

Written Testimony OPPOSED (UNF) to HB0051, “Strategic Digital Asset Reserve Act of Maryland”.

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I oppose HB0051, the Strategic Digital Asset Reserve Act of Maryland, because it poses a significant financial risk to Maryland taxpayers and undermines sound fiscal policy. Currently, Bitcoin is the only digital asset that meets the requirement of being a cryptocurrency with over \$ 500 M in market capitalization. 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 use 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 will be able to 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.
- 4 years leading an anti-fraud modeling team at a large financial technology firm.

I began following cryptocurrency in 2012, initially captivated by Bitcoin. Over time, my perspective shifted due to concerns about its energy consumption, which, as of October 2024, rivals Poland's. I also recognized inaccuracies in its promoters' claims, such as Bitcoin being an efficient payment system, leading to a more critical view of its overall utility and sustainability..

In 2022, I joined 1500 other experts in signing a letter,¹ [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.

The source of the funds does not diminish the State’s duty to protect them.

Forfeited money is a taxpayer asset, just like any other dollar collected in taxes and fees. If the government has the power to buy Bitcoin or Ethereum with these funds, it has the power to spend

¹ [Letter in Support of Responsible Fintech Policy](#) (link)

them on investments in schools, law enforcement, health care, or social services or return them to taxpayers.

Bitcoin lacks the characteristics of a legitimate investment.

Bitcoin's volatility is the most immediate concern of many commentators. However, it is only a symptom of a deeper flaw in the investment thesis.

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 needing new buyers.

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.

High return forecasts and inflation hedge claims are not credible

In previous testimonies, proponents have made claims that Bitcoin would yield large future returns for the state. These claims are misleading and extrapolate from a time period when the community of Bitcoin owners was an insignificant niche. The returns claimed would make Bitcoin's market cap exceed that of US equities. The world cannot become wealthy buying ledger entries, except for those that record investments in physical and human capital.

Similarly, claims that Bitcoin is an inflation hedge are completely unsupported. Bitcoin's price growth depends solely on finding new buyers. The only true inflation hedge is owning products and the production of services that people demand at higher prices.

Should other cryptocurrencies reach the \$500 M market capitalization threshold, they should be subject to the same analysis as other investments – a determination of whether expected revenue (e.g., for Ethereum this would likely be fees collected from stablecoin and other transactions³) from owning the cryptocurrency is adequate compensation for the risk.

The illusion of "strategic" in a Bitcoin reserve.

The purpose of creating a "strategic reserve" of an asset is to be able to use when it is urgently needed or in short supply. For example, strategic reserves of antibiotics or vaccines could be

³ Although Ethereum holders don't collect fees directly they can either use the holdings for staking or benefit from the burning (similar to a stock buyback) of Ethereum paid in transaction fees.

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 a price collapse.

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.”⁴

Bitcoin has no legitimate use except for being able to do activities forbidden to financial institutions. Typically, its advocates claim it enables sending money to anyone anywhere at low cost. 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 false 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.

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 2023 and 2024 reports below^{4,5}.

⁴ 2025-05, Federal Reserve Board of Governors, *Economic Well-Being of U.S. Households in 2023* (<https://www.federalreserve.gov/consumerscommunities/shed.htm>)

⁵ 2024-05, Federal Reserve Board of Governors, *Economic Well-Being of U.S. Households in 2024* (<https://www.federalreserve.gov/consumerscommunities/shed.htm>)

Type of use	2021	2022	2023	2024
Bought cryptocurrency or held as an investment	11	8	7	7
Used cryptocurrency to buy something or make a payment	2	2	1	2
Used cryptocurrency to send money to friends or family	1	2	1	1
Any use of cryptocurrency	12	10	7	8

Note: Among all adults. Respondents could select multiple answers.

Characteristic	Investment only	Transactions	Any
Family income			
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
Age			
18–29	7	3	10
30–44	8	3	11
45–59	6	2	8
60+	2	*	2
Race/ethnicity			
White	5	1	6
Black	5	3	8
Hispanic	7	3	9
Asian	9	2	11
Gender			
Male	8	2	11
Female	3	1	4

Note: Among all adults.
* Less than 1 percent.

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 mean

- A transfer of wealth from new buyers to the cryptocurrency industry and its 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^{6, 7}.
- Regulations to prevent cryptocurrency from being used for tax evasion and extortion become more difficult to develop without harming a larger group of holders.

⁶ 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.

⁷ 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.

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.

¹Jan 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>)