

VIRTUAL CURRENCIES AND THE STATE

D. Golumbia, Why Do We Keep Taking the Cryptocurrency/Blockchain Scam Seriously?

July 3, 2020

David Golumbia, Virginia Commonwealth University

Author's Note: this is a companion piece to one that explores the facts around cryptocurrency and blockchain fraud called "Cryptocurrency Is Garbage. So Is Blockchain" (copies are available on Medium, SSRN, and Academia.edu). That piece was originally composed for this forum but grew beyond its limits. Some of what is discussed here presumes facts and arguments described in that piece.

In the longer piece on which this one follows, I do what I can to show that nearly all of the claims for cryptocurrency and blockchain are false, and most are based on outright fraud.

If this is correct, it leaves us with a glaring question: why does the crypto-blockchain story persist, and why does it attract so much attention, despite its being false and/or fraudulent?

Some of the answers are obvious. Clearly, the fact that a lot of people have made a lot of money on Bitcoin and other cryptocurrencies is a big part of it. Of course, in every way, that money was earned via get-rich-schemes and other scams. Even those have an obvious attraction for many of us.

A slightly less obvious answer is ironic. Crypto advocates love to say that blockchain technology is "censorship-resistant," a claim that has driven development of blockchain and cryptocurrency from the fever dreams of far-right

cypherpunks. In their minds, software must be allowed to run, preferably anywhere, regardless of what governments—democratic or otherwise—say about it. Not just software as written code, but the running of code itself, is speech, they say, and so any attempts to regulate what software can do is “censorship.” (This claim, like so much that animates cryptocurrency, is entirely fraudulent, based on a fantastic misrepresentation of case law advocated by “digital rights” organizations up to and including the cypherpunk-founded Electronic Frontier Foundation.)

One of the true technological innovations in blockchain is that it is, indeed, very hard to shut down. No matter how much energy it wastes, as long as there are processors to run it, energy to power the processors, and network connectivity to share transaction data, it is hard to imagine how it could be shut down entirely. (To many critics, that is not a good thing.)

This makes for a truly interesting phenomenon. I’ve argued at length, following the work of legal scholars, that running software is not and must not be viewed as speech. According to that reasoning, it is false to say that blockchain is *uncensorable*; stopping it would not be censorship. But practically speaking, at least so far, it is apparently *unstoppable*, or at least difficult to stop. And because it is unstoppable, people keep talking about it: and so in practical terms, blockchain itself might not be uncensorable, but talk *about* blockchain does appear to be uncensorable.

This kind of paradox or double truth is found everywhere when we contemplate the guiding question of this essay. Blockchain works, but it doesn’t; cryptocurrency isn’t money, currency, cash, or securities, but it is continually called that, and many people treat it as if it is, and so on.

This has created a powerful cognitive dissonance that haunts all aspects of blockchain discussion. Blockchain is used for

almost no real-world purposes, and almost none (and maybe none) of the purposes claimed for it, while people talk about it incessantly. Yet many technologies are used for those purposes, often ones that pundits claim blockchain will replace, and virtually nobody talks about those. Why is it so much more interesting to talk about blockchains that don't do very much, than it is to talk about the flavors of SQL, iterations of HTML, spreadsheets, relational databases, existing encryption schemes used by banks, and so on? In reality, implementations of these software products and packages dwarf implementations of blockchain to such a degree that, if drawn on a graph, blockchain would not be visible at all. These technologies really have changed the world. They interest almost nobody, at least not in the breathless, "revolutionary" manner that blockchain does, particularly with regard to culture in general.

The stark disconnect between those revolutionary cultural claims and the facts of what the software does has always seemed to me the real story of cryptocurrency and blockchain. As time goes on, this only comes to seem more and more true.

One of the most interesting notions in discussions of digital technology (and all technology) is the idea that when a technology is really useful, it becomes invisible. The sentiment is sometimes associated with Steve Jobs talking about the technology used by Pixar for animating *Toy Story* around 1995, and sometimes with Dev Mukherjee, who in 2003 was a Vice President for Strategy at IBM and in a speech at a business conference stated that "technology becomes truly useful when it becomes invisible."

Technologies like SQL, HTML, relational databases, the iPhone as a whole, and so on have become "invisible" in this sense: they serve hundreds of thousands or millions of users, frequently at enormous scale, and yet most of those users could not tell you a thing about how they work, if they know they exist at all.

That doesn't mean the iPhone is invisible: it means that the iPhone itself is made up of thousands of technologies synthesized together, and that outside of development circles, and even inside of them, virtually nobody knows how they do what they do. They work: that's the important thing.

Blockchain is the opposite of invisible. It isn't just visible, it's *ultravisible*. It's visible even when it isn't actually doing anything. In not a few corners of the internet, it's basically the only technology anyone talks about, and they talk about it a lot.

Yet it hardly does anything. Blockchains run, to be sure: but do they do anything at all for consumers, companies (other than those in the blockchain space itself), or other users the way SQL or accelerometers do? It's not even a fair question: it is hard to find *any* credible examples of blockchain working that way.

This also isn't to praise invisibility per se. Those of us who study technologies, culture and cultural systems are often committed to exposing exactly how things work that go almost entirely unnoticed. I would love to see more thick cultural criticism about things like the movement and position sensors in iPhones and the cultural affordances of relational database models. And, as the work of the scholars of money contributing to and organizing this forum suggests, money itself, which remains in far too many ways not just invisible but resistant to rigorous analysis.

Many of us are drawn to proven, clear, or at least plausible stories of achievement and advancement. Some, arguably fewer than those, are drawn to stories that are at best unlikely and more often altogether implausible. Much as a considerable portion of the current Republican base is drawn to stories about climate change, abortion, evolution, and the conduct of prior Democratic administrations that make their lack of contact with reality central pillars of their appeal, far too

many are drawn to blockchain and to cryptocurrency precisely because its promises are implausible. They promise to “stick it to the man,” even if we have no good idea who “the man” is or why we are “sticking it to him” by proclaiming that the US dollar has lost 95% of its purchasing power in 100 years, or that the Earth is flat. And the blockchain story is similarly resistant to fact-checking—indeed, it seems to benefit, like climate change and Flat Earth stories, from the certainty with which it can be disproven. Try arguing with a cryptocurrency devotee over not whether what cost 5 cents in 1920 costs \$1 today (which is true enough), but about what that *means* (almost nothing, since the price of everything, including labor, has risen at about the same rate, so that if you had 5 cents in 1920, you are also likely to have \$1 today) and you’ll encounter just the kind of dramatic cognitive dissonance I’m gesturing at.

Blockchain and cryptocurrency attract those who find simplistic explanations superior to complex ones, and to people who (consciously or unconsciously) identify with the perpetrator and not the victim of fraud. This is part of why the project is so inextricably bound up with right-wing politics: no matter how much rhetoric it uses of “helping” the “disadvantaged,” the blockchain proponent or software developer nearly always depicts him- or herself in the position of power. Frequently they engage in a version of rhetorical three-card monte, pointing at (often simplistic, but sometimes accurate) problems with world financial systems as “proof” that the world needs cryptocurrencies including Bitcoin, despite having not only no evidence that Bitcoin addresses those problems, but having to engage in significant deception about the ways that Bitcoin usually only offers to make those problems worse, sometimes much worse.

Despite the fact that blockchains will undoubtedly continue to run, until and unless they start to be adopted with anything like the scale and influence that technologies like the iPhone

and SQL are, it would behoove informed commentators to refrain from speaking as if they are anything but a very specialized and new form of “vaporware”—technology that exists, but that does not do what is claimed for it. Further, if and when blockchain does start to do any of the things claimed for it, discussions of its role must remain grounded in well-informed analyses of the other technologies and systems within which it is embedded, and must be able to answer the question: why are we paying attention to this, instead of something else?