THE BROOKINGS INSTITUTION
The *TechTank* Podcast

"Understanding and regulating crypto harms"

Monday, June 30, 2025

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CO-HOST NICOL TURNER LEE [00:00:00] You're listening to Tech Tank, a bi-weekly podcast from the Brookings Institution, exploring the most consequential technology issues of our time. From racial bias and algorithms to the future of work, Tech Tank takes big ideas and makes them accessible. Welcome to the Tech Tank podcast. I am co-host, Nicol Turner Lee, senior fellow in governance studies and the director of the Center for Technology Innovation at the Brookings Institution. Before I get started, I wanna say to all of you, thank you for listening. We really value the fact that you take the time to listen to the tech tank podcast and get all the scoop when it comes to the latest and greatest in technology policy and more important, We appreciate you coming to actually get some explainers on what the heck is happening when we talk about some very complex issues. Now, today's episode is no less complex than the other ones that we tackled. President Trump has promised to make the United States the crypto capital of the world. And there's recent crypto and stable coin legislation advancing through the Congress. What that all means, we're gonna talk about in this episode, but these headlines have been paired with significant efforts to deregulate this space. Which, you know, depending on who you talk to, can open pathways for others trying to break through traditional financial systems. But proponents see regulations as advancing innovation and maintaining UDIS leadership and digital assets. And I think that's why we're having this conversation today on cryptocurrency. And however, these conversations have been largely dominated by industry leaders and investors. Leaving much of the public and people like myself out of the discussion. So while cryptocurrencies may seem distant from those who never buy or trade it, researchers are warning millions of Americans may be affected by these policies as crypto finds its way into banks, retired rent plans, and even local infrastructures. My colleague, Judy, and I just wrote about blockchain technology for the public good. Interesting. A paper that we just put out on the tech tank newsletter. And we also did an event that you might wanna chime into. But today, I really wanna dig into the cryptocurrency side of this conversation of deregulated financial tools. I'm joined today by one of my colleagues and experts, the Tonantzin Carmona, a fellow in the Brookings Metro Program who focuses on wealth and inequality alongside financial and emerging technologies. Let me tell you something about our guest today. She's an incredible experience from her time serving on the White House National Economic Council, and she recently authored a report titled "Protecting the American Public from Crypto Risk and Harms", which is now available on the Brookings website, www.brookings.edu. Tonantzin, thank you for joining us today. Thank you so much for having me. I am so excited to finally have you. I mean, for a minute there, you had left Brookings and you went to the Treasury Department and then you came back. And as soon as you came back and you wrote this report, very informative, very substantive, I had to put you on the show. So I'm just letting you know, I've been so proud of where you've been bouncing around, but welcome back to Brookings, okay? Thank you, I can't stay away. I know exactly, it's one of those places. So I laid out some of the recent news about crypto, and I think, again, like myself, many people are watching its evolution in the headline. And it's no secret that the major commercial is basically centered on the president of the United States.

Why are we seeing so much about FinTech right now? And I wanna talk a little bit about that because you did serve in the Biden-Harris administration. And I'm curious how the chatter is changed or maybe it's the same and I missed it from your tenure there.

GUEST TONANTZIN CARMONA [00:04:09] Yeah, well, yeah, certainly many, many headlines. And I would say we're seeing so much about crypto right now because it's become both a high profile political, but also regulatory issue. You know, there's been a flurry of federal activity from both the administration and Congress. So for example, on the executive side, the Trump administration issued executive orders to create a strategic Bitcoin reserve, and then also launched the president's working group on digital assets. But at the same time, you know, Congress is fast-tracking major crypto bills. Some focused on regulating stable coins, which are cryptocurrencies that are pegged to a stable value, such as a dollar. And then there's another bill that would reshape oversight of the broader crypto market. And then just now you alluded to this, but you know the president's personal crypto ventures are also creating the headlines, including that now infamous crypto dinner with major investors in his own meme coin. I mean these activities have certainly drawn media scrutiny and raised serious concerns about conflicts of interest and corruption. And so what I'd argue is that yes, the chatter today isn't just louder, it's also different. During the Biden administration, the approach to crypto was far more cautious and risk focus, especially after the collapse of FTX, which is that major crypto exchange. But I would also argue, maybe certainly prior, you had agencies like the SEC, which was pursuing enforcement actions to protect investors, while Treasury maybe emphasized responsible innovation with guardrails around national security and financial stability. You also had agencies, like the Department of Labor, which expressed concerns about crypto and retirement plans. And so that's very different from what we're seeing now. With the Trump administration, in there. Rolling back regulatory guardrails. For instance, the federal enforcement agencies that once cracked down on crypto fraud and abuse, such as units in the DOJ, are being restructured or defunded. The SEC has paused or dropped lawsuits against crypto firms, the CFTC may soon find itself operating with only one sitting commissioner overseeing crypto regulation and that's something I actually don't hear enough about. But then you also have banking regulators like the Fed, the OCC, and the FDIC which are meant to be independent. They're easing restrictions on how banks can engage with crypto and then... The DOL, or Department of Labor, just rescinded the guidance on crypto risks and retirement plans. And so, kind of to sum up, many of the safeguards put in place after the last wave of crypto scandals are being actively dismantled. And that raises, at least for me, serious concerns, not only about investor protection and market stability, but also about the integrity of our policymaking process.

CO-HOST NICOL TURNER LEE [00:07:07] You know, I can appreciate that. And, you know, just for transparency, I was pointed to the CFTC Technology Advisory Board by former Commissioner Christy Goldsmith-Romero. And one of the areas in which we charged upon was crypto in cyber or just DeFi in general. And then I wrote the report with another person on AI in these markets. I mean, before we go deeper, I have to admit, okay. Think I know what crypto really is as well, because what you've laid out is, in this absence of probably regulatory guardrails, what really is happening in this marketplace? Just for us, a layout for people who may be listening that may be less familiar with these terms, crypto, mean coin, that kind of stuff, like what is it that we're dealing with? I mean, is this a real asset or is it really like a digital asset that has fluid value? I know, this could be probably another hour, right? I know. This could be the headline for your grandmother, OK, on what crypto is.

GUEST TONANTZIN CARMONA [00:08:14] Oh, well, and then so why it's kind of difficult to get into like the scholarly debates of life. Right, right. It's not bad. Oh, my gosh. I, you know, I've actually even used different definitions based on how I've understood crypto. But when people talk about crypto broadly, they're talking about a digital asset, which its underlying technology is the blockchain, which is basically just a ledger or a database. It's decentralized and the value piece to me is the interesting part because essentially it's just code. So how you derive value is what people believe and say it is. So that's if you think about it from the umbrella term of cryptocurrency. But then there's even like subsets of cryptocurrencies, so like with stable coins. As I was explaining, it is a form of a cryptocurrency that is pegged to a stable value such as the dollar. And so when people talk about crypto broadly, you're thinking Bitcoin, you're thinking Ethereum, some of the other popular cryptocurrencies. And then stable coins are also volatile, but they're less so because they are pegged a stable values.

CO-HOST NICOL TURNER LEE [00:09:36] Perfect, that's all I need to know. Look, I promise you, I was not asking you for the dissertation version, but I think for people who are listening, right, it's really important for them to know like what we're essentially talking about is like this different financial market that sort of is playing by its own rules. And in the case of what you just explained, no rules, right? Which I think is part of why you wrote that report. So your report is very interesting. I had a chance to dig into it. In terms of, for those of you listening, protecting the American public from crypto risk and harms, it is available on the Brookings homepage, and hopefully we'll be able to cross-link to it at the end of this podcast. Tell me why you wrote the paper, and what inspired you to really dig into this topic, and particularly now.

GUEST TONANTZIN CARMONA [00:10:23] Yeah, so I've been writing and researching crypto for a while now, maybe 2021, 2022 is when I started. And this is actually the pre-FTX collapse. And so at that point, I was really approaching the space from a place of just pure curiosity. Like, what is this thing that everybody's talking about? And then little by little, I started to go down the proverbial rabbit hole. And that's kind of when I encountered the- the fact that this space is very much rife with scams, fraud, market manipulation, and then also risks to both financial stability and even national security. And I think since then, not much has changed in that space other than now you have larger industry players. I think in this moment why it felt urgent to write about it or why I felt I needed to revisit the topic is because of the policy context unfolding around it. We're seeing crypto-legislation move quickly through Congress. At the same time that, as I was saying, the key regulatory guardrails are being rolled back and public agencies are signaling a more supportive posture toward the industry. We're also seeing increasing reports of the industry's growing influence of the political process, you know, through campaign spending and political advocacy, which raises important questions about whose interests are shaping these proposals. You know, for example, are we designing policy with long-term public protections in mind, or are we prioritizing short-term industry goals? So I guess I would say, you don't. One of the challenges, I think, with both financial regulation and tech policy that I encounter in my work is that the complexity can make it difficult for the public to engage with these topics. It seems like out of reach. It seems too complex. It's probably better left off to technical experts or others. So I think when I do my research, you know, part of it is, yes, the research, the writing piece, but I also view a lot of my work is also, it's important to translate, translate what I'm seeing. And in this case, I'd like to translate the risks so that people understand how these decisions affect them. Because at least in my reading, in my understanding, if history has shown us anything, it is that when financial policy cuts corners, it typically everyday Americans who end up bearing the cost.

CO-HOST NICOL TURNER LEE [00:12:47] So what's interesting about the report, and I can really appreciate like, you know, where you sit, I mean, as researchers, it's our goal as well as tension, right? To pay attention to pending policy issues in real time. So I really appreciate the timing. What's so interesting though, is that like, I think so many people, and you write about this in the report feel that cryptocurrency is sort of out of reach, even though, you now, it is something that is commonly talked about in the public domain. And to your point in the paper, we're really sort of boggled down by the growth of fintech, some for the good and some for not so good. For example, my child who constantly uses fintek to get me to pay her on the spot when she's out. Right? I mean, I would say that's not for the good, but my point is like, how are everyday people affected by some of the big rock issues you've laid out, like the lack of regulatory guidance. At the same time where we're seeing this groundswell of interest in the crypto marketplace.

GUEST TONANTZIN CARMONA [00:13:53] Yeah, so one of the main points I emphasize and I really tried to capture in this report is that you don't need to necessarily even own, invest in, mess around with crypto for it to affect you or someone you know. It's already creeping into banks, retirement savings, energy bills, and even scam calls. You know, some 401k plans and state pensions are now exposed to crypto. Even though it remains notoriously volatile. And so these swings, they're important to pay attention to because they can seriously threaten workers' long-term savings and the health of retirement systems, at least in the mid- to long- term. That's a mid-to-long term risk. There's also the fact that crypto firms are pushing into traditional banking and they're exploring stable coins now, which... Despite the name, can often be anything but stable, when they lose their peg, and this does actually happen often, the fallout can be severe. Crypto's also becoming more deeply embedded in the mainstream financial system, and the risk is such that a major failure could ripple outward, impacting people who never touch crypto, especially if at some point, you know, a taxpayer-funded bailout is needed. And again, these are like examples of the mid to long term risks. Right now, crypto scams are already costing Americans over $9 billion a year, or at least that was in 2024 alone. And that was a 66% increase from the previous year. And of that group, I would say. Older adults, your parents, your grandparents, I mean, those people often are the most vulnerable in these scams. They lost nearly three billion. And so like take away than just the scams. There's ransomware attacks now that are being tied to crypto That are targeting schools hospitals local governments There was one report and they were even saying in that report that it's like we need more data on the way that crypto is tied to these ransomware. Attacks that are targeting are you know public institutions our local infrastructure But I think if their 2021 report they found incidents totaling up to more than 2,300 attacks to schools, hospitals, and local governments. And then. You know, there's also Bitcoin mining, which I think that gets more reporting because of its environmental impact, but it's also being linked to higher energy bills for certain communities and health concerns even. So I would say that, again, you don't even need to own it for it to impact you though, if you do, there are also risks, but while crypto may feel distant, the risks are already landing close to home.

CO-HOST NICOL TURNER LEE [00:16:40] Well, just today, the DOJ announced, I think it was $225 million crypto fraud scheme that was, you know, essentially misleading folks to think that they were investing in credible platforms when essentially there weren't. I mean, given what you said in terms of the lack of regulatory guidance, do you sort of see that we're going to see more of these cases emerge in terms of people being frauded out of their. Assets and I totally agree with you a lot of these folks are seniors unfortunately who think that there's something there there um but are we going to see more of that um to not send you know going forward as this market becomes much more enticing to general people everyday people.

GUEST TONANTZIN CARMONA [00:17:25] I think it's certainly a possibility, especially if it becomes more enticing because people believe that, okay, it's gotten a stamp of approval from, say, government, which it does signal, I think, a support for the industry. So that's one end. So you have a lot of folks in authority positions that are saying, this is great, this is the future, et cetera. This is actually a trend I noted in pre-FTX collapse when it was a bunch of mayors. That were trying to promote crypto in their cities and launching crypto projects that actually ended up failing, losing funds, et cetera. But you see it now at a much larger scale, that signaling of support, so. You know, if you essentially put a stamp of approval or you legitimize something, then people are going to think it's safe and without the appropriate guardrails, either from the policy perspective, that can certainly harm people, but also the regulatory perspective, if folks are kind of just... You know, having lax rules, then yeah, you might see it. And I would even see in some of the proposals, it's not necessarily clear that there are enough protections to protect people from scams. So for like the elderly, for example, some of it isn't even that they're necessarily enticed. In some of those scams, it is very much, you know they get a call from somebody, they end up being like maybe a romantic scheme and somebody ends up getting them, like persuading them to put their money in a platform. Because it'll help boost whatever savings they have left and then they take the money and you never see it again. But there are also the type of scams where they'll target a person and call them and pretend to be a government official, they pretend to somebody who manages a separate account, tell them your account was infiltrated, you need to move your money and put it into this other account and then that ends up being a crypto wallet and then it ends up disappearing. So, the scams vary. I do think that in order to minimize some of these risks we need to ensure that whatever proposals that are out there that actually do have strong safeguards for the public.

CO-HOST NICOL TURNER LEE [00:19:40] Yeah, and I think that that is so important and you sort of talk about in the report as well that people, you know, need a general level of literacy, right, to understand a little bit more about this marketplace. I mean, what does that look like, particularly if you're not always sure, which is why I found it interesting in terms of the regulating bodies sort of pulling back on the review of this. But when crypto is sort of an asset that's being used against your retirement and stuff like that, you can't really see that exchange of what's happening in the marketplace. I mean, how would you recommend that literacy actually manifests among everyday people who, like you said, are intrigued by this market because there's a guy in a very important position that's making millions of dollars off of this meme coin. I mean how do you get people to kind of know what this really is and what it isn't, you know?

GUEST TONANTZIN CARMONA [00:20:30] Yeah, no, I think, well, okay, so literacy, whether it's financial or tech literacy, is certainly important, but I do want to emphasize that it's not a substitute for good regulation. So we don't expect people to be experts in bond markets or banking infrastructure to be protected. I think the same concept should apply to crypto. The burden shouldn't be 100% on individuals to outsmart in under-regulated industry. Because quite frankly the people most at risk are often those with the least financial cushion. And so I would say it's not just a matter of education. When you study a lot of these systems it also ends up being about power, access, and the responsibility of policy makers to put real safeguards in place for the public. So yes, you know, information, get it from good sources, not like... TikTok. That is actually in my report. I did point out that like financial influencers are a thing now that we need to be worried about. Even putting guardrails around that and like having people put disclosures because right now anyone can just pop up on a platform if they get a large enough following. They share some news, they say invest in this, you put your money in it, you lose it and like there's no repercussions. So, there is more work that needs to be done across different generations, too, just informing them about the potential risks, the harms, etc., that are out there. And then I would say, in terms of the safeguards, I mean, there are certainly things that we could be doing to make sure that we're protecting retail investors, so your everyday investors from market manipulation, from the fraud, from the scams, everything from disclosure requirements, to conflict of interest rules, to strengthening the capacity of some of the enforcement agencies versus what we've seen as kind of the opposite that is happening. I mean, the list goes on. I have a full one in the report. And I'm happy to dig through to even on specific proposals.

CO-HOST NICOL TURNER LEE [00:22:43] No, I loved it. For those of you that are listening, if you go to the report, I really love that chart you have where you're looking at the various stakeholders, you know, and what needs to be done and what kind of awareness raising. I mean, that's that is beyond the expectations of Brookings, right? To be very clear that I'm not only explaining this, but I'm giving you some policy points. You know, there's another piece that you talk about in the report that I was less familiar with. So I would like to, you myself and others who were similarly. Uh, ignorant to this whole other aspect of crypto, which are these crypto minds. I'm like, what is that? Okay. I am still talking about data centers on my side and you are over here talking about like foreign operatives and crypto mining and energy. I mean, bring me in, bring me in on that part. And I think for those of us that are listening, talk a little bit about that, cause you know, this podcast, we have people who are very experienced and we have, people were listening to us in the car. But give us a little bit more on, you know, why these Bitcoin mines are really something that we also need to be paying attention to.

GUEST TONANTZIN CARMONA [00:23:48] Yes, and I appreciate that because even like Bitcoin mines are getting left out of any major crypto legislation, but they're becoming a huge, very localized problem for a lot of communities. So Bitcoin mines, are these like large scale operations that are filled with endless rows of just computers that are running for hours on end and performing these like non-stop calculations to process transactions and earn Bitcoin. They consume so much energy. They also strain local power grids. And most places that have welcomed these facilities, they've also noted themselves, the elected officials themselves who wanted these things there, they noted that they also come with few lasting economic benefits. So they're not necessarily major job creators. They're not necessary bringing a ton of tax revenue. So you get these Bitcoin mines, they come in, they're sucking up all this energy. But then when it comes to your local energy bill too, it's impacting that in that the communities for finding that. Think it was like Texas. It was just 10 Bitcoin mines alone connected to the state's grid drove a 5% spike in residential energy bills and that cost consumers in that area about 1.8 billion dollars a year. And then in places like West Texas they saw a spike of 9%. So that's like real cost to your wallet. If you're a person on a fixed income I mean like that's actually That's a notable increase on your bill. Then there's also the health impact. Now, this one to me was just a fascinating one because in reporting in different parts of the country, residents were noting that the the Bitcoin mines, because they need to be cooled by these like high powered fans, they actually are very, very noisy. And so I do think this might be a distinction between maybe some of the like data centers that you're studying. I don't know if that's also the case there, but at least with the Bitcoin Mines, These are very, very loud. And so with noise pollution, you know, there's obviously research that makes the connection to health issues. We haven't quite gotten there in terms of the research with the Bitcoin mines, but at least in terms of all sorts of reporting, community residents there are saying that they have issues with hypertension, heart palpitation, chest pain, hearing loss, migraines, vertical, you name it. And a lot of the folks there are, you know, in states like Arkansas, Ohio, Oklahoma, Tennessee, Texas, Wyoming. And they would obviously like to do something about this noise. But unfortunately, there's a lot these right to mine laws that are also popping up in these places, which essentially undermine local government's ability to regulate the mines or to improve the conditions for community residents. And so that's going to be an interesting thing to watch as these right to mind laws continue to pop up in different parts of the country.

CO-HOST NICOL TURNER LEE [00:26:47] I mean, it's just so interesting. I think the average person doesn't realize that in these exchanges and through these transactions, whether it's Bitcoin or how much time you're spending on generative AI, there is a power assumption. And I think people are starting to realize a little bit more about that. I mean I live in Northern Virginia. I heard a statistic the other day like Northern Virginia or Virginia in general, I believe it was, is like the with the most data centers, right? And, you know, it's been interesting to raise awareness among home ownership boards and things like that when a data center comes because they're like, don't bring me this data center, but at the same time, they still wanna use these tools, right, and so to your point, I don't think people really factor in the energy consumption areas that are really taxing the environment as well as the community. But, you now, I'm gonna kinda keep going on this because I love this conversation so far, right? When I was introduced to crypto, and you did this early on in your career, Brookings, you know, we know in communities of color that there are barriers to entry in traditional financial markets. Right. So I want to kind of switch this a little bit. we've talked about the harms you talked about, you know some of the criminal activity FTX being a great example. you know there are some people because they can't get into the traditional financial market have been intrigued by cryptocurrency, Bitcoin, meme coin, you know potentially stable coin. In ways that they can use it to do things that they just could not do. So I'm thinking about young people who are using cryptocurrency to trade, maybe goods and services online when it comes to commerce. I'm think about people of color. I think you wrote a long time ago about Latinas and cryptocurrency. I, in my career, have talked a little bit about Black communities and how they're using crypto as an alternative to some of these barriers. I recently read, I don't know where it's at, you know, that some. Federal agencies like HUD are potentially considering cryptocurrency for people to sort of accumulate the money they need for down payments to purchase a home. In one way, can we talk about, you know, that we do have a problem in traditional financial markets of being, you now, open to everybody, but I love the way your paper also frames it. We also have a challenge of potential exploitation and manipulation, sort of frame this for us, because I think that's one of the areas that continuously comes up when we talk about people. Who just don't have a space in traditional bag.

GUEST TONANTZIN CARMONA [00:29:18] No, absolutely. I think, gosh, I could talk about this topic forever, so I'm so happy that you brought it up for the interview. It absolutely, to me, makes sense that if you are a person or you're part of a community that is excluded from avenues for building wealth, it absolutely makes sense, that you're going to seek out alternatives. And for communities of color, historically and even in the present, traditional financial institutions do not necessarily offer those pathways for wealth building. That's the status quo. I would say while it makes sense to seek out alternatives, just because the status quo isn't working doesn't necessarily mean that crypto is the answer and that it's a safer bet. Because it's like I can 100% agree. With what the problem is, I think where then I disagree is in the solution being crypto. And I think in general, part of what prompted my original writing and research on this piece is because a lot of the rhetoric around crypto and then at this point it was like the broader financial inclusion umbrella I just found to be incredibly misleading. You know, proponents, I would argue, often present crypto as a personal solution to structural problem. Suggesting that if a historically excluded community were just to invest in the right assets early enough, they'll close the wealth gap, or they'll build wealth. And I've actually heard the wealth-gap argument. But that gap, it's important to note, wasn't created by individual choices. It was created by generations of policies and practices that lock communities out of wealth-building opportunities. But importantly, you can't fix systemic exclusion with. Speculative assets. And we know crypto markets are highly volatile. But their value also, and I kind of alluded to this in the definitions piece of this, their value isn't tied to productivity or earnings. It's based on speculation and sentiment. And so if all of a sudden people change their mind on the value of a certain cryptocurrency, that value can quickly drop to nothing. That makes it especially risky for people without generational wealth to fall back on. And so that's why in that original piece that you were referencing, I argue that instead of what we're seeing is a pattern of predatory inclusion. And that's when communities that were historically excluded from a good, a service or an opportunity are suddenly granted access. But that access comes with conditions that undermine the benefits, conditions that reproduce insecurity for these very same communities. And so a great example. Subprime mortgage loans. You know, they were touted to provide access to housing, i.e. Wealth and social mobility, but they were also incredibly risky and ultimately disproportionately decimated the wealth of communities of color. And crypto fits that mold. It promises access to new financial tools, but it also comes with major risks while offering little in the way of consumer protection. In fact, one pattern that I consistently find in my research is that retail investors or everyday investors, including many first time investors, are often the last to enter the market and the first to bear the losses when it crashes. Meanwhile, the larger players, they exit early, they sometimes even profit from the volatility. And so that's not wealth building, it's wealth transfer. And that's within crypto. There's actually also an interesting thing that I've been thinking about. I haven't heard many people talk about this in that even if you never touch crypto, this can still impact your wealth building, especially if you're part of a community of color. So like for the stable coins, for example, they're right now being promoted as a tool for like everyday payments. So let's say people now start shifting their money out of banks and into stable coins. That reduces banks' capacity to make loans, because the way that banks make loans is through these deposits. And so we've already known that communities of color face greater challenges accessing credit, and that credit is important for building wealth. So these policy choices, I would say, could really deepen exclusion and not resolve it.

CO-HOST NICOL TURNER LEE [00:33:47] I think that's so interesting. I mean, again, you know, for transparency, I got interested in this space, you know, a few years ago, because I thought, okay, maybe there's a lever that can help communities of color who've been financially marginalized sort of engage productively. But it it soon dawned on me, though, you know, among many of these vulnerable populations in particular, the only asset that they primarily have if they don't have a home is their social security number. And whatever is left in their bank account if they are banked. And so part of it is, like you said, without regulation, you're dealing with a lot of volatility, which goes back to what you said. And if you have that exploitation by scampsters and fraudsters, you are essentially, you know, having people who have less, I guess, on the, you know less room and buffer to be in the speculative marketplace. You know, they're basically putting their life savings in there or they're putting in, know, the check for the week from their job. And they're losing it if the market is more volatile versus people who are much more wealthy, who are able to use the marketplace to sort of manipulate whatever their earnings are, pull out when it's necessary or put more in, or drive up artificial consumption of the crypto marketplace based on the value that they imbue upon that asset. I mean, to me, I think that's really like the point of your report, right? We need more regulation because without any type of protections, And again, for those of you listening. The report is very thorough on both policy recommendations as well as programmatic, that we need more regulation to be able to stabilize this market in a way that it's less daunting, but also more explainable, more transparent. Is that kind of like where I'm hitting it and I'm heading it in the right place there?

GUEST TONANTZIN CARMONA [00:35:34] I would argue that, yeah, gosh, I can go back and forth on this because part of me is like, okay, here is something that has been around for, what, 16 plus years. It hasn't really offered many benefits, like truly, like aside from speculation. It's actually created far more problems, created so many harms. I think if, you know, in an ideal world... I think we would be probably better off if not all of our time, energy, and money was focused on propping up this industry. I mean, there's so many technologies that in such a short amount of time have already demonstrated far more progress. I mean think about like, even AI. AI has so many risks, don't even get me started on that. But, like people are already using it at work, they're using it school, they're use, you have these conversations where it's being applied. For good, for harms, for all the things, but it is something that is a little bit more widespread. And so, you know, what if we shifted all this time energy funding investments into spaces where maybe there's more promise? There's far more technologies than just AI, but there's just an example. So I think in an ideal world, I don't know if I would be spending all this time thinking about crypto, like, is my preference, Um, bye! Just given the administration's focus on this, given the fact that the industry has grown, that it's pouring so much money into politics, I don't think it's going to go anywhere anytime soon. And so if that's the case, then we need to make sure that there are appropriate safeguards in place. Yeah, no, I get that.

CO-HOST NICOL TURNER LEE [00:37:20] Well, you know, we've tried, I mean, as we start to wrap up, you know, I love the fact that you've said go on and on, that means that you're just going to come back. The Senate looked at what's called the Genius Act, which was geared towards providing some type of legislative framework as we look at the stable coin marketplace. I'd love for you to tell us what that means. What's next in this legislation? Is this what you're happy about and what you're looking forward to in terms of the legislative frameworks? Or does you know do we need to go a little further. That we're not doing enough to sort of address some of the harms that you've laid out.

GUEST TONANTZIN CARMONA [00:37:54] Okay, so those are a lot of questions. Let me try. Okay, the Senate, yes, they recently passed the stablecoin bill, the Genius Act, by a vote of 68 to 30. The bill now heads to the House, where lawmakers are also weighing a competing proposal, which is the Stable Act. And at this stage, House members will need to decide whether to advance the Genius Act as is, or pass the Stables Act and trigger reconciliation process. And then separately, there's also a growing discussion of combining the stablecoin legislation with the broader crypto market structure proposals into a sweeping package rather than advancing them as separate bills. With the Genius Act, it does seem that I understand the pressure to act, the pressure show progress, the pressure to move quickly. But at the same time, it also seems like there's a willingness to take financial risks with crypto. You know, the Genius Act is expected to massively grow the stablecoin market from around $200 billion today to potentially $2 trillion. So that's not a small shift. It would embed stablecoins more deeply into our financial system. Some of the biggest concerns that are coming out of this bill, at least that I've paid a lot of attention to is the fact that it could open the door for big tech firms and large commercial entities to enter into the banking space through the back door. So right now, you know, since the bill passed, there's been so many reporting of companies that are mulling a stablecoin. So like Apple, X, or formerly known as Twitter, Airbnb. Google, Meta, Uber, Walmart, Amazon. So imagine all these companies, they're all mulling a stable coin, either for internal or external use. So one, obviously this upends the long-standing U.S. Policy of separating banking and commerce, a principle that's designed to protect our economy from exactly this kind of concentrated power, but also, I mean, just consider that if a company like Meta or Amazon issued a stable coin, it could quickly become the default way that people are paid, shop, or send money. Not because it's safer, but because it is embedded into the tech that people already use every day. And over time, that gives enormous control over the flow of money and the data that is tied to it, to a handful of private firms. And that's not a theoretical risk, it's a real shift in who holds power in our financial system. Another risk, what backs these coins? You know, right now some of the largest stablecoin issuers hold a lot of their reserves in treasury securities. But here's the problem. If there's ever a panic, say people rush to cash out their stable coins, the issuers would have to sell off those treasuries quickly to get cash. And that kind of sudden large scale sell off could shake the treasury market itself. And the US treasury market isn't just any market, it's an important pillar of our entire financial system. And if it wobbles. It can spill over in other markets and create ripple effects across the global economy. And so while these bills may look like progress, they could also open the door to a new kind of financial fragility, one that reaches far beyond crypto.

CO-HOST NICOL TURNER LEE [00:41:35] Well, and I was gonna say, it appears, right, this train has left the station. And so to your point, it's almost as if, you know, there's sort of like this resignation that, hey, it here, right? Which I think the points that you've made today and that you make in the paper are, it can be here, but being here also means it's gonna have these secondary effects, right. In the marketplace that we need to pay attention to. And I just have to ask you, you now, as we wrap up. AI, artificial intelligence, is not going to help the scenario, am I correct, in regards to how much this can be delivered right to your inbox?

GUEST TONANTZIN CARMONA [00:42:13] Yeah, I don't think so. I'm nervous just across the board. But again, I'm somebody who thinks about risk because I really want to protect the public. And so maybe, yeah, I want to be optimistic, because I'm not anti-innovation. I just I'm pro-accountability. And I just know that the public is often left to absorb the fallout when things go wrong. And So I think it's incumbent upon policymakers and researchers. To pay attention, to ask tough questions, and demand safeguards that put people first.

CO-HOST NICOL TURNER LEE [00:42:49] You know, it makes sense to me, you know, especially as, again, these decentralized financial markets have to spending time at the CFTC, I can honestly say. I learned a lot about it and somewhat versed in it. But, you what I love about our conversation is there is, and you said it earlier, right? This intersection between technology and finance that is really manifesting itself in a different way. And it is important to understand, you what happens when you have fewer guardrails. As well as, you know, as I've suggested, fewer ethical considerations on the way in which these assets are moving through the financial system. To your point, it can end well or most likely not, right? Particularly for everyday people. I want to thank you for coming on. You know, I'm not done with you yet. We're gonna have to back on. Cause you kept saying, you kind of backed yourself into this. There's more that I can say. Well, you the Tech Take podcast always welcomes the more. And I'm sure I'm not speaking for myself when we think about the people who are listening to this conversation today. I wanna say thank you.

GUEST TONANTZIN CARMONA [00:43:56] Thank you so much, now I'm really looking forward to being back.

CO-HOST NICOL TURNER LEE [00:44:00] And for those of you that listening, I wanna make sure that you know about to Tonantzin Carmona's piece. If you have listened to this and you came in halfway, she's written a report that is available on the Brookings website, brookings.edu, "Protecting the American public from crypto risk and harm". And I would encourage you to read it because it's some really great explainers as well as policy interventions of what you do next. I wanna say to all of you, thank you again for joining us to the conversation where we're discussing the incredible research and findings of my colleagues. I feel real special about being able to do that. Please explore more in-depth content on tech policy issues at tech tank, which is also on the Brookings website and accessible at brookings.edu. Your feedback matters to us about the substance of this episode and what you actually wanna hear from us going forward. Leave us a comment, like the episode, share it with others. Uh, we want to again say thank you for your loyalty. As I said earlier in the episode for just keep, you know, coming back to us for the best content that is related to tech policy issues going forward. This concludes another insightful episode of the tech tank podcast. We make bits into palatable bites until next time. Thank you for listening. Thank you for listening to Tech Tank, a series of roundtable discussions and interviews with technology experts and policymakers. For more conversations like this, subscribe to the podcast and sign up to receive the Tech Tank newsletter for more research and analysis from the Center for Technology Innovation at Brookings.