

# CRYPTO REGULATION WILL WORK BETTER THAN A BAN

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

The government seems keen to outlaw private cryptocurrencies, but a ban is unlikely to prove effective. Arguably, our best bet will be to help a digital rupee dominate a competitive market

India's government has a vexed relationship with currency, as seen in its misguided attempt to squash ill-gotten wealth and illegal activity through a note-ban five years ago. Now, as the prospect arises of a ban on private cryptocurrencies, could we be in for another shake-up that fails to live up to its intent? On Tuesday, it listed its Cryptocurrency and Regulation of Official Digital Currency Bill for enactment in Parliament this winter session. As stated, its aim will be to "prohibit all private cryptocurrencies" but permit exceptions "to promote the underlying technology". It will also include a framework for the Reserve Bank of India (RBI) to launch a digital currency. While its final form could yet evoke sighs of relief from India's cryptosphere, which has much at stake, for now it looks as if the Centre is ready to come down hard on blockchain-based tokens. Trading platforms and the like may be staring at a bleak future, but the same does not apply to cryptos. As the name suggests, they can continue to thrive off the enforcement radar.

Money is fungible and their global success has granted crypto tokens similar fungibility. Recall, it was demonetization that pushed Bitcoin into social conversations, with tales of small fortunes being hidden away for exclusive access via secret codes. Purchases on open platforms can be kept track of, but the internet's sprawl across the globe would still let owners use or encash their chips in secrecy. As tokens issued beyond the reach of our jurisdiction cannot be extinguished, outlawing them is likely to disrupt above-board crypto businesses but eventually prove ineffective. Worse, should they exit our formal economy, we might well be left in the dark about their influence on various inputs for economic policy. As for 'exceptions' to enable blockchain-based value generation, while this sounds like a worthy concession, it may be difficult to get technical distinctions right for us to monitor the industry in a way that's not overly arbitrary. An outright ban, thus, could end up as another case of overkill.

Apart from their potential misuse, a potent argument against cryptos is the erosion of our monetary sovereignty that widespread adoption of stablecoins could conceivably cause in time to come. Anchored by regular money as these tokens are, they could encroach on the rupee's role and reduce RBI's space for macro management. This is a significant risk in need of a mitigative response. Since the inefficacy of a crypto ban would amount to a weak defence of our fiat currency, our best bet would arguably be to let such stablecoins proliferate so that intense market rivalry lets no single token achieve dominance. With splintered forces to contend with, a digital rupee issued by RBI could be positioned as 'the real thing' for online use. Official backing would lend it a unique advantage. If it's well crafted, it could exploit the market's need for a common standard to attain domestic pre-eminence. This would help RBI forestall a loss of control over commercial conditions. Yet, the 'dollarization' of commerce seen in some parts of the world should strike a cautionary note. Digital tokens do not respect national borders, and so their wide usage would weaken our capital barriers. In turn, this would pressure RBI to keep the rupee from losing value both within India and vis-a-vis currencies like the US dollar. Inflation will thus have to be kept low and stable for a digital rupee to stay competitive. Nobody can say how all this will work out. Knee-jerk bans, however, rarely succeed. Let's regulate cryptos instead.

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