

## Conference Paper

# Economic and Legal Issues of a Bitcoin Actual Paradigm, or Bitcoin: Listen, if Stars are lit it Means - There is Someone Who Needs it

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## Abstract

The paper gives the author’s understanding of the real matter of a bitcoin actual paradigm, economic and legal issues related to bitcoin functioning are investigated, perspectives of bitcoin evolution in Russia are observed on the basis of the systematic approach. In conclusion recommendations for the payment system in Russia are given.

**Keywords:** Russia, bitcoin, economic and legal issues, bitcoin industry stakeholders, stability of payment system.

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## 1. Introduction

It was not the best time when the digital economics tide came to Russian shores with local reality characterized by:

- low GDP growth (GDP physical volume index for the first six months of 2017 in comparison with the first six months of 2016 is verified at the level of 101.5% [1, p. 7]);
- weak national currency;
- decrease of the population’s real disposable income (A decrease by 1.2% in January – September 2017 in comparison with the same period in 2016 [1, p. 193]);
- high socio-economic differentiation of the population ([1, p. 206]);
- growth of terrorism and criminality connected to it (Increase of the number of registered terrorist acts by 5.6%, acts of aiding terrorism by 22.3% in January – September 2017 in comparison with the same period of 2016 [1, p. 226]).

Against this background the digital era has brought new possibilities and new dangers to the financial field. The emergence of new payment mechanisms, so-called

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cryptocurrency and its most famous and successful representative, bitcoin, became a phenomenon of the digital epoch.

For its nine-year history the bitcoin has demonstrated an intensive growth and endeavors of expansion in various fields of financial policy and management: its value grows fast (on 2 November 2017 the price of a bitcoin has passed \$7,000 [2], bitcoin market capitalization came up to more than \$124 billion [3]). Hundreds of scientific papers and much more articles and news about bitcoin have appeared in media in 2017 only. Theorists and practicing economists, financiers and lawyers, statesmen and politicians, public officials express their opinions on bitcoin with the estimation varied from rave to distinctly negative.

In such conditions it would be actual to look through the bitcoin actual paradigm, its true matter, and to carry out a full-scale analysis of economic and legal issues connected to its functioning, and thus to probe the future of bitcoin in Russia.

## 2. Methods and sources

In this paper logical, empirical, system and comparative methods of cognition are used along with analysis and synthesis methods. By these means an objective content of the bitcoin actual paradigm is reviewed and substantiated, main economic and legal issues connected to bitcoin functioning are revealed, prospects of bitcoin as a new payment mechanism in Russia are determined. The research is led on the basis of the analysis of the Russian legislation, theoretical and practical studies, research papers, reports and guidelines of FATF, data of the Federal State Statistics Service, the Central bank and other authorities.

## 3. Results

An objective content of the modern bitcoin paradigm, economic and legal issues connected to bitcoin functioning, bitcoin industry stakeholders, and the prospects of bitcoin in Russia are revealed in the paper. Recommendations for Russian payment system sustainability are given.

## 4. Research (Discussion)

Controversy of actual bitcoin paradigm may be characterized by the following (Fig. 1):

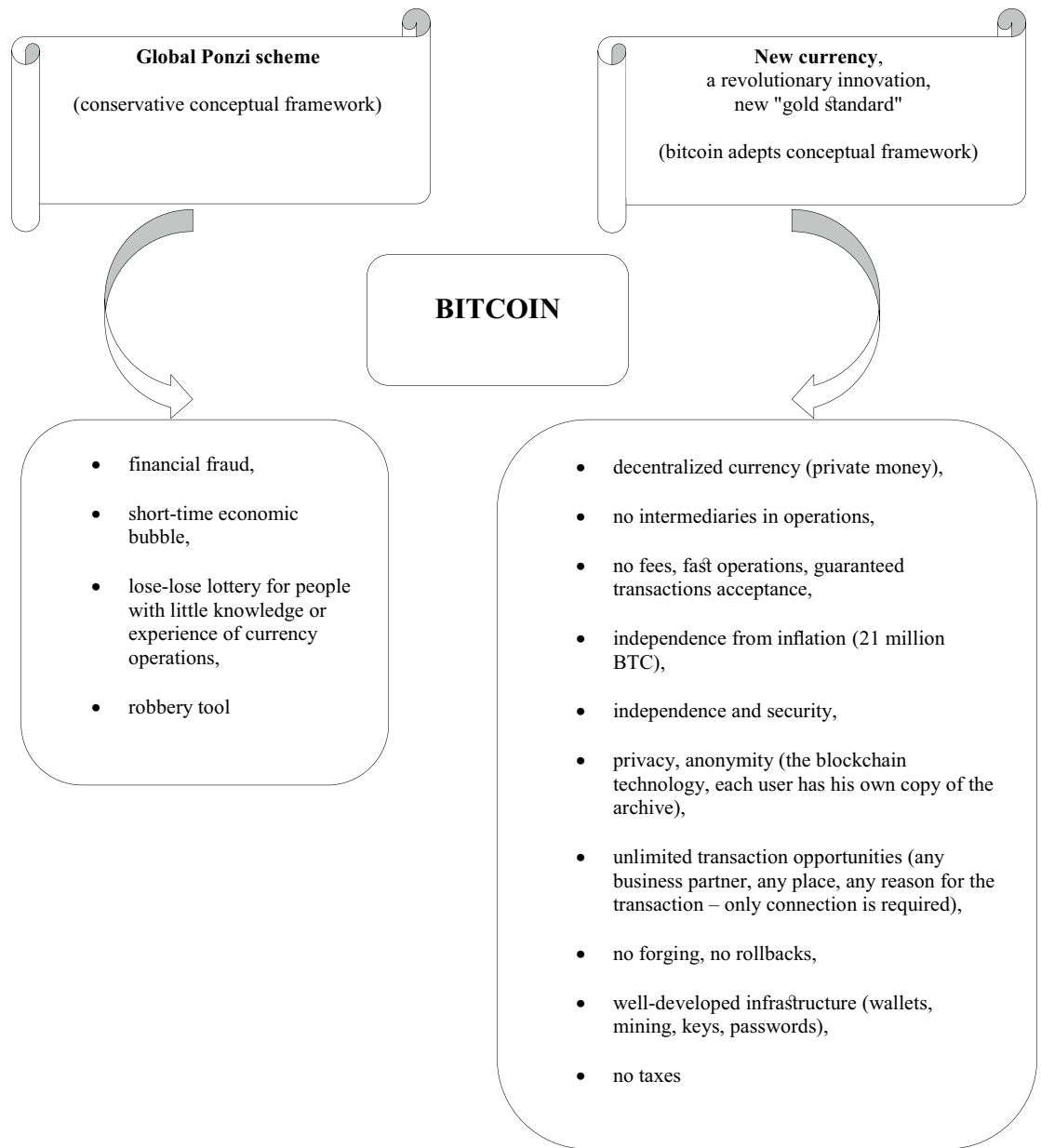
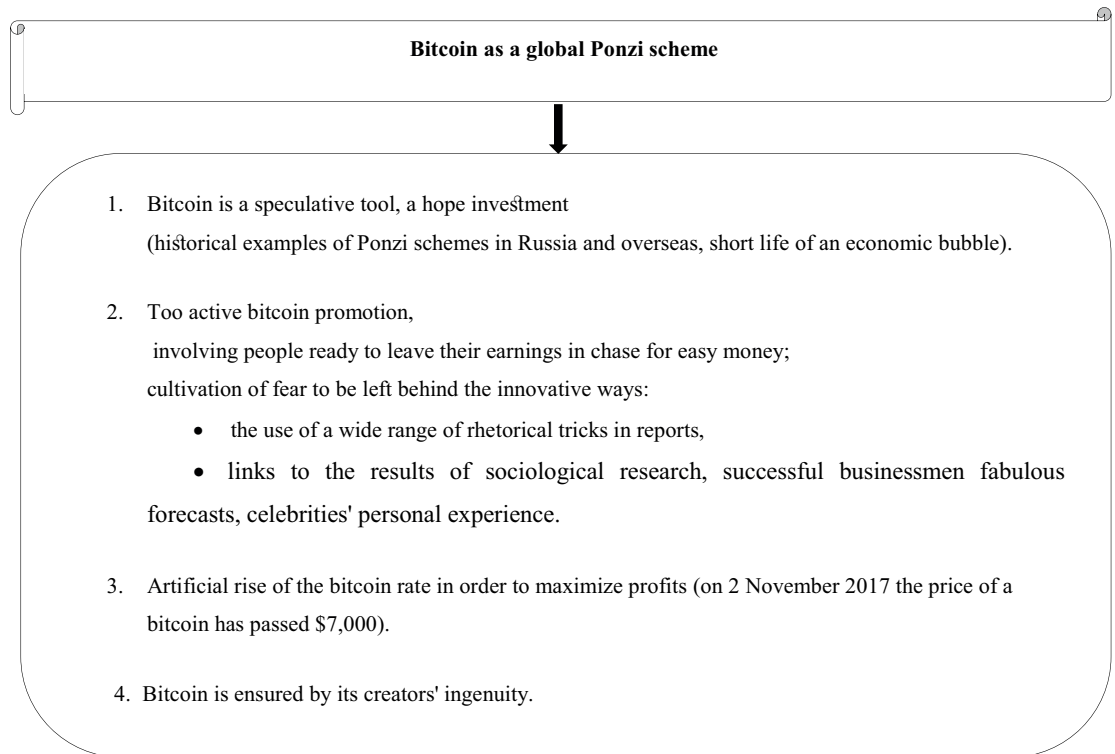


Figure 1: Actual concepts of bitcoin .

Such an impression one can get on the basis of a popularized opinion of bitcoin advocates and opponents. What is the real content of the paradigm in question? We will try to represent it in figures 2, 3. An objective study of the true content of bitcoin actual paradigm testifies that the merits of this payment mechanism are not so evident, whereas some essential elements of a Ponzi scheme are obvious [4].

Here is the analysis of issues that may result from the use of bitcoin in Russia from the point of view of an integrated economic and legal approach (Fig. 4).

Evidently, bitcoin can be reasonably treated as a national economic security threat. Why then such a disputed payment mechanism does demonstrate such a runaway

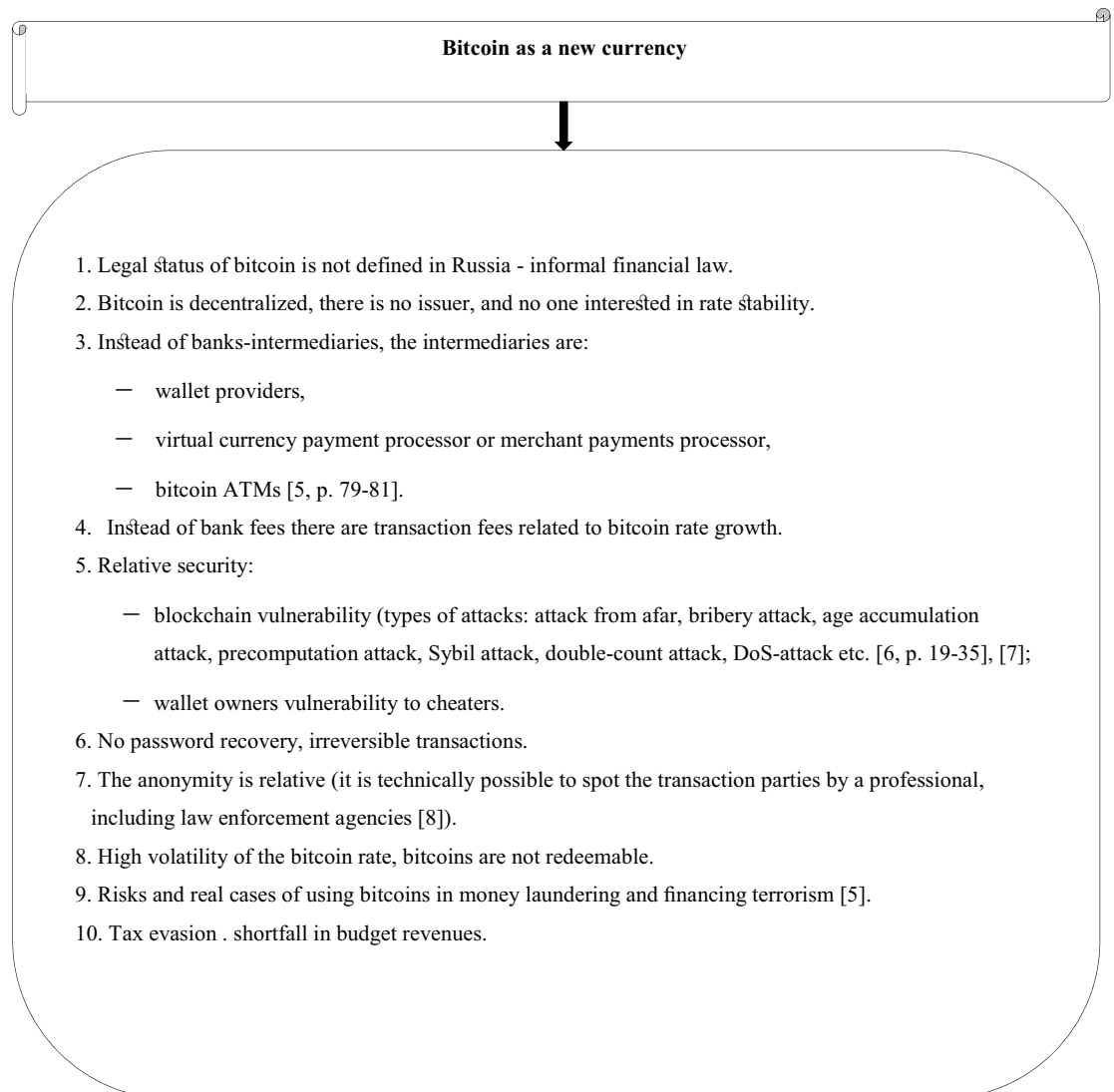


**Figure 2:** True content of a bitcoin paradigm as a Ponzi scheme .

growth? Who needs it? Who is the main stakeholder stimulating this triumphant procession of bitcoin? We will generalize main bitcoin industry players and figure out the system of bitcoin industry stakeholders (Fig. 5).

In Figure 5, there is a bunch of direct and indirect stakeholders of bitcoin industry, but finance losses of people involved shouldn't be neglected. As far as bitcoin does not create value, some players win at the expense of the others' defeat, so global redistribution of the resources of financially unskilled agents in favor of stronger ones (super-rich managers and founders, sponsors of a bitcoin idea and their surroundings) is happening. Whether a bundle of legal issues would be solved by civil, financial, administrative and criminal law studies (a number of studies are being carried out, e.g. [10]), then a short-term solution to financial and economic issues is doubted.

Taking into account the warnings of the Central bank and the Federal Financial Monitoring Service about the risks connected to cryptocurrencies, a business ombudsman and experts of Stolypin Institute of Economics of Growth have sent to the Central bank, State Duma, and Sberbank propositions of legal control of cryptocurrency circulation in Russia. They suggest that cryptocurrencies should be classified as guaranteed and others. All legal requirements against money laundering and financing terrorism should be met, including identification of parties and taxation [11].



**Figure 3:** True content of a Bitcoin paradigm as a new currency.

In our opinion, actual conditions require a wait-and-see attitude towards legal regulation of cryptocurrencies, including bitcoin, and taking time in question of their “legalization”. The research has shown multiple questions and issues where a thorough investigation is required.

## 5. Conclusion

In conclusion it should be mentioned that a superficial overview of the real content of the bitcoin actual paradigm may lead to hasty, inefficient and even erroneous solutions at all levels of the financial system, that, in its turn, may have bad socio-economic after-effects. To prevent them in the near future it would be feasible:

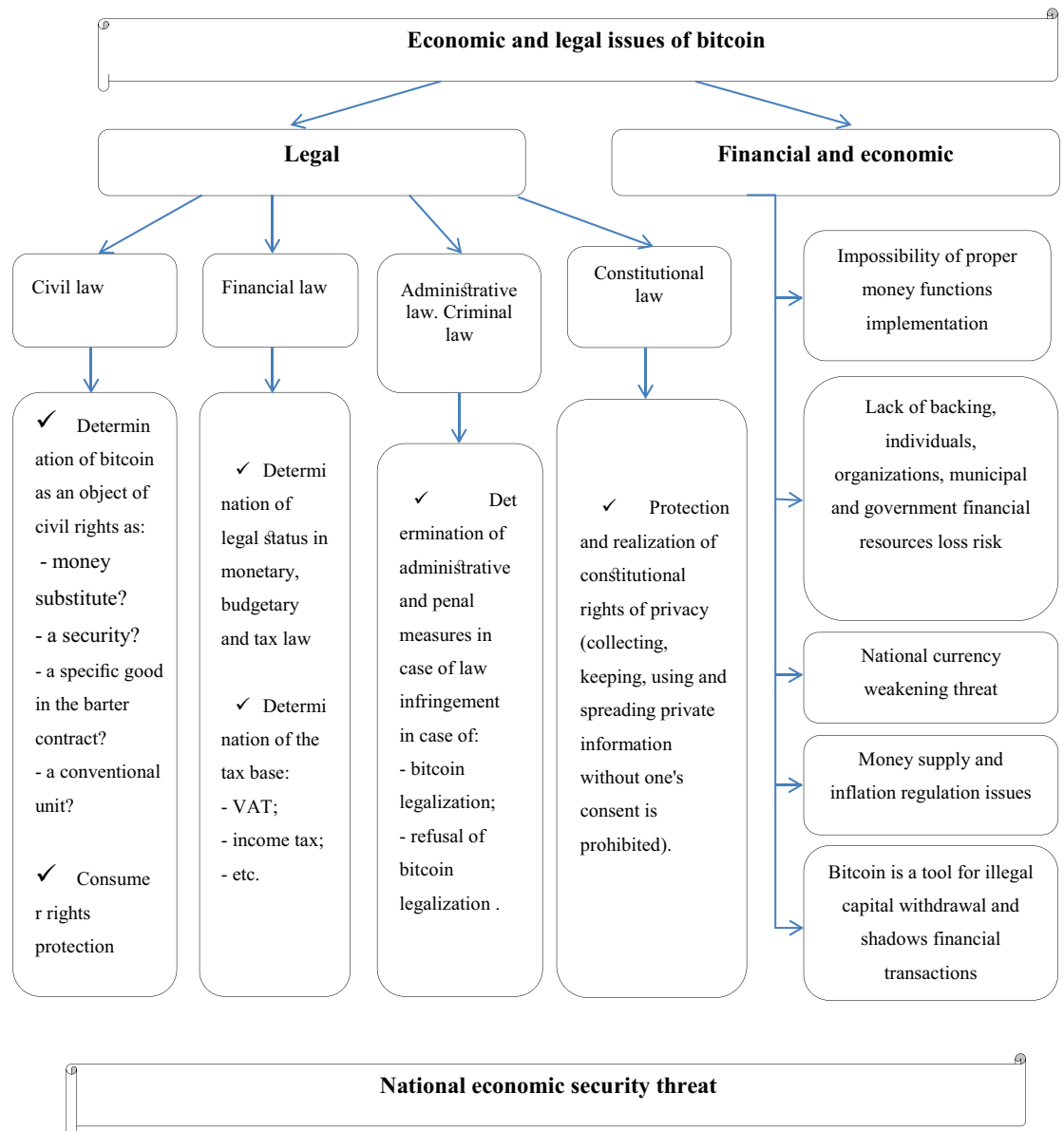


Figure 4: Economic and legal issues of actual bitcoin paradigm in Russia.

- to take up a wait-and-see attitude to the “legalization” of cryptocurrencies and thus to reduce risks for the national currency;
- to develop a scientifically grounded system of state control over crypto-currencies;
- to provide: the growth of Russian banking system efficiency; the evolution of bank products and services that would compete with cryptocurrencies;
- to brisk up the work on improving financial literacy of population in the field of cryptocurrencies;
- to add “Finances of individuals” into secondary and higher education curricula [12], [13], to ensure the transparency of natural persons’ presence at financial

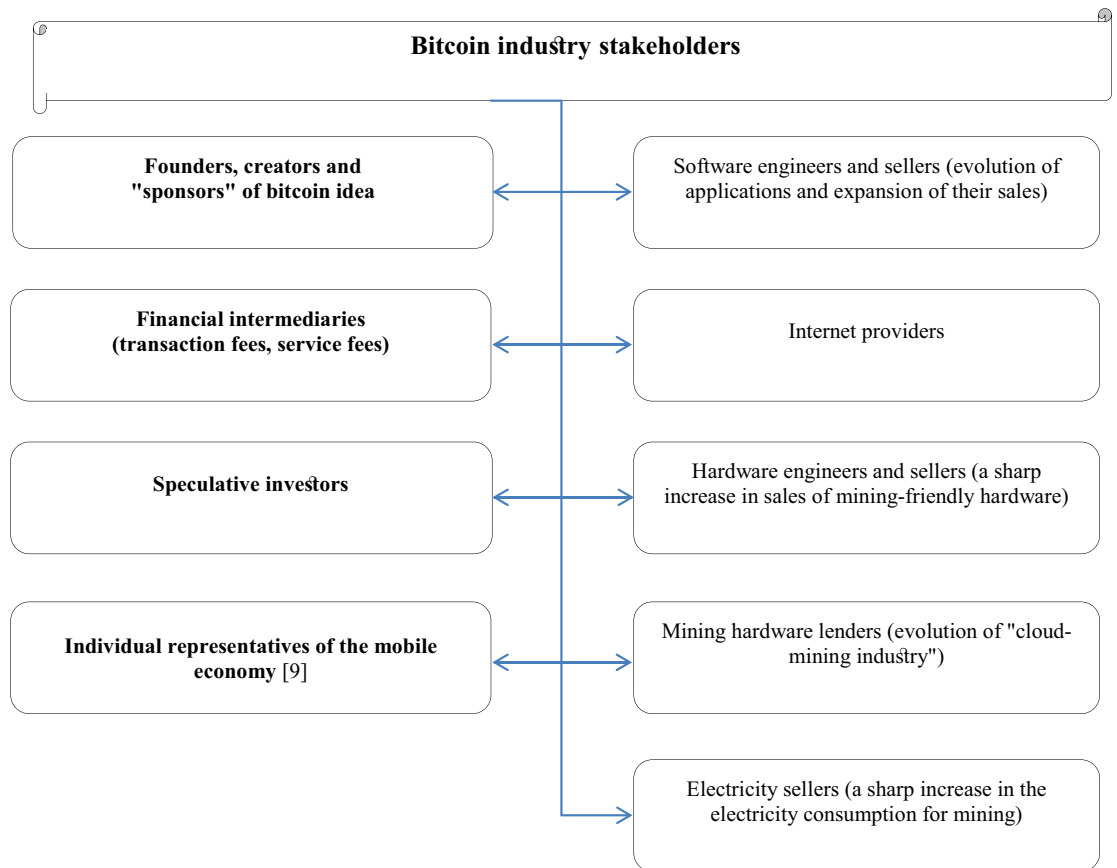


Figure 5: The system of bitcoin industry stakeholders.

markets, including cryptocurrency market as well, to popularize alternative and less risky objects for investment;

- to include cryptocurrencies-related topics into finance and law courses at universities;
- to pay more attention to cryptocurrencies in briefing programs for the personnel responsible for the implementation of laws to prevent money laundering being used to finance terrorism.

Implementation of the foregoing recommendations would facilitate a more efficient financial policy of the citizens, organizations and the government, the national payment system stability, and the socio-economic growth of the country. On the contrary, extension of the cryptocurrencies popularization and fast "legalization" course (bitcoin included) would expand economic factors for involvement into speculative activities, the unlawful cryptocurrencies use, and would decrease the efficiency of supervisory work of controlling bodies in the field of prevention of money laundering and financing terrorism.

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