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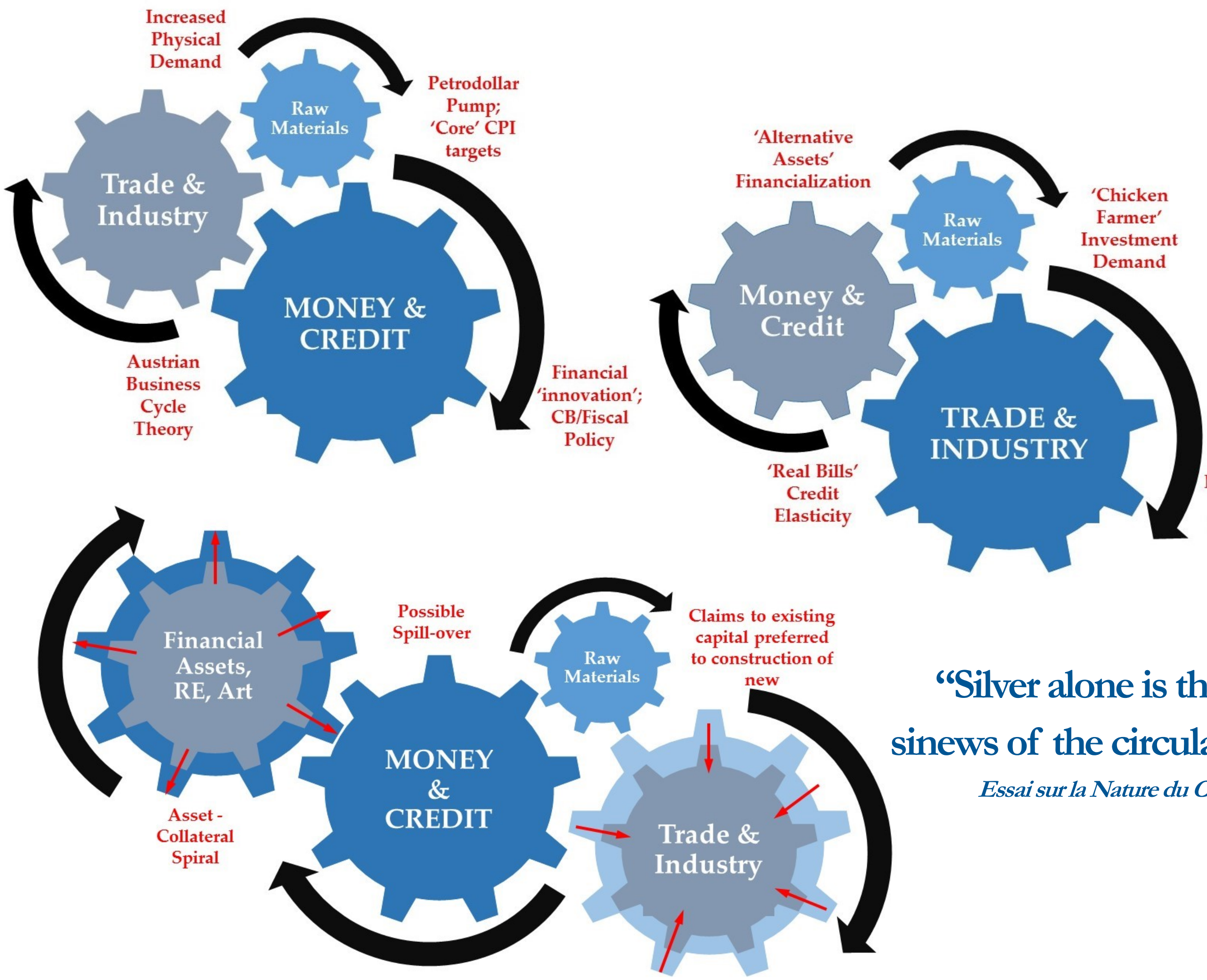

"Silver alone is the true sinews of the circulation"

Essai sur la Nature du Commerce

Cryptomania

How those hoping to make money by making 'money' may in fact be making something much, much worse...

Summary

Is it a bird? Is it a plane? NO! IT'S SUPERMONEY!

As the phenomenon which is Bitcoin continues its transition from the geek press, past the financial columns, and onto the front-pages of the newspapers, a little sober reflection may be in order. Are its proponents' claims justified when they tell us that, far from being yet another instance of the Madness of Crowds, it will soon replace all our existing monies and supplant all our present ways of doing business? And, if they are right, will that redound either to their benefit or to ours, or to a different set of actors entirely?

'I have built my enterprise on the firmest ground that can be found – the foolishness of people." Ivar Kreuger, the Swedish Match King'

You just don't get it, Grandpa!

With every new surge upward in the price of bitcoin, denizens of the crypto cosmos simply cannot resist sticking their tongue out at us Old School Cassandras. *'Yah booh, sucks*!' may not be the most compelling of investment theses, but it certainly gives the old amygdala a jolt when one can dismiss scepticism by brashly waving one's virtual wad at one's critics.

As those crowing now might do well to bear in mind, however, it is not whether one makes notional gains riding an investment craze on the way *up* that counts, but whether one manages to realize and safely extract any of them on the way back *down*.

But of what does this 'market cap' which they so boastfully flaunt at us actually consist? What underlying stock of wealth-generating property underpins it, beyond the bootstrapped buoyancy of one fervent believer frantically overbidding another?

If we take the case of a 'pre-Satoshi asset' (*sic*) like that of that staid, maiden-auntly favourite of the Old Economy, Apple, we tend to find that, even if the stock trades at some multiple of its (historic) book value, this still represents a modicum of real substance, on a going-concern basis, if no other.

The premium may be a reflection of value already attained or it might depend—a little less concretely—on reasoned projections that past entrepreneurial successes will be extended into the future. Being less firmly anchored, such expectations are of course where those flights of fancy we call 'bubbles' may one day intrude but, even where this *is* the case, the underlying business itself may still survive a later, more sober appraisal of its prospects, no matter how violent the shock of the dispelling of the original illusion.

But how does any of this apply to a crypto-currency?

'Miners' certainly get paid (if only in crypto). Exchanges impose hefty transaction fees. But where are the Customers' Yachts—its owners' revenues? As for its earnings, money is only not 'sterile' if it is exchanged for those other present goods which are intended for productive use and hence for the generation of more valued goods over time—something which hardly seems to be the goal of the cyber squirrels, bent on hoarding as much of their new treasure as they can.

Assets, we hardly need mention. A machine tool, a factory building, a patent, a brand name, or a secret sauce—they are one thing—but a cashpile (assuming for a moment that these new exotica even *are* to be equated with cash) is a pale shadow of a thing: one which needs to be swapped for the other items on our list in order to bear its fruit.

Absent any of these attributes, is the breathless oohing and aahing over 'market cap' any different from the all-too brief mania for Mississippi Company shares? Worse, is it far removed from the nine-day wonders of Beanie Babies or Cabbage Patch Dolls? Is the spiral of price rises anything more than an artefact of an expanding pool of credulity (and cupidity) meeting a theoretically restricted 'float' in a manner which exacerbated the first great Tech Bubble back at the turn of the century?

The luminiferous aether

Even when we set aside this miscategorization and deal instead with the new tokens' claim to be a superior alternative to our present 'fiat' (more accurately, our fractional reserve) money, we immediately run into difficulties.

These have nothing to do—as some have suggested—with the fact that they do not come bearing the state's official imprimatur. Nor would an Austrian attempt either to defend the present system or cavil too much at the (Hayekian) idea that competing private currencies should be issued—and may the best money win! No: the point is rather that these currencies should stably and efficiently facilitate the exchange of real goods and services and conversely that they should not become vehicles for wild speculation in themselves.

Money is principally a medium of exchange and, as such, a channel, a transmission mechanism, a pipeline, a highway along which the titles to goods and services can readily change hands.

This medium—like all those other, more tangible examples we have listed—serves its purpose best when we are least aware of its presence. No-one willingly drives down a road whose surface is inconstant; whose cambers tilt crazily from one stretch to another; whose turns and twists, narrowings and widenings, and violent undulations make our use of it like sending a consignment of porcelain down the Cresta Run at night in a bobsleigh steered by a drunkard.

Worse yet, the bane of our present system—the one against which the crypto-cultists chant their half-comprehended imprecations—is that it is prone to fluctuations in value which arise from within and which not only add an extra level of uncertainty to the fulfilment of contractual obligations over time, but which also obscure those *relative* changes in price which naturally emanate from variations in the demand for and supply of real goods and services.

Deprived of a reliable source of such otherwise disembodied information, the spontaneous order of the free market's prices—with all its helpful feedbacks and its essential signals about the state of that incomprehensibly rich, globally-dispersed, supply-demand matrix in which the alert entrepreneur finds his opportunities to lie—is swamped instead in a confusion of dysfunctional monetary noise.

But if even the least badly-behaved of our 'fiat' currencies is prone to send these signals using a keyboard with faulty keys, crypto units—as presently constituted—reduce this to the classic case of a chimpanzee trying to bash out Shakespeare on a typewriter, or to someone trying to talk a panicky pilot in to land using a shortwave radio with failing batteries in a thunderstorm.

To invert Marshall McLuhan's famous aphorism, the message is, this is *not* a medium!

Greater than the Sum of its Parts

Then there is the bait-and-switch of crypto's supposedly rock-solid scarcity—though the efflorescence of various 'coins', 'tokens' and 'forks' leave the practical achievement of this a matter of some doubt. Even *were* the promised caps to be fully realized, however, this would arguably subject them to Gresham's Law, i.e., they would become the last things anyone would wish to surrender in making a purchase and the first ones everyone would insist upon receiving in making a sale: hence they would soon simply not trade at all.

Store of value, they might therefore—at their conceivably most successful—become: money, they would not. It is a further irony that even *that* greatly reduced status still currently eludes them, for not only do people paying for bitcoin and its peers in order to flee our supposedly obsolescent existing monies find that the 'miners' and ICO issuers seem inordinately happy to accept these latter in exchange for their efforts, but, to a man, they all still reckon that contentious 'market cap' of theirs in fossil dollars, thus denying the newcomers even any subsidiary property of acting as units of account!

Furthermore, investors need to bear in mind the rapidly expanding bestiary of the things in actual or prospective issue.

In a bizarre replay of the early 17th Century *Kipper-und-Wipperzeit*—when every barony, bishopric and burgh did much the same—every day now seems to find yet another 'mint' springing up to issue its own individual coins, all with the aim of persuading others to change them for more well-recognised monies—euros, dollars, won, and so forth.

Four hundred years ago, this quickly degenerated into a cynical race to a depreciating bottom as ever more coins were issued containing an ever lower proportion of precious metals. This particular episode of competitive debauchery provided a further major impediment to trade in a continent already beginning to fracture into the internecine horrors of the Thirty Years' War and hence engendered such a wave of economic distress that the guilty parties—summoning up what little spirit of political concord there remained in those troubled times—eventually agreed to forego all such pernicious practices, for good

So far, in the contemporary version, the hapless peasants being inveigled into giving up their good money for crypto *Kippergeld* have *not* been unwitting marks but, to the contrary, have been all too eager to be taken in. Thus far, the promise of unearned riches has largely managed to maintain its fatal allure, despite the incidence of a whole series of frauds, technical cock-ups, and sporadic interventions on the part of the authorities.

Whether or not the present-day intent is inherently—if not always *consciously*—fraudulent on this basis, the plethora of issues runs straight up against a fundamental flaw in the participants' reasoning. This is that any money relies for its function on an emergent network effect of being universally acceptable (or, more accurately, accepted without qualm within one's habitual circle of economic counterparties). Thus, it is hard to see how the vast majority of these issues will function as anything more than latter-day scrip issues for each of the evanescent, South Sea Bubble-analogue 'projects' which seem to underlie so many of them.

Render unto Caesar

There is a final, slightly sinister element to the present 'enthusiasm' for crypto which bears our close consideration.

Ever since the first use of coins—traditionally attributed to King Croesus of Lydia in the 7th century BC—the state has been jealous of its right to seigniorage, i.e., of its ability to extract a rent from its provision of money to its subjects. Curiously, this has not yet been the case with crypto. Equally strange has been the fact that those noisiest of hounds, the financial regulators—normally so quick to sniff out and bay loudly at the merest suspicion of malfeasance—have been conspicuously NOT barking in the night.

Consider too the great 'Open Conspiracy' of our post-Crash decade—notoriously spear-headed by Kenneth Rogoff—which aims to abolish cash in order to brick up our last, narrow-bore escape-tunnel from the central banks' monetary Devil's Island and thus to allow for the implementation of wild, PhD-thesis fantasies about negative interest rates and time-stamped currencies as a means of not 'wasting' the next crisis.

Could the odd forbearance of the powers-that-be find some explanation here?

Now stir in a further ingredient: the authorities' openly-avowed desire to 'integrate' the entire wage-tax-welfare-benefit system into a Panopticon whole.

Add a dash of 'helicopter money' and pinch of 'universal income'. Finally, season this witches' brew with Beijing's incipient 'social credit' concept whereby a person's entire life is to be subject to a constant monitoring, not just of their spending habits and diligence in paying bills or servicing debts but, by extension, their overall conformity to their masters' ideals of what constitutes a good citizen; an intrusive, perpetual vetting which entails suitably dire consequences for those committing any infractions of those norms.

If we take all these threads of what we might call 'Davos Man's' vision of how he brings about his long-desired, global Platonic Republic—with himself cast in the role of beneficent Guardian, naturally—we can easily imagine that the current cryptomania is being tolerated (a darker soul might say, *being encouraged*) as a beta-test of the technology by which we will all soon be brought under much tighter societal control.

Here, then, is how the bleakest of scenarios might play out.

As more innocents get drawn into the crypto net, the frauds multiply and become more brazen—after all, every bubble needs its 'Bezzle (in J.K. Galbraith's felicitous formulation). Then, as one of these scams takes on existential proportions and becomes the Hatry Corporation, the Enron, or the Lehman Brothers of the hour, the market finally totters and crashes. A general (and officially-stoked) outrage ensues. The state—that eternal lamb-butcher disguised as Good Shepherd—now steps in to deliver 'justice' and to temper the 'excesses', naturally co-opting the entire infrastructure to serve its own, even more nefarious purposes, as it does.

Mission accomplished, as the saying goes.

The Biter Bit

At the height of every mania, there are always voices to be heard declaring blithely that bubbles are well worth their price since they deliver to us innovations whose later benefits far outweigh the immediate losses caused by their premature adoption.

Even setting aside our own economic objections to such self-justificatory blatherings, we would urge all those involved in the present wave to be very careful what they wish for since most of those supposed 'benefits' might accrue not to Us, the People, but to the agents of our oppression and to their claque of Court Astrologer, pet intellectuals instead.

One imagines that few of today's crypto-cultists—many of them faux anarchists and wannabe 'pirates'—would ultimately desire that dreadful outcome of their frenzy be able to be summed up by the slogan:

'Man is born free but everywhere is in blockchains.'

Sean Corrigan

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