

Bitcoin to reforge the financial system



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Digital currency consultant and entrepreneur Jonathan Levin explained how Bitcoin represents a completely original way to re-plumb the financial system on a decentralized manner.

Payment systems consist of pipes and valves which allow monetary transfers amid people around the world.

Due to high chances for errors and lack of acknowledgement for the progress, there has been very few innovation and construction of new pipes in the financial world.

One major problem with the Bitcoin pipe system is that very few people recognize the consequences of the layout and design of the pipes. This plumbing analogy fits bitcoin much than other financial markets.

Bitcoin is a type of monetary fluid with a unit of account. Bitcoins flow through out an arrangement of transaction outputs and transactions.

Transactions are made using the previous transactions as inputs to fund the transaction outputs. Each of these outputs can be considered as a pipe with a certain capacity for Bitcoin.

Each transaction is a fitting which connects multiple existing pipes.

Bitcoin is not an account-based payment system, neither is it a tokenized banking system. The protocol uses the past transaction details to generate a state of unused digital currency.

When it is said that there are 9 million bitcoins in circulation, it means that the system recognizes that 9 million bitcoins are unspent outputs which can be reassigned based on the rules of the payment system.

The reassignment cannot be reversed. Therefore, new transactions are additions to the continuously growing complex system of pipes.

Pipes are destroyed only when there is reorganization on the consensus of the Bitcoin network. As the system of pipes is appended only, the size and complexity of transaction increases with time.

The history of the digital currency can be evaluated by analyzing at the state of the pipes.

The lack of mapping from inputs to outputs is one of the problems. For example, if 2 transaction outputs are inputs in 1 transaction, the protocol does not try to map inputs to outputs.

Bitcoin keeps the information which can reveal the individual pipe's capacity. This is why Bitcoin cannot be considered as a token system. It is much more fluid and complex.

As Block Chain is a public set of transactions, analysis could be made on an arbitrarily large scale. Two types of algorithm are used for such analysis: ? minimum flow and maximum flow.

It is perhaps a red herring to even consider bitcoins as units of currency and maybe people should think more about how they should talk about bitcoins.

Jonathan Levin believes that the flows of currency should be thought of as a simultaneous construction and destruction of interests, which are not necessarily tied together in case of Bitcoin.

This concept about the digital currency should be clear to anyone involved in the industry. It will help develop private law frameworks and proper anti-money laundering guidelines for Bitcoin.