The speculative Bitcoin frenzy

Nick Beams 10 December 2024

The spectacular rise of Bitcoin is not an indication that it and other cryptocurrencies represent a new form of finance or an alternative to the present system. Rather, it is the expression of the increasingly diseased character of the present financial order, a growing malignancy centered at its heart in the US.

Last week, the price of Bitcoin rose to more than \$100,000, as other cryptocurrencies also surged, bringing their total value, according to a report in the *New York Times*, to \$2 trillion. The *Wall Street Journal* estimated the total value of the asset class at \$3 trillion—"more than the combined worth of Mastercard, Walmart, and JPMorgan Chase."

This has prompted claims in the so-called mainstream media, which previously tended to characterize it as some kind of scam, to hail the crypto surge as the wave of the future.

As the Times article went on to comment: "Bitcoin's rise to \$100,000 signals its now-undeniable status in the global economic system. The virtual currency has now become a staple of financial markets, embraced by Wall Street giants and amateur investors alike."

At the end of 2022, Bitcoin underwent a precipitous fall in the wake of the collapse of the heavily promoted crypto exchange firm FTX and the charging and subsequent conviction of its owner, Sam Bankman-Fried, for fraud. The value of Bitcoin just two years ago was around \$16,000.

Since then, it has enjoyed a spectacular rise. It began last January when regulatory authorities in the US allowed major asset managers and finance houses to establish financial products, exchange traded funds (ETFs), linked to the coin.

Crypto started its life as a supposed alternative to the existing financial system, allowing transactions to be conducted outside the purview of banks and regulatory authorities. As such, it only had a limited connection with major banks and financial institutions. All that has changed.

As a recent article in the Financial Times (FT) noted,

since the approval by the Securities and Exchange Commission allowing Bitcoin ETFs, "crypto has become far more closely connected to the rest of the financial system. And the numbers are enormous: BlackRock's recently launched ETF has already drawn an astonishing \$48 billion."

Bitcoin received a further boost with the election of Trump to the US presidency and his declaration that he wants to make the US the "crypto capital of the planet" and even to establish a fund to invest in it as part of the government's reserve of financial assets.

Trump boosted the use of crypto during the election campaign and has since followed up with a series of appointments of crypto advocates and operators to key posts in his administration.

After the appointment of Howard Lutnick to head the commerce department and Elon Musk as the co-head of the "department of government efficiency" with the acronym DOGE, the same as Musk's own crypto token, he announced that crypto advocate Paul Atkins would head the chief regulatory authority, the SEC, to replace outgoing head Gary Gensler, regarded as a thorn in the side of crypto.

Trump described Atkins as a leader for "common sense regulations"—code words for the scrapping of what remains of previous controls. Atkins has been critical of the Public Company Accounting Oversight Board (PCAOB), which regulates accounting firms and is overseen by the SEC.

A member of the PCAOB's advisory group, Lynn Turner, told the FT the appointment was possibly the worst outcome for the organization "short of an atomic bomb hitting their building."

In announcing the appointment, Trump made crypto the central focus. In a post on his social media site, he said Atkins recognized that "digital assets & other innovations are crucial to Making America Greater than Ever Before."

This was followed up by the announcement that Gail Slater, an aide to Vice President-elect JD Vance, an avid crypto supporter, would head the Department of Justice's

antitrust division, a move hailed by corporate and financial interests.

Trump's announcements and appointments led to a rapid rise in Bitcoin, which is up by more than 50 percent since the November 5 election victory.

What is most significant is that it is being fueled by what the FT called a "flood of institutional money. Exchange traded funds investing in the cryptocurrency run by mainstream asset managers including BlackRock and Fidelity have poured in billions since they received regulatory approval in January."

Other asset managers, including pension funds, are reported to be investing in cryptocurrency.

In grasping the significance of this phenomenon, it is vital not to become dazzled by the rise of Bitcoin and the fabulous fortunes that have been acquired, in some cases virtually overnight, and to focus on the fundamental issues.

No matter how steep its rise, and it may have further to go, the basic facts remain. Bitcoin is a financial asset that has no intrinsic value and does not generate an income stream. Other financial assets, such as holdings of commercial property and corporate debt, do, and, in the final analysis, rest on a real asset that generates a profit.

Profit from Bitcoin trading is generated solely by its price rise and nothing else. And its rise in price continues as long as money keeps flowing into the crypto market.

Many things have changed since the 1920s when Charles Ponzi gave his name to this type of operation. But the crypto market is, by any definition, a Ponzi scheme and, like all such schemes, considerable amounts of money can be acquired while they continue to operate.

The significance of the latest surge is that it is not being driven by rogue operators, outliers, and individual investors. Today it could be rightly characterized as a Ponzi scheme backed by the most powerful financial institutions in the world and by the capitalist state. Nothing like this has been seen in economic history.

Its promoters sometimes like to claim that it does have a real foundation in so-called blockchain technology. But the potential gains from this technology have nothing to do with the rise of the cryptocurrencies on which they are supposedly based.

In fact, a kind of inversion has taken place.

When Bitcoin was first proposed by its pseudonymous founder Satoshi Nakamoto in a paper published in 2008, it was advanced as a means of making payments without having to rely on the traditional banking system and free of control by the state.

Today, the price of Bitcoin is being sent further into the stratosphere by Trump's proposal, among other things, to create a national reserve of Bitcoin holdings. That is, the state, which it was supposed to bypass, is to become one of its foundations. Its supposed role as an alternative currency has not materialized, except, by and large, for criminal activities.

As the *Wall Street Journal* pointed out in a recent article: "Bitcoin is practically never used today as a way to make payments—the original use envisioned by Nakamoto. Instead, proponents argue it is a form of 'digital gold,' a way to store monetary value and hedge against inflation."

But there is a fundamental difference between so-called "digital gold" and real gold, and all that glitters is not gold. There are fluctuations in the price of gold as the result of speculation. But gold, as a commodity produced by human labor, does embody value. The rise in Bitcoin's price is entirely the result of more money—the very money it was supposed to bypass—flowing into the crypto market.

Not only does Bitcoin embody no intrinsic value, but the process of "mining" new coins via complex computerbased calculations is extremely destructive and wasteful. It has been estimated that the creation of new Bitcoin by tens of thousands of computers uses as much as 0.9 percent of the global demand for electricity, roughly equivalent to the annual energy consumption of Australia.

The latest rise in the price of Bitcoin, driven by the intervention of Wall Street finance houses, has major implications for the stability of the entire financial system. When FTX went down two years ago, it had little effect on the broader financial market. Conditions have changed markedly since then.

As Martin Walker, a research fellow at Warwick Business School, commented to the FT: "One thing that history teaches us about financial crises is that risk always builds up and then explodes in areas the regulators never seem to expect. Fault lines in the financial system are not always obvious... Crypto finance is so large now there are sure to be macro risks... that are both dangerous and little understood."



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