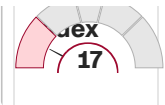


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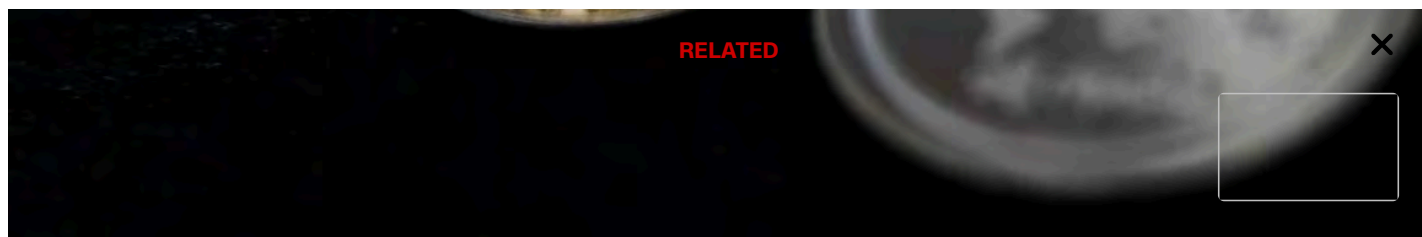
The crypto industry is advancing. (Just don't ask it where it's going.)

Analysis by [Allison Morrow](#), CNN

🕒 7 minute read · Published 5:00 AM EDT, Thu March 20, 2025

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Bitcoin, a crypto bellwether, is off more than 20% off from its record high in January. Jakub Porzycki/NurPhoto/Shutterstock

A version of this story appeared in CNN Business' Nightcap newsletter. To get it in your inbox, sign up for free [here](#).

New York (CNN) — After a dramatic start to the year, the crypto industry is settling into a new reality — one in which the White House is laying out the red carpet and promising an unprecedented level of support.

Crypto, a roughly 15-year-old industry that's largely operated on the fringes of finance, is at a crossroads. For years, it has blamed a hostile regulatory environment for not allowing it to unleash its supposedly revolutionary technology on Americans. Now, though, their favorite bogeyman, Gary Gensler, the Securities and Exchange Commission chief under President Joe Biden, is gone. Crypto cheerleaders have been installed throughout the government.



The SEC has dropped several enforcement cases against crypto companies and, starting Friday, is hosting a series of public roundtables "to discuss key areas of interest in the regulation of crypto assets."

Under President Donald Trump, there's virtually nothing stopping crypto companies from creating and selling their products.

At the same time, the same White House's chaotic trade policy is undermining financial markets' appetite for risk, leaving bitcoin in limbo, more than 20% off from its record high in January. And while the industry is grateful for all the attention, the White House's embrace of some of crypto's less savory aspects, like meme coins, has given serious investors pause.

Given the enormous potential for the \$3 trillion industry in this moment, I checked in with Eswar Prasad, a Cornell University professor of international trade and the author of the 2021 book "The Future of Money," about the forces disrupting financial technologies.

Fundamentally, Prasad brings a pragmatist's view of crypto that is as refreshing as it is rare in a subject area that tends to attract zealots and loudmouths. We spoke over the phone shortly after the first-of-its-kind White House crypto summit earlier this month.



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The following interview has been edited for length and clarity.

Nightcap: We just saw a pretty wild thing happen with the crypto summit — hard to imagine a scenario like that taking place under any previous administration. What were your takeaways?

Eswar Prasad: The crypto industry is kissing the ring, and I think it's getting exactly what it wants from the Trump administration, which is the legitimacy provided by government oversight, coupled with what is almost certain to be quite light touch and non-inclusive regulation.

And I think we saw many of the major players in the crypto industry essentially using the opportunity to not just thank Trump, but try to make the point, which seemed to resonate with Trump, that this industry can power, in some sense, a resurgence of a certain part of the US economy.

Nightcap: I'm curious what you think of that industry claim about its long-term usefulness. Based on what I've read, you seem like a crypto skeptic but not a cynic.

Prasad: I am dazzled, as are others, by the creativeness of the technology. Blockchain is certainly a remarkable technology. (Note: *Blockchain is the infrastructure crypto is built on — a kind digital ledger system that records all transactions, which are verified by a vast network of computers.*)

Now, there are two questions that are relevant, though. One is whether blockchain is the *best* answer for certain things that the promoters of blockchain claim it is good for. And second, whether it will fundamentally alter financial markets.

The biggest legacy of crypto, in my view, is that it is shining a very harsh light from the inefficiencies in the traditional financial system. So if you think about domestic payments, or especially about cross-border payments in this day and age, the fact that it takes so long to have those payments processed at very high fees and without the ability to track them in real time, that should not have lasted this long.

Plus, there is the concern that many people — low income, low net worth individuals, even in rich economies like the US — don't have easy access to basic financial products for managing savings, credit and risk. So the notion that we can use technology to solve these problems is very important.

But then when we come to the first question, is the current state of crypto and blockchain technology the solution to all of this — that is far less clear.

Bitcoin is not working very well at what it was intended to be, which is a trustless medium of exchange

that does not involve any third-party intermediaries or central bank money. Instead, it has become a purely speculative financial asset. RELATED X

Certainly blockchain has many advantages in terms of easy accessibility, transparency, security and so on. But it's not entirely obvious you really need blockchain technology for all of this — there are other ways of accomplishing the same thing.

Nightcap: Right, I think the most compelling case I hear consistently around crypto is the blockchain, which from a business perspective is just extremely boring. A fine product but not a sexy one. And it just makes me think, if that's the real value of crypto, it would seem that the industry is just wildly overvalued.

Prasad: That's exactly right. One indicator of that was last year, when I was at Davos, I met a couple of blockchain company CEOs... And what I heard from them was there was still interest but that many firms could not immediately see the commercial value of switching their operations onto blockchain, whether one talks about supply chain management or accounting records or procurement issues — it was not entirely obvious that they were going to be big savings or efficiencies.

Having said that, decentralized finance on blockchains is getting some traction. The stablecoin industry was, of course, out in force at the summit, and the stablecoin funds seem to be doing very well. (*Note: Stablecoins are a type of digital token whose value is pegged to another asset, like the US dollar, and they have become widely used in crypto transactions.*)

They are benefiting in particular from two things: one is the fact that there are still enormous frictions in financial systems that stablecoins can help get around. And second, it is going to be a much easier regulatory environment for them.

Nightcap: As a reporter, it's been interesting to watch the pendulum swing on crypto. The industry is so broad — there are people and companies that I think of as the adults in the room, who really do just want regulatory clarity and a fair shot at competing. But the Trump administration has kind of embraced *all* of crypto, and not just the adults who want regulation but also the more fringe elements like memecoins.

Prasad: Yeah, that is interesting. On one hand, they are legitimizing and providing a direct government endorsement of crypto. But at the same time, some of Trump's actions, like the issuance of the memecoin, are focusing attention on the senior and less savory sides of crypto, thereby calling into question that very legitimacy.

I think I've come to a point where nothing is surprising, but it is certainly, you know, it is still astonishing to see the ostensible leader of the free world essentially using his position to profit personally off his ability to direct the government machinery in a particular direction.

Nightcap: Crypto markets were disappointed because the administration said it wouldn't use taxpayer money to buy bitcoin under the strategic reserve plan. What's your take on the reserve?

Prasad: They're not planning to use taxpayer money *yet*, but I think once the reserve is set up, I imagine that will come. Because it is, at one level, a very easy way of propping up cryptocurrency prices, which

would certainly be very good for many members of this administration.

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The idea of a strategic reserve of cryptocurrencies, to me, is neither strategic nor sensible.



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If you think about a commodity like oil — that is needed by the real economy, and you can use reserves of oil to smooth prices and disturbances to supply. Gold has been a longstanding store of value, and one could argue that even in an era when we don't have the gold standard to support the dollar, gold has some intrinsic value.

But with something like bitcoin, there is no intrinsic value. So it's speculative asset whose value is determined by just the fact that it is scarce.

Now, the question is whether this reserve has a strategic purpose in terms of being able to use it for anything. We heard, at various points on the campaign trail, the notion of using the crypto reserve, if the prices of cryptos were to soar, to pay down some portion of the government debt or finance government expenditures. That, to me, is a non-starter.

If you have a big player like the government starting to sell even a modest portion of its holdings, the price of the cryptos will almost certainly tank. I don't see any prospect of it ever being able to sell. So what is the strategic reserve good for? It's going to be very good for current holders of crypto, crypto promoters, crypto exchanges.

Is it going to be of real value to us taxpayers in any way? At best, no. At worst, if the government starts acquiring crypto and then the price falls, that's going to be a hit on the valuations of the crypto. So I don't see this ending well in any way, but it is going to happen.



14 comments

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