

More Bitcoin Bandwagoners & the Deflationary Rethink

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In today's Money Morning...no choice but bitcoin...the deflationist agenda...but that doesn't mean it has to end in disaster...and more...

It seems Tesla isn't the only one jumping on the **Bitcoin [BTC]** bandwagon this week.

In the wake of the most recent surge, both Mastercard and Bank of New York Mellon (America's oldest bank) have embraced crypto. Pledging to facilitate easier ways for their customers to buy, sell, and transact bitcoin.

News that helped push the price of this ever-growing asset to a new all-time high of US\$48,317.

Yet another sign of the growing institutional interest in this novel market, with the entire crypto community bustling with levels of optimism and potential not seen since late 2017.

Even more surprising though, was some of the discussion from Twitter CFO Ned Segal. Telling CNBC that the company is actively looking into how to handle cryptocurrencies. Confirming that Twitter has thought about adding bitcoin to its reserves. Possibly even paying clients or employees in bitcoin if they desire.

Like I said yesterday regarding the arguments for bitcoin as a currency, these kinds of initiatives will be the true litmus test.

Because once people are getting paid in bitcoin, then its price relative to any fiat currency will become less of an issue. Albeit, early adopters are bound to run into more issues than most. Just like any new technology.

The key takeaway though, at least for today, is that people are at least starting to consider it.

A small first step, but an important one, nonetheless.

No choice but bitcoin

Don't be surprised if this is a recurring trend over 2021 either.

I expect we'll see plenty of other large companies take the plunge into the crypto markets this year. Probably not so much to pay vendors or employees in bitcoin, but simply to find decent yields.

See, when it comes to these big corporations they usually have mammoth stockpiles of cash. Money that they can hold onto to either fund new ventures and innovations or save for a rainy day.

However, that doesn't mean they can't put this cash to use in the meantime either. With corporate treasuries often resorting to money markets to seek out small but impactful yields. Relying on modest interest on large sums of cash to grow their stockpiles ever higher.

The only problem in today's markets is that bond yields are at or close to all-time lows. With US junk bonds falling below the 4% mark for the first time ever earlier this week.

In other words, traditional money markets are barely worth the risk. Along with some of the lowest levels of interest rates across the globe we've ever seen.

For that reason, bitcoin and crypto is becoming an enticing investment avenue. Albeit with far greater risk and reward than corporate treasuries are used to.

But, putting aside the volatility for now, I want to talk about why, fundamentally, bitcoin is a great place to put your money. Because even with the speculative mania driving the price higher, bitcoin is built to increase in value over time.

The reason for this is because bitcoin is inherently deflationary.

A label that may spook some investors due to the negative connotations this term usually carries.

After all, we live in an economic system that revolves almost universally around inflation. A key tenet of the capitalist growth engine. Constantly eroding the value of money over time in order to spur investment.

But in recent years, this inflation paradigm has reached something of a breaking point. With the days of consistent and effective inflation seemingly long behind us. In fact, Central Banks are desperate to muster any sort of inflation they can — yet are struggling to do so.

Which is precisely why speculative assets like stocks and bitcoin are flourishing.

The deflationist agenda

Getting back to my main point, the reason why I and many others believe bitcoin is a great store of value is because it is deflationary.

There will only ever be 21 million bitcoin — total. Meaning that there is no means to print or create more out of thin air.

It is a scarce resource that can't be tampered with. Making it valuable in the same way that gold is valuable — at least to an extent.

To this end, bitcoin is a lot like the old gold standard. Back when currencies were backed by physical gold held by governments — making it impossible for central bankers to issue more dollars without mining more gold.

Therefore, making it deflationary.

And what I mean by this deflationary label, is that the value of gold backed currencies and bitcoin increased over time. Rather than decrease compared to our current inflationary fiat currencies.

For followers of Keynesian economics this no doubt sounds like a sure-fire way to economic ruin. With Keynes being a staunch opponent of deflation — suggesting it would spiral out of control.

As the Cato Institute put it:

'Keynesians told us that once interest rates got stuck at or near zero, economies would fall into a deflationary spiral. Deflation would lower demand, causing more deflation, and so on.'

The whole idea behind this 'spiral' is that people would hoard money in a deflationary system. After all, if the cash you hold today will be worth more tomorrow, why would you spend it, right?

Logically speaking, that does indeed make sense. And under a deflationary system I do believe that people would save more than they'd spend. But that doesn't mean it has to end in disaster.

What the Keynesians seem to ignore is the fact that people still have needs. Things like food, shelter, transportation, and security. All of which would still cost money in a deflationary system.

Therefore, while a deflationary currency — like bitcoin — would certainly lead to less demand in the short term, it would eventually reach a limit. A point where people are willing to part with their appreciating dollars for goods and services they need.

It may sound foreign and scary, but it may also be the solution we need to stop the rampant distortions we're seeing in today's economic climate. With monetary policy and central bankers now blatantly out of control.

For these reasons, I believe the bitcoin bandwagoning won't come to an end anytime soon. Because even inexperienced and ignorant people can see that our current system is failing a lot of us. Creating a system that benefits the wealthy and cheats the rest.

A system that is now even forcing some of these elites to have to accept the risks of bitcoin.

So, that's why you need to seriously look at what's at stake. Because bitcoin is more than just a speculative investment, it is a means to get whatever wealth you may have out of this rigged system.

And perhaps, one day, it may even be the tool for a far different, and hopefully fairer one.