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Stuff that matters to Wayne

What's this bitcoin stuff? A Layman's Overview

Posted on July 28, 2013 by Wayne Taylor

bitcoin.

You've heard about it somewhere. Maybe a local restaurant has a sign that says 'bitcoin accepted here', or maybe you've just read about a Ponzi scheme or drug and firearms deal associated with it. What is sure is that you probably don't have the full story on it - and you should - it's revolutionary. To start with, take exactly 1 minute and 44 seconds and watch this video from the folks at www.weusecoins.com: Next in line for your study is the [Wikipedia page](#) where you can go as deep as you want into the details Summary of how it works

My understanding of Bit Coin (so far) is that it fits somewhere between 'commodity' (like gold) and a 'currency' (cold cash) and 'bartering' (exchanging products/services for other products/services). Here is a copy and paste from the Wikipedia page that expands on the 'supply and demand' aspect of bitcoin which shows it more as a 'commodity' with limited supply, behaving like gold or silver:

The number of new bitcoins created in each update is halved every 4 years until the year 2140 when this number will round down to zero. At that time no more bitcoins will be added into circulation and the total number of bitcoins will have reached a maximum of 21 million bitcoins.

Therefore, in my opinion, it's more like a 'precious metal' than a currency or normal physical commodity. With gold or silver, we have a limited amount in the earth now, but there is not a known end point to how much silver or gold 'could' be mined from the earth. Someone 'could' find the mother load tomorrow and decrease the value of gold notably. Similarly, a government could (and probably will) just print a bunch of bills and decrease the value of currency with a quick vote. With bitcoin, the limit is 21 million and once they are mined, that's it. One could present a very good case that mining, buying and being paid in bitcoin could be a very good future financial investment when/if it becomes accepted by the average citizen. How an actual payment is made:

1. Create your virtual wallet (at a place like blockchain.info) with a bitcoin application which generates a unique 'address' which can then be turned into a convenient [QR code](#)
2. Bitcoin recipient shares their QR code (or address mumbo jumbo which looks like a string of random letters and numbers) and the person who wants to pay scans the code, enters how much, and boom. They have money.
3. Bitcoin recipient can also send payment via blockchain's SMS and email option. I just tested the SMS option and it worked. It looked as if a .0005 bitcoin transaction fee was applied to my account after doing it.

Side thought: So, theoretically, I guess you could carry your unique bitcoin wallet address with you as well as the QR code and you wouldn't technically need a mobile device with you to receive payment, although it would be an unlikely scenario. However, is it possible to pay someone via bitcoin without a mobile? I suppose they could do it from any internet accessible computer...

The Big Picture

Before looking at the list of strengths and weaknesses of bitcoin, it's important to focus back on the

bigger picture. Our current monetary and trading system has some serious problems. Here is a quick list:

- currencies are tied to specific countries which are subject to specific problems (wars, government mismanagement, etc). Most people are not sophisticated enough to be able to trade in currencies to take advantage of this flaw so we just go up and down with the value of the day. What's more interesting (a.k.a. 'disturbing') is that global currencies are valued against the US Dollar. How did this one country and its money become the benchmark for the rest of our money? Something worth considering.
- credit card companies are nasty in their business practices and their business model both to the customer and the merchant - while they are round-house kickin' the customer for not paying on time, they are kicking the merchant in the crotch with both transaction fees and percentage of sales fees, for giving the customer the ability to get round-house kicked. Others call them 'genius business model'.
- commodities are linked to a currency and are traded on a trading system/exchange that is linked to a country and currency - you think of gold as worth X amount in your native currency, not how much jewelry you can make from it- and you can't go hand someone gold dust for an americano...
- all of this stuff is tracked

Here are some real situations where bitcoin is superior:

- You pay your hairdresser with bitcoin and he goes and pays his barista for his coffee and his waiter for his meal. No parties declare any of it as 'income' because it never left the 'bitcoin system'. In this situation it's a 'bartering' system with a way to conveniently transfer funds without fees. Many have tried this in the past (Barter Dollars, Trade Exchange, etc) but convenience and fees made it more tricky. Although I'm definitely *not* an accountant and will not be held liable for this as taxation advice, I cannot see how this is not legitimate. Once you take it out as 'cash' (like an RRSP if you will) then you sign up to have both your yin and your yang taxed through the wazoo.
- When you buy your americano with bitcoin your coffee shop owner didn't have to pay through the same yin-yang in both transaction fees and percentage-of-sale fees to Visa for your electronic convenience. If enough people did this, there is no reason why the savings couldn't be passed back to the customer. Perhaps some businesses will offer a 1.5% discount to their customers for using bitcoin? Why not?
- You want to travel with money but you don't want the amount of money limited to some governmental limit. Take bitcoin in your head. It's not in your wallet or a bank so all you need is your password.
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Strengths and Weaknesses

Here is a list of strengths and weaknesses that should be considered, yet not considered conclusive or exhaustive: Strengths

- decentralized (not under one government)
- fair fees (about 1 cent per transaction to keep system going)
- free to mine (anyone can mine for it)
- open source (no one owns the code)
- secure

Weaknesses

- based on the internet which can go down
- if you lose your password you could lose your 'wallet'
- Currently getting easier but not yet 'easy' to find businesses that accept it, especially brick and mortar businesses (this will change)
- Since it's like cash, bad people can do bad things with it without being tracked (ie. drugs, firearms,

Ponzi scams, etc).

- No one (yet) to turn to if a transaction goes sour, or for some reason a technical blunder occurs, or the unlikely event that your 'wallet' is compromised by a thief. But... is this any different than cash?
- Advantage given to early miners based on the half-life release of the bitcoins. I list it as a 'weakness' but is this any different from the 'advantage' the first courageous miners gained who risked their lives and went up north to the gold rush and struck it rich? Or like the entrepreneur who risks every dollar they ever earned to open a new business? Some consider this 'unfair advantage' but I consider it 'first-mover advantage' for the visionaries.
- you need some access to the internet and/or a mobile device which may be out of the reach for some less financially able folks.. although you could use the public library, I guess.

Bitcoin FAQs

At some point soon I will publish an FAQ of questions that are not answered in this post. I will link it here when it's published. Until then we hope to see you with full bitcoin wallet!

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