Forbes

The Bitcoin Bubble That Wasn't

By Timothy B Lee – February 28, 2013

The first post I ever wrote about Bitcoin was in April 2011. At the time, the crytpocurrency had recently surpassed parity with the dollar. I declared it a bubble, predicting that it would never displace conventional currencies, and that therefore it could never achieve a stable value. Over the next two months, the value shot up to almost $32. Then it crashed, eventually hitting a low of $2 in late 2011.

Most people, including me concluded that Bitcoin was a fad whose moment had come and gone. We expected its value to continue declining indefinitely.

But then the value started rising again. I found this intriguing; people must really believe in a currency if they were willing to buy in after seeing its value decline from $32 to $2—and evidently there were hundreds of people willing to do so. I started to wonder if they had seem something I had missed. In December 2011, I argued that Bitcoin serves as a kind of metacurrency. It's not very useful for conventional commercial transactions—cash or credit cards are better for those—but it's a useful way to move value around in circumstances where conventional financial networks don't work well. Illegal transactions like drugs and gambling are one example. International wire transfers could be another.

I became sufficiently optimistic that I bought some Bitcoins of my own in January 2012, when the currency was worth around $7. As I said a couple of weeks ago, I wasn't sure exactly what would turn out to be Bitcoin's "killer app," but it's a sufficiently interesting technology that I thought it would likely have one. Its value has steadily climbed since then. It surpassed $32 on Wednesday and is now above $33.

So in hindsight, the people who bid the price of Bitcoins up to $30 in 2011 may not have been so crazy after all. It just took the broader market, including me, a couple of years to catch up with them.