What $300 Million for Two Pizzas Might Mean for Blockchain Legislation and Regulation

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May 22 is the anniversary of the first purchase with Bitcoin. So, let's celebrate at least a Bit!

A new and productive conversation in Washington is blossoming around the emerging technology called blockchain. That discussion recently evolved … from one infected with horror-movie organ chords and inflected by scare quotes … on how best to legislate for and regulate this emerging technology to protect the public while keeping America at the tech forefront.

Who to thank for this trend toward good policy? Let's begin with the White House, including its new director of Office of Science and Technology Policy, Dr. Alondra Nelson, and a new Executive Order by President Biden. Thanks also are due to Treasury Secretary Yellen for her recent pacesetting speech at American University.

Most of all, let's thank the thought leaders on Capitol Hill: the co-chairs of the Congressional Blockchain Caucus Reps. Emmer (R-MN), Foster (D-IL), Schweikert (R-AZ) and Soto (D-FL), and House Agriculture Committee ranking member Thompson (R-PA).

And, in the U.S. Senate, Senators Lummis and Gillibrand.

May 22 is a famous anniversary for Bitcoin, the first cryptocurrency. So, now's a good time to look back to the early days of this technology as well as forward into how to safely foster its adoption.

May 22 is the 12th anniversary of the day when Bitcoin miner, Laszlo Hanyecz, made the first purchase with Bitcoins, buying two pizzas for 10,000 Bitcoins. At the current Bitcoin price, they together would be worth around $300 million.
As Hanyecz later said, "No regrets." Let's hope the Congress also chooses a "no regrets course."

That summer alone, Hanyecz spent around 100,000 Bitcoin, currently close to $3 billion worth of the digital currency, on pizza; somewhat more than the Papa John's May 2022 $2.9B market capitalization.

What does that mean for policy formulation?

As it currently stands, the producer price index (PPI) has hit double digits. The economy is experiencing inflation, but not hyperinflation. We do not use and will not be using wheelbarrows full of currency to buy a loaf of bread as was the case in Weimar Germany.

Hyperinflation in America hasn't been a Thing since the American Revolution and the Articles of Confederation. On April 23, 1779, General George Washington wrote to John Jay, president of the Continental Congress:

"In the last place, though first in importance, I shall ask, is there any thing doing, or that can be done, to restore the credit of our currency? The depreciation of it is got to so alarming a point that a wagon-load of money will scarcely purchase a wagon-load of provisions."

Multi-million-dollar pizza represents, in a sense, just the opposite; a kind of hyperdeflation where Bitcoin has experienced an epic gain in value. Of course, we've seen a wild roller coaster ride in valuation of what is widely, but misleadingly, known as "cryptocurrency."

The pseudonymous Satoshi Nakamoto, building on the work of Drs. Stuart Haber and Scott Stornetta, among others, posited "an electronic payment system based on cryptographic proof instead of trust."

Satoshi was brilliant at devising a system "allowing any two willing parties to transact directly with each other without the need for a trusted third party." That said, Satoshi, and the late Hal Finney, present as basically untutored in monetary economics.

Consequently, Satoshi's invention — although strong in "crypto" — was deficient as to "currency." This has caused considerable official confusion in the 13 years since Satoshi's design paper.

The Nature of Moneyness

That drives the question: what is the nature of "moneyness"? Drawing on a canonical 1875 classic work by William Jevons, Money and the Mechanism of Exchange, money possesses three (originally four, one having subsequently been subsumed) fundamental qualities.

What are they?

As succinctly summarized by the Federal Reserve Bank of St. Louis:

- **First**: Money is a store of value. If I work today and earn 25 dollars, I can hold on to the money before I spend it because it will hold its value until tomorrow, next week, or even next year. In fact, holding money is a more effective way of storing value than holding other items of value such as corn, which might rot. Although it is an efficient store of value, money is not a perfect store of value. Inflation slowly erodes the purchasing power of money over time.
- **Second:** Money is a unit of account. You can think of money as a yardstick – the device we use to measure value in economic transactions. If you are shopping for a new computer, the price could be quoted in terms of t-shirts, bicycles, or corn. So, for instance, your new computer might cost you 100 to 150 bushels of corn at today's prices, but you would find it most helpful if the price were set in terms of money because it is a common measure of value across the economy.
- **Third**: Money is a medium of exchange. This means that money is widely accepted as a method of payment. When I go to the grocery store, I am confident that the cashier will accept my payment of money. In fact, U.S. paper money carries this statement: "This note is legal tender for all debts,

public and private." This means that the U.S. government protects my right to pay with U.S. dollars.

Crypto's value fluctuates. Good money is inherently stable, both as a unit of account (like an inch or an ounce) and as a store of value.

Some well-meaning but poorly educated people mistakenly focus on "value" – some of which can be retained and even enhanced – rather than "store of," which means stability. So long as the price of cryptocurrencies fluctuates it is per se not a "store of value."

Cryptocurrency also fails as a unit of account. Bitcoin was valued around $67,000 (November 8, 2021) and around $30,000 (May 15, 2022). Bitcoin thus represents a terrible unit of account.

Moreover, crypto is difficult to transact with. There are several reasons for this. Some are organic (the irreversibility of transactions in the case of error or fraud, for example), whereas some are arbitrary (such as accounting and paying for tax liabilities incurred in selling or using it to purchase something else for more or less than its cost basis).

Neither Bitcoin nor Ethereum pose any threat to the dollar's hegemony as the world's reserve currency.

As a currency, crypto bats zero for three in moneyness.

As a virtual commodity, crypto bats a thousand.

Let's note in passing the emergence of "stablecoins," such as Tether (a collateralized stablecoin) and FRAX (an algorithmic stablecoin for whose predecessor the secondary coauthor of this paper served as a minor co-founder). The stablecoin sector was recently rattled when Terra/Luna fell to near zero, losing its holders billions of dollars.

That said, both Tether and Frax quickly regained their dollar peg. It would be vastly premature to discount their potential importance.

Moreover, crypto's lack of moneyness to date does not suggest that it lacks value. Aluminum lacks moneyness but it's great for building airplanes and making soda cans, among many other uses!

Due in part to its original designation as "cryptocurrency" there has been a lot of legislative and regulatory confusion. As Perianne Boring, the president of the Chamber of Digital Commerce, wrote at The Hill a few years ago:

"The U.S. Commodity Futures Trading Commission (which to its credit has a very positive attitude toward the technology) is eyeing virtual currency as a commodity. The SEC is beginning to treat certain tokens, based on facts and circumstances, as a security. The U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) has stated that certain activities involving convertible virtual currency constitute money transmission. The IRS treats convertible virtual currency as property.

"Commodity? Security? Currency? Property?

"Four different, inconsistent categories for the same thing."

To keep America at the technological and economic forefront it is crucial to have definitional clarity with which to frame both legislation and regulation. What might that look like?

It may be impossible to better the definitional clarity offered by the co-inventor of the blockchain Dr. W. Scott Stornetta. In his keynote speech before the Government Blockchain Association at the National Press Club, October 2021 Dr. Stornetta observed:

Think about the printing press. You know I really think that at a policy level the most apt analogy for the blockchain is the printing press, the invention of movable type.

It was a hugely disruptive innovation for reasons that I think everyone here is quite familiar with. It was also considered a deep, potentially mortal, threat to government.

And yet it didn't turn out that way. In fact, it enabled a new type of government structure.

The blockchain's transparency and peer-to-peer nature in effect is an echo of the whole notion of freedom of the press. Which was made possible by the invention of the press.

Technology leads to new social structures.

…

Think about what the Constitution is. ...a government structure that does not rely on centralized authority and "might makes right." But, rather, a peer-to-peer system (talking about voting) set forth in a document to run algorithmically whose consensus outcome we would all accept.

If there is any country on the face of the Earth that ought to embrace blockchain it is the United States of America.

…

Let freedom ring.

A call to freedom is not a counsel of anarchy. So, in the spirit of Stornetta's call for "Blockchain with American Characteristics," let's begin by seeking a legislative and regulatory regime which leans toward liberty while still protecting the public. Our colleague Adelle Nazarian, CEO of the American Blockchain PAC, recently, at CoinDesk, applauded "Secretary Yellen's sound guidelines for a process of developing a legal and regulatory structure to protect the public while creating a climate that fosters innovation." Ms. Nazarian went on to observe:

"As it happens, Rep. Glenn "GT" Thompson (R-Pa.) has significantly advanced this process by proposing a thoughtful, well-formulated "crypto regulatory blueprint."

"The 'Thompson principles' offer a framework for digital commodities exchanges, voluntary registration and qualified digital commodity custodians. They also offer an improved process to create digital commodities; to provide a full accounting of stablecoin assets and liabilities; to protect customers using stablecoins and register asset-backed digital commodity users. They would comply with and apply to pre-sold digital commodities."

The Thompson Principles offer a viable legislative and regulatory framework both to allow the blockchain technology to evolve and flourish while fully protecting the public. Per the blockchain's co-inventor Dr. Stornetta, let's consider the blockchain to be cognate to the printing press.

And…

Let freedom ring.

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