

Re: Bitcoins as Bubble, or Not

Writes Pete Earle:

I don't know if Bitcoin is in a bubble or not. I gave a few reasons for and against the idea here and voiced other concerns here, but in the final analysis it doesn't matter.

It doesn't matter because individuals choose to get involved with Bitcoin; unlike dollars, pounds, euro, or the yen, they're not born under it, nor is it imposed upon them. Therefore the only people who'd be hurt by the bursting of any such bubble would be individuals holding Bitcoin. Individuals, that is, who consciously chose first to convert their paper currencies to BTC, and then to hold them in BTC.

That, of course, is one of the core virtues of a decentralized, non-fiat medium of exchange: not only isn't it controlled by the state, but it doesn't – it simply cannot – act as a conduit for risk and/or an agent of destructive contagion in the way that monopolistic, government-issued currencies can and do.

But because BTC serves no state, any crashing of values or internal dislocation will most assuredly not be met with taxpayer-funded bailouts or legally-imposed strictures of forbearance...as it should be. (Cyprus-styled heists are obviously not practicable.) Neither, I suspect, will brick-and-mortar, "dollar world" courts hear cases about Bitcoin-related losses, errors, or promises unfulfilled. Individuals who get burned in the Bitcoin economy will have to either start from scratch with a fresh quiver of learned lessons or discard them to return to the overarching, politically-driven economic system.

If a large, adverse blow were dealt to Bitcoin's embryonic financial system, we'd find that conditions are in place which both mimic and leverage the robustness of the Wildcat Banking era. Here, in a

dimensionless digital space, are the echoes of a libertine time during which, owing to the absence of interventionism, regulatory webs and central banking, economic decline, not growth, was the ringing exception to the rule; panics were harsh, but infrequent and highly localized; and commercial recoveries took time but were genuine, long-lasting and resulted in a stronger system than that which was previously in place.

Great points.

Skyler.