
17/12/2021 14:51:19 - AE NEWS (EN)

INTERVIEW / KENNETH ROGOFF: CRYPTOACTIVE ARE BEING USED AS \$ 100 STEROID NOTES

By Ricardo Leopoldo

São Paulo, 12/17/2021 - Bitcoin and other crypto stocks are usually valued only as a highly speculative investment, but they are being used around the world to a large extent as financial transactions between people, in most cases nationally. The finding comes from Kenneth Rogoff, former IMF chief economist and currently professor at Harvard University, in an interview with **Broadcast** . This discovery was made by him and two other international academics in a recent study that looked at 50 million crypto operations involving 135 country currencies over 3 years.

"Perhaps one of the reasons people trade with crypto is that they don't want authorities and other citizens to know what resources they have, where and how they were obtained," says Rogoff.



Foto: Ayano Hisa/Divulgação

He acknowledges that the biggest concern about crypto assets is that they are traded by people trying to evade paying capital taxes. He also points out that such operations may be related to illegalities. "In China, there is a fine line between paying taxes and fearing that the government will seize citizens' resources," he said. "in practical terms, these assets are used as sterling one-hundred dollar bills."

Follow the main excerpts from the interview.

Broadcast: What are the key findings from your recent study on international crypto transactions with Clemens Graf von Luckner and Carmen Reinhart?

Kenneth Rogoff: The purpose of the study was to look at the common assessment that bitcoin and other crypto-derivatives are only a source of investment, a kind of digital gold, and not used as a means of transactions. In

economic theory, this assessment makes no sense, since the end use creates value for a commodity. However, we evaluated 50 million observations regarding 3-year cryptographic transactions involving 135 country currencies. We were able to know the exact time and where the operations took place, since they were performed with satoshis (it takes 100 million satoshis to form a bitcoin) and the chances of verifying two identical operations are very small. But when we find two equal transactions, with a few minutes between them, that appear nowhere else in this researched universe, we find that they are very likely to represent a transaction between two agents and not an investment.

Broadcast: The study points out that the vast majority of transactions in various countries, notably Russia and China, are domestic transactions. What is your main suspicion about the reasons for these transactions?

Rogoff: In Russia, of course, many oligarchs are under international sanctions from other countries, as do many nations. I believe they try to avoid US financial vigilance. In principle, these operations can be tracked, but authorities need permission to have such information, which is not available to many countries. Perhaps one of the reasons people trade with crypto is that they don't want authorities and other citizens to know what resources they have, where and how they were obtained. It is a matter of privacy. Some of the operations are remittances, which are much cheaper than those carried out by Western Union and other companies.

Broadcast: But isn't one of the main reasons people transact with crypto transactions, as you pointed out, to try to evade paying capital taxes?

Rogoff: In general terms, this is the biggest concern regarding bitcoin and other cryptoactive ones. I don't know if exactly it would be a tax issue, but it could be related to illegalities. In China, there is a fine line between paying taxes and fearing that the government will seize citizens' resources. In many villages in India women buy gold as a protective asset because they believe the government will take its resources. Cryptoactive may be playing a similar role. In some cases we may even be in favor of this procedure, but it is very difficult to support such behavior in many countries where taxes are stable and laws are respected. In practical terms, these assets are used as sterling one-hundred dollar bills.

Broadcast: The crypto market has a capitalization close to \$ 2.3 trillion, which has high daily volatility. Do you believe that there will be a correction soon in this market, which for many analysts is a huge financial bubble?

Rogoff: It depends on regulation, because at the moment these assets carry out regulatory arbitrage. I believe that very tight controls are needed on large-scale transactions that are taking place in many countries and cannot be tolerated by them. There is a huge underground economy in the world, which also occurs in the US. In Italy, it represents about 25% of GDP, which in Brazil could be equivalent to 20% of GDP and would reach 15% of GDP in France and Germany. This industry moves around US\$ 20 trillion per year. In this context, cryptoactive may be more convenient to avoid taxes and regulations against certain illegal activities such as human trafficking and drug sales. These assets have a value, which we can judge to be negative, but it does exist. I never said these assets are a bubble, but they need to be regulated because they represent high values.

Broadcast: The IMF recently published a study by Tobias Adrian and other authors in which it points out that crypto regulation needs to be comprehensive and coordinated worldwide. How do you evaluate such a position?

Rogoff: I do not believe that it is necessary to regulate all countries, but rather the most advanced economies and, ideally, the largest emerging markets. The scope of the standards will depend on how large the value base analyzed is. Today it is basically possible to have a bitcoin account in JP Morgan and also use crypto to buy goods, as Elon Musk allowed the acquisition of Tesla cars with payment in Dogecoins. These practices allow for money laundering, which needs to be controlled, although it is not possible to ban them completely. It is feasible to make such activities riskier if caught by regulators, but countries like North Korea and Iran will never agree to such global norms. If they are adopted in advanced economies it will be great progress. The real problem is in the US, with the usual suspects acting, especially the very successful lobbyists who defend these assets before the authorities. There are bitcoin ETFs, pension funds buying bitcoin, large investment institutions allowed to offer crypto funds. This is crazy. But the problem of lack of regulation on these assets has been around for a long time. When I talk to

regulators and central bankers, I see that there is a strong consensus that this is a disaster, but they already have many problems to deal with.

Broadcast: Do you agree with the IMF's assessment that if there is no strict international regulation on crypto companies, the financial industry in some countries may face systemic risk?

Rogoff: I do not agree. If Russia wants to make bitcoin legal, good luck to Russia to collect taxes and comply with regulations. Of course in the ideal world it would be good to have regulation in all countries on such assets, but this will not happen. I believe such an (*IMF*) position is exaggerated.

Broadcast: Do you consider that G7 member countries should meet to discuss the adoption of common crypto regulations as soon as possible?

Rogoff: These countries have many problems caused by the pandemic, but I think that when they are together they should define how to adopt such regulations. I do not argue that all operations with crypto should be proscribed, but only those whose responsible are anonymous. I believe the market value of these assets will fall dramatically. But I also appreciate that there are many interesting facts that are happening with Blockchain technology, such as *NFTs* . Some of these assets have problems, but many bring great innovation.

Broadcast: What is your assessment of the Washington debate in which there are congressmen who advocate firm rules to prohibit large banks from making investments in active crypto because they fear such exposure could lead to a new financial crisis?

Rogoff: I believe these institutions should not be allowed to trade bitcoin and other crypto companies, without a doubt. There is no immediate problem, as the exposure of large banks to these assets is starting slowly and such investments may even seem innocent. However, a crisis can explode very quickly. The biggest problem is with users of these assets because we don't want to encourage unclear activities. If such operations take place in countries where there are no controls we can do nothing, but it is feasible to take steps not to allow these assets to be spent in US stores such as Macy's.

Broadcast: Is the exponential growth of the active crypto market a

warning for major countries around the world to accelerate the adoption of central bank digital currencies (CBDCs)?

Rogoff: I don't know if CBDCs can substitute for crypto, because these official digital currencies won't allow their holders to be anonymous. I believe there are difficulties to contain this crypto expansion move, as many written documents are required to allow such assets to be tracked.

Broadcast: What is the risk of the expansion of the crypto market going so far that it could lead to currency substitution from emerging countries, which would be the "cryptography" of such currencies?

Rogoff: I believe there is a greater risk of dollarization of some emerging currencies than cryptography. If a country wants to adopt capital controls, it will need to know what it will do with bitcoin, because in our study we showed that in nations where such controls occur, many people use this asset to circumvent them. What is important is to make money laundering very difficult to occur.

Broadcast: There is a debate among crypto traders in Brazil over whether ethereum will outperform the long term market value bitcoin as it is a more advanced technology platform and could enable the global expansion of decentralized finance companies (DeFis). Who will win this dispute?

Rogoff: Behind this question is what protocol will prevail to obtain these currencies: proof of labor (the "mining" that occurs to discover bitcoins), or proof of participation (amount of assets offered as collateral for be able to invest in ethereum). I have no doubt that the proof of participation will win. Evidence of expanded work throughout the international crypto market would have many negative environmental effects around the world by 2050 due to high energy consumption, which cannot be accepted.

Contact: ricardo.leopoldo@estadao.com

The contents made available and published in the Broadcast are originally written in Portuguese and translated into other languages by an automatic system based on algorithms and artificial intelligence technology. Accordingly, parts of the text may be incorrect and / or subject to interpretation by the translation system. No liability is assumed by AGÊNCIA ESTADO for any errors,

inconsistencies, omissions or ambiguities in the translations of the content provided. If you rely on the translated content for decision making, you will do so at your own risk, and AGÊNCIA ESTADO shall not be liable for any damages or losses caused by reliance on the accuracy of the translation.

[Click here to view the news in the original language.](#)