To the Moon or to the Ground? The Jury is Still Out on Bitcoin

Bitcoin is back. Back to inexplicably losing more than half of its value in six months, back to being one of the biggest controversies in the world, but definitely not back to its all-time highs of more than $60,000 achieved twice during 2021.

“When you find yourself in a hole, stop digging”. This quote from Will Rogers, an American actor of the early 20th century seems quite reasonable and pretty straightforward. And yet when a sovereign state invests public funds into a certain asset and loses 45% of the investment (Moore, 2022), only to then invest even more funds into the same asset (Gordon, 2022), you start wondering if it really is that simple to stop digging. Last year El Salvador became the first country to accept bitcoin as legal tender and has since consistently increased its holdings of the cryptocurrency. The country’s president is one of the most zealous crypto-enthusiasts: he even wanted to build a bitcoin-shaped city financed through bitcoin-backed bonds. But the country’s credit rating according to Fitch is now CCC, the category conventionally known as junk bonds, which prevents countries from accessing financing through international financial markets, deeming their bonds not trustworthy enough (Cota, 2022). It would be an exaggeration to say the investment in bitcoin alone is responsible for the problems El Salvador is currently facing, but the gamble certainly didn’t help either.

Nowadays the social media is awash with posts that read: “If you had invested $1,000 in bitcoin (or ethereum or whichever cryptocurrency is applicable) X years ago you would now have $3,000” or something similar. Well, if you had invested $1,000 in bitcoin last April or November, you would now have roughly $500 to show for it. In fact, bitcoin is at its lowest since the start of 2021 and there is no telling what is going to happen next. Even once bullish experts have reoriented their forecasts given the latest developments, going from high six-figure predictions to a measly

$8,000 (Morrow, 2022). As Matthew McConoughey's character put it in the "Wolf of Wall Street", "nobody knows if a stock (in this case not a stock but bitcoin) is going to go up, down, sideways or in circles".

As a consequence of the unprecedented volatility of the asset, combined with the ever-growing ease of getting involved for people all around the world, the crypto-sphere resembles more and more a casino rather than anything related to actual investments. Reading about a crypto-millionaire should always come with the caveat of other less fortunate people losing most of their life savings while trying to get rich quickly. On top of all that, crypto-trading has become a sort of addiction for a lot of people, prompting the creation of clinics that treat crypto-trading addicts. These are ordinary people that wanted to increase the amount of money they had and there is nothing wrong with that. But the daily wild swings in bitcoin's and any other cryptocurrencies' prices, as well as the fact that cryptocurrencies can be traded 24/7 in contrast to most other asset classes, makes crypto-trading something more than simply a way to hopefully increase one's net worth (Peters, 2021).

The latest market developments are worrying for crypto-enthusiasts. The drastic decline in bitcoin's price has led more than 40% of bitcoin-holders into an unrealized loss, meaning their holdings of the cryptocurrency are now worth less than the amount they had invested initially, but that loss will not be realized until the cryptocurrency is actually sold at the lower price (MacKenzie, 2022).

Despite all the issues, crypto is still a popular topic, especially among younger generations who see it as the start of the new world they want to create and live in. Crypto exchanges have become as common sponsors of different sports as soft drinks or any other conventional product. Eight of the 10 Formula 1 teams, for example, have a crypto-related sponsor (La Monica, 2022).

Cryptocurrencies have become a part of our everyday lives and yet the underlying question still remains: what exactly is it or what is it supposed to be? The term cryptocurrency with the word "currency" inside makes you think it is a new incarnation of money as we know it. But for something to be considered money, it needs to serve as all of the following: medium of exchange, unit of account and storehold of wealth (Mankiw, 2015). It is quite early to judge on the medium of exchange part: after all, a sovereign country did make it its currency and the volume of transactions in cryptocurrencies does possess an upward momentum. For the latter two characteristics, though, bitcoin's inherent volatility makes it impossible to be considered money. You cannot price a car in bitcoins if it is worth two of them today while it was worth only one a few months ago.

Some crypto-enthusiasts are now questioning the name of the asset, stating that it misleads people into believing it is a currency, which of course it does. It has been pinned as a sort of digital gold or an inflation hedge, but none of that has materialized, seeing as the bitcoin price is quite strongly correlated to the overall technological landscape, namely the NASDAQ index (MacKenzie, 2022). Until we actually define what bitcoin is supposed to be, it will be impossible to tell whether it does its job or not.

P.S. If you think El Salvador's adventure with bitcoin is the most grandiose failure of a bitcoin project, then you should read about the Satoshi, the world's first cryptocurrency cruise ship. The underlying idea behind bitcoin of decentralization and deregulation had its biggest manifestation yet in the cruise ship project, when some crypto-enthusiasts, wealthy and successful enough to start a project like that, decided not to stop on the "new way of money" idea and delve into the idea of a new way of government and life in general. The Guardian's long read on the subject is highly recommended. Spoiler alert: the project did not go as planned.

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