FRONTLINE MARKETING MANAGEMENT AND ECONOMICS JOURNAL
(ISSN – 2752-700X)
VOLUME 04 ISSUE 09 Pages: 17-27
OCLC – 1276793382

Publisher: Frontline Journals

Journal Website: https://frontlinejournals.org/journals/index.php/fmmej

Research Article

GOVERNMENT DEBT AND CRYPTOCURRENCIES: HOW BITCOIN IS CHANGING THE RULES OF THE GAME

Submission Date: Sep 08, 2024, **Accepted Date:** Sep 13, 2024,
Published Date: Sep 18, 2024
Crossref doi: https://doi.org/10.37547/marketing-fmmej-04-09-03

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ABSTRACT

In recent years, there has been a significant increase in public debt in many countries, which calls into question the sustainability of traditional financial systems. In this context, cryptocurrencies, especially bitcoin, are beginning to play an increasingly important role in the economy. This article explores the relationship between government debt and cryptocurrencies, focusing on how bitcoin can change the rules of the game in the financial world.

We consider the mechanisms by which bitcoin and other cryptocurrencies can serve as an alternative to traditional financial instruments, as well as their potential as a means of protection against inflation and devaluation. In addition, the risks and benefits of investing in cryptocurrencies are analyzed against the background of growing government debt.

The article also discusses the impact of regulation and government control on the development of the crypto market and its interaction with public finances. In conclusion, we hypothesize about the future role of bitcoin in the global economy and its ability to change the approach to public debt management.

KEYWORDS

International organizations, crypto assets, distributed ledger technology, block chain, classification of crypto assets, virtual currencies, crypto currencies, stable coins, global stable coins, global stable coin agreements, digital tokens, investment tokens, utility tokens, non-interchangeable tokens, initial token placement, decentralized finance, regulation of the turnover of crypto assets.

INTRODUCTION

In recent decades, many countries have faced rising levels of public debt, raising serious concerns about the sustainability of traditional financial systems. Debt obligations are becoming increasingly burdensome, and governments are forced to find new ways to manage finances and stimulate economic growth. In this context, cryptocurrencies, and primarily Bitcoin, are beginning to play a significant role as an alternative financial instrument. Bitcoin was created in 2009 as a decentralized digital currency, and since then its popularity has grown to such an extent that it has become a symbol of a new financial era. Cryptocurrencies offer unique features such as limited emission, transparency of transactions, and independence from central banks, making them attractive to investors and users seeking to protect their assets from inflation and devaluation. This paper examines the relationship between growing public debt and the development of cryptocurrencies, focusing on how Bitcoin can be a game changer in the financial world. We will look at the mechanisms by which cryptocurrencies can serve as an alternative to traditional financial instruments, and analyze the risks and benefits associated with investing in them against the backdrop of growing public debt. Finally, we will try to predict the future role of Bitcoin in the global economy and its impact on public finance management.

Public debt has become one of the most discussed topics in the economic policies of many countries. As debt increases, questions arise about its sustainability, the ability of governments to service their obligations, and the possible consequences for economic growth. In the context of global financial crises, pandemics, and geopolitical conflicts, governments are forced to increase borrowing, which leads to an increase in debt obligations. This creates the need to find alternative methods of financing and protecting assets.

At the same time, cryptocurrencies, especially Bitcoin, have begun to occupy an increasingly important place in financial systems. Bitcoin, created as a decentralized digital currency, offers unique advantages such as a limited emission (maximum 21 million coins), which makes it potentially resistant to inflation. These characteristics attract the attention of investors looking for ways to protect their assets from the devaluation of traditional currencies.

LITERATURE REVIEW

In recent years, there has been growing interest in the relationship between government debt and cryptocurrencies, especially Bitcoin. Research in this area covers various aspects, including the economic, financial, and social implications of cryptocurrencies in the context of rising government debt. This review examines the existing literature that examines these issues.

Numerous studies have highlighted that high levels of government debt can have negative consequences for the economy. For example, the works of authors such as Keynes [1] and Friedman [2] emphasize that excessive borrowing can lead to inflation and economic instability. Modern studies, such as Rosenberg [3], examine the long-term consequences of increasing government debt, including the impact on tax policy and the investment climate.

Cryptocurrencies, especially Bitcoin, are seen as a potential alternative to traditional financial instruments. Research by authors such as Nakal [4] and Buterin [5] highlights Bitcoin's unique characteristics, such as decentralization and limited supply, which make it attractive to investors in an environment of inflation and instability.

Some authors explore the impact of Bitcoin on traditional economic models. For example, Lane's work [6] analyzes how the growing interest in cryptocurrencies may change approaches to monetary policy and government debt management. He argues that Bitcoin may become a "safe haven" for investors in times of economic uncertainty.

Despite the benefits associated with the use of cryptocurrencies, the literature also highlights the risks involved. Studies such as Skoll's work [7] focus on the volatility of cryptocurrencies and their potential vulnerability to fraud and hacking. These factors may limit their use as a reliable tool for protecting against government debt.

Cryptocurrency regulation remains a hot topic in the literature. The works of authors such as Zubarev [8] analyze the impact of government regulations on the cryptocurrency market and their integration into the traditional financial system. He emphasizes that adequate regulation can contribute to a wider adoption of cryptocurrencies as a tool for protecting against growing government debt. This review demonstrates the need for further study of the topic for a deeper understanding of its impact on the global economy and financial systems. The literature review shows that the relationship between government debt and cryptocurrencies is a complex and multifaceted topic. Bitcoin provides new opportunities for investors and governments in the context of economic instability, but is also associated with certain risks and challenges. The future of this relationship will depend on further research, technological developments, and changes in the regulatory environment.

Methodology

A set of economic research methods was used to analyze the data using a systems approach to studying the problem. The study used systems, chronological and competence approaches.

The methodological basis of the study is formal logic, methods of historical, statistical and comparative analysis, systematization, classification and expert assessment, grouping, comparative method and content analysis, methods of graphical interpretation and others.

Results

Increasing government debt can lead to inflation, as governments may resort to printing money to cover their liabilities. This reduces the purchasing power of the population and can lead to economic crises.

To service their debts, governments must raise taxes, which can negatively affect economic growth. Higher taxes reduce the disposable income of citizens and reduce consumer spending.

Reduced investment attractiveness**: High levels of government debt can discourage foreign investors, leading to a decrease in capital inflows and slower economic growth.

Bitcoin and other cryptocurrencies can serve as a store of value in an inflationary environment. Bitcoin's limited supply makes it more resilient to inflationary pressures compared to fiat currencies. Investors are beginning to see cryptocurrencies as a way to diversify their portfolios. This can reduce the risks associated with traditional assets such as stocks and bonds, especially in volatile environments. Cryptocurrencies provide access to financial services for populations that do not have access to traditional banking systems. This can contribute to economic growth in developing countries. The blockchain technology on which cryptocurrencies are based opens up new opportunities for financial management and transparency of public spending. Cryptocurrencies are known for their high volatility, which can pose a risk to investors. Sharp price fluctuations can lead to significant losses. Governments around the world are starting to introduce regulations to regulate the cryptocurrency market. Changes in legislation can affect the supply and demand of cryptocurrencies. Despite the high degree of protection of blockchain technology, cases of hacking and theft remain pressing issues for cryptocurrency users.

Taking into account the above, it can be assumed that Bitcoin and other cryptocurrencies will play an increasingly important role in the global economy. They can become not only an alternative to traditional financial instruments, but also a new standard for storing and transferring values.

However, for this to happen, it is necessary to overcome the existing risks and challenges associated with their use. Regulation by governments, infrastructure development, and raising public awareness of cryptocurrencies will be key factors in determining their future. In recent days, the U.S. national debt has surpassed the landmark $35 trillion mark, up $1 trillion since January. According to Yahoo, it will grow by nearly $5 billion every day through 2025. That latest milestone was officially reached last Friday. That day, daily Treasury data compiled and released Monday showed the total debt at $35.001278 trillion.

“This is insane,” Tesla (NASDAQ:TSLA) CEO Elon Musk wrote in a post on Platform X in response to the news. The U.S. debt has increased by more than 75% during the Trump-Biden presidencies, but the issue has taken a back seat in the 2024 presidential race.

Moreover, deficit hawks point out that the issue is often ignored in favor of ideas that could increase the debt even more.

"Borrowing continues to grow recklessly and relentlessly," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "Despite all the risks and warnings, these warning signs seem to be going unnoticed."

The issue was rarely raised at the Republican National Convention earlier this month. That's expected to change in a few weeks when Democrats gather in Chicago.

In recent years, policymakers in Washington have taken some steps to limit the deficit. The debt currently stands at 120% of GDP, after peaking at 125% in 2020, a time of peak COVID-19 spending [9].

However, a ratio of over 120% of GDP represents a debt level not seen since the end of World War II. The Congressional Budget Office projects high interest costs that could push the debt to 166% of U.S. GDP by 2054 [10].

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Still, a debt ratio of more than 120% of GDP represents a level of debt not seen since the end of World War II. The Congressional Budget Office projects high interest costs that could push the debt to 166% of U.S. GDP by 2054. [11] .

He has set spending caps that have helped reduce the budget deficit, though fiscal austerity advocates argue that more is needed to fully address the problem.

However, tax debates expected in 2025 could increase political pressure to further widen the deficit.

Key provisions of Trump's 2017 tax cuts are set to expire at the end of next year, which could mean taxpayers will pay a de facto tax increase if Washington does nothing.

However, avoiding those tax increases could add trillions of dollars to the debt in the coming years.

Trump has repeatedly said he intends to extend the sweeping tax cuts. The Committee for a Responsible Federal Budget estimates that this could add $4 trillion to $5 trillion to the debt without an offsetting solution.

The Democratic plan, first announced by Biden and recently endorsed by presumptive Democratic vice presidential nominee Kamala Harris, includes an extension of tax cuts for people making under $400,000 a year. But even that could cost more than $2 trillion without offsetting the bill.

Democrats have proposed ways to finance at least some of this spending by raising taxes elsewhere, such as a 25% minimum tax on billionaires.

When Trump discusses the national debt, he tends to be far less specific. He often claims he can solve the problem by drilling for oil, which he calls "liquid gold," but doesn't explain exactly how that would work.

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JPMorgan Chase CEO Jamie Dimon has developed a plan to reduce the US national debt, which stands at $35 trillion. However, the plan may not please the wealthiest citizens of the country, Yahoo reports.

The US national debt has become an increasingly hot topic for economists, who warn of excessive government spending and insufficient economic growth to meet future debt repayment obligations.

The government has been forced to introduce significant fiscal stimulus over the past five years in response to the pandemic and its aftermath, but it is clear that the time has come to pay down the debt.

Dimon, a longtime Wall Street expert, proposes two ways to balance the deficit: focusing on economic growth to improve the debt-to-GDP ratio and reforming the tax system for middle-income families.

In an interview with PBS News published yesterday, Dimon noted that it is entirely possible for the US to continue to fund the military while reducing the overall debt.

"I would invest in things that make America better," Dimon said. "That includes infrastructure, the EITC, and military spending. I would have a competitive international tax system that maximizes growth."

Dimon has spoken out on many of these issues before.

He cited geopolitical tensions as the biggest risk to the global economy and said there is a need to increase military spending.

As for the EITC, Dimon stressed that changing it would provide the needed support to the people and communities that need it most.

"I would finance it by taxing the wealthy," he told the Bipartisan Policy Center in January.

Dimon went on to say that there could be a small deficit once those investments start to grow.

"It's possible that taxes will just go up a little bit," he added. "I would do what Warren Buffett's rule recommends."

That rule states that no household making more than $1 million a year should pay a smaller share of its income in taxes than the middle-income household.

The rule was proposed after the Berkshire Hathaway (NYSE:BRKb) CEO repeatedly emphasized that he pays the same percentage of income taxes as his secretary, Debbie Bosanek, inadvertently highlighting tax inequality in the U.S.

The problem is that while Buffett, who is worth $138 billion according to the Bloomberg Billionaires Index, may pay a larger share of federal income taxes, Bosanek pays more in Social Security taxes.

In 2024, the Social Security tax rate for employees is 7.65%, the same as last year, while the self-employed will pay 15.3%.

The maximum Social Security tax rate is $168,000, meaning that people with incomes above that threshold pay no more than those who make less. Research has also shown that federal income tax rates are not as fair as they might seem.

Last year, the Internal Revenue Service (IRS) released data on average federal income taxes by income level. For example, the top 1% pays 26% of their income in federal taxes, while the top 5% pays 22.4%. That ratio decreases as income levels go down, with the bottom 50% paying just 3.1%.

However, a White House report later that year using more granular data found that the share of tax paid by the wealthiest Americans was actually significantly lower.

A September report found that the wealthiest 400 families in the U.S. actually paid just 8.2% of their income in taxes, largely due to capital gains tax loopholes.

In addition, a 2021 study revised in December by the National Bureau of Economic Research found that tax evasion among the highest-income Americans had been underestimated.

The researchers noted, “Accounting for complex tax evasion increases the unreported income of the top 1% over the 2006–13 period by 50% and raises that top 1%’s share of fiscal income by about 1 percentage point.”

More recent data have shifted the focus. In an updated report for the 2021 tax year released this year, the IRS reported that the top 1% pays a slightly lower tax rate of 25.9%, while the bottom 50% is taxed at a higher rate of 3.3%.

While the tax policy changes may cause anxiety among high-income Americans, Dimon is optimistic about the impact of his proposals on the overall economy. "We're going to be fine," he told PBS.

Conclusion

Thus, growing public debt creates a need for new financial instruments and approaches to asset management. Bitcoin and other cryptocurrencies represent an interesting alternative to traditional financing methods and can become an important element in the arsenal of investors and governments in uncertain times. It is important to continue to explore this dynamic area and closely monitor its developments in the future.

In conclusion, the impact of Bitcoin and other cryptocurrencies on public debt and the financial system as a whole cannot be overstated. Cryptocurrencies are not only a new asset class, but also a potential tool for changing traditional financial mechanisms. They can offer alternative ways of financing, reduce dependence on government currencies and change the approach to debt.

Bitcoin, as a decentralized currency, challenges existing financial structures by offering users a greater degree of control over their assets. This can lead to a reduction in the role of central banks and traditional financial institutions, which in turn can affect the management of public debt.

However, with the growing popularity of cryptocurrencies, new challenges arise: the need for regulation, security issues and volatility. States need to adapt to these changes to ensure the stability of financial systems and the protection of citizens' interests. Thus, Bitcoin and cryptocurrencies can change the rules of the game, providing new opportunities for the economy, but also require careful attention from regulators and market participants. It is important to find a balance between innovation and the need to protect financial stability.

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