

## *Module #2.5*

# *Will Governments ban Bitcoin?*

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# Will Governments ban Bitcoin?

## Module 2.5: Will Governments ban Bitcoin?

**Cryptocurrency either doesn't work, in which case investors lose a lot of money, or it does achieve its objectives perhaps and displaces the US dollar or interferes with the US dollar being virtually the sole reserve currency in the world**

Brad Sherman, United States Congressman.

### 2.5.0 Introduction

Of all the arguments against Bitcoin adoption, perhaps the most common one an educator will hear is the possibility of government restriction on the use of Bitcoin or even an outright ban.

It is not a crazy suggestion. Even if you have studied Bitcoin for some time and become convinced of its potential to positively impact economies and societies, it still sounds fanciful that governments and regulators would simply sit back and allow a new money system, outside of political control, to gain a foothold in the economy without clamping down on it somehow. This is especially the case if that new money is deemed a threat to existing government fiat currency or the wider banking system.

Control over the supply of money is, in many ways, the ultimate political power. It is the most important mechanism a nation has to control both its domestic economy and how external actors trade with it. This control empowers the government to monitor the flow of money via the traditional banking system and allows it to implement regulatory restraints on money to control capital flows, both inside and outside its borders.

Even more importantly, the control of money allows governments to create new money to address budget deficits. This control permits governments to increase their spending way beyond the levels that tax receipts and market borrowing would normally allow. This is the principal reason why the Gold Standard was abandoned. However, this increase in new money for government spending, without the fiscal discipline that tying government currency to a hard asset like gold would impose, effectively debases the value of currency.

It is not just certain politicians that have concerns about Bitcoin. Some bankers don't like it either.

**Bitcoin itself is a hyped-up fraud. It's a pet rock.**

Jamie Dimon, CEO JPMorgan Chase, 19 January 2023

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If we park the irony of the CEO of the largest US bank by assets (that has paid approaching \$39 billion in total fines<sup>1</sup> for regulatory violations) accusing the Bitcoin network of being fraudulent, it is understandable why Jamie Dimon has concerns. Perhaps he recognises the threat an alternative money from outside the existing system would have on his privileged business of traditional banking and its key role in the issuance of new fiat money.

### 2.5.1 Can governments stop an alternative money?

**I don't believe we shall ever have a good money again before we take the thing out of the hands of government, that is, we can't take it violently out of the hands of government, all we can do is by some sly roundabout way introduce something that they can't stop.**

Friedrich A. Hayek

This was the opinion of Nobel Prize-winning economist, Friedrich Hayek, during the 1980s, long before Bitcoin's inception. Hayek recognised that political control over the monetary system was so deep-rooted that for something to come along to dislodge it, that idea must be so powerful that to attack it is essentially pointless.

So, is Bitcoin that monetary idea whose time has come?

**Bitcoin is such a powerful idea because it is an open network and protocol that is neutral, borderless, permissionless and decentralized. At its heart, Bitcoin is simply mathematics and open-source software. Therefore, it cannot be gamed or manipulated, nor does it offer any advantage to one particular user over another. Most importantly, Bitcoin, like mathematics and software, has no central authority that can be pressured, coerced or stopped.**

Darren Freemantle, Bitcoin Educator

# ***Will Governments ban Bitcoin?***

## ***2.5.2 Where does Bitcoin stand with regulators now?***

At the time of writing, Bitcoin has achieved a form of regulatory acceptance in both of the world's largest capital markets, the US and the European Union (EU). This is despite some prominent politicians voicing anti-Bitcoin messages, often based on outdated and inaccurate data.

Helpfully, Bitcoin also has many supporters among the political class, such as Senator Cynthia Lumis in the United States. This provides an essential counterbalance to the negative rhetoric.



**Arguments against self-custody software [for Bitcoin] threaten the fundamental property rights that are core to being an American. I will fight for your rights to hold your own keys and run your own node.**

Cynthia Lumis, US Senator



In January 2024, Bitcoin achieved a crucial regulatory milestone. The Securities and Exchange Commission in the US granted authority for Exchange-Traded Funds (ETFs) to hold Bitcoin and to market to retail investors. The ETFs have been a huge success, attracting tens of billions of dollars at the time of writing and onboarding a new cohort of investors to Bitcoin.

The EU has gone a step further and developed the Market in Crypto Assets (MiCA) Regulation which attempts to provide a framework and regulatory clarity for the industry and investors.

So, no sign of a ban in the US or EU just yet.

### 2.5.3 If Bitcoin becomes more powerful, will there be renewed calls to restrict it?

Almost certainly. As Bitcoin becomes more accepted by traditional markets, we may see it attract large pools of capital away from other asset classes like equities, bonds, real estate and fiat currencies. If that happens it may spook politicians and regulators. But what could they do?

#### Could a nation state successfully attack the Bitcoin network?

A successful attack on the Bitcoin network would require the attacker to gain control of a majority of the network's mining power (the so-called 51% attack) and to maintain that control. If successful, the attacker could, in theory, add fraudulent entries (blocks) to the Bitcoin ledger. This would cause the value of the network to collapse as it would be obvious that the network is no longer secure.

Bitcoin is the largest computer network in the world by computing power and that power has grown year-over-year since its creation. Therefore, gaining '51% control' of the network is likely to cost tens of billions in hardware and energy costs and that cost rises as the network grows. This is notwithstanding the challenges around acquiring the requisite mining hardware needed to achieve and sustain an attack that would disrupt the network. It may require many years of available hardware production to be almost 100% acquired by the attacker in a market of open competition for such equipment. And, during this time, the existing network would likely become aware that a nefarious actor is building these capabilities and take evasive action, such as altering the Proof-of-Work algorithm to render the attacker's mining hardware obsolete.

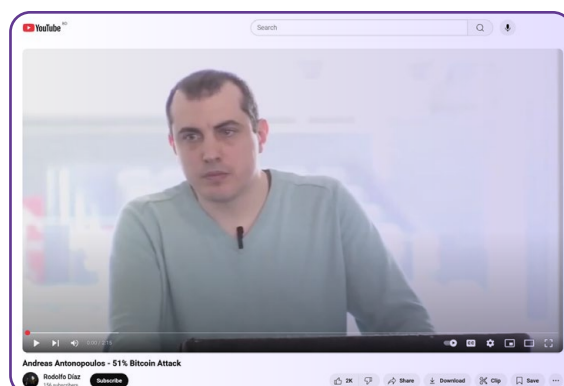
The further problem the attacker has is how to maintain control once it is achieved. The Bitcoin software is open-source and distributed across thousands of nodes around the world whose job is to verify the network.

It is likely that once it is obvious the network is under attack, Bitcoin developers would 'hard-fork' the Bitcoin software, so that the ledger would be 'forked' away from the point the fraudulent entries were generated by the attacker. The majority of nodes would then implement the revised version of the software and the attacker's efforts would be ignored.

Here is a more light-hearted description from Andreas Antonopoulos on the possibility of state-sponsored 51% attack<sup>2</sup>. <https://www.youtube.com/watch?v=ncPyMUfNyVM>



SCAN TO WATCH



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## Could self-custody of Bitcoin and peer-to-peer transactions be banned?

This form of attack on Bitcoin is more likely at the individual nation state level. Some states have issued bans on Bitcoin being stored in self-custody and from being transacted, with China and Nigeria being two examples. Although Nigeria has softened its stance more recently, peer-to-peer use of Bitcoin was barely impacted by the ban and remained prevalent. We should expect more nations to pass similar laws, especially where a government is more authoritarian or the local currency is especially weak.

Is a ban on the self-custody of Bitcoin workable?

**Bitcoin Address**



**Public Key**



1M3RLrXve5wcT2ZcJu8WXoXjdh4WXcWQA9

To hold Bitcoin in self-custody and to transact with it, a local wallet must have knowledge of a public/private key pair. These are simply pieces of text that translate to a number that is used to encrypt a transaction.

Therefore, a government ban on self-custody of Bitcoin is akin to preventing a person from having knowledge of a number and transferring knowledge of that number to someone else. No liberal democracy has attempted anything like that before.

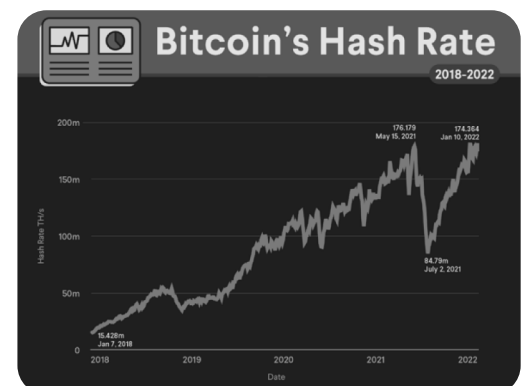
## Will some governments try to ban it anyway?

Yes, and we should expect them to try. Some governments will attempt to implement a ban, even if it isn't that workable. Interestingly, some nations will do precisely the opposite and embrace Bitcoin, such as El Salvador, or at least wait to see if they can gain an economic advantage by allowing Bitcoin to grow within their borders.

An interesting example is to consider the aftermath of China's ban on Bitcoin mining in the country in 2021 (see the chart below). After an initial sharp drop in total network hash rate (mining power) as miners fled China, the overall hash rate rebounded significantly over coming months as mining activity moved to other locations, such as the US.

Because some nation states will likely benefit from allowing Bitcoin to flourish, a universal internationally-coordinated ban on Bitcoin is unlikely.

We should also expect poor and unworkable Bitcoin laws to be enacted by some nations, only to be repealed sometime later, especially if it becomes clear that the local economy is at a significant disadvantage by keeping a draconian law in place. The United Kingdom's Red Flag law of the late 19th century is a historical example of an excessively severe law that was subsequently repealed.



Source: Sofi



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By the mid-19th century, the stagecoach and particularly locomotive industries were facing the looming spectre of the automobile's disruptive potential. They were afraid the car would replace them. **So, they worked hard to convince the government to make strict laws, effectively attempting to hobble the growth of this new technology.**

The 1865 Locomotive Act restricted the speed of "horse-less vehicles" to 2mph in towns & 4mph elsewhere. Crucially, the Act also required three drivers for each vehicle – two to travel in the vehicle and one to walk ahead carrying a red flag.

It was finally repealed in 1896, when the Locomotives on Highways Act scrapped the flag and raised the speed limit to 14mph.



### Will governments close exits from the existing fiat system?

Some governments are already restricting the exits from the existing monetary system into Bitcoin. In some countries, such as the UK, some traditional banks (under regulatory guidance) are limiting the fiat amounts that can be transferred to cryptocurrency exchanges.

We may see increased efforts to corral Bitcoin investors into regulated products, such as the newly-authorised ETF in the US. As these products grow in value, they will become a tempting 'honey pot' for governments to confiscate to fund deficit spending. This could take the form of a 'wealth tax' to grab some unrealised capital gains. Even worse, governments may attempt to take the entire wealth of ETFs if it is deemed 'essential to market stability'. Investors might be 'compensated' with an inferior asset, such as Treasury Bills.

It is important to note that even in the US, where property rights are enshrined in its constitution, the country has seized hard money from its citizens before.

Executive Order 6102, signed by President Franklin D. Roosevelt on 5th April 1933, gave citizens less than one month to 'deliver all gold coin, gold bullion and gold certificates to a Federal Reserve Bank'.





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Of course, gold is a physical commodity, so attempting to leave the country with your gold in order to protect your wealth would have been extremely challenging in 1933. Also, most of the gold was already held in vaults at banks, so the government was fully aware of where it was.

This sorry episode should serve as a reminder that holding Bitcoin in self-custody is the optimum way to protect it from seizure. Because Bitcoin is not a physical item it is much harder to confiscate. If you hold Bitcoin in a local wallet, you are simply holding public/private key pairs. i.e. numbers. These keys can be regenerated using English language 'seed phrases'. A Bitcoin holder could destroy all their wallets containing private keys and create new wallets in a more Bitcoin-friendly jurisdiction using just 12 memorised words.

## ***2.5.4 Expect further 'crack-downs' on Bitcoin***

In conclusion, we should expect some nation states to either further restrict the use of Bitcoin within their borders, or attempt outright bans.

As government debt levels increase and fiat money continues to be debased, the benefits of Bitcoin as an 'exit from the system' will appear more attractive to citizens and corporations alike. This increases the possibility of a defensive reaction from governments. Capital controls are nothing new and there have been numerous examples where this mechanism has been used in countries where excess government debt needs to be inflated.

Bitcoin may even be blamed by politicians and their stooges in mainstream media as the cause of a currency crisis. While this is akin to blaming the lifeboat for sinking the ship, governments will become increasingly desperate to prevent citizens exiting the system with their wealth, effectively locking them in steerage so they go down with the vessel.

Of course, blaming Bitcoin for causing a fiat currency crisis would be absurd. After all, Bitcoin is simply provable mathematics and open-source software. If that is all that is needed to 'take down the system', it would show that the system was incredibly fragile in the first place.

It is also important to note that Bitcoin becomes stronger when it is attacked. This is because these attacks serve to dispel the myths perpetuated by naysayers that Bitcoin is fragile and vulnerable. So not only should we expect governments to overregulate Bitcoin, we should welcome it.

**Governments will likely learn about the anti-fragility of Bitcoin by trying to hobble it and finding out what happens when they attack the network.** They will likely see that, in Bitcoin, more than any other asset class in history, capital will flow to those countries where it is treated best.

Therefore, as the Bitcoin network grows, it should become more obvious that countries choosing to embrace it, rather than fight it, are more likely to emerge as winners.

## Notes

<sup>1</sup>The DailyHodl.com reported on July 8, 2023, that JPMorgan Chase Has Paid \$38,995,000,000 in Fines for Banking, Securities and Additional Violations As New SEC Enforcement Action Kicks In. <https://dailyhodl.com/2023/07/08/jpmorgan-chase-has-paid-38995000000-in-fines-for-banking-securities-and-additional-violations-after-sec-enforcement-action/>

<sup>2</sup>In 2015, Bitcoin educator Andreas Antonopoulos answers a query on whether a large nation state possesses the ability to attack the Bitcoin network and whether such an attack could disrupt the Bitcoin blockchain. <https://www.youtube.com/watch?v=ncPyMUfNyVM>