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Washington Times Op-Ed | Chicago's Last Trade

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For generations, Illinois has stood at the center of American financial innovation.

A quick reflection reminds us that it was the storied Chicago exchanges that pioneered the commodity derivatives markets and laid the foundation for how farmers hedge risk, businesses manage uncertainty, and investors allocate capital. From the early days of crowded trading pits and handwritten order tickets to algorithm-driven and high-frequency electronic trading, Illinois has been an engine for financial innovation.

That legacy is now at risk.

Last month, Illinois lawmakers slammed the brakes on technological progress by approving what is effectively a "sin tax" on blockchain technology. Under the law, a broad swath of crypto asset transfers by Illinois residents will be subject to a 0.2% tax based on the value of the crypto asset – even when the transaction generates no realized profit or economic gain. Meanwhile, transferring the same value in a non-crypto asset format would not result in a tax. In other words, the law treats economically identical transactions differently based on the technology used to affect each transaction.

One could only imagine where the state's economy would be today had it applied a similar tax to transactions conducted over the internet as the technology was gaining momentum in the early nineties.

It is not a surprise that there does not exist a similar financial transaction tax anywhere else in the country. America was founded on the principles of individual liberty and private property. It is impossible and contrary to the American belief system for Americans to plan for the future without knowing that the property they worked hard for and paid their taxes on will not be looted by the state at a whim. Yet, on the 250th anniversary of our nation, Illinois has instituted a tax that will do just this. Subjecting Illinois residents to property ownership by permission rather than right.

Ronald Reagan once remarked that our nation "is inventive because we're free, and prosperous because each individual is secure to gather and keep the fruits of his labor." An economy functions best when participants understand the rules governing their conduct. They need to know, in advance and with confidence, which activities and assets create tax liability and which do not. When they do not, uncertainty becomes a cost in itself. In this instance, however, the cost is abundantly apparent.

With financial firms increasingly incorporating blockchain technologies and crypto assets into their businesses, Illinois had an opportunity to continue its legacy as a global financial hub. Some of the most prominent exchanges and trading firms in the world have chosen Illinois as their home.

But as technology continues to progress despite some states' efforts to halt innovation, companies have the choice of where to build, where to hire, and where to invest. States that provide clear and predictable regulatory environments will naturally attract more business and investment. Those that punish innovation with taxes and draconian restrictions will drive innovation elsewhere.

Just as the internet revolutionized the transfer of information, blockchains will revolutionize the transfer of value. Anything and everything is likely to be "tokenized," or represented in crypto asset format – from commodities to currencies to stocks and bonds. Illinois lawmakers seeking to plan the state's economy from an ivory tower have placed their constituents at a significant disadvantage.

At a time when policymakers and federal regulators across the country are working to establish a clear framework for crypto assets and blockchain technology, Illinois is moving in the opposite direction. Congress is actively considering the CLARITY Act, which is designed to provide transparent rules of the road for crypto asset markets. Once signed into law, this legislation would establish a comprehensive regulatory framework that promotes responsible innovation, protects consumers, and provides market participants with certainty. But Illinois lawmakers decided they know better than the federal lawmakers who have been working on delivering clarity to crypto asset markets for years.

The United States is home to the most liquid and vibrant financial markets in the world because its laws and regulations are designed to secure individual liberty and private property. Over the course of our country's 250-year history, Americans have rejected dogmatic ideas, explored new frontiers, developed cutting-edge technologies, and invented novel financial instruments. We have done so always with the understanding that our private property will not be arbitrarily taken away from us.

Our founders firmly believed in the individual's right to think, to speak, to invent, to discover, to transact, and to choose. They understood that it is foolish to believe that the state knows better than the individual when it comes to planning the individual's economic endeavors. Laws that seek to replace the invisible hand with central planning subject private property to social engineering and pressure-group politics.

Illinois once understood this better than anyone. The state's leadership in derivatives markets was not an accident; it was built on recognition that clear rules and competitive markets encourage innovation, investment, and economic growth. State governments that choose to reject the free market principles upon which our country was founded do so at their peril.

As blockchain technology continues to transform our financial markets, the choice to loot crypto wallets rather than grow the state economy with pro-innovation policies may go down in history as Chicago's last trade.

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