Can Internet Technology Destroy the Financial Monopoly?

Will bitcoin break up the big bank monopoly destroying our country?

By Washington's Blog

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The big banks are destroying our economy … and our country.

They are literally run as criminal enterprises (even the mainstream media now admits that), they own the politicians, and they are encouraging the worst, most authoritarian tendencies of our government.

As the former overseer of the bank bailouts noted recently, the big banks are "still holding a gun to our heads", and – as long as they rule the roost – things will not improve.

But – as the Bank of England's Chief of Financial Stability pointed out recently – Internet technology will break up the big bank monopoly.

Bitcoin is the most exciting current trend in using technology to chip away at the stranglehold of the big banks over our wallets and our lives.

Open Democracy points out:

> A lot of people are busy trying to figure out how to make banks better. There is anger about what has gone on and puzzlement about the apparent inability of anyone to start doing something about it. [W]e seem to be frozen in a technical discussion of bank separation, capital adequacy, product authorisation, remuneration and incentives, or taxation. All worthwhile subjects in their way, but guaranteed to keep the sans-culottes at home.
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> So let's ask another question. Why do we need banks – what are they for?
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> Which brings us to Bitcoin. Launched a couple of years ago and still in its infancy, it calls itself a peer-to-peer virtual currency. This means that instead of a bank, the collective network of users maintains a complete encrypted record of bitcoin ("BTC") transactions and how many BTC each user has. Payments involve a public-private key exchange so that only valid identities can participate and each BTC can only be transmitted once. Because both parties have the complete data set, no external trust system is required. It's a mechanism that removes the need for us to transact through banks.
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> At a macro level, the total number of BTCs in issue will approach a known fixed limit at a geometrically reducing rate (as in Zeno's paradox, never quite reaching it) and expansion of the money supply takes place through the collective computation of the network. The advantages are claimed to be

resilience, safety, absence of transaction costs, decentralisation, international acceptance, and no debasement. Because no physical currency is involved, arbitrarily small decimal units of BTC are possible. If convenient, BTC units could be subdivided or consolidated merely by a network-agreed software change. The monetary authority is therefore the network of users and their machines, which once it has reached a reasonable size becomes hard for even a super-computer user to dominate.

Even if we no longer need banks to store and handle our money, the BTC system, like any other currency, allows credit creation through fractional reserve banking. The BTC money supply could therefore exceed the number of BTCs in issue. However, without a BTC central bank, the imprudent lender may well go bust. It will be interesting to see how regulators deal with mainstream banks that acquire significant assets and liabilities in BTC. They might outlaw the BTC operations of regulated entities, but could they really close down an unregulated global user network?

It remains to be seen whether this is an advance of democratic self-determination. At this stage I would be optimistic, especially if Bitcoin's proof-of-concept encourages others to develop distinct, communicating architectures that would create not just a digital currency but a digital currency exchange. There are some fascinating possibilities here:

1. We may soon not need banks to carry out monetary transactions or keep our money. The benefit in terms of near-zero transaction costs, nearly immediate confirmation of payment (are you still waiting 4 days for your cheque?), reduced credit risk, security and resilience would be immense.
2. Credit creation becomes an activity not linked to the transaction-handling franchise. It is also no longer underwritten by taxpayers. Inflationary behaviour requires public consent – not the taxpayer or voter public but the public that uses the particular currency.
3. Because all transactions are peer-to-peer, people can switch their currency holdings at will and costlessly. How much people trade, if at all, depends only their beliefs about the riskiness of the currencies on offer.
4. If peer-to-peer currency becomes mainstream, governments will have to decide whether to accept it and put the banks out of business, or refuse it and drive it underground. Either way, the relation of state and citizen in economic management is likely to be radically changed.

France has recently granted Bitcoin permission to act as a real bank.

Here's an introduction to Bitcoin:

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