

## From Conventional Currency to Cryptocurrency

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The financial system nowadays, with currency, checks, ATMs, and a lot of sophisticated tools did not appear overnight. It is the result of evolution along the centuries. The nucleus of this system is represented by money<sup>1</sup>. We consider that it is a statement that we should consider in approaching the currency phenomenon.

In this context, we ask ourselves: could we have an exclusively economic view on the currency? This question should first come up to our minds when we study the currency phenomena. If the contributions of other social sciences, as anthropology, psychology, philosophy, or history are of a certain interest for the economic sciences, in general, this is even truer for the economic sciences, where the historical approach helps to clarify the true implications of the present as the multidimensional aspect of the currency.

There references to the history of the currency allow us to easily understand three questions and economist is asking regarding the nature of the currency (nature in the sense of “a set of fundamental traits defining a human being or a thing”)<sup>2</sup>:

- *Which are the forms of currency? (formal nature)*: the three millennia of history of the currency show us that no object is a currency in itself and that the different monetary forms do not send us back to an evolution of the techniques, and to different monetary regimes (understood as issuing and management rules of the currency).

- *What is the purpose of the currency? (functional nature)*: traditionally, we saw that the currency has three fundamental functions: method of exchange, of value measurement, value reserve but these three functions are not indissociable, they did not appear simultaneously, they did not cross the same monetary supports.

- *Which are the properties of the currency? (conceptual nature)*: the currency always had as a consequence “a social trust and purpose” (F. Simiand) because it unites the contemporaries, but also the past, the present and the future. It stands against a social rule which expresses and strengthens the global values of society. In other words, any monetary crisis cannot be but the reflection of a social crisis.

Commodities were the first form of money, but along time the currency evolved up to the form of the banknotes (fiduciary currency), of the bank accounts (scriptural currency) and lately the electronic currency. All of these, have the same essential quality: are accepted for the payment of the goods and services. Through the currencies, as value units we set the level of the prices. If, a currency not defined or recognised as a value standard, it will not have the function of value measurement and it will not be used as a payment method unless it refers to a reference currency. This payment tool, almost monetary, is only an intermediary.

In consequence, money are familiar for everyone – as cash in the pocket, as incomings in bank accounts, as a value of our estate. But we rarely stop to think how strange it is in real life. We work and we focus on earning money, still every banknote or every amount from an account is only a paper or a number, with no value. The state through the monetary authority represented by the central bank can put money in circulation and still, as a mystery, in the current accounts and in the economies account there are more money that the government ever produced.

<sup>1</sup> Samuelson Nordhaus – *Economie*, Editura Teora, Bucharest, 2000, p. 574.

<sup>2</sup> Bailly Jean-Luc; Caire Gilles; Figliuzzi Archangelo; Lelièvre Valérie – *Economie monétaire et financière*, Breal Paris, 2000 p. 11.

The complexity of the monetary phenomena, as well as its effects on the economic and social life of the countries was and represents the subject of a lot of controversies and disputes. The complex character of the currency required adequate bodies and institutions with attributions in the field of regulating the emission of national currency and their circulation on an internal and international level. The current forms of organisation of the monetary circulation in different countries but also internationally represent the result of a continuous process of monetary transformations and innovations, process relying on one hand in the gradual dissociation of the gold based on the money systems (disharding of the currencies), and on the other hand in the dematerialisation of the monetary instrument. The contemporary innovation in the field of finances and currency have a complex significance and are dampening the border between currency and the other financial assets.

In this context, new forms of electronic currency appeared, known generically under the name of cryptocurrency. As we can see in the reference literature, these are digital currencies operating in the virtual environment, are non-banking currencies, surrogate currencies used as payment tools. They are based on cryptographic models deriving from sophisticated informatic algorithms, generating the so-called block chains. The logistics and the support mechanisms for cryptocurrencies are hard to understand by the wide audience, even in the online environment there are a lot of information.

The first cryptocurrency was created in 2008 by an anonymous developer under the pseudonym „Satoshi Nakamoto” and it is used for transactions as a payment tool. This development process of the cryptocurrencies advanced quickly and there are currently more than 9000 cryptocurrencies of which only 20 capitalized on the market. We can talk of a real crypto mania in the monetary field. The supporters of cryptocurrency outline the fact that it is a decentralised system, without a monetary authority making the banks and the central bank to be eliminated. This happens in the context where personal users’ data are confidential, and the payments can be processes without associating the personal data with the transaction. Transfers are very fast, with no amount limit, from anywhere in the world. Despite this, we notice that cryptocurrency transactions are still not frequently used. There are volatility phenomena marked on one hand by the limited quantity of these currencies, and on the other hand by their value towards the traditional currencies which is given by the demand-offer ratio. At the same time, there are reserves in using them related to the fact that transactions are irreversible, need a high level of security making them not be easily accessible. Due to the anonymous character of the cryptocurrencies, they can be used in money laundering generated for example by commerce with drugs and weapons etc. But we do not think that this is the main problem of cryptocurrencies, but the fact that under the anonymity where they are produced and used, they generate financial over-speculations which can destabilise the monetary order. Considering that these currencies are not value standards they do not fulfill the measurement function of the value, and sooner they manifest as pseudo-currencies. We notice that through their speculative behaviour, cryptocurrencies have an impact on the „health” of the traditional currencies. If initially, cryptocurrencies were tolerated and accepted by the central banks, currently the central monetary authorities are rejecting the. For example, the opinion of the National Bank of Romania is that due to some high speculative fluctuations, cryptocurrencies will disappear. Cryptocurrencies can be considered in the vest case, exchange tools or financial assets replacing the currency, but they cannot be considered currency. Their name is fake because they do not meet any condition of the currencies. At despite these, what determines people to invest in cryptocurrencies? These are people who do not want to have their money on display. „There are a lot of people with money preferring cryptocurrencies for bank accounts, which are open and can be checked. People have

imagination and come with all kinds of transactions because they like to play.” According to this, there are two types of people investing in cryptocurrencies: the ones who enjoy risk and game, and on the other hand, the ones seeing this market as a very good investments, profitable, considering the growth of value of these currencies in the last years.

It is worrying that cryptocurrencies might trigger a financial crisis on a worldwide level, if there are no strict regulations, warns John Cunliffe, the vice-governor for financial stability from the Bank of England. “When something from the financial system grows very quickly and it grows in a space with no rules, the financial stability authorities have to take this aspect into account”. Andrew Bailey, he governor of the Bank of England raised a big signal on cryptocurrencies in May, this year when he warned that „the investors in this field should be prepared to lose all their money because of the lack of intrinsic value of the assets”.

It is highly commendable the fact that more and more financial institutions declare themselves worried of the growing price of the digital currencies, but especially by the global trend of the migration towards this non-regulated monetary sector. For this reason, most of the central banks in the world consider launching their own digital currencies for those interested in digital transactions. Bankers say that the digital currencies issued by the monetary institutions of the states shall be regulated and officially acknowledged and will be taxed and followed accordingly. The great advantage for the citizens using digital currencies of the central banks instead the classic Bitcoin will be that the official virtual currencies will be less volatile. The risk of devaluation will be reduced overnight, as it is in the case of the current cryptocurrencies which are not regulated. According to the general manager of the International Monetary Fund (IMF), Kristalina Georgieva, more than a half from the central banks of the world have already explored the possibility to create their own digital currencies. The impact will be major. Digital currencies of the central banks will be officially regulated and automatically subjected to the monetary policies adjusting their stability. In consequence, there will be more stable than the current cryptocurrencies.

„When we look at this universe, the most efficient is the digital currency issued by the central bank. Why? Because it has the support of the state and it is integrated in the monetary policy”, mentioned the IMF official.

To sum up, the opinion of the specialists in this field is that cryptocurrencies are „poisoned”, financial tools, with a lack of value, generating risky financial speculations. Even if they are safe from the point of view of emission and payment operations, complex crypto-systems, cryptocurrencies do not have any warranty that they will be not be multiplied without control and even maybe fraudulently.