

Bitcoin regulation likely as states and feds warn of criminal use

By: Sarah Hurtubise- August 13, 2013

After last week's federal ruling that alternative electronic currency Bitcoin is real money, state and federal governments are already jumping at the chance to see when and how to regulate the novel technology.

The Senate Homeland Security and Government Affairs Committee sent a letter to seven federal agencies asking for information about any policies already enacted concerning the virtual currency, according to The Hill.

The letter also raised concerns that the virtual currencies' "near anonymous and decentralized nature has attracted criminals who value few things more than being allowed to operate in the shadows."

Under superintendent Ben Lawsky, the New York Department of Financial Services has also opened an inquiry, issuing 22 subpoenas to companies using Bitcoin across the country.

"If virtual currencies remain a virtual Wild West for narcotraffickers and other criminals," Lawsky wrote, "that would not only threaten our country's national security, but also the very existence of the virtual currency industry as a legitimate business enterprise."

Bitcoin and other virtual money enterprises have been called out for national security risks, drug money laundering and various other criminal operations.

The digital currency allows users to interact directly with each other without any government interference.

Mt. Gox, the largest Bitcoin exchange, had an account seized by the Department of Homeland Security in May for failing to have proper money transmitter licenses. After properly registering as a money service with the U.S. Treasury, the exchange has been allowed to resume operations.

But Jim Harper, the director of information policy at the libertarian Cato Institute, thinks the risks from criminals and terrorists are no higher for Bitcoin than for traditional U.S. currency.

"I think the trade off between Bitcoin and cash for national security risks is about the same," Harper told The Daily Caller News Foundation. "The challenges are similar in tracking money, but Bitcoin actually uses a central registry of where Bitcoin is, where it comes from and where it's gone," which may make it easier to track than traditional currency.

"I think it's mostly bureaucratic impulses and trumped-up national security risks," Harper said.

A leaked FBI document from 2012 revealed the agency believes Bitcoin could be a unique opportunity for criminal masterminds to launder money and for hackers to take advantage of innocent users.

While virtual currency company Liberty Reserve was shut down in May 2013 for laundering a total of \$6 billion of criminal funds, at its very peak Bitcoin's entire market share was less than \$3 billion total, Harper explained. Large movements of drug money have been conducted in dollars, not virtual currency.

Bill Frezza of the free-market Competitive Enterprise Institute sees something more sinister in the national security investigations: "Federal monetary authorities will not permit competition, nor will they tolerate financial privacy," he said to TheDCNF. "It is only a matter of time before they use the specter of money launderers, drug dealers, tax evaders, international terrorists and child pornographers to hound Bitcoin out of existence."

Whatever the motivations, economic expert Jerry Brito, the director of the Technology Policy Program at George Mason University's free-market Mercatus Center told TheDCNF that the only question remaining is when and how the virtual industry is regulated, and the subpoenas themselves may actually bode well for the Bitcoin industry.

"The alternative is that the regulator regulates without any input," Brito said. Bitcoin has dealt with that exact challenge before. Federal regulator Financial Crimes Enforcement Network issued regulations that shut down three exchanges that traded with Bitcoin in early 2013, proving the real-world repercussions of bureaucratic action.

Brito argued that the federal agency went about the regulations the wrong way. "They never solicited comments or asked questions about the Bitcoin process. New York regulators are actually inquiring about how it works," he said.

The Senate committee investigating the currency has also stated its hope to take an informed, "whole-government approach," in order to "ensure that rash or uninformed actions don't stifle a potentially valuable technology."