# The trial of Sam Bankman-Fried, cryptocurrency, and the financial crisis

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Sam Bankman-Fried, the founder of the collapsed crypto currency exchange FTX , appeared in a Manhattan court yesterday after voluntary extradition from the Bahamas. He has been indicted on a range of criminal charges arising from the implosion of his $32 billion operation.

Federal prosecutor Nicolas Roos told the court that Bankman-Fried had "perpetrated a fraud of epic proportions" and that the government had dozens of witnesses, encrypted text messages and "tens of thousands" of documents to enter as evidence.

The charges arise from the use of funds provided by FTX investors, large and small, to Bankman-Fried's crypto trading firm Alameda Research, which he founded in 2017.

The very name of the firm provided an indication of what was to follow. In a 2021 interview, Bankman-Fried explained that "Research" was added because if you described the company as "We do cryptocurrency bitcoin arbitrage multinational stuff," no one would give you a bank account but "everyone wants a Research Institute."

According to a November article in the *Wall Street Journal*, more than half of the money provided to FTX was lent to Alameda.

But one of the central purposes of prosecutor's display will be to obscure what is a central issue: How was Bankman-Fried's operation able to be carried out in plain sight?

It is not that he sought to hide what he was doing. Last April, in an interview with *Bloomberg*, after Bankman-Fried laid out his modus operandi, the interviewer responded by saying that what he had described was essentially a Ponzi scheme, a system in which money is made so long as new money keeps flowing in.

Bankman-Fried replied that this was a "pretty reasonable response" with a "depressing amount of validity." But despite these admissions, he continued to be promoted by the highest levels of the financial, media and political establishment as he funnelled money into both the Republican and Democratic parties.

At no time did his operations raise the slightest concern in the supposed watchdogs of the financial system such as the Securities and Exchange Commission.

In an article published in the *Financial Times* last week, Hyun Song Shin, an economic adviser and head of research at the Bank for International Settlements (BIS), laid out the essential mechanisms of the crypto market, based on research the BIS had conducted.

Shin noted that intermediaries such as FTX "play a pivotal role as the gateway into the crypto world from the conventional financial system." He continued: "They channel the flow of new investors, which is the oxygen that keeps these speculative dynamics alive." Recruiting new investors was "key to the survival of crypto," and centralised intermediaries "are crucial to propping up the edifice."

The author did not refer to it, but the hype surrounding crypto and Bankman-Fried emanating from the "top" levels of society was likewise crucial.

Shin's description of crypto's operations apply more broadly to the financial system as it has operated over the past 14 years since the eruption of the 2008 crisis.

Just as crypto has depended on the inflow of new money, the entire international financial system has become dependent on the flow of money provided by the US Federal Reserve and other major central banks.

This was the essence of the program of "quantitative easing"—the Fed's purchase of government bonds and other financial assets that kept interest rates at historic lows, providing essentially free money to the financial oligarchy with which to finance its speculation.

Shin noted that crypto was largely "self-referential," that is, its activities involved "trading in other types of crypto" with "little reference to tangible economic activity." He tried to draw a distinction between this and the "normal" operations of the financial system.

But the distinction is a false one because much of the trading in the broader financial system is also self-referential, involving deals between banks, hedge funds and other financial entities, from which large profits and fat fees are collected.

When a takeover or leveraged buyout is financed, or a share buyback is organised using money borrowed from the banks—Apple is a leading exponent of such operations—not an atom of real value has been created, but vast profits are made.

Summing up the crypto crisis, Shin concluded that “we are now seeing what happens when an industry rests simply on an article of faith.” But this description goes far beyond crypto.

The global financial system rests upon the US dollar and the “article of faith” that it represents a store of value. But this faith is self-referential. The dollar is regarded as a store of value because it is sought after in trade and financial deals, and it occupies this position because it is considered to be a store of value.

And when that faith is shaken, as it was in the crisis of March 2020 when the $24 trillion US Treasury market froze, the stability of the entire global financial system is called into question.

A collapse was only prevented by the decision of the Fed and other central banks to pump additional trillions of dollars into the financial system. But none of the underlying problems that led to the crisis has been resolved.

Now a new crisis is in the making because of the drive by the Fed and other central banks to tighten monetary policy by lifting interest rates. The crypto collapse and the UK pension fund crisis of September-October are the initial expressions of this.

The shift by central banks is being conducted in the name of “fighting inflation.” But it has nothing to do with bringing down prices.

Rather, it is a response to the greatest threat to predatory finance capital: the working class.

It is aimed at creating recessionary conditions to suppress the global upsurge in support of wage demands to meet the highest inflation in four decades—a product of ultra-easy monetary policies, the refusal of governments to deal with COVID, the US-NATO war against Russia in Ukraine and the profit-gouging and speculation by major energy and food corporations.

Writing in the *Financial Times* this week, long-time financial columnist John Plender observed that the turn by central banks from their previous ultra-loose policy is “imposing a severe test on the global financial system,” and the UK pension crisis “provided an early warning of what the future might hold as a result of radical changes in the structure of the financial system since the crisis of 2007-09.”

There is much hand-wringing over the crypto collapse. Another FT columnist Jemima Kelly wrote this week that the crypto “ecosystem was propped up by a lot more leverage [debt] than anyone had realised.” That characterisation applies to the entire financial system, not just crypto.

The collapse of “so many crypto exchanges and platforms has allowed us to see close up for the first time the utter lawlessness that fuels crypto,” she wrote.

But not just crypto. Ms. Kelly may have somehow forgotten, but the 2011 US Senate report on the 2008 crisis revealed that the US financial system was a “snake pit” of conflict of interest and outright criminality. Notwithstanding the limited regulations since then, nothing fundamental has changed.

As new financial storms gather—of which the crypto collapse is the warning sign—it is vital to grasp one of the basic laws of politics: that in every crisis, the major classes, the working class and the bourgeoisie, align themselves in accordance with their fundamental interests.

The program of the ruling financial oligarchy is clear. Its vast holdings of financial assets do not in and of themselves embody real value. They are claims on the real wealth which is extracted from the exploitation of the labour power of the working class, which must be intensified to put value into the mountain of fictitious capital.

If this cannot be achieved through the capitalists’ policemen, the trade union apparatuses, then it must be accomplished by the mailed fist of the capitalist state—already seen in the decision of the US Congress banning strike action by rail workers and the use of troops in the British health workers’ strikes.

The working class is being driven into struggle in defence of its most basic interests.

But it can successfully carry this out only to the extent that it is conscious of what is at stake and that its task is nothing less than the ending of the capitalist profit system, of which the financial oligarchy is the driving force, through the fight for a socialist program and the construction of the revolutionary party necessary to lead the struggle.