

Tyranny of the Code: The (Hopeful) End of Coinbase

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“Everyone in Bitcoin... are the worst kind of hucksters and characters you’ve ever seen. They have nothing better to do though, they couldn’t make it in traditional banking and now they’re here fucking it up for the rest of us.” –[Cody Wilson](#)



Photo Credit: Bitcoin.com

When I use crypto-currencies, it’s for a number of reasons: their decentralized nature, privacy in financial transactions, subverting mainstream central banking, and, well, personal satisfaction—the overwhelming sense of freedom I feel in transacting with this medium of exchange is quite the high.

That said, Coinbase has managed to single-handedly undermine the main reasons why I choose to use crypto-currencies. I guess it was wise for me to never to do business with them.

[Two years ago to the day](#) (completely unintentional), I wrote about my first experiences in trying to acquire Bitcoin without revealing any **[personally identifiable information](#)**. My first attempt was through Coinbase. I was quickly dissuaded when

they required me to upload a copy of my driver's license before doing anything with them—even as a newbie, I still viewed that as contrary to the purpose of Bitcoin.

The results were similar with every exchange I tried, the exceptions being ones that were outside of the United States, and therefore, they weren't legally allowed to do business across imaginary borders and a "big pool."

I eventually was able to acquire the Bitcoin without a bank account, but it took a whole evening and I suffered ridiculously expensive transaction fees.

All of that said, I have been warning against Coinbase ever since. I've joked many times about how, "Next, they will require you to upload a blood sample for identity verification purposes." Think biometrics.

It's not that bad yet, but don't worry, when the State asks Coinbase to jump, they ask, "How high?"

Let's begin with probably the most important reason NOT to use Coinbase, if you are one of the folks who would rather not report taxes on your transactions/earnings in crypto-currencies.

On November 18th, 2016, [Coinbase published a blog post](#) revealing that the U.S. federal government is "seeking disclosure of all Coinbase U.S. customers' records over a three year period" because "taxpayers may use virtual currency to evade taxes."

Thankfully, Coinbase has at least had SOME sort of a spine in caring about their users' privacy, and as of [June 8th](#), they still have yet to turn over any user account information.

That's no cause for celebration, though—I predict there will be a concession of some sort, whether that comes down to a more stringent tax reporting protocol (which co-founder Brian Armstrong is pushing for—see below), disclosing only certain accounts trading in high volume, or whatever.

In [January of 2017](#), the communist state of New York granted a virtual currency and money transmitter license to Coinbase. This is unusual for a controlling monster like The Empire State, although not unsurprising since Coinbase is an IRS-compliant exchange, although hyper-compliant would be a better way to put it.

Fast forward to February 9th to a [Forbes article](#), wherein Armstrong discusses how the IRS can rest assured knowing that users transacting in Bitcoin are paying their taxes "if we [Coinbase and the IRS] make it easy" for them to do so.

He sounds quite confident in that answer; I'll refer to [Vikram from The Office here](#): "Confidence...it's the food of the wise man, but the liquor of the fool."

The article further states that:

"Requiring a standardized process for reporting which could be utilized by the entire industry would help resolve some of the reporting concerns, says Coinbase and they're prepared...to go first."

I'd strongly prefer this sort of thing *not* become the industry standard, but I don't think Coinbase is going to alter their path of [possum-like submission](#) to government entities.

If you're a libertarian or an anarchist, you're probably familiar with [civil asset forfeiture](#) and you *should* be against it, but those in Coinbase are apparently not (or, possibly, they are willing to compromise for the sake of "cooperation" with governments)—they seem to have no problem assisting the bludgies (i.e. police, aka the Bluecoats) in selling off their stolen Bitcoin seized in investigations, as revealed in a [February CoinTelegraph article](#).

Why did the Vernon Hills Finance Department choose Coinbase, you might ask? Well, Nikki Larason, the finance director, "described Coinbase as a 'police friendly' trading platform and revealed that the police department's asset forfeiture account will be linked to the village's Coinbase account."

It sounds like Coinbase and the bludgies will have a *friendly*, working relationship going into the future...Scary.

Speaking of horrifying, an [article was published on Bitcoin.com](#) in late February discussing one end user's experience in attempting to create an account on Coinbase:

"Just tried to help a friend register an account and they're demanding access to her webcam?!?! "[W]e will require you to take a photo of yourself with your webcam"....but no law or regulation requires this. I have accounts with 3 brokerage firms, 2 banks, and Gemini, and none have ever demanded access to my computer's hardware. Coinbase, what are you trying to pull here? Accessing our computer's hardware is not required by... laws/regulations. What's your true endgame?"

One more case study was cited:

"I've had an account for three months and all of a sudden when I went to buy [sic] more Bitcoin I was taken to a page to verify my identity again. I had already done that by uploading my license. This time they made me use my webcam and it took me eight tries because they kept saying it was too blurry."

My use of the term "hyper-compliant" was not hyperbole—I wish it were—with their use of this facial recognition software, they are going over and beyond what is actually legally required and making their exchange that much more anti-privacy. Orwell, eat your heart out.

What's next? Requiring new users to go through a retinal scan? Or, as I satirically pointed out earlier, a blood sample for ID verification?

Speaking of going over and beyond, [Coinbase added Kathryn Haun](#), a former federal prosecutor, to their Board of Directors on June 14th—although she didn't play a direct role with Ulbricht's sentencing, she was involved in the [takedown of two federal agents](#) who stole money during the Silk Road investigation. She was the first ever Digital

Currency coordinator for the Department of Justice, “with a focus on financial fraud, cybercrime, [and] digital currency.”

My immediate thought after discovering this was, “I wonder if Coinbase hired her based off of a ‘stern recommendation’ by the federal government?” With no possible way to verify that, I’ll leave that one up for you to ponder.

This story gets more interesting, though.

Not 24 hours after the aforementioned announcement, the [Free Ross campaign revealed](#) that Coinbase had frozen their account after an apparent transfer of ~\$40,000 which was to be used for legal expenses.

With this highly suspect chronology of events, it really makes me wonder if the federal government’s control of Coinbase is beyond regulatory powers now—is this just the first example of a revolving door between the exchange and the feds? Realpolitik, much?

Lots of questions, with little to no answers.

So, what’s the takeaway?

Look, I get why people use Coinbase—the convenience of going in and out of Federal Reserve Notes (FRN’s) has to be nice, but when you look at their consistent strides away from privacy, their consistent collusion and hyper-compliance with regulatory powers, and the never-ending stories of how Coinbase randomly froze/suspended someone’s account without any foreknowledge (and subsequently making the withdrawal of remaining funds extremely difficult), it seems to be far more trouble than its worth.

But, what about other exchanges like Poloniex or Gemini? Honestly, I’ve never used an exchange that deals with FRN’s, so I’m really not sure if they would be any better—sure, maybe less scandalous, but there is the legally required identity verification step in setting up an account (since they deal with government fiat).

The choice between privacy and convenience is one that individuals will have to decide for themselves.

One might quip, “So, Shane, I’ve seen you post a lot about you speculating in cryptocurrencies and such. How do you do all of that without using one of the aforementioned exchanges?”

The answer is two-fold: peer-to-peer transactions and the New Zealand based exchange, [Cryptopia](#).

Cryptopia is an incredible exchange, and unlike Coinbase, Poloniex, or Gemini, since they don’t deal with government fiat, they don’t require ANY personally identifiable information. You can trade your crypto knowing your privacy is secure and your account offshore. The only catch is that you have to acquire some crypto-currency beforehand, in order to enter the exchange—and, when you want to cash out, you’ll likely have to go peer-to-peer or you can buy gift cards with Bitcoin through [Gyft.com](#) (or, as another

option, you can buy a Walmart gift card and then subsequently purchase a Visa gift card).

Bitcoin was certainly a revolutionary development with a focus on decentralizing money. It has sparked a crypto-currency revolution that has improved the lives of millions, including the life of your humble author, and they will continue to do so.

The only real challenge that lies ahead is not a technological one—rather, it is exchanges like Coinbase and startups/developers selling out blockchain technology to make a quick buck.

I'll leave you with this: I would love nothing more than to see the whole Coinbase infrastructure collapse—but, I'm no central planner, and the market will inevitably decide if Coinbase's services are really necessary, or if it's more worthwhile to go with a competitor.

If you're as concerned as I am, if you see this chronology of events as being detrimental to crypto-currencies, I implore you to vote with your wallet and take your crypto-business elsewhere.

Endnote: Shoutout to [Brian Sovryn](#) for his coining of “tyranny of the code.” It worked so perfectly for this article, I had to use it.

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