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Four perspectives on bitcoinmania

By Penny Crosman
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In a few days in late December, the price of bitcoin soared to almost $20,000, then dropped to $12,000.

The sudden surge and rapid downfall predictably turned into a media frenzy and social media free-for-all.

“My barber said his brother-in-law was investing everything in Bitcoin, and asked me if he should too. This will not end well,” wrote New York Times columnist Paul Krugman.

Goldman Sachs is set to open a trading desk for cryptocurrency next year, a sign of how bitcoin's dramatic rise in value has attracted Wall Street

For those who bought bitcoin way back in January, when it cost $700, they are unlikely to complain. The floor has not yet fallen out of the market and one analysis showed bitcoin gets a price correction once per quarter.

There are at least four ways to look at the ongoing volatility:

It’s a bubble

“One of my students told me his Uber driver told him how much he’s investing in these cryptocurrencies,” said New York University professor Bernard Donefer, an adjunct associate professor of information systems and a fellow at the Center for Digital Economy Research. “If that isn’t a sign of a bubble, I don’t know what is.”

In Donefer’s view, referring to the book "Extraordinary Popular Delusions in the Madness of Crowds," which was written in 1841 and talks about tulip mania, “if you replace the word ‘tulip’ with ‘bitcoin,’ it reads just fine.”

If everyone tried to cash in their bitcoin at once, it could crash completely, he said.

“If I buy a bond, I know I’ll get my money back,” he said. “I can price the asset based on its return. If I buy a stock, I get dividends and if the company earns more money, the value of the company goes up and I have a piece of that company, I own a piece of stock, I have something tangible. If I buy gold or silver or any other commodity, while I don’t have a dividend or income stream, it’s something that has commercial value in the market.”

Bitcoin, on the other hand, has none of these features.

“There is no commercial value, there is no income stream,” Donefer said. “It’s only worth something because somebody says that’s what it’s worth. This just looks like the greater fool theory writ large.

“We’re playing musical chairs. When the music stops, there will be a lot of people without chairs to sit in.”

Donefer sees more value in other cryptocurrencies like Ethereum, whose smart contracts have value, and Ripple’s XRP, which is used for multicurrency transactions.

But bitcoin he compares to baseball cards or beanie babies, which have little intrinsic value.

It’s a fraud

In September, JPMorgan Chase CEO Jamie Dimon called bitcoin a “fraud” that “won’t end well.” He also said he would fire any trader who traded in it.

In a more recent column, industry observer Christopher Whalen wrote: “Stripped down to its basic elements, bitcoin is a classical fraud, a form of high-tech gaming that has captured the imagination of millions of greedy and gullible people around the globe. Participants exchange a legal tender dollar or some other real asset, for example, for a share of the limited supply of bitcoins at whatever the current price may be at the time. The participants exchange something for nothing — namely bitcoin, which have no intrinsic value or yield, but which trade over the world of ethernet, outside of the regulated world of banks and financial payments.”

It’s a commodity

Several exchanges, including the Chicago Mercantile Exchange and more recently E-Trade, have begun allowing bitcoin futures trading. This has contributed to the spikes and correction in bitcoin’s price.

“New York State financial regulators and the IRS say bitcoin is a digital commodity, so it’s a crypto commodity,” said Lee W. McKnight, associate professor in the School of Information Studies at Syracuse University. “It’s a store of value and a hedge in uncertain times. Look at the current political and climate and who’s president. There’s a lot of uncertainty and market hedging.”

Some banks are already beginning to treat it that way. Goldman Sachs revealed plans on Thursday to begin buying and selling cryptocurrencies like bitcoin as early as June, though many details remain to be worked out.

It’s a digital currency

Bitcoin devotees believe it is the future of currency. Some believe governments are corrupt and willing to devalue their own currency, so there’s a need for a digital currency that could withstand their actions.

“The utility of bitcoin and cryptocurrencies in general does not depend on their price in fiat,” said David Mondrus, CEO of Trive and the first person to ever be married on a blockchain. “They represent an escape from the current financial regulatory regime that has reduced the $1 purchasing power by 95% over the course of one lifetime.”

Steve Gordon, professor of information technology management at Babson College, expects some cryptocurrencies, not necessarily bitcoin, to be accepted as currency.

“I would not be surprised to see, in the future, some countries doing away with paper currency in favor of cryptocurrency,” he said. “They might retain small-denomination paper currency and coins for coffee-shop-type transactions, but there are many benefits to requiring cryptocurrencies for larger transactions, because it would allow countries to eliminate tax fraud and black-market transactions.”

Others say bitcoin is too volatile to ever act as a currency.

“If you read the original Nakamoto paper, the idea was that bitcoin would be used for small transactions,” Donefer said. “But at these prices, it has become too valuable to use. It’s not transactable anymore, and too volatile to use. Is it really a currency anymore? The answer is no.”

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