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Counterpoint: No new bitcoin regulations are needed

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Common justifications to regulate bitcoin fall short.

Bitcoin has risen to prominence in the past few years — and calls to regulate bitcoin have risen along with it. Three justifications are common: protecting consumers, preventing illegal transactions and transfers, and promoting macroeconomic stability.

But those using or facilitating transactions with bitcoin are already subject to a fair amount of regulation. So it is difficult to justify additional, special regulations for bitcoin on those three grounds.

Consider the consumer protection case. Some note that bitcoin users can be harmed by excessive price volatility or fly-by-night exchanges that abscond with or fail to secure deposits. They are right on both counts. But it does not follow that additional, special regulations are in order.

For starters, the Financial Crimes Enforcement Network already requires bitcoin exchanges operating in the United States to register as a money services business. And, more generally, existing laws and regulations already deal with fraud and theft.

Just this month, a Chicago trader appeared in U.S. District Court charged with stealing bitcoin from his employer to cover trading losses. No new laws or regulations are required to prosecute such cases.

It is similarly misguided to adopt additional, special regulations for bitcoin on the grounds of preventing illegal transactions and transfers. Some will use bitcoin for nefarious ends — just as they have used dollars, euros and other national currencies in the past. But there is no more reason to think bitcoin will encourage criminal activity than there is to think a slightly faster car will result in more bank robberies.

Finally, consider the case for regulating bitcoin to promote macroeconomic stability. Should bitcoin use pick up, the argument goes, the Federal Reserve will be unable to conduct effective monetary policy. It will not be able to smooth out undesirable macroeconomic fluctuation. As such, regulation should be adopted to discourage bitcoin use — if not banning it entirely.

This is perhaps the worst justification for regulating bitcoin. For starters, it presupposes that the Fed is any good at smoothing out macroeconomic fluctuation. It isn't. Recent experiences (and, indeed, its entire history) suggest the Fed probably makes matters worse.

Loose monetary policy in the early- to mid-2000s resulted in an unsustainable housing boom. Tight monetary policy in the time since produced the greatest economic downturn since the Great Depression and an unnecessarily slow recovery thereafter

If promoting macroeconomic stability is the goal, one should think twice before looking to the Fed.

But, facts of monetary history aside, there is still good reason to reject the macroeconomic stability justification. Note that bitcoin only undermines the Fed's ability to conduct monetary policy to the extent that users chose bitcoin over dollars.

If individuals prefer bitcoin to dollars, regulations and outright bans would merely prop up the dollar by preventing users from switching to an alternative they deem superior.

Alternatively, the Fed could commit to managing the dollar in such a way that would discourage users from switching to bitcoin in the first place. Both strategies would preserve the Fed-managed dollar. But the latter leaves users with a money that more closely resembles their ideal.

Common justifications to regulate bitcoin fall short. There is some scope for regulatory reform, though.

Forty states have regulations pertaining to bitcoin that are either too broad or unclear. Clarifying and narrowly tailoring existing regulations would go a long way toward reducing regulatory ambiguity in the market for bitcoin.

Calls for additional, special regulations push in the wrong direction.

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