Q19

What is Cryptocurrency? How does it affect global society? Has it been affecting Indian society also?

UPSC Civil Services Mains 2021 · GS I · 15 marks · Indian Society and Diversity

Salient features of Indian Society, Diversity of India.

Core demand of the question

- What is Cryptocurrency? How does it affect global society? Has it been affecting Indian society also?
- Keep a 15-mark length

Revision summary

Cryptocurrency is a blockchain token without a central issuer.

Globally it is mostly a volatile asset, with crime, energy, and inequality effects.

Remittance inclusion is still a smaller story than trading.

India has a large retail-trader layer; UPI already covers payments.

Policy is tax, KYC, and e-rupee, not Bitcoin as tender.

Introduction

A cryptocurrency is a digital token on a blockchain, designed to move value without a central bank. Bitcoin is the type case. It affects society as a speculative asset, a payment experiment, and a crime-and-climate headache.

Body

What it is

- A distributed ledger records transfers; miners or validators earn new coins or fees.
- It is not legal tender in most states. It is a **private digital asset** with extreme price swings.
- Stablecoins and central bank digital currencies (**CBDC**) are related but not the same as Bitcoin.

Global society

- **Inclusion story:** remittances and unbanked access - still smaller than the **trading-casino** story.
- **Crime:** ransomware, dark-net markets, sanctions evasion; FATF 'travel rule' tries to tag VASPs.
- **Energy:** proof-of-work mining as a climate and local-power issue (Inner Mongolia bans, Kazakhstan loads).
- **Inequality:** early holders versus late retail; El Salvador's legal-tender bet as a national experiment.

- **Geopolitics:** dollar-hedge narratives versus actual dollar stablecoin dominance.

India

- A large young trading class on exchanges; **RBI** long warned of consumer and macro risk.
- 2021-22 policy path: 30% tax on crypto gains and 1% TDS in the next Budget cycle, plus **e-rupee** CBDC pilots - India chose tax-and-watch, not a Bitcoin legal tender.
- UPI already solved cheap payments, so crypto's Indian social role is speculation, startup fundraising talk, and fraud awareness more than daily chai money.
- **Digital divide:** rural India meets crypto mainly as a WhatsApp tip, which is a social risk.

Recommendation

- Consumer literacy, FATF-compliant KYC, and a clear distinction between CBDC and private tokens.

Flow diagram

Cryptocurrency -> Speculation

Cryptocurrency -> Remittance crime energy

India -> Tax TDS CBDC

India -> Payments already cheap

Conclusion

Cryptocurrency is decentralised digital value, socially expressed as boom, crime, and carbon. India is affected as a trading society with UPI already in the pocket. Regulate the casino; do not confuse it with the rupee.

Facts & figures

Bitcoin 2009
First widely used cryptocurrency, proof-of-work model.

FATF
Sets AML standards for virtual asset service providers.

India 30% tax
Virtual digital asset gains taxed at a flat high rate from FY 2022-23, after this paper's year.

Digital Rupee
RBI CBDC experiments as a public alternative architecture.

UPI
India's real-time payment rail that reduces the payment-use case for crypto.