



Token Burning: A Sign of Poor Economic Planning or a Strategic Mechanism?

Michel Richards

Independent Researcher, USA

Accepted: 21/02/2025 Published: 29/03/2025

*Corresponding author



How to Cite:

Kumar, S (2025). Token Burning: A Sign of Poor Economic Planning or a Strategic Mechanism? *Scientific Journal of Metaverse and Blockchain Technology*. 3(1), 58-62.

DOI: <https://doi.org/10.36676/sjmbt.v3.i1.60>

Abstract

Token burning is a widely debated practice in the cryptocurrency industry. While some argue that it is a sign of poor economic planning and an immature approach by token issuers, others believe it to be a strategic mechanism for controlling supply and increasing token value. This paper critically examines the concept of token burning, analyzing its impact on price stability, market perception, and long-term utility. Through case studies and economic analysis, we explore whether token burning is a justified strategy or a mere short-term fix for deeper economic issues.

Keywords: Token burning, justified strategy, token issuer, strategic mechanism

Introduction

Cryptocurrency projects often employ various tokenomic strategies to ensure stability and long-term value appreciation. Token burning, which involves permanently removing a portion of tokens from circulation, has become a popular method. While some projects incorporate token burning into their economic models from the beginning, others resort to it as a reactive measure when their tokens experience price declines. This paper evaluates whether token burning is a well-thought-out strategy or a sign of poor economic planning by token issuers.

Understanding Token Burning

Token burning is the process of reducing the total supply of a cryptocurrency by sending tokens to an irretrievable address. The primary motivations behind this practice include:

- **Creating artificial scarcity** to drive demand and increase price.
- **Inflation control** in ecosystems with an excessive supply of tokens.
- **Reward mechanisms** where burned tokens represent a form of dividend distribution.
- **Regulatory compliance** in cases where projects need to adhere to supply limitations.





Case Studies on Token Burning Several cryptocurrency projects have implemented token burning with varying degrees of success:

- **Binance Coin (BNB):** Binance conducts periodic token burns based on trading volume, aiming to reduce total supply and increase value.
- **Ethereum (EIP-1559):** Ethereum introduced a transaction fee-burning mechanism to counteract inflation.
- **Shiba Inu (SHIB):** The project burned a massive amount of tokens to create artificial scarcity but faced criticism for its lack of practical utility.

The Arguments Against Token Burning Many critics argue that token burning reflects a lack of proper planning and a short-term approach to price control. Key issues include:

- **Failure in Demand Forecasting:** Projects that burn tokens due to falling prices often indicate an inability to generate organic demand.
- **Artificial Scarcity vs. Real Utility:** Rather than focusing on creating actual use cases, some projects rely on burning tokens to manipulate market sentiment.
- **Panic Reactions:** Sudden or emergency token burns often indicate instability and an attempt to cover up deeper economic flaws.

When Token Burning is Justified Although token burning is often criticized, it can be a legitimate strategy in some cases:

- **Pre-Planned Deflationary Models:** Some projects, like BNB, incorporate scheduled burns as part of their long-term economic model.
- **Transaction Fee Regulation:** Ethereum's burning of transaction fees helps manage inflation effectively.
- **Community-Governed Burns:** In decentralized networks, community-led burns ensure that the process is not solely controlled by developers.

Alternatives to Token Burning Instead of burning tokens, projects can adopt better strategies to enhance value:

- **Encouraging Real-World Adoption:** Tokens should have genuine use cases in DeFi, gaming, governance, and commerce.
- **Staking and Incentives:** Rewarding holders through staking and yield farming ensures long-term retention.
- **Partnerships and Integrations:** Working with businesses and blockchain ecosystems strengthens token demand organically.

Key reasons why token issuers often fail to plan adequately before launching





The primary reason many projects issue tokens without proper planning is a mix of **monetary incentives, short-term hype, and a lack of thorough economic foresight**. Here are some key reasons why token issuers often fail to plan adequately before launching:

1. Rapid Fundraising via Initial Coin Offerings (ICOs) and Token Sales

Many projects issue tokens primarily as a fundraising mechanism. ICOs and other token sales provide an easy way to raise capital without the regulatory scrutiny of traditional financial markets. However, in the rush to secure funding, projects often neglect long-term sustainability planning.

2. Hype-Driven Market Approach

Crypto markets thrive on speculation. Many projects issue tokens based on trending narratives (e.g., DeFi, metaverse, AI) rather than solid economic fundamentals. They prioritize market hype over actual usability, leading to poorly designed token economies.

3. Lack of Demand Analysis and Tokenomics Planning

- Some issuers create excessive token supplies without assessing real-world demand.
- Poorly designed allocation models result in token inflation or oversaturation in the market.
- Many tokens lack a clear use case beyond speculative trading.

4. No Real Use Case or Ecosystem Integration

Many projects fail to establish actual utility before issuing tokens. Instead of integrating tokens into a functioning ecosystem (payments, governance, staking, etc.), they rely on speculative value. When demand drops, they resort to token burning as a reactive measure.

5. Greed and Insider Benefits

In some cases, token issuance benefits insiders more than the broader community. A project may:

- Pre-mine large amounts of tokens for developers and early investors.
- Dump tokens on the market for quick profits.
- Burn tokens later as a marketing gimmick to boost prices artificially.

6. Inexperienced or Non-Technical Founders

Many token issuers are entrepreneurs or marketers rather than economists or blockchain engineers. They may lack the expertise to design a sustainable token model, leading to miscalculations in supply, demand, and economic incentives.

7. Poor Risk Management and Market Response

Instead of preparing for potential downturns with robust token utility plans, projects react to falling prices with short-term fixes like burning tokens. This reflects a lack of risk assessment before issuance.

What Should Be Done Instead?

- **Comprehensive Tokenomics Planning:** Projects should focus on **supply-demand balance, real-world utility, and sustainable incentive mechanisms** before issuing tokens.
- **Long-Term Utility Before Launch:** Tokens should be integrated into functional platforms rather than being launched as purely speculative assets.





- **Regulatory Compliance & Ethical Practices:** Well-planned projects ensure that their tokens comply with regulations and serve a clear purpose.
- **Community Governance & Transparency:** Instead of arbitrary burns, projects should involve the community in tokenomics decisions through governance models.

Conclusion

Many crypto projects issue tokens without proper planning due to short-term profit motives, lack of expertise, or speculative hype. Instead of reactive measures like token burning, a sustainable token economy should focus on **demand-driven utility, strong governance, and long-term value creation**. Token burning remains a controversial practice, with arguments both in favor and against its use. While some projects integrate it into their economic design as a planned deflationary mechanism, others use it as a reactionary tool to manage falling prices. A well-structured cryptocurrency project should focus on building genuine demand rather than relying on artificial scarcity. Future research should explore empirical data on the long-term effects of token burning to assess its true economic impact.

References

- Gupta, M., Gupta, D., & Duggal, A. (2023). NFT Culture: A New Era. Scientific Journal of Metaverse and Blockchain Technologies, 1(1), 57–62. <https://doi.org/10.36676/sjmbt.v1i1.08>
- Gupta, D., & Gupta, S. (2023). Exploring world famous NFT Scripts: A Global Discovery. Scientific Journal of Metaverse and Blockchain Technologies, 1(1), 63–71. <https://doi.org/10.36676/sjmbt.v1i1.09>
- M. Gupta, “Reviewing the Relationship Between Blockchain and NFT With World Famous NFT Market Places”, SJMBT, vol. 1, no. 1, pp. 1–8, Dec. 2023.
- R. Gupta, M. Gupta, and D. Gupta, “Role of Liquidity Pool in Stabilizing Value of Token”, SJMBT, vol. 1, no. 1, pp. 9–17, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.02>
- M. GUPTA and D. Gupta, “Investigating Role of Blockchain in Making your Greetings Valuable”, URR, vol. 10, no. 4, pp. 69–74, Dec. 2023. DOI: <https://doi.org/10.36676/urr.2023-v10i4-009>
- R. Issalh, A. Gupta, and M. Gupta, “PI Network : A Revolution”, SJMBT, vol. 1, no. 1, pp. 18–27, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.03>
- Duggal, M. Gupta, and D. Gupta, “Significance Of Nft Avtaars In Metaverse And Their Promotion: Case Study”, SJMBT, vol. 1, no. 1, pp. 28–36, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.04>
- M. Gupta, “Say No to Speculation in Crypto market during NFT trades: Technical and Financial Guidelines”, SJMBT, vol. 1, no. 1, pp. 37–42, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.05>





- Singla, M. Singla, and M. Gupta, “Unpacking the Impact of Bitcoin Halving on the Crypto Market: Benefits and Limitations”, SJMBT, vol. 1, no. 1, pp. 43–50, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.06>
- Gupta and P. Jain, “Expected Impact Of Decentralization Using Blockchain Based Technologies”, SJMBT, vol. 1, no. 1, pp. 51–56, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.07>
- D. Gupta and S. Gupta, “Exploring world famous NFT Scripts: A Global Discovery”, SJMBT, vol. 1, no. 1, pp. 63–71, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.09>
- M. Gupta, “Integration of IoT and Blockchain for user Authentication”, SJMBT, vol. 1, no. 1, pp. 72–84, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.10>
- Singla and M. Gupta, “Investigating Deep learning models for NFT classification : A Review”, SJMBT, vol. 1, no. 1, pp. 91–98, Dec. 2023. DOI: <https://doi.org/10.36676/sjmbt.v1i1.12>
- Issalh, R., Gupta, D., & Gupta, M. (2023). RESEARCHER ECONOMY: A REVOLUTION BY 9NFTMANIA FOR PRESENT ALPHA MALE. Scientific Journal of Metaverse and Blockchain Technologies, 1(1), 99–104. <https://doi.org/10.36676/sjmbt.v1i1.13>
- Gupta, D. (2024). The Role of Volunteers vs. Investors and Speculators in the Cryptocurrency Market: A Comparative Study of Reputation and Value Building. Scientific Journal of Metaverse and Blockchain Technologies, 2(Special), 18–26. <https://doi.org/10.36676/sjmbt.v2.iSpecial.50>
- Singla, A. (2024). Reviewing Limited Supply Crypto Projects: ULTIMA, COREDAOVIP. Scientific Journal of Metaverse and Blockchain Technologies, 2(2), 111–123. <https://doi.org/10.36676/sjmbt.v2.i2.41>
- Ashutosh, & Gupta, M. (2024). Investigating the Narrative of Trinity: 9NFTMANIA, Premium Domain, COREDAOVIP. Scientific Journal of Metaverse and Blockchain Technologies, 2(2), 124–137. <https://doi.org/10.36676/sjmbt.v2.i2.42>
- Ashutosh, & Gupta, M. (2024). Investigating the Narrative of Trinity: 9NFTMANIA, Premium Domain, COREDAOVIP. Scientific Journal of Metaverse and Blockchain Technologies, 2(2), 124–137. <https://doi.org/10.36676/sjmbt.v2.i2.42>
- Singla, A. (2024). Exploring Liquidity Pooling and Automated Trading with COREDAOVIP Token in Decentralized Exchanges. Scientific Journal of Metaverse and Blockchain Technologies, 2(2), 1–12. <https://doi.org/10.36676/sjmbt.v2.i2.26>
- Meenu. (2024). COREDAO.VIP: Crypto-Based Liquidity Pool Creation for Profit Maximization. Scientific Journal of Metaverse and Blockchain Technologies, 2(2), 150–156. <https://doi.org/10.36676/sjmbt.v2.i2.44>

