



The Blockchain Pipe Dream

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Even after a sharp correction earlier this year, the price of Bitcoin and other cryptocurrencies has remained unsustainably high, and techno-libertarians have continued to insist that blockchain technologies will revolutionize the way business is done. In fact, blockchain might just be the most over-hyped technology of all time.

NEW YORK – Predictions that Bitcoin and other cryptocurrencies will fail typically elicit a broader defense of the underlying blockchain technology. Yes, the argument goes, over half of all “initial coin offerings” to date have already failed, and most of the 1,500-plus cryptocurrencies also will fail, but “blockchain” will nonetheless revolutionize finance and human interactions generally.

In reality, blockchain is one of the most overhyped technologies ever. For starters, blockchains are less efficient than existing databases. When someone says they are running something “on a blockchain,” what they usually mean is that they are running one instance of a software application that is replicated across many other devices.

The required storage space and computational power is substantially greater, and the latency higher, than in the case of a centralized application. Blockchains that incorporate “proof-of-stake” or “zero-knowledge” technologies require that all transactions be verified cryptographically, which slows them down. Blockchains that use “proof-of-work,” as many popular cryptocurrencies do, raise yet another problem: they require a huge amount of raw energy to secure them. This explains why Bitcoin “mining” operations in Iceland are on track to consume more energy this year than all Icelandic households combined.

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