

Will the US Become Crypto Friendly?

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Representations of virtual cryptocurrencies are placed on U.S. Dollar banknotes in this illustration taken on Nov. 28, 2021. Dado Ruvic/Illustration/Reuters



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1/6/2025 Updated: 1/6/2025

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Commentary

The horseshoe is one of history's great inventions. When the iron version came along in the 5th or 6th century, it doubled the power and endurance of the horse for use in farming, transportation, and in warfare.

It was a glorious thing to behold, how a small invention could so dramatically improve on nature. No one knows who came up with the idea, for there was no patent and no registration. It emerged from an experiment that was then emulated by many people. By the late Middle Ages, all horses in daily use had iron shoes.

I'm telling this story in order to engage in a mental experiment. What if the local prince or baron decided that they were bad and banned them in his realm? Maybe he did this because he figured that too much agricultural production could destabilize existing workflows and tempt the peasants into fleeing for greener pastures. Maybe he was just an extreme conservative who looked skeptically at all innovation.

The question: Do you think that a ban on horseshoes would have lasted? Maybe it could work for a while in one small area but surely not over the long term. An idea like this one has a longer life than any one regime and a bigger geographic reach than any jurisdiction can contain for the long term. The ubiquity of the horseshoe was inevitable. That's true for most inventions of this sort—among them blockchain technology itself.

This is what came to mind after my first experience with Bitcoin. Here we have an information packet that is limited in supply and non-reproducible due to the manner in which its existence is recorded on a public ledger. The creation rate is governed by a strict protocol that is powered by algorithms that process changes in ownership titles. It can be exchanged peer-to-peer in ways that transcend geographic contiguity.

Nothing like this has ever existed. It works not only as a form of money but it contains within the system a method of settling accounts:

a medium of exchange and mediation services all built into the same ledger.

Once I put together the operation of it (doing so required that I hit the books and learn about double-key cryptography, file sharing methods, and public ledgers, adding to my existing knowledge of monetary systems), I quickly realized that this technology could change the world. It would affect monetary systems, finance, contracts, and systems of recording title ownership. It was as significant as the invention of the database times ten thousand.

In other words, the invention of this tool was as important as flight, electricity, telephony, and the horseshoe itself. Like all those ideas, the technology belonged ultimately to everyone and would thus spread and become a change agent no matter what governments attempted to do to suppress it.

This thought was important but I intuited in early 2013 what was coming. Governments would attempt to regulate it like a security or a new money on the scene, beating it to pieces to try to get it to behave like something that already existed. This very thing happened later that year. It came in the form of a memo from the U.S. Treasury Department. Anyone converting dollars to Bitcoin and back again had to register in all 50 states as a money exchange, same as any company converting Yen or Euro to U.S. Dollars and back again.

This memo was sent even as a huge cottage industry of crypto exchanges had popped up all over the country, including websites connecting all sorts of regular people who were excited about how all of this would work. Within days and weeks of the new regulation, the defiance of which imposed criminal penalties, thousands or tens of thousands of startup exchanges were destroyed. Government intervention crushed a budding industry in its infancy.

As a result, only a few institutions in the United States could leap through all the necessary regulatory hurdles and afford the expense of filing and maintaining 50 separate state-level registrations. That immediately created a cartel of sorts, of Bitcoin exchanges, thus

limiting competition and centralizing financial power, just as exists in the dollar-based world. The on-ramps and off-ramps were now completely controlled by government.

That was just the start of the intervention. The use of taxation came next, as gains in this realm were treated the same as gains from the financial market and taxed. This created the conditions that limited their use and disincentivized deploying any crypto token as a form of money as an alternative to government fiat. The freezing of Bitcoin's scalability with the limits on block size drove up fees and slowed down settlement. By 2017, it was a done deal.

To return to the earlier historical metaphor, the prince has effectively throttled the use of the horseshoe. To be sure, there is no question that this approach is doomed to fail in the long run. We see many governments around the world now rejecting this high regulation. They are courting the whole industry and rolling out the red carpet for the owners and entrepreneurs in Bitcoin, along with the entire industry dedicated to using tokenization as a means of capital campaigns and portfolio management.

The United States would eventually come around, of course, but not without many victims along the way. The United States has spent years prosecuting people for entrepreneurship in this sector. Many people are still in jail or otherwise dealing with lawfare designed to throttle enterprise. Many of them are my friends from the old days, and it is a true tragedy. One hopes that the incoming Trump administration will take notice and act to end the war on crypto.

Indeed, among the promises made by Trump is that the administration will be crypto-friendly, and make the United States the most attractive place in the world for mining, holding, spending, and innovating within this sector. Reversing previous doubts, he now [says](#) that the United States will be “crypto capital of the planet” and end the Biden administration’s “anti-crypto crusade.”

He has surrounded himself with many people from the industry who have provided guidance. In this, Trump is backed by Robert Kennedy,

Jr., who is very pro-Bitcoin, and Elon Musk, who has been a fan of many features of the crypto world for many years. In addition, some of Trump's top appointees in finance hold this outlook too.

What precisely must the United States do in order to reverse the deep damage of 11 years of pushing the industry out? The answer is simple. There must be no capital gains tax on crypto sales. The strict rules on what constitutes a money exchange need to go away in total. The imposition of "Know your customer" rules on exchange services need to be relaxed to take advantage of a key innovation in crypto, its capacity for pseudonymity and anonymity. In other words, regulators need to recognize that this is a new technology, not just an adaptive iteration of the old that has long been controlled by governments. The whole point of Bitcoin and crypto generally is to inhabit a realm of monetary and financial freedom. Anything that interferes with that throttles the power of the technology itself.

As for the idea of a Bitcoin reserve within the U.S. Treasury, I'm unable to marshal much enthusiasm. We need less government involvement, not more. There will always be, even within the industry, a push for government involvement as a means of legitimizing the technology in the eyes of regulators and investors. But this has always been a mistaken belief. Any government intervention in this realm is dangerous simply because the technology itself is potentially revolutionary.

As with the horseshoe, there can be no doubt that all governments in the world will eventually come around and recognize this ledger-based technology as an innovation that can and will change the structure of money, finance, record keeping, capital raising, and probably the entire world of law and contracts. Governments that want to hold it back are no different from the king who wants to stop the tide.

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