

Is Bitcoin the Future of Money? Perspective on Regulating Virtual Currencies

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“The Underground Website Where You Can Buy Any Drug Imaginable”, was the general public’s introduction to Bitcoin and cryptocurrencies.¹ Since that article in 2011, a multitude of U.S. agencies and foreign governments have weighed in on the use of virtual currencies. Bitcoin’s growing adoption by mainstream companies such as Dell, Overstock.com, and DISH Network could mean more legitimacy. However, its money-laundering potential is also evident, Bitcoin is the current favorite form of payment for the latest version of computer viruses, ransomware, which takes control of a hard drive and then threatens to delete the contents unless payment is made.²

With Congressional members alternately demanding Bitcoin bans or proposing to have it declared currency, Bitcoin has policymakers attention.³ From a technologists’ perspective it is code that is inherently adaptable, it can be changed to meet regulatory concerns or flout them. How do we regulate such a technology? If we look to existing legal frameworks for regulation, results may be similar to the Internal Revenue Service declaring Bitcoin property, which requires onerous reporting and potentially harms future innovation.⁴ Alternatively, there is proposed Bitcoin-specific regulation in New York State⁵ but it has already been criticized as overbroad. Working with technologists who want to be within the law but also not be prevented from innovating, has propelled me through a yearlong project explaining virtual currency policy. Through an analysis of both U.S. regulatory actions (or inaction) and other countries’ positions on Bitcoin, this project provides policy insight for technologists working in cryptocurrencies, and a framework for policymakers seeking to understand and regulate virtual currencies.

¹ Chen, Adrian, “The Underground Website Where You Can Buy Any Drug Imaginable”, <http://gawker.com/the-underground-website-where-you-can-buy-any-drug-imag-30818160>

² Simone, Alina, “How My Mom Got Hacked”, The New York Times, January 2, 2015. http://www.nytimes.com/2015/01/04/opinion/sunday/how-my-mom-got-hacked.html?_r=0

³ Wolf, Brett, “Senators seek crackdown on “Bitcoin” currency”, <http://www.reuters.com/article/2011/06/08/us-financial-bitcoins-idUSTRE7573T320110608>; “Manchin Demands Federal Regulators Ban Bitcoin”, February 26, 2014, <http://www.manchin.senate.gov/public/index.cfm/press-releases?ID=237cbd66-6a26-4870-9bcb-20177ae902b0>; and Stockman Plans to introduce the “Virtual Currency Tax Reform Act”, April 8, 2014, <http://stockman.house.gov/media-center/press-releases/stockman-plans-to-introduce-the-virtual-currency-tax-reform-act>

⁴ IRS Virtual Currency Guidance, IR-2014-36, March 25, 2014, <http://www.irs.gov/uac/Newsroom/IRS-Virtual-Currency-Guidance>

⁵ NY DFS Releases Proposed BitLicense Regulatory Framework for Virtual Currency Firms, July 2014, <http://www.dfs.ny.gov/about/press2014/pr1407171.html>

