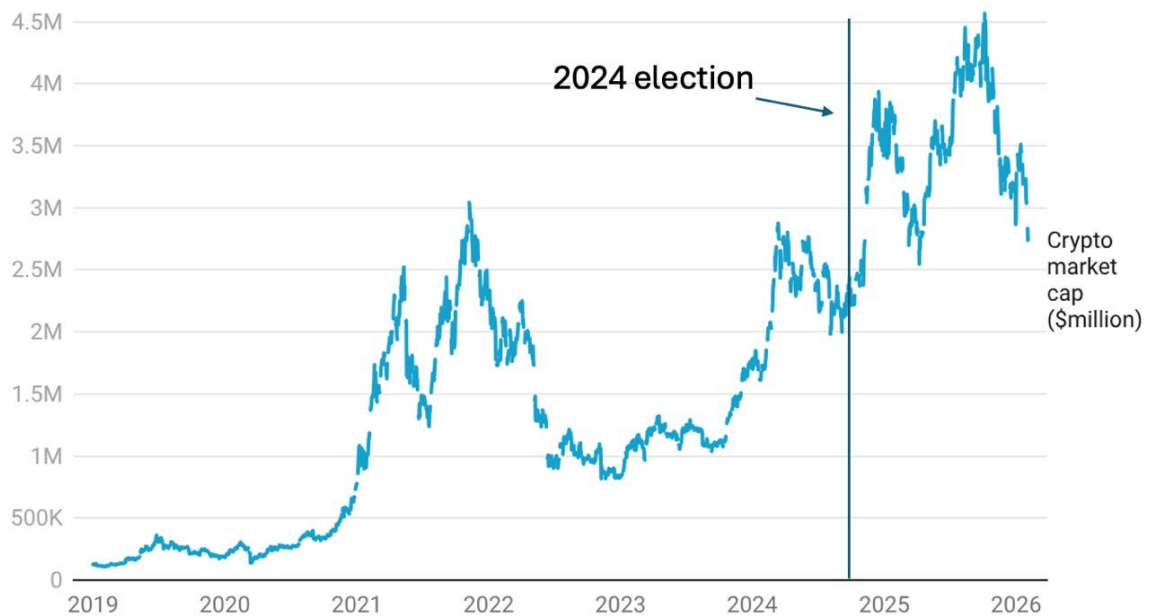


## Is This Crypto's Fimbulwinter?

*di Paul Krugman*

### Crypto's rise, fall, rise and fall



Created with Datawrapper

Source: Haver Analytics

*Now is the winter of our discontent crypto wallet*

*Made glorious summer by this sun of York Trump*

This newsletter is often focused on depressing stuff: Scandals, lies of the powerful, scams that defraud the public. But today I thought I'd offer a change of pace and talk about what is happening to cryptocurrency.

OK, maybe I'm not offering a change of pace after all.

Cryptocurrencies are, roughly speaking, assets where “ownership” is defined not by legal title but by possession of a digital key — a long number — validated by the blockchain, a decentralized record-keeping system. If you know a crypto asset’s key — whether you purchased it, stole it by hacking, or kidnapped someone and [tortured](#) him until he revealed it — the asset is yours.

Bitcoin, the original cryptocurrency, was introduced in 2009, which makes it just two years younger than the original iPhone. It was promoted by enthusiasts as the future of money, a replacement for the dollar and other official currencies. It hasn’t made any visible progress toward filling that role: Bitcoins are awkward and costly to trade, and they have never been a widely accepted means of payment anywhere, not even in [El Salvador](#), which made Bitcoin legal tender in 2021 and devoted substantial resources to promoting it before largely giving up last year.

These days most talk about cryptocurrencies as money focuses on stablecoins, tokens that are pegged to the dollar, which are indeed used for some payments. However, the core use case even for stablecoins appears to be criminal activity. And stablecoins account for only a small fraction of the total [market capitalization](#) of all crypto assets, shown in the chart at the top of this post. Bitcoin still accounts for [more than half](#) the total value of cryptocurrencies in circulation.

This description makes it seem as if cryptocurrency is a failed innovation. I mean, aren’t 17 years of unsuccessfully trying to turn it into a working form of money enough? Yet demand for cryptocurrencies has driven their prices incredibly high, and these prices have repeatedly bounced back from huge setbacks. In 2022 a series of bankruptcies and scandals led to a crypto “winter” that wiped out two-thirds of the industry’s market cap. Yet prices stabilized and gradually began to rise again, soaring to new heights by last fall.

But now we’re in the midst of another crypto winter. Both Bitcoin and total crypto market cap are down about 40 percent from their peaks.

People in the industry are predicting that this winter will also be temporary. Because of course they are. The truth is that nobody knows. Analyzing crypto prices isn’t like, say, analyzing housing prices in the Naughties, where you could compare prices with

fundamentals — because with crypto there *are* no fundamentals, it's vibes all the way down.

But let me give you three reasons this crypto winter may be different, why it might be Fimbulwinter — in Norse legend, the catastrophic winter that precedes Ragnarok, the end of all things.

First, Bitcoin and to a lesser extent other cryptocurrencies have long been sustained by their cult followings, investors with a deep emotional attachment to its future. Cultists HODLed — not an acronym for anything, just a frantic [misspelling of HOLD](#) — when prices fell, and piled in to buy more. But recently [crypto hoarders](#) like Strategy and BitMine — companies that issue stock and debt and use the proceeds to buy crypto — have become major players. And I doubt that investors will have the same mystical belief in Strategy shares that they used to have in Bitcoin itself, which means that faith will no longer put a floor under prices.

Second, the best case for Bitcoin has always been the argument that it can in effect become digital gold. After all, gold, like Bitcoin, is an asset that is awkward to transfer and isn't useful as a means of payment in the modern world. Yet gold has retained its historic role as a perceived safe haven, an asset people buy when the world looks uncertain and dangerous. If Bitcoin could take over even part of that traditional role, its value could make sense.

But over the past few months we've been experiencing a lot of turmoil and uncertainty, leading to widespread talk about a "[debasement trade](#)" in which investors doubt whether dollars are still the safe haven they used to be. And the verdict so far is that the future replacement for gold is ... gold. Investors have piled into the yellow stuff even while dumping Bitcoin, which is acting like a speculative tech stock rather than a safe haven.

Most importantly — and ironically, given the libertarian ideology that used to be pervasive in the crypto world — crypto has become very much a political asset. In 2024 the industry invested [huge sums](#) getting Donald Trump elected and in general electing friendly politicians, and since then has spent even larger sums directly [enriching Trump and his family](#).

These investments have paid off. Some of the payoffs have involved the president's pardon power: In November Forbes — Forbes! — published an [article](#) titled “Trump’s crypto cronies: They sent the president money — and got off easy.”

But there was also a huge financial payoff: Crypto-friendly policies and the perception that the U.S. government would actively promote crypto assets helped fuel a huge rise in the prices of Bitcoin and other assets. The chart at the top shows that a large part of the rise in crypto values since the previous crypto winter came in a post-election surge. As I wrote last October, crypto has become a [Trump trade](#).

Now almost all of that surge is gone. Bitcoin sold for about \$69,000 just before the 2024 election; it reached a peak of almost \$125,000; but just before this post went live it was under \$71,000. How much of that reversal reflects Trump’s cratering approval and doubts about whether he can or will deliver the crypto-friendly policies the industry wants? It must be part of the story. And crypto is unlikely to regain the level of political influence it had a few months ago.

Should we be worried about the new crypto winter? Michal Burry, of *Big Short* fame, has created a stir by warning that Bitcoin’s fall could cause a “[death spiral](#)” in asset prices. But I *think* this is exaggerated: Crypto is still a fairly small piece of financial markets, and, without getting into too much detail, crypto hoarders like Strategy may eventually be forced to sell, but they won’t be facing immediate margin calls.

In fact, if we’re going to have a crypto crash, best to get it over with now, before the industry becomes too big — or too politically powerful — to fail.