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Is Bitcoin Good for Business?

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NEW YORK – In a recent commentary for the *Financial Times*, economist Dambisa Moyo makes a case for why business leaders should invest in Bitcoin. Her three main arguments are that Bitcoin is a way to mitigate company risk; cryptocurrencies can provide possible solutions for doing business in emerging economies; and digital currencies augur an exciting new future of “currency platforms.”

Is Moyo right? Let’s take her points in turn.

First, it is unclear how buying Bitcoin can mitigate company risk. The only risk Moyo identifies is that of missing out on what could be one of the greatest speculative bubbles of all time. True, a company that missed out on a continued Bitcoin appreciation could face dire consequences – including acquisition by a Bitcoin-invested rival. Obviously, investing in Bitcoin is one sure way to avoid missing out on capital gains on Bitcoin. But that hardly makes it a wise investment, especially when one weighs the potential returns against the high risk of material capital losses.

Equally far-fetched is the idea that cryptocurrencies could provide solutions to problems often encountered in emerging economies. It is true that, unlike conventional fiat money – which includes central bank digital currencies (CBDCs) – decentralized private cryptocurrencies like Bitcoin are not at risk of being “over-issued” by profligate governments. It is also true that the risk of over-issuance is greater in some emerging markets than in most advanced economies.

But over-issuance of currency is just one possible threat to emerging-market financial stability, and removing it does not suddenly make Bitcoin a reliable store of value. Quite the contrary: Bitcoin’s price volatility since its inception in 2009 has been staggering. On March 29, 2021, its price reached \$57,856 – some distance below its all-time high of \$61,284 on March 13 – with a market cap close to \$1 trillion. According to a note from JPMorgan on February 17, its three-month realized volatility at the time was 87%, compared to just 16% for gold. Similarly, a recent study finds that Bitcoin’s price volatility is almost ten times higher than that of major fiat currencies (such as the US dollar against the euro and the yen).

Moyo also suggests that Bitcoin could facilitate remittances to low- and middle-

income countries. But this ignores the fact that Bitcoin transactions are notoriously inefficient. Because its block size is capped at one megabyte and the block-discovery process takes approximately ten minutes per block, only seven transactions can be completed per second. By contrast, Visa executes an average of 1,700 transactions per second, and could feasibly handle more than 65,000 transaction messages per second. By design, Bitcoin is simply too inefficient ever to become an effective medium of payment.

Similarly, the fact that Bitcoin's supply is fixed at 21 million units is more of a drawback than a selling point. A proper currency should be able to undergo a massive expansion in supply when circumstances demand it, such as in the case of a financial crisis or a shock to aggregate demand. There can be no lender of last resort or market maker of last resort capable of systemic rescue operations with Bitcoin and other decentralized cryptocurrencies.

Finally, is Bitcoin really the vanguard of a new digital-currency infrastructure that wise investors cannot afford to ignore? No, because the CBDCs under development in China and elsewhere have nothing in common with Bitcoin and other decentralized private cryptocurrencies. There is no blockchain or other distributed ledger technology (DLT) involved, nor is proof of work required to establish the validity of a transaction.

Rather, CBDCs function as straightforward digital versions of conventional bank accounts. In principle, they could be implemented as individual accounts with the central bank for every consumer and business in its jurisdiction. Alternatively, those accounts could be guaranteed by the central bank, but held with a wide range of private financial institutions.

CBDCs represent nothing new. They are not a revolutionary development like decentralized, DLT-based cryptocurrencies. But that revolution has already failed, because Bitcoin and similar cryptocurrencies are extremely unattractive as stores of value. No sensible investor should go near them (unless she has very deep pockets and extremely low risk aversion).

Moreover, Bitcoin's extremely high energy demand is another nail in its coffin. Bitcoin transactions are verified through proof-of-work "mining" operations that require exorbitantly energy-intensive computational efforts. The Cambridge Bitcoin Electricity Consumption Index estimates annualized consumption at 139.15 terawatt-hours – more than that of Argentina.

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Simply put, Bitcoin and other proof-of-work cryptocurrencies are an environmental

disaster. Worse, cryptocurrencies can be replicated without bound, further amplifying the environmental damage. As of March 29, 2021, CoinMarketCap listed 4,490 cryptocurrencies, starting with Bitcoin (with a \$1.08 trillion market cap) and followed by Ethereum (with a \$204 billion market cap).

The bottom line is clear: Bitcoin is an excessively risky and environmentally undesirable investment. It is not a sensible solution to any emerging-market problem, and it cannot possibly serve as a store of value or reliable medium of exchange. The sooner it and other DLT-based cryptocurrencies are relegated to a footnote in economic history, the better.

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