Government's War on Bitcoin Bank Illustrates Need for Currency Innovation

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The federal government's war against a popular digital asset exchange company offers a lesson in why consumers and business owners should have more freedom to pay as they wish.

For several months, the Internal Revenue Service (IRS), the federal government agency responsible for collecting taxes, has used the legal system to hassle Coinbase, a popular "bitcoin exchange" allowing consumers to swap digital currency for real currency and vice versa. The IRS is demanding the "bitcoin bank" hand over sensitive private information about its customers.

In November 2016, IRS lawyers asked U.S. Magistrate Judge Jacqueline Scott Corley to approve an order compelling the company to hand over personally identifiable data on every single Coinbase transaction between 2013 and 2015. The IRS is seeking registration records for all customer accounts, users' payment methods, user preference settings, and other picayune details.

A Coinbase customer challenged the subpoena in late December 2016, but IRS lawyers are asking Corley to dismiss the customer's challenge. By filing the challenge, which alleges Coinbase users' rights to privacy and to engage in voluntary exchange have been violated, IRS lawyers argue the customer has willingly outed himself as a Coinbase user, excluding him from the subpoena's scope.

The government's ability to make such illogical arguments in the pursuit of quashing an upstart rival method of paying for products and services exemplifies why currency competition benefits consumers.

In 2008, an unknown individual, or gestalt of individuals, using the moniker "Satoshi Nakamoto" solved some of the theoretical challenges faced by virtual currency and created the bitcoin system. Despite its relative prominence, too few people know alternative currencies exist as a legitimate alternative to traditional, government-backed currencies.

Today, one can use bitcoin or other currencies to buy goods and services, including many online services. Businesses such as Dell, DISH Network, Microsoft, and Papa John's Pizza all accept bitcoins. One can even buy beer with bitcoins at some trendy bars and pubs in Manhattan and San Francisco.

Like “real currencies,” such as the U.S. dollar, bitcoin users trade capital and credits. Using electricity purchased from the utility company, their computer runs special mathematical processes, verifying and recording the “blockchain,” a vast public accounting of all other bitcoin transactions. In return for their “e-labor,” participants are given currency for each successful completion of this self-regulating process.

Federal regulatory policies and laws over the years, such as the Stamp Payments Act of 1862, a law criminalizing individuals who wish to “make, issue, circulate or pay out any note, check, memorandum, token, or other obligation for a less sum than $1, intended to circulate as money or to be received or used in lieu of lawful money of the United States,” compel consumers to do what the government wants, instead of doing what they want.

By forcing everyone to use government-backed currency, consumers’ options are reduced, neglecting their needs. Alternative currencies, including cryptocurrencies such as bitcoins, can do a better job of scratching consumers’ itches than any desk jockey at the Federal Reserve.

It’s not just alt-currency consumers who benefit from more currency competition, though. In countries with freer currency markets, such as Hong Kong or Scotland, banks—and, in turn, entire economies—reap the benefits of freer markets.

The potential economic benefits of bringing consumer choice to currency are incredible,wrote Thomas Hogan, an assistant professor of finance at Troy University and the chief economist for the U.S. Senate Committee on Banking, Housing, and Urban Affairs.“Private banknotes could easily be introduced in the United States,” Hogan wrote for the Cato Institute. “In Hong Kong, Scotland, and Northern Ireland, private banks issue banknotes redeemable for the national currency. Despite the availability of central banknotes in these locales, consumers transact almost exclusively in private currency. Private banks consequently earn hundreds of millions of dollars annually in the private currency market. If U.S. banks were able to capture even a small percentage of the domestic market for banknotes, they likely could earn billions of dollars in annual profits.”

Instead of hassling private businesses such as Coinbase to turn over niggling details of consumers’ lives, the government should simply get out of the money monopoly business, and let consumers decide if they want to use the dollar or some other currency.

Allowing consumers to decide what’s best for them is an idea you can bet your bottom dollar on.