

Bitcoin frenzy: The fever chart of a deepening crisis

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According to the official scenario, the world economy is enjoying its best period of growth since the global financial crisis of 2008-2009, which ushered in the worst recession since the Great Depression of the 1930s.

According to a report issued by the Organisation for Economic Cooperation and Development last month: “The global economy is now growing at its fastest pace since 2010, with the upturn becoming increasingly synchronised across countries. This long-awaited lift to global growth, supported by policy stimulus, is being accompanied by solid employment gains, a moderate upturn in investment and a pick-up in trade growth.”

Once upon a time such a “rebound” would have seen increased productive investment, accompanied by real economic growth and rising wages and living standards. Those days, however, have long gone.

Symptomatic of the real state of affairs is the fact that the biggest economic and financial news this week has been the beginning of futures trading in the cryptocurrency bitcoin. It was initiated on Sunday night by Cboe Global Markets, a Chicago-based futures exchange operator. Next week, the much larger CME Group will begin trading in futures for bitcoin.

While trading was described as relatively slow, it had to be halted twice as prices surged, triggering circuit breakers. January 2018 contracts traded at \$17,420, compared to a price of \$16,250 for buying bitcoin directly on cryptocurrency exchanges. In the last week, the price of bitcoin has risen by 50 percent. At the start of this year it was fetching around \$900, making its rise over the past 11 months the largest financial bubble in modern economic history.

The origins of bitcoin lie in the development of a new mechanism in 2009 known as blockchain by an unknown Japanese man named Satoshi Nakamoto, or a

group of computer programmers using that name. The new technology claims to enable direct monetary transactions via the Internet using bitcoin or other cryptocurrencies bypassing national-based currencies and financial regulatory authorities.

The technology itself, which is based on a public ledger system in which information is simultaneously stored on the computer systems of the participants rather than centralised, may have wider applications that could facilitate faster transactions, speeding up information flows and tracking the flow of goods and services digitally.

But the rise and rise of bitcoin from something little more than a curiosity in its first years of existence to its explosion into financial prominence over the past year has nothing to do with any potential benefits that may derive from the underlying technology. Rather, it is the most egregious expression of the rampant speculation that has come to dominate the global economy.

Reporting on the establishment of bitcoin futures trading, the *Financial Times* said it marked a “seminal moment for a cryptocurrency engineered as an alternative to the global monetary system.” The main effect, however, of the introduction of futures trading is not the implications it may or may not have for the global monetary order, but that it enables the major hedge funds and other financial speculators to cash in on its rising price and make huge profits from their transactions.

Initially, bitcoin had been regarded with some scepticism in leading financial circles. The CEO of JP Morgan Chase, Jamie Dimon, for example, said earlier this year that he would fire anyone who was dealing in it.

But as the head of Citigroup, Chuck Prince, famously commented in 2007 in the midst of the speculative sub-

prime bubble, when the music is playing you have got to get up and dance. And the opening of futures trading provides the opportunities for the inflow of large amounts of money into this latest form of speculation.

The bitcoin mania forms part of a much broader development in the global financial system since the financial crisis of 2008-2009. The response of the Fed and other central banks to the collapse of the speculative sub-prime bubble, and the meltdown of the global financial system, was first to bail out the banks and investment houses and then pump in trillions of dollars and set interest rates at historically-record lows to finance the next one.

The outcome has been to send up asset prices, stock prices and, in some areas, housing, to new highs, completely outstripping the very limited growth in the underlying real economy.

As the *Financial Times* commentator John Authers noted: “Stocks look blatantly overvalued. Bonds look even more so. Art has never fetched such big prices. The bitcoin is only an absurd appendage to what is already a ‘bubble in everything.’ ”

One of the main factors in sustaining the bubble has been the promise of major corporate and income tax cuts for the ultra-wealthy in the United States, with the Trump administration’s legislation now in the last stages of passing through Congress.

Since the election of Trump, US stock prices have risen by 25 percent, bringing the rise in the market to more than 350 percent since its trough in March 2009. The tax cuts will do nothing to promote investment in the real economy and economic growth but are aimed at providing still more funds for speculation, while at the same time leading to further cuts in social spending to finance the operation.

Apple is a case in point. It has been calculated that as a result of the lowering of tax rates on the \$250 billion in cash it holds overseas it stands to gain some \$47 billion—more than the annual profit of any single US corporation. None of this money will go towards investment but will be used for “financial engineering” such as share buybacks, to boost the value of its stocks even further as it heads towards a \$1 trillion market valuation.

Writing in the *Financial Times* and *Washington Post*, former US Treasury Secretary Lawrence Summers said the US economy was on a “sugar high”.

He noted that economic growth this year had been driven by a stock market rally that has seen an increase of more than \$6 trillion in household wealth “captured by a small share of the population.”

Despite record-low capital costs and abundant corporate cash, both of which are an inducement to investment, productivity growth has been very slow and “even innovative companies such as Apple and Google cannot find enough high-return investments and so choose to engage in large-scale share repurchases.”

The implication of Summers’s “sugar high” diagnosis is that the US and, by extension, the world economy are heading for a crash.

Summers did not explicitly draw that conclusion, issuing instead an empty call for “a new economic foundation that we so desperately need,” but the bitcoin frenzy is the clearest indication that all the conditions for a massive financial meltdown are being created.



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