Editorial

The emperor's new coins

My mother was a very clever woman. She knew that people were more likely to remember stories than lectures, especially when it came to lessons about morality and ethics. My childhood was filled with Aesop's fables, Grimm's fairy tales and the captivating stories of Hans Christian Andersen, including my personal favorite, The Emperor's New Clothes.

For those not familiar with that particular tale, it is the story of a vain emperor, who is duped by two fraudsters into thinking they had designed for him a suit of clothes that were not only "uncommonly fine," but "had a wonderful way of becoming invisible to anyone who was unfit for his office, or who was unusually stupid." The emperor could not resist the temptation, both to don such a remarkable outfit, and to discern the "wise men from the fools" in his kingdom. Feigning the work of weavers, the men proceeded to mime the process of dressing the king, while he, and his courtiers, not wishing to appear as fools themselves, affirmed the beauty and the majesty of the imaginary outfit. As he pridefully strode down the street in his exceptional "new clothes," one small boy blurted out the obvious, "he hasn't got anything on," and the spell was broken. Soon the entire crowd was murmuring that the emperor was in fact, naked:

> The emperor shivered, for he suspected they were right. But he thought, 'this procession has got to go on.' So he walked more proudly than ever, as his noblemen held high the train that wasn't there at all [1].

As I read the relentless headlines surrounding the current state of cryptocurrencies, the debate over whether they belong in one's retirement portfolio and the precarious state of cryptocurrency exchanges, the above referenced morality tale rings in my ear, as a clarion call to beware the lure of invisible goods, that may in fact, be imaginary. We have all seen them: "Fidelity to Allow Retirement Savers to Put Bitcoin in 401(k) Accounts" [2], "Bitcoin's massive plunge shows why it shouldn't be in your 401(k)" [3], "More Than $200 Billion Wiped Off Cryptocurrency Market in a Day" [4], "Is TerraUSD's Collapse Crypto's Lehman Brothers Moment" [5], "The Collapse of FTX" [6], "Binance Faces Mounting Pressure as U.S. Crypto Crackdown Intensifies" [7], etc.

So how should one think about the cryptocurrency phenomenon? What is their genesis? Who (or what) is behind them, and what are they being used for? Are they a good investment, or are they purely speculative? Besides securing the blockchain, could the extremely complicated mathematical equations be used for nefarious purposes? Can they rightly be compared to other commodities or fiat currencies? Based on their complexity, their opaqueness and their volatility, what are the ethical implications of investing in cryptocurrencies?

Space here does not permit more than a brief foray into these questions, but simply raising them may be enough to expose the fiduciary and ethical minefield that lies ahead in this sector.

As Ben Yu notes in his June 23, 2017, Blog Post entitled *Cryptocurrency 101:*

> Bitcoin was officially unveiled to the public in a white paper published October 31st, 2008. The white paper is actually extremely readable, very short (just 8 pages), and incredibly elegantly written. If you want to understand why bitcoin is so compelling straight from the horse's mouth, you must read this paper. It will explain everything better than I or anyone else likely ever could [8].

Journal of Ethics in Entrepreneurship and Technology
Vol. 3 No. 1, 2023
pp. 2-6

e-ISSN: 2633-7444
p-ISSN: 2633-7436
DOI 10.1108/JEET-06-2023-018

I concur; however, one should read it critically and be mindful of the date of its publication. It was published at a time when the entire, global financial system was under intense scrutiny and everything from fractional reserve banking to the Bretton Woods System was being brought into question. Actors, both public and private, benevolent and malevolent, sought to devise alternative, utopian systems, either for the sake of probity or their own gain, in seemingly equal measure. The jury is still out, as to where cryptocurrencies fall on the benign/malign spectrum.

According to its proponents, Bitcoin was designed as a:

> [. . .] peer-to-peer version of electronic cash [. . .] based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party [9] (i.e. traditional financial institutions).

This statement alone should cause one pause, as it reveals a foundational premise of the cryptocurrency movement; namely, that people and institutions cannot be trusted to act ethically.

At face value, this may seem like a reasonable proposition. Afterall, human beings are sinful by nature and the annals of business are replete with examples of immoral behavior. However, this presumption of distrust strikes at the very heart of virtuous human intercourse. It seeks to remove all human judgment from economic decision-making, in favor of deference to an ever-expanding blockchain of cryptographic calculations. Is it reasonable for us to divorce human nature, in all its divine beauty, and its human frailty, from economic activity? A proper reading of Scripture would suggest that we were created by God to engage in economic activity, as a reflection of the *Imago Dei.* As British theologian James Francis puts it:

> [T]he modeling of the transcendent in religious discourse [. . .] reflect[s] the idea of God as [. . .] the Worker par excellence [. . .] [it] is a uniquely human activity express[ing] who we are and aspire to be, [. . .] using creatively all the materials of our life which are to hand. [10]

The above referenced "materials of life" include the cumulative sum of all human labor, all material commodities, as well as the markets, rules, customs, systems and currencies we devise to facilitate economic activity. To abdicate our moral responsibility to complex algorithms (which are themselves made by human agents) seems both incongruous, and potentially treacherous, especially when one considers Bitcoin's lack of provenance.

The above referenced white paper was penned by an actor of unknown origin or intention, going by the pseudonym, Satoshi Nakamoto. Who Satoshi Nakamoto is, is anybody's guess, but their lack of identity should be of concern to anyone considering Bitcoin as an investment. Why the secrecy? Whose identity are they trying to hide? To ask that question, one must ask who would benefit most from the demise of the Bretton Woods (aka US Dollar) system? A corrupt state actor perhaps, or organized crime syndicates? They are certainly using cryptocurrencies to great effect; and what other purposes might be served by the cumulative effect of thousands of computers doing evermore complex mathematical calculations? In fact, we simply do not know whether some of these calculations have a dual purpose or not, and we simply do not know the origins of the first blockchain [11].

Both the lack of transparency and the potential for the misuse of the technology raise serious ethical concerns about crypto's meteoric rise, and ubiquitous presence. This is not to suggest that blockchain technology is inherently immoral or that it could not become a useful tool in the advancement of electronic commerce, it certainly could. It does, however, challenge the assumption that a trustless system is necessarily safer and more efficient than a system involving human judgment.

Of course, there are other concerns relating to the development and launch of cryptocurrencies, especially the Ponzi-esque [12] nature of their life cycles. One need only look at the proliferation of new coins (so-called ICOs) and chart their price trajectories to see the problem [13]. The SEC [14] has been warning would-be investors for some time about the risks involved and the potential for fraud, yet they continue to flood the market at break-neck speed. The attraction being nothing other than simple greed, as evidenced by the confessions of "investors" who lost over 90% of their capital in so-called "stablecoins" (i.e. those cryptocurrencies supposedly pegged to the US Dollar), in just a few days [15]. Is it any wonder that, the Bible is so stark in its condemnation of greed and the love of money (Eph. 5:5; 1 Tim. 6:10)? These vices are nothing less than idolatry, and the source of so much evil and corruption in the world.

The example above and countless others raise two especially important questions surrounding cryptocurrencies. First, is it right to even call them "currencies," and second, are they sound enough to warrant serious consideration as investment vehicles?

It should be noted that one of the original arguments, in favor of cryptocurrencies, was the suggestion that they are superior to both gold and fiat currencies. They were seen as superior to gold because gold is not conducive to electronic transactions, and superior to fiat currencies, because they are based on "trust" (which as we have seen, is anathema to advocates of cryptocurrencies), and subject to the whims of central banks and governments. Because proponents of cryptocurrencies see both fiat currencies and cryptocurrencies as "virtual" (i.e. not convertible to another commodity), they argue that the latter is superior, due to the robustness of the blockchain.

This of course, is untrue. Fiat currencies, while untethered to any commodity, are none the less backed by both the taxing power of the state and the economic potential of the territory(ies) supporting the currency. This is not the case with cryptocurrencies, and even cryptocurrency enthusiasts admit that blockchains, while proving to be robust to date, are not unassailable [16].

On a more basic level, however, they seem to fail the definition of a currency as both a "store of value" and a "means of exchange." While some entities may accept a cryptocurrency in exchange for some goods and services, their use as a means of exchange is currently quite limited; and their extreme volatility renders them a very suspect store of value.

Finally, on a more philosophical note, one must ask whether investing in cryptocurrencies, actually serves the ultimate purpose of all economic activity, which is to promote human flourishing? As Warren Buffet once noted, the purveyors of cryptocurrency do not actually "produce" anything. They are "virtual" in every sense of the word, and the list of people and things damaged by the phenomenon seems to grow by the day.

First among them is the natural environment. As business journalist Paul Kim recently noted:

> The University of Cambridge estimates that Bitcoin alone generates 132.48 terawatt-hours (TWh) annually, which easily surpasses the annual energy usage of Norway at 123 TWh in 2020. The amount of carbon dioxide emitted by this energy usage will vary depending on how that energy was created. But in 2020, the US — where 35.4% of Bitcoin mining takes place since China banned cryptocurrency mining in 2021 — created 0.85 pounds of carbon dioxide per kWh. This results in nearly 40 billion pounds of carbon dioxide produced by US Bitcoin mining alone. [17]

That is a significant amount of pollution, and while most of it is attributed to "proof of work" mining, "proof of stake" and other mining processes, that use less energy, are miniscule compared to the traditional "proof of work" method.

Then there are the duped investors, some of whom should have known better (i.e. the pros), but also countless small investors, lured by the FOMO [18] impulse and the celebrity-hyped advertising that filled our television screens and covered the billboards of seemingly every subway, highway and airport in the nation. As with the lure of the lottery, recent research suggests that people in under-served communities have suffered disproportionately [19], raising serious questions about the ethical implications of using media-hype to promote an investment vehicle.

From an ethical perspective, it seems to this writer that cryptocurrencies in their present form are simply unworthy of investment, much less as part of a retirement fund. Their lack of provenance; their proliferation among bad actors; their lack of government regulation; their lack of transparency; and their foundational ethos of distrust, are all red flags in their own right. Taken together, they are a code-red warning, for anyone who believes that money is not an end in itself, but merely a vehicle for the proliferation of economic activity that enhances the human experience and provides for the common good. Let those who fail to heed this modest warning remember that "the prudent see danger and take cover, but the simple keep going and suffer the consequences" (Prov. 22:3) [. . .] a bit like a certain emperor, with a new suit of clothes.

Kenneth J. Barnes
Mockler Center, Gordon-Conwell Theological Seminary, South Hamilton, Massachusetts, USA and University of Oxford, Royal Society for Arts and Manufacturing (UK), London, UK.

Notes

1. https://andersen.sdu.dk/vaerk/hersholt/TheEmperorsNewClothes_e.html
2. www.wsj.com/articles/fidelity-to-allow-retirement-savers-to-put-bitcoin-in-401-k-accounts-11650945661
3. www.washingtonpost.com/business/2022/05/11/bitcoin-market-cryptocurrency-401k/
4. www.bloomberg.com/news/articles/2022-05-12/more-than-200-bilion-wiped-off-cryptocurrency-market-in-a-day?srnd=premium
5. https://medium.datadriveninvestor.com/is-terrausds-collapse-crypto-s-lehman-brothers-moment-b704c575cba7
6. www.forbes.com/sites/forbesstaff/article/the-fall-of-ftx/?sh=109fbae97d0c
7. www.nytimes.com/2023/04/26/technology/binance-crypto-crackdown.html?smid=nytcore-ios-share&referringSource=articleShare
8. https://medium.com/@intenex/cryptocurrency-101-7197684775fd
9. https://bitcoin.org/bitcoin.pdf
10. J.M. Francis, *Reflections on Non-Stipendiary Ministry as Ministry in Secular Employment: Collected Papers (1989–1996)* (Sunderland, UK: University of Sunderland, 1996), 16.
11. So-called "Block Zero."
12. Nobel Award–winning economist Paul Krugman has described cryptocurrencies as "Ponzi scemes."

13. www.coinbase.com/price?resolution=year
14. www.sec.gov/ICO
15. https://fortune.com/2022/05/11/luna-ust-reddit-stablecoins-crypto-crash/?utm_source=email&utm_medium=newsletter&utm_campaign=ceo-daily&utm_content=2022051211am
16. https://medium.com/@intenex/cryptocurrency-101-7197684775fd
17. www.businessinsider.com/personal-finance/cryptocurrency-environmental-impact
18. FOMO is an acronym for "fear of missing out".
19. www.business2community.com/crypto-news/crypto-crash-hits-african-americans-hardest-with-25-of-community-invested-02516921