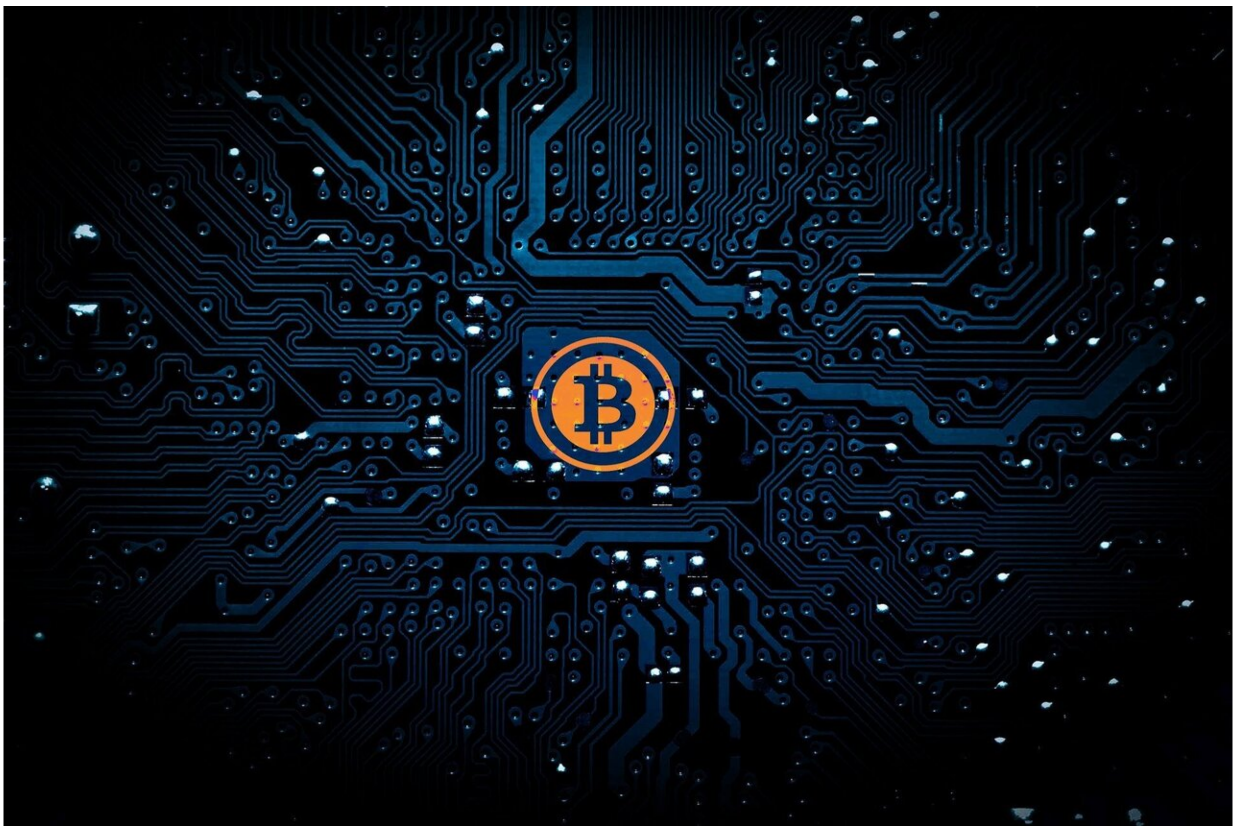
Crypto trading: Politicians who say it should be treated like gambling are completely wrong

May 24 2023, by Gavin Brown



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Cryptocurrency trading should be regulated in the same way as gambling, according to the UK parliamentary select committee in charge of scrutinizing finance. The committee published a report arguing that this was necessary because digital assets such as bitcoin have "no intrinsic value, huge price volatility and no discernible social good."

Such statements remind many crypto enthusiasts that they are still early to this space despite it being nearly 15 years since the publication of bitcoin's original white paper, which laid out the technological vision in the first place.

If crypto trading was designated as gambling, platforms would need to follow additional regulatory measures such as licensing rules and customer due diligence requirements to protect vulnerable users. There might also be protections akin to recently proposed changes to traditional gambling, such as stake limits, as well as closer control of advertising and promotion and a mandatory levy on participating firms.

The report, whose lead author is the committee's chair, Harriett Baldwin, argues that gambling regulations are appropriate for crypto because these assets are "not supported by any underlying asset."

The comparison would be betting on a roulette wheel, where you are simply playing the odds that a certain number will sometimes come up. Contrast this with buying company shares, which might not always go up but at least there's an underlying asset such as a customer base or a branch of shops.

But to conclude that cryptocurrencies have no value because they lack a traditional asset base fails to understand that intrinsic value can derive from a network. It's perfectly normal, for example, for companies to have a gap between the value of their book assets and what they are worth on the stock market overall.

For example, Meta's total assets are presently valued on its balance sheet at US$184 billion (£148 billion), whereas the company's valuation on the stock market is US$630 billion. One reason why Meta is worth about 3.5 times more than its assets is because the market understands that there is much intangible value in networks such as Facebook and Instagram beyond what is on the company's balance sheet.

Many alternative valuation methodologies have been developed to value such networks. These use principles such as Metcalfe's law, which says that any network becomes exponentially more valuable the more users that are connected through it. This is because it becomes more useful to them, meaning they'll use it more often, and will be less likely to defect to a rival that lacks critical mass—witness how Twitter looks entrenched despite lots of people disliking Elon Musk.

You can view cryptocurrencies as networks too, even though they are decentralized—meaning they usually have no sole company in charge—in contrast to a centralized network such as Facebook. In short, the networks that underpin cryptocurrencies *do* have underlying assets of value.

Tortoises and hares

Treating crypto trading as gambling would also mean taking a risk-based approach that focuses on mitigating downside risks. This is understandable, but it might be at the expense of potential upside opportunities. The UK aspires to be a leader on digital assets, potentially stealing a march on the US at a time when it seems comparatively hostile to the space. Particularly considering that financial services make up 8% of the UK economy, there is a delicate balance to strike here.

The UK government has said that it does not agree with the Treasury select committee that crypto trading should be treated like gambling. Earlier this year, the Treasury outlined new principles to regulate crypto trading, which would essentially treat these assets in a similar way to shares or bonds.

This is in stark contrast to, say, China, which has banned cryptocurrency to "curtail financial crime and prevent economic instability." Yet, equally, the UK's proposed regime will probably be more robust than a country such as Switzerland, which is embracing crypto within a largely new framework for financial assets. The Swiss are so progressive that their financial regulator has even permitted the canton of Zug, near Zurich, to pay certain taxes in crypto.

Such disparate views on crypto regulation around the world point to one thing: uncertainty. Not around the technology as it stands today—though a surprising number even of senior policymakers don't understand it—so much as what it could become. For example, with upwards of 4 million people in the UK having owned or used cryptocurrencies, regulators worry that individuals might pivot to a monetary system outside of their traditional currency by transacting in crypto instead. This might make it more difficult for central banks to control the economy.

The risk of this pivot is probably remote, but not impossible. But trying to predict how it will play out is akin to forecasting the aviation industry when the Wright Brothers first flew, or the importance of the internet and smartphones when Steve Jobs described the computer in 1990 as a "bicycle for the mind."

Overall, the UK's approach to crypto regulation is cautious—perhaps you could spin it as a "fast follower" of the countries that are leading the way, such as Switzerland and El Salvador. Given the economic existential importance of "what is money" and how it is used within an economy, this seems like the right balance to strike. When the consequences are so difficult to predict, it's arguably better to take small steps rather than "move fast and break things" in the style of Silicon

Valley. After all, the UK is a country not a company and the stakes are higher if a policy choice does not pay off.

Nonetheless, it's surely right not to treat crypto trading like gambling. Let's hope that future UK governments stick with this approach. Gambling over time is the road to ruin for the player—the house always wins. In crypto this is not true. There is no "house" but rather a value proposition which may or may not come to fruition, but oftentimes is still misunderstood.

Provided by The Conversation