

II. Financial Crash

‘Step Right Up, Folks! Buy Your Cryptocurrency Here!’

by Dennis Small

The origin of Bitcoin and other cryptocurrencies is shrouded in mystery. It is said that in 2008 someone going by the name Satoshi Nakamoto was the first to use blockchain technology to launch the cryptocurrency Bitcoin. To this day, the actual identity of Satoshi Nakamoto is unknown.

But *EIR* has good reason to believe that Nakamoto is in fact none other than ... P.T. Barnum. Yes, *that* P.T. Barnum, of Barnum & Bailey Circus, who famously

the process of losing their shirts as the crypto market has plunged from a “market capitalization” of \$3 trillion on Nov. 10, 2021, down to less than \$1 trillion today (mid-June 2022)—a two-thirds collapse in just seven months. This crashing crypto speculative bubble is in fact larger than the \$2 trillion sub-prime mortgage bubble which was the immediate fuse that lit the 2008 blowout of the world financial system. And like the sub-prime boondoggle before it, the crypto bubble has

a very large volume of derivatives and super-leveraged financial instruments sitting on top of it. Which means that the run on crypto now threatens to bring down the entire trans-Atlantic financial edifice of nearly \$2 quadrillion in speculative assets.



CC/Gforsythe

Lyndon LaRouche: “The value of money should be determined by a scientific principle, not an accounting principle,” which it is not in today’s world. Shown, dual monitors of a Bloomberg trading platform for institutional investors.

pronounced with smug satisfaction: “There’s a sucker born every minute!”

Today’s crypto suckers believe that the value of money is determined by supply and demand—and since there is a fixed, limited supply of new cryptocurrencies, their price will be perpetually bid up. They are convinced that cryptocurrencies are anonymous and not controlled by “bad” governments, and so their holders are “free, not dependent on the financial system.” And they have been taught—and they firmly believe—the British liberal economic mantra that wealth comes from “buying cheap and selling dear.”

They are wrong on all counts, and they are now in

spelled before the topic can be competently addressed.

First, *blockchain* is not the same thing as a digital currency or cryptocurrency. Blockchain is simply a digital ledger of transactions that is duplicated and distributed across the entire network of computer systems on the blockchain, with each new transaction being added on to the entire previous block. Its proponents argue that such a system of recording information makes it difficult or impossible to change, hack, or cheat the system. There are legitimate, delimited uses for blockchain technology in financial and related domains, essentially as a proof of a chain of custody or ownership. But it is not a currency, and

What Gives a Currency Value

A couple of widely-held misconceptions about cryptocurrencies must be di-



CC/BasicGov

The crashing crypto speculative bubble is larger than the 2008 sub-prime mortgage bubble.

certainly not any kind of store of actual value.

Second, there is a world of difference between *government-issued* and *privately issued* digital or cryptocurrencies. The former are simply a variant of government-issued and regulated public credit (such as China’s digital yuan currently being tested). Such a currency’s value is determined by the degree to which it is used to foster high-technology physical-economic progress which increases the productive powers of labor, and related uses which otherwise contribute to advances in science and classical culture which increase society’s *potential relative population-density*—as Lyndon LaRouche has uniquely defined that metric. Its value is *not* determined by gold or other raw material production—which may, however, be used to cushion the currency from speculative financial assault in the short term, and serve as an agreed-upon international convention for settlement of accounts—as was the case with the pre-August 1971 gold-reserve backed Bretton Woods system.

Lyndon LaRouche rigorously defined the basis for determining the actual value of money, as in his [comments](#) to an *EIR* seminar in Berlin on June 29, 2005:

The popular conception of money by governments, and by leading institutions is insane. The value of money should be determined by a scientific principle, not an accounting principle. And the scientific principle is: What is a physically defensible determination of the will of governments and the ability of governments to perform in creating credit, over the long term, for the de-

velopment of their economies and their productivities? You should issue credit on the knowledge of the determination and competence of the government to create value, to create wealth, and to have sufficient wealth, to repay the debt you are creating, in a timely fashion. This is a physical question, not an accounting question.

Handing over control of the issuance of national currency and credit to private bankers, in the form of “autonomous” central banks such as the U.S. Federal Reserve, is a formula for catastrophe—as the current breakdown crisis of the entire trans-Atlantic system is making even the obtuse painfully aware.

Again LaRouche, in his 1985 [essay](#), “Private Initiative for Colonizing the Moon and Mars”:

Whenever the state fails to exert a monopoly of responsibility for issuance and regulation of its currency, disaster ensues. Basic economic infrastructure, such as large-scale water-management, general transportation, production and distribution of energy, general communications, and essential urban-industrial common services, must be either provided by the government, or provided by governmentally-regulated utilities. Otherwise, disaster ensues. On this point, President George Washington and other leading architects of the 1787 Federal Constitution were emphatically persuaded, and rightly so.

There is an argument to be made that the current epidemic of individual private cryptocurrencies is actually only paving the way for the world’s major central banks to shift into full-scale digital currency operations themselves—Central Bank Digital Currency, or CBDC—as a means for establishing top-down control of inflation/deflation and attempting to perpetuate the existing bankrupt trans-Atlantic financial system—a fool’s errand, if ever there was one. In fact, the “innovation” division of the Bank for International Settlements (BIS) published a report Oct. 9, 2020 with guidelines for developing CBDC, in coordination with the U.S. Fed, the Bank of Canada, the European Central Bank, the Bank of England, the Bank of Japan, the Swiss Central Bank, and the Swedish Central Bank.

As Paul Gallagher [wrote](#) in the July 5, 2019 issue of *Executive Intelligence Review*:

Since the 2007-08 global financial crash, the big-

gest central banks have revived their dream from the 1930s: To get fingertip control of the amount of currency in circulation, not allowing banks to increase it by lending or paying interest, nor governments by new issues. They could then, their theory goes, absolutely control inflation and deflation, ignoring the factor of economic productivity. They have intensively studied digital currencies for that purpose, and the added purpose of automatic tax collection. The “currency boards” imposed on the British and other European colonies did the job—no more currency allowed in circulation, than the holdings of gold.



EIRNS/Stuart Lewis

Lyndon LaRouche: “Whenever the state fails to exert a monopoly of responsibility for issuance and regulation of its currency, disaster ensues.”

of the world total. If it were a country, that would be #33 in the world—consuming more electricity than the Netherlands or Philippines. That much electricity, which is currently being totally wasted from the standpoint of physical economy, is 10% or more of what would be needed to provide power to thousands of new hospitals that have to be built across the developing sector as part of a world health plan to defeat the COVID pandemic.

It’s estimated that 65-75% of all of the world’s Bitcoin “mining” activity had, until recently, been going on in China, where there is cheap, largely coal-based electricity. But China is now cracking down, and so large numbers of “miners” are planning to relocate to ... Texas!

Mine, All Mine!

Let’s now talk about the birds and the bees: Where, pray tell, do things like cryptocurrency really come from? Is it perhaps, as Lyndon LaRouche frequently mused:

[the belief of] such Anglo-Dutch Liberal ideologues as John Locke, Bernard Mandeville, the obscene François Quesnay, Adam Smith, and the utilitarian Jeremy Bentham ... that the rules of economy are being set by extremely immoral, imaginary “little green men” casting dice under the floorboards of the universe?

You have probably heard that Bitcoin is “mined.” But Bitcoin “mining” has about as much to do with real-world mining as a Hollywood avatar has to do with an actual human being—except that it consumes inordinate amounts of real-world electricity. “Mining” is the energy-intensive process which both creates new coins and maintains a log of all transactions of existing digital tokens. This involves putting together huge amounts of computing power to solve computer-generated mathematical puzzles, which in turn is how you earn Bitcoin—thus, “mining.”

According to CNBC, Bitcoin “mining” consumes a total of 116 terawatt-hours of electricity per year, 0.5%

Says CNBC: “Texas is an ideal destination for miners, thanks to its abundance of solar and wind power, its unregulated market, and its crypto-friendly political stance.” Brandon Arvanaghi, previously a security engineer at crypto exchange Gemini, said:

You are going to see a dramatic shift over the next few months. We have governors like Greg Abbott in Texas who are promoting mining. It is going to become a real industry in the United States, which is going to be incredible.

CNBC does, however, take passing note at the end of their long article on the matter, that “perhaps the biggest question is the reliability of the Texas power grid.”

To call all of this psychotic, is an understatement. How then, has such lunacy spread? A June 2021 survey by crypto.com, as reported in Bitcoin.com, found the number of people using cryptocurrencies globally more than doubled from January to June, 2021, rising from 106 million to 221 million. Bitcoin.com tells its readers:

The report states that the rise of the DeFi [decentralized finance—ed.] movement, institutions like Tesla, Visa, Mastercard, and MicroStrategy adopting cryptocurrency, and El Salvador establishing Bitcoin as legal tender, were important

events that helped to popularize crypto even more.

A large part of the cryptocurrency bubble is based on speculative arbitrage activity by the world's largest hedge funds, which have been buying crypto on the spot market, and locking in long-dated future shares sales at what was assumed would be a predictably higher price forevermore. But, like all speculative bubbles (tulips, chain letters, etc.), this continues to work only so long as it continues to work. In other words, there has to be a sucker born every minute to make sure the house of cards doesn't collapse.

Runs Are Wreaking Havoc

About a year ago, according to Bloomberg, things started to go south on—

one of the crypto market's most ubiquitous plays. Hedge funds piled into the trade, which could previously reliably produce double-digit annual gains. Even better, the arbitrage was virtually risk-free... However, the trade existed because long-dated futures were more expensive than shorter-dated ones, given that Bitcoin is inherently scarce and theoretically should rise—a structure known as contango. The breakdown of that dynamic implies that built-in bullishness has disappeared gradually as prices declined.

In the year since June 2021, what began as “gradual” is turning into a tidal wave. As an article in *Truthout* stated in July 2021:

High-stakes institutional investors are increasingly exposing themselves to the volatile cryptocurrency market, raising fears that the digital asset industry [sic] could wreak havoc throughout the economy.

According to the article, one in seven hedge funds then



EIRNS/Stuart Lewis

Bitcoin “mining” worldwide consumes more electricity than the Netherlands or the Philippines—currently 116 terawatt-hours per year.

held 10–20% of their entire portfolios in cryptocurrency, and many more were leaning towards jumping into the crypto market, according to a survey conducted by the auditing firm PricewaterhouseCoopers.

The *Truthout* article correctly warned:

The market for cryptocurrencies is larger now than the market for subprime mortgages was before the 2008 financial crisis.

A few months later, on Sept. 3, 2021, the British online publication *UnHerd* reported:

The cryptocurrency movement, the very rebellion that set out to defeat their hegemony [of Wall Street and the Federal Reserve—

ed.] has provided them with the necessary technology to become even more dominant.... Blockchain has become the center of the financial elite's new-age banking system. Indeed, behind the scenes, they're going all in on crypto.... Using its very own cryptocurrency, the world's largest bank, JPMorgan Chase, has completed its first “interbank crypto trade” with fellow Wall Street titan Goldman Sachs.

The article went on to argue that the Fed is poised to bail out the entire crypto bubble at the point it predictably explodes.

UnHerd is speaking as an authority on such matters. It is a British online magazine set up and bankrolled from the outset (July 2017) by Paul Marshall, the co-founder and chairman of Marshall Wace, one of Europe's largest hedge fund groups. *Wikipedia* further enlightens us that Marshall Wace “started with \$50 million, half of which was from George Soros,” and that they recently opened an office in China.

Prior to founding Marshall Wace, Marshall worked for Mercury Asset Management, the fund

management arm of S.G. Warburg & Co. He is a member of the Hedge Fund Standards Board.

That is exactly what happened, according to “Wall Street on Parade” columnists Pam Martens and Russ Martens, who took note in their May 21, 2022 column of a particularly significant question asked of Treasury Secretary Janet Yellen at a hearing of the Senate Banking Committee. Sen. Catherine Cortez Masto (D-NV) asked:

Last week Fabio Panetta, one of the European Central Bank’s six Executive Board Members, noted that the crypto currency market is now larger than the subprime mortgage market which triggered the global financial crisis.... He says this \$1.3 trillion [crypto] market shows strikingly similar dynamics.... Do you see any financial risk because professional investors and high net worth individuals hold almost two-thirds of the Bitcoin supply?

Yellen dodged the issue.

Not all countries have joined such lunacy. According to *The Verge*,

The Chinese government has been tightening the screws on Bitcoin for years—it banned banks from handling Bitcoin in 2013, and banned initial coin offerings in 2017.... Iran issued a temporary ban on mining during the summer months, and India is potentially making ownership of crypto illegal.

In mid-June 2021, the Chinese government’s People’s Bank of China issued a notice that:

Virtual currency trading activities disrupt the normal economic and financial orders, breed the risks of illegal cross-border transfer of assets, money laundering and other illegal and criminal activities, and seriously infringe the people’s property safety.

Chinese banks are prohibited from being involved in these transactions.

El Salvador Bites on Bitcoin

Let’s look at two much-publicized cases, to get a better idea of who is actually promoting the crypto

craze. On June 9, 2021, the Legislative Assembly of El Salvador voted to pass the Bitcoin Law, with 62 votes in favor (56 of which were from President Nayib Bukele’s New Ideas Party) out of the 84-person Assembly. The new law made Bitcoin legal tender in the country, along with the U.S. dollar, and henceforth would be accepted by all financial institutions and businesses in the country. El Salvador thus became the first country in the world to make Bitcoin legal tender.

President Bukele argued that the use of Bitcoin would facilitate sending remittances from Salvadorans working abroad. About one-third of that country’s population is currently in the United States and sends back some \$6 billion in remittances every year. That is 22% of El Salvador’s GDP. Bukele was clear that he was trying to put alternatives in place should the Biden administration



World Bank/Brandon Payne

When asked at a Senate Banking Committee hearing whether she saw “any financial risk because professional investors and high net worth individuals hold almost two-thirds of the Bitcoin supply,” Janet Yellen, Secretary of the Treasury, dodged.

and Wall Street impose sanctions on his government, including blocking remittances, which is a very real possibility. That would obliterate the Salvadoran economy within weeks, and Bukele knows it.

And yet in the year that Bitcoin has been legal tender in El Salvador, only 2% of all remittances are now being sent in Bitcoin, and 70% of the population have “little or no trust in Bitcoin,” according to a Central American University poll.

Bukele was sold the Bitcoin package by Jack Mallers, the under-30 CEO of the Bitcoin firm Strike, who traveled extensively to El Salvador in recent years and was given the Bitcoin inside track in that country by Bukele. Mallers argued that the mass issuance of U.S. dollars by the Fed has created inflation and chaos

on world markets, which is certainly true. But rather than proposing real physical-economic development, such as what China's Belt and Road Initiative would bring to the region, Mallers argues—like a hard-core Friedmanite or Mont Pelerin ideologue—that the only thing that matters is issuing money in fixed, predictable amounts. “Fixing money will fix the world,” Mallers stated at a recent Bitcoin Miami 2021 conference where he and Bukele announced El Salvador's new law.

The little green men under the floorboards must have cheered in approval.

Jack Mallers comes by such deadly ideas “honestly,” as the saying goes. His grandfather Bill Mallers helped found the Chicago Board of Exchange (CBOE) in 1973, as well as the National Futures Association; and then in 1984 he co-founded First American Discount Corporation, one of the largest futures brokerages in Chicago, with his son (Jack's father) Bill, Jr. Financial speculation is the only family tradition Grandson Jack knows. Last Father's Day, he posted a picture of himself with his father and grandfather, with the caption:

From the creation of the CBOE to helping make the world a better place with Bitcoin. Like grandfather, like father, like son.

And then there's the drug angle. According to a podcast with Jack on the “whatBitcoindid.com” site, his whole family is “investing heavily in the cannabis industry.” The U.S. DEA reports a dramatic rise in recent years in the use of Bitcoin and other cryptocurrencies for laundering drug money.

Central African Republic Follows

On April 27, 2022, the Central African Republic (CAR) announced that it had adopted Bitcoin as legal tender, making it only the second country in the world to do so, after El Salvador did the same back in June 2021. On May 11, 2022, the Pan African crypto exchange company MARA announced that it had struck a deal with CAR to become its official crypto partner and an advisor to the President on crypto strategy and planning, according to techcrunch.com and many other wires. Bloomberg headlined its article that day: “Coinbase-Backed MARA to Help Central African Republic on Bitcoin; MARA opens in Nigeria, Kenya with \$23 million in funding.”

One rightly wonders how and why the CAR got involved in crypto. The CAR has a population of under 5 million; official poverty is at 60%; only 14% of the

population have access to electricity; less than half have a mobile phone connection; and the internet penetration rate is just 11%, equal to some 550,000 people online last year, according to Reuters. CAR's main exports are timber, diamonds, cotton, and coffee, with Belgium being the main market for the diamond exports.

The CAR has also developed significant ties with Russia, and they are looking for ways to continue and deepen those ties without falling victim to the economic sanctions being applied to any and all who dare trade with Russia. The CAR government is also reported to be unhappy with their current subjugation to the colonial CFA Franc, and seemingly viewed crypto as a viable alternative to help solve these problems. But with their decision, like El Salvador, they have jumped out of the frying pan into the fire.

What is MARA? It is a relatively new, small startup in crypto exchange, with an unremarkable executive team. But it managed to get the needed \$23 million in backing from Coinbase and other investors, to make the move into CAR, which it intends to use as a stepping stone to take on Nigeria and Kenya, whose governments are currently anti-crypto.

What is Coinbase? It is the largest cryptocurrency exchange in the world. Brian Armstrong is founder and CEO; Fred Ehrsam, the co-founder, was a foreign exchange trader at Goldman Sachs at one point in his career. Two other figures on the board are also relevant. Marc Andreessen is known to the world for having invented Netscape, which although now defunct, gave Andreessen his entry into the billionaires' club, where he then plowed his money back into the digital world through the venture capital business.

But probably most important is *Alesia Haas*, the Chief Financial Officer (CFO) of Coinbase. While many of the other top leaders of Coinbase are math-whiz tweeners and computer experts, Haas is a 50-something longtime Wall Street financial controller—and a particularly dirty one, at that—who is in charge of running the nitty gritty of the Coinbase crypto operation. Prior to her stint at Coinbase, Haas served from January 2013 until August 2015 as Chief Financial Officer and Head of Strategy for OneWest Bank, N.A., a \$22 billion commercial bank that was in the center of the dirtiest sub-prime mortgage scandals through its takeover of bankrupt IndyMac. Haas was Head of Strategy at OneWest for a much longer time, from March 2009 to August 2015. Her prior experience includes various investment banking, strategy and other roles with Merrill Lynch and General Electric. (All of

the above is reported on the Coinbase website.)

Haas is enough of a bigwig that she [testified](#) before the U.S. House Committee on Financial Services Dec. 8, 2021 on the virtues of crypto.

And what is OneWest? OneWest was founded by Steven Mnuchin on March 19, 2009, out of the bankrupt IndyMac predator, and Haas was immediately brought in as the CFO. To quote *Wikipedia*:

On March 19, 2009, a seven-member investor group, IMB Holdco, led by Steven Mnuchin—which included billionaire Christopher Flowers, John Paulson, Michael Dell, and George Soros—purchased Independent National Mortgage Corporation (IndyMac Bank) of Pasadena, California for \$13.65 billion from the FDIC and created OneWest from the remains of IndyMac, which then had 33 branches and \$32 billion in assets. IndyMac Bank’s failure was the fourth largest Bank run in the United States.... In November 2010, OneWest Bank purchased a \$1.4 billion multifamily and commercial real estate loan portfolio from Citibank, N.A.... Under a Freedom of Information Act (FOIA) request, the California Reinvestment Coalition, a nonprofit, determined that as of December 2014, the FDIC had already paid over \$1 billion to OneWest Bank under the shared loss agreements it secured from the FDIC when it purchased IndyMac and La Jolla Banks, and that the FDIC expected it would pay another \$1.4 billion.... According to the *Wall Street Journal*, OneWest Bank started foreclosure proceedings on 137,000 homeowners.... On November 25, 2009, Judge Spinner in Long Island, New York penalized OneWest for their “harsh, repugnant, shocking and repulsive” actions in trying to work out a distressed mortgage, by canceling the debt in favor of the borrower.

This scandal almost got in the way of Mnuchin being named Treasury Secretary by President Donald Trump. It all happened while Haas was CFO.

Right after her stint at OneWest, Haas served as the Chief Financial Officer of Och-Ziff Capital Management LLC, from December 2016 to the present. *What is Och-Ziff Capital?* Back in 2007, Och-Ziff became a founding member of the Hedge Fund Standards Board, which sets a voluntary code of standards of best practice endorsed by its members. The company rebranded as Sculptor Capital Management after a number of Africa-related bribery and corruption scandals almost destroyed the company. In September 2016, the firm entered into settlement agreements with the United States Securities and Exchange Commission and Department of Justice, ending a five-year investigation into violations of the Foreign Corrupt Practices Act for allegedly paying bribes to government officials in several African nations. Haas came in as CFO a few months later. Then in March 2019, founder and then-Chairman Dan Och stepped down, and in September 2019, the firm rebranded as Sculptor Capital Management. But their legal problems were not over.

Wikipedia reports:

In January 2018, Michael Cohen, former head of Och-Ziff’s European operations, was charged with fraud relating to activities of the company in Africa. He was charged with ten counts of fraud including investment adviser fraud and conspiracy to commit wire fraud while employed by Och-Ziff. The Securities and Exchange Commission sued Michael Cohen as part of their probe into Och-Ziff, specifically relating to an Och Ziff bribery scheme in the Democratic Republic of Congo, Chad, and Libya, to win business for the company.

Although these investigative leads are not definitive, they do suggest that it was Coinbase, with Haas handling the financial side, that made the move into CAR/Africa via MARA. What is decidedly the case is that both Coinbase and Jack Mallers’s Strike are predators taking advantage of the desperation of countries like CAR and El Salvador, all the while luring suckers in the U.S. and other nations into the cryptocurrency scam—just as P.T. Barnum used to do.



Publicity photo

Alesia Haas, CFO of Coinbase, is a long-time investment banking strategist who, as CFO and Head of Strategy for OneWest Bank, was at the center of the dirtiest sub-prime mortgage scandals.