

Blockchain and Cryptocurrency: A Double-Edged Sword

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In the past decade the world has seen a historic surge in the popularity of cryptocurrencies such as Bitcoin and Ethereum. Many investors have flocked to it in hopes of making a quick profit, while technologists have showed great interest in its underlying technology, blockchain, which has made this phenomenon possible. Given the vast stretch of people who now interested in this promising technology, you are bound to encounter nefarious actors. For some entities, such as organizations and corporations, blockchain promises security, authenticity, and integrity of records, while for mischievous individuals, blockchain promises privacy, anonymity, and immunity from government intervention. This answer will analyze how the controversial rise of blockchain technology has not just provided ground-breaking solutions to cybersecurity issues but has also given new life to underground black markets.

Just like the governments which are now scrambling to regulate blockchain-based cryptocurrencies, the first step we must take in tackling this issue is understanding what exactly this technology is. According to IBM, “blockchain is a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network” [1]. Each transaction is recorded as a “block” of data on a ledger which contains various information and is connected to preceding and succeeding blocks in a chain-like fashion. To facilitate a trustless environment, transactions are recorded in a decentralized manner meaning a central entity is not required to approve them. The overall benefits that it can provide for businesses include greater trust through decentralization, greater security through encryption, and greater efficiency through the removal of third-party facilitators. However, that third benefit has seemed to appeal to more than just businesses.

Criminal organizations are quickly capitalizing on this opportunity to use cryptocurrencies as the medium for their financial transactions which can now occur without the need of a central bank. The absence of a regulated third-party to facilitate these transactions now allows these organizations to operate stealthily and fly under the radar of law enforcement. The criminal and immoral ways this technology is being used includes “illegal trade (drugs, hacks, and thefts, illegal pornography, even murder-for-hire), potential to fund terrorism, laundering money, and avoiding capital controls” [2]. The extent to which these nefarious uses overshadow common, everyday uses of cryptocurrency is quite staggering. One study found that approximately one-quarter of all Bitcoin users and one-half of all Bitcoin transactions are associated with illegal activity [2]. With over “27 million annual users making 37 million

transactions worth three-fourths of the illegal drug market” in America, it not hard to see why government regulation has been faltering [3].

In another sense, it is not just nefarious activity which is pushing these regulators to take action, but the unauthorized distribution of cryptocurrency tokens as well. As new fintech start-ups and companies are eager to jump into the crypto scene, their involvement in the offering of unregistered securities has been concerning. This doesn't necessarily concern the technology itself but rather the real-world ramifications and associated legal issues which have not yet been considered. In December 2020, SEC charged Ripple Labs, the company behind one of the largest cryptocurrency assets in the world, XRP, with \$1.3 billion unregistered securities offering [4]. Its founders are currently being accused of financing their company through the sale of unregistered securities, which is a violation of the registration provisions of federal securities laws. Some may try to dismiss malicious intent here, but it is important to note that two Ripple executives, Christian Larsen and Bradley Garlinghouse, also “effected personal unregistered sales of XRP totaling approximately \$600 million” [4]. Other complaints include misleading retail investors and undermining the integrity of our public market system. The complexity of this case makes it hard to determine whether Ripple has just been falsely accused due to lagging cryptocurrency legislation or if the complaints outlined by the SEC are accurate and point directly toward fraud. Nevertheless, this case will either be monumental in finally determining the role of cryptocurrency in our financial markets or exposing XRP as one of the most well-calculated scams the world has ever seen.

Janet Yellen, the United States Secretary of the Treasury, has mentioned that cryptocurrencies are of “a particular concern” when it comes to criminal activity and terrorist financing [5]. Most countries see a strong tie between cryptocurrency and money laundering, terrorism, and organized crime. Some countries such as Algeria and Bolivia have even gone as far as banning cryptocurrencies outright due to the danger they may pose to central banks and governments. Others, such as Australia and Canada, have taken a more sophisticated approach by facilitating cryptocurrency institutions under money laundering and counter-terrorist financing laws [6]. The most liberal approach has been taken by countries such as Spain and Belarus who see the potential in blockchain technology and are hoping to “attract investment in technology companies” [6]. All in all, the world has finally begun to recognize the constructive, as well as destructive, power of cryptocurrencies and blockchain technology.

Albeit blockchain solves some critical infrastructure issues when it comes to security, authenticity, and efficiency, it opens us up to a whole new world of problems as well, many of which may be out of the reach of authorities. Given that governments are now finally beginning to regulate this industry, there is a chance of seeing a dramatic collapse in black market activity in the near future. However, this collapse will not occur without a subsequent rise in blockchain, which can now finally begin to be used more widespread for the purpose it was designed for.

Sources

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