitcoin Its Value* published by the Foundation for Economic Education. In it he states.

The theory of the value of money as such can trace back the objective exchange value of money only to that point where it ceases to be the value of money and becomes merely the value of a commodity.... If in this way we continually go farther and farther back we must eventually arrive at a point where we no longer find any component in the objective exchange value of money that arises from valuations based on the function of money as a common medium of exchange; where the value of money is nothing other than the value of an object that is useful in some other way than as money.... Before it was usual to acquire goods in the market, not for personal consumption, but simply in order to exchange them again for the goods that were really wanted, each individual commodity was only accredited with that value given by the subjective valuations based on its direct utility.

Mr. Tucker is basically saying that something cannot be valuable just because someone screams and shouts enough that that something is valuable. There needs to be something intrinsic and real about the value. So what is bitcoins value?
Bitcoin’s value is subtle, but substantial. It’s redeemability and the fact that it is a meta-currency that is inflation proof is what gives bitcoin value (Patterson, S. 2014). To better put this into context, imagine the phenomenon that occurred to gold with paper. How much more convenient, portable, divisible, easier to handle, and easier to count, paper was compared to gold and why the market made people desire to have paper currency instead of gold coins or bars anymore. Now imagine bitcoin causing the same phenomena to paper.

An example of this comes from general banking history. Someone with a vault and guards would offer to safely store everyone’s gold for a fee and would write them a receipt using special ink or paper that was very hard to duplicate. The receipts would be valued for a certain amount of gold and were considered “as good as gold.” After a while people in the economy would stop going to the bank to withdraw their gold to carry it to a vender who would then himself have to take it back to the bank to get a receipt. Instead, people just started to trade the receipts. Thus paper money was essentially born.

Now imagine a world where instead of banking fees, credit card fees, and carrying cash, that instead everything is done in bitcoin. Which is far more divisible, easier to count, easier to carry, impossible to duplicate, and more convenient for a globalized economy. It’s the next evolution of money. Bitcoin is also a meta-currency.

Meta-currency means that it is a currency of currency. The biggest issue with a barter system of trade was the inefficiency issue of double coincidence of wants (Jevons,
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W. S. 1885). The double coincidence of wants is the needing of two individuals in a market that had what each other needed and being able to come to an agreement in order to trade the two goods. Currency became the solution to conquer that inefficient issue.

Now society faces the same issue with currency itself. Two traders now suffer from the issue of a double coincidence of wants in regards to currency. With currency exchange prices constantly changing and the massive exchange fees from bank intermediaries, the cost of this inefficiency is in the billions as measured by the profit amounts of international banks that charge these fees. Today’s society is suffering from this inefficiency issue similar to that of barter systems, but for currency instead of goods.

With the rise of globalization and ever more affordable travel, this is an issue that is rising. Meta-currency is the answer.

If someone from the US wants to do business with someone from Africa but not pay currency exchange fees or international fees, they could use bitcoins. The fee is either zero or a fraction of a percent to pay the miners as discussed above. Let’s say the product the American wants to purchase costs the equivalent of one hundred dollars, then the American citizen will buy one hundred dollars worth of bitcoin for the product he wants to buy and then will send those bitcoins to the African citizen who will then turn the bitcoins into his local currency. This is how bitcoin is a meta-currency that cuts out the middle man banker who would charge high fees at every stage of the transaction.

Remember that bitcoin is peer-to-peer, so although miners might cost a small fee now or in the future, their job is not to be a middleman in the transaction like a banker, but to check the transaction data against the block chain to make sure no fraud is being perpetrated and maintaining the integrity of the system. Unlike a banker, peer-to-peer
means the transaction is handled faster, just as safely, and without the massive fees businesses and individuals have to deal with currently.

Another aspect that gives bitcoin its value and keeps bitcoin in line with the regression theorem is the blockchain itself. Bitcoin and the blockchain go hand-in-hand. If bitcoin was to be separated from the blockchain then bitcoins value would plummet to zero. The blockchain is what makes bitcoin inflation proof. It allows property title to exist in the digital world. The truly interesting idea to consider, which will be expanded upon later in this paper, is using the blockchain for things other than just bitcoin and cryptocurrency. However, the ability of bitcoin and the blockchain to introduce this transferable property title aspect into the digital world holds untold and massive value in and of itself. Deeds and property titles have commodity roots, just like Mises required to be in line with the regression theorem.

Lastly, Bitcoin’s final value can be easily summed up by viewing bitcoin not just as a currency but also as an innovative payment system. Payment systems have always been done by third parties such as banks, PayPal, and credit card companies. All of which are massive multi-billion dollar ventures. However, despite how big, profitable, and useful these middle-man payment system businesses are, they are not available to the majority of the world’s population according to the World Bank (2012).

Anyone not in a highly developed country with a strong financial foundation is left behind in the global market place. In fact, if a country doesn’t have a strong financial foundation with domestic and international banks and with good capital markets and exchanges then that entire country and all of its citizens are being held back from their
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potential level of economic prosperity (Burton, D. R., & Michel, N. J. 2016). However all of these institutions are “middle-men” that cost billions of dollars a year in fees to consumers. Remember that bitcoin is peer-to-peer. Remember that the middle-man is cut out of bitcoin transactions, which is why transaction fees are extremely small or otherwise non-existent, while they have the potential to increase in the future, it would be marginal in comparison to today’s high level fees. By removing the middle-men the economy keeps more money amongst the consumers to spend on more goods and services and less on pricy financial services. This would increase the citizens’ standards of living within that country.

In the pre-modern economy these bank fees were justified because consumers were getting a useful service in exchange for the fees such as: currency exchanges, being able to trade and do business in markets oceans away, go from a local or national business to an international business that uses different currencies. However, consumers can get the benefits of all these services without the middle-man by using bitcoin and cryptocurrencies. The fees are becoming more and more unjustified as more and more people discover bitcoin and cryptocurrencies. The economic timer is ticking for a lot of these financial giants. The banking industry is in trouble.

Imagine the individuals trapped in corruptive regimes being able to undermine their political dictators (Owen, T. 2015). Imagine the gains to trade, commerce, and quality of life for the world’s poor, if billions of people in the world were to become a part of the global economy (Bardhan, P. 2006). Imagine small business owners, who have enough trouble going international, being able to more easily participate international
commerce with bitcoin and other ecommerce tools (Rogers, K. 2015). Imagine the future, a future of prosperity with cryptocurrency.

Section III

Predictions on Cryptocurrencies and Its Future Effects

To help put the future into perspective, let’s first look to the past for an example. Two hundred years ago in the 1800’s over 90% of the U.S workforce was in agriculture (Craig, L. A., & Weiss, T. 1998). Today however, less than 2% of workers are in agriculture according to The World Bank (2010). How did an exodus of 88% of the labor force leaving the agriculture industry not cause horrific food shortages over time? How did the economy survive and citizens' standards of living not plummet due to such a decreasing amount of farmers? It’s due to the process of creative destruction. The term creative destruction was made famous by economist Joseph Schumpeter in his famous work title *Capitalism, Socialism, and Democracy* (1950). What it means is that innovations in the market cause the old and ineffective to die out and the new, more effective, and more efficient to replace them. In terms of the farming example, the use of genetically modified crops that have exponentially larger crop yields than traditional crops yields, the higher levels of capital investments into advance machinery farmers can now purchase to more quickly harvest the larger crop yields, all lead to the destruction of jobs for the super majority of the farm hands and field laborers (Dimitri, C., Eflland, A., & Conklin, N. 2005) and (Council for Economic Education. 2015).
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There is no need to start a revolt for the individuals whose jobs go existent due to creative destruction. 88% of the workforce didn’t die in a ditch or choose to endure unemployment indefinitely. They learned new skills for new jobs or applied their labor to different sectors of the economy (Grennes, T. 2003). Some may have become business owners and entrepreneurs adding new products and services to the economy and new jobs. In the end, everyone wins because the economy is growing and becoming more efficient. Food is now more affordable and plentiful, workers are learning new skills and developing new products and services, the economy grows and standard of living increases. All thanks to creative destruction.

Now look to the future. Bitcoin is the harbinger of the creative destruction of central banking, high transaction and exchange fees, and currency exchanges around the world. Imagine the family or business traveler, not needing to account for the 3%-5% fees of using credit or debit cards overseas, of not needing to carefully count how much of a foreign currency they have on hand before they need to go to an exchange and buy more of the foreign currency at the cost of a flat rate fee and percentage fee, or if they travel to multiple countries that use different types of currency each and not needing to re-do the exchange process every time they cross a boarder. The potential for bitcoin is unprecedented and with the blockchain involved, that potential is nearly unlimited. But first let’s focus on how bitcoin will be the creative destruction of central banks.

Bitcoin and Central Banking
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The negative impact of central banking was made clear in the previous sections: the cause of destructive inflation to the currency, the decrease in purchasing power and thus standard of living for citizens, an invisible tax on all citizens to help fund wars and social welfare programs and float the bill to later generations, the cause of too big to fail, and a host of other economic atrocities. Bitcoin can bring all of that crashing down. As of 2016, most individuals in the central banking industry are dismissive of bitcoin and cryptocurrency. Alan Greenspan has publicly announced that he doesn't understand how or where bitcoin gains its value from to satisfy the regression theorem; he also views bitcoins high prices as a speculative bubble (Tadeo, M. 2013). Mark Williams, a senior executive Federal Reserve Bank examiner and a contributor for Business Insider thought that bitcoins would plummet to $10 by mid-2014 (Williams, M. 2013) yet bitcoin was instead worth between $660 and $550 between June 2014 and August 2014 according to CoinDesk.com (Wong, J. I. 2014). The Federal Government is getting to the point that they are not just dismissive of bitcoin, but are actually becoming afraid of bitcoin and trying to fight back. The Consumer Financial Protection Bureau has gone as far as issuing warnings about the risks associated with bitcoin to help warn and scare people away from the cryptocurrency (2014). So despite how much Fed supporters and the federal government attempt to down play the significance and potential of bitcoin, the market is ripping apart their predictions and assumptions and favoring bitcoin more and more every day by maintaining bitcoins high value and continued and growing use.

The Fed will take a long to be end. The first step in this process has occurred. People are beginning to question the Fed and its role in our economy, largely thanks to
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Dr. Ron Paul’s 2008 and 2012 presidential campaigns (Blodget, H. 2012). The second step is where society currently is; looking for a possible replacement to the Fed. The market has produced an answer to replace and undermine the Fed; bitcoin. The third step is the slow process of replacing and eventually disbanding the Fed once it’s clearly shown how ineffective and unnecessary the Fed is and how the alternatives (bitcoin) are more efficient and chosen by the market as the preferred option.

One example that critics might use to counter this argument is that of the Post Office. The United States Post Office costs tax payers twenty-five million a day in net loss (Bradford, H. 2013). On the USPS website they stated that during the first quarter of 2016 the Post Office lost two billion in just those three months. Despite these massive loses and gross inefficiencies, the post office still remains even. Despite there being highly efficient market alternatives like UPS, a company that, according to the earnings report on their website, earned over one billion in net profit in 2015. So why does the inefficient Post Office still exist? The reason for this is the Post Office is part of the constitution in Article I, Section 8, Clause 7. It’s also against the law for a private company to do what the post office does in regards to letters due to the Private Express Statutes. However, the Fed is not in the constitution, the Fed is only alive because of the Federal Reserve Act and congress can terminate it far more easily than they can ratify the constitution to end the Post Office.

As more people show resentment and disdain for the Fed, public outcry will force politicians to either abolish the Fed, or lose their jobs to candidates who are willing to do
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it due to the Overton Window effect (Lehman, J. 2014). In September 2014 congress passed the Federal Reserve Transparency Act; a bill to help audit the Fed. This was a first step and clear indicator of growing disillusionment of the Fed and the first of possible future congressional actions against the Fed. As bitcoin becomes more widely accepted and more understood, the bells will toll louder and louder for the Fed.

Bitcoin at the Present

So just how widely accepted is bitcoin currently then? Its acceptance is growing almost exponentially. At first it was predominately used amongst individuals and small business owners that operated their own small scale websites that sold goods like T-shirts, books or other small goods. However bitcoins acceptance has not only spread further than ever, but to big name companies such as Dell computers, Virgin Airlines, Overstock.com, Expedia, PayPal, and Google just name a handful of the hundreds of companies. Non-Profits also have been accepting bitcoin as donations. Organizations like Khan Academy, Students For Liberty, and Foundation for Economic Education which was the first non-profit to be given a million-dollar donation in bitcoin (Oberg, C. 2013).

A big reason many people have criticisms of bitcoin and other cryptocurrencies are because of how volatile prices are currently. A large reason for this is because cryptocurrencies are still a relatively new phenomena that’s going through its initial growing pains but will stabilize as time goes on (Lee, T. B. 2014). Bitcoin has gained its massive value at a nearly incomprehensibly speed from a historical perspective. CoinDesk.com tracks the history of bitcoins value and from their data we can see that
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Bitcoin was started in January 2009 and for months was valued at $0.00. Then people started to see its potential and first wave innovators began to experiment with bitcoins. Bitcoin achieved real value in July of 2010 valued at $0.05. It then only took until February of 2011 that bitcoin was equal to and then surpassed the US dollar in value. By August of 2012 bitcoin had increased in value by 1000% up to $10 per bitcoin. Then quickly by March of 2013 bitcoin increased in value by another 1000% up to $100 per bitcoin. Finally by November 2013 bitcoin again increased 1000% in value up to $1,000 per bitcoin. Bitcoin hit an all-time high of $1,145.46 on November 29th 2013. As of writing this paper July 2016 bitcoin has been maintaining value between $600-$700 over the past few months and is showing more and more gradual price changes in overtime.

So what are a few reasons for bitcoins price fluctuations and do these price differences actually matter? Some reason is speculation based since bitcoin is so young. When Mt.Gox, one of the world largest bitcoin exchanges went bankrupt, bitcoin lost a lot of value because it scared people. However when the U.S. government shut down in 2013 bitcoin hit its massive peak because people were worried about the U.S dollar and losing trust in the U.S government so they turned to alternatives. When the Russian Ruble was collapsing in 2014 that also correlated with a spike in bitcoin value. Bitcoin also spiked after the “Brexit” in 2016. There appears to be an inverse correlation between trust and faith in governments and their currencies and the value of cryptocurrencies like bitcoin. However, the price of bitcoin doesn’t actually matter all that much. Bitcoins real value isn’t just in its function as a currency; it’s in the fact that it can bring property rights
into the digital age with the use of the blockchain and its function as a payment system/meta currency (Heggestuen, 2014).

**Future of the Blockchain**

The use of the blockchain, while it’s connected with bitcoin, is not limited to just bitcoin transactions. On August 5th 2014 a couple made history by having the world’s first bitcoin wedding. It was registered not with any government or organization but submitted to the blockchain (Marty, B. 2014). The couple displayed a QR code of a 0.1 bitcoin transaction as the permanence of their vows that will exist forever.

It’s important to remember that the blockchain is the weight behind bitcoins value. The blockchain is the solution for the threat of double count in the digital age. It’s the way for two complete strangers to be able to exchange in commerce over the internet as if they were doing so with cash. No need for a third party vendor, no massive fees, just free trade. One example of the blockchain being used is with a website called ProofofExistence.com. The site allows individuals to upload files to certify custody of the file at a given time without exposing any personal information or the contents of the file itself. This could be massive in the world of intellectual property rights. The future possibilities are massive, from stock exchanges, music distribution, and to even voting.

**Conclusions and Future Study**

Bitcoin and cryptocurrencies cannot be inflated because of the mathematical algorithms that restrict and track how much currency there is at any given moment in
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existence. Central banks, as previously mentioned by Ben Bernanke are trying to
purposefully cause inflation. In fact the Fed has a very precise amount of inflation that
they aim for. The Fed wants to cause, on average, 2% inflation every year according to
their website. They feel it's for economic growth, while in reality it's simply destroying
every citizen's purchasing power and lowering their standard of living.

Bitcoin can destroy "too big to fail" and end much of the moral hazard seen on
Wall Street and the big banks because without a Fed to inflate the currency and bailout
banks and companies, it will force financial and economic discipline. When put on a
currency that cannot be manipulated and without a lender of last resort, banks and
companies will actually have answer for over leveraging themselves and making bad
businesses decisions. They will be responsible for their losses and no longer be able to
pass it off to tax payers. To stay alive, they will change how they do business. The
economy will strengthen and grow at a natural rate that will promote long term prosperity
because of these changes.

Politicians will have to reel in the debt and cut many of the frivolous government
programs. It extremely doubtful they would attempt raise taxes on Americans to cover all
the government expenses and even more doubtful that they would borrow enough from
foreign counties to keep up the current level of spending. The government will shrink, its
power weakened because it cannot manipulate the money, peace in the world will
increase because war will be too expensive and too unpopular to afford for any prolonged
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period of time. With less government interference in the economy, there will be more room for private expansion and growth.

World growth and prosperity will increase. Imagine a world where economic boarders didn’t matter in regards to trade and commerce and a world where a currency difference wouldn’t cause excessive complications. Where, thanks to a more globalized economy, a citizen in America can get rich filling a niche market in China, Pakistan, or Chili and not deal with as much of the complexity of international business and trade because bitcoin is the meta-currency that can simplify and expand trade in the world. Imagine the security of international transaction and the lessening of fraud because people don’t need to wait several business days for checks to clear or payments to be approved. Bitcoin can do in a few hours what takes banks several days to do. Imagine the economic restructuring of the economy when billions upon billions is taken away from the financial sector for services that don’t need to exist anymore and put back into the pockets of consumer to spend on more goods and services. Image the decimation of poverty because businesses can more easily pay and hire people in hard to reach emerging markets of the world since they don’t need to go through an international middle man.

Imagine a currency that can be divided into millionths of a single unit, more divisible than any other currency in history. A currency that can open the world to a new age of human progress, happiness, and prosperity. This is the next evolution of money.
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This is the future. These are the effects of cryptocurrencies on the banking industry and monetary policy. It’s revolutionary.
References


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