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Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Think Twice Before Regulating Bitcoins

03/08/2018

Jan Pieter Krahen: Regulation of cryptocurrencies may have unintended effects



Agustín Carstens, General Manager of the Bank for International Settlements (BIS), recently warned at a policy lecture hosted by SAFE (<https://safe-frankfurt.de/news-media/all-news/news-view/money-in-the-digital-age-what-role-for-central-banks.html>) in Frankfurt that cryptocurrencies may become a threat to financial stability if they should become more interconnected with the common financial system. Central banks and financial institutions were responsible for creating a level playing field for bitcoins with the same

risk and regulation as legal tenders, he stated. The call for policy intervention has been shared by many economists and lawmakers around the world. Cryptocurrencies, they argue, provide opportunities for criminal activities and have become a speculative bubble.

Despite reasonable worries one should not be too hasty to call for regulation on cryptocurrencies because it may well backfire - causing a danger to the financial system instead of preventing it. The reason is simple: Regulation creates a quasi-legal status. Once the regulation e.g. of Bitcoin got started at some place, it will likely go on until it would share somewhat similar rules as the national currencies. In this process, Bitcoin would become implicitly a legal tender. The tokens could then be used as quasi-currencies, and the originators of Bitcoins would applaud loudly as they indeed would hold a winning ticket.

Note that currently a Bitcoin has no real value. Its market price is merely a reflection of the expectations of market participants that one day in the future the Bitcoin token in fact becomes a legal tender. This is tantamount to a bet – on legislators and regulators intervening, allowing Bitcoin pioneers to walk away with the prize money, formerly called seignorage.

What is the lesson? We should leave the Bitcoin to its own devices. It may continue to exist for a while – as hope is last to die. If there is no future for the Bitcoin in terms of becoming a quasi-authorized legal tender, it will eventually disappear.


More on this topic: [spiegel.de/bitcoin-wir-sollten-die-kryptowaehrung-sich-selbst-ueberlassen](https://www.spiegel.de/bitcoin-wir-sollten-die-kryptowaehrung-sich-selbst-ueberlassen)
(<http://www.spiegel.de/wirtschaft/unternehmen/bitcoin-wir-sollten-die-kryptowaehrung-sich-selbst-ueberlassen-a-1196226.html>)

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