Bitcoin may not last, but blockchain could be the real deal

Economist Nouriel Roubini, aka Dr. Doom since he predicted the 2008 financial crisis, called it “the mother of all bubbles.” The head of the Royal Bank of Scotland, Sir Howard Davies, invoked Dante’s Inferno to warn investors off it. JPMorgan Chase CEO Jamie Dimon flat-out called it a “fraud” – at least initially.

The target of this opprobrium was bitcoin, the oldest and most popular of the more than 1,300 so-called cryptocurrencies that were created to provide a globally accepted means of payment that is anonymous, untraceable and outside the purview of governments and banks. Given bitcoin’s anti-establishment roots, it’s no surprise that the financial elite don’t much like it. But the more threatened bankers have felt, writes SAGE Business Researcher freelance correspondent Pat Wechsler in her new report, the more bitcoin devotees have basked in its success.

Certainly, 2017 was bitcoin’s coming-out party, as it soared from $1,000 at the start of the year to top out at $19,783.21 on Dec. 17. The cheers subsided just one month later, after it lost 40 percent of its value. And bitcoin’s rise has spawned a bevy of cryptocurrency imitators, many of them on their own thrill rides.

Bitcoin’s roller coaster performance illustrates how volatile and vulnerable to market manipulation unregulated, closely held commodities can be, Wechsler writes. Relatively few people own bitcoin: 40 per cent of the global supply is in the hands of a mere 1,000 investors. On top of that, the writer notes, the promise of anonymity attracts some rather unsavoury characters – drug and arms dealers, blackmailers, terrorists – who might not be the most ethical of traders.

If all this makes you nervous, it probably should. Even the creator of bitcoin competitor Ethereum, Vitalik Buterin, warned his Twitter followers in February about the uncertainties: “Reminder: Cryptocurrencies are still a new and hyper-volatile asset class, and could drop to near-zero at any time.”

So why are some rather serious people taking a long look at bitcoin and its imitators? A large part of the fascination is based on the so-called blockchain technology that underlies bitcoin. The blockchain is a public digital ledger run on a computer algorithm that monitors and reconciles all bitcoin transactions and protects the network from hackers by virtue of its transparency. The technology allows bitcoin to remain free of government regulators, central banks and big financial institutions. “Cryptocurrencies place their trust in code, not in God, and certainly not in the state,” Wechsler writes.

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This goes a long way toward explaining the institutional hostility, according to Marc-David Seidel, a professor of entrepreneurship at the University of British Columbia. In a report for the World Economic Forum, Seidel wrote that blockchain "can distribute power away from centralized institutions to those that traditionally have less power. … Institutions do not let go of their influence easily."

At the same time, the potential power of blockchain makes it highly attractive to some of those same institutional forces. The Bank of Canada has created a project, complete with a cryptic codename ("Jasper"), to examine blockchain's uses. The bank's governor, Stephen Poloz, called blockchain technology "a true piece of genius." Robert Shiller, who won the Nobel Prize for economics in 2013, told this year's Davos conference that he was impressed with bitcoin's technology, if not the currency itself. Some experts even view blockchain as a skeletal outline for a new internet, one less vulnerable to hacking.

And that sky-high potential has led to some rethinking: In January, even JPMorgan's Dimon expressed regret over his fraud comment and said that while he still isn't a fan of bitcoin, his own bank was investigating the uses of blockchain. It isn't alone, with industries from health care to transportation looking for ways to incorporate it.

That bifurcated view may foreshadow how things play out in the end, Wechsler writes: "Bitcoin may turn out to be the Netscape of cryptocurrency: an adventurous pioneer that changed the landscape but then lost momentum to faster-reacting and innovative competitors. … There is no guarantee it will be around to witness all of the commercial and industrial disruption its technology is apt to spawn."

Notes:

- *This blog post is based on the report Bitcoin, on SAGE Business Researcher, by Pat Wechsler.*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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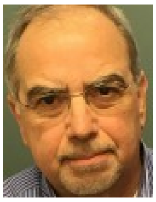

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