

Cryptocurrency: Don't Blame the Medium for the Scam

As cryptocurrency exchange FTX falls into bankruptcy and its principals seem likely to face various criminal charges over the activities leading to that bankruptcy, it's time for another round of crowing from opponents (and would-be regulators) of cryptocurrency. Which means it's time for another round of pointing out where those opponents and would-be regulators are all wet.

It's too early in the day to even try to untangle what happened with FTX, but what SEEMS to have happened is a "Ponzi scheme." That is, older investors in FTX and related enterprises such as trading firm Alameda Research seem to have been paid supposed "profits" from incoming investment revenues while the other money all went ... well, somewhere.

Lots of money went to lobbyists to game government regulatory efforts. Lots of money went to Democratic and Republican campaigns and politicians. Lots of money went to expensive homes in the Bahamas. And so on and so forth. Maybe all that will come out in the wash. None of it looks very good.

And, believe it or not, none of it has anything whatsoever to do with cryptocurrency — Bitcoin, Ether, etc. — as such.

Yes, the allure of cryptocurrency was used to attract investors and customers.

Yes, cryptocurrency was among the media of exchange used in the alleged scams.

Question 1: How many scams throughout history have been perpetrated using the allure of dollars and using dollars as the medium of exchange?

Question 2: How many times has the dollar itself been blamed for, and tanked in value because of, those scams?

Remember the sub-prime mortgage crisis of 2007? How about the Savings & Loan crisis of the 1980s-90s? Bernie Madoff? Enron?

A lot of victims have lost a lot of money in a lot of scams.

We rightly blame the scammers for scamming their victims.

If we ARE the victims, we may blame ourselves for getting tricked into doing something stupid.

We also rightly blame government regulators, usually for the wrong reasons. Every time

regulation fails to nip a scam in the bud, we're told that more regulation will solve the problem — until the next time, when the answer is, once again, more regulation.

But we usually don't blame the money, even when we should.

The Federal Reserve has been scamming you for more than 100 years by inflating/debasing government-issued money at will. That dollar bill in your pocket buys about 1/28th of what it would have bought in 1914.

Bitcoins, on the other hand, are produced algorithmically at a fixed rate, and once a maximum number (21 million) have been "mined," there won't be any more. That doesn't mean your Bitcoin will increase or decrease in value, but if it does it won't be because a government board has the power to magically create more.

The FTX scandal did hit cryptocurrency prices, and maybe it should have. The hit is a market signal to all of us. Message delivered, if we'll listen: When you hand your money over to shady hucksters on the promise of unrealistic profits, bad things happen.