

Cryptocurrencies

CS 161 Spring 2022 Lecture 12



D J Capelis @djcapelis · Feb 19

Algorithms: I want to solve a problem

Data science: I want to understand a problem

AI: I want to solve a problem and not understand the solution

Blockchain: I want to be a problem

Why Talk About Cryptocurrencies?!?

- I am an actual **expert** in this area
 - It has been one of my research focuses for the past 9+ years!
 - Mining the space for academic papers and comedy gold since 2013
- But I want it to die in a fire!
 - There is effectively no value:
 - Private Blockchains are 20+ year old ideas
 - Public Blockchains are grossly inefficient in the name of "decentralization" without actually being decentralized!
 - And don't actually solve any problems other than those required to implement cryptocurrencies!
 - Cryptocurrencies don't work as currency unless you are a criminal!
- Yet it has refused to just go away
- And it touches on a lot of real world "security" issues that often have nothing to do with actual security!

This Lecture and Blue Slides...

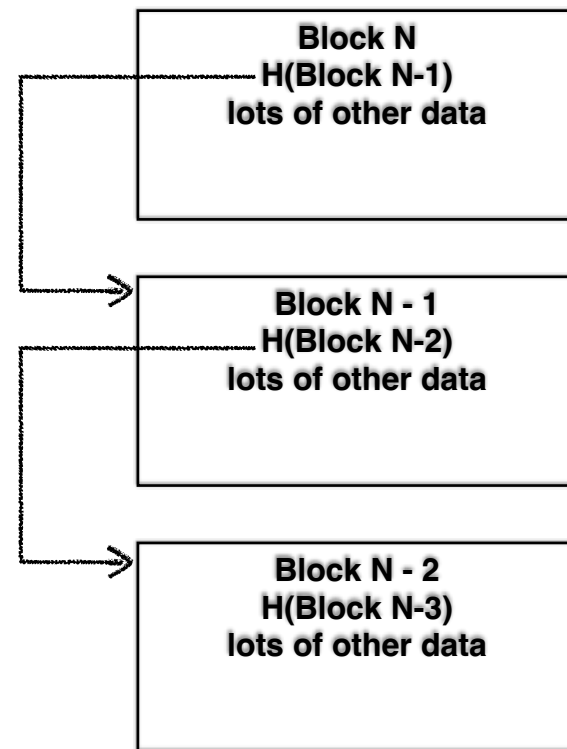
- This lecture really is ***mostly*** a set of blue slides!
 - It really can't be tested on...
- Instead, think of this as an intellectual vaccination
 - Once you realize just how bleeding stupid that space is you will be immune from wasting your time on it
- Plus there are some concepts of relevance otherwise:
 - Hash chains, Merkle Trees, Sybils

Linked Lists Blockchains And CryptoCurrencies

- “Blockchain Technology”
 - A fancy word for “Append-Only Data Structure”
 - That causes people’s eyes to glaze over and them to throw money at people
 - “Private/Permissioned Blockchain”:
 - A setup where only one or a limited number of systems are authorized to append to the log
 - AKA 20 year old, well known techniques
 - “Public/Permissionless Blockchain”:
 - Anybody can participate as appenders so there is supposedly no central authority: Difficulty comes in removing “sibyls”
- Cryptocurrencies
 - Things that don’t actually work as currencies...

Hash Chains

- If a data structure includes a hash of the previous block of data: This forms a “hash chain”
- So if you have a way of validating the ending block: The inclusion of the previous block’s hash validates all the previous blocks
- This also makes it easy to add blocks to data structures
 - Only need to hash block + hash of previous block, rather than rehash everything:
How you can efficiently hash an "append only" datastructure
- Now just validate the head (e.g. with signatures) and voila!
 - All a “blockchain” is is a renamed hashchain!
Linked timestamping services used this structure and were proposed back in 1990!
 - Certificate Revocation Lists are signed hash-chains



Merkle Trees

- Lets say you have a lot of elements
 - And you want to add or modify elements
- And you want to make the hash of the set easy to update
- Enter hash trees/merkle trees
 - Elements 0, 1, 2, 3, 4, 5...
 - $H(0)$, $H(1)$, $H(2)$...
 - $H(H(0) + H(1))$, $H(H(2)+H(3))$...
 - The final hash is the root of the top of the tree.
- And so on until you get to the root
 - Allows you to add an element and update $\lg(n)$ hashes Rather than having to rehash all the data
 - Patented in 1979!!

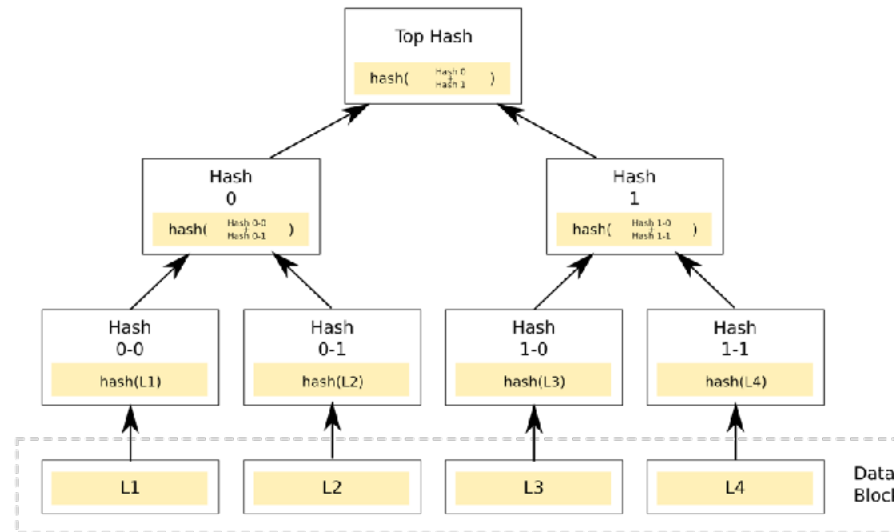


Image Stolen from Wikipedia

A Trivial Private Blockchain...

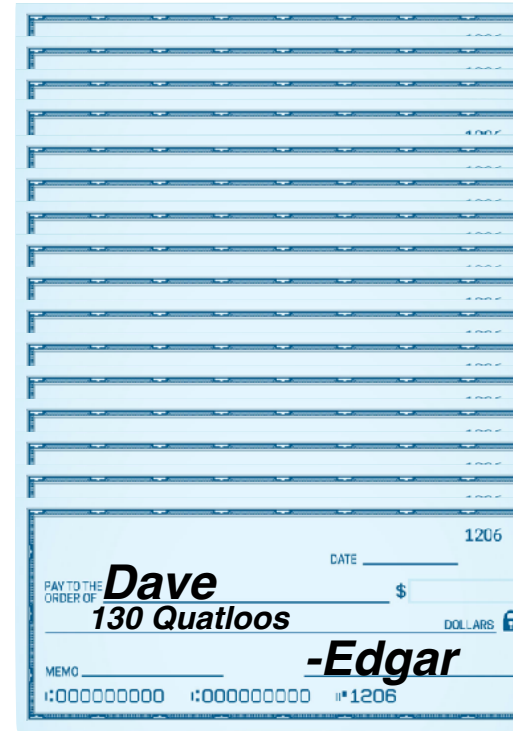
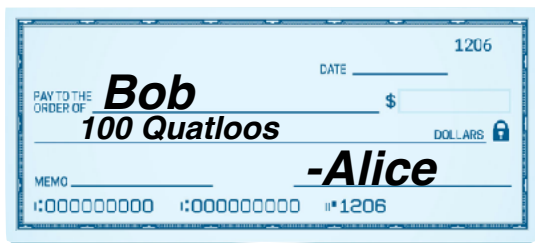
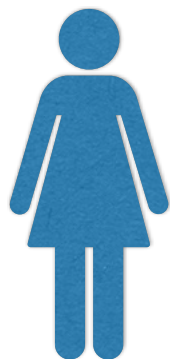
- We have a single server \mathbf{s} , with keys \mathbf{K}_{pub} and \mathbf{K}_{priv} ...
 - And a git archive \mathbf{g} ... (in which we fix git to use SHA-256)
- Whenever we issue a pull request...
 - The server validates that the pull request meets the allowed criteria
 - Accepts the pull request
 - Signs the hash of the head...
- And that is it!
 - Git is an append only data structure, and by signing the new head, we have the server authenticating the **entire archive!**
- This is why “private” blockchain is **not** a revolution!!!
 - Anything that would benefit from an append-only, limited writer database already has one!

What Is A "Cryptocurrency"?

- A cryptocurrency is a tradable cryptographic token
 - The goal is to create irreversible electronic cash with no centralized trust:
If Alice wants to pay Bob 200 Quatloos to pay off her losing bet on the Green thrall, there should be ***nobody else who can block or reverse this transfer***
- Based on the notion of a public ledger (the "Blockchain")
 - A public shared document that says
"Alice has 3021.1141 Quatloos,
Bob has 21.13710 Quatloos,
Carol has 1028.8120 Quatloos..."
 - People can ***only*** add items to the ledger ("append-only"), never remove items
- Big Idea: Alice writes and signs a check to Bob saying
"I, Alice, Pay Bob 200 Quatloos"
 - This check then gets added to the public ledger so now everyone knows Alice now has 2821.1141 Quatloos and Bob has 221.13710 Quatloos



What Is A "Cryptocurrency"?



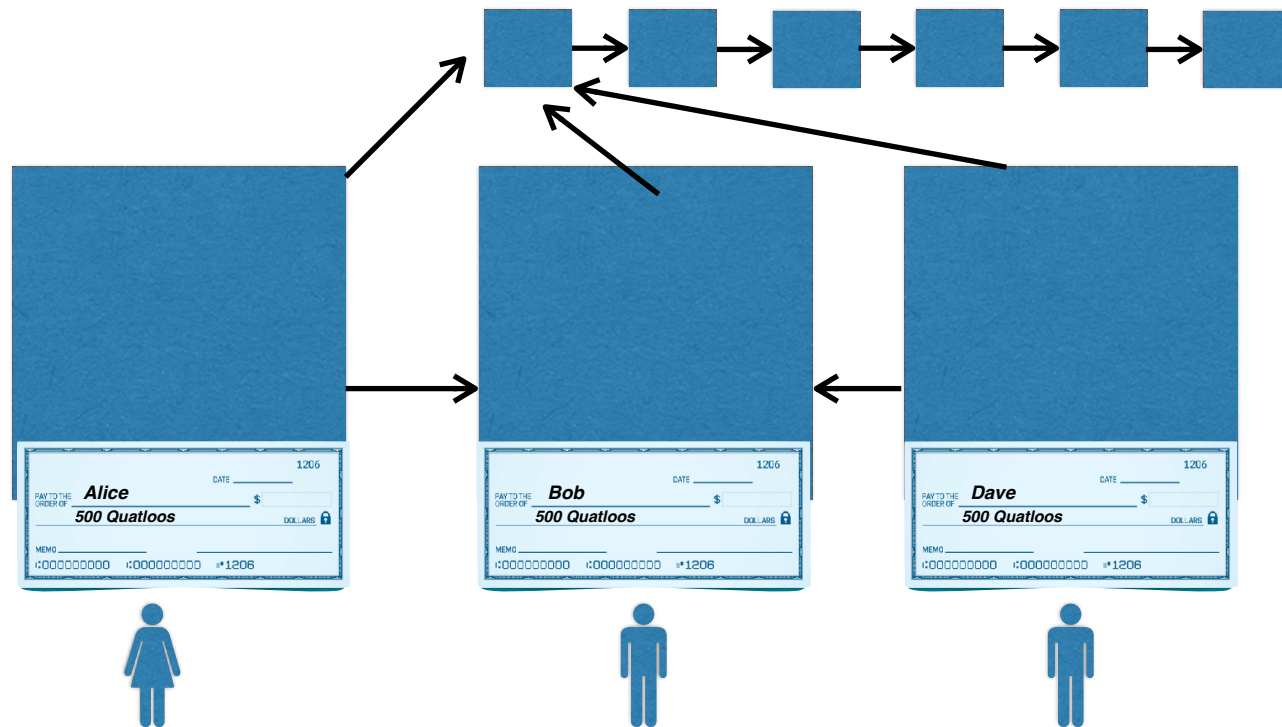
What Is A "Blockchain"

(well, "Public" or "Permissionless" Blockchains)

- Everyone involved gathers up copies of the loose checks
 - For each check, validate that there are sufficient funds
 - Bundle all the checks up into a "block" and staple them together, with a pointer to the previous pile
- Everybody now does a lot of useless "work" that may eventually get lucky
 - The one that gets lucky staples this (which is in the form of a check saying "The system pays to ME the reward for success, the hash of the total stack is X") to the block as well, publishes this, and gets the reward
- Now everybody else knows this stapled pile of checks is now verified
 - So everybody starts on a new block, pointing to the previous block and gathers up the new checks that haven't yet been processed
- Result is an ***append only*** data structure
 - Rewriting history to change/remove a transaction requires as much effort as spent to create history

What Is A "Blockchain"

(well, "Public" or "Permissionless" Blockchains)



What Is Bitcoin?



- Simply the first widespread development of this idea
 - A "Bitcoin wallet" is simply a collection of cryptographic keys
 - Private key K_{priv} : A secret value stored in the wallet
 - Public key K_{pub} : A public value that anybody is allowed to see, derived from the private key
 - The "Bitcoin Blockchain" is Bitcoin's particular implementation of the shared ledger
- Spending Bitcoin is simply writing a check and broadcasting it:
 - "Pay $K_{pub}=1\text{Ross5Np5doy4ajF9iGXzgKaC2Q3Pwwwxv}$ the value 0.05212115 Bitcoin..."
And whoever validates this transaction gets 0.0005 Bitcoin"
 - Signed 1FuckBTCqwBQexxs9jiuWTiZeoKfSo9Vyi:
 - This is Bitcoin transaction
`d6b24ab29fa8e8f2c43bb07a3437538507776a671d9301368b1a7a32107b7139`

What Is Bitcoin?



Computer Science 161

Nicholas Weaver

d6b24ab29fa8e8f2c43bb07a3437538507776a671d9301368b1a7a32107b7139

1FuckBTCqwBQexxs9jiuWTiZeoKfSo9Vyi (0.05 BTC - Output)
1FuckBTCqwBQexxs9jiuWTiZeoKfSo9Vyi (0.000016 BTC - Output)
1FuckBTCqwBQexxs9jiuWTiZeoKfSo9Vyi (0.00235018 BTC - Output)
1FuckBTCqwBQexxs9jiuWTiZeoKfSo9Vyi (0.00025497 BTC - Output)



1Ross5Np5doy4... (Free Ross Ulbricht [link](#)) - (Spent)

0.05212115 BTC

0.05212115 BTC

Summary

Size 763 (bytes)

Weight 3052

Received Time 2015-02-04 21:15:16

Included In Blocks [341974](#) (2015-02-04 21:16:58 + 2 minutes)

Confirmations 180240 Confirmations

Visualize [View Tree Chart](#)

Inputs and Outputs

Total Input 0.05262115 BTC

Total Output 0.05212115 BTC

Fees 0.0005 BTC

Fee per byte 65.531 sat/B

Fee per weight unit 16.383 sat/WU

Estimated BTC Transacted 0.05212115 BTC

Scripts [Hide scripts & coinbase](#)

What Is Bitcoin Mining?



Nicholas Weaver

- It is the particular instance used to protect the transaction history for Bitcoin
 - Based on SHA-256
- Every miner takes all the unconfirmed transactions and puts them into a block
 - The block has fixed capacity (currently 1MB), limiting the global rate to ~3-7 transactions per second, and also includes a timestamp
 - Also attaches the "pay me the block reward and all fees" check to the front (the "coinbase")
 - Also attaches the hash of the previous block (including by reference everything in the past)
- Then performs the "Proof of work" calculation
 - Just hashes the block, changing it trivially until the hash starts with enough 0s.
 - This is the "difficulty factor", which automatically adjusts to ensure that, worldwide, a new block is discovered roughly every 10 minutes
- On success it broadcasts the new block

So Proof of Work...

- Remember, SHA256 looks random...
 - So just tweak one bit and the output looks totally different
- So if I present to you a string and the corresponding hash that starts with **n** 0-bits...
 - I probably had to do **2^n** hashes
- So you can trivially verify that I did a ton of useless work with just a single hash
 - So to rewrite the last **k** blocks of history you have to do as many hashes as were used to record the last **k** blocks in the first place

The Blockchain Size Problem

- In order to verify that Alice has a balance...
 - You have to potentially check **every transaction** back to the beginning of the chain
- Results in amazingly inefficient storage
 - Every full Bitcoin node needs access to the **entire** transaction history
 - Because the entire history is needed to validate the transaction
 - A "lightweight" node still needs to keep the headers for all history
 - And still has to ask for suitable information to verify each transaction it needs to verify
- So if we have 10,000 nodes, this means 10,000 copies of the Bitcoin Blockchain!



Corollary:

The Blockchain Capacity Problem...

- To limit the blockchain growth to "just" 1 MB a block...
 - An early defense against possible spam
 - The resulting design for Bitcoin can only process 3-7 transactions per second **worldwide!**
- Which means any "Bitcoin takes over money" requires trusted, centralized entities that maintain databases...
 - Oh, yeah, those are called banks! We have "electronic money" as a result, and have had it for decades!
- Also results in price shocks
 - When desired transactions < block capacity, transactions are cheap
 - When desired transactions > block capacity, prices spiral up because of an inelastic supply
 - Unknown attacks have cause transaction price shocks **for the lulz!**

The Blockchain Power Problem

- The Bitcoin system consumes roughly 23 GW of power right now (or basically Thailand!)
- This is because Proof of Work creates a Red Queen's Race
 - As long as there is potential profit to be had you get an increase in capability
 - Efficiency gains get translated into more effort, not less power consumption: 10x the hashes doesn't mean 10x the bitcoin but just 10x the difficulty factor
- There is ***no way*** to reduce Bitcoin's power consumption without reducing Bitcoin's price or the block reward
 - It is this waste of energy that protects Bitcoin!



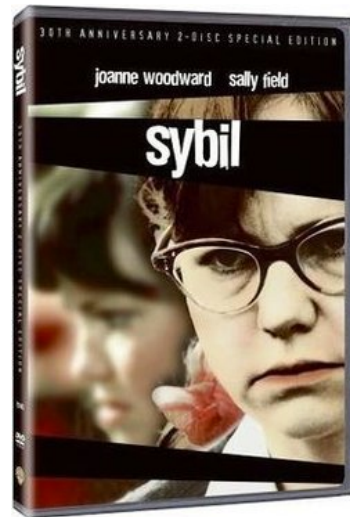
The Bitcoin Folks *lie* about the power consumption...

- Claim this rescues "stranded power"
 - But this is the point of a power **grid**: We ship electricity half-way across the country (Well, not to Texas because they have a separate grid so they can ignore federal regulations)
- Claim this incentivizes "green power"
 - But bitcoin mining wants 24/7/365 power ("base load")
Base load power is only hydroelectric, fossil-fuel, or nuclear
 - And there really are no new spots for dams
- Oh, but other things burn power too...
 - Yeah, ALL data centers together is probably 2x-3x Bitcoin...
But Bitcoin can only do 3-7 transactions per second on a WORLDWIDE BASIS!
 - And unlike Bitcoin, data centers try to reduce the power consumption
- Tesla's \$1.5B is really a \$1.5B in "Destroy the Planet Inc"
Annual Bitcoin CO₂ emission of ~90 Mt of CO₂ is equivalent to driving an F150 Raptor for >120 billion miles!



The Sybil Problem...

- There is a lot of talk about "consensus" algorithms in cryptocurrencies
 - How the system agrees on a common view of history
 - Bitcoin's is simple: "Longest Chain Wins"
- But Proof of Work is **not** about consensus:
 - It is about solving the sybil (fake node) problem...
How do you prevent someone from just spinning up a gazillion "nodes"
 - Have each node have to contribute some resource!
 - "Proof of stake" is just another solution...
Which requires your money to be easy to steal!
Plus enshrines "he who has the gold, rules!"
- But there is an easier one: "Articulated Trust!"
 - Like the CAs: Use human-based agreements to agree on **M** trusted parties
 - Only $\frac{1}{2}M+1$ need to actually be trustworthy!
 - Why aren't there cryptocurrencies like this?
 - Well, there are a lot that use this under the hood but don't talk about it...
 - But if you do this you have legal obligations as a money transmitter!



The Irreversibility Problem

- A challenge: Buy \$1500 worth of Bitcoin ***now***, without:
 - Needing \$1500 cash in hand, transferring money to an individual, or having a preexisting relationship with an exchange

- You ***can't!***:

Everything electronic in modern banking is by design reversible except for cryptocurrencies

- This is designed for fraud mitigation: Ooops, something bad, undo undo...
- So the seller of a Bitcoin either must...
 - Take another irreversible payment ("Cash Only")
 - Have an established relationship so they can safely extend the buyer credit
 - Take a deposit from the buyer and wait a couple days



The Theft Problem...

- Irreversibility also makes things **very** easy to steal
 - Compromise the private key & that is all it takes!
 - See "How to make money with Bitcoin in 10 easy steps" by your's truly
- Result: ***You can't store cryptocurrency on an Internet Connected Computer!***
 - The best host-based IDS is an unsecured Bitcoin wallet
 - So instead you have hardware devices, paper wallets, and other schemes intended to safeguard cryptocurrency
 - It is worse than money under the mattress:
Stealing money under the mattress requires ***physical access!***
- But at the same time, ***Not your keys, not your bitcoin!***
 - Unlike a bank there is no deposit insurance should the exchange get robbed

And Even More Security Landmines...

- The primary tool these-days for self-hosted wallets is browser extensions like Metamask
 - Used to interact with NFT marketplaces and other related issues
- But horribly opaque to use!
 - Phishing email just the other day used to sign blank-checks for NFT sales
 - Experts actually can't use it right!
- And just mention that word on Twitter...
 - And you will have plenty of "helpful" support bots trying to get your cryptocurrency!

The Decentralization Dream...

- "Trust Nobody"
 - The entire **system** is trustworthy but each actor is not
- Requires that there never be a small group that can change things...
- It is basically an article of faith that this is a good & necessary idea
 - But about the only thing it really buys is censorship-resistance

The Decentralization Reality

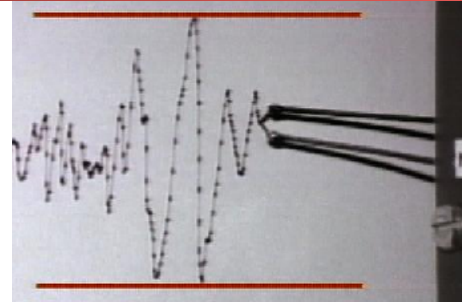
- Code is inevitably developed by only one or a few groups
 - And they can **and do** change it capriciously if it affects their money:
When the Ethereum "DAO" theft occurred, the developers changed things to take **their** money back from the thief
- Rewarded mining centralizes
 - Especially with ASICs and "Stealth ASICs" for proof of work mining
 - And the miners can **and do cheat**, such as enable "double spending" attacks against gambling sites, or front-running in Ethereum
- Several just aren't decentralized at all
 - Trusted coordinator or seed nodes
 - Ability to override/freeze assets

The True Value of Cryptocurrencies: Censorship Resistance...

- There is (purportedly) no central authority to say "thou shalt not" or "thou shouldn't have"
 - Well, they exist but they don't care about your drug deals...
- If you believe there should be no central authorities...
 - Cryptocurrencies are the only solution for electronic payments
- But know this enables
 - Drug dealing, money laundering, crim2crim payments, gambling, attempts to hire hitmen etc...
 - Ease of theft of the cryptocurrencies themselves
 - Ransomware and extortion: estimates of several ***billion dollars a year!***
- And some minor "good" uses
 - Payments to Wikileaks and Backpage when they were under financial restrictions

Cryptocurrencies don't work unless you *need* censorship resistance

- **Any** volatile cryptocurrency transaction for real-world payments requires two currency conversion steps
 - It is the only way to remove the volatility risk
 - Which is why companies selling stuff aren't actually using Bitcoin, but a service that turns BTC into Actual Money™
 - And thanks to the irreversibility problem, buying is expensive
 - But if you believe in the cryptocurrency, you **must hodl!**
- Result is that the promised financial applications (cheap remittances etc) can **never apply** in volatile currencies like Bitcoin
 - Really Bitcoin et al are **only** appropriate for buying drugs, paying ransoms, hiring fake hitmen, money laundering...
 - Otherwise, use PayPal, Venmo, Zelle, MPasa, Square, etc etc etc...



Worse:

Censorship Resistance Enables Crime

- Before the cybercrooks had Liberty Reserve and still have Webmoney...



- But Liberty Reserve got shut down by the feds (a shutdown that *really* screwed up the black market hackers), and WebMoney is Russia-only
- So the only censorship alternative is cash
 - Which requires mass (\$1M \approx 10 kg) and physical proximity
- So the cryptocurrencies are the only game in town!
 - The drug dealers hated Bitcoin in 2013, and hate them all still, but it is the only thing that works
 - Ransomware used to be Green Dot & Bitcoin, but Green Dot was forced to clean up its act
 - Modern ransomware is a multi-billion-dollar industry enabled by Bitcoin payments

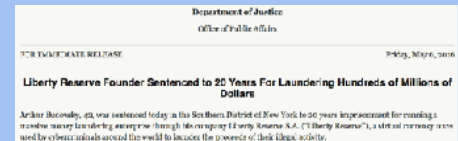


And "Stablecoins" are no better...

- Removing the two currency conversion steps requires **eliminating** volatility
- Building a stable cryptocurrency requires an entity to convert dollars to tokens and vice versa **at par**.

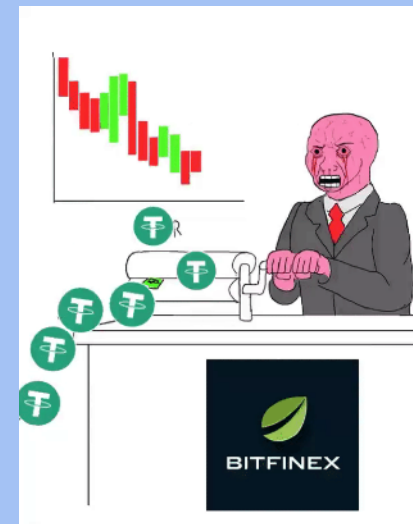
AKA a "Bank" and "Banknotes"

- Thus a centralized entity, so why bother with a "decentralized" blockchain? 🤔
- All other "algorithmic stablecoins" are snake oil that implode spectacularly
- There is now a choice for the bank
 - Either you become as regulated as PayPal & Visa
 - Or you have a "wildcat bank": This is banking in the 1800s
 - Or you have "Liberty Reserve" and the principals end up in jail



And The Big Stable-Coin, Tether, IS A FRAUD!!!

- Bitcoin's value is purely a speculative bubble
 - Somebody in the future will pay more than you paid today
- Bitcoin has a price equation based on supply/demand
 - $\text{New Bitcoin} = (\text{New \$} + \text{New Fake \$s})$
- Bubbles have been drive by fake \$
 - 2013: Willy-Bot on MtGox:
Created fake \$ in deposit in the Magic The Gathering Online Exchange Bitcoin exchange, bought Bitcoin
 - 2017: Tether:
A stablecoin which unbanked Bitcoin exchanges use since they can't access the banking system. Roughly 1/3rd of the price runup then
 - 2020-22: Tether AGAIN:
The Tether Printer go BRRRRR. Now in a situation where real new \$ is deeply negative as they are adding billions of "dollars" a week in Tether (and now Circle) to buy Bitcoin to back the Tether...



Practically Every Cryptocurrency is "Me Too" with some riff...

- There are lots of cryptocurrencies..

- But in many ways they act the same:
A public ledger structure and
(perhaps) a purported
decentralized nature

- Litecoin:

- Bitcoin with a catchy slogan



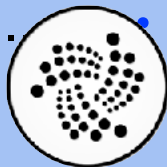
- Dogecoin:

- Bitcoin with a cool joke



- Ripple:

- (Centralized) Bitcoin with
unrelated settlement system



- IOTA:

- (Centralized) Bitcoin but with trinary math
🙌 and roll-thy-own cryptography 🧐?!?!



- Monero:

- Bitcoin with some better pseudonymity



- Zcash:

- Bitcoin with **real** anonymity, err, "money laundering built in!"

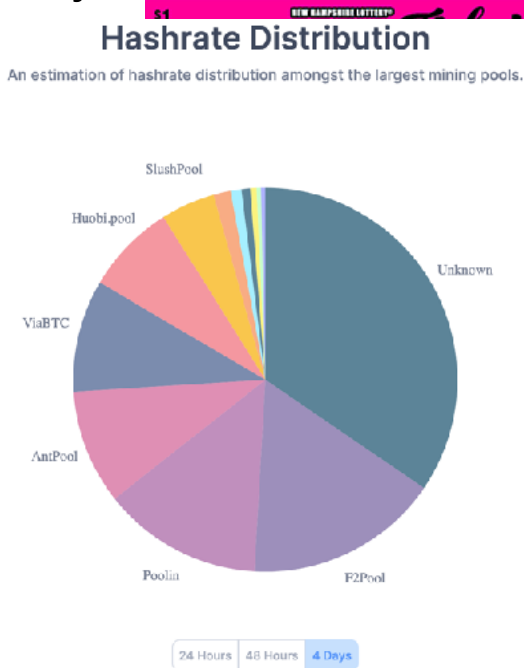


- Ethereum:

- Bitcoin with "smart contracts", unlicensed securities and million dollar bug bounties

Public Blockchain's Weak Security Guarantees

- "Public blockchains" protected by proof-of-whatever promise a "no central authorities" & "fully distributed trust" append-only data structure.
 - But this isn't the case!
- Any lottery-based reward creates mining pools
 - Which means a few entities **can and do** control things:
5 entities effectively control Bitcoin with >50% of the hashrate
- The code developers also **can and do** act as central authorities
 - When ~10% of Ethereum was stolen from the "DAO", the developers rolled out a fork to undo the theft
- **And worse...**



Proof of Work's Economic Unsoundness

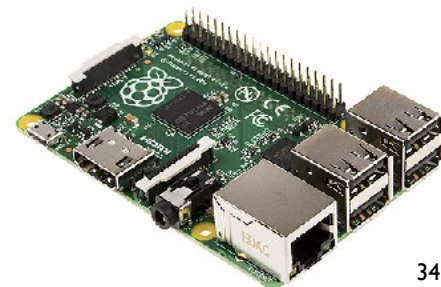
- Idea: The system wastes $\$x$ per hour to defend against potential attackers
- If an attacker needs to change the last n hours of history...
 - They will need to spend at least $\$nx$, which acts as a floor
- This puts a ceiling on security as well: an attacker doesn't need to spend much more than $\$nx$
 - If an attacker can make more than $\$nx$ for an attack, they will!
- And its grossly inefficient:
 - The system is wasting $\$x$ per hour *whether or not it is under attack*
- Oh, and there are services!



n1ceHASH

So The Security Must Be Either Weak or Inefficient

- Proof of work is provably wasteful
 - It **may** be possible to make "proof of stake" work, but that has different problems
- And there is no way to make proof of work cheap!
 - Proof of "whatever" protects up to the amount that "whatever" costs, **but not more!**
- So "articulated trust" is vastly cheaper
 - Take 10 trustworthy entities, each one has a Raspberry Pi that validates and signs transaction independently
 - In the end, 6 need to prove to be honest, but could easily process every Bitcoin transaction
 - This requires 100W of power and \$500 worth of computers!, or 9 **orders of magnitude less power**



The Worm Problem....

- These cryptocurrencies form a closely connected peer-to-peer network
 - If you have an exploit that can compromise other nodes...
You can make a self propagating attack (a "worm"), but do NOT DO SO
- Would be able to compromise **every node** in the P2P network in **seconds**
 - And you know that thing about "don't keep your cryptocurrency on an internet connected system"? Yeah, how many actually do that!
- Target a secondary cryptocurrency...
 - EG, Dogecoin is a fork of Luckycoin is a fork of Litecoin is a fork of Bitcoin....
 - With half a decade of **NO UPDATES!**
 - So search the post-fork Bitcoin code for indications of memory vulnerabilities
 - And write a worm that steals all the OTHER cryptocurrencies!



But wait, what about all the Venture Money!!!

- Old VC model
 - Invest in several companies
 - One or two end up thriving
 - Sell stock to the public in an IPO or sell to a larger company
- New A16Z: Securities Fraud as a Business
 - Invest in several "blockchain" startups
 - Startups issue new tokens promising something, eventually
 - These are unlicensed securities and this is blatantly illegal in the US, just not enforced by the SEC!
 - A16Z gets a ton of these tokens, sells to retail suckers
 - Ideally gets listed on Coinbase, but sketchier exchanges will do
 - If SEC ever wakes up...
 - It is the startups that committed the securities fraud, not A16Z! So they are safe with their money!

What About Non-Currency Blockchain Applications?

- Put A Bird Blockchain On It!
- "Private" or "Permissioned" Blockchain
 - Simply a cryptographically signed hashchain:
Techniques known for **20+ years!**
 - The only value gained is you say "Blockchain" and idiots respond with "Take My Money!"
- "Public" Blockchains are grossly inefficient and can't actually deliver on what they promise
- And those proposing "blockchain" don't actually understand the problem space!
 - Solve (Voting, electronic medical records, food security, name your hard problem) by putting {what data exactly? How? What formats? What honesty? What enforcement?} in an append-only data structure



A Concrete Example...

- A couple years ago there was a "Blockchain" class here at Berkeley
 - Yes, I screamed inside
 - I attended one session to give a short rebuttal...
 - But the two outside "experts" also present were delusional
- Concrete example: Vaccine supply chains...
 - You need to keep a vaccine supply chain suitably cold, if it gets too hot that is a problem...
 - One expert: "You can solve this in India with Blockchain!"
- BULLSHIT! You solve this with temperature-sensitive labels!
At \$1.50 each
- Proof of Nick's Iron Law of Blockchain:
Blockchain solves exactly one problem: When someone says "you can solve X with Blockchain", they clearly don't know anything about X and should be ignored

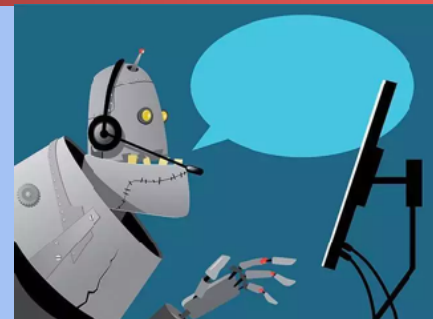


But There Is One Innovative New Stupidity: "Smart Contracts"

- Idea! "Contracts are expensive!" 🤔
 - So lets take standard things written in a formal language ("Legaleze")
 - And replace them with things written in a horrid language (that looks vaguely like JavaScript)
 - By default these "smart contracts" are fixed once released!
 - And this makes things cheaper **how**?
- And ditch the exception handling mechanism
 - If you can steal from a Smart Contract, are you actually violating the contract?
- Backstory:
Idea created by Vitalik Buterin who was upset that World of Warcraft nerfed his spellcaster!

"Smart Contract" Reality: Public Finance-Bots

- They are really Public Finance-Bots
 - Small programs that perform money transfers
 - Finance bots are **not new**:
The novelty is these finance bots are public and publicly accessible
 - Oh, and these aren't "distributed apps"
- Predictable Result: Million Dollar Bug Bounties!
 - The "DAO", a "voted distributed mutual fund as smart contract":
Got ~10% of Ethereum before someone stole all the money!
 - The "Parity Multi-Signature Wallet" (an arrangement to add multiple-signature control to reduce theft probability)
 - The "Proof of Weak Hands 1.0" explicit Ponzi Scheme



And "Decentralized Autonomous Organizations"

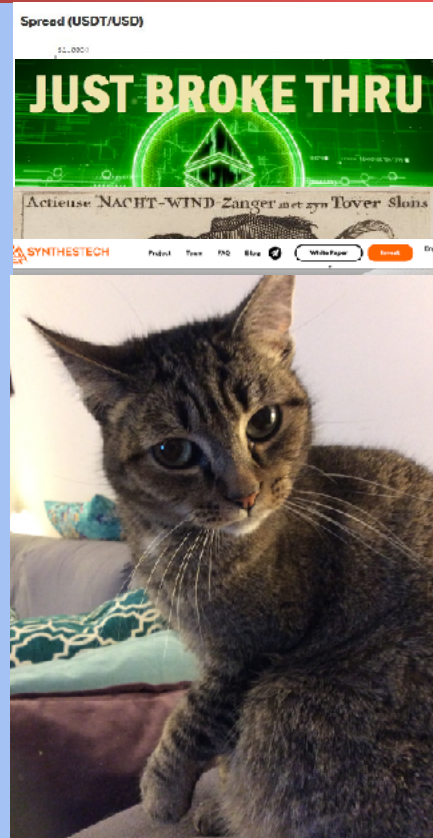
- Hey, lets get together and create an organization where we all invest and get a vote...
 - Yeah, this was invented centuries ago: It is called a "Joint Stock Corporation"
- But instead do it on a Blockchain...
 - So if something screws up, eh, ah well
- And not do the paperwork needed to actually **be** a corporation
 - Corporations have liability protections, investors aren't on the hook when a corporation commits crimes
- A better term is "Conspiracy"

The Rest Is Speedrunning 500 years of bad economics...

Computer Science 161

Nicholas Weaver

- Almost every cryptocurrency exchange is full of frauds banned in the 1930s
- Ponzi schemes without postal reply coupons, including explicit ponzies as "Smart Contracts"
- Tether, a "stablecoin" is almost certainly a wildcat bank from the 1800s
- Every tradable ICO is really an unregulated security just like the plagues in the South Sea Bubble of 1720
- Replicated rare tulips with rare cats on the Ethereum Blockchain as a "Smart Contract"! Time to party like it is 1637!
- And don't forget the goldbug-ism...

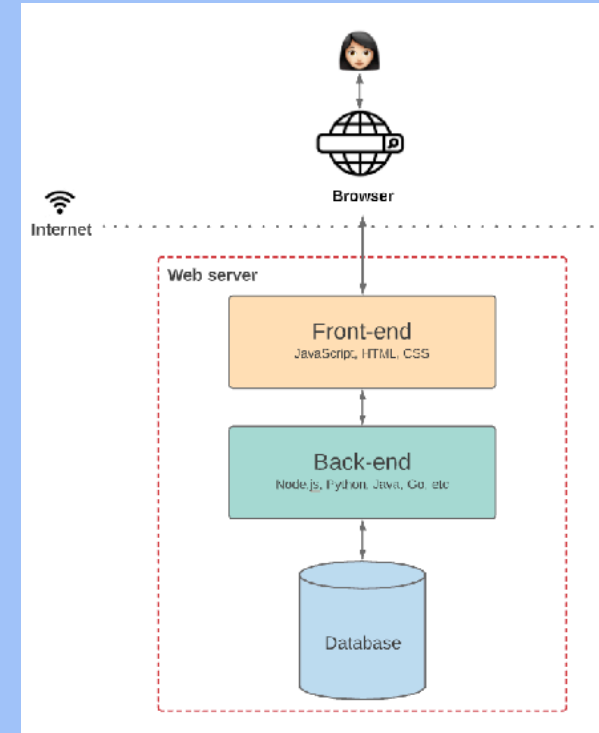


Smart Contracts and "Decentralized Finance": Speed Running the Speed Run

- "Hey, only Wall Street has previously benefitted from super-whiz-bangie techno innovations"
 - So lets instead build them as "Smart Contracts"?
- ONLY applications end up being:
 - Fraudulent stocks (ERC20 tokens)
 - Tulip Manias (Non-Fungible Tokens: A receipt for a URL saying 'I ownz this')
 - Implicit ponzi schemes ("Yield Farming")
 - Explicit ponzi schemes
 - Front-running bots and fraudulent miners
 - And million dollar thefts seemingly on a near-daily basis
 - Not sure which is more, the thefts or the frauds ("Rugpulls")?

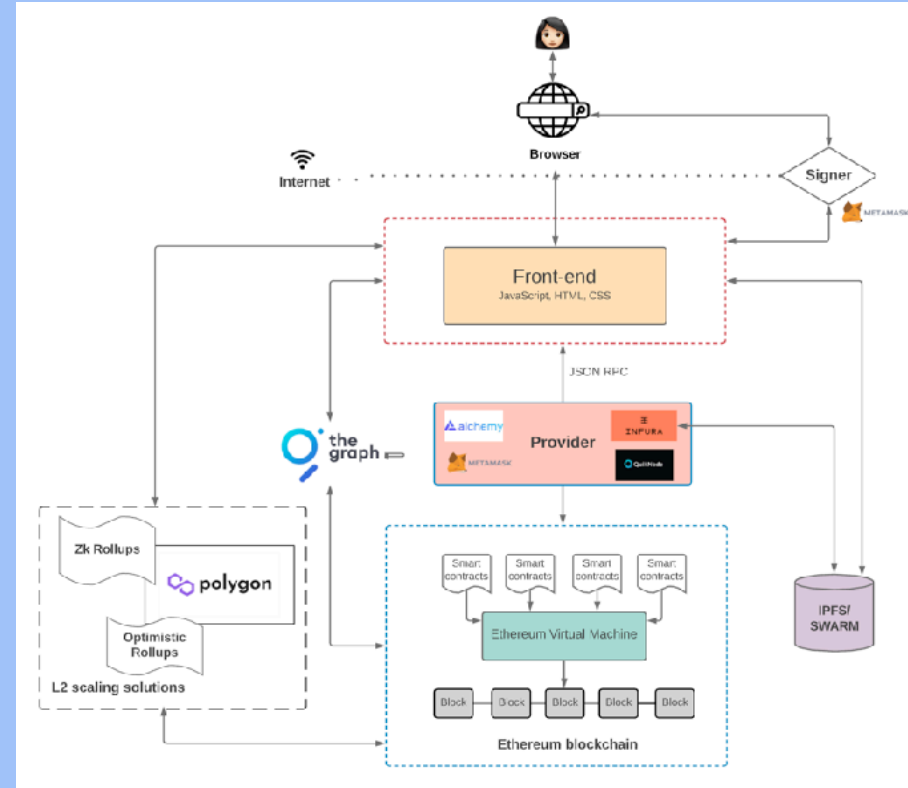
And Now Rebranding: "Web 3"

- Hey, let's bring the ***UNSTOPPABLE CENSORSHIP RESISTANT BLOCKCHAIN POWAH TO THE WEB***
- The current web: ***distributed***
 - You need to contract with a DNS provider and a web hosting provider for a few bucks
 - If either dislike you they can censor you
 - But you can chose a friendly provider:
Actual nazis can web host just fine, just not in Germany
- The computation in the current web:
 - A distributed computation split between the server and the user's browser



The Web 3 Vision: ADD On Additional Crap...

- You still have the centralized hosting!!!
 - So no gatekeepers were removed
- You end up depending on additional **centralized** providers!
- But now some of the computation is paid for in cryptocurrency and performed on the "blockchain"
 - Signed for by the customer's cryptocurrency wallet bolted onto the browser



So How Good Is The Ethereum Blockchain As A Computer

- Global Limit: 2 million "gas" per second
 - Any computation takes some "gas" as measured in the Ethereum Virtual Machine
- Simplest computation: 256b addition = 3 gas
- Ethereum Blockchain:
 - 600,000 additions per second
 - Cost to use? \$250 a second!
- Raspberry Pi 4:
 - 3,000,000,000 additions per second
 - Cost to use? \$45 to buy forever!

So The Space is Dismal

- The value is nonexistent
- The harms are great
- So avoid it...
- Or work on making it die in a fire

Case Study: Facebook Messenger Abuse Protocol

Content Warning

- The following is discussing Facebook's Messenger's abuse protocol
- Abusive behavior in messengers is dominated by gendered abuse
- This is a very useful protocol to understand:
 - It tackles real world issues and is a very nice example of applied cryptography

Facebook Messenger: Background

- Facebook Messenger now has an encrypted chat option
 - Limited to their phone app
 - The cryptography in general is very good
 - Uses a well-regarded asynchronous messenger library (from Signal) with good security properties

Facebook's Unique Messenger Problem: Abuse

- Much of Facebook's biggest problem is dealing with abuse...
 - What if either Alice or Bob is a stalker, an a-hole, or otherwise problematic?
 - Aside: A huge amount of abuse is explicitly gender based, so I'm going to use "Alex" as the abuser and "Bailey" as the victim through the rest of this example
- Facebook would expect the other side to complain
 - And then perhaps Facebook would kick off the perpetrator for violating Facebook's Terms of Service
- But fake abuse complaints are also a problem
 - So can't just take them on face value
- And abusers might also want to release info publicly
 - Want sender to be able to **deny to the public** but not to Facebook
 - **Deniability** is in many ways anti-**authentication**:
Want to make it so you don't have public key signatures

Facebook's Problem Quantified

- Unless Bailey forwards the unencrypted message to Facebook
 - Facebook **must not** be able to see the contents of the message
- If Bailey does forward the unencrypted message to Facebook
 - Facebook **must ensure** that the message is what Alex sent to Bailey
- Nobody **but** Facebook should be able to verify this:
No public signatures!
 - Critical to prevent abusive release of messages to the public being verifiable:
Messages are **deniable** for everybody but Facebook

The Protocol In Action

Alex



Bailey



What Is Bailey's Public
Key?

The Protocol In Action

Alex



```
{message=E(Kpub_b,  
  M={"Hey Bailey: Abusive  
    Message",  
      krand}),  
  mac=HMAC(krand, M),  
  to=Bailey}
```



Bailey



```
{message=E(Kpub_b,  
  M={"Hey Bailey: Abusive  
    Message",  
      krand}),  
  mac=HMAC(krand, M),  
  to=Bailey,  
  from=Alex,  
  time=now,  
  fbmac=HMAC(Kfb, {mac, from,  
                    to, time}))}
```

Some Notes

- Facebook ***can not*** read the message or ***even verify Alex's HMAC***
 - As the key for the HMAC is in the message itself
- Only Facebook knows their HMAC key
 - And its the only information Facebook ***needs*** to retain in this protocol: Everything else can be discarded
- Bailey upon receipt checks that Alex's HMAC is correct
 - Otherwise Bailey's messenger silently rejects the message
 - Forces Alex's messenger to be honest about the HMAC, ***even thought Facebook never verified it***
- Bailey trusts Facebook when Facebook says the message is from Alex
 - Bailey does ***not verify*** a signature, because there is no signature to verify... But the Signal protocol uses an ephemeral key agreement so that implicitly verifies Alex as well

Now To Report Abuse

Computer Science 161

Nicholas Weaver

Alex



Bailey



```
{Abuse{  
  M={"Hey Bailey: Abusive  
    Message",  
    krand}},  
  mac=HMAC(krand, M),  
  to=Bailey,  
  from=Alex,  
  time=now,  
  fbmac=HMAC(Kfb, {mac, from,  
    to, time})}}
```

 56

Facebook's Verification

- First verify that Bailey correctly reported the message sent
 - Verify $\mathbf{fbmac} = \mathbf{HMAC}(K_{fb}, \{\mathbf{mac}, \mathbf{from}, \mathbf{to}, \mathbf{time}\})$
 - Only Facebook can do this verification since they keep K_{fb} secret
 - This enables Facebook to confirm that this is the message that it relayed from Alex to Bailey
- Then verify that Bailey didn't tamper with the message
 - Verify $\mathbf{mac} = \mathbf{HMAC}(k_{rand}, \{\mathbf{M}, k_{rand}\})$
- Now Facebook knows this was sent from Alex to Bailey and can act accordingly
 - But Bailey ***can't prove*** that Alex sent this message to anyone ***other than Facebook***
 - And Bailey ***can't tamper with the message*** because the HMAC is also a hash