

Explainer: Bitcoin's possible financial panic

July 14 2017, by Ryan Nakashima



In this Monday, April 7, 2014, file photo, a man enters the Inside Bitcoins conference and trade show, in New York. A civil war between the techies that run bitcoin could cause significant disruption of the digital currency by the end of July 2017, possibly leading to wild price swings, transaction delays and even outright losses. It's all about differing visions over whether and how quickly to adapt bitcoin for wider use in commerce, as opposed to merely serving as a speculative asset like gold. (AP Photo/Mark Lennihan, File)

Anyone holding the digital currency bitcoin could soon face some unsettling problems—up to and including financial losses, whipsawing

prices and delays in processing payments.

Though it's also possible that nothing much may change. It all depends on whether the people who maintain bitcoin can agree by July 31 to implement a major software upgrade—one designed to improve capacity on the increasingly clogged network.

Not everyone is on board. In particular, some bitcoin "miners," who are rewarded for verifying transactions, aren't supporting the changes. Any split between miners and others who use bitcoin, including a number of startups and a few big companies, could cause a panic in the \$39 billion bitcoin marketplace.

Here's a look at the current dispute.

WHAT IS BITCOIN, AGAIN?

Bitcoin is a digital currency that's not tied to any bank or government . Like cash, it lets users spend or receive money anonymously, or mostly so; like other online payment services, it also lets them do so over the internet.

The coins are created by computer farms that "mine" them and verify other users' transactions by solving complex mathematical puzzles. Miners receive bitcoin in exchange. It's also possible to exchange bitcoin for U.S. dollars and other currencies.

Bitcoin has been touted as a currency of the future, but so far it hasn't proven very popular as a way to pay for goods or services. Its price, however, has soared amid the uncertainty. Bitcoin prices peaked in June above \$3,000, and while it's fallen back to around \$2,300, that's still

more than triple what it was a year ago.

SO WHAT'S THE FUSS ABOUT?

In a word, speed.

The bitcoin network is limited in how quickly it can shuffle around digital money. As bitcoin has grown, payment delays have become more common and worrisome.

Some software developers came up with a new way to speed things up by reengineering bitcoin's universal ledger, a file called the blockchain. Supporters of the new method include Microsoft, the bitcoin exchange Coinbase and a variety of other bitcoin proponents who would like to see the currency used more widely in commerce.

But this bitcoin software update doesn't have unanimous support.



In this Thursday, March 20, 2014, file photo, Christopher David uses a Robocoin kiosk to sell bitcoins outside of the 500 Startups' Bitcoinference in Mountain View, Calif. A civil war between the techies that run bitcoin could cause significant disruption of the digital currency by the end of July 2017, possibly leading to wild price swings, transaction delays and even outright losses. It's all about differing visions over whether and how quickly to adapt bitcoin for wider use in commerce, as opposed to merely serving as a speculative asset like gold. (AP Photo/Jeff Chiu, File)

WHAT HAPPENS ON JULY 31?

The reformers say they've run out of patience, and so have set a deadline for moving to the new system.

At 8 p.m. Eastern time on July 31, they're threatening to stop recognizing transactions confirmed by miners who haven't adopted the upgrade. That would create enormous uncertainty in the bitcoin

economy, since no one could really know if the bitcoin they'd just paid (or received) was actually moving through the system the way it's supposed to.

Some big bitcoin miners—like Chinese bitcoin mining equipment giant Bitmain—haven't signaled support for the new system. A rift could result in two or even more incompatible versions of bitcoin.

WHAT WOULD THAT MEAN?

Generally speaking, chaos—though mostly limited to those who use or squirrel away bitcoin. No one using bitcoin could be sure which version they held, or what might happen if they spent it or accepted bitcoin as payment.

Taking bitcoin, for instance, could leave you with currency you couldn't spend freely—and that might disappear entirely if it ended up being the "wrong" kind.

That's one reason the community-supported website Bitcoin.org warned users Wednesday not to accept any bitcoin up to two days prior to the deadline and to wait for confirmation the situation had been resolved before trading again.

"It's a rather awful situation," said David Harding, who posted the warning for Bitcoin.org, in an email.

WHAT'S BEHIND THIS FIGHT?

Money, of course. Some companies that pool miners together believe the new system could result in lower transaction fees, cutting into their profits. At the same time, the reformers foresee new business opportunities in a faster, more reliable form of bitcoin.

Samson Mow, chief strategy officer at blockchain developer Blockstream, said the looming showdown has been propelled by [bitcoin](#) users frustrated at having a "simple bug fix" blocked by miners out for profit.

"People are fed up," he said. "The users are taking back their voice."

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