

Is banning cryptocurrencies the solution?

PARLEY

A blanket ban will push the currency into the black market and stifle innovation

Recently, a government panel headed by senior bureaucrat Subhash Chandra Garg placed in the public domain a draft bill calling for a complete ban on private cryptocurrencies in India. The panel recommended a fine of up to ₹25 crore and a jail term of up to 10 years for anyone found to be owning or handling private cryptocurrencies. As an alternative to private cryptocurrencies, the panel recommended the introduction of a single cryptocurrency for the whole country that is backed by the Reserve Bank of India (RBI). Parag Waknis and Anil Antony examine the soundness of the panel's recommendations in a conversation moderated by Prashant Perumal. Edited excerpts:

What do you think about the Garg panel's overall guidelines? The volatility of private cryptocurrencies is one of the reasons being given to ban them.

Parag Waknis: Volatility doesn't sound like a good rationale to ban cryptocurrencies because if cryptocurrencies are volatile, so are many other asset classes. We do not ban investments in any other asset class just because it is volatile. The decision of whether to invest in an asset or not should be left to the investor. The risk return calculation should be done by the investor, not the government.

Also, banning the consumption of a good or service doesn't really mean that people will stop consuming it. The market for the good or service simply goes underground and becomes hard to track. The market continues to exist, but the government cannot track it or tax it to gain revenue. This applies to cryptocurrencies as well.

It is true that the price of cryptocurrencies, especially bitcoin, has been volatile. And that's primarily because of their design. Bitcoin, for example, is designed in such a way that its supply rises rapidly first, but later very slowly, before stopping at a certain point.

You said that banning a currency would push it into the black market. That would also

make it much harder for the government to regulate it, right?

PW: Yes, exactly. In most cases, if the government feels that there is enough rationale to regulate the consumption of a commodity or a service or investments in a crypto asset, the best way forward is to come up with a regulatory framework that has incentives set right for the users. Maybe you can have a tax on capital gains from investing in crypto assets, just like you have taxes on investments in other assets.

The Garg panel, while being opposed to the idea of private cryptocurrencies, still seems to be a fan of the blockchain technology. It has called for a national cryptocurrency backed by the RBI, which would probably be based on the blockchain.

Anil Antony: The Garg panel opposing cryptocurrencies seems like yet another case of a group of people not really understanding a concept and hence trying to ban it. Most people equate cryptocurrencies with blockchain, but there is a huge difference between them. The cryptocurrency is just one application of the underlying blockchain technology. The blockchain technology has a lot more potential beyond cryptocurrencies.

An issue raised against cryptocurrencies is that they aren't really backed by an underlying commodity or a sovereign government. But do you think it's absolutely essential that a currency needs to be backed by a commodity or an institution for it to be widely accepted in the market?

PW: No. The way we define money is that it is a generally accepted medium of exchange. So, it's just trust that basically drives the value of money. There is nothing to back it, except trust. When two strangers have no other way of transacting with each other, when there's no way they can verify the creditworthiness of each other, money helps. That's all that we basically need. We need trust for that.



Now, what does a crypto asset or a cryptocurrency offer? It is right that it is not backed by anything. But it doesn't really require any backing in the sense that, as long as people hold the expectation that a particular asset will have value, it is sufficient.

So is it the value that people think the currency will possess in the future that really drives its value?

PW: Exactly. Yes. Cryptocurrencies allow people to conduct anonymous transactions. The price of bitcoin, for example, is driven by the access to the anonymity that it offers its users. People may also want to keep their wealth in some asset that gains in value over a period of time. So that is the worth or the "right" that people are paying for when they're buying cryptocurrencies.

There are also cases where fiat money has retained value even when the bank has ceased to exist. For example, in Somalia, the central bank and all the concerned institutions had ceased to work at some point. But people still continued to value the Somali currency. So there was no backing at all for the currency, but people still believed that it had value and they continued to use the currency in transactions. So the strength of a particular asset boils down to what people think about it.

When talking about anonymity, the common objection to cryptocurrencies is that they

can be used to finance various criminal activities. So, do we require government regulations to prevent their misuse, or are there other market mechanisms to deal with the problem?

PW: I have done some research linked to this using money search models, where there is a set of competing monies, which could also be cryptocurrencies, and I basically show that there is a certain equilibrium where competing suppliers of cryptocurrencies would behave in a disciplined way. Theoretically, cryptocurrency providers could issue an unlimited amount of their money. But they're competing against each other, so the competition forces them to restrict their supply to a minimal amount that would help maintain the value of their currency. Thus the discipline imposed by market competition can prevent cryptocurrency providers from overissuing their currencies. We can also think about discipline in terms of reputation effects. For example, if there is a paper currency, and it turns out that it can be used to finance, let's say, crime, terrorism, or anything similar, there is the reputation of the supplier at stake.

So there are some ways by which

the market can discipline cryptocurrencies. But I think regulation, in terms of having the right rewards and punishments in place, would help. Not actions like banning stuff.

AA: Just to add to this... right now, one of the most comprehensive sets of regulations surrounding this debate on cryptocurrencies being used for various nefarious activities is being discussed across the world. It is one of the biggest concerns everywhere. One of the most comprehensive sets of regulations for cryptocurrencies is being brought in by the European Union. The EU is putting in a bunch of regulations to tackle money laundering, and it is called the AMLD-5. It is a bunch of norms to make crypto transactions more secure. It has a lot of very stringent KYC regulations and self-declaration laws which every holder of a crypto wallet or user needs to adhere to. Crypto exchanges are all expected to maintain a database that is transparently shared between countries. It is not foolproof, but the EU has started creating a bunch of regulations that could become stronger over time. This could be the best way to go forward rather than putting a blanket ban on cryptocurrencies, because the presence of cryptocurrencies is very important for the further development of the blockchain.

When you impose a blanket ban on private currencies, thus effectively nationalising the market for cryptocurrencies, what exactly are the implications for innovation?

AA: In 2018, in the Silicon Valley alone, almost \$2.9 billion worth of private venture funds have gone into blockchain start-ups. In tech hubs across the world, we are seeing billions pumped into the blockchain technology. In this scenario, if we decide to put a blanket ban on all cryptocurrencies, then our technology entrepreneurs will suddenly lose the incentive to work in the sector. You simply can't just build blockchain applications out of thin air. Right now, currencies are the only viable practical application of the blockchain technology even though it can be extrapolated to a lot of other sectors. So, for the sake of innovation, I think even if the government is bringing in a state-

backed currency, it will be better if the other currencies are also allowed to operate with sufficient regulations.

Also, when we are speaking about a country like India, in terms of size, cryptocurrencies constitute a very, very minor share of the total amount of money that is already being used to carry out various activities in the black economy. But the potential rewards that could come out of the blockchain technology are big.

If cryptocurrencies form such a minuscule part of the black economy, why are policymakers so concerned about cryptocurrencies being used to finance criminal activities?

AA: I would say nobody really expected cryptocurrencies to become such a big factor in such a short period of time. Right now, the global market capitalisation of cryptocurrencies is almost \$120 billion. And that's just the tip of the iceberg, it could get way bigger over time.

What impact will cryptocurrencies have on the central bank's control over monetary policy? Is there a good case for a national cryptocurrency issued by the central bank, as proposed by the Garg Panel?

PW: People will move to alternative assets and seek more anonymity only if they lose trust in government institutions. So, as long as the trust is maintained, monetary policy doesn't face any particular threat from cryptocurrencies.

When it comes to a central bank-issued digital currency, there is a loose consensus, especially among monetary economists from the New Monetary School, that there is no case for governments issuing cryptocurrencies because it would create a lot of problems in the form of contradictions in existing regulations and the government will have to deal with severe mismatches in regulations. Secondly, there are reputation effects. A digital currency issued by the RBI that gets misused by criminals can affect trust in the existing fiat currency protocol. I don't think a central bank would want to take that risk.



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Conscience-keepers at the helm

The Congress cannot wish for democratisation of the party while continuing to rely on the Gandhis

MOHAMMED AYOOB

Congress MP Shashi Tharoor is an eloquent and articulate member of the Lok Sabha. He is one of the few independent-minded parliamentarians of the Congress. He might have been the obvious choice for the position of the leader of the party in the Lok Sabha but was denied the position because the "conscience-keepers" (his term) of the Congress were afraid that he would outshine them and exhibit their mediocrity.

Change in election process

His recent interview published in *The Hindu* demonstrated his independent streak. In it, he argued that the Congress could not afford to drift aimlessly without a functioning president, adding, "There is a difference between a nominal leadership...and an active leadership. An active leadership would be far more engaged, far more outspoken and far more visible than Rahul Gandhi has chosen himself to be."

More important, Mr. Tharoor contended that the process of electing the president of the Congress should not be left to the Congress Working Committee (CWC), itself a coterie of appointed members most of whom are unelected and unelectable. Instead, he said, it should be an open process with party workers and functionaries from across the country voting for a new leader to replace Mr. Gandhi as well as the CWC.

This, Mr. Tharoor argued, will provide the president and the party greater legitimacy and, therefore, greater credibility with the voters both in the forthcoming Assembly elections and in the 2024 general election. Mr. Tharoor's stance has found great resonance among party members across the board but has rattled the senior leaders and members of the CWC who continue to hang on to their positions despite the party's abysmal performance in the Lok Sabha election.

It was a surprise, therefore, that in the same interview Mr. Tharoor referred to the Gandhi family as the "conscience-keepers" of the Congress and went on to say, "Whoever takes the position, he or she has to have the cooperation of the Gandhi

parivar because the DNA of the party is inextricably tied up to them." He believes that if a Congress president was ever to take a position that was inimical to the party's ethos, the conscience-keepers will speak out.

This position stands in stark contrast to the rest of the views that Mr. Tharoor expressed about reforming the party and holding open, democratic elections for the president and the CWC. He appeared to underscore this contrast when he said that the current scenario resembled the "old days, before Independence," when, if the Congress president did something and Mahatma Gandhi conveyed disapproval, that would have been enough for the president to understand and presumably apply corrective action.

A contradiction

There are two major concerns regarding this formulation. First, comparing the Gandhi parivar, which thrives on sycophancy and trades on its increasingly remote ideological and even biological relationship with Jawaharlal Nehru, to the Mahatma is a brazen insult to the tallest leader of the freedom movement. Second, the notion that during the struggle for independence the Congress needed a "conscience keeper," even one of the stature of Mahatma Gandhi, is questionable. Conscience keepers detract immeasurably from the democratic spirit of movements and parties. The Mahatma's machinations as the super boss of the party that led to the forced resignation of the democratically elected president of the Congress, Subhas Chandra Bose, in 1939, are a testimony to this fact. Bose's alienation had major implications for the freedom movement that have not been adequately analysed so far.

I would contend that Mr. Tharoor should seriously think through the contradiction in his reasoning on the issue of "conscience keepers". It is quite inconsistent with the rest of his sensible argument regarding the need to democratise the Congress in order to rejuvenate it.

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NOTEBOOK

The village advantage over a Michelin starred restaurant

Respecting water, soil and forests is the only way to get wholesome food

SHONALI MUTHALALY

I'm powered by curiosity, fried grasshoppers and a wizened old lady. The route to Pryda village, set deep within the West Khasi hills of Meghalaya, involves a gruelling one hour trek. Fortunately Spermon Khar-najor has volunteered to guide me. The sprightly village matriarch, probably in her late 70s, skips from rock to shaly rock as we climb uphill, with an impressively firm grip on my wrist to haul me past the more challenging portions.

A few hours ago we were at a dramatic meeting of the tribes in Shillong headed by the International eco-gastronomic movement Slow Food. The meeting brought together about 600 delegates representing 140 tribes from over 58 countries. Spending three days among pastoralists, honey gatherers, yak herders, reindeer breeders, fishermen and farmers made me develop a new

respect for ingredients and the people who bring them to our dining tables.

As a food writer, I spend time learning from chefs and mixologists, who use complicated, impressive techniques to tease and primp ingredients into flamboyant menus and sophisticated cocktails. It is humbling to be reminded that ultimately everything depends on ingredients. And the only way to get quality ingredients is by respecting water, soil and forests, just like the indigenous people do.

Admittedly, it is easier said than done in a world that bristles with processed food, and in which taste buds have been trained to crave the addictive alchemy of fat, salt and sugar that comes in every bagged snack. I try. I gingerly sample crunchy Eri silk worms, reputed to taste like crisps. (They don't!) Eat lunch with a surprisingly tasty and tangy and chutney. And snack on salted deep-fried



grasshoppers. Then, I head to Pryda for lunch. A pig has been killed, and every part of it has been sensibly used, so nothing goes to waste. A sturdy table in the village schoolhouse is laden with food, much of it unfamiliar. There are bowls filled with fresh green herbs and a hefty pot fragrant with sautéed mustard leaves. At the centre of the banquet is the pork curry - rich, spicy and delicious.

There isn't a sauce bottle or plastic packet in sight: none of these flavours have come out of a factory. There are no chefs in the kitchen; the community has cooked together, between cups of tea and gossip. The vegetables were

harvested in the morning from a garden behind the school. The flavours are uncomplicated and alluring in a way no Michelin starred restaurant can compete with.

As the sun dims, I jump up realising I must leave immediately if I am to reach the main road before the path is plunged into darkness. Spermon presses a cool package into my hands as she hugs me goodbye. It's sohplang, a local tuber, deftly wrapped in banana leaves. I snack on it thoughtfully as I walk back: it is crisp, juicy and refreshing.

Environmentalists warn us incessantly that we are marching towards a precipice, propelled by competitive consumerism. Can looking towards the villages save us? It may sound naïve but it is a seductive idea. And I would rather learn lessons from Spermon and her ilk than be disappointed, again, by yet another Facebook warrior.

The Hindu.

FROM THE ARCHIVES

FIFTY YEARS AGO AUGUST 2, 1969

P.M. and Nixon's discussion

In her final round of talks with President Nixon on to-day [August 1, New Delhi], the Prime Minister, Mrs. Indira Gandhi, got the distinct impression that in its new thinking of Asia, the United States was attaching great importance to better Indo-American relations in the larger interests of peace and stability in the region. The two Heads of Government, who met for over three hours yesterday and to-day [August 1] and discussed almost all aspects of the Asian situation, agreed in principle to explore the possibilities of a new pattern of Asian security to ensure respect for the sovereignty, independence, territorial integrity and neutrality of the smaller countries of South-East Asia which were vulnerable to both internal subversion and external threats. Mrs. Gandhi is reported to have pointed out that the Indian proposal for a Regional Security Convention did not envisage any military guarantees but only political assurances by the Big Powers and the major countries of Asia, which were prepared to subscribe to the Geneva principle of non-interference in the internal affairs of these small nations. India was not thinking in terms of any political or military condominium in Asia, under the auspices of the U.S. and the Soviet Union, to protest the Asian countries from possible dangers of Chinese aggression.

A HUNDRED YEARS AGO AUGUST 2, 1919.

Race Riots in America.

A further recrudescence of racial rioting last night [July 28 in Chicago], resulted in five Negroes and two white men being killed, and forty persons wounded. Racial rioting was renewed this morning. One Negro was killed and two others wounded. It is now known that there were at least ten fatalities last night. It is estimated that up to the present twenty-five have been killed and five hundred injured, and many of the latter are not expected to recover. The authorities have stopped tramcar and elevated railway traffic in the disturbed area owing to the rioters wrecking tramcars. Troops are in readiness. The riots to-day [July 29], assumed the character of a veritable battle. A hundred thousand Negroes and an equal number of whites, participated in the fighting in the streets with knives, razors and revolvers. A semblance of order was restored by the Mounted Police riding over the dead and wounded, and scattering the combatants, but sniping, knifing and incendiarism continued in outlying streets.