

## Pros & Cons of Finance

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# Bitcoin: Peer-to-Peer? Or Centralized Illusion?

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🔖 [bitcoin](#), [CryptoCurrency](#), [Mike Hearn](#), [mining pool](#), [Nakamoto Satoshi](#), [solo mining](#)  
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### A financial Crisis: Who's fault is it?

While the 2008-2009 financial crisis is a distant memory for some, it remains a painful reality for countless others. The emotional and financial scars run deep

for those who endured its hardships. However, there exists a contrasting reality, where certain individuals, protected by financial safety nets, appear to have avoided the crisis's consequences. This divergence underscores the importance of historical awareness and the need to address systemic inequalities.



Bank of United States failure, 1931

The root causes of the 2008-2009 financial crisis are a subject of ongoing debate. However, a compelling argument points to the significant role of central banks and government policies implemented at the federal level, which subsequently impacted state and local governments. This perspective aligns with historical analyses of the Great Depression, which, according to Digital History, saw a substantial expansion of the federal government and the creation of a “modern **welfare state**.” This expansion, intended to provide a safety net for vulnerable citizens, also placed the federal government in charge of the nation’s economic health, a responsibility previously held by private entities. Similarly, the 2008-2009 crisis led to increased government intervention, notably the federal bailout of **Fannie Mae and Freddie Mac**, demonstrating a consistent pattern of government involvement in private enterprise during times of economic distress. Both crises resulted in systemic disruptions with global repercussions, akin to the widespread devastation of **historical pandemics**.

Snapshot of causes:

Great Depression 1929: Central Banks [Brokers], Stock Market Crisis [Private Citizens], Government Policies [Elected & Appointed officials].

Financial Crisis 2008-2009: Central Banks [Mortgage Dealers], Housing Market Crisis [Private Citizens], Government Policies [Elected & Appointed officials].

**Fed up! Fed up! – Government is Too big and it's all the fault of Central Banks!**

Allegedly, satoshin@gmx.com invented the answer to the question:

Ways to prevent double-spending and reduce the Federal Government's insertion into private affairs despite private interest's role in destroying public confidence?

**bitcoin! – Trust No 1.**



Bitcoin: The Broken System

Satoshi Nakamoto's Bitcoin was presented as a solution to the reliance on central banks for double-spending prevention and the expanding role of government in

personal finance. The **white paper** proposed a **peer-to-peer electronic cash system**, allowing direct transactions without financial institutions. However, the system's effectiveness depends entirely on its ability to function without a trusted third party. Introducing such a party, even for double-spending prevention, undermines Bitcoin's core purpose and replicates the very system it sought to replace.

## **The Purpose of bitcoin**

Bitcoin's **fundamental purpose** is to establish a decentralized and secure digital currency, independent of traditional financial institutions. This is achieved through a network of participants who contribute computational power to validate transactions and maintain the integrity of the blockchain, earning Bitcoin as a reward. This process ensures the network's security and resilience, offering a viable alternative to centralized financial systems.

## **How does it work to prevent double spending?**

Bitcoin's innovative system time-stamps electronic transactions through a peer-to-peer network, creating an immutable chain of verified transactions using **hash-based proof-of-work**. To understand this, imagine a distribution plant where every shipped case is meticulously time-stamped with a lot code. This ensures traceability and prevents tampering. Similarly, Bitcoin uses a network of 'nodes' to validate transactions, preventing attackers from altering or redoing completed transactions. This mechanism ensures that once a transaction is confirmed, it is irreversible, preventing double-spending and maintaining the integrity of the network, just as security measures prevent theft in a distribution plant.

## **How do I get paid in bitcoin for my "proof-of-work"?**

Bitcoin is earned through a process akin to traditional gold mining. Just as a gold miner invests resources and effort to extract precious metal, Bitcoin miners contribute computational power to secure the network and validate transactions. This effort, requiring significant energy expenditure, is rewarded with newly minted Bitcoin. Unlike traditional employment, Bitcoin mining operates on an independent contractor model, free from direct employer control and traditional tax structures, empowering individuals to participate directly in the creation and distribution of this **digital asset**.

## The Problem with bitcoin's peer 2 peer network

Before the problem can be discussed, a brief history of bitcoin's existence should be discussed.

**[disclaimer: there are many different versions about the creator or creators of bitcoin. However, the consensus is bitcoin's invention is attributed to Satoshi Nakamoto in the form of a pseudonym. For my purposes, I'll use Satoshi in the singular form even though "we" is used in the White Paper.]**

## Bitcoin History, Allegedly!

**Bitcoin's journey** began in 2008 with the publication of Satoshi Nakamoto's white paper on [bitcoin.org](http://bitcoin.org), outlining a revolutionary peer-to-peer electronic cash system. The project was subsequently registered on [SourceForge.net](http://SourceForge.net), marking a critical step in its open-source development. The mining of the Genesis Block in January 2009 and the first transaction between Satoshi and Hal Finney solidified Bitcoin's status as the world's first decentralized electronic currency. This **open-source platform**, accessible to all, operates without centralized control, embodying the core principle of a truly public and democratic financial system.

## Back to the Problem!

According to [bitcoin.org](http://bitcoin.org), "everyone can take part," Really?

Since 2009, I've dedicated myself to pursuing **solo Bitcoin mining**, adhering strictly to the principles outlined in Satoshi Nakamoto's white paper. I believe mining pools, while prevalent, fundamentally contradict the decentralized vision of Bitcoin. After downloading the full Bitcoin blockchain and setting up the qt-wallet, I encountered a critical question: **How can solo miners effectively utilize the wallet's export features to maximize their mining efforts and contribute to the network's true decentralization?** This is crucial for understanding and upholding the original intent of Bitcoin.



Where the Dos Commands are hidden

Initially, I believed solo Bitcoin mining was a straightforward process: download the blockchain, mine, and receive rewards upon block discovery. The 'export' feature, however, challenged this perception, revealing a previously unknown layer of complexity. Driven by a desire to fully understand the process, I turned to the **Bitcoin Wiki**, which led me to the Bitcoin Talk forum, where I sought further clarification. This research journey was essential to reconcile my initial understanding with the actual intricacies of solo mining.





Despite my persistent inquiries on the Bitcoin Talk Forum, using a pseudonym I choose to keep private, I received no helpful answers regarding solo mining. Instead, I was met with a chorus of discouraging advice: **'join a mining pool,' 'solo mining is impossible,' 'it's too expensive,' 'buy new hardware,** or **'purchase from an exchange.'** Undeterred by this 'malarkey,' as some might call it, I continued to dedicate my resources to solo mining on my Windows Vista system, driven by a commitment to Satoshi's vision. Ultimately, facing a lack of support and technical clarity, I placed my mining and **cold storage** systems in safekeeping, hoping for a future where I could resume my efforts on a more advanced platform.

The suggestion to **'buy new hardware'** fails to acknowledge the historical context of Bitcoin mining. In the early years, acquiring specialized hardware was a protracted process, leaving many with limited options. This led to the prevalence of mining pools, which I view as a deviation from the core principles of the Bitcoin white paper. My commitment to solo mining, despite these challenges, remains steadfast. The information now available on bitcoin.org, regarding **hardware and potential earnings**, underscores the ongoing debate about the viability of independent mining and the need to uphold Bitcoin's decentralized ethos.

During the process of documenting my experiences, I uncovered information that finally illuminates why my questions regarding solo mining and the bitcoin-qt wallet remained unanswered. This revelation sheds light on the underlying dynamics that prevented me from obtaining the clarity I sought, and it holds significant implications for understanding the challenges faced by independent miners.

## **GREED!**

It appears that the geeks are so caught up over the centralization of bitcoin that they keep new miners out of the loop as if we are the attackers rather than the honest nodes.

Despite its revolutionary potential, Bitcoin is now facing significant internal strife within its developer community, leading some to declare it a failed experiment. This assessment is further fueled by the historical use of Bitcoin in illicit activities, most notably the **Silk Road**. While Bitcoin's anonymity and seamless transactions were attractive to black market operations, the government's successful **seizure and auction** of Bitcoin from Silk Road demonstrates that even decentralized systems are not immune to regulation. These challenges underscore the need for Bitcoin to evolve and address its inherent vulnerabilities if it hopes to achieve widespread adoption and long-term viability.

The collapse of **Mt. Gox**, a once-dominant Bitcoin exchange, serves as a stark reminder of the inherent risks associated with centralized cryptocurrency platforms. The loss of 850,000 Bitcoins, worth hundreds of millions of dollars, demonstrates the catastrophic consequences of entrusting digital assets to a single entity. This incident underscores the critical need for robust security measures and greater transparency within centralized exchanges, and reinforces the argument for decentralized alternatives that minimize the potential for such devastating losses

**Mike Hearn's** dramatic departure from the Bitcoin project, coupled with his sale of all his holdings, powerfully illustrates the growing concern that Bitcoin has strayed from its **original vision**. His assertion that Bitcoin has 'failed because the community has failed' and that it has become 'a system completely controlled by just a handful of people' raises serious questions about the reality of Bitcoin's decentralization. This incident reinforces the argument that Bitcoin, contrary to its initial promise, may not be a truly open and accessible system for everyone, but rather one dominated by a select group of developers.



The Handful!

The claim that Bitcoin is controlled by a small group, made by Mike Hearn in 2016, corroborates earlier observations by **Mark Williams** in 2014 about the concentration of Bitcoin ownership. This raises serious questions about the system's accessibility and adherence to its peer-to-peer ideals. However, the reasons behind Hearn's departure remain contested. Some argue his exit was driven by the community's rejection of his scalability proposals, rather than a fundamental belief in Bitcoin's failure. This debate underscores the ongoing challenge of balancing Bitcoin's growth with its core principles

It's striking that Mike Hearn's 2016 revelation of Bitcoin's control by a select few echoes concerns raised by finance professor Mark Williams in 2014, who pointed to the concentration of Bitcoin ownership. This consistency underscores the persistent debate about Bitcoin's true decentralization. However, interpretations of Hearn's departure diverge. While he attributed it to Bitcoin's failure, critics like **Martin Tillier** argue that his exit stemmed from community rejection of his proposed blockchain expansion, not the system's overall failure. This divergence

highlights the ongoing tension between scalability and the preservation of Bitcoin's original peer-to-peer vision.

The day this blog was conceptualized, Jan. 21, 2016, bitcoin was valued at:



The date this blog was published, February 03, 2016, bitcoin was valued at:



## Summary

The pursuit of profit has clearly corrupted Bitcoin's original peer-to-peer ethos, leading to a centralized system that contradicts Satoshi's '**one-CPU-one-vote**' principle. Bitcoin has devolved into a **bureaucratic structure**, mirroring the very systems it aimed to disrupt. The persistent promotion of mining pools, despite evidence suggesting their inherent instability, reveals a disregard for the principles of decentralization and individual participation. The closure of **BTC Guild**, due to its vulnerability to compromise, underscores the risks associated with these **centralized entities**.

Bitcoin: Peer-to-Peer, Really? Only if you hold a seat at the Bitcoin developer's table. For the average user, the promise of peer-to-peer has been replaced by the harsh reality of centralized control. We've become tools for those who create mining pools not for the community, but for the purpose of theft, only to close down when the theft is complete. This betrayal of Bitcoin's original vision demands a return to true decentralization and a system that prioritizes the security and empowerment of all participants.

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