

The contradictions of the bitcoin-blockchain frenzy

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The frenzy surrounding the cryptocurrency bitcoin is spreading, with companies that are moving into ventures based on exploiting the underlying blockchain technology enjoying spectacular rises on the stock market.

Last Thursday, for example, shares in the Nasdaq-listed Long Island Tea Corp., a company that has never reported a profit, rose by as much as 500 percent on news that it was changing its name to Long Blockchain Corp. The company said it was “shifting its primary corporate focus towards the exploration of an investment in opportunities that leverage the benefits of blockchain technology.”

It was the latest in a series of companies that have been the subject of massive speculation as a result of their move to into blockchain, the decentralised ledger technology that forms the basis of bitcoin and other cryptocurrencies.

Earlier, Rich Cigars, a cigar maker, saw its shares jump by 2,000 percent in a single day when it announced it was going into blockchain. The shares in LongFin, a company that went public on Nasdaq this month, increased ten-fold when it announced it had purchased a company involved in the new technology.

Earlier this month, US authorities suspended trading in the shares of Crypto Company, a low value, or penny stock, whose value had increased by more than 2,000 percent to \$12 billion, transforming it virtually overnight into one of the 500 largest companies by market value in the US.

The extreme volatility of bitcoin was illustrated on Friday when it fell by 31.8 percent to \$10,775, after reaching a peak of \$19,666 on December 17. It then climbed back to \$14,400. It was the largest fall since bitcoin began its rise from \$1,000 at the start of the year.

Notwithstanding the gyrations and the warnings of high risk, big money is getting into the speculative binge, with estimates by Morgan Stanley that \$2 billion has been invested this year in hedge funds specialising in cryptocurrencies. The returns to some of these funds have exceeded 1500 percent.

This week, three former Goldman Sachs employees announced they were launching a fund that would track 20

of the most significant cryptocurrencies. It would be open to “accredited investors,” or those whose annual salaries were above \$200,000 a year, or whose assets, excluding housing, exceeded \$1 million.

In seeking to grasp the significance of the bitcoin-blockchain frenzy, it is worth recalling the analysis made by Marx of previous financial bubbles, in particular those associated with the expansion of the credit system, which began in the mid-nineteenth century.

The credit system, he noted, was the principal lever of overproduction and excessive speculation. But it had a deeper significance, for it drove capitalist production beyond the limits of the resources of the individual capitalists. For example, but for the expansion of credit, it would have taken decades to construct the American continental railway system, which, through the expansion of credit and the use of the stock market, accompanied by speculation and swindling, was accomplished in the “twinkling of an eye.”

The credit system, Marx explained, accelerated the development of the productive forces and the creation of a world market—the historical task of the capitalist mode of production—thereby laying the “material foundations for the new form of production,” that is, international socialism.

At the same time, the credit system, with its contradictions and crises, brought about “the dissolution of the old mode of production.”

“The credit system has a dual character immanent in it: on the one hand it develops the motive of capitalist production, enrichment by the exploitation of others’ labour, into the purest and most colossal form of gambling and swindling, and restricts ever more the already small number of the exploiters of the social wealth; on the other hand it constitutes the form of transition towards a new mode of production. It is this dual character that gives the principal spokesmen for credit, from Law to Isaac Péreire, their nicely mixed character of prophet and swindler.” [1]

Of course much has changed in the more than 150 years since Marx wrote these lines, most significantly the fact that capitalism has long ago exhausted its progressive historical

role in mankind's social and economic development.

But Marx's observations on the dual character of major technological advances—the development of the productive forces and the swindling and speculation that necessarily accompanies it under capitalism—have a continuing relevance for understanding the present situation.

The basis of blockchain technology, which underlies all cryptocurrencies, is that it creates a distributed public ledger recording transactions and the transfer of value without the need for a central trusted authority such as a bank. This is its attractive feature for speculation and swindling, not to speak of money laundering and the financing of illegal activities such as dealing in drugs.

The spokesmen for bitcoin and blockchain promote it as a major technological advance—a second stage of the Internet revolution, a new form of economic and social relations under capitalism, where trust does not have to be placed in a central authority such as a bank, and where international financing conducted on the Internet in an era of a globalised economy can overcome the constrictions imposed by national states.

Trust no longer has to be placed in a central authority because the blockchain is a public ledger that cannot be changed through the actions of an individual. It is even hailed as a higher form of democracy because the system is controlled by the participants, or at least through the computers at their disposal.

Such claims are used to promote speculation and create the conditions for the accumulation of vast fortunes, virtually overnight.

At the same time, the technological advances contained in blockchain could be developed to organise and plan production in a socialist economy. Hence its spokesmen contain a “nicely mixed character of prophet and swindler.”

Under blockchain technology, information on available resources and needs in different areas could be gathered in ledgers and then used to organise production globally on a rational basis.

In the past, bourgeois opponents of a planned socialist economy maintained it was simply not possible because the system of information needed to organise it was just too vast. Therefore, the anarchic system of market pricing, imperfect as it might be, was the only possible way information could be transmitted from the needs and desires of consumers to producers.

Major advances in computer technology and information systems over the past 30 years have already largely shattered these claims. Giant transnational corporations, some of them larger than individual national economies, now plan and organise production and distribution down to the last detail on a global scale.

The development of blockchain is a further technological advance in laying the material foundations for a planned socialist economy in which the mass of the population—as workers and consumers—would be able to exercise democratic control and supervision over the organisation of economic life to satisfy human needs rather than the drive for profit.

There is one other parallel with Marx's analysis to which it is worth calling attention. He was particularly focused on the role of *Crédit Mobilier*, the creation of the Péréire brothers, in financing the speculative reconstruction of Paris under Haussmann during the regime of Emperor Louis Napoleon Bonaparte.

The credit bubble and *Crédit Mobilier* collapsed in 1867, and with them the economic foundations on which Bonaparte's regime had rested. Four years later, in 1871, the class struggle erupted in explosive form with the Paris Commune, the first, though unsuccessful, attempt to establish a workers' government. While it suffered a bloody defeat, the Commune provided invaluable lessons for the Russian revolution of 1917.

One hundred and fifty years after the demise of *Crédit Mobilier*, the global speculative bubble in all financial assets, of which bitcoin is only the most egregious expression, is heading for an implosion, an event that will have far-reaching, economic, social and, above all, political consequences.

Notes

[1] Karl Marx, *Capital* Volume 3 (Penguin Books, 1991) pp. 572-573.



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