BankThink Bitcoin doesn't launder money, Mr. Mnuchin. Money launderers do.

By Jeff Hinkle

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Treasury Secretary Steven Mnuchin resurrected long-simmering frustrations in the cryptocurrency world when he recently told the Senate Finance Committee his agency's investigative arm will soon introduce stricter regulations around digital currencies to help expose "secret" accounts and other nefarious activities.

"We want to make sure that technology moves forward," he told lawmakers, but "we want to make sure cryptocurrencies aren't used for the equivalent of old Swiss secret number bank accounts." His goal is to ensure law enforcement can see where the money is flowing, and that it's not used for money laundering, he said.

Mnuchin made headlines that day, but his views aren't news.

Last July, Mnuchin said cryptocurrencies, like bitcoin, have been exploited "to support billions of dollars of illicit activity such as like cybercrime, tax evasion, illicit drugs and human trafficking which constitutes a national security issue."

This brand of fear-mongering is something digital currency entrepreneurs and investors have gotten used to since bitcoi — the very first digital asset — burst on the scene more than a decade ago

Sen. Chuck Schumer, D-N.Y., was an early critic, ringing the alarm bel in 2011 when he warned lawmakers about the "untraceable" nature of bitcoin, and how such anonymity would prove irresistible to criminals. Three years later, Sen. Joe Manchin, D-W.Va., upped the ante by calling for an outright ban on bitcoin because its anonymity fosters "illicit activity, including drug trafficking and money laundering.

There's no denying that cryptocurrencies have been tied to illicit activities, but the numbers do not support all the fear ar loathing. Earlier this year, Chainalysis determined cryptocurrencies funded $11.5 billion worth of illegal transactions in 2019.

That's a troubling figure, but sometimes perspective is in order.

First, what Mnuchin, Schumer, Manchin and others may not realize is that all crypto transactions — legitimate an otherwise — are highly transparent and traceable because they are recorded on a blockchain-based public ledge

This traceability helps law enforcement do its job.

Second, Chainalysis found that the $11.5 billion worth of illegal activities represented slightly more than 1% of al cryptocurrency transactions for the year. The remainder were legitimate

Finally, even if $11.5 billion in shady activity triggers pearl-clutching among lawmakers, the amount only represents a drop in the proverbial money-laundering bucket.

The United Nations estimates the cost of all money laundering is somewhere between $800 billion and $2 trillion, with the bulk of it involving conventional currencies. One study found criminals are 800 times more likely to use fiat currencies over digital ones when laundering ill-gotten gains.

This preference helps explain why so many highly recognized, and highly regulated, financial powerhouses around the world were caught up in money-laundering scandals during the last decade. (Even Mnuchin's old employer, Goldman Sachs, was not immune.)

And these scandals have come at a hefty cost. Nine of the largest banks were busted for lax anti-money-launderin controls and similar violations between 2012 and 2015, reaching $20 billion in fines.

If Mnuchin, his investigative arm Fincen, and lawmakers are serious about shutting down money laundering, they would do better by focusing beyond the relatively small cryptocurrency sector

Better still, they could encourage big banks to adopt transparent and traceable blockchain technology so these massiv institutions can improve monitoring the trillions of dollars that flow through accounts each yea

For those keeping track, the irony doesn't end there. Later in the hearing, Sen. Maggie Hassan, D-N.H., asked Mnuchin if his department supports a proposed tax credit for startups to encourage investments in new innovations that create jo and economic growth.

Mnuchin assured her the Treasury supported such incentives.

This raises the question: Why is Mnuchin marginalizing and criminalizing cryptocurrencies, which may be the single most innovative asset class introduced in the last decade?

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