The Daily Dish

This Wasn't in Schoolhouse Rock

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When last Eakinomics landed on planet crypto, the presumption was that the Senate Banking Committee would begin marking up its version of the Clarity Act – its version of a comprehensive regulatory structure for crypto transactions. Of particular interest was the opportunity to address a perceived loophole in the GENIUS Act that has allowed for the payment of rewards on stablecoins that look an awful lot like interest. All of this was scheduled to happen yesterday.

However, as reported by Politico:

> *Tim Scott is facing a crypto calamity.*

> *Landmark digital asset legislation that the Senate Banking chair hoped to advance out of committee Thursday is in extreme jeopardy after one of the industry's most influential executives announced his opposition Wednesday, setting off a scramble in the Senate and the White House to rescue the bill.*

The executive in question, Brian Armstrong, the CEO of Coinbase, listed his objections in a posting on X. Among them "Draft amendments that would kill rewards on stablecoins, allowing banks to ban their competition."

What!

Put aside for the moment the substance and think about this process. This was a markup. It is the beginning of the process and members can offer their views (i.e., amendments) on the best path forward. Those amendments can be rejected by the committee. They can be altered on the floor of the Senate. They can be rejected in the House or by a conference committee. The Clarity Act could fail to gain votes for final passage. What matters, presumably, is the end of the process.

Coinbase threw a fit over the existence of a difference of opinion on a minor, if important, detail. And the Senate Banking Committee cancelled the markup. That's a barefaced power move found nowhere in Schoolhouse Rock.

To be fair, that is not the only issue. Armstrong also singled out "Erosion of the CFTC's [Commodity Futures Trading Commission] authority, stifling innovation and making it subservient to the SEC." This is an old issue in a new setting. In a first-best world, there would not be both a Securities and Exchange Commission (SEC) and a CFTC. Clearly, Coinbase would prefer to not have its products classified as securities and fall under the SEC. Understandable, but something to be worked out in the legislative process.

The optics of this episode are terrible, and feed the notion that the crypto industry wants Washington as a wholly-owned subsidiary. Unfortunately, some legislation is actually required to set up the ground rules for this fledgling finance industry. Hopefully, there will be a quick recovery and a fair process emerges to deliver on this need.