

The Economic Benefits of Currency Competition in the Digital Age

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Abstract:

The rapid development of cryptocurrencies, stablecoins, and central bank digital currencies (CBDCs) has transformed the global monetary landscape and accelerated the transition toward a cashless society. While critics argue that digital currencies threaten financial stability due to volatility, disintermediation, energy consumption, and regulatory concerns, this paper contends that the increasing competition among digital and fiat currencies can generate significant economic benefits. By examining the evolution of cryptocurrencies, the emergence of stablecoins, the global adoption of CBDCs, and the case of Zimbabwe's hyperinflation, this study argues that currency competition encourages governments to pursue more disciplined fiscal and monetary policies, strengthens policy credibility, and helps anchor inflation expectations. Greater monetary credibility also expands policymakers' ability to respond effectively to future economic downturns. Although digital currencies present important risks, many of these challenges can be mitigated through technological innovation, appropriate regulation, and institutional development. Overall, this paper concludes that a well-managed transition toward a cashless society can promote competition, innovation, and long-term economic resilience rather than undermine financial stability.

Keywords: Cashless Society; Cryptocurrency; Currency Competition; Central Bank Digital Currency (CBDC); Stablecoin; Monetary Policy; Inflation Expectations; Economic Stability

Introduction

For much of its early history, cryptocurrency was dismissed as a fraudulent idea. Critics have argued that digital currencies lack intrinsic value, have no government backing, and are primarily used for

illicit activities. In 2017, JPMorgan CEO Jamie Dimon famously declared that Bitcoin was “not a real thing” and claimed that it was largely a tool for “drug dealers and murderers” (Vasile, 2017). Similarly, economist Nouriel Roubini, often referred to as “Dr. Doom,” described the cryptocurrency industry as

a “stinking cesspool” of speculation and fraud (Rooney, 2018). To many policymakers, economists, and financial leaders, cryptocurrencies appeared incapable of becoming a serious component of the global monetary system. Yet history unfolded differently. Rather than disappearing, digital currencies have evolved and expanded. The emergence of stablecoins provides a more stable medium of exchange, while the growing popularity of cryptocurrencies prompts governments and central banks around the world to develop Central Bank Digital Currencies (CBDCs) of their own. Whether one views cryptocurrencies positively or negatively, their influence is undeniable. What began as a speculative financial experiment has become a force capable of challenging traditional monetary systems and introducing new forms of competition in currency markets. Today, the global economy stands at a crossroads, as policymakers debate whether a cashless society should replace today's cash-based economy. Although some critics still argue that digital currencies fail to create meaningful competition within the financial system, the transition toward a cashless society can, in fact, encourage competition among currencies, financial institutions, and payment systems, ultimately driving improvements that benefit both economies and consumers.

Currency Competition

Although initially viewed by many as assets for investment and speculation, cryptocurrencies such as Bitcoin and Ethereum have emerged as viable forms of currency that may compete with government-issued money. Created in 2008 as a concept of decentralized currency, Bitcoin was unknown and possessed little value (Nakamoto, 2008). In 2011, Bitcoin's value rose by 8000% and began gaining widespread attention (Macrotrends, 2026). Over time, its value appreciated dramatically. Historical data show that in 2010, Bitcoin traded at approximately 0.07 USD per coin, whereas in 2026, it trades at roughly 80,000 USD per coin (ibid.). This represents an increase in value of approximately 114 million percent. Because of such price volatility, critics argued that Bitcoin would perform poorly as a medium of exchange and store of value, suggesting that it functions more as an investment asset than as a true currency. Indeed, this limitation meant that Bitcoin alone did not pose a substantial threat to fiat money. During the early 2010s, however, many recognized this issue and realized that a mechanism was needed

to support the broader use of cryptocurrencies as practical currencies (Financial Stability Board, 2020). Consequently, stablecoins were introduced to the market. Stablecoins are a type of digital currency designed to maintain a stable value by being pegged to another asset, most commonly the U.S. dollar in the case of USD Coin (USDC) and Tether (USDT).

Following the introduction of stablecoins, central banks and governments could no longer ignore cryptocurrencies and were forced to view them as a legitimate challenge to government-issued fiat currencies. In response to the growing influence of digital assets, many governments have begun developing their own digital currencies, known as Central Bank Digital Currencies (CBDCs).

Through the implementation of CBDCs, governments aim to mitigate the effects of cryptocurrencies while preserving their ability to regulate monetary policies and manage the economy. This global trend toward digitization can already be observed in many countries. Nations such as China, Jamaica, and Nigeria have fully launched CBDCs, while others, including the European Union, are actively testing and developing their own versions. Therefore, competition within modern currency markets is real, and cryptocurrencies can no longer be ignored.

Benefits of Competition

When a government's currency becomes the only practical option for its citizens, economic mismanagement can have catastrophic consequences. Zimbabwe's hyperinflation crisis in the 2000s illustrates how competition among currencies can provide an important safeguard against irresponsible fiscal and monetary policies. During the early 2000s, Zimbabwe experienced rising government spending alongside declining economic output and tax revenue, resulting in large fiscal deficits. As these deficits grew, the government searched for ways to finance its spending. Rather than significantly reducing expenditures or raising taxes, the government increasingly relied on printing Zimbabwean dollars to fund its obligations. As the money supply expanded while economic production continued to decline, inflation increased rapidly. In March 2001, inflation hit 100%. By 2008, it was 2600%. The crisis destroyed personal savings, increased poverty, and prompted many citizens to leave the country (IMF, 2009).

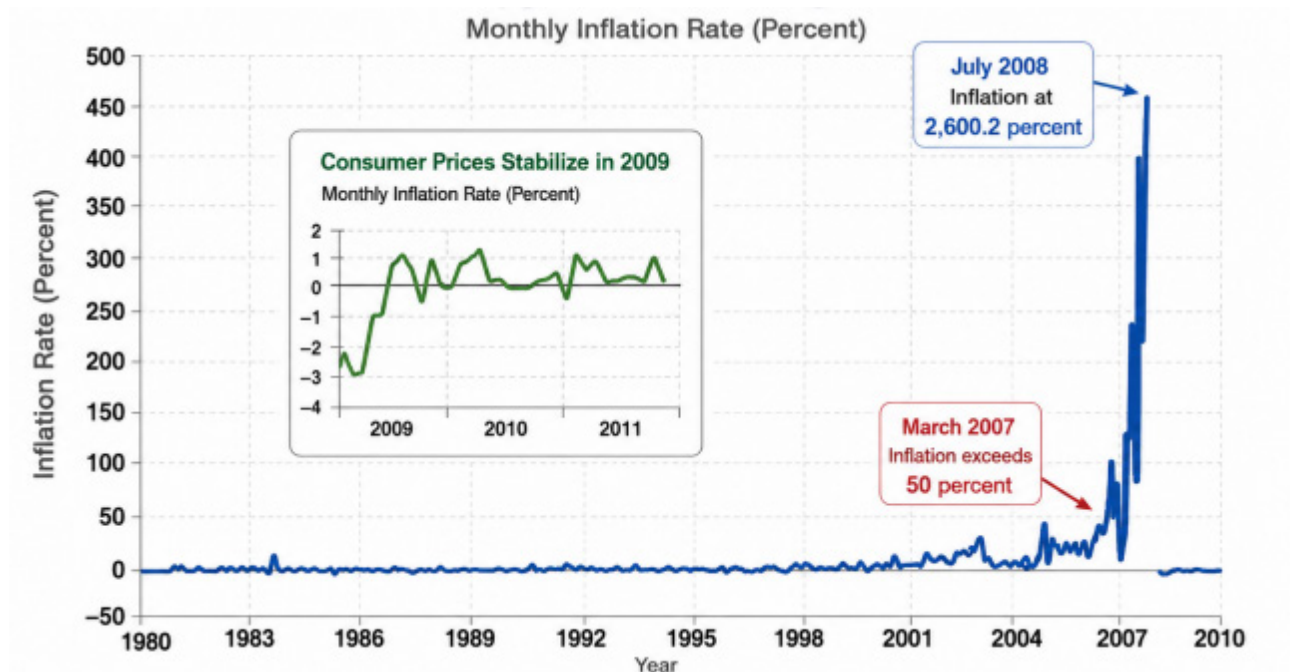


Diagram 1 Inflation in Zimbabwe (Source: IMF International Financial Statistics database; Compiled by Taylor, 2012)

The remaining population in Zimbabwe eventually began using the U.S. dollar, which soon allowed the economy to function in a more stable manner. This phenomenon, known as dollarization, forced the government to respond cautiously, as it did not want the widespread use of the U.S. dollar to fully diminish its influence over the country's economy. As a result, the government implemented more responsible policies and attempted to mitigate the damage caused by hyperinflation. In 2009, the Zimbabwean government introduced a new currency called Zimbabwe Gold (ZiG). After the central bank of Zimbabwe tightened the monetary policy, the value of the ZiG has remained stable, although its long-term performance remains uncertain (Trading Economics, 2026). This example demonstrates how competition among currencies can positively influence public policy. With the incorporation of cryptocurrencies, this competition could become more intense, thus exerting further pressure on policymakers to be disciplined. Because cryptocurrencies operate anonymously and independently of government control, a large-scale shift away from national currency would make it significantly more difficult for governments to restore confidence and maintain influence over the economy. Therefore, to preserve both their credibility and monetary authority, governments would be encouraged to act more responsibly, potentially preventing future economic catastrophes. The digital nature of cryptocurrencies also allows people to quickly transition out of the troubled currency. In the case of Zimbabwe, it took the government more than seven years to admit that its currency failed. A

digital alternative would have shortened the painful process.

Furthermore, increased currency competition may help anchor inflation expectations. Because governments face stronger incentives to maintain stable policies, citizens are more likely to trust that inflation will remain under control. In the expectations-augmented Phillips Curve, lower inflation expectations shift the short-run Phillips Curve downward, allowing the economy to experience lower inflation at any given unemployment rate.

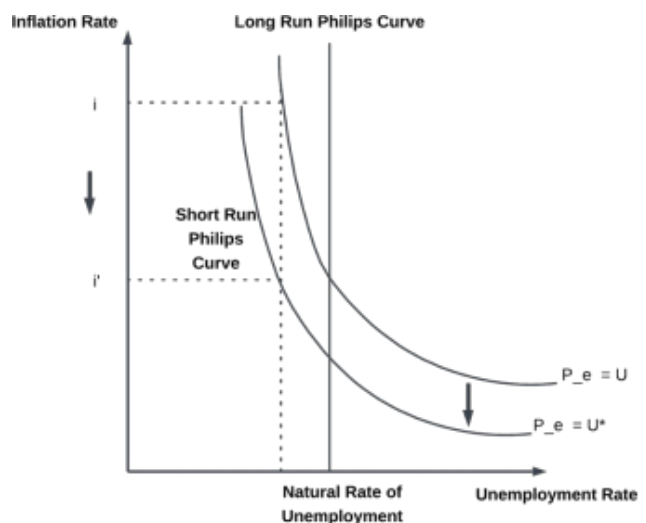


Diagram 2 Phillips Curve and Inflation Expectation

This relationship can be observed in the United States.

Despite periods of expansionary fiscal and monetary policy, the United States has avoided hyperinflation because households and businesses maintain relatively low inflation expectations and confidence in the long-term stability of the dollar (Mankiw, 2020). This credibility has been built through decades of relatively disciplined economic management. Greater competition among currencies may encourage governments to build and preserve similar levels of trust and credibility, ultimately contributing to a more stable economic environment.

This lower inflation rate may also allow governments and central banks to utilize fiscal and monetary policies more effectively because there is greater room to stimulate the economy when a recession occurs. This can be seen in the Zimbabwean example. When a country is already experiencing high inflation, people tend to lose confidence in the government's ability to manage the economy. As a result, additional expansionary policies may further increase inflation expectations and worsen economic instability. However, in countries with low and stable inflation, such as the United States, households and businesses generally have greater confidence in economic institutions and policymakers. Consequently, governments and central banks can implement expansionary policies during economic downturns with a lower risk of triggering runaway inflation or a loss of public confidence. By encouraging governments to maintain responsible and disciplined policies, competition within the currency market may help create the credibility necessary for policymakers to respond more effectively to future economic challenges.

Doubts about Competition

Admittedly, competition in the currency market is not unanimously viewed as beneficial. Critics argue that CBDCs may cause disintermediation by drawing funds away from traditional commercial banks and into digital assets. The disintermediation process upends the financial sector and may disrupt economic growth. However, many economists and policymakers have proposed solutions to this issue. One commonly suggested approach is a two-tier system, in which the central bank issues the CBDC while commercial banks continue to distribute and manage it (Bank for International Settlements, 2023). This allows the benefits of digital currencies to be realized without completely removing the role of traditional banks. As a result, the negative effects of disintermediation can be significantly mitigated, suggesting that increased competition in the currency market is unlikely to have the severe economic consequences that critics predict.

Additionally, cryptocurrencies, especially Bitcoin, require substantial amounts of energy to operate because of their mining process. For example, Bitcoin-mining company CleanSpark reported electricity consumption of approxi-

mately 581.8 GWh per month, or roughly 7 TWh per year, enough to power approximately 650,000–700,000 American households for an entire year (CleanSpark, 2025). Consequently, some economists argue that widespread reliance on cryptocurrencies could contribute to financial instability and harm the national economy. The concerns regarding energy consumption and credit risk, although serious, are not impossible to overcome. As technology continues to advance, more renewable energy sources may become available, and developers may discover less energy-intensive methods of mining or validating cryptocurrency transactions. Like other economic systems, currencies, and governments, digital currencies will continue to evolve and improve in order to become more efficient, appealing, and credible. Therefore, digital currencies should not be dismissed solely because of their current technological limitations.

Lastly, cryptocurrencies and stablecoins are not always fully protected or backed by governments, meaning that users may experience significant financial losses if a stablecoin loses its peg, an exchange fails, or a digital asset declines sharply in value. Similarly, the issue of credit risk associated with stablecoins and cryptocurrencies can be reduced through stronger regulation, greater transparency, and the involvement of reputable corporations or governments. By establishing clear standards and commitments, issuers can build credibility and public trust over time. As a result, many of the current risks associated with digital currencies may become less significant as the industry matures and develops more reliable institutions.

Conclusion

Throughout history, transformative innovations have often been met with skepticism and uncertainty. Yet it is these innovations that have driven human progress. They have enabled societies to form, allowed humanity to explore the space and universe, and allowed people around the world to communicate with each other. The transition toward a cashless society represents another step in this eternal process of innovation and advancement. Undeniably, the future is uncertain, and any significant transformation carries risks. However, it is through confronting uncertainty with confidence that progresses society. Therefore, we should not fear a cashless society. Although concerns regarding disintermediation, energy consumption, and credit risk are legitimate, these challenges are not insurmountable. Rather than resisting this transition, policymakers should focus on ensuring that its development promotes competition, innovation, and economic resilience. If managed effectively, a cashless society may not represent a threat to prosperity, but rather an opportunity to create a more accountable, efficient, and resilient financial system.

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