

Cryptocurrency advocates find Treasury's Yellen to be a tough sell

The former top Federal Reserve official and senior Biden adviser has expressed reservations about some of the claims floated by cryptocurrency advocates.



By [Jeff Stein](#)

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In April 2018, some of the biggest names in central banking filed into an auditorium at the Brookings Institution for one of the think tank's first major presentations about cryptocurrencies. The governor of the Swedish central bank was there, as was the head of the Bank for International Settlements, and a former governor of India's central bank.

Janet L. Yellen — recently dismissed from her post as chair of the Federal Reserve — sat in the front row and listened attentively. The price of bitcoin was around \$7,000 at the time, down more than 50 percent in three months.

“Yellen seemed to share the view that these were not a viable set of financial assets, and that getting them regulated properly would be a challenge, but one that was important to do,” said Eswar Prasad, who delivered the presentation and discussed digital currencies with Yellen while they were both at Brookings.

Yellen is now President Biden's treasury secretary, and her posture toward cryptocurrencies has drawn more scrutiny as she oversees the first major push by the U.S. government to regulate the digital assets that have become a trillion-dollar industry. Bitcoin is just one of several cryptocurrencies in circulation, but it has shown increased reach and volatility just during Yellen's brief tenure at Treasury. The price of bitcoin rose above \$60,000 for the first time in April, before plummeting below \$35,000 in May — before again rising to around \$50,000 this week.

Cryptocurrency supporters and investors have hoped for some sort of validation by the federal government that stops short of enhanced scrutiny, and Yellen appears to stand in their way. An initial wariness of Yellen has quickly morphed into outright hostility. Investors and lobbyists were incensed by Treasury's push this month for new tax reporting requirements on cryptocurrencies as part of the \$1 trillion infrastructure package. They complain that Treasury officials do not return their calls, refuse to take their views seriously and do not give them advance notice about moves related to their industry. (A Treasury spokesman rejected this characterization.) Backers of cryptocurrency have lobbed thousands of posts on social media and in chat forums claiming that Yellen wants to annihilate the industry. One crypto podcast, “Thinking Crypto,” alleged that “Yellen is a lap dog for the bankers,” and another accused her, inaccurately, of supporting Modern Monetary Theory and being beholden to a “nanny-state mind-set.”

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The uproar is likely to grow louder before it subsides. If the Senate infrastructure bill passes and becomes law, Yellen will face the difficult task of implementing the [new reporting requirements](#) to crack down on crypto tax evasion without angering supporters of the industry in her own party, such as Senate Finance Chairman Ron Wyden (D-Ore.). (The new crypto reporting requirements would raise roughly \$28 billion over 10 years, according to nonpartisan estimates.) Other Democrats are pushing Yellen to crack down more aggressively. Yellen faces pressure from Sen. Elizabeth Warren (D-Mass.) to accelerate a review of the impact of cryptocurrencies on the stability of the financial system that could result in strict new guardrails. Yellen has also prodded her former colleagues at the Federal Reserve to [move quickly](#) on a “central bank digital currency” — a virtual currency to compete with crypto that would be run by the government rather than by private individuals.

The policies Yellen decides on will shape the future of trillions of dollars and a form of exchange now traded, according to industry groups, by more than 40 million Americans. They could also prove an underappreciated part of her legacy, amid warnings from experts that crypto is damaging the environment and fueling dangerous financial speculation. Cryptocurrency backers, meanwhile, argue that missteps by Yellen could deprive the United States of financial technology that will dominate global markets for decades.

In her public remarks, Yellen has pointed to her desire to preserve crypto’s potential for productive innovation while eliminating its harmful impact on society — attempting to strike a balance unlikely to appease crypto’s rabid fan base. Despite the caricature of Yellen as stridently anti-crypto, she has been careful in her comments to emphasize that she wants to preserve crypto’s potential benefits, such as a “faster, safer and cheaper” payments system. But she has also sounded alarmed, [telling CNBC](#) earlier this year: “To the extent it is used, I fear it’s often for illicit finance. It’s an extremely inefficient way of conducting transactions, and the amount of energy that’s consumed in processing those transactions is staggering.” She has [also called bitcoin](#) a “highly speculative asset.”

A Treasury spokesman declined to comment on the record about Yellen’s views on the crypto industry.

“The decisions Secretary Yellen and other policymakers make surrounding these technologies will play a key role in determining the competitiveness of the U.S. in the global economy,” said Tomichah Tillemann, a former adviser to Biden who is now head of policy for the Andreessen Horowitz crypto fund.

The term “cryptocurrency” refers to a digital form of currency that is encrypted via cryptography, or an elaborate code. As opposed to government-run currencies such as the U.S. dollar, cryptocurrencies like bitcoin typically operate in a decentralized manner in which no individual controls the total money supply. That means the amount of cryptocurrency is relatively fixed (or set to increase at a controlled pace), which means it cannot be weakened by the kind of inflation currently bedeviling federal policymakers. Cryptocurrency transactions are also verified through a public ledger run by its users, meaning no central governing authority is able to manipulate it for its own gain, at least in theory.

This financial architecture helps explain the deeper ideological posture of the crypto community — one with a libertarian bent that is at odds with the posture of many of the bankers and government officials with whom Yellen has worked for decades.

Because of its decentralized form of exchange, supporters believe that cryptocurrency is a major technological breakthrough that will ultimately overtake bulwarks of the financial system. At present, digital currency transactions carried out via Venmo or PayPal require a third-party intermediary to approve and verify the exchanges. International transactions can be even harder, given differences in exchange rates and the presence of scammers.

Boosters believe these technological barriers will fall as crypto grows, ushering in a financial future almost unimaginably different from the present one. Payments globally will become frictionless and instantaneous, they say.

Credit cards and Wall Street banks will face competitive pressures from crypto payment systems that do not require fees and regular payments. Foreign citizens living under repressive regimes can stash assets beyond the reach of their authoritarian rulers.

The claims can seem strikingly optimistic.

“If everyone would adopt bitcoin, it would solve so many of the issues out there — financial inclusion; inflation and debasement of dollars; freedom of trade; instantaneous and fully transparent transactions,” said Howard Greenberg, president of the American Blockchain & Cryptocurrency Association. “This digital transformation and disruption that’s coming is like the Internet. We’re in the same spot for crypto as we were for the Internet in 1994. You’re going to see crypto become the rails that the banking industry operates on.”

But these lofty promises are colliding dramatically with the regulators — like Yellen — whose job is to protect investors, taxpayers and the environment from the dangers posed by exotic new financial instruments.

For instance, the amount of energy required to “mine” various types of cryptocurrency has alarmed environmentalists, with bitcoin mining alone consuming more electricity than entire countries use, according to the Cambridge Center for Alternative Finance. A senior Treasury official said the department is reviewing the environmental impact of crypto.

Skeptics also stress that crypto has no intrinsic value — the definition of a speculative asset. Bitcoins are not backed by the U.S. government, for instance, and not tethered to real-world economic conditions, or the performance of individual firms. Cryptocurrencies have been subject to extreme swings in volatility that risk hurting average investors.

“Cryptocurrency is 95% fraud, hype, noise and confusion,” said Neel Kashkari, president of the Minneapolis Federal Reserve, at a public event earlier this month.

Yellen’s first major brush with crypto came over the question of tax compliance. Earlier this month, Treasury crafted a plan to require cryptocurrency brokers to submit tax forms to the Internal Revenue Service. A massive lobbying attempt to weaken the language failed — although Treasury ultimately supported a compromise measure — because senators did not reach an agreement on amending the bill. Yellen was personally involved in lobbying senators against an effort to

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Crypto advocates have said the measure as drafted was too broad, risking a government clampdown that would cripple the industry. Others saw a naked attempt at enabling tax dodging, albeit under the veneer of crypto's anti-establishment culture. Jason Furman, a former Obama administration economist, said: "Every industry says that regulators do not understand them and that regulation will chill innovation. Can you imagine the reaction if Wall Street firms were complaining about having to file tax forms to the IRS?"

One irony of the situation is crypto fans' contempt for government officials like Yellen and Federal Reserve Chair Jerome H. Powell despite those crypto fans' belief that the officials are making crypto more attractive and lucrative.

To many supporters of crypto, the extraordinary measures being taken by Congress and the central bank to contain the economic damage from the coronavirus pandemic represent the weakening of traditional forms of currency through inflation. But the spending growth and expansionary monetary policies have coincided with massive growth in crypto, as investors have more cash to gamble in speculative assets.

"Crypto fans think they are solving the problem of excess liquidity. They are actually a product of it," said Constance Hunter, chief economist for KPMG.