Let's Not Rush to The Moon: A Critique of NFTs and the Greater Crypto Sphere

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First Place: Researched Argument (UNIV 200)

As of 2022, the majority of financial advice recommends investment as a sound way to guarantee future returns. Financial advisors recommend all manner of applications, from Roth IRAs, real estate, small business startups, and so on. Young people who have trouble making ends meet are encouraged to invest some of their savings in a variety of places, most of which are regulated by the government to “guarantee” the safety of their funds. In the climate of late stage capitalism, the ultra wealthy have always used their vast disposable income to invest, not only for the aforementioned returns, but also to avoid restrictions placed on most other forms of commerce, like taxes. For much of America's industrial history, investment opportunities were only ever presented to the rich via their hired financial advisors. They often took the form of funding startups, participating in the stock market, and buying art. All of these things have become increasingly inaccessible to younger generations, who find it more and more difficult to save money, let alone invest competitive amounts of it in the stock market. As of recently, however, there has been a massive advertising push to include the layman in investment communities, not through educated participation in “regulated” establishments like the stock market, but through investment in the world of Cryptocurrency. Cryptocurrencies are hailed as the hip new way for middle class youth of America to possibly make it big. All they have to do is take on a little investment risk for the possible reward of their selected currency going “to the moon.” The allure of accessible investment is irresistible for the younger generation; however, as the Crypto market has flooded with new participants, obvious cracks have begun to show in the foundation of the system.

Cryptocurrency, in its purest form and for the purpose of this essay can be briefly described as a virtual form of alternative currency. Cryptocurrencies such as Etherium (ETH) or the eponymous Bitcoin operate on a system called a "blockchain" which is a public, ownerless ledger of every transaction and purchase ever made. The important aspects of these systems are their silicon valley versatility, ability to take many different forms for sale or documentation, and the fact that they exist beyond the reach of banks and the government. Cryptocurrency is difficult to utilize in the way standard currency is used because its decentralized structure requires outrageous transfer times and its value remains unstable because of its speculative nature. Its primary purpose is in auctions for various Crypto-derived products like NFTs (non fungible tokens) and ICOs (initial coin offerings), both of which act as speculative investment opportunities.

NFTs act as standalone products or memberships to exclusive groups, and ICOs as a combination of stocks and startup funding. Anyone with the knowledge to create a coin, NFT, or ICO, can do so and list their currency or currency derivative on any number of public trading websites. These websites should reasonably maintain a level of professionalism about what they allow to be sold on their platform but are held to absolutely no standards by any government agency, unlike traditional investment opportunities that are meant to be regulated by the SEC. In Georgie Taylor's comprehensive Web3.0 and Crypto video essay *Web3.0: A Libertarian Dystopia*, she points out that once semi-credible exchanges like Coinbase will change their policies in order to take more profit from speculative Crypto teams, stating that "being responsible about the coins they were allowing to be listed on their website meant that they were losing customers to competitors, so they changed their tune" (Taylor). As the Crypto world has rapidly expanded over the last year, it has become increasingly obvious that these marketplaces, communities and trading forums have serious issues with regulatory accountability, dishonest advertising, and perception of ownership. The dishonesty present in the NFT marketplace is not just standard fraud, but issues that are baked into the trade because of its roots in venture capitalism and art auctions. Both fields have known histories of dishonest behaviors that are only relatively safe investments because of the meager legislation placed on them after decades of financial ruin inflicted on the people participating with the most to lose. Unlike these investments, the philosophy of Cryptocurrencies is fundamentally opposed to regulation in any form.

The inciting incident of the recent Crypto craze is the record-breaking Christie's sale of artist Mike Winkelmann’s *Everydays: The First 5000 Days*. The art collection was sold for approximately 69 million dollars in the form of an NFT. This sale was unprecedented, both in terms of value and also in its unconventional formatting. Christie’s is an auction house that is no stranger to unconventional sales, but this sale, considering its scale and the fact that it was bought using a Cryptocurrency, was a wake up call to the world that Crypto was demanding their attention. Following this, many independent artists, clubs, celebrities and brands immediately jumped on the trend of minting and selling their own artworks. In the eyes of many, Winkelmann’s sale was a revolutionary success story, and that kind of success is available to anyone who is willing to take the risk of minting their own work and putting it up for sale. When one considers it, the art auction world seems to be the natural environment where this would spring up. Infamously rife with fraud and the unabashed playground of the ultra wealthy, auction houses have many of the same issues Crypto markets do. Their only weakness, in the eyes of investors, is their exclusivity and their regulations, which as weak as they are, provide at least some resistance to those looking to defraud their peers.

In "The Legal Sustainability of Auction Houses in the 21st Century,” Randi Braun calls into question the dubious legality of art auction houses such as Christies. Braun cites the issue with fraud and dishonesty in auction house markets as an issue of regulation by stating "Still, what history has proven is that when a culture of secrecy and high financial stakes combine with lax rules and a culture of self regulation issues are bound to arise" (23). Braun’s essay elaborates on the various forms of fraud or dishonest behavior that are accepted in auction house spaces, noting that techniques like “chandelier bidding,” a method auctioneers use to drive up the prices by what is essentially hype marketing, are of dubious legality and under great scrutiny by legislators. While it is difficult to care when ultra wealthy people lose a few thousand dollars on an auction, it is important to note that the only reason these spaces are safe to invest in is because of changes made in response to regulation. Braun aptly states that "As Barbara Strongin, the former COO of Christie's New York asserts, almost every regulation placed on auction houses in the last three decades has been the result of a lawsuit" (4). It would be wise to examine the legality of NFT spaces in the same way we examine auction houses as the people encouraged to participate in those have much more to lose, and the people encouraging them to participate have much more to gain.

Naturally, the self-governed unregulated nature of Cryptocurrency markets make them a bit of a lawless land when it comes to accountability in terms of what is and isn't legal to do in order to sell assets. Like the aforementioned chandelier bidding practiced in auction house spaces, NFT minters will frequently do the same in the form of "wash trading," wherein they purchase their own assets over and over to increase activity and artificially inflate the value in the eyes of potential investors, who see the frequent trading and decide to act on a completely fabricated spike of interest to try and resell for a profit. A recent occurrence of this practice came to light in February of 2022, where Melania Trump was accused of wash trading her first NFT sale for optics and profit. William Vaillancourt in his article for *Rolling Stone* reported on this event, stating that the NFT appeared to be purchased by the same entity that listed it. Trump's office stated that "The transaction was facilitated on behalf of a third-party buyer," but did not immediately reply to a request for comment by the *Rolling Stone* (Vaillancourt). The journalist then goes on to quote Bloomberg in saying that "it's unclear if the price of Melania's NFT was artificially raised through a process known as wash trading. [...] Wash trading is prohibited in conventional securities and futures, but NFTs are not securities and are traded in an unregulated market" (Vaillancourt). Obviously this lack of transparency in relation to the actual unmanipulated value of the extremely expensive NFTs being marketed as fair and safe is a serious enough issue that the practice of dishonest trading is illegal in all other forms of investment. The practice is so known to be illegal, in fact, that it could possibly lead NFT investors into believing that it is also not permitted in the Crypto market, once again exploiting the individuals who approach the market honestly and rewarding those utilizing its uncertain legality to make as much money off the market as possible before it either collapses or is regulated. Both options will likely lead to the same ultimate outcome as for many the entire appeal of the market is its unregulated nature and most Cryptocurrency backers view it as a shining example of the beauty of a stateless, bankless, market-governed society.

Before the monumental success of NFTs, there was far more conversation around the concept of an “ICO," an initial coin offering. These coin offerings function almost exactly like NFT’s, but do not possess the veneer of being an art piece and act only as a type of share in a hypothetical eventual metaverse-based for-profit enterprise. In Shaanan Cohney’s article “Coin-operated Capitalism” Cohney directly states that ICOs are "a financial form ripe for fraud, and it has allegedly been used to that precise end" (594) and later evaluates ICOs on the three aspects of governance they believe should be salient to investors. "

> First, did ICO promoters make any promises (and encode those assurances) to restrict the supply of their Crypto assets? Second, did ICO promoters pledge (and build their promises into smart contracts) to restrict the transfer of any Crypto assets allocated to insiders according to a vesting or lock-up plan? Third, did ICO promoters use code to retain the power to modify the smart contracts governing the tokens they sold, and if so, did they disclose (in natural language) that they had allocated themselves that power? Credible commitments regarding these salient Crypto asset qualities should matter to an investor interested in the economic fundamentals of an ICO. (597)

Cohney then used these aspects to evaluate the top 50 highest earning ICO firms of 2017. The ICOs addressed in the article have difficulty reaching these standards yet were allowed to operate regardless. Cohney’s basic findings were “that ICO code and ICO disclosures often do not match.” and that “In a financial ecosystem built around the proposition that regulation is unnecessary because code is the final guarantee of performance, the absence of coded governance protections is troubling” finally concluding that “We also show that at least some popular ICOs have retained the power to modify their tokens’ rights but have failed to disclose that ability in plain English" (598). Take special note of the phrases “natural language” and "plain English," a distinction that must be made because of the intentional obtuseness of Crypto terminology. The fact that such organizations have no legal responsibility to deliver on their claims or stay transparent about the quantity and value of their product is distressing to see in a field that exists exclusively to provide investment opportunities.

The idea that lack of regulation in the economy results in fraud is a controversial one if you are in the company of libertarians, who participate heavily in Cryptocurrency communities because of their anti-regulation, anti-state, anti-bank philosophy. They argue that a lack of regulation encourages innovation, and that regulation is actually what caused massive wall street scandals such as the 2008 financial crash, the Madoff investment scandal, and the fall of Enron. This is reflected in Dan Airely's essay "The Honest Truth About Dishonesty," where the author recites an anecdote about the 2001 Enron scandal. When speaking with John Perry Barlow, who had worked as a consultant for the company, Airely was struck by his "wishful blindness." Barlow had "said he hadn't seen anything sinister going on. In fact, he had fully brought into the worldview that Enron was an innovative leader of the new economy right up until the moment the story was all over the headlines. Even more surprising, he also told me that once the information was out, he could not believe [...] that he failed to see the signs all along " (Ariely 1). This is relevant in two important ways. One is that Enron's collapse was an orchestrated scheme by only the participants who had the least to lose,and that Barlow, through his earnest participation in the "game," was left out of one of the greatest investment scandals of all time. Barlow's experience is not dissimilar to many participants in the thousands of Crypto investment groups dedicated to specific NFT collections, run by their creators and eventually driven into the ground and abandoned. NFT investment groups have many names and faces, most notable is the BAYC, the Bored Ape Yacht Club, an NFT collection run by a quartet of alleged neonazis that has taken the internet investing scene by storm (Ripps). In Ryder Ripps's article "Bored Ape Yacht Club Is Racist and Contains Nazi Dogwhistles," Ripps notes that since the project's launch in April 2021, the value has amassed to over $5B USD, and spawned many similar projects (Ripps). Many similar projects have indeed popped up surrounding the breakout success of

BAYC, all of which localize their advertisement to Twitter, with the few that are backed by wealthy investors putting down the funds to display their NFT drop dates on physical advertising locations like billboards and Times Square. It is known that internet advertising incentivises dishonesty in how it allows scammers to assume as many different identities they require to spearfish unwitting people's passwords and access all manner of personal information. It would be hard to imagine a world where this aspect of Cryptocurrency does not contribute to the danger of the already completely unregulated investment projects.

The BAYC is lucky to have amassed the amount of funding it has, but smaller investment groups hoping to get rich have to operate on a much less visible level. If you are active on Twitter, you may have encountered a NFT collector or two. They tend to advertise themselves and their NFT collections of choice quite loudly, more so if they happen to have founded one of the collections they seek to sell to others on the free market that is Twitter's promoted tweet function. These collections form groups run by their founders, who freely make all manner of claims about the future of their beloved projects with zero proof of their competency as managers, much less evidence of potential profit. It is generally known that advertisements on the internet are so unregulated that often they can hide in plain sight, notably in the form of word of mouth advertising like your Facebook friend trying to get you to sell a strange product with them, or a product placement by a celebrity's social media manager. Micheal Lynch touches on this phenomenon in his book, *The Internet of Us: Knowing More and Understanding Less in the Age of Big Data*. Lynch mostly engages with the internet as a new way to address lying, stating that the web is "the world's most powerful tool for controlling and distorting the truth." (Lynch 1). This comes into play in the discussion regarding Crypto advertisement, as when the advertisers are in complete control of the narrative and not subject to any regulation. Unlike traditional routes one is forced to take when vying for funding for a startup, they are given free access to a population of investors who provide immediate profit for them as soon as they buy into their project. In this case, there is nothing that binds these advertisers to their investors besides potential future profit. Other than that future opportunity, they have no reason not to take their immediate profit and jump ship, which many do and suffer zero legal consequence.

In youtuber Dan Olsen's video essay *Line Goes Up: The Problem With NFTs*, Oslen profiles current Crypto investors as "tenuously middle class, socially isolated, and highly responsive to memes," seeing them as people eager to "get rich," but often these groups, at least the successful ones, are run and promoted by individuals who are already extremely wealthy (Olsen). Olsen points out that many types of fraud are both accepted and encouraged, especially in the form of market manipulation, where investors will artificially inflate the resell price of their assets (Olsen). As such, the culture that pervades Crypto investment communities is one of willful ignorance and rejection of critique. They view questioning any method that provides profit as a direct attack on their profits, which are propped up only by unfettered hype which encourages more people to buy into the scheme and hike up the price of the assets even more. Terms like "F.U.D." (Fear uncertainty and doubt) "paper hands" or "golden hands," "we're all going to make it" and countless others in a similar vein are popular in investment groups and are often used by the project leaders and moderators to discourage hesitancy in their communities and promote reckless purchase behavior of their product. As stated before, the unregulated nature of the Crypto-market is dangerous enough on its own before the culture surrounding it is even taken into account. Additionally, the fact that this is handled almost exclusively over the internet, without any professional consultation on either side in most cases, and advertised to people as young as 13 (the minimum age to sign up for a Twitter account) further compounds how irresponsible it is for the market to operate in this way. In Rachel O'Dwyer's article "A Celestial Cyberdimension: Art Tokens and the Artwork as Derivative," she comments on the hype aspect of NFTs. She notes that, among many other reasons why the eventual buyer would want to pay so much for something they cannot physically own, "The work of "art" is the public sale of the Cryptographic token, and the buyer's involvement in the frothy hype that circulates around its future worth" (6). The Auction house environments of many early Crypto asset sales also compound the hype marketing issue. Buyers are not just buying a beautiful object or profitable asset because the purchasing of NFTs is “a form of self-investment in a world where social capital often correlates with economic returns” (O’Dwyer 5). By using this framework, “the flamboyant purchase of the Celestial Cyber Dimension Cryptokitty might have had several different motivations – the desire to possess an artwork that the buyer finds meaningful; to make a strategic investment in a market; or to make a strategic investment in the buyer’s own social and economic reputation" (O'Dwyer 5). Because these NFTs are equal parts investment and status symbol, the purchase of them is much more important in an environment like Twitter where your status as a person has little to do with your actual material earnings or possessions and more to do with what others perceive to be your material earnings and possessions. NFTs command cult-like defense from their proponents not just because the value of their investments depend on it, but because their perceived value as a person also depends on it. Crypto enthusiasts seek to create a metaverse in which your status as a person is immediately obvious and based entirely on difficult to understand digital objects with zero intrinsic value. Any questioning of that perfect reality is an attack on both their person and on their investment portfolio.

The issue with this intersection of internet and investment reaches further than just the financial. It can even be argued that Crypto derivative products like ICOs and NFTs serve to worsen our perception of society, property and ownership, and that they further encourage a culture obsessed with constant exponential growth. This fixation on accelerationism, a social theory that views rapid economic expansion and a focus on tech development with little care for the state of society and the natural environment as unquestionable goods, poses serious harm to our future. In his essay, Micheal Lynch also makes note of how the internet has warped our views of objects and ownership when he states that to “talk about a music file is to talk about an object that is not identical to any of its ‘tokens.’ You can create many ‘copies’ of a digital file simultaneously. Being all born at the same time, as it were, each is in one sense not a ‘copy’ at all, each has equal claim to being the original” (Lynch 3). What Lynch describes is the “fungible” alternative to the “non-fungible token,” a lossless digital object that is impervious to damage and can be instantly shared and moved between owners. It has no inherent feature related to ownership coded into it and has functioned without issue for as long as file sharing has existed. Certainly the fungible and non-fungible distinction comes into play in the discussion regarding Crypto advertisement, but it is also essential to understand that the way the internet has warped the concept of ownership, especially of aforementioned digital objects, is what led to the conceptualization of NFTs in the first place. I sincerely believe this preoccupation with ownership and trade is an unhealthy one, and the fixation many people have with accumulating objects that signify wealth is something that has roots in the art market. What were previously considered simple status symbols have become investments and opportunities to launder money and dodge taxes. Neither of these can be considered good things by the general public, yet they are allowed to happen anyway because they serve to benefit the wealthiest of the wealthy. However, unlike the buying and selling of physical art pieces, which must be properly stored to maintain their inherent value and cost money to maintain, NFTs do not possess any of the pesky qualities of an actual object and provide only the most salient of features that appeal to extremely wealthy investors, liquidity and ownership.

It seems that there is little present in the concept of the NFT that is self-justifying. For a real artwork, it is a physical result of labor and material. Similarly a stock is a share in a company that hypothetically creates a product, good or bad. Finally, investing in a startup or real estate both provide returns based on demand for products that are required for society to function. NFTs lack this. Their value is based entirely on want and not need, and they are legitimized only because certain people want them to be. In his essay, “The Intellectual Incoherence of Crypto Assets,” Stephen Diehl asserts that Cryptocurrencies have no inherent value to them. As such they could only function as a currency which would require them to be accepted as currency, which they are not. He says, "the underlying unit is untethered to any intrinsic value and simply becomes a vehicle for speculation and price appreciation detached from the underlying object” (Diehl) Diehl compares NFTs to “Things like beanie babies, Pokemon cards, and tulip bulbs that have historically exhibited this property until the pool of fools dries up, and they collapse or revert back to their fundamentals” (Diehl). He also makes note that since bitcoin has no intrinsic value, the only way it accumulates "value" is by relying on the notion that what you purchase can be resold at increasingly higher prices. The only thing that guarantees these prices are the continued acceptance of Cryptocurrency, which is obviously unstable. Unlike traditional investments mentioned previously, they are untethered to anything of actual value. "Every dollar that comes out of Cryptocurrency needs to come from a later investor putting a dollar in. Crypto investments cannot be anything but a zero sum game, and many are actually massively negative sums. In order to presume a Crypto investments functions as a store of value we simultaneously need to suppose an infinite chain of greater fools who keep buying these assets at any irrational price and into the future forever" (Diehl). The only people that can stand to benefit from Cryptocurrency are those that bought in early, or were handed free assets by the coin or NFT group founders (which is a thing that they can do.) Those people can then only collect on those benefits by encouraging more new investors in the form of an advanced, vast, networked Ponzi scheme.

If the issue with Crypto is that it is dishonest and unregulated, the response to my argument may be that investors should do their own research, and that they are fully responsible for their choices in the Crypto market. While this claim has merit, as Stephen Diehl's article “The Intellectual Incoherence of Crypto Assets” states, "Never buy financial products you don’t understand" (Diehl). Many people who invest in Crypto do not know this, and it is difficult to blame them. They often feel pushed to invest but are unaware of the unstable nature of the blockchain, which shifts in value constantly and sometimes by massive degrees of magnitude. If they aren’t aware of the nature of the market, then they are probably unknowingly putting their money in danger by rushing to invest in something they do not understand because of its intentionally obtuse nature. On the other side of the equation, the people creating the investments may have no idea what they're doing either. Oftentimes independent artists are encouraged to mint and sell NFT’s by this same community, and they are not immune to the dangers of the market because in order to even mint an NFT one must pay a fee that oscillates wildly in cost dependent on the value of the blockchain the NFT is hosted on. Without investor support and advertising, these artists often never sell their work, and must simply eat the sunk cost. This is a dangerous game to play especially as a struggling young artist. One might wonder how these uninformed investors become involved in such an advanced investment market in the first place. The answer to that question is that they are intentionally targeted by Crypto communities. This kind of advertising self-selects its targets, knowing that anyone who is tech-savvy enough will remove themselves from the pool of targets because they will be put off by overstated claims of future returns and other hallmarks of scams. Those who aren't are already set to be prime targets for all manner of scam, ranging from the rugpulls that have featured so prominently in Crypto communities, to more traditional scams like pump and dump schemes, and classic phishing. When these people fall into these predicaments, there is never anyone that can help them due to the completely unorganized, unregulated atmosphere of these communities. In these situations, it feels neither responsible nor appropriate to leave these people without justice for being exploited by a system they earnestly attempted to participate in, while rewarding the people that scammed them. While I sincerely believe that in the current socio-economic climate, providing average people with the opportunity and resources to invest for their future is beyond important, we cannot ignore the glaring issues present in the very fiber of the Cryptocurrency sphere. The strongest case one can make for opposing the widespread adoption and acceptance of Crypto is that there is ostensibly nothing anyone stands to gain from delegitimizing it, besides, of course, the financial safety of their friends and family who are looking to find something accessible to invest in to provide themselves with financial security in an uncertain future.

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