

# Written Testimony OPPOSED (UNF) to HB1389, “Strategic Bitcoin Reserve Act of Maryland”.

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I oppose HB1389, the Strategic Bitcoin Reserve Act of Maryland, because it poses a significant financial risk to Maryland taxpayers and undermines sound fiscal policy. Maryland should establish a clear policy that public entities purchasing Bitcoin and similar assets are acting imprudently. The key reasons are:

- Bitcoin has no legitimate usage that would justify it as an investment or strategic asset.
- Returns from Bitcoin arise solely from recruiting new buyers, meaning any purchase is a gamble that the state can sell before the pool of buyers is exhausted.
- Passage of this bill would be, at best, an endorsement of an asset that causes significant social harm, has been promoted with misleading claims, and has been rejected by most Marylanders.

## My Background and expertise

- PhD in Computational Chemistry, Chartered Financial Analyst
- 25 years leading computational risk and investment modeling teams at four financial firms.
- 3 years leading an anti-fraud modeling team at a large financial technology firm

I started following cryptocurrency in 2012. I initially found Bitcoin intriguing; however, my opposition to it developed with my understanding of its reliance on energy consumption that, as of Oct 2024, was close to that of Poland and my recognition of the errors and deceptions in its promoters' claims, such as being an efficient payment mechanism.

In 2022 I joined 1500 other experts in signing a letter<sup>1</sup>, [Letter in Support of Responsible Fintech Policy](#), 2 to the US Congress warning of the exaggerated claims that the cryptocurrency industry has used to promote its products and gain government endorsement.

## Bitcoin lacks the characteristics of a legitimate investment.

Equity returns arise from the profits of firms that produce goods and services for others. Bond returns come from corporate earnings, fees from services, or tax revenues. In the case of real estate and commodities, returns originate from rents or purchases for consumption. Although short-term price movements can be driven by speculation, the longer-term returns are anchored by real cash flows or benefits that holders could obtain without buyers.

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<sup>1</sup> [Letter in Support of Responsible Fintech Policy](#) (link)

Bitcoin and similar cryptocurrencies are different. The sole source of return is from new Bitcoin buyers. There is no expectation of dividends, interest payments, rents, or usage of a commodity; just more “adoption”. Unlike traditional Ponzi schemes, which often use fraudulent financial statements to convince buyers, the promoters of Bitcoin use the appeal of fancy, difficult-to-understand technology and cult-like claims of a “world currency” to lure new buyers.

Bitcoin is a negative-sum game. For everyone who profits from Bitcoin, someone ultimately must lose. The participants must pay the network’s operation costs, including the electricity consumed in mining.

### **The illusion of “strategic” in a Bitcoin reserve.**

The purpose of creating a “strategic reserve” of an asset is to be able to use it in the event that it is urgently needed or in short supply. For example, strategic reserves of antibiotics or vaccines could be deployed rapidly in an epidemic. Strategic reserves of a vital mineral or food source could be used for a situation in which an embargo or natural disaster strangles the supply.

In contrast, the only use for a Bitcoin strategic reserve could be its sale in a financial collapse. Such a crisis would affect other holders, who would be selling at the same time. This would result in the price plummeting.

### **Bitcoin is useless except for regulatory arbitrage and speculation.**

In a recent New York Times article, Bill Gates summarized the uses of cryptocurrency as “None”, explaining, “There are people with high I.Q.s who have fooled themselves on that one.”

Bitcoin has no legitimate use except for being able to do activities forbidden to financial institutions. Typically, the advocates will make claims about cheaply sending money to anyone anywhere. We can already do that with conventional financial institutions; for example, I can send dollars to anyone in the world with Zelle instantly for free. They can even withdraw the funds as physical local currency at an ATM.

The only caveat has nothing to do with conventional financial technology; it is due to regulations preventing non-US residents from obtaining US bank accounts. Furthermore, Bitcoin advocates count only a small fraction of the transaction costs, and Bitcoin does not provide services such as currency conversion, fraud protection, and customer rewards.

The falseness of the claim of Bitcoin’s technological superiority is apparent in the existence of cryptocurrency exchanges and the Bitcoin ETF. If the Bitcoin blockchain were more efficient than conventional financial technology, investors would not require these vehicles to hold or transact with Bitcoin.

There is one exception to Bill Gates’s statement about Bitcoin’s usefulness – activities forbidden or highly discouraged by regulators, a prominent example being collecting ransom payments.

## Bitcoin has been rejected by most of the public.

In 2023 the Federal Reserve's survey on the Economic Well Being of US Households found single digit and declining usage of cryptocurrencies. I present this data in the tables copied from the report below<sup>3</sup>.

Type of use	2021	2022	2023
Bought cryptocurrency or held as an investment	11	8	7
Used cryptocurrency to buy something or make a payment	2	2	1
Used cryptocurrency to send money to friends or family	1	2	1
Any use of cryptocurrency	12	10	7

Characteristic	Investment only	Transactions	Any
<b>Family income</b>			
Less than \$25,000	4	4	7
\$25,000–\$49,999	4	1	5
\$50,000–\$99,999	5	1	6
\$100,000 or more	8	1	9
<b>Age</b>			
18–29	7	3	10
30–44	8	3	11
45–59	6	2	8
60+	2	*	2
<b>Race/ethnicity</b>			
White	5	1	6
Black	5	3	8
Hispanic	7	3	9
Asian	9	2	11
<b>Gender</b>			
Male	8	2	11
Female	3	1	4

## Support of Bitcoin is harmful to the people of Maryland and the United States

Even if the passage of this bill does not result in the Treasurer's purchase of Bitcoin, it will have a profoundly negative impact on Marylanders and society. The further this bill progresses, the more Bitcoin proponents and the cryptocurrency can use it to claim legitimacy and recruit buyers.

The promotion and legitimization of Bitcoin means

- A transfer of wealth from new buyers to the cryptocurrency industry and their wealthy large holders
- Profits to criminal gangs who still hold their Bitcoin ransomware payments
- Increased Bitcoin mining along with the environmental damage from electricity production and equipment manufacturing<sup>4, 5</sup>.

<sup>3</sup> 2025-05-21, Federal Reserve Board of Governors, *Economic Well-Being of U.S. Households in 2023* (<https://www.federalreserve.gov/consumerscommunities/shed.htm>)

<sup>4</sup> Increased mining would not increase the Bitcoin supply because the software would automatically increase the effort required for miners to validate a block and mint additional Bitcoin.

<sup>5</sup> Even Bitcoin mining that uses renewable sources damages the environment. First, the renewable energy used for mining is not available to replace fossils fuels. Secondly, even renewable energy production damages the environment.

- Regulations to prevent cryptocurrency from being used for tax evasion and extortion become more difficult to develop without harming a larger group of holders.

## Conclusion

Creating a Bitcoin strategic reserve would expose all state residents to Bitcoin's risks and volatility, including those who have rejected Bitcoin for their portfolios. It would also aggravate the social and environmental harms Bitcoin produces.

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<sup>1</sup> Jan 30, 2025, David Streitfeld, New York Times, "Bill Gates Isn't Like Those Other Tech Billionaires", (<https://www.nytimes.com/2025/01/30/technology/bill-gates-tech-billionaires-memoir.html>)