Bitcoins And Bolivars: Two Hot Potatoes

Steve H. Hanke

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It was just a little more than a decade ago when "Satoshi Nakamoto" ushered in what has become the era of private cryptocurrencies. Nakamoto's vision was clearly laid out in a whitepaper: "Bitcoin: A Peer-to-Peer Cash System."

Nakamoto's bitcoin money machine—or as Larry White refers to it: a private "algorithmic central bank"—was going to wipe out the inflation risk and the accompanying loss of purchasing power that plague fiat monies issued by government-controlled central banks. Alas, bitcoin's source code that predetermines its supply is set on a fixed-quantity path that is unresponsive to changes in demand. In consequence, bitcoin inhabits a demand-supply space in which supply is almost perfectly inelastic. So, to reach a demand-supply equilibrium, all the adjustment falls on the back of bitcoin's price (read: purchasing power). As a result, bitcoin's price is inherently volatile and unstable. Indeed, small changes in demand in the face of an inelastic supply create a price volatility storm. Furthermore, unless more demand can be attracted to bitcoin, there is no reason why its price should trend upwards, as many have been led to believe. If speculation wanes, bitcoin's price could trend downwards. Indeed, bitcoin's design guarantees volatility, which inhibits its widespread use. In short, it is very risky to hold bitcoins or accept them for deferred payments.

Since bitcoin is such an unstable unit of account, it should be viewed as a speculative asset, not a currency. Some equally unstable units of account are considered currencies simply because they are issued by central banks and are legal tender. The Venezuelan bolivar is but one example.

This raises a question: if you had to be paid for a day's hard work in bitcoins or bolivars, which would you choose? In 2018, that would have been a tough question to answer. Indeed, the value of both assets made a race to the bottom of the barrel.

Twenty years of socialism and scandalous central bank policy in Venezuela produced an annual hyperinflation in Venezuela of 80,000%/yr at the end of 2018. When compared with the U.S. dollar, the bolivar lost 99.87% of its purchasing power in 2018. The bolivar was totally wiped out. It is no surprise that Venezuelans treat the bolivar as if it were a hot potato.

Bitcoin's decentralized public ledger and leaderless source code were supposed to have solved the problems thrown up by central banks, like Venezuela's. But, crazed speculators pumped bitcoin's price up to a high of $20,000 per bitcoin in December 2017 before it plummeted to under $4,000 by the end of 2018. Like the bolivar, Bitcoin was a hot potato, too.

Faced with two hot potatoes, what would you do? In a weekend op-ed in the *New York Times*, Carlos Hernández, a Venezuelan, reported that, for him, the bitcoin has been less hot than the bolivar. And, he is not the only Venezuelan who harbors those sentiments. Aside from Russia, Venezuela accounts for the second largest volume of bitcoin trading in the world.

The title of Hernández's op-ed is "Can Bitcoin Save Venezuelans?" To this question, Hernández answers in the affirmative. In doing so, Hernandez recounts how he uses bitcoins. One might ask, how does he convert one hot potato, bitcoin, for another, bolivar, so that he can buy milk? To do this, Hernández uses a peer-to-peer electronic trading platform. In his case, he uses LocalBitcoins.com. But, there are other platforms, such as Airtm, where I serve as a member of the Board of Directors.

What Hernández and other crypto-enthusiasts miss is that it isn't bitcoins or other cryptocurrencies that are going to save Venezuela. Instead, it is peer-to-peer electronic trading platforms that join buyers and sellers in free exchange that will mitigate the pain of the Venezuela's hyperinflation. These allow holders of hot potatoes to freely unload them for real money that can be used to purchase real things.

To demonstrate the value of peer-to-peer platforms and how they can transform non-currency cryptos into real money and increase the demand for cryptos, I and my colleagues at Airtm have embarked on the AirDrop Venezuela Campaign. Our goal is to raise $1 million and transfer it to 100,000 qualifying Venezuelans. The modalities are simple. Donors gift cryptos to the Airdrop. These are distributed to the "wallets" of Venezuelans registered on the Airtm platform. Then, the Venezuelans will have a choice: Do they speculate on the value of the cryptos and retain them? Or, do they offer them for sale on Airtm's platform, where they can be exchanged for real money, such as U.S. dollars?

By Steve H. Hanke

www.cato.org/people/hanke.html

Twitter: @Steve_Hanke

Steve H. Hanke is a Professor of Applied Economics and Co-Director of the Institute for Applied Economics, Global Health, and the Study of Business Enterprise at The Johns Hopkins University in Baltimore. Prof. Hanke is also a Senior Fellow at the Cato Institute in Washington, D.C.; a Distinguished Professor at the Universitas Pelita Harapan in Jakarta, Indonesia; a Senior Advisor at the Renmin University of China's International Monetary Research Institute in Beijing; a Special Counselor to the Center for Financial Stability in New York; a member of the National Bank of Kuwait's International Advisory Board (chaired by Sir John Major); a member of the Financial Advisory Council of the United Arab Emirates; and a contributing editor at Globe Asia Magazine.