

What role do cryptocurrencies play?

The concept of tokenized value became popularized by the 2008 introduction of a peer-to-peer ‘cash’ exchange system, Bitcoin. Unfortunately, Bitcoin has fused the concept of tokens to these peer-to-peer cash systems and the underlying technologies on which they run, beginning a misconception that all tokens are cryptocurrencies.

Oxford defines cryptocurrency as “a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds”. Bitcoin is a cryptocurrency, and it is also a type of token because each Bitcoin represents something of intrinsic value. If Bitcoin had never left the realm of technologists, there would be no misconception to address. But highly publicized financial successes made Bitcoin a household word and set this alignment of tokens with cryptocurrencies in motion. Seven years after the introduction of Bitcoin, the Ethereum network launched with a new class of token, Ether, that was also a cryptocurrency. The Bitcoin and Ethereum networks ‘minted’ thousands of new millionaires - and a few billionaires - nearly overnight.

The concept of ‘easy money’ to be made from cryptocurrencies launched what has come to be known as Initial Coin Offering – or ICO - mania. Because Ethereum supports the writing of arbitrary smart contracts, a number of enthusiasts began creating contracts representing new digital assets – Ethereum-based cryptocurrency tokens – that represented either equity in a startup creating some new product or platform, or ‘fuel’ required to consume a new service being offered.

In some cases, the token issuers had sound motives, but others were simply looking to make fortunes based on the money that was pouring into the market. The sometimes-frantic financial speculation and lack of regulatory oversight very quickly led to a massive shake-up and, just like the dotcom bust of the late 90s and early 00s, many companies went under. But ICOs further cemented identification of tokens with cryptocurrencies.

It’s time to redraw the focus on tokens into a more business-oriented light. The concept of a cryptographically trusted and authenticated token is really what can revolutionize the world! At the InterWork Alliance, we define tokens as representations of value that can be used to decentralize and democratize trust and authenticity in digital interchange. All cryptocurrencies are tokens, but not all tokens are cryptocurrencies; cryptocurrency is just one form of use case that can be addressed by tokens.