



The Bitcoin Continues to Gain Credibility From Merchants and the Fed

When Jeff Klee was asked by a client if his travel agency, [CheapAir.com](#), would accept Bitcoins, [he admitted](#) he didn't even know what they were. He didn't know that thousands of merchants were already accepting them in payment for services and products, such as WordPress, OKCupid, and [even Richard Branson's Virgin Galactic](#) on which Klee no doubt had already booked some of his clients.



Once he learned what they were, and found a digital "wallet" — [Coinbase](#) — to help him manage the transactions, he saw the marketing advantage: "We expect people to come to us especially because they can use Bitcoin." Klee isn't taking much of a risk as more than 14,000 merchants already use Coinbase, which has opened up nearly half a million Bitcoin wallets for its customers. Said Klee: "If you have a lot of people accepting it, it becomes a useful and legitimate form of payment."

That's the ruling that Federal Judge Amos Mazzant [made](#) back in August when he said that "Bitcoin can be used as money. It can be used to purchase goods or services ... it can also be exchanged for conventional currencies such as the U.S. dollar, Euro, Yen and Yuan."

The Bitcoin gained some more credibility when the Senate Homeland Security and Governmental Affairs Committee [invited six federal agencies to testify about it](#), along with numerous other interested parties. One of those "interested parties" was Federal Reserve Chairman Ben Bernanke, who sent the committee a letter expressing his view that such currencies as the Bitcoin "may hold long-term promise." On that day the market value of the Bitcoin jumped \$40 to \$785. As of Tuesday, November 26, [a Bitcoin was worth \\$840](#).

This was followed in short order by [an article in the New York Times](#) that asked rhetorically if the Bitcoin was just a passing fad, or if it had legs. The author found a skeptic who said that "In a matter of months you won't be hearing about it. It will go the same way of Paris Hilton."

Not if China has anything to say about it. On October 15 Baidu Jiasule, a firewall service for websites in China, announced that it would begin accepting Bitcoins for its services. This didn't happen in a vacuum, as Gordon Chang pointed out in *Forbes* magazine:

It is inconceivable that Baidu would permit the acceptance of Bitcoins without first clearing the matter with Beijing authorities.

At present there are almost 20 trading platforms handling Bitcoin transactions in China, and [BTC China](#) is the largest one in the world. China itself accounts for more than half of the daily turnover in the Bitcoin digital currency.

The multinational online store eBay announced early in November that its online payments unit Paypal may add the Bitcoin to the present range of digital currencies it already accepts.

The biggest boost to Bitcoin's credibility came, however, from an unlikely source: the Federal Reserve



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Bank of Chicago. It just published its "[Bitcoin Primer](#)," in which senior economist Francois Velde explained that money is a medium of exchange: "something that is accepted in exchange for a valuable good or service, not for itself but to be exchanged later for another good or service." He added:

[The] Bitcoin ... aims to be itself a currency [through] a computer file....

Fiduciary currencies [like the Bitcoin] have no intrinsic value, and derive their value ... from the belief that they may be accepted by someone else. [Such] a currency ... has value only because of the belief that it will have value....

The Bitcoin network is an automaton, issuing currency at a predictable rate....

That said, it represents a remarkable conceptual and technical achievement, which may well be used by existing financial institutions ... or even by governments themselves.

Because the Bitcoin program limits the growth of the currency to a predictable rate and will eventually stop when the total currency in circulation reaches [21 million coins](#), it is gaining traction as an alternative to other currencies that have no such limitations. In the last five years, [the European Central Bank \(ECB\) has doubled its balance sheet](#), while the Federal Reserve has tripled its balance sheet, and the Bank of England has quadrupled its monetary base, all of which is making Liam Halligan extremely nervous. Writing for the *Telegraph*, Halligan says that the Bitcoin, in contrast, "insulated from a global banking system that many see as irresponsible, is also an incredibly sophisticated response to the ongoing problem of deliberate currency debasement by governments."

Aside from being free of central banking manipulation, the Bitcoin is evolving into a currency that offers secrecy, anonymity, and increasing credibility. It also avoids being smeared as a throwback to the old-fashioned idea that gold has no relevance in modern economies. Without understanding the role of gold, [Warren Buffett noted](#).

Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head.

Buffett, of course, misses the point entirely. The beauty of the gold standard is precisely because it is limited in supply and currencies tied to it cannot be expanded at will or by Keynesian "necessity." The Bitcoin is increasingly being seen as credible for exactly the same reason: It is out of reach of central bankers and instead is limited in supply and cannot be manipulated.

As Robert Tracinski, author of the individualist *Tracinski Letter*, [put it](#):

By creating something that has the basic characteristics of fiat currency, but which cannot be debased on whim, [the Bitcoin] tests the value of having a currency of limited quantity.

Or, to put things differently: it tests the destructiveness of having an unlimited quantity of money, as in the prevailing central banking system.

The extent to which investors and purchasers flee into the limited fiat money of Bitcoin is the extent to which they are fleeing out of the unlimited fiat money which our central bankers are vigorously debasing.

That is why the rise of the Bitcoin is so terrifying. The rise of the Bitcoin is a measure of the collapse of money.

A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The



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New American magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelman@thenewamerican.com.



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