

Will Crypto Regulation Become a Partisan Issue?

By: Dylan Desjardins | March 4, 2024

In brief...

With no clear mandate on crypto regulation from Congress or the public, and general Congressional gridlock, determining appropriate crypto regulation has so far fallen mostly to executive branch agencies.

Policy preferences with respect to cryptocurrency regulation are not heavily associated with a particular political party—not the same way that stances on abortion or taxes are. But do ongoing trends, or general policy frameworks of political parties, mean that Democrats and Republicans will consistently diverge on cryptocurrency regulation over time?

While early proponents of crypto argued digital currencies could enable innovation by operating outside burdensome structures associated with cash governance, recent regulatory actions have shown the power of the state to disrupt crypto companies they see as operating illegally, most recently in the Department of Justice's [case against Binance](#). If cryptocurrency regulation becomes a truly partisan issue, shifts in political power could create a deeply volatile or extreme landscape for anyone operating in that world.

This commentary examines whether the views of three different stakeholder groups on crypto regulation diverge along partisan lines: Congress, voters, and agencies. While changing attitudes for the first two groups could certainly affect regulation, a lack of clear partisan preferences for all three means that agencies currently play the greatest role in regulation.

Congress

There have been some signs that Congressional Republicans are more skeptical of cryptocurrency regulation than Democrats, perhaps aligning with a general conservative skepticism of government interference in the private sector. Even after the fall of FTX, which some Democrats framed as exemplary of the perils of the overall crypto space, Republicans argued against regulations they saw as curbing crypto innovation. In June 2023, House Republicans [moved forward a House bill](#) that might make operating legally easier for crypto businesses by advancing a regulatory framework, with little Democratic support.

However, other evidence suggests that views on crypto regulation do not match well with political parties. One CEO in the crypto space [stated](#) that bills enabling crypto innovation attract support from

“progressive Democrats and conservative or libertarian Republicans,” and added that age may determine stance more accurately than political party. The Congressional Blockchain Caucus has an equal mix of Republican and Democrat co-chairs. Lastly, lawmakers from both parties receive substantial donations and lobbying requests from representatives of the crypto industry. Even Sam Bankman-Fried, famous in part for his connections with liberal politicians, [donated extensively to both parties](#). While there may be meaningful daylight between Congresspeople in their views on crypto regulation, the majority party’s members have not yet been motivated or unified enough to actually advance any legislation.

Voters

But if the conditions for meaningful divergence on crypto regulation are not yet present in Congress, could voters drive this divergence over time?

[Academic research](#) suggests that voter polarization on an issue triggers the issue’s polarization among politicians. By voting for primary candidates who align with voters’ views on crypto regulation, or by signaling to incumbent voters their views on crypto regulation, voters could create a class of politicians who realign their stances on crypto regulation to match a divided public.

Cryptocurrency rarely receives attention during political campaigns, however, and continually [fails to enter into voter’s concerns](#), suggesting it is not a voting issue in most people’s minds. With only [17 percent](#) of Americans having ever used crypto, other issues seem likely to be higher in the minds of most Americans.

Issue polarization, however, can be driven by a smaller share of the electorate or powerful voting base. A relative lack of research into the linkages between crypto and political leanings on the issue means it is difficult to gauge how each party’s voter base feels about crypto. [One survey](#) found a majority of respondents involved in blockchain ecosystems saw crypto regulation as reasonable, but a substantial minority strongly disagreed, with the strongest supporters of crypto identifying as conservative. [Another survey](#) of 1,200 participants in the crypto community noted that 21 percent of respondents were conservative and 27 percent liberal—the large number of remaining respondents fitting into other parts of the political spectrum. If we assume that involvement in this community correlates with support for allowing crypto to flourish, this sentiment is shared by those across the political spectrum, and does not map cleanly onto political divides.

Grouping voter sentiments into neat categories is further complicated by the complexity of crypto-related issues generally. For example, [government propagation of digital currency](#) might be thought of as loosening crypto regulation, but cuts against conservative distrust of government.

The last couple years have shown that previously minor issues (such as critical race theory and trans rights) can rapidly become determinants of people’s voting behavior. Perhaps another collapse or two in the crypto space could drive uniform and deeply held voter beliefs about how government should regulate the space.

Agencies

With no clear mandate on crypto regulation from Congress or the public, and general Congressional gridlock, determining appropriate crypto regulation has so far fallen mostly to executive branch agencies. While various federal regulators have taken crypto-related actions, the Securities and

Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) have perhaps been [most heavily involved](#), sometimes seeming to battle over regulatory authority.

Interestingly, executive agency leadership appointed by vastly different administrations seem equally distrustful of crypto. Both Jay Clayton and Gary Gensler, chairs of the SEC in the Trump and Biden administrations, respectively, [believed](#) their agency could regulate crypto tokens. During the Biden Administration, Gensler has pursued [multiple crypto enforcement actions](#) and [increased staff](#) focused on investor protection in crypto markets. Some crypto enthusiasts, however, see signs of hope in the [SEC approval](#) of a bitcoin exchange-traded fund (even if it was compelled by the courts).

If the president sees crypto as a niche or unimportant issue (for reasons discussed above), this could allow executive agencies to follow their own instincts on crypto regulation. This could change in the future—a former official in the Trump Administration, for example, [predicted](#) he would appoint more crypto-friendly agency leadership. But for now, with neither the public nor elected officials sending strong signals on ideal crypto regulation, the stringency of regulations may continue to depend on the personalities and assessments of agency leadership.

For now, most crypto regulation is coming from federal agencies. While their leadership is appointed by partisan actors, it seems like crypto regulation is unfixed to political affiliation enough that this does not currently predict stringency of crypto regulation. But market or political events could change this dynamic over time.