

## Cryptos, CBDC, Privatisation: *Notebandi* and Then Some

*Misconceptions about money, like those during notebandi, define ideas on cryptocurrency and banking.*

**Anush Kapadia writes:**

The monetary landscape since *notebandi* (demonetisation) has changed alarmingly. If *notebandi* was bad, what is in store appears worse. Ironically, many “innovations” carry with them several misconceptions about money, as held by the architects of *notebandi*. Real innovations entail an appreciation of the sociopolitical reality behind any possible money, namely that money is a political claim on the social product. Without this, “innovations” can be dangerous and exclusionary.

Cryptographic currencies parade across the landscape, drawing everyone from central bankers to small-town investors into the “gold rush.” It is hard not to read the push for central bank digital currencies (CBDCs) as a response to cryptos, although the People’s Bank of China’s digital efforts are certainly a stimulus. The Reserve Bank of India (RBI) is in the game, but the mandarins of Mint Street are not alone.

CBDCs and cryptos ask the same question: How can we replicate the anonymity and security of cash in an online space?

As the scale of the digital interventions from both private and public balance sheets increased, something interesting happened—what started as a “token” morphed almost imperceptibly into a “promise,” albeit disguised as a “token.” CBDCs can only be liabilities of the central bank even if “tokenised,” which prevents us from seeing the socio-economic rudiments of money.

Distributed ledger technology ingeniously combines finite tokens with an infinite archive. Yet, the shift from crypto as “money” to “assets” is a stunning defeat. The failure of cryptos as money rests on the same tokenised view of money as *notebandi*. “Finite” tokens, cryptographic or not, simply cannot work as money because they cannot answer the central planner’s ill-conceived question: What stock of money is required by the economy? The finitude of cryptos might appear to give them scarcity value, but with around 7,000 cryptos currently in circulation, clearly something other than mere finitude drives value.

Enthusiasts will demur that all code is not equal, but the concept of finitude as a key determinant of value is itself flawed. Ingenious engineering aside, it is precisely because all cryptos are designed to be rigidly finite that they inevitably fail the test of money. Finite stocks of money mean that liquidity is exogenously limited. While this might chime with our common sense of “value,” any business—from the corner store to the corporate giant—will reveal, without access to liquidity, you are dead.

This is why credit was invented—it generates liquidity. Credit can obviously become excessive, but equally, its complete absence is fatal. Economic activity endogenously creates and destroys the medium of its own existence, credit as money. However, not all credit is equal; only some institutions can issue credit notes as good as money—banks. And, fortunately for the public, we own the biggest one, so we can have some leverage over this endogenous credit metabolism.

The ability to create and destroy the most money-like credit flexibly can be possibly abused, but without it we are lost. Put a squeeze on this ability with exogenously determined finite stocks of “money,” and our collective life support system stands crippled. The *Art of Central Banking*, following R G Hawtrey, is to modulate the economy’s endogenous capacity to create its own money. To think this diabolically difficult art can be replaced with some arbitrary video-game tokens is to dangerously misconceive the problem.

*Notebandi* proved the point in its own tragic way. The economy is comprised of ongoing debt and credit relations: work today, get paid at the end of the month. “Money” is the name of the instrument that satisfies these debts. *Notebandi* stopped money, but not economic life. So, people responded by issuing their own credit, “pay me later.” Finitude was imposed exogenously, and the people’s economy responded with its own credit money.

*Notebandi* proved that if we did not have credit, we have to invent it. The crypto ecosystem does the same. “Exchanges” are crypto “banks”: your exchange account is not a crypto, it is a promise to pay a crypto just like your bank account is a promise to pay RBI money. Scarce stocks of crypto have stimulated production of near-crypto credit instruments (accounts in exchanges), just as banks produce near-money, or like the pseudo-AAA bonds by the United States financial system. But some promises are better than others.

The best promises, it turns out, are the ones made by the people through their state. This is why bank privatisation is simply a misnomer. The fatal conceit of recent monetary thinking is that we can separate “payments” from “banking.” But if money were just a token, then banking is like moneylending, a logistics operation moving money-things around. But banking is not moneylending—it is money-like liabilities issued on the back of accepting liabilities from a debtor. Debt is just a time-bound payment. Even the most logistics-like rendition of payments globally, the real-time gross settlement system, requires “intra-day credit” to make it function. That is, the payments system is, by its very logic, a credit system.

Public sector banks have much room for improvement. If privatisation is done, and that is far from clear, it might be thought of as a change in administrative custodianship of public goods—money, banking, and payments. But because private banks promise to pay national money, and because they cannot fail en masse, hence, non-market discipline and prudential regulation are crucial. We must not fetishise institutional forms but must insist on public-oriented performance. That the biggest bank of all, the central bank, is public gives the people that leverage in principle. Whether we can use it wisely is another question.

Anush Kapadia ([akapadia@iitb.ac.in](mailto:akapadia@iitb.ac.in)) teaches at the Indian Institute of Technology Bombay (IITB).