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The Medieval Economics of Cryptocurrency

Medieval kings have something in common with cutting-edge software developers forking new applications off the blockchain.

Like a monarch minting coins of the realm or the Federal Reserve printing dollar bills, designers of new cryptocurrency derive the benefit of *seigniorage* (“literally is the face value of the money minus the physical cost of making it.”)[1] when they offer pre-mined coins through an initial coin offering (or ICO).

Unlike Bitcoin miners who face huge upfront processing and electric power costs to solve hashes and thus add new blocks to the blockchain, developers launching a start-up cryptocurrency retain the value of the fiat currency exchanged for any new coins. Of course, if the value derived from this seigniorage is going to be plowed right back into development of the nascent platform, investors may have no objections to forgoing this benefit.

Unless the core software contains clear prohibitions on issuance of new coins, which cannot be overridden without the consent of all coin-holders, developers can continue to profit by issuing new coins and devaluing existing holders.

The Weimar Republic in Germany, modern-day Zimbabwe, and a host of other countries throughout history show what happens when governments abuse the printing press (or their seigniorage). These hyperinflationary practices destroyed entire national economies.

Any developer holding back pre-minted coins from an ICO should heed these examples before selling off their holdings—even if such secondary sale is being put to good use in funding development of the underlying software.

The scrupulous issuers of digital coins out there likely want to focus on innovation—not managing monetary supply. However, unless these issuers brush up on economic history, ICO investors might find themselves in the position of a medieval peasant discovering that this year’s silver coin feels a lot lighter than last year’s.

For more information on investing in or forming an ICO, contact [Gray Sasser](#).

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