



Mains Practice Question

Q. What is Cryptocurrency? How does it affect global society? Has it been affecting Indian society also? (250 words)

21 Mar, 2022 GS Paper 1 Indian Society

Approach

- Introduce the answer with what cryptocurrency is.
- Discuss how it affects global society (impacts of cryptocurrency).
- Discuss if it has been affecting Indian society and in what ways.
- Conclude suitably.

Introduction

A cryptocurrency is a digital asset designed to work as a medium of exchange wherein individual coin ownership records are stored in a ledger existing in a form of a computerized database. It uses strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership. It typically does not exist in physical form (like paper money) and is typically not issued by a central authority.

Body

Cryptocurrency affects global society in following ways -

- **Bringing the next level of globalisation** as the cryptocurrency is digital currency and easily available across the international borders.
- **Emergence of one currency** for the countries of the world which are decentralised and not related to any country. This may make fiat money redundant in the future.
- It has made it easier for entrepreneurs to reach international markets rather than strictly sticking to the national markets.
- **Fast and Cheap Transactions:** Cryptocurrencies are way cheaper to use to execute international transactions making transactions faster and accurate, there are less chances of fraud.
- However, it **takes away the sovereign power of issuing currency**. Thus, making economic policy of the government ineffective. It also makes capital more volatile posing risk to macroeconomic stability.
- **New Investment Destination:** There is a limited supply of cryptocurrency - partially like gold. Moreover, the last few years have seen the price of cryptocurrencies rising faster than other financial instruments.
 - Due to this, cryptocurrencies can become a preferred investment destination. People are investing more here **than keeping in banks**.
- Use of cryptocurrency by terrorist organization, drug cartels etc negatively impacts the global society and the anonymity of its use has potential to increase crime.

Cryptocurrency affects Indian society in following ways -

- In 2018, The RBI issued a circular preventing all banks from dealing in cryptocurrencies. This circular was declared unconstitutional by the Supreme Court in May 2020.
- Recently, the government has announced to introduce a bill; Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, to create a sovereign digital currency and simultaneously ban all private cryptocurrencies.
- India is the largest receiver of remittances. However, the people lose money on conversion, processing charges, and switching to crypto will help people to get rid of these expenses.
- Indian youth has invested hugely in cryptocurrency, a new crypto community has emerged.
- But in the era of digital currency, those who are not able to afford technology are devoid of such digital currency.

Conclusion

Blockchain and crypto assets will be an integral part of the Fourth Industrial Revolution, Indians shouldn't be made to simply bypass it. The framework on cryptocurrencies should be developed which will require global partnerships and collective strategies.

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