Crypto Assets Are Not Currencies Without Government Adoption

Weighty1Pager #1

Date of publication: January 1, 2025

by James Stalker, Ph.D., CEO of The Enterprise Universe

Definition of modern currency:

Government issued notes that reflect the overall productivity of its citizens. In this inclusive definition, the overall productivity implicitly includes all other resources than just labor (e.g., material, innovation).

One fundamental question:

Are crypto assets currencies? Well, the answer depends. If a government chooses to accept a crypto asset as its currency, then it is a currency of that country.

More questions arise, though, if a government (e.g., the United States (U.S.) of America) chooses a crypto asset as its currency. Why would a government adopt a crypto asset issued by one individual or a group of individuals (e.g., Bitcoin) as its currency? Particularly, it will be problematic if such crypto assets have been assigned to individuals and groups arbitrarily without any relation to its own currency. Also, what happens to its existing currency (e.g., the U.S. dollar) upon adoption? A major country such as the United States will not adopt a crypto asset issued by private U.S. citizens or entities, let alone citizens of another country or their private entities.

The above second set of questions is still relevant, however, whether a crypto asset is considered a currency. Crypto assets are exchanged in existing currencies such as the U.S. dollar. Crypto asset prices may go up or down depending on many known and unknown factors. Those who buy a crypto asset with an actual currency may end up gaining profits or incurring losses in terms of that currency. Of note, this type of crypto exchange will not affect the currency itself than changing hands, other than maybe frivolous misuse of the excess profits.

In the absence of a willing government to adopt a crypto asset as its currency, a legally viable approach to using a crypto asset as a currency is to back the asset with an equal amount of the said currency. For example, a stablecoin of 500 billion coins can be put in circulation by backing it with, for example, $500 billion U.S. dollars. This stablecoin approach works well, so long as the issuer isn't cheating by not backing the amount of crypto asset in circulation with an equal amount of actual currency. In the absence of the much needed regulatory framework, cheating may go unchecked by private parties. Some governments have considered Central Bank Digital Currency (CBDC) as an alternative to stablecoins, which will eliminate cheating in the absence of regulation. However, a country such as the United States may not see the need to issue a CBDC of its own, as it may deem the U.S. dollar to be quite operationally efficient.

Currency manipulation by governments, e.g., money printing, is given as one of the reasons why the maiden crypto asset (Bitcoin) was invented. While such manipulation by governments does take place, no individual or group of individuals has the authority as the government to adopt a crypto asset as its country's currency. This misunderstanding of authority is as real as the currency manipulation by governments. In other words, only willing governments can adopt crypto assets as their currencies and that willingness will most likely result from the increased operational efficiency gained (if any) via crypto asset adoption.

Final thoughts:

In the absence of government adoption, every crypto asset is a digital asset, including all the stablecoins. One has to understand the volatility and risk involved in these crypto assets before dealing in them. There are highly advanced competitors that have emerged over the past decade or so and that trend will continue since the early crypto assets such as Bitcoin and Ethereum appeared. It is important to note that this type of competition is highly desirable for the longevity of the crypto ecosystem.

Dr. Stalker intends to share a proposal that governments can use in adopting a crypto asset as its currency in a future Weighty1Pager publication.

Contact Dr. Stalker at jrstalker-ceo@teu.enterprises or on X at @jrstalker