



The State Sovereignty in Questions of Issue of Cryptocurrency

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Abstract. The analysis of powers and order of monetary issue by the Central Bank of Russia in the system of the relations of the state sovereignty is carried out. Is considered contradictions of independent position of the Central Bank and the Government of the Russian Federation in questions of the state economic policy. Is defined that the fiat monetary system is based only on the authority of the Central bank and government whereas cryptocurrency – on the system of own safety and a way of its generation: blockchain. Is defined that in the independence and activity of the Central Bank of the Russian Federation can not consider “wishes” and plans of the government and Senate of Russia. Positive and negative properties of cryptocurrency in a modern financial system are considered. The cryptocurrency is considered out of communication with a monetary system, but only as subject to financial manipulations. It is necessary to change ideology of monetary issue. Non-cash money, special drawing right and so forth are considered as cryptocurrency prerequisites, but controlled by the currency center. Whereas the sense of cryptocurrency consists in its decentralization. The release of money has to be provided with a national product. The offer on establishment of legal bases of regulation of process of monetary issue is made.

Keywords: Monetary issue · Cryptocurrencies · Fiat money · Money supply · Credit policy

1 Introduction

Penetration of digital technologies into all spheres of public life is created by dependence of social and economic communications on the power of the computer, safety of transaction, a decision-making vector. The principles of the organization of society, the public relations and business contacts will be transformed. Crisis of 2008 undermined belief of people in the developed financial system, the traditional centers of decision-making. Two counter trends: globalization and multipolarity create new models of administration of modern processes in economy, finance, the taxi, the household relations through self-organizing electronic trading platforms and forums at which locals offer for rent the various tool, selecting thereby bread at household shops and so forth. For example, in power “... we are witnesses of the beginning of massive transition to a new distribution model of the electric power – from the “central station – network of consumers” model which arose in the 1980th years to model of “wide

distribution” with solar panels on roofs of houses, local cellular batteries and micronetworks” [11].

The distributed economy or economy of cooperation (when people through computer networks distribute information on own free resources, offer temporarily free tools, exchange the ideas without intermediaries, create alternative media space) led to emergence of new ways of interaction both in society, and in economy. However, whether “everything what gives in to decentralization, will be decentralized” [13]? Any economy needs financial service which value and the principles tried to prove in various monetary theories. How will processes of decentralization affect the state sovereignty?

Questions of the state sovereignty reveal by means of many aspects. Sovereignty ... - a natural and necessary condition of existence of statehood of Russia having centuries-old history, culture and the developed traditions - can be characterized, including and as exclusive maintaining on certain questions to which number it is necessary to carry also questions of monetary issue.

According to Article 71 of the Constitution of the Russian Federation questions of financial, currency, credit, customs regulation, bases of the price policy, federal banks, monetary issue, the federal budget ... and other questions concerning the organization of monetary circulation (Article 71 of the Constitution of the Russian Federation) are under authority of the Russian Federation [3].

2 Methods

The research methods are the system analysis, expert evaluation methods, polling and interviewing, modeling. The main research methods

- the first stage was implemented by means of analysis of the existing approaches to entrepreneurial values and entrepreneurship as values from the financial, economic and legal points of view;
- the second stage included monitoring and diagnostic work, development of the model of readiness of entrepreneurs to changes, and the complex of the most significant values in the enterprise environment is investigated;
- at the third stage the results of diagnostics are processed and analyzed, objectives for a further investigation phase are formulated.

3 Results

3.1 Monetary Issue as Sovereign Function of the Central Bank

Monetary issue in Russia is referred to exclusive competence of the Central Bank of the Russian Federation (Paragraph 2 of Article 4, Article 29 of the Federal law of 10.07.2002 N 86-Federal Act “About the Central bank the Russian Federation (Bank of Russia)”). And, according to Article 29 of the specified law issue of cash (the banknote and coins) [6], the organization of their address and retirement in the territory of the

Russian Federation is within the exclusive competence of the Bank of Russia. The lack of a regulation of release non-cash and cybercash and also withdrawal and destruction of money in the country is paradoxical.

Except a traditional form of money and the calculations which are carried out with their help in a financial turn also other mechanisms are used: cryptocurrencies, electronic money and so forth. According to the Federal law of June 27, 2011 No. 161 - Federal Act "On the National Payment System" "Electronic money is money which are previously provided by one person (the person which provided money) to other person considering information on the amount of the provided money without opening of the bank account (the obliged person) for execution of liabilities of the person which provided money before the third parties and concerning which the person which provided money has the right to transfer orders only with use of electronic payment instruments" (Paragraph 18 of Article 3 of law No. 161 - Federal Act) [7].

The smart the gadget which became the priority instrument of mobile bitcoin calculations at the same time turns into subject to close attention of a number of the payroll technical companies aiming to revolutionize ways of carrying out calculations. The way of data transmission used by cybermoney a blockchain is the independent phenomenon and can be used in any communications, and not just in calculations. The Sberbank of Russia and VTB already held the sessions with use of this technology. Its attractions deserve the closest attention.

Financial activity of the state, one of the main by function of which it is possible to determine monetary emission, is a special type of the state activity [1] which should be carried out in a legal form.

De jure the Bank of Russia is independent, it carries out budget and financial and own economic activity independently, and, vyplayachivy taxes from the profit. On the other hand, the Bank of Russia works in the system of norms of the international financial law with participation of such organizations as IMF, the World Bank, the Financial Stability Forum (SFS), the Bank for International Settlements (BIS), the Basel committee on bank supervision and so forth.

Many instructions and acts of the international bodies and a number of the international economic organizations (for example, FATF), are not formally obligatory, but failure effects to follow the models developed by them for the state and its central bank can be very notable both in political, and in material sense.

By approximate calculations, for the last 5 years the USA poured in world economy in about 2.75 trillion dollars which FRS generated that is called "from air". A fate of buyers of US Treasuries, unfortunately, did not pass also the Russian monetary authorities: according to the latest data, the Russian Federation owns the American debt obligations for the sum of 81.7 billion dollars and is the 16th largest creditor of the USA. The official ratio between ruble and gold or other precious metals is not established. Monetary issue is carried out on security reserves of the Central Bank of the Russian Federation or without those. But all this belongs to monetary issue. As the above-stated principles belong to cryptocurrency, than it is provided. It is possible to tell that only the mechanism of the safety, and now – a speculative agiotage. Direct fraud at the cryptoexchanges, price manipulation in pools (Pump & Dump) are widespread in the world of cryptocurrencies. Thus, the current cost of cryptocurrencies is not result of fair market process of pricing and is very conditional [9].

Fundamental issue of traditional currency is that its functioning requires trust. The Central Bank needs trust that it will not weaken currency, however the history of fiat currencies is full of cases of abuse of this trust. The main advantage of bitcoin over dollar call limitation of its issue while issue of dollar is not limited. The value of an inflation for cryptocurrency – to the main evil of a fiat system is not investigated yet. Turns out opposite: the last years the Central Banks of the developed countries are taken with fight against deflation – the more important evil for economy, than moderate inflation, and adherents of a crypt – start of new cryptocurrencies (for 2017 the bitcoin share in their general capitalization fell from 90 to 35%).

The legislation of Russia does not regulate an order of “placement” of the emitted money by the Bank of Russia. Moreover, at the existing ban to finance the Government of the Russian Federation of the Central Bank operates independently and on other, not Russian markets. For financing of own government by the Central Bank the State Duma of Russia has to make the special decision.

There is a gap in adoption of the motivated decision and a source of mobilization of funds for its realization. The Government of the Russian Federation realizes financial and economic policy, develops strategy of its realization, chooses tactical means. The Central Bank of the Russian Federation participates in this process along with all authorities, but makes the decision on monetary issue how will consider necessary. In the course of definition of a source of mobilization of means for implementation of economic policy the Government and the Central Bank of the Russian Federation can have competing interests or views.

3.2 Issue Preferences of the Central Bank Concerning Cryptocurrency as Instrument of Monetary Policy

Issuing paper money (and coins not from precious metals) under own reserves, the Central Bank of the Russian Federation as the organization working with profit starts money in a turn on a commercial basis (sells them), but can transfer them and to the government on special conditions. Under usual conditions the Bank of Russia has no right to grant the loans to the Government of the Russian Federation for financing of federal budget deficit, to buy the state securities at their primary placement unless it is provided by the federal law on the federal budget. Financing (investment of funds) of the governments of the foreign states is not forbidden to the Bank of Russia.

It is considered to be that the bitcoin is a step forward in the device of monetary circulation, however in own way it is, on the contrary, a step backwards. Traditional money is not counters, not coins and not records on accounts, and the credits and debts. Money in economy is delivered not by the central bank which only regulates monetary circulation through norms of reservation and key interest rates, and commercial banks. Nakamoto’s protest against “our money” were given to someone else, is irrational and destructive for global economy. “The monetary system” of bitcoin is constructed on mistrust – that at the price of expenditure of big resources to exclude need for trust as an element of a modern economic paradigm, having replaced it with a technology solution. The world of the future with the won bitcoin is the world where nobody trusts anybody, and the safety of money is guaranteed by cryptography. The medal back – from such monetary system the animator is thrown absolutely out. Central bank of

bitcoin is distributed on all knots of network and emits money on time, despite of demand, limiting all transactions by monetary base. It is similar to the monetary system of the Middle Ages based on calculations exclusively gold. However world economic blossoming of the second half of the 20th century is in many respects connected with refusal of the gold standard and creation of a system of fiat currencies which kind of are provided with nothing, except monetary policy.

At the beginning of 2014 the CEO of MasterCard Adzhai Banga gave an interview to journalists and publishers of Wall Street Journal in which expressed the point of view of those who considered that just it is better to ignore untimely innovations. In particular, he told the following about bitcoin: “In the world and there are so enough currencies. What problems the bitcoin is capable to solve?” [12].

Emergence of the central bank comes true desire to limit the national governments in questions of the state credit, to create the system of a counterbalance to free injection of money in economy, improvements of the market and correction of its shortcomings. “Good” undertaking comes true control of inflation, prevention of a covering of budget deficit monetary issue and so forth. It is supposed, as public opinion has to protect freedom of the Central Bank from political and tactical pressure.

At the same time, “games” with credit policy which conducted the central banks of almost all countries in the 20th century became the constant source of economic misinformation causing the global discoordination of economy which is shown in particular in artificial fluctuations of business activity [13].

Creation of cryptocurrency is not something unique in a financial system. It is a logical stage in formation of both units of account, and the mechanism of functioning of the financial sphere. SPZ, the credits, non-cash money and so forth created prerequisites of emergence of cryptocurrency.

Emergence of non-cash money in a turn as special records has no standard regulation, the banking system, especially against the background of its reforming, can generate them. Now the prevailing point of view in the sphere of understanding of the nature and emergence of this money in civil circulation is the thesis that this money is the rights of the requirement, and in civil circulation they function by means of non-cash payments.

Thus, non-cash money is still legally uncertain risk asset. Still it is not clear what mint issues such money in modern Russia.

Thus, disappearance of non-cash money is not regulated in any way, not clearly where this money what goods they provided how there can long be a monetary debt leave. From proofs there is a contract of purchase and sale (or other contractual obligation), an extract from the register, the certificate on the death of the natural person, the certificate on the right for inheritance, the arbitration court ruling on elimination of the debtor from the state registry and some other documents. In such situation application of provisions of the Federal law “About Counteraction of Legalization (Washing) of Income Gained in the Criminal Way and to Terrorism Financing”, Article 173, 173.1, 419, 421 Civil Code of the Russian Federation [2], Article 174, 174.1 Criminal Code of the Russian Federation [4] have estimated character.

3.3 Alternative System of Sources of Mobilization of Srelstvo of Payment and Accumulation

“The independent central bank” to the name of the scheme of the organization of a credit and monetary system most widespread today. Leadership handover by monetary policy of the country is ideally provided in hands of a small group of professionals to the heads of the central bank protected from influences of group interests and observing the interests of the country and its economy. That is in the expectations society has to rely on personal qualities of staff of the Central Bank, on hope of their independence and so forth. Such approach contradicts the elementary beginnings of management, need of removal of a human factor and so forth.

The independent central bank is successful when holds a certain position in society, possesses trust and the authority, cooperates with the power in achievement of strategic objectives. On the contrary, the modern central banks are conductors of the ideas of the international organizations and what lead such actions to is visible on examples of Ukraine, Greece, and the USA.

The prereform system of the address of the last period of existence of the USSR was in fact multi-currency, that is barter between regions and between the enterprises practiced, cash and non-cash rubles with the variable course relation between them, cash and non-cash foreign currency, and, at last, last not least - exchange of administrative services - bureaucratic trade were used as separate currencies [13]. It is possible to claim that the negative role of concentration of monetary issue function at the State Bank was leveled, and competences of the Government and the Supreme Council could correct to Rabat of the State Bank.

However use of digital currencies is not deprived of shortcomings. First of all, digital currencies assume high degree of anonymity; use of digital currencies in illegal activity grows “in a geometrical progression”, and the complexity of crimes increased too. In this regard, according to experts, at legalization of cryptocurrencies it is necessary to get rid of anonymity by input of identification of participants of operations. Besides, today such currencies cannot be exchanged on cash, and the rate of digital currencies is characterized by high variability.

Experts carry to other shortcomings that issue and use of digital currencies are not regulated by the either the international, nor national legislation, at least, in the majority of the countries yet.

Now in Russia the bill of the Federal law “About Digital Financial Assets” which defines a concept of digital transaction – action or the sequence of the actions directed to creation, release, the address of digital financial assets is offered. However, this bill assumes regulation of the address, but not issue of cryptocurrency and calculations with its help. Still, the ruble remains the only means of payment in the territory of the country.

Destruction of monetary systems of the countries of the world by means of a virus of “cryptocurrencies” can lead to the fact that the U.S. Federal Reserve will be the only emission center in the world.

The number of supporters grew in the economic theory in the last quarter of the 20th century to refer matters of monetary issue to the market, the private organizations, privatization of the central banks was offered. “Our own conclusion... consists that

transfer of monetary and bank establishments to the discretion of the market would result in satisfactorier result, than that which is nowadays reached thanks to the state intervention” [8].

The idea of denationalization of money was stated also by young erudite economists in the seventies of the 20th century [12]. Cryptocurrencies are first of all transition from centralized to private monetary systems. Both the feature and the main problem of regulation consists in it – in fact cryptocurrencies assume the monetary circulation alternative state, that is their value is defined not centrally. If to speak simply, then cryptocurrencies are an alternative to traditional money. They represent the currency existing only in a digital form, and all calculations with it are made by means of cryptography. Cryptocurrencies are decentralized – that is there is neither central bank, nor administrators, nor any bodies of supervision which could trace for what money is used or whom and when they were sent; it does operations with cryptocurrencies very attractive.

It is necessary to change ideology of monetary issue. The gold and exchange equivalent (historically to refusal of a bimetallic monetary system) sharply reduces quantity of money in economy. The release of money has to be provided with a national product. Money has to be issued by the state from such goods which had not to be borrowed [14]. Nechvolodov wrote at the turn of the century that only 18% of paper money in Europe are provided with gold [17].

To restriction of a monetary arbitrariness can find the regulation establishment of criteria of growth of money supply gain of GDP, increase in productivity of work, the needs for money. There is the main unresolved problem a legal regulation of market determination of required volume of money in circulation.

4 Discussion

4.1 Possibilities of Existence of Digital Currencies of the Central Banks

The last one or two years against the background of attempts of legalization of cryptocurrencies the subject of digital currencies of the central banks – CBDC is quite widely discussed. It is in our opinion wrong to consider CBDC as a new financial instrument. The key economic innovation in case of CBDC will consist in expansion of access to obligations of the Central Bank, but not in use of some concrete technology or creation of an alternative to money. CBDC have to and can be considered as an innovative form of monetary issue.

We see that CBDC is generally already realized in the form of reserves of commercial banks in the Central Bank. Now limited access to liabilities of the Central Bank is realized – for commercial banks it is reserves and deposits in the Central Bank. Money on the basis of the distributed register for similar calculations among participants of the money market would become a new form of money.

Now questions of monetary issue remain the mystery of the central banks: what quantity of money is emitted what quantity is withdrawn and liquidated, all these questions are secret. CBDC will reveal this secret, any participant of these relations will be able to obtain full information. Moreover, the central banks will be forced to transfer

a part of the functions in the system of widespread data to commercial banks or other financial settlements centers. From the point of view of users, CBDC can have a set of characteristics and enter a turn both as an alternative to cash, and as an alternative deposits.

Introduction of retail digital currencies can have wide consequences for all participants of a monetary system, that is for economic agents (the population and the companies), a banking system and also for monetary policy of the Central Bank and its policy in the sphere of financial stability.

CBDC can be attractive for a number of reasons: the obligation of the Central Bank can become the least risk and most liquid asset available to a wide range of persons; the new currency will allow to lower transaction expenses in economy. Whether the last can be reached by means of new technologies, for example DLT, – still open question. In case CBDC is rather liquid and simple in use, it can quite become a full equivalent of cash. Nevertheless It should be noted that CBDC de facto will not be able to provide the same level of anonymity which is provided by cash. For CBDC commercial banks – it is the type of money competing with accounts in these banks. In recent years banks began to pay much attention to a possibility of use of the accounts for implementation of money transfers including between natural persons. Growth rates of money transfers are comparable to growth rates of volumes of the cash given in ATMs and payment transactions of cards. Competitive possibilities of CBDC in comparison with banking systems can depend on design of the most retail digital currency of the central bank.

Growth of volume of assets on balance of the Central Bank can lead to changes in the debt market and the capital market as it occurred in a number of the countries during QE. Now there is no analysis of the competition of new money of the Central Bank to money of commercial banks. Permanent decrease in size of deposits (in favor of CBDC) can reduce the size and change structure of liabilities of commercial banks, so, and funding cost [13]. It can lead to some compression of volume of assets of commercial banks, in particular crediting of natural persons and the companies.

Whether CBDC will influence crediting of the real sector by banks? In work Kumhof & Noone it is shown that at certain prerequisites and a way of release the CBDC size of the credit of banks to the private sector not necessarily has to decrease [15]. Realization of CBDC may contain many options: providing with government bonds (relevant how to provide design of the competition sovereign powers of the Central Bank on monetary issue and inquiries of the Ministry of Finance of the country), gold currency reserves, liquid goods or repo transactions, the option and so forth.

4.2 Investment and Investment Preferences of CBDC

Undoubtedly, CBDC can affect competitiveness of various credit institutions differently. CBDC can become an alternative to many investments with the fixed profitability, so, will make the Central Bank by the competitor of commercial banks in respect of attraction of obligations.

On the one hand, the possibility of digital access to liabilities of the central bank can increase trust of all economic entities to a financial system in general. Perhaps, CBDC issue, has to be provided with highly liquid assets, but is not clear whether users

have to have an opportunity to acquire CBDC directly through the account in commercial bank [16] or only in exchange for the assets serving as providing to again issued money [15]. In the first case free convertibility, in the second – automatic security of new money with reliable assets will be provided.

Dyson and Hodgson, indicate what emergence of new currency will allow to redistribute сеньораж from commercial banks in favor of citizens [5]. Emergence of CBDC in one country can lead to reduction of transaction costs for currency conversion that can create prerequisites for fast inflow of the capital. However, experience of Venezuela forces to think of the system of factors which can level positive CBDC value.

In general, regulators, banks and the financial organizations invest already now in alternative payment service providers, technologies and services which can become replacement to cash and to hypothetical CBDC. In April, 2018 Visa and MasterCard payment service providers announced start of money transfer from the card to the card by the phone number. In 2019 the Bank of Russia started own system of fast payments to which commercial banks can be connected, and next year plans start of the Marketplace project for access to financial services of many financial organizations at once.

5 Conclusion

Questions of monetary issue have to be under authority of public authorities of Russia. It is necessary to withdraw the ban on financing of own government by the Bank of Russia and investment of funds in assets of the country. The release of paper money has to be made taking into account GDP, and not just gold and foreign exchange reserves. The release of paper money has to have a legal regulation (in the light of the main beginnings and restrictions), but not to depend on will and vision of individuals. There is a wish to complete saying article by Dr. S. Glazyev. “Our monetary authorities should not read tea leaves, and to take real measures for restoration of control of the financial market. Today, as showed experience and a collapse of ruble exchange rate last year and extreme volatility this year and also the actual failure with all invention of targeting of inflation proves that the financial market remains uncontrollable” [10].

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