Submission to House of Representatives Standing Committee on Economics *Inquiry into impediments to business investment*

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Attachments: Mikayla Novak, "Crypto-Friendliness: Understanding Blockchain Public Policy", *SSRN*, 7 August 2018

Chris Berg, Sinclair Davidson and Jason Potts, "Towards crypto-friendly public policy" forthcoming in *Blockchain Economics: Implications of Distributed Ledger Technology*, World Scientific Publishing.

Darcy Allen and Chris Berg, "Regulation and technological change", in Darcy Allen and Chris Berg (eds.), *Australia's Red Tape Crisis: The Costs and Consequences of Over-regulation*, Connor Court Publishing 2018

ABOUT THE RMIT BLOCKCHAIN INNOVATION HUB

Dr Darcy Allen, Alastair Berg, Dr Chris Berg, Professor Sinclair Davidson, Aaron Lane, Dr Mikayla Novak, and Professor Jason Potts are all with the RMIT Blockchain Innovation Hub, the world's first social science research centre into blockchain technology. Founded in 2017 at RMIT University, we are an interdisciplinary team of researchers in economics, political economy, organisational theory, law, sociology, politics and communications. We work on institutional cryptoeconomics, business strategy and adaptation to blockchain technologies, mapping the blockchain economy, and identifying the public policy challenges that will hold back or accelerate this economic revolution.

We would welcome the opportunity to address the committee on the themes or specifics of this submission.

INTRODUCTION

Australian living standards are highly dependent on the institutional environment in which economic activity operates. It is for this reason that we strongly welcome the committee's inquiry into the impediments to business investment. While business investment is a function of many policy settings (including competitive taxation and regulatory settings, which we as individual researchers have explored in depth in the past) this submission urges the committee to also consider the impediments to business investment in the context of the potentially radical changes in the future economy as a result of technological change.

The process of economic growth is propelled through a process of entrepreneurial application of technologies to new domains. Therefore while this submission focuses on the impediments to investment in blockchain technology in Australia (and the opportunities available to the Australian government to take a globally competitive, 'crypto-friendly' stance), the committee ought to seek information on the policy settings that would encourage investment in artificial intelligence (AI), automation, robotics, nanotechnology, drone technology, and biotechnology. Enabling entrepreneurs to apply and discover uses for these technologies is critical for the future prosperity and resilience of the Australian economy.

We can currently observe a rush for investment into these technologies and an intense process global competition between jurisdictions to attract investment. Entrepreneurs must not only make decisions over their business models and customers, but also questions over the jurisdiction within which they invest. This means that while the implications of many of these technologies are global, their investment is concentrated geographically. For example, Chinese firms are investing heavily in AI. The competitive landscape for AI investment is divided between the United States and China. These investments create new employment opportunities (as well as public revenue through the taxation system) and shape the future of the global economy.

For blockchain and cryptocurrency investment, this geographic sorting is even clearer. Prime Minister Scott Morrison has noted the "massive opportunities" afforded by blockchain technology for financial and other services. The committee should note that Australia is in a unique position to take advantage of these opportunities.

We are already seeing a virulent global competition around blockchain regulation. In May 2018 the Premier of Bermuda David Burt announced to the 8,500 attendees of the Consensus blockchain and cryptocurrency conference his country's new Digital Asset Business Act and Initial Coin Offering Act. This legislation is intended to establish the Bermuda as a premier destination for blockchain businesses by providing regulatory certainty around new business models. Likewise, Singapore, Switzerland, Dubai, Estonia, subnational jurisdictions and dependencies like Zug, Illinois, the Isle of Man and

Gibraltar are all positioning themselves to capture the blockchain economy. In October 2017 the Prime Minister of Solvenia declared the country was "setting itself up as a blockchain-friendly destination".

Below we outline some of the dimensions of crypto-friendliness. Attached to this submission is a range of other documents and analyses produced by the RMIT Blockchain Innovation Hub that we recommend for consideration by the committee.

CRYPTO-FRIENDLINESS

What makes a country open to blockchain technology, that is, "crypto-friendly"? We identify here 1) high quality institutions, 2) agile and adaptive regulatory frameworks, and 3) blockchain-specific policy.

High quality institutions

At the first instance, blockchain firms will be attracted to countries with high quality economic and legal institutions. The same business environments that attract investment generally are attractive to blockchain and related industries. These institutions include low taxation, secure and enforced property rights, limited over-regulation and political stability.

It is significant that blockchain firms are being attracted to countries which already have reputations as business friendly. For example, the Isle of Man has a reputation as being supportive of gambling and online gaming, and has been able to parlay that reputation into a new role as a hub of blockchain activity. Bermuda's reputation as a host of the global insurance industry puts it in an excellent position to be host of blockchain firms as well. Singapore, likewise, is exploiting its role as a financial hub to be a blockchain hub.

The significance for Australian policymakers is twofold: a) blockchain firms will be attracted by the same general business-friendly policy settings that attract other industries and b) reputations for high quality, business-friendly policy settings in one domain can 'spill-over' onto emerging sectors. A country that is known to be sympathetic to (for instance) online gaming can credibly assert that it will be equally sympathetic to cryptocurrencies and blockchain. Australian policymakers need to be aware that decisions made regarding the regulation of one industry vertical will affect their ability to attract investment in seemingly separate industry verticals – particularly where there is a high degree of uncertainty, as there is with new technologies such as blockchain.

Agile and adaptive regulatory frameworks

While blockchain technology and many of the earlier inputs to blockchain technology may have been invented in the United States (and an enormous amount of the innovation in distributed ledger

technology is still located there) that country is not well suited to implementing and adopting blockchain services.

Blockchains are a technology of governance – that is, they offer a new, unique, secure environment in which economic exchanges can be made.[1] As a result they radically challenge existing regulatory and economic interests. Distributed ledgers raise complex new questions about taxation, securities law, legal ownership and liability, and financial controls.

The countries that will attract blockchain investment are those which are able to adapt their regulatory environment rapidly to suit the needs of the new industry – to quickly clarify the tax status of blockchain tokens and assets, to provide regulatory certainty to this boundary pushing industry. There remains a high degree of uncertainty across the blockchain industry as to the extent and consequences of current regulatory frameworks.

Australia is well positioned here. It has high quality regulatory structures, largely as a result of decades of economic reform. Australia's political system is stable, and has institutional structures that allow parliament and policymakers to identify regulatory changes faced by industries. It is easy to be cynical about the pace of Australian economic reform, but it is important that policymakers recognise the opportunity to present Australia as forward-looking and welcoming of new technology sectors. The key for policymakers is to be aware that new industries are going to require rapid (and regular) microeconomic reform.

Blockchain-specific policy

We refer to 'crypto-friendliness' as the extent to which public policy offers an accommodative stance toward blockchain development within a given jurisdiction. Recent research by the RMIT Blockchain Innovation Hub has shown that crypto-friendliness can be seen as a spectrum from 'crypto-friendly'

[1] The RMIT Blockchain Innovation Hub has been exploring this new technology through a new area of economic study, "institutional cryptoeconomics". See Davidson, S, Filippi, Pd and Potts, J 2018, 'Blockchains and the economic institutions of capitalism', *Journal of Institutional Economics* 14(4), 639-658; Berg, C, Davidson, S and Potts, J 2017, 'The Blockchain Economy: A beginner's guide to institutional cryptoeconomics', *Medium* 26 September 2017 https://medium.com/cryptoeconomics-australia/the-blockchain-economy-a-beginners-guide-to-institutional-cryptoeconomics-64bf2f2beec4; Berg, C, Davidson, S and Potts, J, 2017, 'Blockchains industrialise trust', SSRN https://www.ssrn.com/abstract=3074070; Berg, C, Davidson, S and Potts, J, 2018, 'Ledgers', SSRN https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3157421; Berg, C, Markey-Towler, B, Novak, M and Potts, J 2018, 'Blockchains Evolving: Institutional and Evolutionary Economics Perspectives', SSRN https://ssrn.com/abstract=3160428; Berg, C 2017, 'What diplomacy in the ancient Near East can tell us about blockchain technology', *Ledger*, vol. 2, pp. 55-64; MacDonald, T, Allen DWE and Potts J 2016 'Blockchains and the Boundaries of Self-Organized Economies: Predictions for the Future of Banking' in P Tasca, T Aste, L Pelizzon and N Perony (eds) *Banking Beyond Banks and Money: A Guide to Banking Services in the Twenty-First Century*, Springer International Publishing, Cham, pp. 279-96; Allen, DWE, Berg, C and Novak, M 2018, 'Blockchain: An Entangled Political Economy Approach', SSRN https://ssrn.com/abstract=3158805; Berg, C and Berg, A 2017 'Exit, Voice and Forking', SSRN https://ssrn.com/abstract=3081291.

policies which help attract blockchain development and use through to 'crypto-unfriendly' policies repelling such activities.

Australia has generally been perceived by blockchain industry participants and analysts as having developed a crypto-friendly policy environment. This perception is owing to the proactive approach of the Australian Government in clarifying the taxation and regulatory treatment of crypto-currencies and, when necessary, amending them to promote blockchain-enabled activities within Australia.

A good example in this regard is the amendment of GST tax treatment of Bitcoin, and other cryptocurrencies, by the Australian Government to avoid potential 'double-taxation' of cryptocurrency. The move to amend GST tax treatment from 1 July 2017, following the findings of a Senate committee inquiry in October 2014 to reverse the potential double-tax anomaly, is suggestive of the capacity of Australian policymakers to constructively engage in a learning process, which is central to shifting policy in a crypto-friendly direction.

The position of Australia as a crypto-friendly destination for blockchain-related activities is reinforced by the release of regulatory guidelines by ASIC and similar agencies with respect to 'Initial Coin Offerings' (ICOs), the involvement of public sector agencies (such as Digital Transformation Agency and CSIRO's Data61) in investigating the implications of distributed ledger technologies, and promotion by Commonwealth and State Governments of test blockchain 'use cases' in public sector service delivery and administration (including the 2018-19 Budget announcement to invest $700,000 to investigate blockchain benefits for government services).

Conclusion

This submission has drawn attention to the policy settings – both general and blockchain-focused – that would attract blockchain investment. More broadly we wish to bring the committee's attention to the significant global competition for high technology industries. Public policy should focus on making Australia competitive for industries that already exist, but it should also have the industries of the future squarely in mind. The global economy is facing dramatic changes over the next few decades, and those changes will be need to be accompanied by sometimes substantial regulatory reform. Parliament ought to be thinking about how the Australian economy can be competitive in an age of disruption.