

## Bitcoin - the emperor has no clothes

By MANNY GONZALEZ

Resident shareholder, Plantation Bay Resort & Spa

(Mr. Gonzalez brings a unique multi-disciplinary perspective to this issue - public policy, financial analysis, and technology. As an officer of the World Bank, Mr. Gonzalez advised governments and financial institutions; as an investment banker he designed financial derivatives and assessed IPOs. He has also been awarded five US Patents related to gathering information on the internet. He is now a successful entrepreneur. He has an MBA from Columbia University, is a Robert J. McKim Jr., Fellow, and a Roswell McCrea Award winner.)

Thinking of plunging into Bitcoins? Read this first.

Dazzled by the technology, some claim Bitcoins are a new kind of money. No, they aren't, and I'll explain why. Unlike some parties who should know better, I was not asleep during my Money & Banking classes.

Money is a measure of value, a medium of exchange, and a store of wealth: "My land is worth \$5,000; give me cash and it's yours; I will save the money for my retirement."

Money has one non-negotiable requirement: scarcity. Something in unlimited supply is worth Nothing. Remember this, because many people, economists included, have forgotten it.

What are Bitcoins anyway? An amorphous "cloud" of computer files which replicate, much like viruses. Is Bitcoin immune to malicious viruses? Is your Bitcoin app immune to hijacking? Time will tell, but rest assured a lot of very smart hackers are working on it. In fact, a major Japanese cryptocurrency exchange recently revealed (Jan. 29) that hackers were able to steal about \$660 million.

With backup files and paper records, you could recover from a conventional hack, or even from a solar electromagnetic pulse frying the internet. By its very architecture, any Bitcoin hack or crash would be irremediable. For this reason alone, it would take a very courageous government indeed to allow cryptocurrencies to occupy any role at all in its financial system.

Leaving imponderables aside, is Bitcoin (we'll use this word to mean all cryptocurrencies) "money"?

Can you quote prices in it? No, its value is too unpredictable. Even oil prices would never serve as a general measure of value; how could Bitcoin?

A medium of exchange? Yes, for criminals. Computer hackers demand ransoms in Bitcoin. But it will be a long time before you can buy a car with it.

Is Bitcoin a store of wealth? Maybe, but not a very reliable one: it lacks fundamental protections for investors.

With most contemporary assets that serve as stores of wealth, governments (like them or not) are needed to protect you and maintain order. Land is titled, bank deposits guaranteed, stock manipulators prosecuted. Because of Bitcoin's very anonymity, there is no one to protect you. Shadowy entities could whipsaw Bitcoin's price, fleecing the public. This might be happening already.

Bitcoin greases crime, offers unexplored territory for fraudsters, and is harder (but not impossible) to tax. Are governments just going to cuddle up to it? Just how hard would it be to declare Bitcoin, or dealing in it, illegal? The US successfully outlawed gold in 1933. Enforcement? Bitcoins must be bought or sold for "real" currency on an exchange of some sort. This leaves unmistakable financial footprints, like tracks the Invisible Man leaves in the snow.

All sorts of legal concepts could be invoked: protecting people from their own stupidity, unlicensed gambling, commodities dealing with no underlying "commodity" (aka fraud).

Why has no government done this yet? Simple: everyone is waiting for someone else to say that the Emperor Has No Clothes. No one wants to stick his neck out and possibly look foolish, alarmist, or (the most feared epithet) "incapable of grasping new technology." But China is already clearly heading in this direction, and even the tech-fascinated South Koreans are starting to wake up.

In fact, some well-known investment-banking figures already spoke up against Bitcoin, then immediately recanted. Why scare customers when there is still easy money to be made (as with junk bonds, mortgage-backed securities, and dot-com IPOs)? But when enough ordinary people have lost their savings, someone will clamp down on Bitcoin, and every country will follow.

Supporters frequently claim that the limited supply of Bitcoins makes them a better currency than other fiat money such as dollars or euros. Is this true? Are Bitcoins really "scarce"? Any individual cryptocurrency, perhaps. Cryptocurrencies as a group, no. Now that everyone knows all about blockchains, anyone can jump in. Russia and Venezuela have already signalled their intentions. Cost of entry? Software salaries and a clever prospectus.

The potential supply of cryptocurrencies is unlimited. If you disagree, conduct this simple thought experiment: Issue a new cryptocurrency, Electronic Euros, which are structured such that there will always be less of them than the original Bitcoins; how much should each Electronic Euro be worth? Because they are scarcer, more than original Bitcoins, right? Now issue another new cryptocurrency. And another. Each should be worth more than the previous issue, attracting yet more issuers, until the price approaches infinity.

This being unlikely, there must be a flaw somewhere. That flaw is the blithe assumption that each cryptocurrency represents a separate commodity, discrete from any other. No. Whether plain-vanilla or with some supposed link to the real world (that you have no way of enforcing), all cryptocurrencies are part of the same "asset basket", as substitutable as Tide and Breeze, as Kruggerands and Gold Leafs.

Bitcoins are not money. They are not even an asset. They are computer entries with no underlying reality and no government oversight. With licensed gambling you at least know the odds. With Bitcoin, you are simply casting your conventional money to the winds, while hoping you are smarter than the traders at Goldman Sachs and JP Morgan.

You might make your fortune on Bitcoins, so don't let me rain on your parade. Just remember these ways their value could approach Zero:

1. A virus infects Bitcoin, or an electromagnetic pulse fries large numbers of computers. Probability unknown, but effect irremediable.
2. Governments outlaw it. Probability: High.
3. So many imitators spring up that cryptocurrencies as a group lose scarcity value. Probability: 100 percent, unless either 1 or 2 happens first.

## TV5 expects revenue push from ESPN launch

By LOUELLA DESIDERIO

TV5 Network Inc. hopes to generate more revenues as the launch of the Philippine edition of ESPN.com, which provides more sports content and subscription sports streaming service ESPN Player for avid sports fans, is seen to allow the firm to push digital advertising forward.

TV5 president Vincent "Chot" Reyes told reporters the Philippine edition of ESPN.com, as well as ESPN Player which form part of the collaboration entered into with ESPN last year, would both be available starting today (Jan.31) to cater to sports fans in the country.

He said the firm is hopeful the launch of the new site and streaming service would provide more opportunities to generate revenue.

This, as he said the number of page views on ESPN.com rose to 30 million in December last year from 24 million page views in the same month in 2016 following the announcement of TV5's partnership with ESPN in October.

"The increase in traffic is going to give us opportunities to monetize and generate revenues and we really think it is going to make business sense," he said.

If before the firm had an

ad sales group focused only on selling TV ads, he said the approach would change by including digital and online.

The new ESPN.com will bring Filipino sports fans coverage of both local and global sports such as the PBA, NBA, NFL, volleyball, soccer, tennis, and eSports, among others.

Meanwhile, through the ESPN Player, sports fans would get access to live and on demand sports including NCAA College Sports, X Games and IndyCar, at P99 per month.

ESPN Player promotional codes with 12-month access will be bundled with selected Smart Postpaid plans (including iPhone Plans), and later to Smart Prepaid and Smart Bro.

TV5's move to partner with ESPN last year is in line with its strategy to reposition itself as a sports and news channel as it aims to break even by 2019.

Under the partnership with ESPN, Sports 5 has been rebranded to ESPN 5 to air TV5's sports coverage.

The partnership also involves more than 2,500 hours of additional programming per year from ESPN's portfolio of sports rights, original programming and studio programs.

## ADB appoints new Phl country director

By CZERIZA VALENCIA

The Asian Development Bank (ADB) has appointed a new country director for the Philippines.

The Manila-based multilateral development institution said Kelly Bird, an ADB executive with more than 12 years of work experience in the country, will now lead ADB operations in the Philippines and supervise the implementation of the Country Operations Business Plan 2018-2020 and the Country Partnership Strategy 2018-2022.

"ADB has a special relationship with the Philippines, its host country," Bird said.

"I feel both privileged and excited with my appointment to the Philippines Country Office. We have a dedicated team and we are committed to working closely with Filipinos and the government to support the country in sustaining its impressive growth momentum and creating a caring society," he added.

Before his appointment as country director, Bird was director of Public Management, Financial Sector and Trade Division at ADB's Southeast Asia Department and was also principal economist for the department.

Before joining ADB in 2006, he served as a policy adviser to the Indonesian government for USAID and World Bank projects for eight years.

He also worked on projects for the World Bank and US-AID in trade, investment, employment, and competition policy in numerous countries including Cambodia, Indonesia, Nepal and several southern African economies.

Bird holds a doctorate in economics from the Australian National University, where he also earned his master's degree in economics. He took his undergraduate degrees in law and commerce from the University of Otago in New Zealand.

He replaces Richard Bolt, who served as country director for the Philippines since 2014.

ADB's new medium term plan for the Philippines, which Bird would oversee, aims to help the country achieve sustainable infrastructure development, human capital development and improved access to jobs.

The bank's operations in the Philippines have increased resources for more project-based lending, with strong support provided to the government's Build Build Build infrastructure development program.

Apart from infrastructure support, ADB's priorities in the Philippines include the promotion of inclusive growth as well as addressing income and regional disparities in line with the government's medium term development strategy, the Philippine Development Plan 2017-2022.



**NLEX ADDS LANE AT SAN FERNANDO NORTHBOUND EXIT:** NLEX Corp. is building a major lane at the San Fernando interchange northbound exit which is expected to be completed in March this year. It will address the heavy volume of vehicles in this area in Pampanga. The expansion project will widen the 336-meter northbound exit ramp heading towards Pampanga's capital city, increasing the number of lanes to two. A traffic management plan has been put in place around the work area to assure motorists and ensure convenient travel while construction is going on. NLEX is deploying traffic personnel to manage the traffic.



## **Bitcoin – The Emperor Has No Clothes**

*By Manny Gonzalez, Resident Shareholder, Plantation Bay Resort & Spa*

*Mr. Gonzalez brings a unique multi-disciplinary perspective to this issue – public policy, financial analysis, and technology. As an officer of the World Bank, Mr. Gonzalez advised governments and financial institutions; as an investment banker he designed financial derivatives and assessed IPOs. He has been awarded 5 US Patents related to gathering information on the internet (uspto.gov, Inventor: Gonzalez, Emmanuel). He is now a successful entrepreneur. MBA Columbia University, Robert J. McKim, Jr., Fellow, and Roswell McCrea Award winner. For more details and list of publications, please see [www.plantationbay.com/Credentials.asp](http://www.plantationbay.com/Credentials.asp)*

[888 words in following text]

Thinking of plunging into Bitcoins? Read this first.

Dazzled by the technology, some claim Bitcoins are a new kind of money. No, they aren't, and I'll explain why. Unlike some parties who should know better, I was not asleep during my Money & Banking classes.

Money is *a measure of value, a medium of exchange, and a store of wealth*: “My land is worth \$5000; give me cash and it's yours; I will save the money for my retirement.”

Money has one non-negotiable requirement: scarcity. *Something in unlimited supply is worth Nothing*. Remember this, because many people, economists included, have forgotten it.

What are Bitcoins anyway? An amorphous “cloud” of computer files which replicate, much like viruses. Is Bitcoin immune to malicious viruses? Is your Bitcoin app immune to hijacking? Time will tell, but rest assured a lot of very smart hackers are working on it. With backup files and paper records, you could recover from a conventional hack, or even from a solar electromagnetic pulse frying the internet. By its very architecture, any Bitcoin hack or crash would be irremediable, For this reason alone, it would take a very courageous government indeed to allow cryptocurrencies to occupy any role at all in its financial system.

Leaving imponderables aside, is Bitcoin (we’ll use this word to mean all cryptocurrencies) “money”?

Can you quote prices in it? No, its value is too unpredictable. Even oil prices would never serve as a general measure of value; how could Bitcoin?

A medium of exchange? Yes, for criminals. Computer hackers demand ransoms in Bitcoin. But it will be a long time before you can buy a car with it.

Is Bitcoin a store of wealth? Maybe, but not a very reliable one: it lacks fundamental protections for investors.

With most contemporary assets that serve as stores of wealth, governments (like them or not) are needed to protect you and maintain order. Land is titled, bank deposits guaranteed, stock manipulators prosecuted. Because of Bitcoin's very anonymity, there is no one to protect you. Shadowy entities could whipsaw Bitcoin's price, fleecing the public. This might be happening already.

Bitcoin greases crime, offers unexplored territory for fraudsters, and is harder (but not impossible) to tax. Are governments just going to cuddle up to it? Just how hard would it be to declare Bitcoin, or dealing in it, illegal? The US successfully outlawed gold in 1933. Enforcement? Bitcoins must be bought or sold for "real" currency on an exchange of some sort. This leaves unmistakable financial footprints, like tracks the Invisible Man leaves in the snow.

All sorts of legal concepts could be invoked: protecting people from their own stupidity, unlicensed gambling, commodities dealing with no underlying "commodity" (*aka* fraud).

Why has no government done this yet? Simple: everyone is waiting for someone *else* to say that the Emperor Has No Clothes. No one wants to stick his neck out and possibly look foolish, alarmist, or (the most feared epithet) "incapable of grasping new technology".

In fact, some well-known investment-banking figures *already* spoke up against Bitcoin, then immediately recanted. Why scare customers when there is still easy money to be made (as with junk bonds, mortgage-backed securities, and dot-com IPOs)? But when enough ordinary people have lost their savings, *someone* will clamp down on Bitcoin, and every country will follow.

Supporters frequently claim that the limited supply of Bitcoins makes them a better currency than other fiat money such as dollars or Euros. Is this true? Are Bitcoins really “scarce? Any individual cryptocurrency, perhaps. Cryptocurrencies as a group, no. Now that everyone knows all about blockchains, anyone can jump in. Russia and Venezuela have already signalled their intentions. Cost of entry? Software salaries and a clever prospectus.

The potential supply of cryptocurrencies is *unlimited*. If you disagree, conduct this simple thought experiment: Issue a new cryptocurrency, Electronic Euros, which are structured such that there will always be less of them than the original Bitcoins; how much should each Electronic Euro be worth? Because they are scarcer, more than original Bitcoins, right? Now issue another new cryptocurrency. And another. Each should be worth more than the previous issue, until the price is infinite.

This being unlikely, there must be a flaw somewhere. That flaw is the blithe assumption that each cryptocurrency represents a separate commodity, discrete from any other. No. Whether plain-vanilla or with some supposed link to the real world (that you have no way of enforcing), all cryptocurrencies are part of the same “asset basket”, as substitutable as Tide and Breeze, as Kruggerands and Gold Leafs.

Bitcoins are not money. They are not even an asset. They are computer entries with no underlying reality and no government oversight. With licensed gambling you at least know the

odds. With Bitcoin, you are simply casting your conventional money to the winds, while hoping you are smarter than the traders at Goldman Sachs and JP Morgan.

You might make your fortune on Bitcoins, so don't let me rain on your parade. Just remember these ways their value could approach Zero:

1. A virus infects Bitcoin, or an electromagnetic pulse fries large numbers of computers.  
Probability Unknown, but Effect Irremediable.
2. Governments outlaw it. Probability: High.
3. So many imitators spring up that cryptocurrencies as a group lose scarcity value.  
Probability: 100%, unless either 1 or 2 happens first.