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SCHARDING ON NON-CENTRALLY REGULATED CURRENCIES AND PRICE VOLATILITY

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A COMMENTARY ON Tobey Scharding (2019), "National Currency, World Currency, Cryptocurrency: A Fichtean Approach to the Ethics of Bitcoin," ***Bus & Soc Rev*** 124(2): 1–20,
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ABSTRACT

Tobey Scharding claims that Bitcoin's lack of a central regulator makes it open to price fluctuations. I argue that a currency not having a central regulator does not necessitate it being more volatile than centrally regulated currencies. First, I argue that Scharding's reason for suggesting that Bitcoin is open to price fluctuations – its potential to face legal restrictions – is also faced by centrally regulated currencies. Second, I use silver in London as an example of a non-centrally regulated currency with relatively low price volatility when compared to other centrally regulated currencies showing that non-centrally regulated currencies are not necessarily more volatile.

IN "NATIONAL CURRENCY, World Currency, Cryptocurrency: A Fichtean Approach to the Ethics of Bitcoin," Tobey Scharding (2019) dissects whether Bitcoin meets the Fichtean standards of an ethical currency. Scharding (2019: 4) claims that because they are free from centralized regulation, "Bitcoins' value can fluctuate wildly." On the contrary, I will argue that Bitcoin's susceptibility to price volatility is not necessitated by its lack of centralized regulator. First, I will show that Scharding's reason for suggesting that Bitcoin is susceptible to

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price fluctuations – that it can be legally restricted by nations – is also faced by centrally regulated currencies. Second, I will use silver in London as an example of a currency with no central regulator which had relatively low price volatility when compared to other centrally regulated currencies to show that non-centrally regulated currencies are not necessarily more volatile.

Scharding's concern for the price volatility of non-centrally regulated currencies

Scharding (2019: 4) suggests that "nations (and economic and monetary unions like the eurozone) typically take steps to control the values of their currencies" and since no such centralized authority exists to regulate Bitcoin, "the lack of regulation means that Bitcoin's value can fluctuate widely" (Scharding 2019: 4). While Scharding notes that "the value of any currency can fluctuate" (2019: 4), Bitcoin's special status as a currency without a regulator makes it particularly susceptible to price volatility.

Scharding suggests that Bitcoin faces the deficiency of its value being subject to the possibility of it being legally restricted or outlawed by various nations. Scharding (2019: 4) explains that "Bitcoin's value rises and falls in response to these political events as people exchange other currencies for Bitcoin, then in turn, sell their Bitcoins." Scharding (2019: 4, 17n11) suggests that if a rich country bans Bitcoin, this can largely affect the price of Bitcoin and cites China as the largest country to ban its use. Centrally regulated currencies do not face this challenge since, according to Scharding (2019: 3),

> [c]entralized authorities do . . . command people to use the other fiat currencies . . . they command at least in the sense that nations require their citizens both to use the nation's currency for certain purposes, e.g., to pay taxes to them, and to accept the nation's currency as legal for the repayment of debts.

Bitcoin's price volatility poses a threat to its ability to secure one of Fichte's three "basic rights" (Scharding 2019: 8), the right to life. As Scharding (2019: 9) explains, "the right to life entails that nations guarantee citizens' access to the resources they need (food, shelter, clothing) to continue living in a human way." Scharding (2019: 13, emphasis in the original) writes that

> [a]lthough Bitcoin's community of users can (and in all likelihood will) make efforts to ensure that people continue to be able to purchase the resources needed for life with Bitcoin, the volatility of this currency's value, along with its association with illegal activities, means that the community is unlikely to be able to *guarantee* people's access to these resources.

Thus, according to Scharding, the volatility of Bitcoin, in part, renders it unable to guarantee the right to life.

Centrally regulated currencies are also susceptible to volatility from legal restrictions

Scharding's concerns regarding the price volatility of Bitcoin stem primarily from its price's reaction to political events such as Bitcoin being outlawed. But centrally regulated currencies are *also* susceptible to price fluctuations from political events such as legal restrictions on their use or being outlawed. Just as Scharding suggests can happen to non-centrally regulated currencies, these legal restrictions can result in a destabilization of demand for that currency. For example, if it becomes illegal to use the United States (US) dollar in Argentina, then the value of the US dollar would be diminished since one could no longer legally exchange US dollars for goods in Argentina. Since the central authority which controls the US dollar has no say in which policy Argentinian central authorities will pursue, its price is still susceptible to fluctuations from political events in all countries except the US. A real-world example of this comes from Zimbabwe where central authorities outlawed the US dollar, the South African rand, the Botswana pula, and the United Kingdom (UK) pound in local transactions (Muronzi 2019). Central authorities in the US, South Africa, Botswana, and the UK had no say in the decision made by central authorities in Zimbabwe. Since there are over 190 countries employing over 160 national currencies, each currency's price is at the mercy of the political decisions made by the central authorities of several *other* nations.

It is even possible that central authorities in the home country of a currency create legal restrictions upon the use of its own currency, destabilizing demand for that currency. While Scharding (2019: 3) claims that "nations require their citizens both to use the nation's currency for certain purposes . . . and to accept the nation's currency as legal for the repayment of debts," this is not always the case. In

some cases, nations will do the opposite and create legal restrictions against the use of their own currency such as imposing restrictions on some denominations. For example, in 2016, the 500 and 1,000-rupee Indian banknotes lost legal tender status in India in November of that year (Reserve Bank of India 2016) and the 100-bolívar Venezuelan banknote was withdrawn from circulation in Venezuela in December of that year (Ashkenas and Bui 2016). Though these legal restrictions do not amount to a country outlawing the entirety of its own currency, such a political event remains possible. Since centrally regulated currencies face possible legal restrictions in all other countries as well as in their home country, centrally regulated currencies face the same supposed deficiency as Bitcoin in that they are subject to being potentially legally restricted or outlawed by all national governments.

Non-centrally regulated currencies are not necessarily more volatile than centrally regulated ones

The claim that currencies without central regulators are open to price volatility is also not empirically obvious. Silver, a globally preferred money for centuries, had a relatively stable, non-volatile price in London prior to the Bank of England's permanent issue of banknotes in 1694. Silver, like Bitcoin, had no central authority to regulate it. Instead, it acted as a medium of exchange between buyers and sellers with its price being determined by its value as a medium of exchange and as a commodity (Mises 2013: 123).

While numerous central authorities sought to control the exchange rate between silver and other currencies (including national currencies and other specie currencies), this does not mean that it was centrally regulated. Rather, silver faced the same potential pitfalls which Scharding accuses Bitcoin of facing: Central authorities in each nation had the ability to outlaw or create legal restrictions regarding their use within its territory. Silver could have been outlawed by any country (including rich countries, with which Scharding is particularly concerned) in which people hoped to exchange it, which would have had an effect on its price.

Nonetheless, silver's price was relatively involatile. Relative to the consumer price index in London, silver had a relative standard de-

viation of only 43.20 percent between 1264 and 1693 (Allen 2013).[2] The US dollar on the other hand, a currency which is tightly regulated by the US Federal Reserve, has had a relative standard deviation of 42.48 percent relative to the consumer price index since it lost convertibility to gold in 1971 (US Bureau of Labor Statistics 2021). Thus, a non-centrally regulated currency such as silver need not be exceedingly more volatile than a centrally regulated one such as the US dollar.

Further, Scharding admits that centralized currencies are not free from price fluctuations. As she explains (Scharding 2019: 17n10), her analysis "is not to imply that governmental regulation always prevents wild fluctuation. Argentine pesos, for example, were both tightly regulated and fluctuated wildly." Relative to other less stable centrally regulated currencies, silver was not only comparable, but considerably less volatile. For example, the price of the Zimbabwean dollar, a currency regulated by the Reserve Bank of Zimbabwe, had a relative standard deviation of 622.73 per cent relative to the consumer price index between 1978 and 2017 (World Bank 2021). This volatility is the result of massive price fluctuations between 2007 and 2009 with inflation reaching a monthly rate of 79.6 billion per cent in November 2008 (Hanke and Kwok 2009: 354).

As Scharding already accepts – and as the Zimbabwean dollar example shows – centralized regulation of a money does not necessitate the involatility of its price. Since there are examples of centrally regulated currencies that are volatile and non-centrally regulated currency (e.g., silver in London) which was relatively involatile, a currency not being centrally regulated does not necessitate its susceptibility to high price volatility compared to centrally regulated currencies.

Conclusion

Scharding suggests that Bitcoin's price volatility, in part, renders it unable to guarantee people the resources necessary for the Fichtean

[2] Fichte (2012: 104) suggests that "[b]read, or rather, since with bread a process of fabrication has already occurred, the produce from which it is manufactured—rye, wheat, and the like—would now have value absolutely, and it is by this measure that we estimate the value of everything else." In keeping with this Fichtean suggestion, it should be noted that relative standard deviation of silver's price relative to wheat in London for the years 1264–1693 was 104.16 per cent (Allen 2013).

right to life. But, Bitcoin's lack of central regulator does not necessitate its price volatility. Centrally regulated currencies face the same supposed threat to their price stability as non-centrally regulated currencies: the introduction of demand-destabilizing legal restrictions from every nation. As silver of the past has shown, a currency without a central regulator is not necessarily more susceptible to high price volatility when compared to other centrally regulated currencies. Bitcoin's lack of central regulator does not necessitate its susceptibility to price volatility more than its centrally regulated counterparts and therefore does not necessitate its inability to guarantee Fichte's right to life.

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