

Digital currency: Brave new world or criminal haven?



By James Melik

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Just as the internet has enabled the rise of e-commerce, it has also led to the emergence of e-money - currencies that only exist in digital form.

Advocates say these promise to revolutionise the global money supply, but critics insist they are a magnet for crooks.

Virtual currencies such as bitcoin, e-gold and liberty reserve, allows businesses and individuals to transfer funds across the globe without banks or governments charging fees.

Bank wires, credit cards, Western Union, money orders, cheques or local cash deposits, are used to add or remove funds from a digital currency account.

When registering a bank account, you generally have to supply proof of identity and an address, whereas registering with a digital currency provider only needs an Internet Protocol (IP) address.

That leaves the system open to abuse.

"When it comes to the high-level drug traffickers, they trust cash," says British police officer Mick Jameson, who specialises in internet fraud.

"Any transaction that takes place in an environment where people are using methods to keep them anonymous makes it harder for law enforcement," he adds.

Weak infrastructure

Despite security breaches such as a recent hack into a New York currency exchange, leading to the theft of bitcoins worth \$250,000 (£155,000), advocates say the currency's basic technology is sound.

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Donald NormanBitcoin Consultancy

"As consumers gain confidence, it could transform global commerce," says Donald Norman, co-founder of the Bitcoin Consultancy.

He admits providers of the infrastructure for bitcoin have not been securing their sites well enough, but says the situation will improve.

"I remember when I was younger, people said don't use your credit card online because you will get robbed.

"Actually what happened is people realised they shouldn't use their credit card online on sites that they don't trust," he says.

"Bitcoin has been adopted by people who are really tech savvy and it needs to get to a certain level of user friendliness to be able to reach its second adoption phase," he says.

He insists there is a settlement system as secure as international wire transfers.

"Merchants don't accept funds without certain confirmations," he says.

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Yanis VaroufakisGreek economist

"If there was a single confirmation, I would feel very, very safe," he says, "If I was selling the house, I would want about four confirmations. But that's my paranoia," he adds.

"In my previous job, I used to rely on international wire transfers and I had to pay \$40 every time I wanted to expand the fruits of my labour," he says.

"That is 1% of my income, for what? For paying to try to stop criminal activity like money laundering. The banking system is doing an absolutely terrible job," he says.

He agrees bitcoin attracts a lot of unsavoury people.

"People will be duped, but that happens in every currency," he says.

Regulation required

The reason digital currencies are so cheap to use is partly because they are unregulated, which can create a haven for swindlers and money-launderers.

Greek economist Yanis Varoufakis says in the US even pizza parlours and High Street shops accept bitcoins.

"In other circumstances, for instance in video games like Eve Online, the company that puts together this game is the one that issues the currency and it effectively becomes a private central bank," he says.

He points out that when a private corporation is in control of a currency, there has to be trust in its ability to look after its customers' credit.

"When you are creating a currency whose purpose is to be unregulated and then that currency gains value and its exchange rate with the dollar or the pound sterling increases, then clearly this is going to attract all sorts of people who want to launder their illicitly earned money," he says.

However, there are people who like the idea of a currency which bypasses the men in grey suits who have controlled everything until now.

Mr Varoufakis cites the eurozone crisis as being an example of when a digital currency might be preferable to more established options.

"If Greece were to reconstitute its own currency, it would take at least eight months to do that," he says.

"With digital currencies, you can create them at a touch of a button. What it does not offer is the opportunity of escaping the need for regulation," he adds.

Furthermore, digital currencies are global currencies, which raises many issues concerning taxation - in which country are you taxed?

"If you are a libertarian and you think that taxation equals theft, then you don't care much about this question because the answer you will get is, 'Well let's not get taxed and let's allow the various states to wither,'" he says.

"But if on the other hand you believe that states are essential for maintaining civilised behaviour and for having regulation, then it is a problem," he says.

He would not advocate Greek citizens converting their euros into digital currencies.

"I would advise them to put them in a German bank," he says.