GAME OF COINS

HOW INTEREST GROUPS *SHAPE* BITCOIN ECONOMY

from Coineda.com

WHAT IS BITCOIN?

Describing Bitcoin is as hard as describing a chair: depending on what it is going to be used for, we could be talking about a throne or a toilet.

However, we can agree that a chair can be used, at least, to sit on it. It is in this sense that we can start talking about Bitcoin as a method of transmitting money.

That's how Warren Buffett, the legendary investor that doesn't need an introduction, sees it:

"It's a method of transmitting money. A check is a way of transmitting money, too. Are checks worth a whole lot of money just because they can transmit money?"

A bitcoin is a method of transmitting money, and it is worth a lot of money. Why?

WHICH FACTORS DETERMINE BITCOIN'S PRICE?

Marc Andreessen is an american venture capitalist, known as the co-author of Mosaic, the first popular web browser; as a co-founder of Netscape and as cofounder of the venture capital investment firm Andreessen Horowitz. This firm has to date hundreds of millions of dollars worth of investments in the Bitcoin ecosystem.

Andreessen is one of those who lived the first days of Internet, and of those who think that today's Bitcoin is like the early 90s Internet.

Answering, precisely, to Buffett's statement, Andreessen argued about the about the fundamentals of Bitcoin's value:

"It equals the value of a single slot in a finite sized public cryptographic ledger through which value can move. The total Bitcoin ledger has value corresponding to the volume and velocity of transactions that will run through it in the future; by extension, each slot in the ledger has fractional value determined by the total number of slots (which, in Bitcoin's case, are limited to 11 million today and 21 million ever)."

"The market cap of the ledger needs to be high enough to accommodate all of the value that wants to pass through it in any period of time (volume & velocity of value passing through)."

"So then, the intrinsic value of a BTC is emergent from the functional value of the ledger as a way to exchange value (or, more accurately, emergent from the collective forecast of the future volume & velocity of value that will pass through the ledger)."

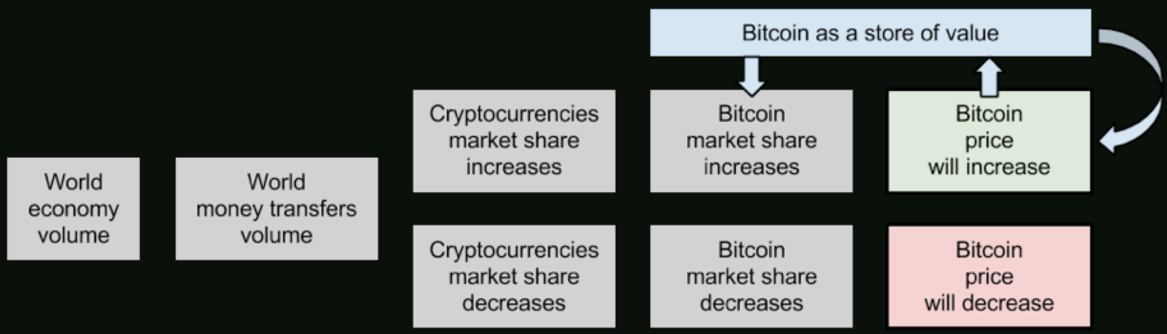
http://www.forbes.com/sites/kashmirhill/2014/03/26/warren-buffett-says-bitcoin-is-a-mirage-why-marc-andreessen-thinks-hes-wrong/

It is perhaps due to the important connotations of that word forecast that Warren Buffett said about Bitcoin: "Stay away from it, it's a mirage."

"You can replicate it a bunch of different ways" he said "and it will be. The idea that it has some huge intrinsic value is just a joke in my view."

But Andreessen's reasoning has its grounds. This is what, from his words, can be deducted that is **Marc Andreessen's Bitcoin valuation model**:

Bitcoin, like Buffett presented, "can be replicated it a bunch of different ways". And that's what's happening.



There's a series of factors that come into play. As initial factors ***World economy volume*** and ***World money transfers volume*** are included. Without being clear the need for the ***World economy value*** to increase in order to the ***World money transfers volume*** to do so, the model can take as a given that the ***World money transfers volume*** will increase (it doesn't suffer that much if this hypothesis is discarded, either).

These transactions can be made through a variety of means, such as a check or Bitcoin, in competition against each other. Their relative market share -from that ***World money transfers volume***- can increase or decrease.

Depending on wether Bitcoin's absolute usage volume increases or decreases, its price will increase or decrease, respectively. This doesn't mean that it will grow or diminish constantly, given the great volatility it shows. What it would explain it is natural long-term tendency.

I wanted to include in the model another step, that Andreessen doesn't mention but he surely takes into account: the rest of cryptocurrencies.

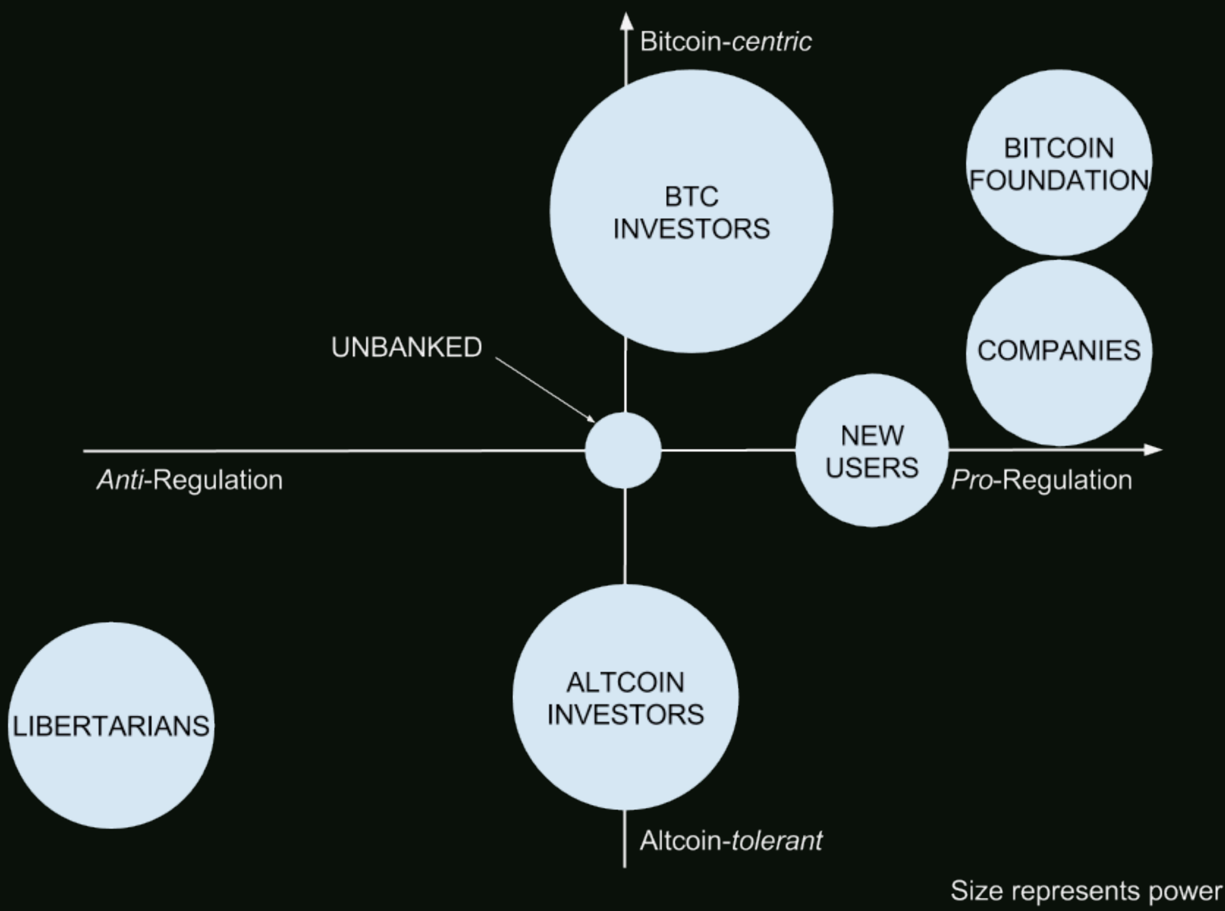
The website http://www.cryptocoinrank.com lists 425 known cryptocurrencies. They all share Bitcoin's cryptographic nature, but each has some characteristics and a value proposition specific to satisfy a collective.

That which satisfies a bigger volume collective will hold a bigger market share inside cryptocurrencies own market share of the ***World money transfers volume***, against some other tools (like checks).

It is because of this that Andreessen's prediction of Bitcoin's long-term value depends on even one variable more: it depends on the ***World money transfers volume***, on the ***Cryptocurrencies market share*** and on the ***Bitcoin market share*** itself. If the combination of these is positive in growth, Bitcoin's value will tend to grow generating an important network effect: it will become a superb store of value, increasing its market share, keeping coins out of circulation and increasing the value of the remaining.

But it is not for sure that things will be this way. It is all in the hands of a bunch of groups with opposite interests.

WHAT INTEREST GROUPS EXIST?



Libertarians are a collective that despises the state's intervention, and Bitcoin's anonimity and decentralization characteristics made them embrace it from its very beginning as the promise of the separation of money and state.

Libertarians position themselves agains Bitcoin regulation because this would end this promise.

Libertarians are tolerant with the existence of Altcoins because they understand that their existence doesn't risk Bitcoin's survival.

Altcoin Investors are a collective in search of high profitabilities by diversifying their investment in a portfolio of cryptocurrencies in the hope of one of them to experience a great growth in its value.

Altcoin Investors position themselves as neutral towards Bitcoin regulation because it is unclear how this would affect regulation and valuation of Altcoins.

Altcoin Investors are, naturally, tolerant with the existence of Altcoins.

The Unbanked are a huge collective of people on a global scale that don't have access to basic bank services, such as deposits or loans.

The Unbanked still don't know about Bitcoin, so they position themselves as neutral towards its regulation and towards the existence of Altcoins.

Bitcoin Investors are a collective in search of positive profitability in the medium and long term with investments mainly in this cryptocurrency by increases in its value.

Bitcoin Investors position themselves as ***inclined*** towards in favor of Bitcoin regulation, sensing that this regulation will give way to both new users and big investors. The presence of new users would make Bitcoin's market share increase, increasing its value. The presence of big investors, because of offer and demand effects, would also increase Bitcoin's value.

Bitcoin Investors are not tolerant with the existence of Altcoins, seeing them as competition for the cryptocurrencies market share. The guarantees for Bitcoin that regulation would achieve are seen by this collective as a possible competitive advantage against them.

The New Users are a collective of people that already have banking services at their disposal, but haven't started using cryptocurrencies yet, being Bitcoin the first choice to consider by them.

The New Users position themselves as in favor towards regulation because of their demand of some guarantees equivalent to those that they already benefit from with the traditional banking services.

The New Users position themselves as neutral towards the existence of Altcoins due to their lack of knowledge about them and because they don't represent any sort of risk against their intentions.

Companies are business that are developed in the Bitcoin ecosystem, mainly exchanges and payment platforms. Both business models work in a centralized manner, contrary to Bitcoin's essence.

Companies position themselves as very favorable, even proactive, towards regulation, understanding that this will provide some guarantees that will attract both users and investors in their businesses.

Companies position themselves as ***inclined*** towards being not tolerant with the existence of Altcoins, due to the operational benefits of the standardization derived from the use of Bitcoin.

The ***self proclaimed*** Bitcoin Foundation is a group involved in lobbying activities with the express mission of standardizing, protecting and promoting the use of Bitcoin cryptographic money for the benefit of users worldwide.

Members of the foundation interpret that the best way to look after the interests of the Bitcoin community is by positioning themselves -not in a explicit manner- as very favorable towards regulation (like Companies, with whom they have close relationships) and as not tolerant with the existence of Altcoins (like Bitcoin Investors, with whom they also have close relationships).

WHAT MIGHT HAPPEN?

It is in fact a battle for the definition itself of Bitcoin. On one side, those who see Bitcoin as a political tool and, on the other side, those who see it as a product and as an investment.

At this stage of the game, most of the power has gathered in the investment side. It shouldn't surprise anybody.

What's most likely to happen at this point is for us to witness Bitcoin's progressive regulation by the states, because that's the way those powers that have aligned want it, and it is natural for it to be that way.

Bitcoin has become a product and, as such, has evolved attending to the demands that from its users have been perceived by its managers.

The libertarian will that at first championed it is now relegated to a minority position, and might have with this experience learnt a valuable lesson: that centralization is a natural tendency, that states might be a product of the free market.

However, the war is not over yet for that libertarian will, and some lines for its continuity can already be made out:

- Bitcoin's regulation we will live will never be absolute. It will probably materialize as a combination of regulation for companies that operate in a centralized manner (such as with BitLicense in the state of New York), and a list of Bitcoin addresses authorized by government. This would create an inside closed network within Bitcoin, authorized by a government, to which every faction in favor of regulation will be willing to adhere. The libertarian collective will be able to keep using, not without certain difficulties, the rest of the Bitcoin network.

- If the difficulties to operate in the spectrum of the Bitcoin network outside a government's reach were unsustainable to keep up with, the Altcoins field would be available for its use with more liberty by the libertarian collective.

- The size in number, compared to its minuscule power nowadays, of the unbanked collective globally make it an excellent opportunity if a way to attract it to the libertarian cause if found.