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The Bitcoin Bubble

By Roy Morrison
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The price of a rare tulip bulb on the futures market in Amsterdam in January 1637 was equal to ten times the annual wage for a skilled crafts worker. A single bulb was reportedly exchanged for 1,000 pounds of cheese at the height of tulip mania. The market collapsed precipitously starting in February 1637, bottoming out in May 1637.

According to Economist Brian Dowd,

> "By the height of the tulip and bulb craze in 1637, everyone.. rich and poor, aristocrats and plebes, even children had joined the party. Much of the trading was being done in bar rooms where alcohol was obviously involved…bulbs could change hands upwards of 10 times in one day. Prices skyrocketed… in 1637, increasing 1,100% in a month."

Bitcoin, the original crypto-currency, was valued at $.08 in July 2010; $8100 on November 20, 2017, and $17,900 on Dec.15 2017. The sky is apparently the limit.

The danger of course,is not just that at some point, the bigger fools, the last purchasers of bit coin and the long term holders ("hodlers" in crypto-speak) will loose some or all of their money. That would be regrettable. But like straight forward pump and dump market manipulations of a stock some will win while others loose.

But, as in 2007 and 2008, the creative greed behind global financialization is creating not just a bubble in bit-coin and many other crypto-currencies as investors , as in Holland in 1637, pile into markets as buyers. There is a real and, I believe, rapidly emerging threat that bit coin and its ilk could follow dynamics similar to mortgage back securities as the basis for highly leveraged and complex financial instruments, like credit default swaps that were traded in unlimited volumes with no limits based on the actual number of mortgages.

Cyrpto-currency has now entered the leveraged futures market. Speculators now can leverage futures purchases 15 to one. This means a 7% drop in the price of bit-coin (a familiar phenomena) will wipe our your capital, returning us quickly to the momentous margin calls of 2007-8. And there is no limit to the number of futures contracts.

Derivative instruments of more complexity and undefined risks are almost certain to swiftly appear as they did in 2007 when,for example, insurance giant AIG took enormous bets to earn premium on credit default swaps on mortgage backed securities. After all were, these were AAA rated… The sudden collapse of mortgage backed securities led to a liquidity crisis. The securities could not be sold for almost any price and the giant financial institutions on wrong side of the bets were suddenly bankrupt.

As Frances Coppola in Forbes points out,

> "As more and more financial institutions with connections to the real economy pile into the cryptocurrency mania, the chances of a similar disastrous collapse rise ever higher, and along with it, the likelihood of Fed or even a government bailout."

The intent of those driving the explosion of crypto-currency prices is not a desire use crypto-currency as a low cost ,reliable medium of exchange verified by a transparent block-chain, but as a magic carpet to wealth. If you'd bought $100 worth of bit coins in 2010, they would be worth $1.79 million as of Dec. 15. 2017. It is paradoxical that crypto-currency, allegedly meant to free us from fiat currency, finds its liquidity and value in the all mighty dollar.

There is much to recommend block-chain for its potential use as a reliable and low-cost means of trade whether is is tied to crypto-currency or not. For example, bock chain is being used in Brooklyn, NY to test sale of solar energy from local producers to local buyers, with the exchange medium in dollars not crypto-currency.

The Media Lab at MIT is working on designing crypto-currency projects that could facilitate, for example, trades and transaction by the global poor purchasing and selling locally produced community renewable energy. Crypto-currency and block chain could be an important tool for people not just beyond power lines, but who live unbanked and with little access to cash or liquidity of any kind. Crypto-currency could become a reliable exchange medium and basis for a community controlled economy.

Bit-coin is also seeing the transaction costs for bit-coin transaction soar rising to $20 charged by block-chain "miners" whose computers verify transaction and at the same time create more blocks and produce more bit coins as part of the solution of the algorithm that verifies transactions. Far from being a means for vey quick cheap, anonymous financial transactions, bit coin is becoming slow and expensive to use. A newer generation of crypto-currencies like IOTA offers an improved block-chain with zero transaction costs and faster transaction all the better to attract investors.

Crypto-currencies could represent a tool for self-management and community economies, a way to use the internet to help challenge the growing netocracy of the Googles, Facebooks, Twitters, Amazons, Ali Babas and their ilk. But by making crypto-currency into an investment who use is part of a get rich quick scheme as opposed to a free instrument of exchange and trade it has become just another arrow in the quiver of making the rich richer and worsening the already grotesque distribution of income. Crypto-currency speculation will make some people rich, as does day trading and house flipping, where many more will loose then win.

I suppose the original sin of crypto-currency was to allow its purchase in dollars, and not, for example, in services provided by one to another based on labor time and materials. But the crypto-currency model is based on a limited quantity that makes it resistant to inflation, but enshrines scarcity and therefore value and the siren calls of greed and desire as it does for scarce commodities like cocaine or diamonds or gold.

The bit-coin and crypto-currency bubble will not end well.

Roy Morrison's latest book is Sustainability Sutra Select Books 2017. He is working on *building solar PV on working farms www.dual-cropping.com.*

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