The Future of Money

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Yale

Money in Market Economies

- In market economies there is a primitive demand for a means to transact.
- When there are no alternatives, privately-produced money arises.
- Stablecoins are the latest privately-produced money.
- But there are two problems with privately-produced money.

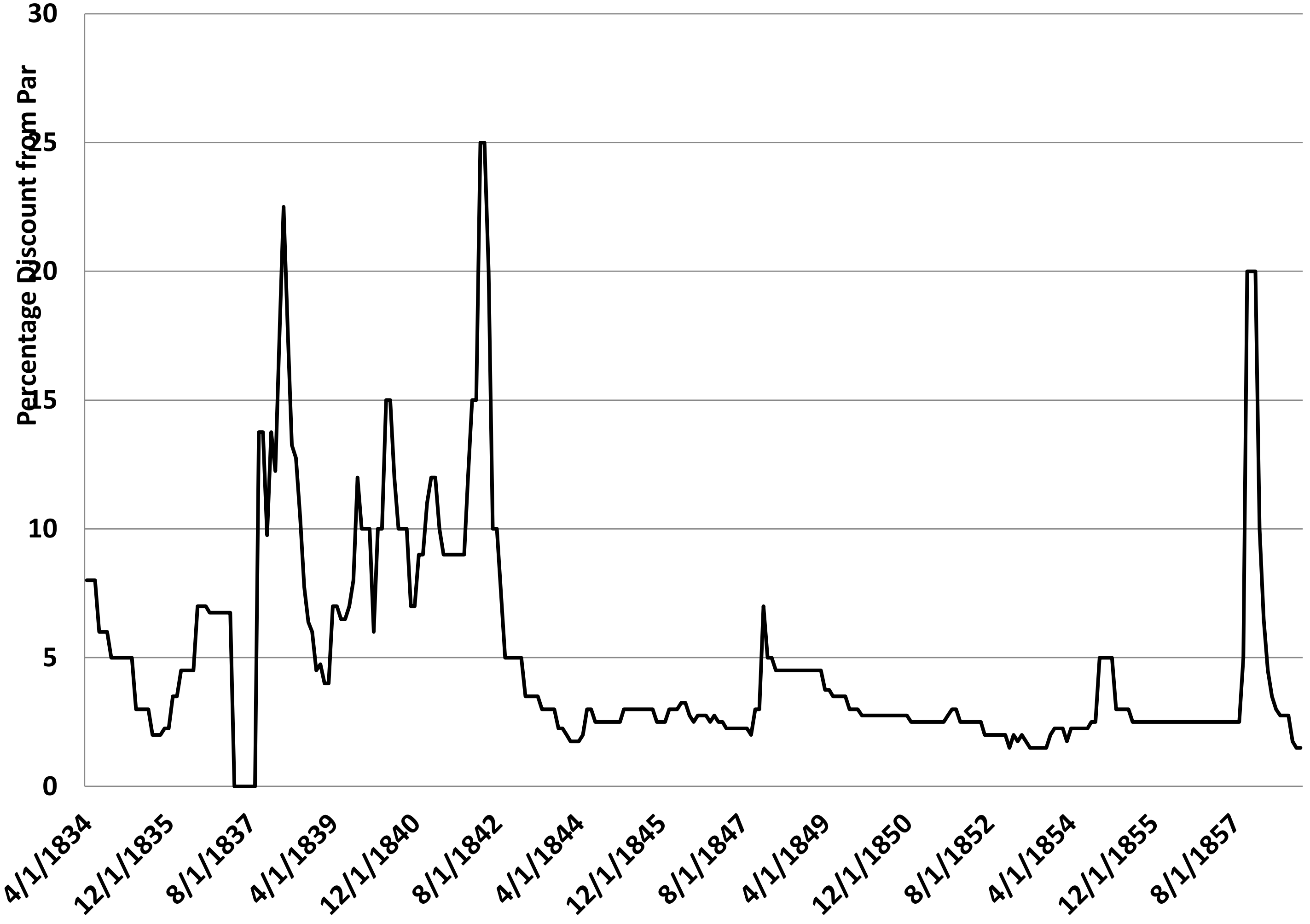
Problem No. 1

- Ricardo –

  In the use of money, everyone is a trader; those whose habits and pursuits are little suited to explore the mechanism of trade are obliged to make use of money, and are no way qualified to ascertain the solidity of different banks whose paper is in circulation; accordingly, we find that men living on limited incomes, women, laborers, and mechanics of all descriptions, are often severe sufferers by the failure of country banks.

NEW YORK
BULL'S HEAD BANK
ONE
ONE
A
One
Dollar

Planters Bank of Tennessee Note Discount in Philadelphia



The NQA Principle
No Questions Asked

- Solution: Design money so that it is information-insensitive. Debt backed by debt.
- *Money is special because its price is (almost always) constant. Not determined by supply and demand.*
- Info-insensitive: no agent has an incentive to produce private information, and all agents know this. NQA money.

Problem No. 2

- Privately-produced is subject to banks runs.

- If the price does not adjust (because no one knows what it should be if not $1), then quantities adjust.

- Adjust to zero in a bank run.

Stablecoins

- Stablecoins are digital tokens purportedly backed one-for-one with safe assets.

- Stablecoin issuers are (unregulated) banks.

- Stablecoins provide liquidity and collateral in crypto space. No alternatives.

Stablecoin Use Case: Cross Border Trade

"But despite these technological advances it can still take as long as 10 days to transfer money to different jurisdictions. And that transaction can cost up to 10 per cent of the value of the transfer. A payment from the UK to some countries has to go through four currencies and as many as five banks."

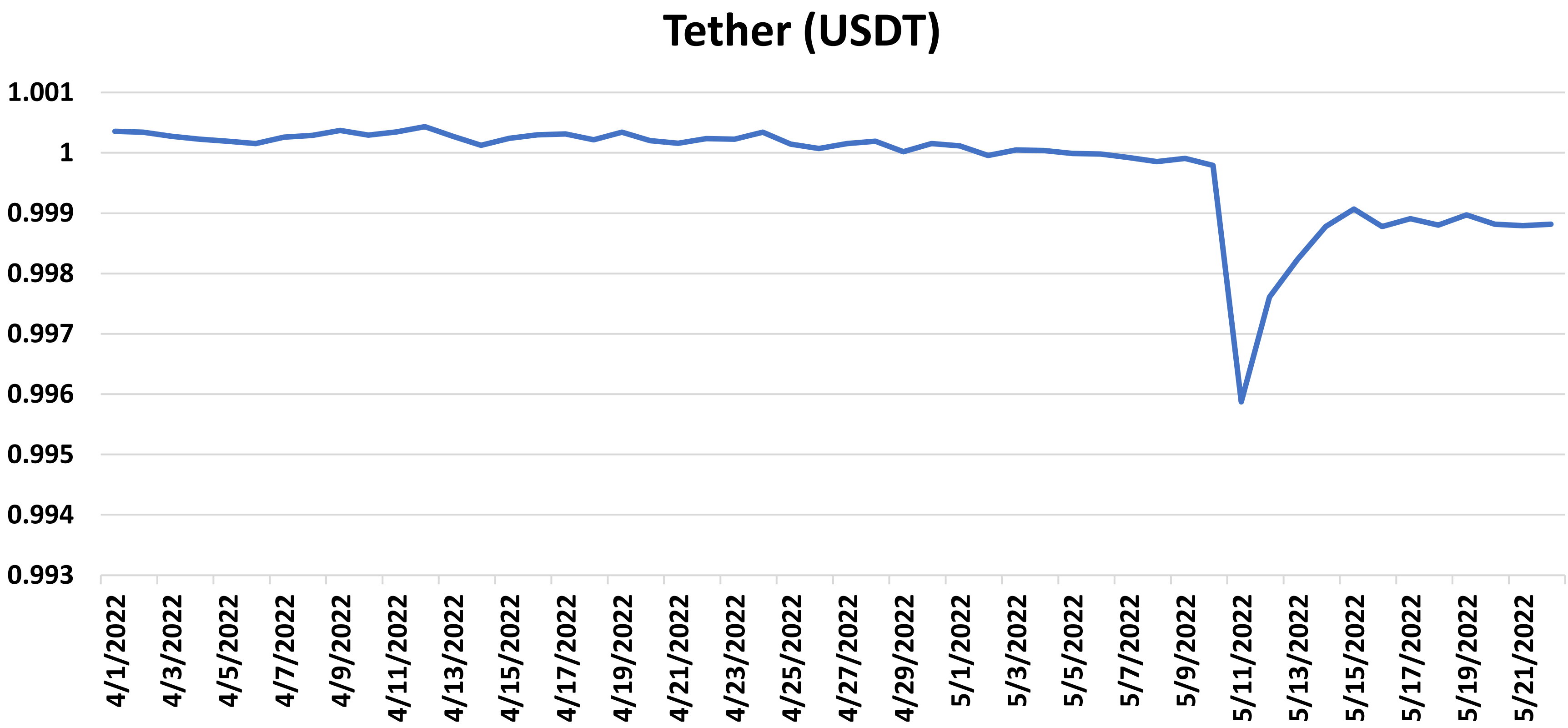
– Sir Jon Cunliffe, *Cross-Border Payment Systems Have Been Neglected for Too Long*, Financial Times (July 13, 2020)

Press releases

TradeLens blockchain-enabled digital shipping platform continues expansion with addition of major ocean carriers Hapag-Lloyd and Ocean Network Express

02 July 2019

But Stablecoins are Subject to Runs



Issue Serious?

- Sang (2022): "A one standard deviation ($320 million) increase in the issuance of major stablecoins (Tether and USD Coin) on a given day results in a 10.7% increase in the commercial paper issuance quantity, a 20-basis point decrease in the commercial paper yield, and a 15-basis point decrease in the Treasury yield the following day."

Solution

- Government monopoly over the production of circulating money.

- Only the government can produce NQA money, which is a public good.

The Sovereign Money Monopoly

Table 1: Central Banks and Banknote Monopolies		
Country	**Central Bank Founded**	**Decision on Monopoly**
Austria	1816	1816
Norway	1816	1818
Denmark	1818	1818
United Kingdom	1694	1844
France	1800	1848
Belgium	1850	1850
Netherlands	1814	1863
Spain	1874	1874
Germany	1876	1876
Japan	1882	1883
Finland	1811	1886
Portugal	1846	1888
Sweden	1668	1897
United States	1913	1913
Italy	1893	1926

Conclusion

- History will have to repeat - -

References

1. Taming Wildcat Stablecoins

2. The Orkney Slew and Central Bank Digital Currencies

3. Protecting the Sovereign’s Money Monopoly

4. Bank Runs During Crypto Winter (forthcoming)