

'A full paper on this topic, incorporating the subject matter of these slides, will be available very shortly'

The Future of Money and of Monetary Policy

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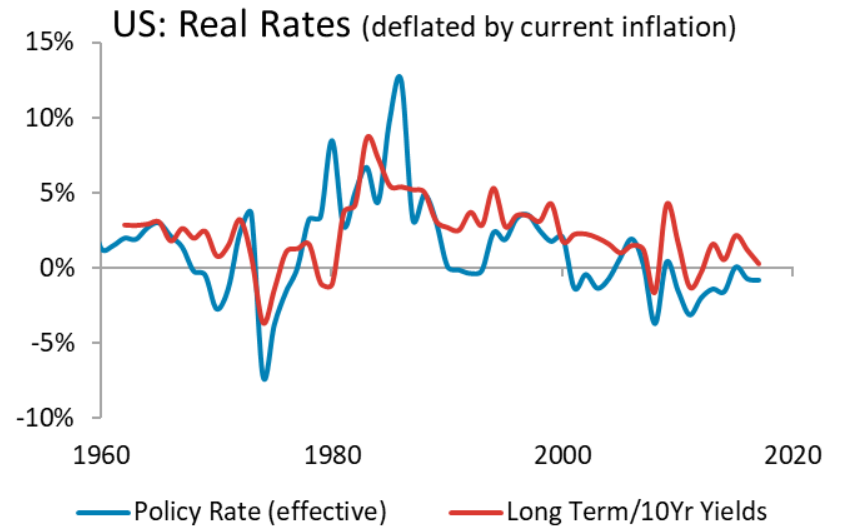
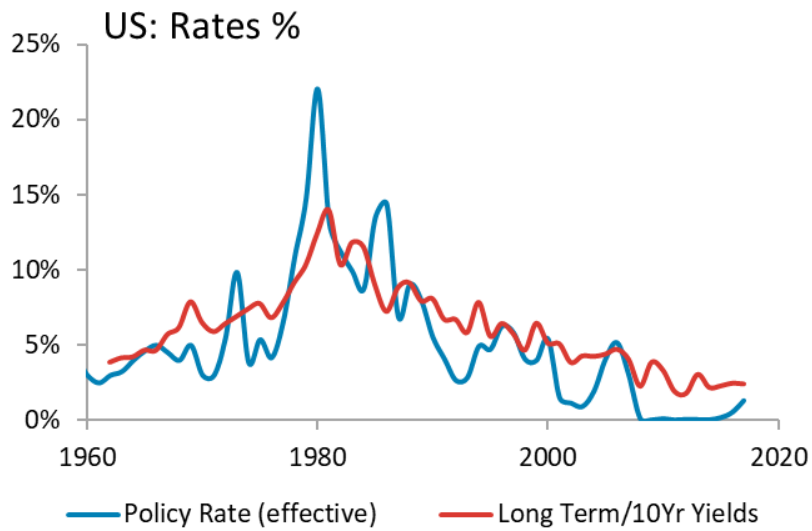
Two caveats:-

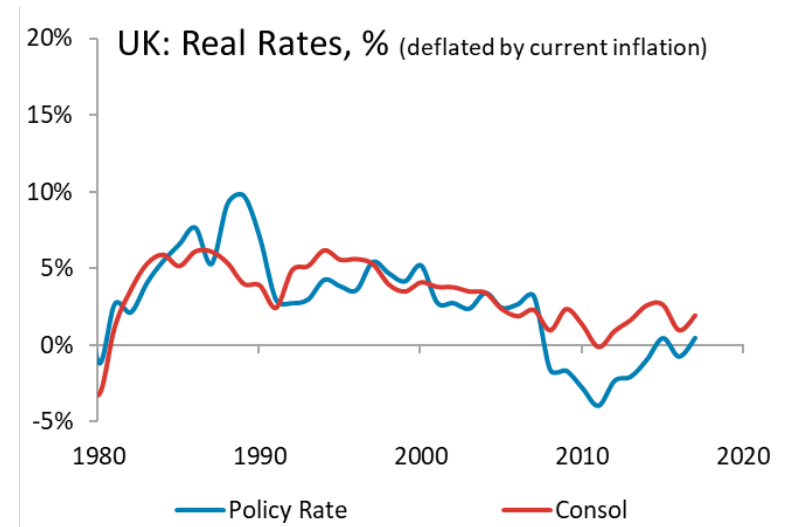
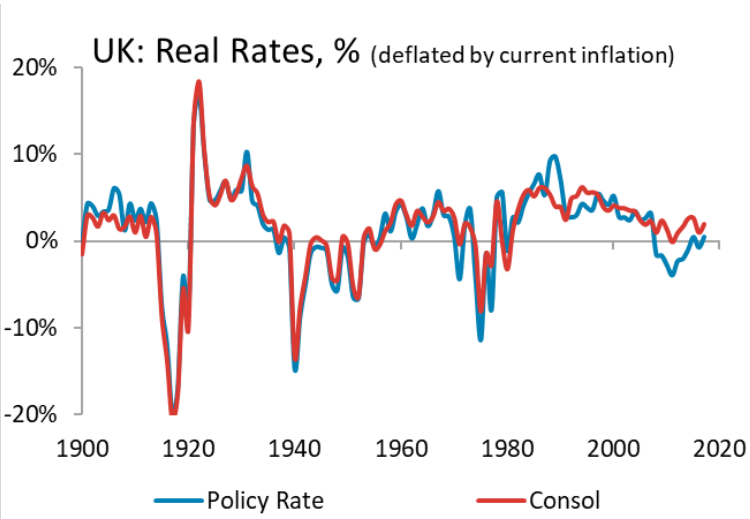
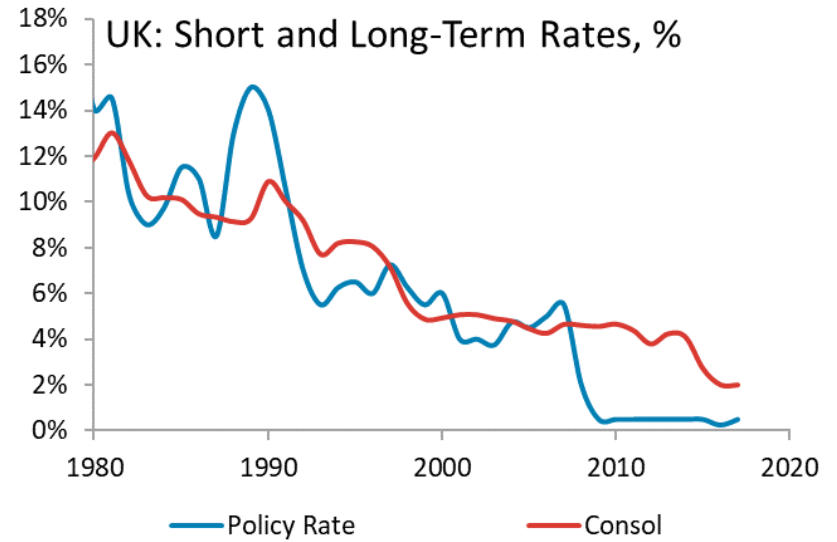
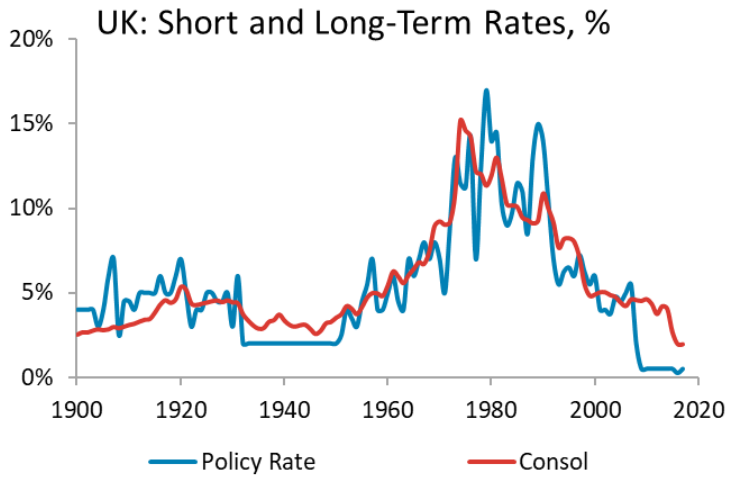
a) Forecasting skills

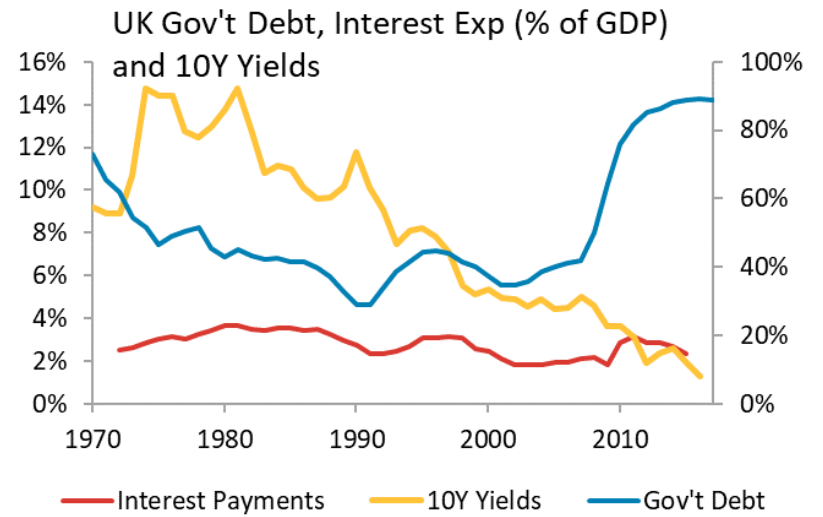
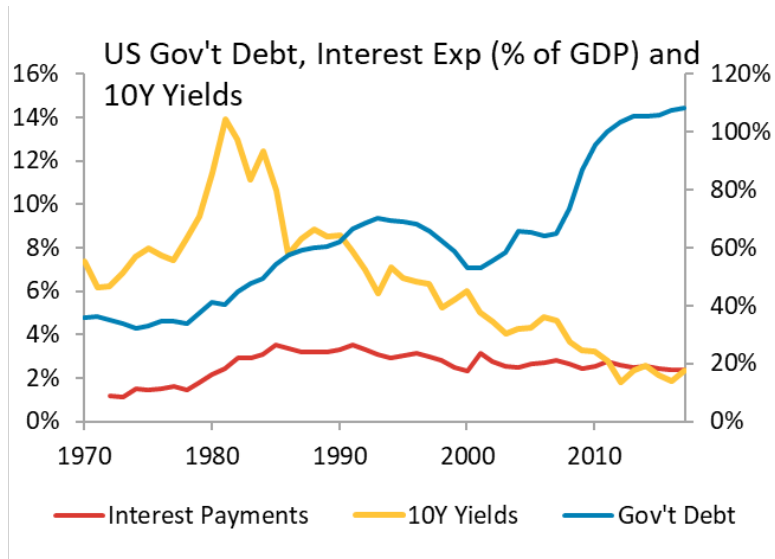
a) Electronic skills

Underlying trends have been favourable for Central Banks and their operational independence.

- A) Interest rates, both nominal and real, have trended down over last 30 years.
- B) As a result, although debt ratios have been rising, (except banks since 2009 and Germany), debt service ratios have remained low and steady.
- C) Borrowers, especially public sector and corporates, have gained. Those already holding assets, e.g. old and rich, have gained.
- D) Losers have been savers without assets, e.g. young and poor, but these have tended to blame governments, not Central Banks.







Source: National sources, IMF, WB

Such trends are likely to reverse as demography worsens and China effect wears off. Can India and Africa take China's place?

What determines net surplus of corporate sector?

1) Technology

2) Monopoly

3) Managerial incentives

4) Cheap labour

Assuming normalisation of monetary policy

1) Central Banks no longer best friends of borrowers:-

a) How will politicians react?

b) How to handle corporate insolvencies?

2) Debt trap. What way out?

a) Growth No

b) Cancel debt Hardly

c) Inflation ?

d) Default No

e) Switch to equity Perhaps

Why do we use debt as basis of money creation?

- Informational advantages. No need to know details as long as payment regularly made, supported by collateral and bankruptcy penalties.
- Disadvantages: Ethical, limited liability leads to moral hazard, e.g. excessive corporate debt, non-linearities and crises.
- Could data explosion, (and changes in accountancy practices), allow shift to equity finance and participation, (Islamic banking).

- The need for money is intimately related to informational problems. If people do not know if X will repay her debt, a claim on X cannot be used to pay for purchases from Y. So, replace uncertain-value claim on X with a claim on Z, a stronger debtor, (or an asset, such as gold, whose value has been guaranteed by Z).
- So, we can think of money as an informational system.
- But monetary systems can be organised to incorporate more, or less, information on counter-parties to a transaction.

Little information

- Bitcoin, currency.
- Problems: used for black/grey economy: ZLB.

Much information

- Centralised ledger system.
- Problems: can be used for authoritarian purposes, especially by government.

How much information do we want others to have on us, and use to their own advantages?

- Government?
- Central Bank?
- Tech companies?
- Commercial banks?
- Others?

What is the market for e-money?

What can Central Banks offer that commercial banks cannot? See BIS Report.

- a) Less credit risk? But only used in crises?
- b) Lower transactions costs than currency. (Riksbank)
- c) Cross-currency transactions. International transmissions?

What can commercial banks offer that Central Banks will not?

- Access to credit.