The Relevance of Bitcoin in Modern Economics

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SUMARY

1. Introduction

In ancient times, trade was based on direct exchange. Through the time evolution, in the primitive society, this kind of exchange has been disappearing and each small community developed and recognized a specific exchange unit that allowed the indirect exchange and gave rise to its own kind of money, extending and generalizing its use.

Throughout history, money has presented various types, like for example shells, stones, hair, spearheads, cattle, chocolate, coffee, tea. Much later, it became common currency of precious metals, mainly gold, silver and bronze or even copper or wool. Greece images of their gods and Rome were beating the Caesars. In the case of the word "salary or *salarium Latina*, had its origin in the fact that the payment to the Roman soldiers was made in salt, whose share price came to be equated with gold for its great conservative capacity of food.

Traditionally, the value of each currency was equivalent to its manufacturing or material, the said nominal value otherwise was similar to its intrinsic value. However, over time germinated the fiduciary money. That is, accept, as today, the notes and coins made of a material of lower intrinsic value that the one it represent.

In any case, expansionist monetary policies tend to produce currency devaluation, or, in other words, excessive inflation with adverse effects on the economies. With the purpose to avoid the negative effects, an order of international monetary system would be achieved by adopting the gold standard, the agreements between wars, the Bretton Wood agreement, and other agreements as for example the European Monetary System, and others.

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Since nineties, most of modern economies have independent central banks that issue their fiduciary currencies and decide about monetary policies and credit supply in each country. In addition, despite its widespread use, money has several drawbacks (tax evasion, money laundering and financing of illicit activities, among others).

Consequently, in recent years, under blockchain technology, have been developed various alternatives to physical money in the form of electronic coins. In fact, the digital currency plays an important role not only for its novelty, but for its contribution to facilitate transactions and increasing the same regardless of distance and in some cases even exchange rates. And finally, for his contribution to the monetary multiplier. In this context, some central banks, since 2015, already consider some electronic currencies.

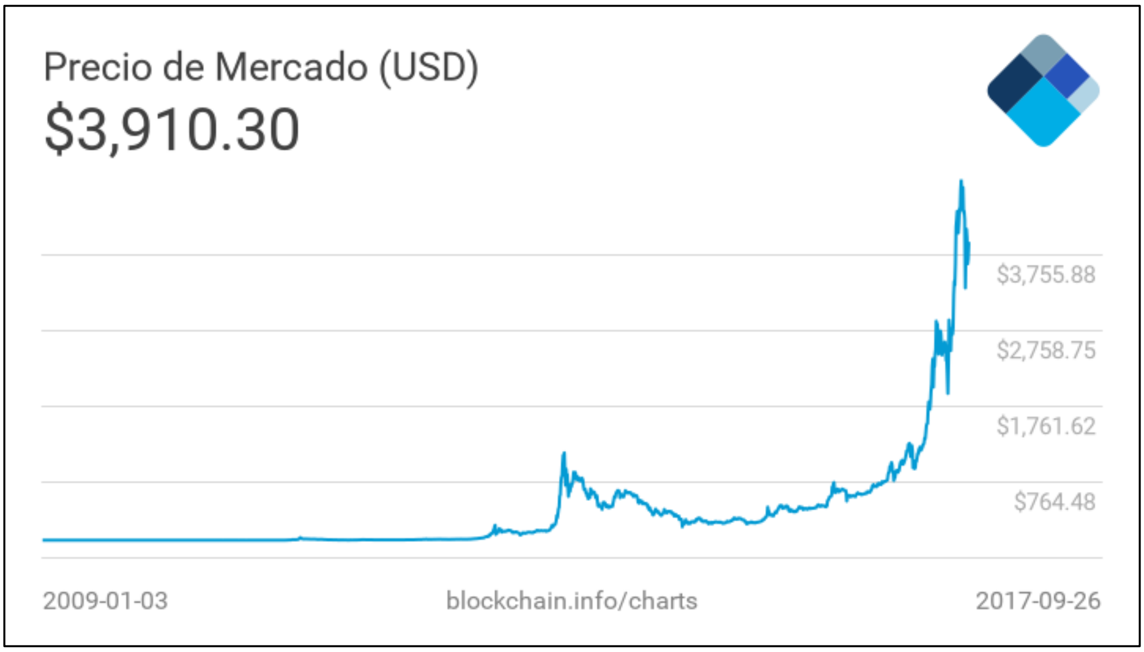
Based on the importance of electronic coins, like Bitcoin, the present works investigates its importance in the current economies according to the issues mentions previously. And according to this purpose this paper is structured as follow: after this introduction, in the second section the evolution of Bitcoin is presented highlighted with some statistics about. Section 3 presents a literature review about the relevance of Bitcoin in modern economy and its role in the globalised international monetary system, considering monetary policy. Section 4 presents a legal framework of bitcoin. And section 5 concludes.

2. Evolution of Bitcoin

The virtual currency pair excellence is the Bitcoin. The creative entity of this crypto-currency, Satoshi Nakamoto, conceived the aforementioned currency by stating that during transactions in which no dependency is used with any intermediary or central agency. In fact, its main peculiarity is its decentralized nature, that is, the absence of any authority or entity that addresses the issue currency mentioned above.

In short, it is a type of money that does not require any regulatory financial institution to operate a virtual level. And it is governed democratically by a community of people connected to a great book called blockchain. Thus, using free and free peer-pairs system users (P2P) bitcoins lack financial intermediaries.

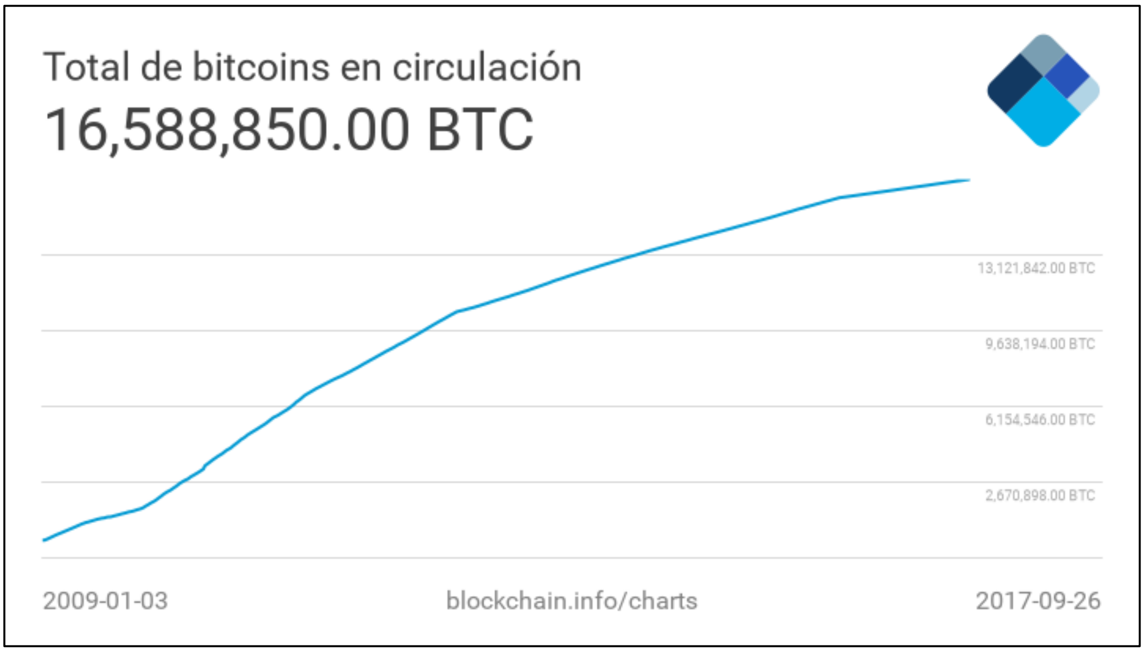
The economic crisis of 2007 led to the birth of criptocurrency since the collapse of subprime mortgages in the United States along with the subsequent implementation of unconventional measures to inject liquidity into the financial system to overcome the global recession caused the traditional strength of fiduciary coins was questioned. In January 2009 the first block of itcoins was impaired, and in October of the same year it was established that one American dollar was equivalent to 1.3 bitcoins. In February 2013 the price increases and start paying $31 per unit in April of the same year exceed $100 and a few days later $250. In December 2013, bitcoin marks a record $1151 per Unit, although in February 2014 it is at $500. Currently, it is higher than $3000 per unit. The evolution of bitcoin can be observed in Figure 1.



Source: https://blockchain.info/es/charts (Accessed in 28 September 2017)

Figure 1: Bitcoin Quotation

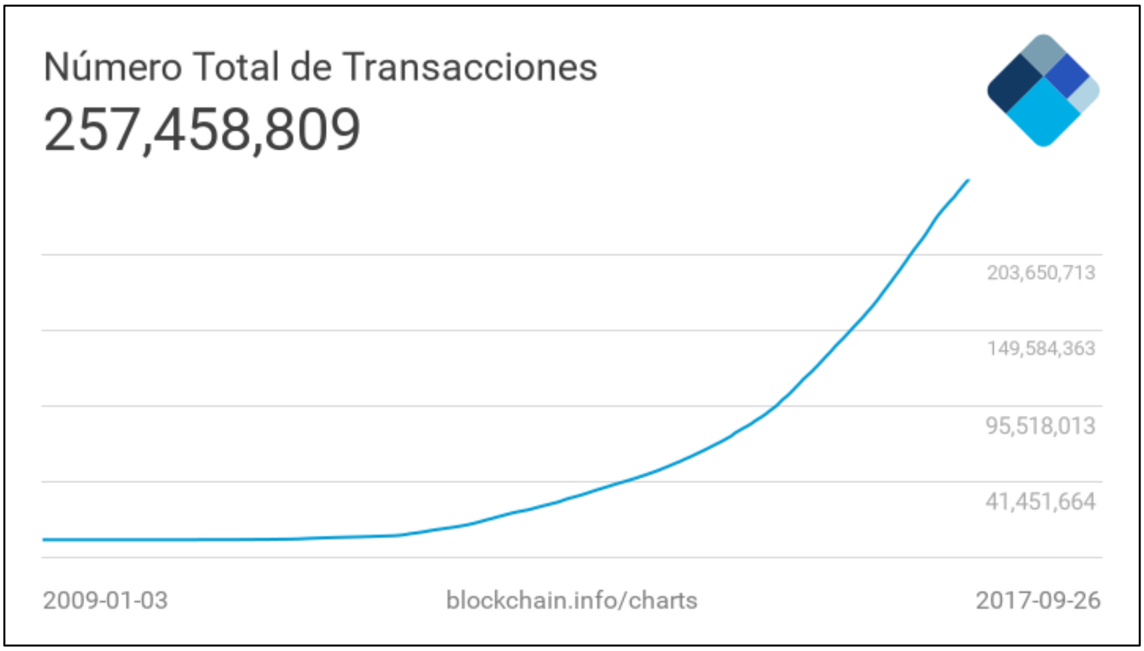
Recently, it have already exceeded 16 million bitcoins units in circulation, that is, more than half expected of 21 million in 2030 (Figure 2).



Source: https://blockchain.info/es/charts (Accessed in 28 September 2017)

Figure 2: Bitcoin Quantity in Circulation

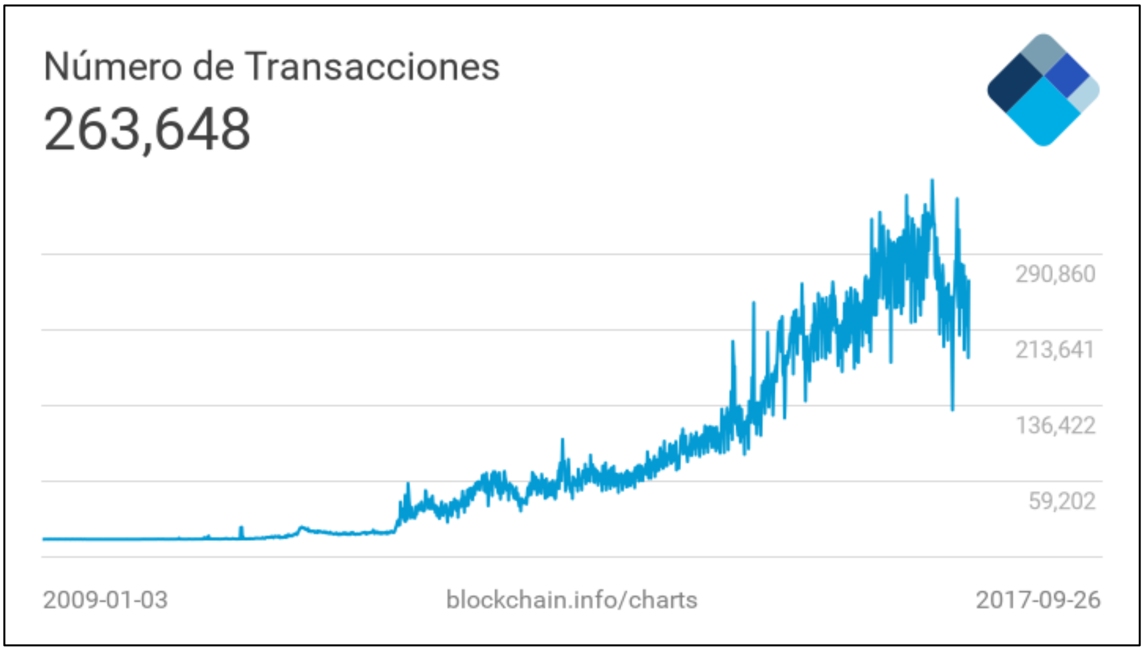
Considering the total number of transactions made in bitcoins, it exceeded 200 million transactions in 2017 (Figure 3).



Source: https://blockchain.info/es/charts (Accessed in 28 September 2017)

Figure 3: Total Number of Transactions

Since 2016, the bitcoin daily transactions are very representative, and it tend to exceed 200,000 transactions per day, and more and more companies accept bitcoins as payment both for online payments for those made in physical stores through the use of application phones (Figure 4).



Source: https://blockchain.info/es/charts (Accessed in 28 September 2017)

Figure 4: Bitcoin Daily Transactions

3. Literature Review: The relevance of Bitcoin

The literature devoted to Bitcoin is relatively small and a complete and systematic study on it is lacking.

The study of Baur, Hong and Lee (2016) concludes that bitcoin presents a minimal risk to financial stability, since its main function is purely speculative. Certainly the crypto currency is now more popular than gold among investors and even its price exceeds the precious metal. However, increasing significantly bitcoin acceptance on a global scale could have a significant impact on monetary policy as the decentralized and independent nature of criptomoney difficult regulatory oversight. In short, accordin to Swift Institute's study, bitcoin will not displace traditional coins. However, when Argentina was drastically depreciated its currency, bitcoin was very well accepted. In the case of increased demand for bitcoins in Greece was also emphasized during his bank bailout because his population began to distrust the euro. Something similar is happening in India and China. Similarly, more recently in Venezuela has increased the interest in bitcoin due to the devaluation of its currency.

In fact, in many cases, the digital currency allows the channeling of national currency outside the country or, in other words, allows capital flight. Thus, the authorities of some countries try to contain its use.

In addition, the prestigious Swift Institute has shown that fiduciary coins move the bitcoin and not vice versa. At the same time, is admitted that the electronic money could represent a future challenge for the banking system, although the bank itself is already alerted.

The electronic money, like bitcoin, allows increasing the number of transactions at a global dimension between several types of users for several proposes. In accordance with monetary policy, if central banks adopt the bitcoin (as an example of electronic money) and a source of money, performing the functions of currency, it can play an important role in monetary policy, either positive or contrary.

4. Legal Framework

The independent nature of the bitcoin conditions which cannot be subject to any financial institution and therefore defines its incompatibility with the Deposit Guarantee Fund. In addition, it does not legally guarantee the convertibility of these currencies. In short, the lack of clarity about the applicable legal framework in case of possible incidents makes its users are exposed to considerable risks.

In any event, it should be noted that, under the judgment of the Court of Justice of the European Union (Fifth Chamber) of 22 October 2015, the following two articles are interpreted: 1 and 135, paragraph 1, of Directive 2006/112 / EC of 28 November 2006 on the common system of value added tax. In turn, that court ruled that bitcoin be treated as a means of payment (not as an element of exchange), who's exchange for conventional currency is exempt from VAT, thus requiring all member countries to be bound by this interpretation. However, if the bitcoin used as currency to exchange for a product or service, itself would be subject to VAT.

In another sense, if the purchase and sale of Bitcoins a profit is obtained, an inheritance gain would be considered and therefore would be taxed on the income tax of the Individual (income tax) in the section corresponding to savings income. Represent a future challenge for the banking system, although the bank itself is already alerted.

5. Conclusions

Bitcoin is a future challenge from the regulatory economy perspective. Although bitcoin is not yet widely accepted around the world, the situation may change soon given the rising trend in demand. Probably, if its use has become widespread, its market value is stabilized. In any case, it seems that there are geographical differences. Generally, a considerable increase in the demand for bitcoins is observed in countries whose official currency tends to depreciate.

However, the widespread use of bitcoins would mean a change in the international monetary system since this virtual currency is outside the scope of monetary policy. Therefore, it is assumed that a hypothetical scenario of massive use of such crypto currency would wrestle with appropriate legislative measures against them.

In short, without the support of the authorities of all countries, it seems unlikely that bitcoin will completely replace conventional fiduciary moneyins is in countries whose official currency tends to depreciate.

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