

## Price hikes in Ether and Bitcoin aren't the signs of a bubble

Written by The Conversation

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When there is a rapid growth in any of the crypto-currencies and assets such as Bitcoin, Ether, Zcash and others, many will call it out as a [bubble](#) . Indeed, on a relatively short time scale it clearly looks like a [bubble](#) .

The entire [crypto-currency market capitalisation](#) currently stands at around US\$100 billion; it was US\$60 billion one month ago. But Bitcoin was worth 1/100 of a US cent in June of 2009, 7 cents in June 2010, and US\$7 in June of 2012.

Recently all eyes were on Ether. Over a 90 day period, Ether appreciated twice as quickly as Bitcoin did in late 2013, when Bitcoin crashed to around 35% of it's highest value. Aside from the 2013 crash, Bitcoin has experienced smaller crashes many times since, but is now worth double its 2013 high.

In the longer term, these are fluctuations around a strong growth trend. Crashes will cause some to abandon the field. But signals of longer term growth in these crypto-currencies and assets point to a possible emergence of a new type of market, through the building of a new economic infrastructure.

Ether is the token of the [Ethereum blockchain](#) , a platform that runs “smart contracts” through a distributed online ledger that records transactions. It's second only to the crypto-currency Bitcoin in price. Some believe it will one day overtake Bitcoin (a process dubbed “[The Flipping](#)”).

## Price hikes not the sign of a bubble

Fundamental aspects of the technology that underpins crypto-currencies and assets are causing people to re-imagine, and then enact, new ways of creating and exchanging value online.

The key difference between Bitcoin and Ethereum is that you can use Bitcoin for payments, but you can use Ether to automate any number of processes using [smart contracts](#) .

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While many use cases for Ethereum are still at the proof-of-concept stage, it is now attracting the attention of major banks, businesses and [governments](#), all interested in the potential of the technology to provide greater efficiency and transparency in transactions. That normalisation has collapsed the implicit risk premium attached to this technology.

Venture capitalist Albert Wenger describes the current activity in crypto-currencies and assets as “[fat protocol investing](#)”. To explain what this is, take the example of the underlying internet and web protocols (TCP/IP and HTTP), used to build and run websites. These are not able to store value - therefore they are “thin protocols” in Wenger’s terminology. So instead, people invest in companies that make software (applications) and hardware that rely on these protocols.

Companies such as Google and Facebook made a fortune by collecting and storing data generated by users through their online interactions. Meanwhile, users, and the developers who created internet and web protocol, received nothing in return. Blockchain is a “fat protocol” because it can be monetised, including incentives for developers but also for users. For example, the creator of JavaScript and co-founder of Mozilla [Brendan Eich](#), recently released an Ethereum-based web browser through which users can be paid for the attention they give to advertisements.

What is making crypto-assets and currencies appear bubbly is the way in which many of these new platforms and applications have raised money through what are called [initial coin offerings](#). An initial coin offering (a word play on ‘initial public offering’) is a mechanism by which developers sell the tokens associated with their platform to the public. Depending on the structure of the offering, buyers can usually then trade the tokens, creating secondary markets. As the founder of Ethereum, Vitalik Buterin, has noted, no-one has figured out the [right model for these offerings](#).

This could be due to the immaturity of the Ethereum platform and ecosystem (which started development in 2013 and went live only in 2015). What we’re observing here is a new economic infrastructure being built and coming online. In tweets on Tuesday, Buterin [distanced](#) himself from initial coin offerings, stating he would no longer agree to be an advisor.

So while the current speculation in crypto-assets should make us pause, this is not speculative [like tulips, or gold mining stocks](#)

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. It is speculative like building a new city, in that infrastructure needs to be developed first before you get to see who moves there.

A further point to note is that investment bubbles are actually [useful and important mechanisms](#) for building new technologies because of the way they concentrate speculative resources on a new technology to facilitate exploration.

There is an enormous effort proceeding to building new crypto businesses and infrastructure on the Ethereum platform. If this platform does indeed begin to carry large parts of the global economy as predicted by [Deloitte](#), a business consultancy, then it's still massively undervalued.

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*These comments should not be construed as offering personal financial advice.*

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