



EconoMag **Digital Currency**

by Alex Hurst

Hello and welcome to Economag from EnglishWaves Radio. At the same time as the financial crisis was sweeping through the United States, and then the world, something new appeared. On January 3rd, 2009, Bitcoin went live. Created by the mysterious Satoshi Nakamoto, whose real identity as an individual or a group still remains unknown, Bitcoin was the world's first decentralized digital currency.

Immediately a small number of websites began accepting the digital currency - which could be "mined" by powerful computers crunching equations, the same way prospectors used to flood the California hills to mine gold. And slowly, and then extraordinarily quickly, Bitcoin's value began to skyrocket, going from 30 cents per Bitcoin in 2011, to a peak of \$1242 in November, 2013.

That rapid surge upward, the bubble, is partly why Bitcoin has not yet succeeded as a real currency. Social science and philosophy make this differentiation between material facts and social facts.

Take, the tulip for example. That it exists is a material fact - but its value, how much one person is willing to spend to acquire a tulip, is totally dependent on the social meaning that we, as individuals and society, give to it. Today, a tulip isn't worth all that much. But in the 1600's, in the Netherlands, they quickly became some of the most expensive and valuable assets in the world. Why? For the simple reason that lots of people *thought* that other people *also thought* they were worth that much.

Unless we're talking about a barter and trade economy, where currency is real consumable things like food, then regardless of whatever medium is chosen to serve as a store of value, it's ability to be a store of value is wholly dependent on the faith that people place in it. With fiat currency, this was part of the rationale behind the creation of central banks - having an institution that could guarantee the stability of the currency. Which is exactly what Bitcoin didn't have, in part because of the way it was structured. The volatility hurt Bitcoin, and the bubble popped, a victim of its own runaway success.

But did that spell the death of digital currency on a broader scale? Not if the Swedish Riksbank, the world's oldest central bank and the first one to introduce paper money, has anything to say about it.

Sweden has a somewhat unique situation, even among developed countries. Practically nobody uses cash. At all. In fact, the amount of cash in circulation in the economy dropped by 40% since 2009, the same time when Bitcoin was making its appearance.

The rise of a cashless economy is forcing the Rijksbank to confront some serious questions about how both a central bank, and a currency, can evolve in the future. Right now the Rijksbank is considering releasing an ekrona, a digital version of its paper currency, and confronting the questions that come with it. Would the currency be traceable, unlike paper, in order to combat corruption and the black market economy? Would individuals be able to have accounts with the central bank, the way that only commercial banks can today? At the moment, nobody has answers to all the questions. But it's highly likely that within the near future, we'll find out.

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