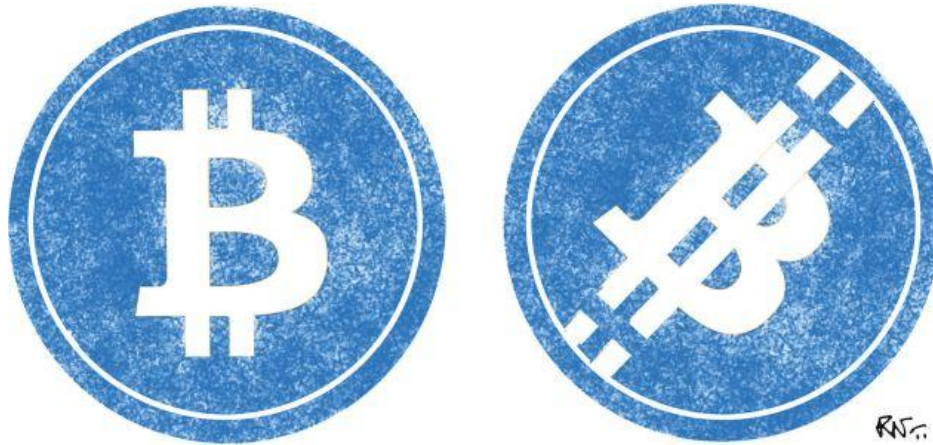


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Why bitcoin should not be allowed

MADAN SABNAVIS



The cryptocurrency will fuel laundering of black money and financing of terrorism. It will render monetary policy ineffective

Compelling arguments have been made to justify the existence and use of bitcoin. The currency has caught on in a number of countries to the extent that there are indicative exchange rates for bitcoin in almost all currencies in the market.

However, for a nation that has launched an outright war against black money, which could also have meant compromising growth in the short run through demonetisation, allowing cryptocurrency (CC) would be a contradictory act. The concept of bitcoin has caught on in the world and there is evidence of its use in India, too. Also, the start of a new currency of a similar variety cannot be ruled out; hence, it is necessary to take a stance on the same.

CC is a currency created from nowhere through intricate software which is foolproof. A certain sum is created independent of any central bank which is then allotted based on demand for a price which is fixed externally. A bitcoin trades at around ₹2.5 lakh and would be equal to around \$3,800 or €3,200.

The advantage is that it works on algorithms and is not connected to how central banks and countries function and the ownership is anonymous. The fact that it is accepted by sellers is critical here and hence can be used seamlessly independent of monetary policies being pursued. Defenders claim it is some kind of an alternative asset like land or stocks and is legitimate (can be taxed in some jurisdictions as capital gains).

Many reasons to say 'no'

The reasons that were given in support of demonetisation can be extended to not allowing CC in the country. Black money can proliferate easily with the use of a CC. People can automatically convert all earnings in dollars outside the country into a CC which can be used within the country or even outside where it is accepted. Drug money would get the biggest boost as it would be impossible to capture these transactions.

Second, terror funding becomes easy once it is accepted as medium of exchange and the entire exercise of demonetisation would be defeated by allowing such parallel currencies to run. Third, counterfeiting was another strong reason put forward for removing high denomination notes from the financial system. If CC is permitted it is akin to the use of counterfeit currency, as transactions would take place in currency which is not recognised by the central bank. Therefore, in the context of the attack on black money, CC definitely not find space in the financial architecture of any country.

From the economic standpoint, CC makes no sense. A currency carries value because it is issued by a central bank on behalf of the government and the latter promises to pay the bearer the sum written on the currency. The moment one moves into the realm of CC there is no guarantor. In fact, given that no one has seen the face of the creator of bitcoin it is hard to even trace the same to the source. In a system of barter, which is still in force in some rural areas where payment is made in kind especially with respect to farm products, there is a physical back-up for the transaction. In the case of CC, it runs on the basis of mutual acceptance and trust.

RBI becomes ineffective

More importantly, monetary policy loses meaning once a CC comes into the frame. Economies run on the basis of a currency which serves as a medium of exchange. Hence the rupee is used for making transactions and the RBI through various measures attempts to control the supply of the same. This ensures macroeconomic stability. Hence if there is

excess demand due to credit creation, then the RBI's interest rate or open market operations can influence the overall demand conditions. Once a CC comes in, demand is unhinged from monetary conditions as long as CC is accepted by both the parties. Hence, it would make monetary policy weak and as a corollary, government policies would become ineffective as CC gains importance.

It may be recollected that in the 1980s there was an acute shortage of coins of low denomination in Mumbai. This had led to the use of BEST (Mumbai's bus transport run by the state) tickets as change. Hence, tickets for 10 (it did exist at that time!), 25, 50 paise and ₹1 were used as a mode of transaction even in restaurants. This did raise considerable controversy. The RBI was unhappy with this substitute as it violated the principle of the central bank being the only authority to issue currency.

Today, regulation ensures that there are limits to which one has access to foreign exchange and all transactions carried out by the people have an audit trail. Using CC will be destabilising. Further, with the government working towards extracting money from Swiss accounts, creating another window for CC would be self-defeating.

Curiously, the exchange rates that can be viewed for the bitcoin roughly translate to the existing exchange rates prevalent in the market with a deviation of (+) (-)2.5 per cent (such as \$3800 to ₹2.5 lakh). If this were so, then given that the government and RBI have put structures in place to foster electronic mode of transactions, for the country it would make such a currency irrelevant. If one can deal in CC, then the same could be done through the existing electronic mode.

Hence on all counts, allowing CC cannot be justified. It should not be considered, and should also be made illegal. If one wants ease of electronic payments, this has been accomplished by the government/RBI. Allowing such a currency will generate black money. And most importantly, the central bank will lose its control over the medium of exchange in the country as well as monetary policy formulation, which is the clinching argument against allowing cryptocurrency.

The writer is Chief Economist at CARE Ratings. The views are personal

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