OUR VIEW

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Pre-empt the economic risks of crypto adoption

Our policy on digital currencies should be guided by an analysis of a potential wide-usage scenario in India. An RBI-run digital rupee may well be our best bet to minimize instability

Money evolved not from barter, the evidence of anthropology suggests, but from credit—in the sense that it began in ancient times as an abstract unit conceived to keep account of who owed exactly what to whom—with IOU tokens for it issued only later. Sketch-pad in hand, even a game of *Monopoly* can be played without its paper cash. This concept could be scaled up by private online ledgers to 'metaverse' levels someday, which is but one among several reasons why our bustling cryptosphere of digital tokens spawned by blockchain technology has top-level attention. Last week, Prime Minister Narendra Modi exhorted democracies to work together to ensure that cryptocurrencies do not "end up in the wrong hand" and "spoil our youth". Earlier, Reserve Bank of India (RBI) governor Shaktikanta Das had spoken of "serious concerns" and called for an in-depth debate on cryptos. This unease can be attributed to a complex tangle of risks posed by their success. We must get a grasp of these likelihoods just to weigh their potential downside against upside—and likely inevitability—before we frame our crypto policy.

Talks have been held with stakeholders, which proliferated over the pandemic period after India's top court lifted an RBI ban for being too harsh, and signals from the Centre now point to regulation in the works by way of law. At the socio-political level, the reckless way that cryptos have been advertised has raised worries of naive speculation, while their digital encryption evokes the suspicion of their acting as a cover for illegal deals and ill-gotten wealth. At the macro-economic level, we must mull over what wide crypto adoption in the future might imply for stability. As the market for Bitcoin and its ilk (with caps on supply) displays the volatility of an 'asset class', even if prices are not based on returns (but on demand), they could be regulated as such. The rupee's real challengers are 'stablecoins', which peg their value to a bundle of national currencies, just as the US dollar was anchored by gold till half a century ago. In theory, by serving as mediums of exchange, these could supplant the rupee.

If digital tokens achieve wide circulation in India, our rupee manager would find it harder to handle monetary conditions. It would be worse if RBI must contend with a single rival someday, a winner-takes-all coin. Apart from the extra burden fiscal policy will have to bear should RBI lose its leverage on growth and inflation, our economy could get shaken by the actions of profit-oriented crypto issuers. They may, at a stretch, even do what the US did with its dollar in 1971: unpeg their tokens, that is, in pursuit of associated privileges. As cryptos are global, wide adoption would also open our gates wider for capital flows in and out, worsen a trade-off faced by RBI between managing the rupee's external value and internal worth (tied to its interest-rate policy), and hence weaken its ability to cushion us from financial shocks. Scary as these long-horizon risks sound, we must also consider the gains that crypto-based enterprises can generate and be realistic about a genie that won't get corked back in. Moreover, it may be time for issuers of fiat currencies to face competition. So long as the cryptosphere has sufficient rivalry, an official option in the form of a digital rupee run by RBI would have an advantage in the fray. Its emergence as our top choice could fend off threats to RBI's role. And this may depend on the details of its design.

THEIR VIEW

A lengthening G-7 shadow over the G-20 was apparent in Rome

A return of major decisions to a club of seven would not augur well for international cooperation

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The 16th G-20 Summit was held in Rome on 30-31 October 2021 at a time the covid pandemic was still rampant. Its success hinged on what action G-20 leaders would take on the various recommendations made by groups it had tasked, and the commitments made in the Rome G-20 Health Ministers' Declaration on pandemic response. Action on climate change was the other important area on which the success of the Rome summit hinged.

A straightforward reading of the Rome Leaders' Declaration indicates that this was one of the more successful G-20 summits in relation to those held in the recent past. There was consensus on some major issues that have often divided developed and developing countries in the past, such as channelling to poor countries a minimum of $100 billion of the $650 billion total special drawing rights recently issued by the International Monetary Fund.

It also set a global target of 60% covid vaccination by 2022, agreed on minimum global corporate taxation of 15%, putting an end to the provision of international public finance for new coal power generation abroad by the end of 2021, decarbonization of the economy, and the conservation or protection of at least 30% of land and oceans by 2030.

It also set forth an ambition of zero net emissions globally by 2050, halving collective emissions over two decades by 2020, so as to limit the globe's temperature rise to 1.5° Celsius above pre-industrial levels, and updating nationally determined commitments for consistency with these global objectives. This set the tone and agenda for the CoP-26 climate change conference in Glasgow that followed thereafter.

The G-20 also set an agenda for reforming the World Trade Organization (WTO) and global trading rules at the forthcoming 12th WTO Ministerial scheduled in Geneva this December.

This assessment needs to be qualified by the fact that this was the first crisis G-20 summit after the Global Financial Crisis of 2008, and its outcome therefore needs to be compared with the Washington, London and Pittsburgh summits. Not only did the Rome meet fall far short of what was achieved in those first few G-20 summits, but most of the major decisions listed above were anticipated in the G-7 meeting (of subset countries) held four months earlier in the UK's Cornwall.

The Rome summit failed to take decisions on specific proposals of $50 billion put forth by the G-20 High Level Independent Panel on pandemic preparedness and response. It did, however, endorse the World Health Organization recommendation of vaccinating 40% of the global population by December 2021, over and above the 60% by 2022, as agreed by the G-7 earlier. Some G-20 countries also made specific commitments on donating and manufacturing vaccines, although these were not part of the official communique.

It was also disappointing that G-20 leaders did not go much beyond what had already been agreed at CoP-21 in Paris back in 2015 and the Copenhagen Accord of CoP-15 in 2009 on setting up a Green Climate Fund, under which developed countries committed "to fund actions to reduce greenhouse gas emissions and to adapt to the inevitable effects of climate change in developing countries... (by providing) US$30 billion for the period 2010-2012, and to mobilize long-term finance of a further US$100 billion a year by 2020 from a variety of sources" (a target still to be achieved). Or the G-20 commitment to phase out fossil-fuel subsidies at its third summit in Pittsburgh, also in 2009, although the world's climate situation has worsened considerably since. Also, no individual or collective commitments were made at Rome by G-20 countries, which together account for over 80% of total greenhouse gas emissions, to lead Glasgow discussions on climate action from the front.

This remarkable meeting of minds between two groupings (G-7 and G-20) that have had a troubled relationship from the start of G-20 summitry was facilitated by the attendance of four G-20 countries' leaders (i.e. of Australia, India, South Africa and South Korea) who were special invitees at Cornwall. This appears to be a revival of the Heiligendamm process that was discontinued after the G-20 was elevated to the level of leaders. Also, Italy, the chair that drafted the template of the G-20 leaders' communique, was a G-7 member.

Be that as it may, going forward, this does not augur well for the G-20's status as the world's premier forum for international economic cooperation, or for getting multilateralism back on track, as both China and Russia are suspicious of the G-7 and were specifically critical of some of the actions spelt out in the Cornwall communique.

Russia and China were not invited by the G-7 to Cornwall. They also chose not to attend the Rome summit. This served to underscore the impression that the G-20 had lost much of its clout as the forum for the aims declared by G-20 leaders at their third summit in Pittsburgh, and that the baton of global economic leadership had passed back to the G-7. Their absence, along with that of South Africa, Japan and Mexico's leaders, at the first in-person G-20 summit in two years is indicative of faltering multilateralism in an increasingly divided and multipolar world.

10 YEARS AGO

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JUST A THOUGHT

I don't think [the repeal of Indian farm laws] is a setback for reforms in agriculture as of now, but yes, if tomorrow someone gives legal guarantees for minimum support prices, then it will definitely be a reversal.

ASHOK GULATI

MY VIEW | MODERN TIMES

How the government lost farm reforms to rich farmers

MANU JOSEPH

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Once Prime Minister Narendra Modi could deny Indians their own cash for several days, and not only survive the stunt, politically, but thrive. Now his government has had to take back a plan that may have enriched the poor, a plan I want to present in half a sentence. But then, it is hard to avoid the messiness of its details, a reason why our most famous storyteller could not market his most humane attempt yet to liberate Indian farmers.

On Friday, about 14 months after his party enacted three farm bills, he told the nation they would be repealed. It was a triumph for rich north Indian farmers and the rural middle-class movement they led. Many urban humanitarians, too, rejoiced. And if you were clueless about India, like a conscientious Barbadian singer who has a good heart but is too busy to read policy, you may think the three farm laws of Modi's government are filled with evil designs to rob and torture poor Indian farmers (and then somehow win elections after doing that).

In reality, those laws were reforms that intellectuals have talked about for decades. They aimed to free farmers constrained to sell their produce at state-designated marketplaces, usually done through profiteering middlemen; thus also free them to sell their crops online or through private contracts; and free the market from an old law that marks some superstar crops as "essential" commodities that cannot be hoarded in large qualities, paving the way for corporations to buy directly from small farmers.

If the laws were so good, you may wonder, why should farmers object? They were told a good story, and like most good stories, it was simple and scary, and it was told by their rich.

Affluent farmers of Punjab and Haryana gain the most from an old procurement policy under which the government guarantees a floor price for major crops. These farmers are entrepreneurs but do not face all the risks of entrepreneurship. They could have gained the most from the new laws, too, but then why risk revolutionary change when the current system suits them? They have no incentive to experiment with other crops instead of dumping rice and wheat on the government. Why should they risk change? So, they told a story, not entirely implausible, that minimum support prices would end; that farmers will be at the mercy of the market, that they will be left dependent on big companies that will offer high prices at first but eventually squeeze them dry. And, what if this is the start of a devious corporatization of farming? What if all this leads the government to withdraw as a big buyer, and what if free or cheap electricity and other subsidies vanish, and worse, what if farmers are asked to start paying income tax?

Rich and middle-class farmers were afraid of change and they sabotaged reform for the poor while claiming the moral high ground. Same old story.

Also, most protesting farmers were led to believe that according to the new laws, if they had disputes with corporations, they would not easily be able to go to court. This is true, but the new laws offered an alternative dispute-resolution mechanism manned by government servants and private players. Foes of change framed this as a system where bureaucrats would play judges. The way some people lamented this dispute-resolution system, you would think Indians love their courts and judges.

The ruling party failed to counter the narrative of those opposing its farm laws as its own story was too weak

The farmers' movement, like the anti-corruption movement earlier, was an upper-class political movement that recruited the rest. Just as the Congress party could not counter the anti-corruption movement, the Bharatiya Janata Party (BJP) could not fight the farmers' moralizing story with its own story because the farm laws, however good as policy, were a terrible yarn. It did not have a clear villain. Procurement agents were not as appealing as villains compared to the imagery of Indian farmers being enslaved by Reliance, Walmart, the Adani Group or "a new East India Company". Also, the defence of the reforms was in the details. Our doom as a species is in the fact that stories are a poor medium for complexity, and stories control the world.

Not just that, the BJP told a very bad story in a very bad way. For instance, it got some of the richest actors and cricketers to defend its reforms. These celebrities earn by endorsing brands. So even their admirers know they are paid message peddlers. Why would you use famous liars to tell the truth? Also, the party was unable to draw farmers in other states to demonstrate their support for reforms. There is a reason for this. The fuel of an agitation is lament, not optimism. No agitation in support of something can be as electrifying as an agitation that is against something.

It is not as though those who protested the farm bills did not have good reasons. All the reassuring elements of the new laws were hypothetical and set in a distant abstract future. And, the Modi government's record on the execution of its esoteric ideas has been very poor. Actually, forget revolutionary ideas, the BJP is unable to even fix roads and street lights in places where it controls both the state and municipal administrations. Also, the covid pandemic's second wave hurt the reputations of Modi and his party.

So, what now? Many of the reformist ideas proposed are already in practice in several states, like the freedom of farmers to sell outside designated marketplaces. Otherwise, things will continue as before. And poor farmers will one day cease to be poor farmers, when they become poor security guards and factory workers. Some of the refined foes of farm reforms will then write heartbreaking poems about poor landless migrants.