

Money at a glance

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Key ideas

Money is reliant on the belief individuals have of its worth. Trust that money will always be accepted in the economy is what makes the monetary system work.

Bank money - Should banks continue to control the amount of money being created, or is this damaging the economy?

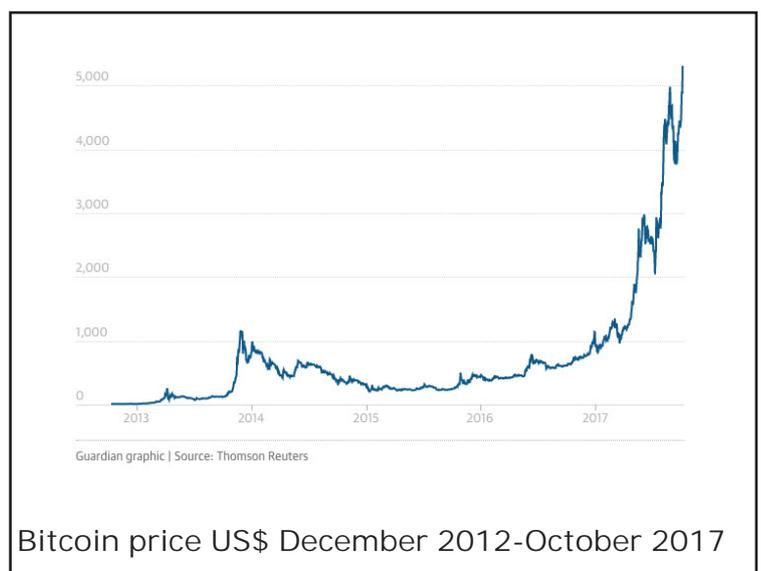
Helicopter money - Could this be a successful unconventional monetary policy? Could the method of 'dropping' money into the economy to stimulate spending and recover the economy during periods of aggregate demand contraction?

Cryptocurrencies - Without intervention of public institutions, no policies

Cryptocurrencies: Money of the future?

The monetary system of the future is likely to undergo significant changes because it is compromised by issues such as inflation and counterfeiting. The future envisages a programmable world, where money could be directed by software. Could this control eliminate malfunctions in the economy?

We are looking at the future of cryptocurrencies and whether they could be a secure and reliable alternative to money.



Key references

McLeay, M., Radia, A., Thomas, R. (2014). Money Creation in the Modern Economy. Quarterly Bulletin (Q1), 1-14

Pettifor, A (2017). The Production of Money:How to Break the Power of Bankers.

Al-Naji, A., Chen, J., Diao, L. (2017). Basecoin: A Robust, Price-Stable Cryptocurrency with an Algorithmic Central Bank. 1-26.

Bank Money

Money is a medium of exchange, allowing transactions to be carried out in the economy. Our system of money operates on the belief that it will always have a value in the future. Commercial banks create money, in the form of bank deposits. They make new loans to consumers by crediting their bank accounts with a deposit the size of the loan requested. This is creating new money in the economy. There have been many debates as to whether the power banks have in creating money should continue or whether the government needs to impose restrictions to prevent loans being made for speculative activities rather than productive investments. We need to consider the negative externalities it may pose on society by continuing to inject money into the economy and have no restrictions on what credit is used for. 'Commercial bankers can create credit...effectively without limit, and with few regulatory constraints. (Pettifor, 2017).'

Helicopter Money

Helicopter money involves printing large sums of money and distributing it to the public to stimulate the economy. Lonergan (2015) believes the direct transfer of cash is 'simple, it can be quite immediate, and virtually all economists would agree that it would have a material impact on spending.' Although this policy could provide an immediate boost to the economy, the effects are only likely to be short term. Central banks would need to carefully consider how much cash would be 'helicoptered' into the economy and who the target receivers would be. Perhaps, the best audience to focus on would be low income earners as they have a greater propensity to consume. Individuals who spend a larger proportion of their income are likely to invest or spend a greater amount when provided with 'helicopter money'. This would mean it could

provide an immediate stimulus to the economy and would therefore be more successful than if it was given to those who save.

Crypto Currency - Bitcoin

The use of cryptocurrencies is becoming more popular and may be shaping the future of how the financial world will be controlled. Cryptocurrency is a digital asset designed to work as a medium of exchange, using cryptography to secure the transactions. However, is a world without public intervention as desirable as it may appear?

Bitcoin may be tempting for those seeking refuge from high inflation in their local currencies. However, 'bitcoin can never truly free people from their unstable local currencies due to its own lack of price stability' (Al-Naji et al., 2017). Without intervention of public institutions, no policies are in place to control purchasing power of cryptocurrencies. As a result, changes in demand can induce massive fluctuations in price. If the currency was to experience devaluation, those nations reliant on this currency would end up worse off and potentially in a worse position than before. Due to the lack of regulation of these currencies, there are also issues raised such as money laundering, tax evasion and funding for terrorism. All of which would be hard to control as transactions would all be anonymous. It would be naive however to assume that simply because of these current flaws with cryptocurrency that it will not play a significant part in the future of the money we use on a daily basis.