Bitcoin: the bewildering illusion of easy wealth

Fabrizio Pezzani

Bocconi University, Via Roentgen, 20135 Milano, Italy.

ABSTRACT

Once again the manufacturers of dreams and cotton candy are at work, finding fertile ground in which bitcoin has become a trap of mythological finance capable of deluding all as easily achievable, but absolutely uncertain, wealth that will end in drama, as the financial and speculative bubbles taught us, and as evidenced by history and the facts, but obscured by the infinite greed of the King Midas syndrome. As always, the unfathomable capacity of human psychology to be drawn into the drama by a subtle, and in this case, invisible thread remains an enigma, reminiscent of the dream of the “philosopher’s stone”.

©2018, ASSJ, All Right Reserved

Bitcoin and King Midas Syndrome: the roots.

Bitcoin is a virtual currency, without legal tender and, as such, not recognized or defended and protected by any public institution or central bank, but subject to transactions between different parties in a “magic and internet bank”. Despite its clearly virtual origin, bitcoin has become a trap of mythological finance capable of deluding all as easily achievable, but absolutely uncertain, wealth that will end in drama, as the financial and speculative bubbles taught us, and as evidenced by history and the facts, but obscured by the infinite greed of the King Midas syndrome. A drama that none of the guiltily, starting from the institutions responsible for social and economic equilibria, seem to worry about denouncing or at least warn against the risk of participating in a sort of Russian roulette ready to harm those believing in “everything immediately and effortlessly”. As always, the unfathomable capacity of human psychology to be drawn into the drama by a subtle, and in this case, invisible thread remains an enigma. Once again the manufacturers of dreams and cotton candy are at work, finding fertile ground in which to throw the magic hook wisely trafficked as possibility and truth; the term “cryptocurrency” itself contributes to giving it an esoteric qualification, reminiscent of the dream of the “philosopher’s stone”. Bitcoin demonstrates once again the drama of our time and the true origin of an anthropological and non-economic crisis, or rather financial, as it cloyingly continues to be called. The “auri sacra fames” or hunger for gold as Virgil defined it in the Aeneid is elevated to the emblem of maximum happiness and ends up deluding man, bringing him once again to the drama of life and the chaos of selfishness and endless greed.

The terrain in which bitcoin finds space also has its roots in the distant field of speculation that over time has given exclusive space to technique and rationality, furnishing them a metaphysical value that they do not possess to the detriment of emotionality set aside because it is not measurable. The rationalist culture applied to economics has unnaturally transformed from a social science, which it is and continues to be, into an exact science. A genetic modification has transformed it from the means to the ends, ending up in the infinity of ”rational” finance devoid of any scientific foundation, but functional to its supranational domination where all the instruments of measurement and persuasion seem to be an absolute truth when instead they are totally disconnected from the real world. A paradoxical asymmetry has been created between the pursuit and affirmation of the absolute rationality of markets with respect to the explosion of the emotionality of man who, thrown out of the window, forcefully re-enters through the door on the financial bubbles inflated by the unmodifiable human soul.

It is always man’s emotionality that prevails over his alleged rationality, as Galbraith described during the Great Depression in his “Great Crash” published in 1954, highlighting the psychological aspects underlying the crisis that had generated the illusion of wealth and the extraordinary flight from reality that finance would undergo. Investments in equity securities were made not in relation to the value of the real asset but in relation to the emotionality set aside because it is not measurable.
acquired and the underlying physical assets, but solely by virtue of the financial margin deriving from speculation, in fact “What is important is that tomorrow or next week market values will rise — as they did yesterday or last week — and a profit can be realized”. Speculation as an end in itself is totally detached from reality to build a bubble destined to burst upon the insane hopes of speculators blinded by their own greed; and bitcoin is a prime example.

The beginning of mythological finance became fully evident when Nixon in 1971 declared the end of the convertibility of money into gold, separating infinite money from the real finite and laying out the red carpet for fake “rational” markets. Since 1971, the leap into the supercelestial monetary void occurred with unprecedented ferocity and the value of gold would consequently be driven down to support the shift to a different currency system and paper money, devoid of a real and finite counter value and becoming infinitely uncontrollable. Since that year, US public debt has risen and the balance of payments from positive became negative, inflation rose and in order to continue to give value to the dollar, created demand with the petrodollar that supported this currency. The following charts show that 1971 was the watershed year of the real economy and finance becoming totally separated from the real world and finite quantities; the prices of goods and currencies would be the result of endless negotiations by operators betting nothing, bets without foundation, but aimed at determining the expectations of prices systematically manipulated according to financial and geopolitical power needs:

We can see the consumer price index increases exactly in the same temporal period and nothing in production organisation has changed:

The consequences on the Italian lira and on our country were justified as “oil shocks”, but in reality only a ruthless and warlike use that allowed the country to discharge its debt onto others, and the price of oil went from $1.4 per barrel to $40 per barrel with the transition from a system of fixed exchange rates to a system of flexible exchange rates. In a short time, inflation would go from 4% to 24%; long-term treasury bonds issued to cover the debt would afford an interest rate of 20% by deluding everyone of fake wealth, but giving progressive space to power over individual States able to determine the social and economic policy choices. The lira started wavering in the 70s due to the inflation discharged on the country by the end of the gold exchange standard. The following graphs clearly show the impact on the country, discharging the effect of the petrodollar while the real (manufacturing) economy was forsaken by delocalizing it in favour of pure finance that represented the fastest means of enrichment:

In the same way, the monetary volumes became totally detached from their real and finite value, multiplying through the central banks:
The evidence of the facts is shown in the drastic change in the exchange rate between the Italian lira and the dollar: from 1955 to 1975, the exchange rate was stable, we had a regime of fixed exchange rates where 1 dollar had a counterpart of 624/5 Italian lire, but after the end of the gold exchange standard, the system of flexible exchange would in only ten years (1975-1985) bring an exchange rate that defined for 1 dollar a counterpart of 1957 Italian lire. Nobody said anything due to military interests and weakness, but the real problem is that today, when the truth is clear, the subjugation to the political and economic ruling classes and their cultural incapacity has handed the country to predatory finance.

As indicated above, manufacturing and the real economy that create real wealth were abandoned to leave space exclusively to finance and the process of relocation functional to the suicidal mantra of "creating value for shareholders" and cost reduction that would deprive the two countries of finance - the US and UK - the jobs needed to support the middle class, generating unparalleled inequality in history and a revolutionary social mix that remains beneath the ashes. The detachment from the real economy favours the formation of bubbles and crazy dreams of infinite wealth, because without a confrontation with the real world, man loses the ability to confront his basic needs and becomes an object rather than an end. In this empty space, "bitcoin" in the same way as the sub-primes, the dot-coms... would find its ecological niche to develop out of all proportion.

Thus, paper money without a real counter value becomes sterile, as Tommaso D'Aquino called it, and all the instruments of finance - spread, rating, GDP, derivatives, business banks - based on systematically manipulated monetary value became a type of chewing gum pulled in whichever way wanted. The financial market became a casino where the roulette is rigged and those controlling the game are not the market or rationality, but the interests of the croupier who decides who wins and who loses. Thus, every single day we are inundated with endless and sterile analyses, useful only to those who propose them, of erratic market trends with increasingly dubious and erroneous forecasts and stock trends that seem like a rollercoaster in a play of light and shadows, mirrors that transform the truth into a sort of magical and illusory game of finance. Yet, incredibly, people are willing to believe everything in a sort of passive hypnosis that results in a form of cultural euthanasia.

The money supply became infinite and uncontrollable, but nothing has been done to limit the use of speculative derivatives, of business banks, to propose a European rating agency where the culture is asymmetric to that of the US that has imposed a suffocating and acritical cultural hegemony. Clearly, our ruling classes are largely responsible for their inability to question themselves, reiterating failed cultural models, also thanks to the collusion and incompetence of too many, the yoke of finance transformed into a mortal garrotte dragging towards default. Keynes, a witness to the 1936 crisis, warned in “The General Theory of Employment, Interest and Money” (1926): “Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done... These tendencies are a scarcely avoidable outcome of our having successfully organised “liquid” investment markets. It is usually agreed that casinos should, in the public interest, be inaccessible and expensive. And perhaps the same is true of Stock Exchanges”. The world of finance, totally deregulated by Greenspan in 1999, would prepare the ground for the suicide of finance itself, which Keynes defined as "the euthanasia of the rentier".

In this cultural magma, bitcoin is the umpteenth pied piper capable of attracting savers not protected by institutions who should at least be warned against the risks they run. Furthermore, the untraceable and anonymous form of transaction constitutes, if accepted as a counterpart, a formidably effective vehicle of money laundering carried out with illegal activities; in the face of the enormous problem that financial globalization has generated in illegal revenue avoidance, maximum vigilance should be put in place to protect a phenomenon that circumvents the laws and local taxation of individual States; but as too often occurs, it seems that attention is directed elsewhere than to what is important and destabilizing. The crypto currency phenomenon is amplifying in those countries where finance has taken root, such as the US and the UK, while banned in other countries such as Russia, China, and India, which are preparing to create an alternative currency market to the dollar, convertible into finished goods with a possible return to the gold exchange standard. Will the petrodollar be joined by petroyuan? It is possible, given that today China is the most important oil importer in the world and has shown that it has no intention of paying for it in dollars.

These Countries are buyng the gold , as we see in the graphs ; can we have in a short term , a return to “ gold exchange standard ”? Probably !
It seems that man never wants to learn from history and is perpetually condemned to chaos to rediscover the sense of solidarity needed to sustain a civil society. Returning money to being a means and man to the role of ends and not the means, as is the case today, requires redefining a hierarchy of his fundamental needs so that he can recover his life with the freedom to orient it according to his own ends, ideals, and hopes.

Conclusions

Economics and de facto finance became self-referential sciences, independent of reality as in the exact sciences, forgetting the fact that intrinsic human emotion is a variable that always affects choices; people buy and sell stocks based on expectations and not knowledge. Liberalism of the assumptions and in the absolutism of economic operations has produced a system of desires that affirms itself and in the facts. Scholar’s Press: 2010).


11.

20.

21.

22.

23.

References