5 key characteristics of Bitcoin -- and why we can't stop talking about it

Much ink has been spilled about Bitcoin lately. What's all the fuss? Javier Díaz Giménez takes us on a brief tour of this cryptocurrency's fundamentals -- including why it's so alluring and threatening to us, and what could threaten it.



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Bitcoin has been on a wild ride recently. Endorsements from Tesla's Elon Musk and an initial public offering from Coindesk (the largest cryptocurrency exchange platform) have helped propel the cryptocurrency's value to new highs in the Spring of 2021.

As part of IESE's Economic Overview Series, professor Javier Díaz Giménez presented five

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main points to capture the cryptocurrency's essence and addressed questions about what its future may hold.

1. Bitcoin is an idea that is here to stay

Like the Pythagorean theorem, Bitcoin is an idea that I think is here to stay. We know that the Pythagorean theorem, with some basic geometry, can be proved true again and again. Likewise, Bitcoin, made up of some thousands of lines of open-source code, is part of humanity's intellectual heritage now. It works. It is an idea that aligns incentives well and has been tested by the world's programmers for more than 10 years so far. No one has been able to hack it.

2. Bitcoin is a (bad) money

Bitcoin is a money because it is a means of payment, a store of value, a unit of account, and a club, like the euro or the dollar, etc.

So, why is it a *bad* money? First, besides Teslas and a few houses, there are not many goods and services that are traded in Bitcoins. You'll never buy a cup of coffee with this cryptocurrency. On a related note, it is an inefficient means of payment: there are only about four transactions processed per second. (To compare, Visa processes almost 1,700 transactions in the same amount of time.) As a store of value, it is very volatile -- although with extremely high returns so far. (Meanwhile, the returns of all government-issued currencies have been negative over time, thanks to inflation.) And finally, as a club, it is still relatively small, with about 25 million Bitcoin users -- that is, club members -- worldwide. The dollar club, euro club, renminbi club, rupee club, etc., have so many more members.

3. Bitcoin is digital gold

This is said because, like gold, Bitcoin is in limited supply, costly to mine, and it cannot be reproduced. Also, it's an asset that's not controlled by any government or any entity. Like gold, as a store of value, it may have its place in a diversified portfolio.

4. Bitcoin is a vehicle for speculation

Like any other asset, potentially, Bitcoin's value is moved by speculators. Especially because of its limited supply, its price is volatile. Look at its charts on Coindesk. It has appreciated by a lot and that looks like other bubbles. But I would say that human beings seem to like

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bubbles -- from tulips to real estate to NTFs (non-fungible tokens).

5. Bitcoin is disruption

Bitcoin is the only money that is not, and cannot ever be, controlled by any authority. To wax poetic for a moment, Bitcoin may be the door to monetary freedom. It both disrupts the central banks' monopoly on issuing monies and it disintermediates the payments system. That is, it undermines banks' ability to charge fees for intermediating in currency exchanges, transfers and other transactions. The disruption opens up a large wedge of new opportunities.

On the future of Bitcoin and its fundamental value

What's the future of Bitcoin? I have no idea. But let me boast for a moment. Five years ago, I bought three Bitcoins for $600 each as an experiment and I kissed that money goodbye. Now they are worth almost 100 times more, but I will only sell them if they can fund my two children's college educations in the United States in about 2030. Who knows what will happen.

In thinking about the value of Bitcoin, here are some of its main boosters -- i.e., factors that may support it:

- **The approach of its emission limit** of 21 million Bitcoins, which is expected around the year 2140. Remember: this is the only money whose flow cannot respond to its price.
- **Acceptance increases**. If more companies or individuals accepted Bitcoin for (large) transactions, it would make them more valuable.
- **There are currency or political crises**. Like with gold, Bitcoin may be viewed as a haven in times of great uncertainty.

But of course, there are a few potential Bitcoin killers:

- **The appearance of a better Bitcoin**. I think it would have to be one that is also fully decentralized, without a "super user." (Facebook's Libra project was never a real threat, and even Ethereum has a problem in this regard.)
- **It gets hacked**.
- **Quantum computers** or some other new decrypting technology that could reverse hash functions or otherwise compromise Bitcoin's security.

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Because Bitcoin's value could approach zero, I would advise any new investors to approach it as a learning experience. As an idea, a money, and a disruption, there is much to learn.

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