

CONTROLLING THE CRYPTO GENIE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

New York University Professor Nouriel Roubini considers Bitcoin a “pseudo-asset” that is pumped by “massive manipulation”. File | Photo Credit: [Reuters](#)

Elon Musk may be the real crypto piper, for [cryptocurrencies](#) dance to his tunes. Crypto prices shot up when [Tesla announced that it has invested \\$1.5 billion in Bitcoin](#) and when Mr. Musk said that Tesla would accept Bitcoin as payment for its electric cars. They slumped when he reversed that decision and tweeted that Bitcoin prices “seem high”.

What is the true nature of such highly volatile cryptocurrencies? New York University Professor Nouriel Roubini considers Bitcoin a “pseudo-asset” that is pumped by “massive manipulation”. Whether the crypto hype is a ‘bubble’ is still a matter of speculation. While crypto-assets or cryptocurrencies are being embraced by many, they are under fire mostly by the officialdom in many parts of the world, primarily because the transaction process using cryptocurrencies is so secure that only a money transfer can be seen and nothing can be known about the sender and the recipient. These decentralised assets, with no central bank controlling them, may therefore be used for ‘hawala’, which is a trust-based system of transferring money quickly in a parallel arrangement avoiding the traditional banking system and escaping the due tax. Anonymity and privacy are the underlying characteristics as well as the potential danger of cryptocurrencies. There have been money laundering charges using cryptocurrencies. Shadows of cryptocurrencies loom in the supply of money for terrorist activities. Cryptos have become the preferred payment system for hackers in ransomware attacks. And so, the bid to put the genie back in the bottle was inevitable. But how is that possible and to what extent?

Editorial | [Regulation, not ban: on cryptocurrencies](#)

At one extreme we have China which has almost banned cryptocurrencies and introduced its own centrally regulated digital currency called Digital Renminbi. At the other extreme we have El Salvador which is the first country to use Bitcoin as legal tender. While many parts of the world are planning to clip the wings of cryptocurrencies, El Salvador is planning to build the world’s first ‘Bitcoin City’, funded initially by Bitcoin-backed bonds. The idea may be to harness the cryptocurrency to fuel investment in the country. The International Monetary Fund, however, recently said that Bitcoin should not be used as legal tender in El Salvador and urged the country to strengthen the regulation and supervision of its newly established payment ecosystem. The standpoints of the U.K., the U.S., and most countries of the European Union seem to be in between. Many countries try to regulate it to some extent and also tax Bitcoin gains in their own ways.

In India, cryptocurrencies were under the scanner for some time. In 2018, the then Union Finance Minister said, “The government does not recognise cryptocurrency as legal tender or coin and will take all measures to eliminate the use of these cryptoassets in financing illegitimate activities or as part of the payments system.” A high-level government committee recommended a ban on all cryptocurrencies, except those issued by the state. Then, in 2020, the Supreme Court revoked the curb on cryptocurrency trade imposed by the Reserve Bank of India (RBI).

New cryptocurrency bill will be introduced soon: Government

The Cryptocurrency and Regulation of Official Digital Currency Bill of 2021 is listed for

introduction this Parliament session. It seeks to “prohibit all private cryptocurrencies in India” but allow for “certain exceptions to promote the underlying technology and its uses”. It also aims to “create a facilitative framework” for the creation of the official digital currency to be issued by the RBI. Of course, the digital currency of a central bank may not look like a real substitute for a decentralised cryptocurrency to many users. A few weeks ago, there was speculation whether strong regulations would be imposed and income from crypto taxed in India. There was also speculation about a blanket ban, which led to a slump in the prices of major cryptocurrencies. It is not clear what kind of regulation is going to be imposed finally.

Comment | [The uncertainty around cryptocurrency](#)

A regulated market will certainly keep illegal activities under control to some extent. Most of the common investors will comply with the rules and substantial money will be gained from taxes. But is it at all possible to completely stop hawala, drug or terror funding by crypto with such regulations? Recently, Prime Minister Narendra Modi said cryptocurrencies must not fall into the “wrong hands and spoil our youth” and urged all democratic nations to come together and ensure that things like these do not happen. Of course, unless all nations work together, the genie cannot be completely controlled. And, unfortunately, that’s a remote possibility. For the time being, countries are imposing their own regulations. And Mr. Musk’s tweets might continue to regulate the crypto dance.

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Developing economies such as India are burdened with other issues and require the help of the developed North

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