



Written by [Bob Adelman](#) on November 19, 2013

Government Is Taking Steps to Regulate Bitcoin

Senators attending this week's hearing entitled "Beyond Silk Road: Potential Risks, Threats and Promises of Virtual Currencies" being held by the Senate Homeland Security and Governmental Affairs Committee likely could have predicted [what they were going to hear](#). The Securities and Exchange Commission (SEC) made the case that the increasingly popular cryptocurrency, the Bitcoin, was actually a security and should be regulated; the Department of Homeland Security (DHS) had already adopted an "aggressive posture" to address the "emerging threat and criminal exploitation of virtual currency systems"; and the Treasury Department had recently produced two rules on how exchanges should handle the Bitcoin.



Two government agencies missing at the hearing were the Internal Revenue Service (IRS) and the Commodity Futures Trading Commission (CFTC). The IRS apparently can't figure out how to tax private transactions between people who may reside in different countries doing business in the ether, while the CFTC is still trying to determine if the Bitcoin is a commodity to regulate.

The Department of Justice (DOJ) warned about how the Bitcoin enables money laundering, illicit tax shelters, and anonymous purchasers of illegal drugs, child pornography, and stolen credit card information. Said Mythili Raman, a DOJ assistant attorney general, the growth in the use of the Bitcoin "inevitably will be accompanied by an increase in illicit transactions, which makes it critical that virtual currency [exchanges] understand their legal obligations and requirements."

Other supporters of regulating the Bitcoin were also heard, including Jeremy Allaire, founder and CEO of [Circle Internet Financial](#), whose company would benefit in its quest to make Bitcoin transactions easier and consequently more popular if the budding industry were only more closely regulated. Said Allaire:

Criminals and terrorists will seek to employ digital currency if it remains unregulated, leaving Bitcoin operators to operate without stringent controls and effective systems to verify identities, monitor transactions and report suspicious activity.

Allaire's company would be only too happy to provide to the various regulatory agencies salivating over the Bitcoin opportunity all of that information, for a small fee of course.

The senators also heard from Patrick Murck of the [Bitcoin Foundation](#). Murck pointed out the potentially enormous benefits such a digital currency could bestow on customers and clients worldwide:

Whether [the Bitcoin] brings people into existing financial-services systems, or if it secures peoples' wealth better outside of formal systems, we believe the Bitcoin has tremendous potential to



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improve the capacity of people around the world to build and store wealth.

What the senators didn't hear was how nearly impossible it is going to be for those regulatory agencies to track, follow, monitor, regulate, and punish those breaking laws because the developing and expanding Bitcoin system has no central office, no buildings to be surrounded by gun-toting enforcers, no individuals to arrest and incarcerate, and no storage facilities to shut down. It operates on the Internet through private person-to-person exchanges without a bank, without PayPal, without credit cards or any central banking authority such as the Federal Reserve.

Mike Adams of *Natural News* noted that the Bitcoin threatens the "very foundation of monetary control that underlies all the corrupt governments of the world," thus making it increasingly attractive to freedom lovers in a world of increasing government monitoring and regulating.

Popular vendors such as WordPress, OkCupid, Reddit, and the Chinese Internet giant Baidu are already accepting Bitcoins and their number of users continues to grow daily. At present, the most popular use for the Bitcoin is gambling sites such as SatoshiDice.com. The budding industry is drawing capital from investors and venture capitalists such as the Founders Fund and the Winklevoss twins, and a Bitcoin exchange-traded fund (ETF) is in the offing.

Jerry Britto, a senior research fellow at George Mason University, [spelled out](#) how the Bitcoin is gaining legitimacy while leaving regulators increasingly behind the curve and trying to play catch-up:

At its core, Bitcoin is a completely decentralized ledger system. It can be thought of as a massive online version of an accountant's book....

Because Bitcoin is decentralized, these applications ... exist largely outside regulators' reach.

While the development of the Bitcoin through computer algorithms that limit the number of Bitcoins ultimately in circulation makes it an attractive alternative to manipulated currencies constantly being inflated by central banks, the real revolution is its decentralized design. As Britto noted:

This design has two important ramifications: First, because the ledger is decentralized, the Bitcoin protocol leaves governments with no intermediary to shut down. Second, the technology is potentially useful for many other types of transactions....

There is no Bitcoin company to subpoena, no headquarters to raid, not even a server to shut down. Add to that its pseudonymous nature and Bitcoin becomes a real challenge to the state's ability to restrain or keep track of financial transactions....

While the state may be able to uncover the identity and punish the parties to a Bitcoin transaction ... it will no longer be able to prevent those transactions from happening in the first place...

Regulators and law enforcement will have to come to terms with the fact that the Bitcoin protocol is beyond their reach, and while they may be able to spy on the vast majority of consumer transactions by regulating third-party Bitcoin businesses, they will not be able to stop individuals from transacting [business] with each other directly on the network...

That genie is out of the bottle.

A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelman@thenewamerican.com.



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