

## MUST A CURRENCY BE CENTRALLY REGULATED TO BE ETHICAL?

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AN INVITED RESPONSE TO Andrew Allison (2021), “Scharding on Non-Centrally Regulated Currencies and Price Volatility,” *Bus Ethics J Rev* 9(8): 47–53,  
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### ABSTRACT

Scharding (2019) argues that Bitcoin is unethical on Fichte’s (2012/1800) view because its instability makes it unable to guarantee that users can afford what they need to live. She contrasts Bitcoin with currencies controlled by central authorities that can guarantee their stability. Allison (2021) objects that not all centrally controlled currencies are stable and not all non-centrally controlled currencies are unstable. I clarify that both stability and a means of securing stability (typically, a central authority) are necessary, but not sufficient, for a currency to be ethical.

A CURRENCY IS ‘ethical’ on Fichte’s (2012/1800) account of the ethics of currency when people can use it to secure, for the foreseeable future, what they need to live. This view would evaluate a currency as unethical, then, if the currency’s value fluctuates so wildly that people cannot use it to purchase the staples of life over a set period (Fichte 2012/1800). A typical mechanism for stabilizing currencies is a central authority. For example, the Bank of Canada controls the value of Canadian dollars, thus stabilizing the value of this currency. Some currencies are not controlled by a central authority, however. Cryptocurrencies like Bitcoin are monitored by peer-to-peer (P2P) communities and are not subject to centralized control. In its nearly 15 years of existence, Bitcoin’s value has varied significantly. Between

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October 2021 and May 2022, for example, Bitcoin's value ranged from more than 75,000 to less than 40,000 Canadian dollars. Based on such fluctuations, Scharding (2019) argues that Bitcoin is an unethical currency on Fichte's view. Allison (2021) counters that many currencies' values fluctuate greatly, including those that are subject to central control; moreover, some currencies that are not subject to central control are quite stable. In this Response to Allison (2021), I highlight that Fichte requires ethical currencies to be *reliably* stable (as can occur when they are controlled by a central authority) and emphasize that currencies are unethical whenever they fail to secure what people need to live.

**The argument: Currencies are unethical when they fail to secure people's lives**

Fichte (2012/1800) offers an intriguing account of when currencies themselves are 'ethical' (as opposed to when it is ethical for people to use, or create new, currencies). According to this view, currencies are ethical when they fulfill their ethical purpose, or designated role in an ethical society, which is to help secure the rights of the people who use them (Fichte 2012/1800). More specifically, currencies support people's right to life by facilitating their acquisition of what they need to live. Currencies facilitate such acquisition primarily by enabling people to engage in financial transactions. Via financial transactions, people can exchange what they own for what they need. Fichte notes that such exchanges empower people to gain both what they require to survive as animals and what they need to pursue their (distinctively human) personal aims (Fichte 2012/1800).

Currencies can only enable people to obtain what they need to live, though, when they maintain adequate purchasing power. Consider a situation in which ten dollars can purchase a loaf of bread. If the value of dollars depreciates such that a loaf of bread costs twenty dollars, then people who cannot afford ten extra dollars per loaf of bread could (absent external intervention) become unable to secure what they need to live. The task of stabilizing a currency's value typically falls upon the central authority that controls it. If Canadian dollars depreciate to an extent that threatens people's abilities to obtain the staples of life, the Bank of Canada could intervene by, for example, raising the interest rate associated with the currency to make the currency more valuable. Such intervention makes it more likely

that Canadians will be able to continue to afford what they need to live.

Not all currencies enjoy such central control. Gold and silver, for example, can be readily exchanged for goods and services but they do not have value (merely) because a central authority declares that they do. Rather, ‘commodity’ currencies like gold and silver have value in virtue of the purposes for which they can be used, such as constructing artifacts or conducting electricity. Cryptocurrencies like Bitcoin, similarly, can be exchanged for many goods and services even as they lack both forms of value. Cryptocurrencies lack the ‘fiat’ value of Canadian dollars because a central authority neither declares that they have value nor maintains that value; they lack value as commodities to the extent that they are purely digital and, in their physical form, serve no useful purpose. Bitcoins have value, rather, in virtue of the P2P community that monitors people’s use of Bitcoin. Via an algorithm, the P2P community ensures that only people with the ‘key’ to a Bitcoin can spend it and that this key can only be used once (i.e., no double spending).

Because its value has varied significantly, Scharding (2019) argues that Bitcoin cannot secure what people need to live. A loaf of bread in Bitcoins costs nearly twice as much in May 2022 (approximately 0.00025 Bitcoins) as in October 2021 (approximately 0.0001333 Bitcoins), leaving those who lack the extra currency unable to afford this staple of life. As such, Bitcoin is unethical on Fichte’s (2012/1800) account.

### **The objection: Fluctuations are independent of central control**

In a helpful Commentary, Allison (2021) argues that non-centrally controlled currencies are not necessarily unethical because they need not fluctuate wildly. Relatedly, the fact that a currency is centrally controlled does not entail that the currency is ethical; centrally controlled currencies can be extremely unstable. As evidence for these claims, he shows that the values of some centrally controlled currencies have varied significantly and that the values of some non-centrally controlled currencies have been relatively stable (Allison 2021). For example, the Zimbabwe dollar, which is centrally controlled by the Reserve Bank of Zimbabwe, lost half its value every 24.7 hours during a period of hyperinflation in 2008 (Hanke and

Kwok 2009). Although the Reserve Bank of Zimbabwe could take certain steps to control prices, such as issuing banknotes in higher denominations or declaring new currency regimes (e.g., a ‘fourth’ Zimbabwe dollar in which one dollar was equivalent to 10 billion of the ‘third’ Zimbabwe dollars) such efforts failed to arrest the currency’s hyperinflation.

Merely having central control thus does not guarantee that a currency will be stable. As the example of Zimbabwe dollars shows, central control is not omnipotent. Even when central control can address currencies’ internal issues (e.g., the Reserve Bank of Zimbabwe’s continuous printing of Zimbabwe dollars to finance foreign military efforts), moreover, central control could be unable to mitigate the destabilizing activities of foreign powers (Allison 2021). For example, it is not up to Zimbabwe whether other countries make it illegal to use Zimbabwe dollars within their borders. In this sense, central control is not sufficient to make a currency stable. Drawing upon Scharding (2019)’s claim that a currency must be stable to be ethical, then, Allison (2021) shows that central control is not sufficient to make a currency ethical.

Allison (2021) also argues that central control is not necessary to make currencies stable. To advance this point, he shows that non-centrally regulated currencies can be quite stable. The value of non-centrally regulated silver, for example, has been relatively stable. Between October 2021 and May 2022, the price of silver varied between approximately 32 and 28 Canadian dollars. This loss of approximately 12 percent of its value is considerably smaller than Bitcoin’s loss of nearly 50 percent of its value. Silver’s relative stability does not, though, show that silver is ethical on Fichte’s (2012/1800) view. Although I concede Allison’s (2021) point that central control is not needed for a currency to be stable, I maintain that central control (or an alternative means of securing the currency’s stability) is needed for a currency to be ethical, as I discuss further in the next section.

**My response: Central control is necessary but not sufficient to secure the right to life**

Allison’s (2012) argument suggests that some centrally controlled currencies could be unethical and some non-centrally controlled cur-

rencies could be ethical on Fichte's (2012/1800) view. As a matter of historical fact, Fichte did not hold the latter view about silver (or gold). He considers silver and gold to be 'world' currencies that are unethical as currencies in virtue of their essential unpredictability. Although the value of silver might appear stable over a set period, nothing guarantees that it will remain stable. The value of silver is subject to manipulation that benefits the citizens of some countries at the expense of citizens of other countries. In some cases, the people harmed by such manipulation could become unable to exchange silver for what they need to live. On Fichte's view, ethical currencies need both stability and something to ensure stability, such as central control.

With respect to the issue of Bitcoin's ethics, then, Allison's (2021) analysis does not alter my evaluation that Bitcoin is an unethical currency. It does, however, highlight that other cryptocurrencies could be ethical on Fichte's (2012/1800) view. Consider the case of Diem, a cryptocurrency proposed by Facebook and a consortium of sponsors. If this 'Diem Association' (centrally) controlled the value of the cryptocurrency such that people could reliably exchange it for what they need to live, it would be considered ethical according to Fichte's account of the ethics of currency.

## **Conclusion**

Allison (2021) clarifies some of the significance of Scharding's (2019) evaluation of Bitcoin. First, Bitcoin is not centrally controlled and is not a stable currency but these two characteristics are independent of one another. Scharding's (2019) evaluation of Bitcoin as unethical attaches to the currency's instability, not the fact that it is not centrally controlled. Second, instability entails a currency being unethical but stability does not (on its own) entail that a currency is ethical on Fichte's approach to the ethics of currency. Rather, currencies can only be ethical when they are reliably stable, as when a central authority guarantees their stability. Third, stability and a means of securing stability (typically, central control) are thus both necessary conditions for a currency to be ethical on Fichte's view but neither is sufficient. Fourth, the sufficient condition for a currency to be ethical on Fichte's view is that the currency secures, for the foreseeable future, what users need to live.

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