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Virtual currency: new step in monetary development

Alina Dibrova*

University of Latvia, 19 Raina bulvaris, LV-1586 Riga, Latvia

Abstract

Money is perhaps the best recognized and at the same time less understood figure of economy. During the evolution of a monetary science starting from the eighteenth century and fundamental works on such questions as true nature and main functions of money, the approach and theories about monetary science have changed significantly up to date not reaching the final state. The twenty-first century can be characterized with a vast development of technologies and the increase use of the internet which significantly succeeded the development of monetary system introducing a new phenomenon - virtual currencies. While remaining rather illusive, virtual currencies have been broadly noted by both, legislative authorities and practitioners. Moreover, such prime authorities as Securities and Exchange Commission, S Treasury and European Central bank have also shared their concerns about this new type of currency. Due to the growing popularity of virtual currencies, especially cryptocurrencies the suggested topic deserves extra attention. Despite the diverse opportunities virtual currencies might offer it is rather hard to ignore the related risks - virtual currencies, representing a type of unregulated, digital money might support superior risks such as money laundering, financing illegal activities et cetera. In scope of this paper the overall analysis and estimation of risks related to possible development of virtual currencies and the insufficient, not unified regulation is discussed. The main findings of the paper suggest that virtual currencies have a strong potential for further development nevertheless, the development of global or at least regional legislative base should stand prior.

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* Alina Dibrova. Tel.: +00371 29355098
E-mail address: alina.dibrova@gmail.com

1. Introduction

When speaking about money and its functions perhaps one of the most fundamental ideas is the separation of such terms as money and wealth. As T.H. Greco suggested, wealth creation and money creation should be seen as two entirely different things. He offered, that while wealth is created by the application of human skills to natural resources in the myriad ways that produce useful goods and services, money, on the other hand, is a human contrivance; it is a symbol created by a deliberate process involving entities called banks (T.H. Greco, 2001). While fully supporting such seeing, this paper will focus on the understanding of various aspects related specifically to money, especially in terms of currency. It can be agreed that as long as discussing nationally emitted currencies, which are defined and are broadly associated with national affiliation, a union understanding and criteria have been formulated. Still, as it was noted by Rogajanu and Badea, in nineteenth century the question on private currencies faced significant development (Rogojanu and Badea, 2015). The discussion of development and the main aspects of virtual currency seems even more important during the time, when the fight with financing illegal entities stand prior to the possibility of private money emission. Nevertheless, despite the drawbacks virtual currency possess, it managed to increase the recognition significantly. One might say, that an important risk is that people tend to exchange goods and services via thousands of currency types rarely questioning the legal aspects of those.

Before evaluating the virtual currencies and discussing related risks, it might be handy to recall the development of alternative currencies as a class, especially being aware of the fact that alternative or complementary currencies range from quaint to robust, simple to high technologies showing in many various forms and being organized in quite different ways. Here, a Local Exchange Trading Systems (LETS) - systems of mutual credit and CES, an online money and banking systems can be recalled. While LETS functions as clubs that set their own guidelines, CES is administered through an online program that connects local groups to create a global network. (J. D. Schwartz, 2008). The roots of such a vast virtual money development leads up to the year 1996 – when the digital gold currency, e-gold, was first launched. A rather meaningful might seem the fact that at its origins, this type of digital currency was backed up with gold ounce (or other precious metals). The whole idea of e-gold still might seem rather grounded – Jackson, a creator of e-gold was convinced that gold was a superior currency to paper money, despite the consensus among professional economists that a gold-standard prevented governments from responding quickly to monetary crises (Zetter K., 2009). Through its existence, e-gold managed to gain popularity having more than 5 million active accounts (archive.org), nevertheless, the vast risks to illegal activities were identified. In April 2007, Department of Justice USA announced that federal grand jury in Washington, D.C. has indicted two companies operating a digital currency business and their owners on charges of money laundering, conspiracy, and operating an unlicensed money transmitting business – those two being named were E Gold Ltd and Gold & Silver Reserve, Inc particularly dealing with e-gold. The charges were claimed to be a result of a two and a half year investigation by the U.S. Secret Service into an alternative payment system that has largely operated outside of normal banking industry regulations. Moreover, FBI Cyber division representative noted, that the advent of new electronic currency systems significantly increased the risk that criminals, and possibly terrorists, will exploit these systems to launder money and transfer funds globally to avoid law enforcement scrutiny and circumvent banking regulations and reporting (Department of Justice, USA, 2007). A brief summary would state, that being a new step in technological development virtual currencies especially so-called cryptocurrencies still are able to demonstrate a vast development. In scope of this paper the diverse aspects of virtual currencies will be summarized. While performing a literature and statistical analysis, this paper will seek the answer on whether new types of currencies hold the ongoing possibility to diversify their usage possibilities and could virtual money in any way lower the role of nationally emitted money. Above all, the possible encouragements for legislative virtual currency development will be formulated.

2. Literature Review And Hypotheses

2.1. *Virtual currency: essence and understanding*

Although the modern trade in some extent can be characterized by the existence of virtual currency, this term is not a new one. Virtual currency continues to maintain the main features of traditional currency, in other words

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