Cryptocurrency: A Case for Market Regulation

By Andrew Descheneaux

Imagine this: an entire marketplace filled with various goods and services. Everyone is trying to sell their wares with great enthusiasm, and it's filled to the brim with buyers and sellers doing their utmost best to get the best deals for themselves.

Except, there's something off about this particular market; the buyers and sellers switch places very quickly, sometimes within moments as a buyer might immediately turn around after buying a product to sell that exact product themselves at a higher price. The products they're selling are also quite suspect, as there doesn't seem to be anything actually changing hands despite the enthusiasm by which they're treated by the market's participants. In fact, none of the products seem to actually be real—every offer you hear, whether to yourself or otherwise, sounds like a proposal to throw your money away on something of literally zero value.

Such a place couldn't possibly exist, right? A market where money is exchanged for nothing of actual value, and yet is still booming despite the lack of a critical component in literally every exchange sounds absolutely ludicrous on paper. And yet, such a market truly does exist: it's called the cryptocurrency exchange.

The cryptocurrency exchange is not a single market, of course; there is a massive global network through which many different kinds of cryptocurrency are bought and sold constantly over the internet. Anyone can join in and buy or sell these increasingly varied cryptocurrencies, or even create their own to sell. Thousands of transactions can occur in a day, with hundreds of millions of dollars changing hands as part of them. Still, the same fundamental issue remains: there's no actual "value" residing in these currencies. Cryptocurrency doesn't have a "gold standard" wherein the currency is a stand-in for something of "actual" value, nor does it have a government backing its value as is the case of many modern currencies such as the US dollar.

Proponents of cryptocurrency actually point to this as a positive, since the lack of any official backing or enforcement means that the market can't be directly regulated or manipulated by outside forces, supposedly allowing free trade to flourish in ways that traditional markets can't. The blockchain technology upon which cryptocurrency is based also allows for secure and untraceable transactions and protection against inflation which are built into the system, which admittedly might sound appealing especially to those worried about rampant inflation in traditional markets as well as an increasing lack of privacy in their online lives.

However, there is a glaring issue with this: an unregulated market with zero oversight based on a series of currencies with no "real" value and no way to verify who actually made a given transaction frankly sounds like a paradise for anyone trying to scam people out of their money.

In fact, it seems to be almost tailored for scamming specifically, as this combination of factors would allow anyone to create their own “brand” of cryptocurrency or other blockchain-type product, hype up its value until people are willing to buy units of it for potentially ludicrous amounts of money, promptly sell it to those prospective buyers, and walk away with the money while completely abandoning the project and leaving those suckers—I mean “investors”—holding the now-worthless product with zero personal consequences.

It might not be surprising to learn that this particular sequence of actions is so common in the cryptocurrency marketplace that it has its own name: the so-called “Pump and Dump” scheme. This scheme is also so common as to be practically expected by any who participate in the market. Usually it’s less a matter of if a given cryptocurrency is the subject of one, but rather when its creators will eventually sell their holdings and abandon the currency. Even the sitting US President, Donald Trump, has done this with his infamous “Trump Coin”. To make things more absurd, his wife Melania also made her own “meme coin” and did the exact same thing with it.

With such a hostile environment to the point of any given product likely being a scam of some kind, one might wonder why those who participate in the cryptocurrency market haven’t realized this. Well, that’s the kicker: they do realize, but just don’t care. To all but the most naive, optimistic, or absurdly rich, the point of entering the cryptocurrency market is to make money in the quickest way possible. Those who buy currencies which are obviously scams are perfectly aware of their nature, but they believe that they can get “ahead” of the eventual downfall by buying in early and selling during that grace period where the currency inflates to the next buyer who hopes to do that exact same thing before its value plummets. Usually, the only real beneficiaries of such schemes are the insiders who started the entire thing to begin with.

Nobody wants to be that sucker holding the empty bag at the end, but the temptation of such massive amounts of wealth is often too much to ignore, leading to a collective mentality akin to gambling. Indeed, there is practically no difference between the present state of the cryptocurrency market and an average casino aside from the fact that there are regulations in place for casinos.

And that’s the thing, isn’t it? The environment described above doesn’t solely exist in the cryptocurrency market; sports betting, casinos, the stock market, and many other activities or institutions have similar financial incentives and potential pitfalls. However, those activities have (theoretical) regulations in place to keep them healthy and functional. Not only for the average participant, but for the market itself. Nobody would bother watching sports if the outcomes were always rigged, and stocks would be worthless if it became clear that literally *everyone* was just insider-trading and all the companies representing those stocks had zero value whatsoever. The reason why these haven’t happened is because those markets and activities have regulations placed on them by the governing bodies in charge. In fact, the stock market did function in much the same way as cryptocurrency in the past, but either had regulations put in place to avoid such a situation or truly did collapse with disastrous results.

The current situation with cryptocurrency isn’t stable. Eventually, the would-be buyers will get tired of being scammed or lose too much money to continue participating, the scammers will eventually get their fill or be scammed themselves, and the market won’t be able to grow at a sustainable rate because everyone else rightfully views it as a financial deathtrap. Unless there’s some sort of regulation to stop all these scams and bring about some kind of order, it will completely collapse simply by way of nobody trusting or believing in it. And to anyone who wants to deregulate other markets in a similar way, I advise you to take a good long look at the results of the stock market in 1929, the housing market in 2008, and the NFT market in 2022 and *really* think about whether you’d like something similar to happen everywhere else.