Crypto's Contribution to an Evolving World Order

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Consider this common story about money in Philadelphia in 2022. A company that wants to send you money prints a check, puts the check in an envelope, and mails it to your home. After spending a few days in the US mail, the check arrives in your mailbox. You open it and endorse the check. You then open a banking app on your phone, enter some information, and take a picture of both sides of the check. You write "electronically presented" on the check and file it in your desk, and then you wait. The money becomes accessible in your account a few days later. Deadweight cost and time: several dollars and a week, or perhaps two.

A yet more common story about money comes from California's Central Valley in 2022. A migrant farm worker earns wages and is paid in cash at the end of the week. Wanting to send a remittance payment home to support his family in rural Mexico, he first must find transportation from wherever he is working to a local town that has a branch of Western Union. He hands over $100 in cash, signs a few forms, and pays a transaction fee of 5 percent or more to the money agent. Western Union wires the money via a correspondent bank to a transfer agent in Mexico. A few days later, the worker's family makes a trip to collect the cash, minus a foreign exchange transaction fee (and likely at an unfavorable exchange rate). If all goes well, they walk away with considerably less cash, perhaps up to 10 percent less, than the farm worker started with. The deadweight costs and time are a significant burden on this family, as are the security risks associated with carrying cash.

Listen to this heartbreaking story about money from Houston in 2022. A single mother flees from her violent and abusive partner. She was able to hide a few hundred dollars in the backpack she escaped with, but it's all that she has to start a new life for herself and her children. She cannot access any of her credit or debit cards; as part of his control over her, her abuser has alerts for every transaction. She cannot open a new bank account; he has frozen her social security number. To escape the cycle of abuse, she has had to make the debilitating decision to trade away any financial stability for a long, long time.

These are the kinds of stories, the kinds of frictions, that cryptocurrency aims to fix. Money serves as a unit of account, a store of value, and a medium of exchange. It is a reasonable expectation of life in a modern, digitally enabled economy that money should serve those functions with a much higher degree of efficiency and safety than it currently does. The cryptocurrency revolution came about because computer scientists imagined using cryptographic functions and a decentralized ledger to create tokens that could serve all the essential functions of money (and other functions, too) more safely, efficiently, and cheaply.

Early Days of Disruption

It's important to remember that the original paper describing the protocols behind bitcoin is just fourteen years old. As an analogy, fourteen years after the Arpanet launched in 1969, email remained quite rare and the first world wide web page was still eight years away. These are very early days indeed for the crypto world, yet its first fourteen years have been far more influential and impactful than almost anyone could have imagined. Because it is a new and quickly evolving set of technologies, crypto, for many people—

including policymakers in national capitals—still calls up notions of a geeky obsession for technology enthusiasts, mixed with a slightly subversive and hard-to-understand invention, that threatens accepted ways of using, storing, investing, spending, and regulating money. And because money is among the most central institutions that binds modern societies and economies together, these ideas generate for non-specialists a nervous excitement at best, but more frequently anxious trepidation and even fear.

Just as Bill Gates famously struggled to explain the value of the internet to David Letterman in 1995, the crypto community struggles to explain the value of web3 to a general audience. It is worth noting that the timing of adoption is analogous. According to a Pew survey in 1995, only 14 percent of Americans used the internet.[1] In 2021, another Pew survey reports 16 percent of Americans use crypto.[2]

The natural resistance of sovereign monetary authorities such as central banks, along with the challenge of overcoming large, powerful financial intermediaries that benefit from all those transaction costs and deadweight losses, is to be expected. The technology that lies behind crypto is not easy for novices to understand. A great deal of money and power is always at stake when money undergoes change. No one should be surprised that crypto is controversial.

Crypto's Contribution to an Evolving World Order

The medium-term trajectory for cryptocurrency crystallizes with each passing day: it will become the de facto facilitator of how we transmit and recognize value among each other. And it is immediately relevant to almost any conversation about future world order(s), precisely because of the centrality of money to the global order. American authorities, in particular, tend to be fiercely protective of the many sovereign prerogatives which flow from the undisputed primacy of the dollar as a global reserve currency. At the same time, they are frequently anxious that other factors could combine to shift that global reserve currency power away from the United States—such as the natural evolution of other economies and currencies like the Euro; the potential for overuse of economic sanctions in cases like the war in Ukraine; a general lack of confidence in US policy and stability going forward; and most importantly, the overt ambition of China to gradually establish its currency as an alternative to the dollar.

Cryptocurrency is sometimes put in that same bucket of driving forces that could undermine US dollar primacy in the global economy. My view is precisely the opposite. Cryptocurrency and blockchain technology will—if understood correctly by regulatory agencies and enabled as part of a broad economic innovation agenda—contribute to US power, leadership, and world order objectives. This is most powerfully evident in the context of the intensifying competition with China, so I will focus on that element here as the linchpin.

Put simply, national competitiveness in the modern era has become whole-of-society competitiveness, and crypto can help cement the US lead over China. If we are entering a new Cold War across the Pacific, it is meaningfully different than last century's Cold War across the Atlantic. In the twentieth century, competition between the United States and the Soviet Union was primarily about two systems of government, and governments were the main protagonists in that battle. Hence, the major elements of that competition were driven by governments: the nuclear arms race, the space race, and both proxy and direct military conflicts over the allegiance of decolonizing "third world" countries.

Today's competition is radically different. Governments are still key players, but societal and private sector actors are just as important or even more important in most cases. Consider that even the space race and the artificial intelligence/machine learning race are clearly being led by the private sector. This new Cold War is a competition between societies, not just governments.

The good news is that this works to the advantage of the United States. The Chinese government has and will continue to experiment around the edges, but simply cannot sustain its authority if it fully unleashes private economic and social actors—the visible pullback on both fronts by Xi Jinping in the last several years is notable here.

Why should the same logic not apply to money? Crypto is the epitome of private sector, societally based, decentralized "control" of money. Allowing this innovation to flourish, within responsible regulatory guidelines that ensure consumer protection and clear rules of the road, is a massive signal of confidence in the robust nature of the American system. China simply cannot let that same kind of innovation flourish, which is why Beijing has over the last several years moved to place increasing restrictions on crypto activity within its borders.

This also explains the People's Bank of China (PBOC) rush to lead in Central Bank Digital Currencies (CBDCs), with the imputed goal being to further internationalize Chinese currency via a digital renminbi. The US Federal Reserve is moving more quickly now to catch up with the PBOC, which is all to the good—but we should not want this to become a government-centered pitched battle between two central bank-sponsored digital currencies. The US is in a better position if the Federal Reserve can draw from and work with the private, decentralized innovation that the crypto community is driving.

In my view, crypto and CBDCs are not at odds with each other—in the United States. In China, they are indeed at odds with each other. Thus, enabling crypto to evolve, proceed, and innovate not only strengthens the US position, but also weakens the Chinese position at the same time.

Could it be Revolutionary?

It is possible to make a more ambitious argument around digital transformation and decentralization that would draw some inspiration from the "internet freedom" narratives of the 1990s and early 2000s. These narratives imagined that the internet and digital technologies would almost inevitably undermine authoritarian regimes and bolster democracy; the optimism around the Arab Spring was the apogee.

It is accurate to observe that this narrative has been largely discredited now, but has the pendulum swung too far in the opposite, pessimistic direction? Shouldn't Americans be giving more attention and credit to the democratizing aspects of crypto, the pressure it places on the concentrated power of major financial institutions, the reduction in deadweight transaction costs that can and do asymmetrically benefit less privileged consumers? Wouldn't smart contracts that make routine transactions faster, safer, and more efficient contribute to the reconfiguration of supply chains post-pandemic? Isn't it unacceptable to the point of absurdity that more than 5 percent of the American population is still unbanked, and a much larger proportion of underbanked people rely on payday lenders and other predatory institutions to manage their financial needs?

These are the kinds of ideas and potential that inspire researchers, entrepreneurs, investors, and even hardcore lawyers who have spent a good chunk of their career at mainstream government regulatory institutions like the Securities and Exchange Commission (such as myself) to bet on the future of crypto. The early days of innovative technologies can be heady and a bit unsettling. But fear of progress is not what I associate with a distinctively American contribution to any conversation about the future world order.

Endnotes

1.https://www.pewresearch.org/politics/1995/10/16/americans-going-online-explosive-growth-uncertain-destinations/.

2.https://www.pewresearch.org/fact-tank/2021/11/11/16-of-americans-say-they-have-ever-invested-in-traded-or-used-cryptocurrency/.