

After a year of collapses, cryptocurrency's future hangs in the balance

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Spectacular cryptocurrency failures in 2022 have raised the stakes for the industry amid questions about the enduring viability of a technology that advocates say has the potential to revolutionize finance.

The crypto market lost trillions in valuation last year, spurred by the crash of the algorithmic stablecoin TerraUSD in May and the failure of FTX, one of the largest crypto exchanges, in November. With a total global market cap once put at close to \$3 trillion, the industry now has a value that CoinMarketCap, a site that tracks prices, puts closer to \$800 billion.

In Congress, where the industry once had a vocal contingent of backers, the hostility is now louder, with calls to severely restrict cryptocurrencies or ban them entirely.

Despite the setbacks, crypto is still a cultural phenomenon, Nicole Valentine, fintech director of the Center for Financial Markets at the Milken Institute, a non-partisan think tank, said in an interview.

"I do think that there still will be dinner table conversations around crypto," Valentine said. "For one thing, people still have a fear of missing out. ... We should be asking ourselves questions about how we're developing and building this industry. I don't see it dying, and I don't see it losing its cultural interest at this point."

According to a December report from the JPMorgan Chase Institute, the number of people who transferred funds into a crypto-related account tripled during the pandemic, rising from 3 percent of the population in 2020 to 13 percent in June 2022.

Crypto companies and exchanges had failed in the past, either through hacking or theft, but the collapse of algorithmic stablecoin Terra last year led to widespread losses among firms that previously appeared sure-footed.

Main Street investors, drawn to the promise of high rates of return, suddenly found their investments worthless. At the time of its collapse,

Terra was the largest algorithmic stablecoin, a digital asset designed to always maintain a value of \$1 through market incentives rather than through backing by cash or securities.

Terra and its sister coin Luna lost billions of dollars within a few days. The failure of FTX was even more abrupt, following assurances of safety by the company and former CEO Sam Bankman-Fried. Well-established firms had put their money in FTX.

U.S. authorities say Bankman-Fried misappropriated billions in customer funds deposited with FTX and steered the money to personal uses, to make political contributions and to repay billions of dollars in loans owned by Alameda Research. Bankman-Fried, who resigned when FTX filed for bankruptcy, was indicted in December.

Two of Bankman-Fried's colleagues, former Alameda Research CEO Caroline Ellison and FTX co-founder Zixiao "Gary" Wang, pleaded guilty to [criminal charges](#) on Dec. 21 and are cooperating in the investigation, according to the U.S attorney for the Southern District of New York, Damian Williams.

Charges, including those from the Securities and Exchange Commission and the Commodity Futures Trading Commission, accuse Wang and Bankman-Fried of diverting customer assets to the affiliated Alameda Research, which Ellison used for improper trading activity. The customer funds also went toward "lavish real estate purchases and large political donations," the SEC said.

Bankman-Fried, who previously testified in front of lawmakers seeking what many call sweetheart regulatory treatment, is free on \$250 million bail.

'Crypto money spigot'

In a world based on facts, the failures of 2022 would have been the end of crypto, according to Dennis Kelleher, president and CEO of Washington-based nonprofit Better Markets.

"The only reason that 2022 wasn't the end of crypto is because of the access and influence crypto has bought on a bipartisan basis," Kelleher said in an interview.

Bankman-Fried and other employees contributed \$71.5 million to campaigns and political action committees in the midterm cycle, according to Federal Election Commission filings. Individuals associated with FTX companies donated at least \$44.2 million to Democratic candidates and affiliated political action committees and at least \$23.7 million to Republican candidates and PACs.

The Justice Department says at least some of that activity was improper, charging Bankman-Fried with violating campaign finance laws, though the indictment against him lacks specifics.

Bloomberg News reported Dec. 29 that Bankman-Fried met with senior White House officials at least four times in 2022.

Crypto lobbyists, too, have increased spending on Capitol Hill. Lobbying spending attributable to the crypto sector quadrupled from \$2.2 million in 2018 to \$9 million in 2021, according to a March report from consumer advocacy group Public Citizen.

Kelleher said lobbying in Washington is picking up in the face of the crisis, citing crypto exchange Binance's move on Dec. 20 to increase its engagement with policymakers by joining the Chamber of Digital Commerce, a crypto trade association.

Binance said in a post on its website that it will participate in "research,

roundtables, working groups and discussions with policymakers and regulators to help bring sensible policies that benefit society and users."

Kelleher said that "once the crypto money spigot shuts down completely, then you will start to see a very different view coming out of the power centers of Washington."

The industry's lobbying or efforts with trade groups have come a long way in the past several years and represent a maturation, said Jennifer Schulp, director of financial [regulation](#) studies at the libertarian think tank Cato Institute.

Schulp said it was a good sign that the sector is ferreting out its own bad actors and setting internal standards, regardless of where political contributions are being made. She also predicted that crypto will be less visible in pop culture than in 2022, a reference to celebrity endorsements last year by the likes of NFL quarterback Tom Brady and his ex-wife, model and businesswoman Gisele Bündchen, and comedian Larry David.

"I think that we will see less of the kind of dramatic entrance in pop culture that we saw over the past year," Schulp said.

Brett Quick, head of government affairs at the Crypto Council for Innovation, said the industry is looking at the setbacks as a chance to regroup. She said Bankman-Fried's actions, if the charges are true, have been illegal for 100 years and have nothing to do with the technology of crypto.

"We believe that if we had regulators with oversight into the markets and into the firms operating within them, then it would vastly mitigate the possibility of some of these bad actors being able to access consumers and investors," she said.

Mark Cuban, a prominent investor and owner of the Dallas Mavericks NBA franchise who has said he was an early adopter of crypto, said in an email that the technology is "about applications" and will always be, a reference to smart contracts and other uses. Smart contracts are self-executing when certain conditions are met and are seen as a way to avoid the need for a central authority.

"None of that has changed," Cuban said. Cuban was an early investor in FiscalNote, the parent company of CQ Roll Call.

Whether that is enough to conserve any of the industry's momentum remains to be seen.

The Milken Institute's Valentine, who said she owns a fractional share of [bitcoin](#) for research and analysis purposes, was on a plane in November and said someone sitting next to her struck up a conversation about [crypto](#).

"He said, 'I'm sitting on the sidelines and I'm going to wait until I think it's safe to get in,'" Valentine said. "For investors that have a high-risk appetite, come on in. For those that are a little more risk-averse or they're not as risky, I would say, yeah, take your time and get to know the industry."

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