

# Bitcoin's dilemma: go mainstream, or stay radical?

September 3 2013, by Jonathan Levin

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Burning a hole in your virtual pocket. Credit: zcopley

Bitcoin enthusiasts and libertarians the world over are in a state of confusion about the slowness with which the outside world is catching on to their new way of exchanging money. But regulators and lawmakers are now, very gradually, realising they need to do something about this growing beast, even if they don't quite know what that something is.

Bitcoin is at an awkward teenager stage. The adopters are unsure which direction the currency should take. Those with a rebellious streak shun the physical coin and want to develop new protocols that make Bitcoin more anonymous and more distinguished from mainstream finance. The well-raised opportunists, on the other hand, are starting businesses and seek recognition from the bigger, older financial system. The hope of these ambitious entrepreneurs is that regulators will step in and ensure that they can secure funding and legal status to operate as legitimate businesses. If the latter succeed, Bitcoin will mature into a new alternative system that will have a place alongside our existing financial infrastructure. If the former succeed, we could see more dramatic technological innovations that attempt to challenge our wider societal architecture and relations.

While the rebellious developers can operate much like a punk band, [playing music](#) they love in cramped spaces, the entrepreneurs must engage with [financial institutions](#) and regulators in order to achieve their goal for the currency. In the US, Bitcoin companies have joined forces to display their commitment to self-regulation in a bid to influence the regulatory process. A new group, called the [Data Asset Transfer Authority](#) (Data), will develop a self-[regulatory framework](#) and liaise with law enforcement in Washington.

Traction with big financial and regulatory institutions has not however been a resounding success thus far. In the US and UK, Bitcoin entrepreneurs have faced a challenge proving that the currency is a large enough phenomenon to merit the attention of policymakers. It has caught the eye of some regulators but largely for the wrong reasons. In New York there is a pending investigation into the potential uses of Bitcoin by drug dealers and gun smugglers. There is little in the way of geographic and usage statistics to prove its credibility as most transactions are still anonymous on the public ledger. Some progress has been made in Germany, where Bitcoin took a step towards recognition

last week by being given the status of "financial instrument". For the community, a definition marks the beginning of defining the rules of the game. There is some guidance regarding tax compliance but it is not yet clear how this would be implemented.

To have a tax system that is fully compliant with capital gains and sales taxes in Bitcoin would be technically feasible but it would come at a large cost to the tax authorities. The regulation most likely to appear in the short term is an anti-money laundering initiative to ensure that people buying and selling Bitcoins have to reveal their personal information when converting into and from national currencies into Bitcoin. This in itself is also problematic from a regulator's perspective. It only provides an incomplete regulatory framework. Unlike the financial system, where actors are members of the exchanges and subject to their own regulation, private individuals with access to coinmixers (nodes on the bitcoin network that add anonymity) and other anonymous wallets would not come under any such regulation on virtual currency exchanges.

The noises coming from the hackerspaces are difficult to tune into. Hardware innovation has been one of the loudest sounds along with the creation of new alternative currencies and protocols layered on top of Bitcoin. The developers work in small teams; designing new services and extensions to Bitcoin and ultimately determining the future of the currency. In the past decade the financial establishment has offered lucrative contracts to technically able computer scientists and hackers. Now they have a political message and a community to rally behind. The existence of cryptographic currencies may ignite the passion of the young hackers who will now be able to shun the money being offered by the existing system and go off and create a real alternative. As Bitcoin edges closer to the mainstream, it seems less and less likely that it could be the poster girl for this genre of innovation.

If the teenage band gets signed on a mainstream label then it will inevitably stray into more commercially minded territory. However, if the managers of the labels are not listening closely or do not like what they hear, perhaps this period of underground innovation will continue. In the music industry, punk musicians often depend on pop music to provide the investment in services and technology to reach the public. The bitcoin community, in its teenager stage, depends on all of its users, no matter what their political alignment, because as yet there is no mainstream label.

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