The Crypto Conundrum

What is the issue?

The current rally in bitcoin has witnessed the increasing participation of retail investors in India but the future of bitcoin and other cryptocurrencies is still under suspicion.

What are crypto assets?

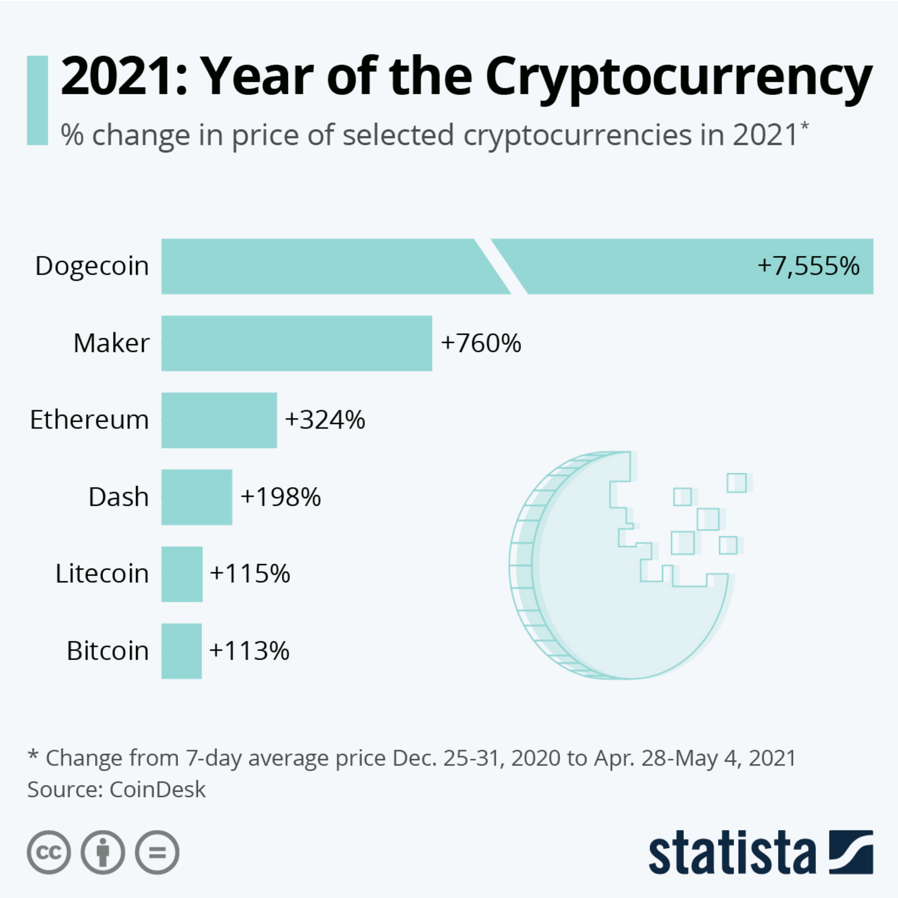
- A crypto asset is a digital asset; but not all digital assets are crypto assets.
- The distinguish features of crypto assets:
    1. uses cryptography
    2. depends on distributed ledger technology
    3. no need for a third party such as a bank to issue crypto assets
    4. have three primary uses: as an investment, a medium of exchange, and to access goods and services.
- Crypto assets are commonly known as cryptocurrencies such as Litecoin, Ripple, Bitcoin, and Ethereum.

To know more about regulation of cryptoassets, click here

What is the case of speculation in cryptocurrencies?

- **Scarcity** - Money creation by central banks causes the price of all goods to rise.
- It also tends to accelerate the adoption of alternative assets as currencies, gold and silver.
- In case of cryptocurrencies , their limited supply has been the major feature for increased participation of investors.
- **Value** - Any asset must have either use value or exchange value in order for it to possess any fundamental value.
- Stocks , bonds, Gold, silver, Commodities such as oil and steel, etc. possess fundamental value.
- But cryptocurrencies possess no significant fundamental value to sustain

their current high prices.
- The investors are bidding up the price of bitcoin because they foresee a future in which private currency is widely accepted as money.



How do cryptoassets challenge the authority of government and central banks?

- The monopoly of governments and central banks over the issuance of money allows governments to fund their budget deficits.
- It also allows central banks to alter the money supply under the mandate of managing aggregate demand in the economy.
- Monopoly control over money allows governments to indirectly tax citizens by increasing the supply of currencies, thus devaluing them.
- If cryptocurrencies are going to challenge fiat currencies like U.S. dollar as a medium of exchange, they would essentially challenge the authority of the government to print and spend.
- This assault on the authority of the government will lead to the existence of cryptocurrencies only as a speculative asset and not a medium of exchange.
- The competition between currencies to fulfill the demands of customers would ensure that fiat currencies that are printed indiscriminately simply go out of use.

- So countries such as China are imposing a ban on cryptocurrencies and are planning to issue their own central bank-issued digital currency.

In a 2018 circular, the RBI had banned banks from dealing with virtual currency exchanges and individual holders.

But the Supreme Court lifted the ban in 2020 stating that the circular didn't pass the 'test of proportionality'

References

1. https://www.thehindu.com/todays-paper/tp-opinion/the-crypto-conundrum/article37295564.ece