

Is 2023 where crypto will go to die?

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Credit: Matthew MODOONO/Northeastern University

After a [nearly apocalyptic 2022](#) that saw the collapse of one of crypto's largest players, questions about the future of the nascent industry have been swirling at tornadic speeds.

The swift and sudden collapse of FTX, formerly the third-largest

cryptocurrency exchange in the world, put [intense scrutiny](#) back on the digital industry, with U.S. lawmakers this week growing increasingly eager to implement regulations to [rein in bad actors](#), cut down on fraud and reduce the risks to investors big and small.

This comes as former FTX CEO Sam Bankman-Fried was arrested in the Bahamas on Monday, facing a raft of fraud charges from U.S. prosecutors in connection with the exchange's collapse last month.

Will crypto survive the latest scandal? With the U.S. staring down the barrel of a potential recession, will investors start to pull out of crypto as they have been with the big tech companies? What would that mean for the overall economy?

Mark Hooker, teaching professor of economics at Northeastern and long-time crypto skeptic, says that cryptocurrency transactions make up a "trivial"—albeit, [growing](#)—"share of overall transactions" in the economy. With such a minimal economic foothold, an industry-wide crypto collapse is quite possible, he says. And, he says, it would have "next to no impact" on the economy.

"Some cryptocurrencies have disappeared—so that certainly happens," Hooker says. "Whether the bigger ones—Bitcoin, Ethereum, for example—do is another story. It's entirely plausible, though."

Hooker says while there's plenty of historical examples of the discontinuation and devaluation of banknotes, or [paper money](#), there's little precedent for the use and disuse of such arcane financial instruments as cryptocurrency. "There aren't many historical parallels," he says.

As [software objects](#), cryptocurrencies sometimes behave like money—usually in the form of digital tokens—and other times like

assets somewhat proximal to a [security or a commodity](#), which investors speculate on in order to turn a profit. Despite the purported social benefits of cryptocurrencies put forward by proponents of the [decentralized finance movement](#), Hooker says that, at the end of the day, the digital coins have been used as instruments of crime, fraud and speculation.

"When you value most assets, there's some kind of cash flow associated with it. Cryptocurrencies don't have that—they're entirely speculative," he says.

William Dickens, university distinguished professor of economics and [public policy](#) at Northeastern, says that he doesn't believe crypto losses experienced this year and in the future will be "big enough" to derail the U.S. economy.

"There are two ways that it could," he says. "If there were banks or other important financial institutions invested in crypto that became insolvent because of their losses, that could be bad. But I haven't heard of any systemically important institution that got hurt by this. In the past I would have said they were too sophisticated to get caught flat-footed like that, but then there was the housing bubble in 2007."

The other way a crypto crash would harm the economy is by diminishing wealth to such a degree as to bring down consumption, Dickens says. But Hooker says that's also unlikely, given the profile of your average crypto holder.

"I believe that people who hold cryptocurrencies are disproportionately [wealthy people](#) who have put discretionary wealth—wealth they can afford to lose—into this space," Hooker says.

With the Federal Reserve projecting that interest rate hikes are likely to

extend well into 2023, talk of the "death of crypto"—a perennial theme, no doubt—is sure to continue fueling panic among investors.

"I thought from the beginning that crypto would implode," Dickens says. "I saw it as having all the characteristics of the tulip bubble—or to put it differently, a ponzi scheme. The biggest advocates of [crypto](#), who aren't making money off it, are people who don't understand that our current financial system is as good as they are going to get, and that central banks perform important roles. In short, they either don't understand economics, or are the victims of some sort of quasi-libertarian ideological nonsense."

Provided by Northeastern University

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