Nobel laureate Paul Krugman says crypto has ‘disturbing’ parallels with subprime mortgage meltdown

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KEY POINTS

- “There are disturbing echoes of the subprime crash” in the cryptocurrency market, Nobel Prize-winning economist Paul Krugman says.
- Krugman argues crypto investors are being sold speculative financial products without truly understanding the risks involved.
- Bitcoin and other digital currencies have dropped sharply in recent weeks.

Nobel Prize-winning economist Paul Krugman.

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Nobel Prize-winning economist Paul Krugman has given an ominous warning about the volatile cryptocurrency market, comparing it to the subprime mortgage crisis of the late 2000s.

In an opinion piece for The New York Times on Thursday, Krugman said he's “seeing uncomfortable parallels” between crypto and the U.S. subprime crash, which brought the whole housing market to its knees and triggered the 2007-2008 global financial crisis.

“There are disturbing echoes of the subprime crash 15 years ago,” Krugman says in the piece.

The subprime crisis was essentially the result of banks making loans out to people of higher risk, at a time when interest rates were low and house prices were soaring. Once the market became saturated, homeowners found themselves in negative equity unable to repay their loans, resulting in hefty losses for lenders.

Krugman argues crypto investors are similarly being sold speculative financial products without truly understanding the risks involved. It's worth noting Krugman is a known bitcoin bear, having previously likened the cryptocurrency to a Ponzi scheme.

“Many borrowers didn't understand what they were getting into,” he said in the NYT op-ed. “And cryptocurrencies, with their huge price fluctuations seemingly unrelated to fundamentals, are about as risky as an asset class can get.”

The Nobel laureate isn't convinced cryptocurrencies pose a systemic risk, however: “The numbers aren't big enough to do that.” The entire crypto market is worth roughly $1.7 trillion, according to CoinGecko data.

Bitcoin and other digital currencies have dropped sharply in recent weeks. At a price of just over $37,000, the world's top coin is currently around 46% off its November record high of nearly $69,000. At the peak, the whole crypto market was worth a combined $3 trillion.