BETTER MARKETS

CRYPTO WEEK OF TRUTH

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The Golden Goose That Never Laid Golden Eggs

Unfulfilled Promises of Cryptocurrencies

Since the publication of the Bitcoin whitepaper in 2008, cryptocurrency developers have created thousands of cryptocurrencies. Together, these developers and their venture capital backers have spun a narrative that these projects would revolutionize everything in modern life from finance to the internet. **Yet, after more than 15 years since the creation of Bitcoin, and billions of dollars in venture capital investment, the promised golden goose has yet to yield any golden eggs.** In fact, not only has cryptocurrency come up empty on its promises, but it also is yet to be determined if any cryptocurrency will ever yield any substantive use case in the future. So far, its primary accomplishment has been to inflict excruciating losses on millions of investors who have seen billions of dollars disappear in fraudulent crypto schemes and ensuing bankruptcies. But let's focus for the moment on the supposed benefits of crypto. Below are just a few of the many unfulfilled promises of cryptocurrencies over the past 15 years.

Claim: "Cryptocurrency will enable decentralized financial transactions without the need for intermediaries."

While Bitcoin was created with the stated purpose of enabling permissionless peer-to-peer transactions without the need for a financial intermediary (decentralized), intermediaries have since swooped in to capitalize on potential profits. The cryptocurrency craze has spawned essentially the same type of centralized financial intermediaries that occupy the traditional roles in finance, all in an attempt to bring about mass adoption of cryptocurrencies. From centralized exchanges for trading cryptocurrencies to stablecoins used by individuals to trade and send cryptocurrencies to others, the vast majority of interactions with cryptocurrencies by the public occur via centralized entities. Today, legitimate decentralization in the cryptocurrency industry is difficult to find and the dream of mass adoption of decentralization in finance via cryptocurrency seems to have died on the Bitcoin vine.

Claim: "Cryptocurrencies will bank the unbanked and foster an inclusive financial system."

According to the FDIC, only 4.5% of U.S. households are unbanked and 14.4% are underbanked (meaning they are banked but have used services or products disproportionately used by unbanked households, such as payday loans). The number one reason cited by unbanked households for not maintaining a bank account was not distrust in the financial system or credit history problems, but simply a lack of funds: They don't have enough money to maintain a bank account. Cryptocurrency cannot solve for this problem and it has yet to make any discernable dent in the number of unbanked or underbanked households in the U.S. On the contrary, with false promises of vast and quick wealth, crypto has made many low-income communities decidedly poorer. For example, the recent collapse in cryptocurrency prices have disproportionately hurt low-income individuals as a recent survey found 42% of crypto holders had incomes below $50,000 (compared to 34% with incomes between $50,000-100,000 and 25% with incomes above $100,000).

In other countries where the number of unbanked households is much higher and the financial system is less stable than in the U.S., cryptocurrencies have been adopted by some governments as legal tender, as in El Salvador. However, not only has El Salvador reportedly lost 50% of the value of the Bitcoin it has bought, but its decision has also harmed its credit rating and made it more expensive to borrow funds internationally. Additionally, the Chivo wallet established by the El Salvador government to advance Bitcoin transactions in the country has not seen widespread adoption by the population. Those who have adopted the wallet have tended to be younger, more educated, and wealthier. In contrast to other non-cryptocurrency fintech digital wallet applications that have been popularized in Brazil (Pix) and Kenya (M-Pesa), the bitcoin experiment in El Salvador has not been as successful in banking the unbanked and fostering financial inclusion.

Claim: "Cryptocurrencies can be a more efficient payment mechanism."

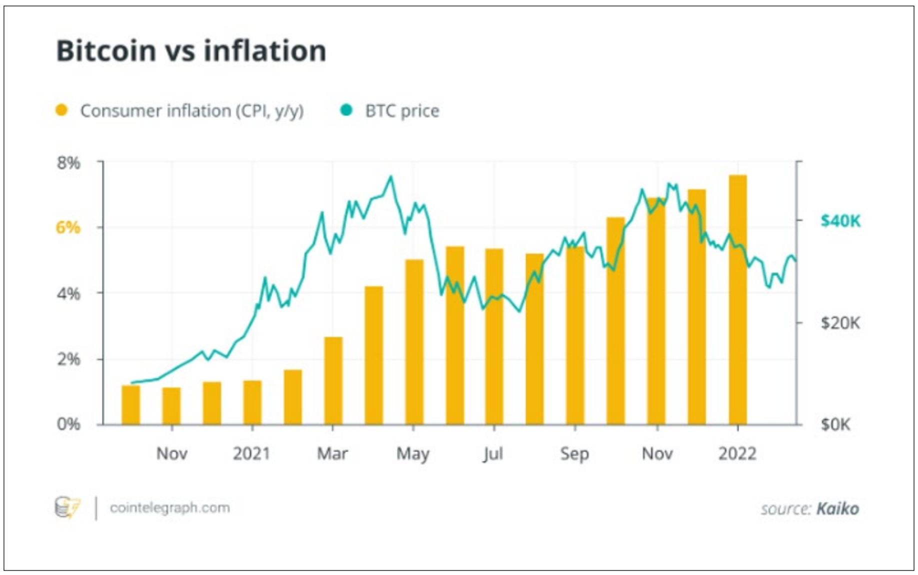
If you were starting a payment system from scratch, you would hardly look at the system in the U.S. as a model for efficiency and low fees. The debit/credit card company oligopoly and ACH network that control modern payment rails can be slow, outdated, and costly. There are undoubtedly better, more efficient ways to run a payments system. While the Federal Reserve's FedNow initiative and other fintech companies have made progress on payment systems, cryptocurrency proponents have claimed a potential role in this space. However, the prices of cryptocurrencies are far too volatile to ever be used effectively as a means of payment. Even the so-called "stablecoins" have yet to prove an effective form of payment. One of the largest stablecoins in the world admits that only roughly 15 percent of its transactions could be categorized as used for payments. The other 85 percent of transactions are used for non-payment related activity, most notably to trade in-and-out of other cryptocurrencies, which is their principal use.

Claim: "Cryptocurrencies will provide higher returns in your investment portfolio."

Invest in cryptocurrencies, diversify your portfolio, and get rich. As with any asset bubble in the history of investing, from tulip bulbs in the 1600s to dotcom stocks in 1990s, investors have a propensity to chase investment returns in the next mania, especially when they see other investors making money. This typical bubble-feeding behavior usually ends with the initial investors and early adopters capturing the gains, while retail investors jumping in later getting stuck holding the bag when the bubble pops. The story of cryptocurrencies has proved, to this point, to be no different. For example, a study conducted by the Bank of International Settlements found that 75% of cryptocurrency investors between 2015-2022 have lost money on their Bitcoin investments. During that same time period, the U.S. stock market has nearly doubled in value.

Claim: "Cryptocurrencies will serve as a hedge against inflation."

Digital gold. That is how many described Bitcoin prior to 2021. Like gold acolytes, proponents of this digital gold have claimed that Bitcoin would serve as an important hedge against inflation. Unlike central banks issuing sovereign currency, who can print more money at any given time, Bitcoin's source code was designed to limit the supply of tokens to 21 million. Due to its limited supply and artificial scarcity, many proponents of Bitcoin made the argument that the cryptocurrency would make a good store of value particularly during times of inflation, just like gold. However, the claim that Bitcoin would serve as an inflation hedge was quickly dismantled at the first sign of inflation in 2021. As inflation increased dramatically between 2021-2022, the price of Bitcoin decreased, along with other riskier asset classes. In fact, the price of Bitcoin has proved to be more correlated with the price of technology stocks than with inflation—and considerably more volatile.



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