Far too early to buy into the crazy blockchain, NFT hype

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Comment

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Western monetary regimes face serious challenges beyond inflation at a 40-year high as the crypto industry attempts to muscle in on the money supply and fuels speculative manias free from regulation.

Lawmakers attempting to redress the policy failures that fuelled a $US3 trillion ($4.1 trillion) crypto asset bubble in 2021 now appear unwilling to tackle the core issue of crypto being a speculative mania. A crypto industry that ballooned as a hedge against reckless Western monetary policies, now has governments at its feet.

Hardly anybody ever bought a crypto coin because they thought its value would fall. And the industry that offers the largest rewards to the earliest adopters is mired in scams and frauds.

Buying crypto tokens isn't investing, it's speculating at best, or what crypto influencers on social media call degenerate gambling.

The main utility of the much-hyped decentralised and permissionless blockchain technology has been betting on the value of coins (as unregistered securities) issued by anybody looking to make a huge fortune, faster than any time in history.

Many of the industry's main products are hype, marketing, and press releases.

In March 2021, one of its biggest wheezes took-off when US artist Beeple made headlines after selling a non-fungible token (NFT) in the form of a digital artwork for $US69.3 million. The deal turned out to be a publicity stunt, but the NFT craze came of age.

Almost any physical or intangible asset can be turned into an NFT, which is attached to a blockchain and can be traded at market prices.

Most crypto enthusiasts speculate on NFTs as they hope the value will go up before they sell it for a profit.

Sure, you could display digital art on a monitor at home, but the artistic merits of digitally-generated images of apes, frogs, and crypto degenerates is debatable. The NFTs are hugely valuable as a marketing tool to the crypto industry and exchanges because they help suck more real money and trading volume into the ecosystem.

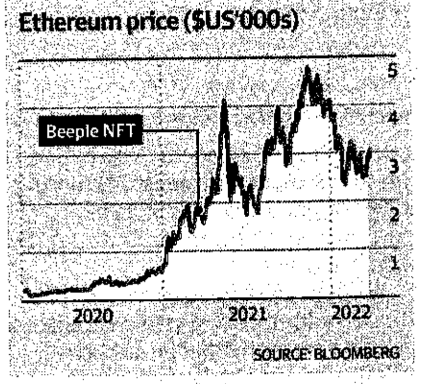
You often need to buy ethereum to acquire an NFT and ethereum's price went from $US180 a coin in March 2020, to $US1800 a coin in March 2021, to more than $US4000 a coin in May 2021 as the NFT promotion and marketing drive really took off.

Industry insiders and early speculators on ethereum likely laughed all the way to the bank.

The NFT promotion is now sweeping-up sports stars and corporates. This week Qantas announced plans to issue NFTs and will probably make a bit of money out of it (after fees paid to crypto consultants) by selling them to credulous buyers.

If every company in Australia decided to offer millions of NFTs, the real winner is the industry, as crypto exchanges benefit from soaring trading volumes. The catch is NFTs are basically useless and good for nothing other than speculation. This argument will be criticised by an industry hostile to scepticism, and crypto's promoters, who claim royalty streams can be written into the NFTs' code. This is hardly an innovation as royalty streams exist in the real world already.

Taken for a ride



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Moreover, a future where the value of everything is tokenised and determined at a crypto auction doesn't sound like such a smart idea. Most Australians aren't interested in a world turned into one giant digital casino.

Crypto and NFTs' carbon emission problem is also brushed under the carpet. Bitcoin mining alone wastes the same amount of electricity as a small country every year, so nobody serious about reaching carbon reduction targets by 2030 and 2050 could justify a free pass to the internet money industry.

The European Union's economic and monetary affairs committee has made another policy mistake after it voted 30 to 23 to keep provisions that limited energy-intensive crypto mining processes (such as proof of work) out of its flagship crypto legislation, *Markets in Crypto Assets Framework*.

The utility of carbon-intensive blockchain technology still faces serious questions. In the real world over the last 10 years, centralised tech has helped anybody to use a smartphone app to hail a private electric car and pay automatically on a card, with the whole trip mapped digitally. This is useful. By comparison, over the same period, the blockchain has produced a morally dubious asset bubble and NFTs based on apes and frogs.

Blockchain technology has been a vehicle for stakeholders to get incredibly rich by sucking more dummies in based on its borderless nature and regulatory arbitrage.

Discussion of decentralised finance (DeFi) and "removing the middleman" as a financial intermediary is largely just talk. In theory, if a decentralised platform could remove Uber as a middleman and pay a driver directly, the ride would be cheaper for the passenger.

Will this sort of disintermediation come from payments innovations on fiat rails, or the decentralised world of crypto? Who knows, but if history is any guide, fiat rails are the favourite.

Much of DeFi is about loans in fiat, collateralised by tokens of crypto riches. In other words, a speculator can pledge X number of coins as collateral to receive cash to buy a house.

It'll be fascinating to see how much progress blockchain and DeFi have made this time next year, or this time in five years.

It's rare to read criticism of crypto today thanks to its incredible public relations machine and because it's a complex topic for journalists, or outsiders like politicians. The industry opposes scepticism, but ultimately government is responsible for managing the monetary system for all.

In Europe, the single currency and interest rate for dozens of different countries with varying export markets and rates of inflation never made sense.

Europeans wore the consequences of decades of feeble growth and record unemployment. In the US, the GFC, money printing, and zero interest rate policy widened inequality between wage slaves and asset owners, with crypto as a libertarian movement in response.

Arguably, the IMF, World Bank, Western governments and the US dollar's status as the world's reserve currency are now all threatened by the rise of an alternative financial system.

A sensible solution would be something like a 90 per cent capital gains tax on all crypto gains made over less than a year, with a moderate 50 per cent capital gains tax for those held more than a year.

Higher capital gains taxes on assets like stocks have already been mooted by US President Joe Biden and would stifle the speculation, while placing few real constraints on the claimed innovation.