

Digital Currencies – The Threats and Promises

Wednesday, February 9 at 3 PM in the Lewes library

This past December's issue of foreign affairs magazine contained in article "America's Crypto Conundrum," which looks at the emerging Cryptocurrency revolution and raises serious questions about security and innovation. The author, Justin Muzinich, ends his article with the conclusion: "Most Americans want their government to be able to respond to economic downturns, to prevent broad financial instability, and to fight terrorism and other types of crimes. But most also wished to benefit from the innovative potential of new technologies such as digital currencies. Both these things can be achieved only with common sense guardrails and, ultimately, through a digital dollar or a properly regulated private sector alternative. Decisions about the government's control of money must be shaped not just by software developers but by elected representatives who are accountable to the American people."

The February 9 Topical Essay will be a conversation about an evolving revolution in the financial marketplace most of us have heard about but few of us have seriously investigated. Cryptocurrency is defined by the Oxford dictionary as "a digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority." The conversation during the seminar will be focused on first understanding Cryptocurrencies and then considering their implications in the marketplace. It is not a discussion on the merits of investing in currency like Bitcoin, although you can make your own decisions about that based on the material from the seminar. In preparation for our discussion, this document will act as a guide to a better understanding of digital money and financial transactions. After we have a basic understanding of how Cryptocurrencies work, we will then have the discussion about the consequences of such a financial system on the world market. The article from December's Foreign Affairs magazine, "America's Crypto Conundrum", will center our discussion and is also attached to this email.

To avoid confusion about this topic, it is recommended that you follow the sequence below.

- Let's start with a brief video that explains generally what is Cryptocurrency. The video presenter will explain concepts such as: Bitcoin, blockchain, a ledger, Bitcoin mining, open traceable transactions secured by cryptography, Cryptocurrency as investment, types of Cryptocurrencies, and the development of non-fungible tokens(NFTs). [Video - https://www.youtube.com/watch?v=rYQgy8QDEBI](https://www.youtube.com/watch?v=rYQgy8QDEBI)

As you can see from the video, blockchain technology plays a central role in the managing of Cryptocurrency. Blockchain is defined by the Oxford dictionary as "a system in which a record of transactions made in Bitcoin or another Cryptocurrency is maintained across a large number of computers that are linked in a peer-to-peer network."

- To better understand blockchain please review the following video. <https://www.youtube.com/watch?v=3xGLc-zz9cA>

When discussing Cryptocurrency, blockchain is a specialized type of open ledger, open to all in the specific community. For example, each person participating in Cryptocurrency has access to this open ledger. Transactions are initiated using your own personal Cryptocurrency wallet. To maintain the integrity of the ledger, members can engage in mining, for which they receive rewards.

- The third video to watch explains Stablecoin
<https://www.youtube.com/watch?v=GssSLDzKCOE>

Stablecoin is an attempt to make a Cryptocurrency that is not volatile. Its value is pegged to the value of a real world currency like the U.S. dollar. The article from the Foreign Affairs magazine (attached to this email) will explain this in more detail.

- After becoming generally familiar with Cryptocurrency, please read the article “America’s crypto conundrum” attached to this email. To highlight some of the main points of the author, consider the following issues he raises:

Digital currencies are driving tremendous innovation holistic economics sectors more efficient. But they also pose various financial threats and could even diminish U.S. influence abroad.

The software associated with Cryptocurrency reflects a particular policy view that government should have less control over money. This has the benefit of lowering the cost of transactions, however, it undermines the ability of authorities to respond to economic crises and fight financial cybercrime.

On the one side of the debate, opponent see digital currencies as mainly tools for illicit finance and call on government to limit or to ban all private-sector coins. On the other side, the evangelists see digital currencies as revolutionary, with its fate to be determined by private markets.

The author believes that the United States needs a public policy framework that drives the marketability to innovate without sacrificing the government’s capacity to perform essential functions.

While the United States is acting very slowly, countries such as China are curtailing the use of private currency and calling for the development of sovereign digital currencies (Stablecoin). Such sovereign digital currencies are validated by the central banking system.

Private digital currencies rely on block chain technology to settle accounts between users. This eliminates the need for central banking systems such as the U.S. Federal Reserve.

One of the biggest risks posed by Cryptocurrencies is that they could weaken the U.S. Federal Reserve’s ability to set monetary policy. If Cryptocurrency gets large enough it could become a common enough medium of exchange that it puts a meaningful portion of the monetary supply beyond government regulatory control.

One big problem with Cryptocurrency is its large variation in value. Bitcoin, for example, range in value from \$15,000 to a high of \$60,000 per coin. Another alternative in Cryptocurrency is Stablecoin, whose value does not change. Here again is a threat to the Federal Reserve setting monetary policy, as Stablecoins can set policy by changing the value of the coin itself.

There are also questions about what regulatory agency would best be responsible for oversight, a decision that must be made by Congress. There is also the question of liquidity of Stablecoin. For example, how much money, in terms of dollars, must be held in reserve to assure the viability of the Stablecoin.

Unlike bank accounts, most digital currency ledgers do not require any identifying information beyond a cryptographic key. This makes illicit activity much easier, even though anonymous flows can be tracked

on a blockchain ledger that occasionally facilitates recovery from criminals. Policymakers must deal with this issue.

The author believes that the United States must consider the risk to the international role of the dollar if it does not launch its own digital dollar.

Prepared by Aram Terzian