

Bitcoin or bust?

Peter Warburton compares bitcoin to gold, and looks at the risks for those buying bitcoin. He sees bitcoin as an understandable reaction against the control of central banks, where their downward pressure on interest rates and yields has popularised bitcoin, which he terms a greedy parasite which will survive only as long as the current oppressive system.

Last year, I was interviewed on Real Vision, one of the popular financial podcasts, on a variety of current topics relating to economics and finance. Right at the end, the interviewer threw in the question: what did I make of bitcoin? I gave the casual answer that I thought it resembled a junior mining stock, for example, a share in a small Canadian gold mining company. As a consequence, in addition to 154 'likes', I received 87 'dislikes'! My failure to approve bitcoin was noted. Arguably, second only to gold, the closest thing to religious fanaticism in global financial markets today is the enthusiastic endorsement of cryptocurrencies, and bitcoin in particular, by a growing number of financial celebrities, commentators and self-proclaimed experts.

Bitcoin is described, variously, as a virtual currency, a digital currency or a cryptocurrency. It exists only as an electronic entry in a file, or digital

wallet. Unlike physical notes and coins, bitcoin is not universally acceptable. Few shops accept bitcoin in payment for goods, but it is more commonly accepted in online transactions. Last October, the online payment service, PayPal announced that it would allow its customers to buy and sell bitcoin.

Every single bitcoin transaction – whether in payment for a cup of coffee or a coffee plantation – is recorded in a public ledger called the blockchain. The software used to create bitcoin is open source and utterly transparent. Bitcoins, or fractions of them, can be purchased with bank deposits or cash; or obtained in payment for a good or service; or created (minted) using a computer. This process requires massive amounts of computer processing power, dedicated to the activity of mining bitcoins – obtained as a reward for solving a fiendishly difficult mathematical problem.

Among the virtues of bitcoin is that it is a global network, meaning that it can be used to settle transactions between willing parties anywhere in the world. And while there are costs in running the network, these are borne by the 'miners' who are compensated for the work of verifying the ledger in newly minted bitcoin. For individual users, there are no transaction costs, offering a significant saving relative to a bank or bureau.

Digital currencies are a financial innovation that is here to stay: a few central banks already have digital currencies, notably China. There is another type of digital money called stablecoins, which are cryptocurrencies that are pegged to existing currencies like the US Dollar or Pound Sterling. But bitcoin is a different kettle of fish.

In this short article, my purpose is to consider the bitcoin phenomenon from a biblical perspective, rather than to join



an overheated and overcrowded debate over its immediate future. I offer three insights into bitcoin: it is a repudiation of establishment values; a digital expression of the lust for gold, and an emblem of a passing age.

Bitcoin's big idea is distributed trust, enabled by and embodied in a blockchain, an irrevocable, duplicated, virtual record of every single transaction. Users of bitcoin do not need to place their trust in its originator, the mysterious and possibly fictional Satoshi Nakamoto, nor any financial institution, official or private. The beauty of bitcoin lies in the impossibility of cheating. Paragons of virtue and the most slippery of crooks mingle on the anonymous bitcoin network, safe in the knowledge that there can be no backtracking (except by mutual agreement) on what has been bought and sold, for how much and when. Trust in the network replaces trust in an exchange or a counterparty.

However, bitcoin carries a subversive message, an undeniable undertone of distrust in the powers that be. US Dollar notes still bear the inscription "In God we trust". The responsibility for the creation of banknotes rests with the central bank alone. On each note is written the promise to pay the bearer, its full, face value, signed by the chief cashier, or equivalent. If bitcoins had an inscription, it would read: "Trust no-one". Katie Martin, Financial Times, attributes crypto-fanaticism to a sense of disenfranchisement emanating from the great (or global) financial crisis of 2008, "which left many with a feeling that the system does not work for them".

This is quite a contrast with the message of Romans chapter 13, which opens, "Everyone must submit himself to the governing authorities, for there is no authority except that which God has established." Bitcoin fanatics repudiate establishment values, including the divine authority on which they rest.

It is one thing to cry out to God for government to be just, honest and truthful when it falls short on all three counts; it is quite another to seek a world without government or regulation.

For some, bitcoin also holds out the opportunity to acquire unimaginable riches. Many have already experienced the exponential increase in the market value of their holdings, and the vicious price corrections that have typically followed. Yet, true believers expect that bitcoin will become a progressively more attractive alternative to bank deposits and conventional forms of investment, lifting its value to the stars.

Bitcoin has frequently been described as digital gold, the millennials' asset of choice. Bitcoin bears comparison to gold in terms of its scarcity, the expense involved in adding to existing

supply, that neither has counterparty risk nor earns income, but gold has a 5000-year track record as a store of value while bitcoin has just passed its 12th birthday. As an entry stored on a hard disk, bitcoin has no physical representation, let alone allure.

And bitcoins can be lost and stolen much more readily than custodial gold. Bitcoin purists prefer to have dedicated wallets that give them full ownership and control – a piece of the blockchain on which bitcoin runs. These are often downloaded to hard disks rather than stored online, requiring physical access to use the bitcoin. Many are the agonies of bitcoin owners whose hard disks have frozen or have been carelessly discarded. According to Chainalysis, a company that tracks cryptocurrency movements, around a fifth of the bitcoins in circulation – around US\$220bn – is lost or locked inside digital wallets. Thefts of bitcoins from these wallets abound, from scammers, hackers, ransomware and Ponzi schemes.

What of the morality of investing in cryptocurrencies? In common with

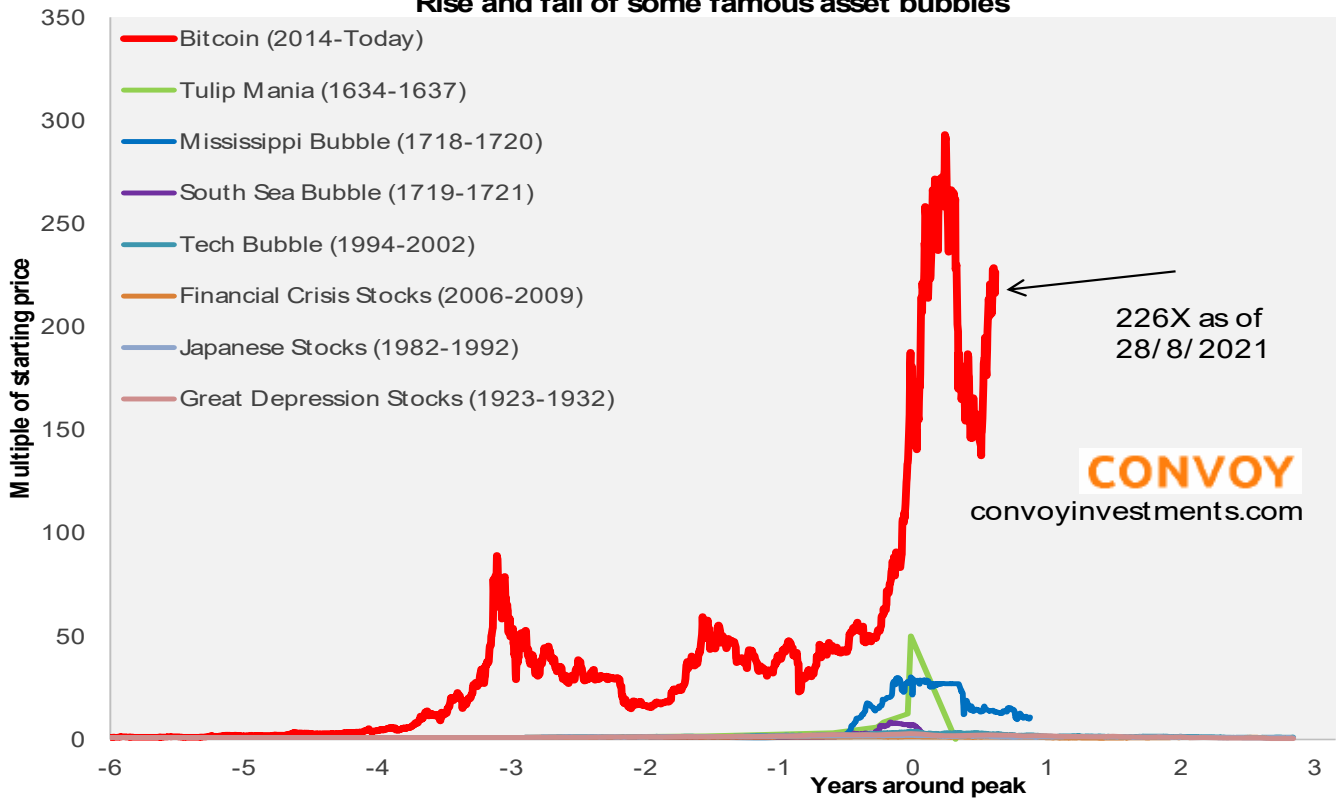
gold, they have no intrinsic value. While gold has industrial and medical applications, its value would be a fraction of what it fetches today were it not for the jewellery and investment demand. Bitcoin's value is determined, in part, by its utility as an anonymous, unregulated trading network. The larger the network, the greater the demand for an asset in strictly limited supply. But it is possible that a rival cryptocurrency will supersede bitcoin one day and render it worthless. Or that government intervention will declare bitcoin ownership to be illegal.

The millennials' complaint – that the global economic system is stacked against them, that their jobs are unfulfilling, that houses are unaffordable, that their savings earn no interest, that governments don't care – can be considered an echo of the Israelites' impatience that Moses was "so long in coming down from the mountain" in Exodus 32. Are cryptocurrencies a type of golden calf, emerging from a furnace of frustration and unbelief? Has bitcoin become a totem pole around which a rising generation is rallying to the point where it has assumed religious significance? Is crypto the currency of a leaderless new world order?

On numerous occasions throughout human history, when governments have become corrupt and unjust, a day of reckoning has arrived when a government and its systems of control have fallen. The biblical narrative insists that God hears the cries of the oppressed and that He will act. As Haggai prophesies to Zerubbabel, governor of Judah, God will shake the heavens and the earth. He will overturn royal thrones and shatter the power of the foreign kingdoms. He will overthrow chariots and their drivers; horses and their riders.

In chapter 1, Haggai explains that economic malaise, felt disproportionately by millennials and generation Z, may have a deeper cause. "You have planted much but harvested little. You eat, but never have enough.

Rise and fall of some famous asset bubbles



As of 26/8/2021. Source: Elliot Wave International, Yale SOM, Coinbase, St. Louis FRED, Global Financial Data, and Convoy analysis.

You drink, but never have your fill. You put on clothes but are not warm. You earn wages, only to put them in a purse with holes in it.” “Why?”, declares the Lord Almighty. “Because of my house, which remains a ruin, while each of you is busy with his own house. Therefore, because of you the heavens have withheld their dew and the earth its crops.”


I contend that, far from heralding a new world order, bitcoin is an emblem of a passing age, the age of modern central banking. Since the early 1990s, western governments and their central banks have opened the doors to a world of fantasy finance. They have allowed themselves to be sucked into the machine of global finance, swapping a semblance of control over the financial system for a measure of influence within it. Central banks long to regain control, which explains their restless innovation of ways and means to influence their

environment. Yet, with each successive intervention, they distort further the incentives of other actors in the financial system, widen the income and wealth inequalities and worsen the policy trade-offs.

Having led us into a fantasy world of zero interest rates, apparently low inflation, minimal defaults – global bankruptcies fell by 30 per cent in 2020 – and soaring asset values, central bankers should not be surprised by the popularity of gold, the rise of value-destroying enterprises (subsidised by credulous investors), and the emergence of existential threats to their monopoly on currency and regulatory oversight of the payments system. The removal of interest on bank deposits and income on investments provokes an indiscriminate search for yield on one hand and an appetite for unbounded capital risk on the other. In recent years, central banks have harnessed the power of

the leveraged community to exert ever greater downward pressure on rates and yields. Yet, lest this feeling of regained power go to their heads, the merest glance over their shoulders will be enough to bring their chariot to a juddering halt, as in the “taper tantrum” of 2013.

In this enchanted financial forest, full of mythical beasts, fantastic structures and luscious temptations, nothing is quite as it appears. If gold is to central banking what kryptonite is to Superman, then bitcoin features as the twisted, vampiric, Parasite, who feeds on energy to live. Bitcoin is a by-product of this strangely contorted financial system and can be expected to thrive within it for as long as the system holds. But no longer.

The admonition in Matthew 6, to store up treasures in heaven, “where moths and vermin do not destroy, and where thieves do not break in and steal”, can be applied equally to gold and bitcoin. 



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