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Why America Should Ban Crypto

It isn't currency. It's a gambling contract with a nearly 100% edge for the house.

By Charlie Munger

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The Bitcoin logo on a Coinstar cryptocurrency ATM at a grocery store in Washington, Jan. 19.

PHOTO: STEFANI REYNOLDS/AGENCE FRANCE-PRESSE/GETTY IMAGES

In the U.S. in recent years, privately owned companies have issued thousands of new cryptocurrencies, large and small. These have later become publicly traded without any governmental pre-approval of disclosures.

In some cases, a big block of cryptocurrency has been sold to a promoter for almost nothing, after which the public buys in at much higher prices without fully understanding the pre-dilution in favor of the promoter.

All this wild and wooly capitalism is much like that described in a remark often attributed to Mark Twain, who was thought to have said that “a mine is a hole in the ground with a liar on top.”

Such wretched excess has gone on because there is a gap in regulation. A cryptocurrency is not a currency, not a commodity, and not a security. Instead, it's a gambling contract with a

nearly 100% edge for the house, entered into in a country where gambling contracts are traditionally regulated only by states that compete in laxity. Obviously the U.S. should now enact a new federal law that prevents this from happening.

Two interesting precedents may guide us into sound action. In the first precedent, the communist government of China recently banned cryptocurrencies because it wisely concluded that they would provide more harm than benefit. And, in the second precedent, from the early 1700s, England reacted to a horrible depression that followed the blow up of a promotional plan to get vast profits by using slow-moving sailing ships to trade with very poor people halfway around the world.

What the English Parliament did in its anguish when this crazy promotion blew up, was direct and simple: It banned all public trading in new common stocks and kept this ban in place for about 100 years. And, in that 100 years, England made by far the biggest national contribution to the march of civilization as it led strongly in both the Enlightenment and the Industrial Revolution and, to boot, spawned off a promising little country called the United States.

What should the U.S. do after a ban of cryptocurrencies is in place? Well, one more action might make sense: Thank the Chinese communist leader for his splendid example of uncommon sense.

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