View from the Beltway

# Back from the Dead

By Owen Ullmann

*The return of crypto.*

The spectacular collapse of the cryptocurrency exchange FTX in the fall of 2022 and the subsequent conviction of its founder, Sam Bankman-Fried, of fraud and other crimes seemed to drive a stake into the heart of a rapidly expanding industry. Before FTX failed, Bitcoin and hundreds of other cryptocurrencies had hit $3 trillion in valuation, and the digital coins seemed to have a special allure with young investors drawn to a new asset that avoided traditional finance. Indeed, before the world around him fell apart, Bankman-Fried was the quintessential poster boy for a rising new industry. The thirty-year-old entrepreneur had become one of the richest men in America and a leading donor to Democratic candidates in Congress.

In the wake of his undoing, the industry went into freefall. The cryptocurrency market lost two-thirds of its value, as conventional investors shunned the *nouveau* form of asset. Bitcoin, which had topped $60,000 while FTX flourished, lost three-quarters of its market cap after Bankman-Fried's exchange filed for bankruptcy.

Two years later, the industry has staged a remarkable comeback, though a shakeout has left fewer participants intact. Crypto's total valuation surpassed $3 trillion for the first time and Bitcoin topped $89,000—a record—a week after the 2024 presidential election as pro-crypto president-elect Donald Trump began planning his administration. Undaunted by previous setbacks, crypto companies were among the leading donors to congressional campaigns in 2024 and their deep pockets paid off:

**Crypto still has a promising future, though not the revolutionary and disruptive vision its backers once promised.**

A majority of House members elected November 5 are crypto backers, as are the majority of senators who won their races. Crypto hopes all these grateful candidates will push for deregulations that will make their coins easier to acquire and trade.

Crypto PACs amassed a war chest estimated at more than $200 million—nearly half of all corporate PAC donations for the 2023–2024 cycle—to back dozens of crypto-friendly candidates in congressional and Senate races. Fairshake, the largest crypto PAC, received much of its funding from the exchange platform Coinbase, the digital payment network Ripple, and Silicon Valley venture capital firm Andreessen Horowitz.

The gush of money helped defeat some crypto critics running in Democratic primaries, including California Representative Katie Porter, who faced $10 million in negative ads from the industry in her losing bid for the U.S. Senate. More than $2 million in negative ads from crypto PACs contributed to New York Representative Jamaal Bowman's defeat in his Democratic primary.

Crypto PAC spending for or against candidates was bipartisan; the only litmus test was whether the politician was pro- or anti-digital currency. Spending on some key Senate races was of particular concern to the industry because the Senate had not yet taken up a measure passed by the House in May that crypto backers claim will promote the growth

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THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
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of digital currencies. The Financial Innovation and Technology for the 21st Century Act (FIT21) was approved on a bipartisan vote despite objections from Securities and Exchange Commission Chair Gary Gensler, a crypto skeptic who favors tougher regulation to lower the risk the volatile digital currencies pose to investors. A key issue has been whether crypto should be considered a "financial asset" regulated by the SEC, or as a "commodity" regulated by the Commodity Futures Trading Commission, which is viewed as less stringent in its oversight. The House bill makes it easier for digital companies to classify themselves in ways that would entail oversight by the CFTC rather than the SEC.

To increase the odds of Senate approval, crypto PACs poured more than $40 million into Ohio's Senate race on behalf of Republican Bernie Moreno, a crypto proponent, in hopes of defeating incumbent Democrat Sherrod Brown. That big bet paid off, as Moreno ousted Brown, who as chair of the Senate Banking Committee was in position to block passage of FIT21.

The crypto industry stood to be a winner even had Vice President Kamala Harris won. During the campaign, she took a pro-crypto stance in contrast to President Biden, who has opposed the FIT21 crypto reform bill. Harris separated herself from Biden during the fall by stressing the need for the United States to remain a world leader in blockchain technology, the complex computer system that verifies cryptocurrency transactions without traditional middlemen such as banks or brokerages. Harris also touted the benefits of digital currencies in hopes of wooing young male voters, the demographic most enthusiastic about crypto.

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In former President Trump, the industry found a sharp critic who did a sudden turnaround to become a crypto devotee in order to attract donations from the industry and votes from traders. Three years after deriding Bitcoin as a "scam," Trump vowed to make the United States the cryptocurrency capital of the world. He even launched a new personal platform to eventually trade cryptocurrencies, and his running mate, JD Vance, is a big crypto booster. The industry rewarded Trump with more than $7 million in PAC donations.

Despite the huge sums of money the industry spent to win friends in Washington who will do its bidding, crypto has failed to achieve its aim of becoming the dominant financial regime that replaces either government-issued currencies or the financial institutions that play critical roles as middlemen needed to


Representative Katie Porter (D-CA)

## The Gush of Money

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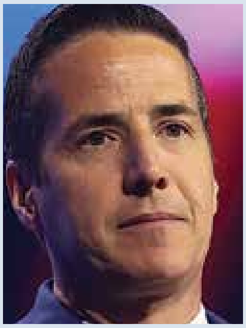
*—O. Ullmann*

Senator Sherrod Brown (D-OH)



GAGE SKIDMORE

Senator-elect Bernie Moreno (R-OH)

## Big Money Hardball

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verify transactions. The original goal of Bitcoin and its copycats was to create a digital currency that allowed individuals to pay for goods and services using a trusted public ledger created by blockchain technology that superseded snooping governments and banks. That hasn't happened and seems unlikely to occur anytime soon.

According to the industry's own surveys, 40 percent of American adults—or nearly 100 million people—own cryptocurrencies, up from 30 percent in 2023. Yet they rarely use these digital currencies for day-to-day transactions.

Eswar S. Prasad, an economics professor at Cornell University and an expert on crypto, says the industry has undergone a major shakeout in the last couple of years. Currencies like Bitcoin are purely speculative finan-

**Trump vowed to make the United States the cryptocurrency capital of the world.**

cial assets "with no intrinsic worth and whose entire value proposition seems to be scarcity," says Prasad, author of the book *The Future of Money: How the Digital Revolution Is Transforming Currencies and Finance.* They have become easy-to-make investments now that the industry arm-twisted the SEC into approving certain financial products like exchange-traded funds whose values are tied to that of Bitcoin and some other cryptocurrencies, he points out. Being able to purchase crypto through some brokerages, including giants like Fidelity, also makes owning these digital currencies easier.

"So, there is a path to accessibility of crypto as an investment even for retail investors, and that aspect of the industry does seem to have become mainstream now," he adds. "But has something changed about Bitcoin that makes it a safer, more stable investment than before? Not really. It's still a speculative asset."

Some cryptocurrencies that are getting traction as mediums of exchange are stablecoins, such as USDCoin and Tether. Their value is tied to that of a government-issued currency, commodity, or financial instrument to eliminate the volatility that makes everyday transactions using speculative currencies like Bitcoin too risky. "They are using the technology of cryptocurrencies and combining that with the trust embedded in fiat currencies to create better payment mechanisms," Prasad explains. "Yet that violates the libertarian aspect of Bitcoin and other original cryptocurrencies whose whole idea was to get away from reliance on fiat currency. The stablecoins get their stable value precisely from the trust that people have in fiat currencies. And they are beginning to play a bigger role as payments both in traditional finance and also in blockchain-based decentralized finance and even for some cross-border payments. USDCoin,

**Crypto PAC spending for or against candidates was bipartisan.**

EURC, and similar stablecoins have pretty significant transaction volumes. A lot of what I call smart contracts are programmable contracts on blockchains that are being executed using USDCoin as a settlement mechanism."

Stablecoins have grown in usage because they haven't encountered as much competition from central bank digital currencies (CBDC) as had been expected. "There was this big push for them in some countries like China, India, and Sweden, but things haven't materially changed in the last couple of years," says Prasad. "It turns out that after several governments undertook central bank digital currency experiments, strangely nobody wants a CBDC. Why is that? It's because in countries like China and India, digital payments have proliferated. Anybody who wants access to digital payments whether or not they have bank accounts, whether or not they have credit cards, and even if the transaction amounts are very small, even a few cents, all of those digital payments are easily accessible and broadly available at very low cost."

"So the question is arising, why do they need a CBDC now for all these digital payments? The underlying settlement asset, what you actually conduct transactions in, is the fiat currency issued by the central bank, but nobody actually uses that currency in physical form or, even if it is available, in digital form. It's not obvious it would have any major advantages relative to simply using something like Alipay or WeChat Pay in China. Sweden concluded its CBDC trials successfully, and then the parliament set up a committee to determine whether Sweden needed a digital currency. And the committee decided that Sweden didn't really need it now. So that experiment got shelved. Many of the things that could have been accomplished through a CBDC—easier digital payments, ones that are easily accessible to anybody who wants some, very low cost—all of those have already been accomplished in many economies without a CBDC, so that whole momentum has slowed down."

If the U.S. Federal Reserve created a digital dollar, it would certainly stall the expansion of stablecoins, because the public would have access to a currency directly issued by the central bank with similar functions. Prasad notes that the Fed undertook a project to determine the technical feasibility of a digital dollar. "The Federal Reserve Bank of Boston through something called Project Hamilton decided what technical architecture would be necessary to support a digital dollar. And then they shelved it completely. In other words, if Congress and the public decide that there is need for a digital dollar, the Fed is ready to go. But the Fed is doing nothing more about it. And that, I think, is wise because unless there is very broad political and public support, you can't really move forward." Indeed, many Republicans have come out strongly against a Fed digital dollar, citing concerns about privacy and the prospect of greater government intrusion into the economy and the financial system.

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In addition to the growth of stable coins, the blockchain technology supporting cryptocurrency has shown some promise to conduct transactions that bypass traditional intermediaries. "It has not proven to be the completely transformative technology that had been anticipated, but there are some interesting developments in terms of being able to conduct many transactions without using trusted intermediaries," says Prasad. "You can write a lot of interesting contracts on blockchains. And the technology underlying cryptocurrencies has also evolved. With Bitcoin for instance, there was concern about how the network used up enormous amounts of energy to verify transactions and was very inefficient. But other cryptocurrencies like Ethereum are much more efficient and have new technologies for validating transactions that are much quicker, can handle much larger volumes, and are substantially more energy efficient. Ethereum uses about 1 percent of the energy that Bitcoin needs for validating transactions. So, lots of interesting technological innovations are happening but in a much quieter way."

That suggests crypto still has a promising future, though not the revolutionary and disruptive vision its backers once promised. To fulfill even its more modest goals, the industry needs legitimacy from the government and regulation with a light hand. After all, if people want to invest in crypto, they should be free to do so with their own money and see the industry as just another part of the financial system, though one that remains highly volatile and risky compared to more traditional assets and commodities.

Having survived a difficult two years, the industry has bet a small fortune that the new Congress and next president will help it expand. That seems to be what a big chunk of the public wants. And if crypto comes crashing down, it would hardly be the first time in U.S. history that Congress let investors go wild without adult supervision. Think the stock market crash of 1929, the dot.com bust of 2000, and the subprime housing collapse of 2007–2009.

As Mark Twain noted about Americans' love of gambling, "You pays yer money and you takes yer choice." If crypto crumbles and creates a new financial calamity, we'll have only ourselves to blame. ◆

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