

REGULATORY INTELLIGENCE

INSIGHT: Cryptos enter the political arena, potentially bringing many 'single-issue' voters

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With campaigns for U.S. mid-term elections in full swing, the expansive new universe of digital assets is emerging as a significant issue. Candidates are being probed by voters, industry groups, and political action committees (PACs) over their stance on cryptos, and some are giving the issue prominence in their campaigns. Like other "single issues" such as abortion, the environment, or gun rights, cryptos have been added to the long list of concerns for which large blocks of voters are demanding commitment.

Whether a candidate's stance on bitcoin or cryptos will sway large numbers of voters is uncertain. However, the crypto industry has quickly matured in the past year and is now engaging candidates and lawmakers via lobbying and fundraising through PACs.

In last week's Ohio primaries, candidates were chosen by both parties for November's contests for the state governorship, the U.S. Senate, and Ohio's sixteen U.S. House of Representative seats. With more primaries on the horizon across the country, the political debate on cryptos is likely to heat up.

Jake Chervinsky, head of policy at the Blockchain Association, posted on Twitter his reaction to the Ohio Senate race. "On the Republican side, the pro-crypto candidate won. On the Democratic side, the pro-crypto candidate won. This came as a surprise to . . . no one. All the top candidates on both sides were pro-crypto. Welcome to the 2022 midterms."

Cointelegraph and several other crypto players also cast the Ohio Senate primaries as significant, noting that both Democratic and Republican candidates "have embraced crypto on the campaign trail." Republican, J.D. Vance, disclosed he owns bitcoin, and was backed by billionaire crypto-supporter Peter Thiel. Democratic U.S. Representative Tim Ryan, was a co-sponsor of the [Keep Innovation in America Act](#), a crypto-friendly bill designed to maintain reasonable tax reporting requirements.

Below we provide an overview of the rapidly developing political landscape surrounding cryptos and their possible impact on policy and the upcoming mid-term elections.

Trade groups and lobbyists

Regulators in Washington, as well as lawmakers at the state and federal levels, are embarking on an effort to apply existing regulations and, in some cases, potentially draft entirely new laws related to digital assets. With the political, regulatory, and legal landscape poised to evolve rapidly, the industry has moved from its outsider status to emerge as a lobbying and political fundraising force.

The Chamber of Digital Commerce and the Blockchain Association have become two leading crypto lobbyists. The Chamber is lobbying against [a proposed bill in the N.Y. legislature](#) that would establish a moratorium on cryptocurrency mining operations in the state.

The Blockchain Association says its objective is "to improve the public policy environment so that blockchain networks can thrive in the United States."

Several well-known lobbyists in other areas such as technology and financial services have now added cryptos in their practices.

[Kevin Batteh](#), a partner that specializes in blockchain issues at the Washington, D.C.-based government affairs and lobbying firm Delta Strategy Group, told Regulatory Intelligence, "The political climate around digital assets has definitely shifted. The blockchain community initially shied away from Washington, but the industry is catching up with a fury."

Batteh said, "At the same time, the views of lawmakers around digital assets has also become more educated. In the early days, it was all about perceived risks. Lawmakers have started to see that there is real, transformational value in this technology, and they are getting on board. We are starting to see green shoots of good legislation, and there is hope that out of the [Biden executive order](#), we will see a regulatory approach that seeks to support this economic engine and keep it in the U.S."

The White House Executive Order on Ensuring Responsible Development of Digital Assets was issued on March 9, 2022 and calls for coordination amongst various regulators and government agencies to assess the risks and benefits of creating a central bank digital dollar, as well as other cryptocurrency issues. It has been widely viewed as a "crypto-friendly" first step towards the development of a regulatory framework.

The awakening and growth of lobbying and political fundraising on behalf of the crypto industry occurred almost overnight last summer when new IRS reporting requirements for cryptos were included in the federal infrastructure bill. Crypto enthusiasts and industry



executives quickly created an army of lobbyists to oppose crypto-related parts of the bill which broadly funded federal infrastructure projects. The bill, which was signed by Biden on November 15, extends traditional cash reporting requirement for transactions over \$10,000 to a newly defined category of "digital assets," including cryptocurrencies.

Although the crypto industry failed to strike the provision from the bill, its efforts proved to be a galvanizing event that built a lobbying and political fundraising machine for the industry.

[Jennifer Schulp](#), director of financial regulation studies at the libertarian Cato Institute's Center for Monetary and Financial Alternatives, told Regulatory Intelligence, "The sudden growth in lobbying and political fundraising by the crypto industry in the past year is remarkable, as just a year ago it was almost non-existent." However, she cautioned that "it remains to be seen whether it actually turns into votes in the fall, as we don't have anything to compare it against historically."

Schulp also said it's unclear how the lobbying will affect policy on Capitol Hill. "Crypto shouldn't need to be a partisan issue, but it seems everything is partisan in the current environment."

Both parties targeted with big PAC money

Despite an inherent libertarian philosophy that exists deep within the decentralized finance (DeFi) and digital asset community, supporters and critics do not squarely fit into traditional Republican or Democrat, conservative or liberal camps. Although the more vocal critics have tended to be on the liberal side, there are notable exceptions across the spectrum.

Some Democratic critics, such as Senator Elizabeth Warren, have raised environmental concerns over energy-intensive cryptocurrency "mining" processes, and argued the industry is a haven for illicit activity and is a potential threat to overall financial stability.

Other Democrats, however, have taken the opposite viewpoint. Among them is freshman Representative Ritchie Torres, from one of the poorest districts in the country, the South Bronx in New York. Torres has argued that decentralized finance -- peer-to-peer financial services networks based on blockchain technology -- could provide his constituents with cheaper financial services than big banks and other financial institutions.

Several PACs that were launched in the past year are gaining momentum and are hauling in significant contributions from big donors in the industry.

Batteh said, "We are starting to see PACs form and donations flow into elections to support blockchain-friendly candidates."

The GMI PAC, which stands for the common crypto jargon "gonna make it," expressing optimism in their various endeavors, has raised \$8 million and has already spent \$3 million, according to Federal Election Commission (FEC) filings. The group tweeted, "27 million Americans own crypto. When we organize, when we mobilize, we are unstoppable. We are GMI PAC, a Super PAC that will elect pro-crypto candidates in Federal races across the country. Are you GMI?"

Billionaire co-founder and CEO of crypto exchange FTX, Sam Bankman-Fried, has emerged as a powerful voice and backer, helping to launch the Protect Our Future PAC, which he funded with a \$13 million contribution. The Protect Our Future PAC's objective is to support candidates who take a long-term view of policy planning.

The HODLpac, which stands for the common crypto saying "Hold On for Dear Life," has raised nearly \$230,000 and is endorsing candidates. Through its website, the organization provides links to preferred candidates and vows to match grassroots contributions.

Although the money from the PACs is flowing to candidates in both parties, more money in the primary season is seen flowing to Democrats. There are fewer outright critics on the Republican side, while Democratic positions are seen as more varied, with more need to establish an industry influence. One example is in the Democratic primary campaign of California Representative Brad Sherman, a vocal bitcoin opponent. His challenger, Aarika Rhodes, a full-time elementary school teacher in Los Angeles County, has made bitcoin and its potential benefits to address economic inequality as a major campaign issue.

(Todd Ehret, Regulatory Intelligence in New York)

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