



Adopting the Bitcoin standard? El Salvador writes itself into history books

Gareth Jenkinson

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The cryptocurrency space and wider economic community continue to laud a historic move by El Salvador to recognize Bitcoin as legal tender. The Central American country has become the first in the world to do so, and the move has also spurred a handful of other Central and South American countries to begin taking steps toward that same eventuality.

Unsurprisingly, the move has made waves in the cryptocurrency community, with Bitcoin (BTC) proponents, in particular, highlighting the significance of the legislative change in driving cryptocurrency adoption. There have been some critics who have highlighted potential coercive undertones of the law, which has added intrigue to the situation, but the overarching response has been positive.

Things have moved quickly in El Salvador following the announcement from the country's president, Nayib Bukele — which took place during the Bitcoin 2021 conference in Miami — that the country's congress would be voting on the new legislation. In the space of a few days, Bukele's plans to make Bitcoin legal tender became reality as the Salvadoran Legislative Assembly voted in favor of the new law on June 9.

The country's president took things one step further when he tasked state-owned electricity producer LaGeo to begin exploring the possibility of powering Bitcoin mining using the country's rich geothermal energy. No less than a day later, a new geothermal well had been drilled that Bukele said would power a Bitcoin mining facility in the near future.

The move was even immortalized on the Bitcoin blockchain by mining firm Poolin, which included a Salvadoran newspaper headline reading "asamblea aprueba la ley bitcoin," translating to "assembly approves the Bitcoin law," into block 686,938 mined earlier this week. This is reminiscent of Bitcoin's pseudonymous founder Satoshi Nakamoto including a Times newspaper headline reading "The Times 03/Jan/2009 Chancellor on brink of second bailout for banks" in the Bitcoin genesis block over a decade ago.

Bukele has also pledged to help Bitcoin users emigrate to El Salvador while touting the benefits of BTC no longer being subject to capital gains tax. As things move at breakneck speed in El Salvador, it's worth taking a look at the wider reactions from the cryptocurrency community and the reverberations of the newly passed legislation.

An overview of El Salvador's Bitcoin Law

El Salvador's congress voted to pass President Bukele's "Bitcoin Law," which recognizes Bitcoin as legal tender alongside the U.S. dollar, with 62 of a total 84 votes in agreement with the new legislation.

The law will allow citizens to pay for goods and services in Bitcoin, and Bukele also stated that the Salvadoran government will guarantee the convertibility of Bitcoin into dollars at the time of any given transaction.

This is made possible by a \$150-million trust established by El Salvador's Banesa development bank. In essence, the government will buy BTC from locals if they wish to receive dollars instead of BTC.

A point of contention is Article 7 of the legislation, which requires vendors or businesses to accept Bitcoin as a means of payment from customers, as it is now legal tender. Monetary economist and historian George Selgin raised important concerns over Articles 7 and 13 in a thread on Twitter, suggesting that they are coercive, in that they will force all Salvadoran merchants and companies to accept BTC as a means of payment.

Article 7 reads: "Every economic agent must accept bitcoin as payment when offered to him by whoever acquires a good or service." Article 13 states: "All obligations in money expressed in USD, existing before the effective date of this law, may be paid in bitcoin."

The renowned economist stated that the move was a "win for Bitcoin," but he questioned whether it was a "win for freedom," given that these articles will force Salvadoran businesses and vendors to accept BTC whether they want to or not. Selgin argued that Articles 7 and 13, which "qualify as 'legal tender' provisions," essentially "undermine free choice in currency instead of promoting it."

"This is a (relatively) rare instance of something being made compulsory tender not just in settling outstanding debts but in spot exchanges. As such it is even more contrary to the principle of choice in currency. Instead of merely allowing merchants to accept BTC in payment, article 7 compels them to do so even if they'd prefer to be paid in USD (or something else). Very few countries have such Draconian legal tender laws, which in the past were a last-resort of desperate governments."

The economist called for cryptocurrency and Bitcoin proponents to rally against and condemn these specific clauses in the law. His critique was widely shared and provides a healthy dose of perspective to a situation that has received a lot of positive press.

Wider community lauds El Salvador's move

While Selgin's arguments raise some poignant questions around El Salvador's new currency law, there seems to have been widespread positive sentiment toward the country's swift move to accept Bitcoin as legal tender.

Many prominent cryptocurrency and Bitcoin advocates have heralded the move as an important step toward more widespread adoption and acceptance of the preeminent cryptocurrency as a store of value and a means of payment. Paolo Ardoino, chief technology officer of Bitfinex, told Cointelegraph that he believes the move will serve as a major step in providing financial freedom:

“Bitcoin being accepted as a legal tender by El Salvador represents what we have said all along: Bitcoin has utility and is a viable alternative to fiat currencies. As we witness the implementation of digital currencies, I believe we will be seeing big steps for Bitcoin. This is a huge step for the financial freedom of humanity and a monumental moment for Bitcoin.”

Humayun Sheikh, CEO of Fetch.ai — a company building artificial intelligence for blockchain — highlighted the significance of first-mover advantage and suggested that countries like El Salvador will attract companies and individuals working in the cryptocurrency space, adding: “A handful of countries adopting Bitcoin or even buying Bitcoin to use as wealth reserves will increase their wealth and lend positive momentum to cryptocurrency adoption.”

Jeffrey Wang, head of Americas at Amber Group, echoed Sheikh's sentiments in his correspondence with Cointelegraph, highlighting favorable regulatory moves as a key way to attract cryptocurrency- and blockchain-focused businesses: “The biggest cloud that hangs over the crypto industry is the uncertainty of regulation, so moving quickly now to embrace it as a country can be a significant advantage to attract capital and talent to your country.”

Wang also said that swift changes being made in the country could serve as a real-life test case for Bitcoin being adopted as legal tender, and there is the potential for it to be the catalyst for the country to become a hub for cryptocurrency businesses to thrive:

“By embracing it early, countries like El Salvador can help boost their domestic economies by welcoming the industry starting with miners where they can use ‘clean’ energy which also addresses the environmental impact of the miners' use of electricity. It will also be a great early test case to see it [Bitcoin] used as a medium of exchange.”

Ardoino also highlighted the role that cryptocurrencies could play in helping Central and South American countries grapple with long-term economic problems that have plagued their currencies and people: “Bitcoin has resonated for the benefits that it may bring to the tragedy we've witnessed in South American economies. The potential it has to bring financial freedom to the region shouldn't be understated.”

What can we expect in the short term?

With the new Bitcoin Law passed in El Salvador, there is now keen interest in the short-term changes that will be felt in the country and beyond. Sebastian Ramirez, head of business operations at bitFlyer USA, told Cointelegraph that a large number of everyday individuals could

become less skeptical about Bitcoin and start looking at it as a viable alternative to their existing solutions and see it as a better store of value.

Ramirez also noted that the law change in El Salvador may remove some barriers to entry, like having to pay tax when using Bitcoin. He also conceded that the law change might not lead to an immediate shift in perception in the country and beyond:

“A significant majority of the population may still not feel savvy/comfortable enough to use Bitcoin and bear its risks. I don’t expect most locals will benefit from this change in the short-term, but as the space grows and Bitcoin becomes more stable, it will become a tremendous alternative.”

Wang conceded that there might be some teething problems, as vendors and businesses in the country still need to set up the necessary infrastructure to begin accepting BTC. Furthermore, people may be reluctant to spend their BTC on everyday purchases, given the cryptocurrency’s increased use as a store of value first and foremost: “I imagine for the majority, they hold BTC for the longer term potential price appreciation so spending it to buy bread today when it can double in a week will be too high an opportunity cost.”

IMF raises red flags

The speed at which El Salvador passed its historic Bitcoin Law has made it difficult for major financial and economic regulatory bodies to react or intervene. Nevertheless, the International Monetary Fund raised some concerns around the move in a press conference on June 10.

IMF spokesperson Gerry Rice stated that consultations will take place with the Salvadoran government. The IMF has been in talks with the country to provide over \$1 billion in financing: “Adoption of Bitcoin as legal tender raises a number of macroeconomic, financial and legal issues that require very careful analysis. So, we are following developments closely, and we’ll continue our consultations with the authorities.”

Some in the global community have also posed questions around the timing of Bukele’s move to swiftly adopt Bitcoin as legal tender alongside the U.S. dollar, which has served as the Central American country’s reserve currency since 2001.

Ramirez gave his opinion on the timing of the move: “The main reason here is the race to become a Bitcoin hub in Latin America.” He added, “This announcement is putting El Salvador on the map and attracting a lot of foreign interest, which applies pressure on other Latin American countries who don’t want to be left behind.”

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Sheikh believes that “As a PR move, the timing was probably set to accommodate the Bitcoin Miami conference.” He further suggested that timing could also factor in ongoing developments in China, where the government is beginning to take a harder line toward Bitcoin mining operators:

“The news comes at a time of a clampdown of coal-based mining operations in China and a surplus of mining hardware that needs to be relocated. With its abundance of renewable geothermal energy, El Salvador stands to benefit from these developments and improve the image of Bitcoin mining as a ‘dirty’ process.”

Nevertheless, all eyes are now on El Salvador and Central America. The country is laying the foundation for the adoption and widespread use of Bitcoin as means of payment and has promised to build essential infrastructure to facilitate large Bitcoin mining operations powered by clean geothermal energy.