

James Baxter-Derrington

Don't get too excited, Bitcoin is still worthless

Widespread adoption of this 'cryptoasset' would be its very downfall



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James Baxter-Derrington

Investment Editor

05 December 2024 8:43am GMT

Everything worthless eventually collapses.

A Ponzi scheme will inevitably crumble; snake oil won't cure what ails you; a plantation in Poyais will prove impossible to find.

Hell, even things with value are liable to burn. Just ask IBM, Kodak and Xerox.

The ability to make money from something doesn't define its value. Bernie Madoff's \$65bn (£51bn) scheme was worth plenty to him for decades and a pretty penny could be earned so long as you got out before it blew up – whether you believed it was fraud or not.

Just because you'll probably make a [swift 10-20pc return on Bitcoin](#) over the next couple of months, doesn't mean it has any value.

Both the Financial Conduct Authority and Securities and Exchange Commission generously apply the term "cryptoassets", more through an inability to find another word than a strong belief in its definition.

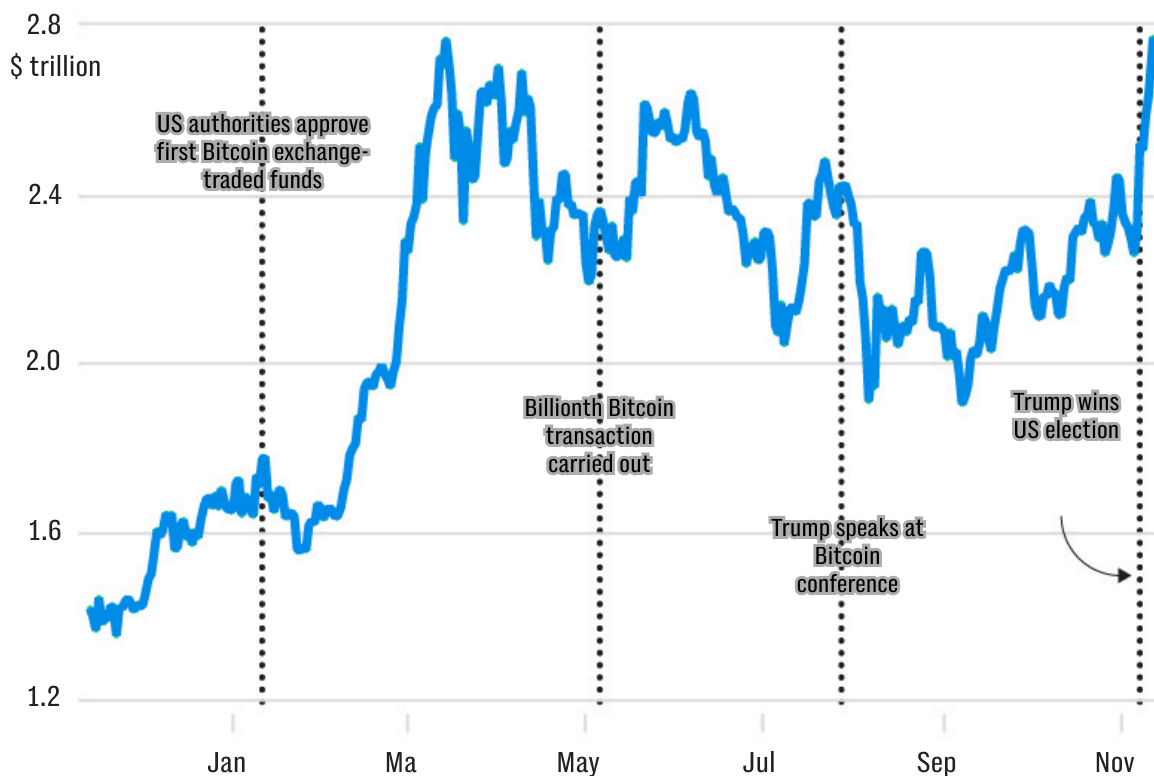
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To use a cliché, an asset is defined as “something valuable belonging to a person or organisation that can be used for the payment of debts”.

[Bitcoin is temporary at best](#) and I imagine you'd rather struggle to pay off any but the most illicit debts with it.

Cryptocurrency's climb

Market cap



Coin Market Cap

What about “digital gold”, the ever-loved phrase of financial commentators who feel strong-armed by its seeming permanence to speak about it sagely?

To offer such a moniker is to entirely misunderstand gold, which exists well beyond its use as a diversifier in your portfolio.

Society’s use of gold dates back about as far as alcohol and is just shy of agriculture. We accepted its value before we began to construct currency. It’s been around longer than any civilisation you could name.

Sure, in the long lens of the universe it will, like us, vanish, but it’s proved its worth as central to ancient, modern and future communities.

It also has value beyond currency. Open up any electronic product and you’ll see a glint.

But surely Bitcoin is a *cryptocurrency*? I can use it to pay for things and when those tricky governments accept it’s here to stay, I’ll be buying my dinner with Dogecoin.

Even if we disregard the volatility which renders it useless as money, there is no infrastructure, nor the incentive to build one, that could even scratch the surface of our daily spending needs.

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According to Steve Cecchetti, former head of the monetary and economic department at the Bank for International Settlements, and Kim Schoenholtz, former chief economist at numerous institutions and current professor emeritus at NYU Stern School of Business, Visa is capable of processing 65,000 transactions per second. Bitcoin's blockchain limits it to fewer than 10 per second.

In fact, its widespread adoption would be its very downfall, according to Eric Budish, professor of economics and entrepreneurship at the University of Chicago, Booth School of Business. He found the, admittedly “ingenious”, form of trust invented by Satoshi Nakamoto would [cost more than global GDP to implement](#) on the level of a genuine currency.

But what about the financial institutions that have embraced it? The world's largest asset manager lets us buy it through well-protected and established means. That has to count for something?

Perhaps, perhaps not. I could point you to PPI or Enron or Wirecard to suggest that sometimes these institutions get it wrong, or we could examine whether they have *actually* embraced it.

Professors Cecchetti and Schoenholtz have that one covered, too. Bitcoin's average monthly turnover is around \$22bn – about the size of a black hole. Large, depending on your perspective.

US equities trading volumes averaged roughly \$4.6 trillion per month over the year to July, a figure 20,809pc higher than Bitcoin's. Repo trading, a source of US dollars, among other use cases, averaged \$79 trillion – that's a 358,990pc increase.

But surely there is some value in it being decentralised, unable to be fiddled with by governments?

It depends if you want anyone to enshrine your property laws or enforce contracts. Professor Budish cites those famous big government advocates Adam Smith, Friedrich Hayek and Milton Friedman, who all believe at least some form of government is necessary to enable a free market to exist.

But it's here now, Bitcoin is part of our world. It pervades our media, our politics, even our pensions. How could it possibly disappear?

Everything changes all the time. Insider trading didn't become a criminal offence in the UK until 1993; only 3m British people paid income tax before 1944; pension pots were [only inheritance tax-free for a decade](#).

Pets.com and Beanie Babies, typewriters and fax machines, tally-sticks and wooden houses in the City of London, the list goes on.

I do not doubt that you can make some money on Bitcoin this year. You can probably make a pretty penny for five, maybe 10 years still. I wouldn't even be surprised if there was money to be made longer than that.

But make your money while you can, because if you think Bitcoin has any value, I have a bridge to sell you.

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