Challenges to the Rise of Bitcoins

Why in news?

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- Bitcoin value hit yet another lifetime high of $6000 recently and is expected to touch $10,000 very soon.
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- While bitcoins have grown in popularity, its immediate and long-term prospects may not be too bright.
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What are the challenges?

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- **Volatility –** Volatility in trading price of Bitcoins indicate that it is not reflective of its fundamental value.
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- This is a sign that many bitcoin buyers purchase the currency solely for the purpose of gambling.
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- Accumulation by investors who are betting on its future potential as a standard medium of exchange is also a possible explanation.
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- But one will have to wait to know if this is true.
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- **Political Risks –** Rise of bitcoins is a serious challenge to national fiat currencies issued by central banks.
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- National currencies allow governments to easily tax their citizens by printing a fresh supply of money whenever they need it.
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- Bitcoin strikes at the root of this centuries-long government monopoly power over money held by governments.
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- As political risks are too huge, market-based currencies will either be discourage by governments or completely banned.

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What lies ahead?

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- When bitcoin will meet its end, is very hard to predict.
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- Its volatility in future might taper down if it survives for long.
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- Although, replacing national currencies is a far cry, it definitely has potential to survive as a medium of exchange on the fringes of the monetary system.
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What should be the policy towards Market Based currencies?

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- A free market for private money can bring in serious competition that can improve the quality of our monetary system.
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- This will either reign in inflation or make it more predictable.
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- Speculative frenzies can indeed occasionally occur in such markets, as they do in fiat currencies issued by central banks already.
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- But it is simply bad public policy to fully dismiss the market’s tremendous ability to regulate our money.
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Source: The Hindu

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