Cryptos: first steps to financial empowerment… with a few reserves

73- 01/04/2024 **This month, our overview of empowerment takes us into the virtual world of crypto-currencies... Can digital assets be considered as vectors of individual emancipation and self-determination? Several researchers have delved into the question. Here is a synthesis of their analysis…**

First, what empowerment are we talking about when associating it with cryptocurrencies?

With the advent of Bitcoins, Ether, and other BNBs, finance has opened up to novices and all those excluded from banks. The democratization of a sector previously reserved for an elite follows the “top-down” empowerment schema, that of delegating power, authorization, or permission. With one notable difference: the transmission of Bitcoin occurred without compensation, by liberating access to the currency’s source code and software, akin to Prometheus giving fire to humanity. Indeed, the absence of compensation turns this concession into a gift, explaining why Atkins (2022) qualifies this transfer as one of the “great historical events” and compares it to the advent of “democracy, the invention of printing, and the Renaissance”.

Cryptocurrencies, alternatives to the traditional organization of the economy and society…

By creating cryptocurrency in 2008, amidst the subprime crisis, the designer identified as Satoshi Nakamoto aimed to democratize money, liberate individuals, and future generations. Serving as both financial technologies and alternative currencies, cryptocurrencies are decentralized cash payment systems between peers with preserved anonymity (Mougayar 2016). Transactions occur without control authority, external regulation, government, physical infrastructure, hence no need to rent premises, and no intermediary—except for operations conducted via cryptocurrency exchange platforms (Corbet, et al. 2019). An algorithm records the chain of transactions on a public ledger and disseminates it to network members via a blockchain. These exchanges, conducted at astonishing speed, cannot be manipulated by other individuals or companies, thus excluding – in principle – the risk of fraud. Each user holds a private key to access and manage their cryptocurrencies. Transparency and validation of exchanges ensure the system's reliability.

… But risky investments

While the recorded gains surpass traditional investments, cryptocurrencies remain risky investments. Their main weaknesses: volatility, lack of insurance in case of loss of the digital wallet, lack of guarantee by central banks, difficult conversion into fiat currencies (US dollar, euro, Japanese yen, British pound, etc.), hacking risk, and finally, dependence on electricity. Bitcoin is accused of becoming a Ponzi scheme, a means of speculation and market manipulation far from the ethical intentions and initial libertarian dream. Detractors also highlight that Bitcoin transactions have been widely used to finance terrorist or criminal networks (Wang & Zhu, 2021)..

Nonetheless, cryptocurrencies promote financial inclusion for those far removed from the financial sphere.

This system simplifies and popularizes access to financial resources. Holding cryptocurrencies requires only a minimum of digital competence and no individual identification. For marginalized populations and those not initiated into monetary intricacies, the use of cryptocurrencies addresses unequal access to capital, banks, and financial autonomy. Due to their global nature, these assets transcend borders and local instabilities. With cryptocurrencies, holders free themselves from dependence on the country’s economy and banking system. They place their own buy or sell orders and personally control the management of their capital. In countries plagued by hyperinflation, cryptocurrency users manage to preserve their savings.

Financial emancipation with cryptocurrencies: learning “on the job”… at the risk of dependency

Cryptocurrencies can be seen as a practical exercise in finance and economics for vigilant self-learners. By daily monitoring the fluctuations of their investments, investors acquire financial know-how. They become familiar with market subtleties, take a step back from risk management, adopt expert language, and critically analyze price variations. With the experience gained, they are able to evaluate new offers and make investment decisions more wisely and autonomously. In doing so, they tick all the boxes of individual empowerment: gaining knowledge and skills, the ability to assess and acquire new resources, self-efficacy, self-determination.

But here too, there is risk: becoming addicted, chaining oneself to a smartphone to constantly monitor price fluctuations or not miss an opportunity, especially when a new cryptocurrency is expected to reach new heights. Multiplying or dividing gains by 5, by 10 generates a state of euphoria and stress reminiscent of compulsive gamblers. And here again, such dependence behaviors clash with the primary objective of financial liberation.

An investigation conducted in 2023 by the largest cryptocurrency exchange platform, Binance[1] of 1,172 individuals representing various regions of Asia, the Pacific, the Middle East, Europe, Africa, and Latin America<strong> suggests that cryptocurrencies can help reduce income inequalities and financial disparities in society (76% of respondents). One-third of users (36%) perceive them as a viable alternative to traditional financial systems, and 20% recognize their advantages, foremost among them investment gains. However, cryptocurrency development remains constrained due to high transaction fees (20%) and slowness (14%).

In conclusion

With cryptocurrencies, the uninitiated have entered the world of finance. They have learned to carry out operations that were not accessible to them before or that they thought they were not capable of performing. By personally managing their investment portfolio, they realize their financial potential as active agents rather than as clients of investment companies. In this sense, they undergo a process of empowerment that leads them to develop expertise, master new resources, and even develop a critical understanding of the financial system and corporate valuation.

Mais l'outil émancipatoire n'est pas sans risques… Ceux inhérents à sa nature virtuelle auxquels s'ajoutent ceux qui relèvent de la nature humaine et de son penchant pour toutes sortes d'addiction dont celle du trading de crypto-monnaie ou des jeux d'argent.

But the emancipatory tool is not without risks… Those inherent in its virtual nature, compounded by those stemming from human nature and its penchant for all kinds of addiction, including cryptocurrency trading or gambling.

The four main crypto-currencies and their capitalization in April 2024: Values that are skyrocketing!

Bitcoin (BTC): the world's first, most popular and largest crypto-currency (2009).
Market capitalization of 1.31 trillion US dollars; Bitcoin is designed to be a scarce yet intangible resource, with only 21 million coins produced to date.

Ethereum (ETH): (2013) second most popular type of crypto-currency
Market capitalization: 396.16 billion US dollars

Tether USDT called stablecoin (2014) because its value is linked to the value of a specific asset, the US dollar.
Market capitalization: 104.68 billion US dollars

BNB: (2017) issued by Binance one of the world's largest crypto-currency exchanges Market capitalization: 78.7 billion US dollars

Number of crypto-currencies 1,300 according to the Autorité des Marchés Financiers [2] , in reality there are thousands, and if they are created almost daily

Marie-Georges Fayn

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[1]
https://fr.cointelegraph.com/news/binance-study-reveals-that-cryptos-are-used-as-a-tool-for-financial-empowerment

[2] Source
https://www.amf-france.org/fr/quest-ce-quune-cryptomonnaie#:~:text=Les%20%C2%AB%20cryptomonnaies%20%C2%BB%2C%20plut%C3%B4t%20appel%C3%A9s,n’est%20pas%20une%20monnaie