OUR VIEW

BLOOMBERG

Crypto shall survive the great covid asset chase

This month's digital currency crash in the wake of a US Fed rate hike featured a Terra quake that evoked talk of rules to help us tell flaky tokens apart. As a concept, crypto was unshaken

Cryptosceptics have had much to gloat about this month, just as a policy pull-back of easy money began to harden its worldwide impact. With 'game over' signs flashing large for the great asset chase of covid times, big-risk-mega-return stuff was sure to get whacked first—and crypto duly did. The market value of all digital tokens was placed at nearly $3 trillion last November, before the US Fed signalled its policy shift, but had lost a third of that sum by mid-April, and has lost an even larger chunk since then, mostly after the US Fed's sharp rate hike of 4 May and the Terra quake in its wake. Concept champion Bitcoin was hit hard. Since it was hailed once as a hedge of the digital age against central bank follies that debase fiat currency, this drew chuckles of irony from critics. But then, Bitcoin's pandemic spikes spoke of its success as a speculative punt more than anything else. A unit available for under $10,000 in early 2020 had shot past $60,000 by mid-April 2021; it dropped by half, and then soared to an even higher peak last November before it halved again. Yet, despite its dizzying yo-yo moves, Bitcoin is still held in portfolios by long-horizon investors. As for irony, the real rout this season was among 'stablecoins'.

The shake-up of May was the crash of Terra, an 'algorithmic stablecoin'. In contrast with volatile cryptos, stablecoins were digitally minted for their value to be pegged (or flexibly linked) to a trusted currency, reserves of which—in cash, sovereign bonds and/or other safe assets—are meant to be held in a back-up vault. Say, like the US dollar was once backed by gold and offered by the Fed in exchange. Stability, it was reckoned, would earn trust and grab users. But Terra had a creaky peg that cracked up on 9 May. It was 'pegged' to Luna, a stablemate token issued by Terraform Labs that users could convert it into (at a dollar's worth of one for the other). As money fled dubious assets, Terra faced a run of redemptions. By design, this set off a supply surge of Luna, whose own market value went poof amid a big sell-off; it was soon worthless. As Terraform had to offload other cryptos held in reserve (like Bitcoin) under exit pressure, the splinters of its smashed peg hit other prices as well. In a salvage operation, Terraform now wants to carve up its underlying blockchain of online ledgers, but this may prove futile.

Digital tokens differ vastly. Another software-run and crypto-backed coin, Dai, which had a less dicey formula, has held up okay, pegwise, while the top stablecoin Tether only saw its $1 peg wobble a bit. Since faith in such chips is partly a function of actual reserves held for conversion, strict rules of stash disclosure could act as a market stabilizer. On Monday, the IMF's head called for regulation at Davos while hailing the benefits of crypto. "It offers us all faster service, much lower costs and more inclusion," Kristalina Georgieva said, "but only if we separate apples from oranges and bananas." That's a job for regulators. Even cryptosceptics can't deny that digital tokens could yet turn out to be the future of money, given their versatility. Moving cash across borders has cheapened. As e-currency can be asked to do just as it's told (oddly called 'smart money'), such as paying up only if preset terms are met, cryptos don't just offer a platform for novel services ('de-fi'), they let us re-imagine banking as we know it. Unlike flaky coins, crypto's survival as a concept is not in doubt.

MY VIEW | TECH WHISPERS

Terra infirma and the 'wildcat' stablecoins of our cryptosphere

This month's crypto crash has exposed the weak foundations of supposedly steady digital currencies

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They are supposedly the proverbial islands of calm in the stormy seas of cryptocurrency. However, as it turned out, it was one of these bedrocks of the cryptosphere that imploded to drag every cryptocurrency down with it. The irresistible forces of a teetering global economy met these supposedly immovable objects, demolishing one of them, with its value tanking to nothing.

What we are talking about are stablecoins or crypto tokens designed to stay at a fixed value even if the price of an underlying currency (say Ethereum) changes. As the Ethereum website describes them, stablecoins are basically IOUs for a traditional fiat currency like the US dollar. So, a stablecoin such as USDC or Tether is collateralized against US dollars and its value pegged at $1 for each stablecoin. Cryptographically secured, they were created to serve as a centralized safe haven in the midst of extreme crypto volatility. Their most crucial role, though, is as intermediaries between fiat currencies and cryptos. If you have dabbled in trading crypto, you would know that it is very clunky to use fiat currency all the time; by the time the slow settlement happens, prices can change multiple times. Thus, stablecoins act as intermediate currencies that grease the wheels of crypto exchanges. Some stablecoins have found some interesting off-chain uses. In December, the opposition 'government' of Myanmar recognized Tether, the world's largest stablecoin, as an official currency.

However, the entire 'stable' edifice threatened to buckle when the value of one of the world's largest stablecoins, TerraUSD, with a peak value of $35 billion, collapsed by 95% in a matter of days before it dropped to zero. The Luna Foundation Guard, the governance outfit behind Terra, first tried to shore it up by selling its entire $3 billion reserve of Bitcoin, which in turn pushed the price of the latter sharply downwards. The earth moved beneath the crypto ecosystem, since a large stablecoin like Terra is like a tectonic plate on which much rests. Slight movement away from a $1 peg is manageable, but a collapse could be calamitous.

But why did Terra collapse? And what next? Globally, risky assets have seen a broad sell-off, but there are probably three specific reasons. First, Terra was designed differently from fiat-collateral tokens. It is an 'algorithmic stablecoin' backed by nothing more than what the *Financial Times* calls "the magic of computer code" (*on.ft.com/3Gnmntf*), with a computer program managing demand and supply. There is a special crypto token called Luna, which was meant to help Terra hold this 1-to-1 peg with the dollar. This is unlike Tether, which is claimed to be fully backed by dollars or government securities. "This whole system is entirely broken because it rests on a speculative asset—Luna—to be the collateral," says Colin Aulds, founder of cryptocurrency storage company Privacy Pros. "The problem is that Luna was created for the purpose of being collateral simply because the Terra ecosystem needed collateral." Second, Terra was offering 19% interest for holding crypto. While some incentive is normal, this high figure smelt rotten from a long way off. Third, Luna was set up by Do Kwon, a founder who called himself "Chief Lunatic". This was not exactly confidence-inspiring.

While Terra clearly was a highly risky outlier, Tether has its own problems. There were close to $82 billion of Tether coins out there and it is highly unlikely that its issuer holds that many dollars as collateral. Tether has been fined by authorities multiple times and has now begun posting financials that show a breakdown of it reserves. However, Tether as well as other big stablecoins like Dai and USDC seem to be holding their $1 price peg, which has given investors confidence that the whole crypto financial system will not crumble. Terra's founder has proposed a blockchain split as a potential solution, though the cryptosphere is wary.

Top US officials have spoken of the need for regulation. Even as they do this, they should hark back to history. In the America of the 1800s, hunters and cowboys on the frontier had faced a currency shortage. The US had no 'fiat' paper currency at the time, only gold and silver coins. But some states let banks print their own notes, redeemable for US coins. Much like stablecoin issuers, a few banks did not bother to hold matching reserves. These banks came to be called 'wildcats', perhaps because they had branches in remote areas where wild animals roamed, all the better to deter people from redeeming their notes.

Wildcats seem to be back in crypto avatars, with some of them bolting out of their 'stable' doors.

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Stablecoins are supposedly designed for stability with their value pegged to a regular fiat currency so that they do not experience the extreme volatility that unpegged cryptos suffer.

The recent collapse of Terra, however, has shown that some of these are not as securely collateralized as they claim and can act like 'wildcat' banks of frontier America in olden times.

10 YEARS AGO

JUST A THOUGHT

Crypto hits that American sweet spot, where cynicism meets utter naivete, and where everyone thinks the sucker at the table is someone else. By the time many discover they are the greater fool, it is much too late to do anything about it.

HELAINE OLEN

THEIR VIEW

Attempts to right wrongs of the past can't do any good

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The subject of temple destruction, religious conversions and treatment of Hindus by Muslim rulers of India in the pre-colonial era is currently at the centre of public discourse. This is a highly emotive issue, understandably, one that can upend social harmony and disrupt economic growth, which is all the more reason for us to look at various facets of the problem in a dispassionate and rational manner.

There are three separate issues involved that need to be kept apart. First, what constitutes a crime against society? Second, can distant descendants of perpetrators be held to account? Third, what is the historical accuracy of the allegations?

To begin with, do we know if the perpetrator was really a perpetrator? Judging past actions by present sensibilities places us on a thin edge. Owning slaves was part of the economic system in the ante-bellum American South. The treatment of castes seen as outside the pale of the *varna* order in India was reprehensible, to say the least. Invaders proudly brought back plundered wealth and enslaved people from conquered territories. People were identified as 'witches' and burnt to death. Women were considered inferior and forced into confined forms of behaviour. North American native Indians scalped their enemies. Cannibalism was practised in some societies. The majority in those settings viewed these behaviours as appropriate at the time. As Audrey Truschke remarks in *Aurangzeb: The Man and the Myth*, for all the bigoted excesses that can be attributed to Aurangzeb, "Mughal rulers in general allowed their subjects great leeway—shockingly so compared to the draconian measures instituted by many European sovereigns of the era—to follow their own religious ideas and inclinations." It is presumptuous and arrogant on our part to label olden-day acts of vandalism as the work of evil perpetrators.

The second issue is who should be held to account. In most cases, no apology need be issued. However, let us for a moment keep the issue of changing sensibilities aside. Even where an apology, reparation or retribution is considered desirable, this should not transgress a foundational legal principle of democratic regimes based on fundamental rights that no one can be held guilty for what s/he did not do, let alone for the actions of supposed ancestors centuries ago. The right to equal treatment under the law cannot be taken away. History is irrelevant in constitutional democracies, as all constitutions mark a new beginning and are not based on selective accounting of the past.

We need a golden rule that apologies can be made only by perpetrators. Since guilt is not inherited, the question of apology after the perpetrator's demise does not arise. If the individual was acting on behalf of the state, an apology could be made by the head of state. If the state has changed, there is no cause for apology. Italy's present head of state, who had no role to play in the execution of Christ, has no reason to apologize for the sins of the Roman Empire. An apology for Nazi atrocities could only have been made by the Nazi state or its representative, and not by any successor German state that had no role to play. Indeed, the inequity of making the Weimar Republic and German people pay for the sins of their Kaiser through the Treaty of Versailles had facilitated the rise of Hitler.

The third issue is the accuracy of allegations. Much of the popular thinking on the subject is ultimately derived from the work of British imperial historians, such as Eliot and Dawson's monumental 8-volume Indian history published some 150 years ago. These views promoted an imperial narrative based on a selective use of Persian sources. A wider and newer set of sources—including Sanskritic texts—has since become available, especially on Aurangzeb, who is not a remote figure in the distant past by the yardstick of historical time.

We must note that temple desecration in India by conquerors predated the arrival of Muslim invaders. If remnants of temples have been found in mosques, so have remnants of Buddhist viharas in temples (as well as mosques). The works of Richard Eaton, Audrey Truschke and Herman Kulke are eye-openers in this regard.

Be that as it may, narratives about the past will always be contested because they are informed by current needs and debates. As the Italian historian Benedetto Croce put it, "All history is contemporary history." We should leave historians to their craft. Let professionals delve into, explain and interpret the past. Historical consciousness helps us understand who we are, how we got here, and perhaps also how to avoid past follies. It fulfils a felt need and that is why it is one of our oldest disciplines. But that is all there is to history. It should not be weaponized.

French historian March Bloch observed that the object of history is explain, not to judge. We need to be forward-looking and not rake up past wrongs if we want to stay on the path of progress. Attempts to right wrongs of the past cannot make the present better. These not only generate divides, rancour and hatred, but also distract us from our focus on extant wrongs. By and large, Indian Muslims today are more sinned against than sinning. That needs to be set right.

Likewise, in the US, both racial discrimination and poverty (which is not confined to African Americans) need to be addressed, but it is not incumbent on the present government in Washington to apologize for the sins of the Confederate States.

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Three questions must be asked. What constitutes a crime against society? Can descendants of perpetrators be held to account? And what is the historical accuracy of the allegations?

Narratives about the past will always be contested because they are informed by current needs. And while historical consciousness has its value, history mustn't be weaponized.