Bitcoin tests democracy amid fears of split

By Hanna Ziady

31 Jul 2017

Fears of a possible split in the bitcoin community, which might create two varieties of the crypto-currency, are overblown and do not detract from its long-term potential, say experts.

"It's very much like Y2K. Everyone is terrified, but I think bitcoin is going to prove itself through this problem and come out on top," says Lorien Gamaroff, CEO of blockchain solutions provider Bankymoon and bitcoin wallet Centbee.

123rf.com

The popularity of bitcoin has increased the cost but decreased the speed of transactions, creating disagreement among stakeholders over how to scale the network, Gamaroff says.

This uncertainty is reflected in large price swings. From a record high of $2,975 on June 12, the price of one bitcoin slipped to $1,910 on July 17 and was trading back above $2,500 on Thursday.

Bitcoin functions on a blockchain, a distributed ledger that lives on the internet, with each block representing transactions that cannot be duplicated or erased.

Because no single authority controls bitcoin, broad agreement is needed among all stakeholders before any changes to the currency can be implemented, says Werner van Rooyen, head of business development and marketing at bitcoin platform

Luno.

"There is mostly an agreement in the bitcoin community that an increase in transaction capacity should be implemented. However, there is a debate about how this should be implemented," says Van Rooyen.

"Despite different stakeholders wanting different things, the democratic model of consensus is one of the core reasons why people trust digital currencies like bitcoin." Bitcoin developers can make proposals on software changes, which are voted on by miners - individuals who verify transactions on the blockchain.

"If a proposal is significant enough, it may require changes to the software that will make it incompatible with the original version," says Van Rooyen. "This results in a fork, where the software branches off from the original rules and is operated by the newly implemented rules."

Bitcoin had such a fork in 2013. However, if there is considerable support for the original and the new versions of the software, a "hard fork" could occur, creating two distinct currencies.

A small group of developers proposed forking bitcoin to create Bitcoin cash, but this is unlikely to enjoy widespread support, Van Rooyen believes.

"If bitcoin does split, it will create a lot of confusion and affect the value of the currency considerably," says Gamaroff.

A proposal known as Segregated Witness, or "SegWit", had gained the most traction among miners.

This would involve removing some information from a block of bitcoin blockchain transactions, enabling more transactions to be placed into a single block.

During this period of uncertainty, it is advisable for bitcoin holders to retain access to their private keys and not entrust them to online exchanges, says Gamaroff.

"Hardware wallets are recommended," he says.

Gareth Grobler, founder of local bitcoin exchange ICEX, supports this view, saying a hardware wallet is the safest way to store bitcoin.

"Technological obstacles have happened before and will happen again, naturally affecting market prices," says Grobler. "The value of bitcoin is volatile, as with any other currency or commodity.

"Most people buying it are speculators and are not using it to transact."

Van Rooyen says it is unnecessary to withdraw bitcoin from Luno, unless users want their funds available on a "forked blockchain", such as Bitcoin cash.

Luno might temporarily halt bitcoin deposits and withdrawals to help protect funds, he says.

While a split is unlikely at this stage, price volatility could be expected in the coming weeks. The latest developments signal that a faster and more affordable means of bitcoin exchange is imminent.

Source: *Business Day*