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$WAMP coins : Crypto has become the ultimate swamp asset

An industry that dreamed of being above politics has become synonymous with self-dealing

Full text :

WHEN OFFERED a Boeing 747 by the government of Qatar to replace Air Force One, President Donald Trump responded: why not? Only someone dumb would turn down free money. No presidency has generated so many conflicts of interest at such speed in modern history. Yet the worst self-dealing in American politics is found not on a runway but on blockchains, home to trillions of dollars in cryptocurrencies.

Over the past six months crypto has taken on a new role at the centre of American public life. Several cabinet officials have large investments in digital assets. Crypto enthusiasts help run regulatory agencies. The industry's largest businesses are among the biggest donors to election campaigns, with exchanges and issuers deploying hundreds of millions to defend friendly legislators and to crush their opponents. The president's sons tout their crypto ventures around the world. The biggest investors in Mr Trump's meme coin get to have dinner with the president. The holdings of the first family are now worth billions, making crypto possibly the largest single source of its wealth.

This is ironic, given crypto's origins. When bitcoin was started in 2009, a utopian, anti-authoritarian movement welcomed it. Crypto's earliest adopters had lofty goals about revolutionising finance and defending individuals against expropriation and inflation. They wanted to hand power to small investors, who would otherwise be at the mercy of giant financial institutions. This was more than an asset: it was technology as liberation.

That is all forgotten now. Crypto has not just facilitated fraud, money-laundering and other flavours of financial crime on a gargantuan scale. The industry has also developed a grubby relationship with the executive branch of America's government that outstrips that of Wall Street or any other industry. Crypto has become the ultimate swamp asset.

The contrast with what is happening outside America is striking. Jurisdictions as varied as the European Union, Japan, Singapore, Switzerland and the United Arab Emirates have managed to give digital assets new regulatory clarity in recent years. They have done so without the same rampant conflicts of interest. In parts of the developing world, where expropriation by governments is rife, inflation is highest and the debasement of currencies is a real risk, crypto still fulfils something like the role that the early idealists once hoped it would.

All this is happening as the underlying technology of digital assets is coming into its own. There is still plenty of speculation. But crypto is slowly being taken more seriously by mainstream financial firms and tech companies. The amount of real-world assets, including private credit, US Treasury bonds and commodities, which have been "tokenised" to be traded on a blockchain has almost tripled over the past 18 months. Vanilla financial institutions like BlackRock and Franklin Templeton are large issuers of tokenised money-market funds. Crypto firms have become involved, offering tokens pegged to assets such as gold.

Perhaps the most promising use is by payments firms. Some are embracing stablecoins (digital tokens backed by other, more conventional assets). In the past month alone, Mastercard has said it will allow customers and merchants to pay and settle transactions in stablecoins. Stripe, a fintech firm, has launched stablecoin financial accounts in 101 countries. Stripe also bought Bridge, a stablecoin platform, this year. Three years after scrapping its Diem project, Meta may dip its toe in the water again.

This is an opportunity that crypto firms risk blowing. Boosters argue that they had no alternative but to fight dirty in America when Joe Biden was in the White House. Under Gary Gensler's leadership, the Securities and Exchange Commission took a dim view of the sector, enmeshing many of its most prominent firms in enforcement actions and legal cases. Banks were scared away from offering services to crypto firms and from dabbling in crypto, especially with stablecoins. In that sense the industry has a point. Clarifying the legal status of crypto through the courts, rather than through Congress, was neither particularly effective, nor always fair. The regulatory pendulum has now swung hard in the opposite direction, and most of the cases against crypto firms have been abandoned.

The result is that crypto needs saving from itself in America. New rules are still needed to ensure that risks are not injected into the financial system. If politicians, scared of the industry's electoral power, fail to regulate crypto properly, the long-term consequences will be harmful. The danger of putting too few guardrails in place is not just theoretical. Three of the largest banks which collapsed in 2023, Silvergate, Signature and Silicon Valley Bank, all had large exposures to the crypto industry's flighty deposits. Stablecoins can be vulnerable to runs and should be regulated like banks.

Without such changes, the leading lights in crypto land will come to regret the bargains struck in Washington. The industry is largely silent about the florid conflicts of interest generated by the Trump family's crypto investments. Legislation is needed to clarify the status of the industry and the assets, to give the regulatory security the more sensible crypto firms have long hoped for. The blending of the president's commercial interests and the business of government is already making that harder. A crypto bill in the Senate failed to advance on a procedural vote on May 8th after many Democratic senators withdrew their support, along with three Republicans.

Me, me, meme

No industry that becomes so associated with one party can be immune to the mood swings of the American electorate. In hailing Mr Trump as a saviour, and becoming the favoured swamp asset, the industry has picked a side. Crypto has a new role at the policymaking table. But the industry's reputation and fate are now tied to the ups and downs of its political benefactor. Crypto has been good to the Trumps. But ultimately the benefits of this deal will flow only one way. ■