A Possible Future of Money

If you have not spent the last few years in a cave or on an island in the middle of the Pacific Ocean, the words cryptocurrency or digital currency should sound familiar. I will not pretend to know or try to explain all the details of the technology behind Bitcoin, Etherium, Ripple or the rest. The literature on the topic is abundant. Instead, this article concentrates on the following paradox: the technology behind the attempt of decentralizing money supply might soon be used by sovereign states to create their own digital currencies, raising even more questions about the future of money as we know it. Ever since the advent of digital currencies, and especially since the hysterical mania around the most prominent one, Bitcoin, in the late 2017, digital currencies have been on the agenda of corporations, regulators, and governments alike as all of those parties are trying to figure out how to react and what to do with the ever-growing presence of this relatively new phenomenon.

A good place to start is probably the definition of money or currency. As defined by Encyclopedia Britannica, money is "a commodity accepted by general consent as a medium of economic exchange. It is the medium in which prices and values are expressed; as currency, it circulates anonymously from person to person and country to country, thus facilitating trade, and it is the principal measure of wealth" (Encyclopedia Britannica, 2021). Basically, in order for something to be considered money, it needs to serve as all of the following: medium of exchange, unit of account and storehold of wealth (Mankiw, 2015). The need for a standard entity that would serve as the above three originated from the desire to avoid the "double coincidence of wants" (Jevons, 1875). Without money, trade can only be made via a direct exchange of goods (barter), which requires that the engaging parties simultaneously have what the other wants, and want what the other has. The presence of money facilitates this process by making it possible to exchange

goods for money, which can later be exchanged for other goods, thus eliminating the need for the double coincidence.

Money has taken a number of forms throughout history. Gold and silver coins were used prominently in most civilizations, since they were relatively easy to carry, count and verify. Money with intrinsic value, i.e. one that has value regardless of the fact that it can be used as money, is called commodity money or hard money. As printing on paper became widespread, pieces of paper guaranteed by the central banks dethroned the coins and became the go-to option of money. This form in which money itself has no intrinsic value is called fiat money, which is the type of money we know and use every day. An important characteristic of the existing fiat money like the dollars or pounds of various countries, the euro or the renminbi is that those are issued by sovereign states and are thus backed and guaranteed by the governments of the respective states. We accept a USD payment because we trust the US government, because we believe it will still be in place tomorrow or in a few months or whenever we need to use the money we received. So the current monetary system is centralized around sovereign states. Central banks such as the Federal Reserve of the USA (the Fed) or the European Central Bank (ECB) have total control over the amount of money available, the denominations, the physical format, etc., which is one of the reasons why alternatives are being created. An interesting and quite a surprising form of money originated in WWII era prisoner-of-war camps, where cigarettes were widely used as money. Such cases could also be seen during the demise of the USSR during the late 1980s. In a sense, money is a form of social contract, so the trust in money need not necessarily originate from a state guarantee. People were content with accepting payments in cigarettes, even those who did not smoke, because of the belief that those cigarettes could later be used to purchase other goods, and no governmental action was involved whatsoever. Furthermore, the belief in the purchasing power of cigarettes was apparently

comparable to the belief in the centralized system, as the rouble was still in place when people were using cigarettes in the USSR (Mankiw, 2015).

Due to their decentralized control, cryptocurrencies are independent of governmental or regulatory interventions, which of course poses its own risks. Nevertheless, the market capitalization of all cryptocurrencies has reached a staggering $2 trillion. To put that into perspective, there are only a handful of publicly traded corporations that are anywhere near that valuation at the moment of writing.

As a consequence, some major economies as well as corporations are considering the implementation of their own digital currencies, which, if ever implemented, will change the landscape of digital money and possibly signal the dawn of a new era in the history of money overall. Facebook, a company worth almost $1 trillion, announced in 2019 about the plans to create a digital currency in cooperation with other major corporations, but the currency is still in the development phase (Murphy, 2020). The Bank of England, alongside the UK Treasury announced this month their plans on a Central Bank Digital Currency (CBDC) and the creation of a special CBDC Taskforce to supervise the project (Bank Of England, 2021).

Of major economies, China seems to be well ahead of the rest of the world in developing and implementing a CBDC. The consequences of such a move are unpredictable and unprecedented. The US views this as a threat to the USD and, consequently, to the dominant position it has in financial markets and transactions all over the world and its ability to monitor and sanction individuals or entities (Dans, 2021). The digital yuan and its potential mainstream acceptance could make it possible for cross-border money flows, the vast majority of which currently happens in USD, to go through without the knowledge of the US. In the context of the geopolitical balance between the two largest economies of the world, the importance of the digital

yuan is hard to overstate. One of the most important characteristics of dominant global empires throughout history has been the control over the world's reserve currency, starting from the Dutch guilder in the 17th century, followed by the British pound in the 19th century up until the end of WWII, after which the US dollar became the world's reserve currency due to the immense and incomparable economic power the US possessed at the time (Dalio, 2021). The advent of a digital yuan could hand this privilege to China.

As the power struggle between the two empires continues and penetrates into more and more spheres such as technology, human rights, and now the financial markets, the shift in monetary systems around the world will play a major role in how the current world order evolves and whether we will witness tectonic shifts in the way we think about money, as well as in the current world order itself.

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