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Festival of Economics 2017

Money at a glance

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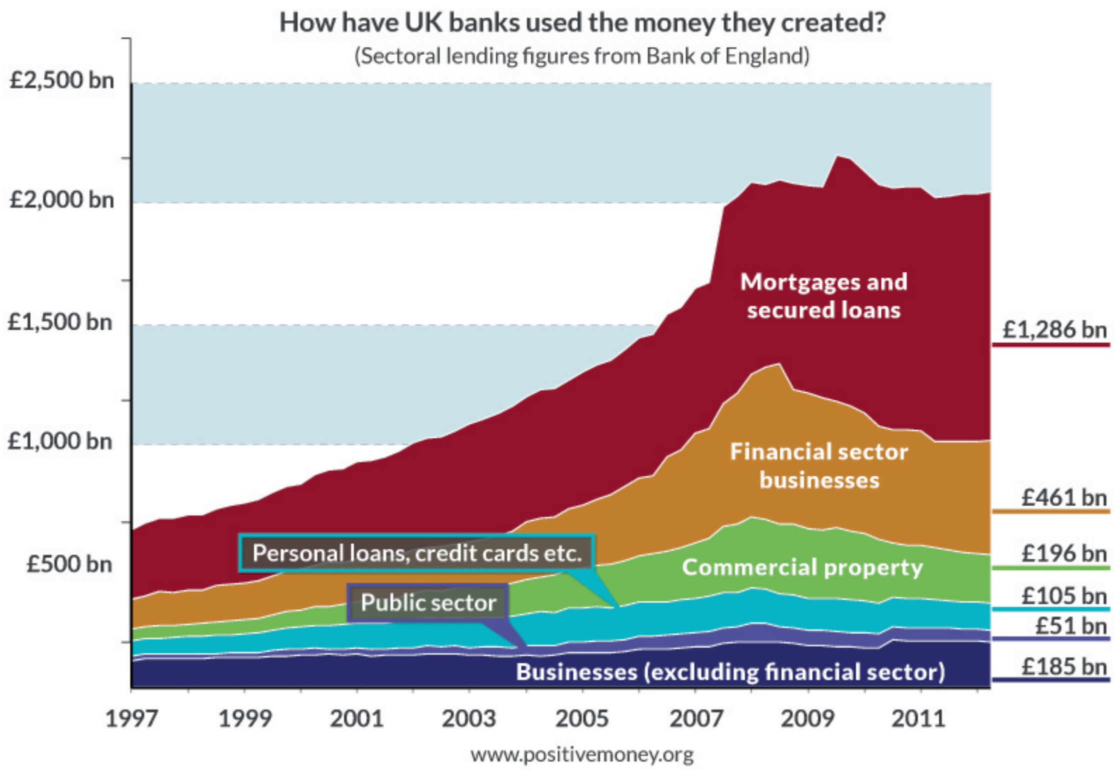

97% of UK money is created by lending of private banks via lending - but where does the money go?

'Broad' money consists of fiat currency created by the Central Bank, bank deposits and central bank reserves that banks use to pay each other.

Shadow Money is created by diverse institutions and markets that carry out some traditional banking functions (e.g. loans) without traditional bank regulation.

Cryptocurrency is a decentralized digital asset to be used as a medium of exchange, that uses cryptography to secure transactions, verify transfers and control the creation of new

Money of the future?
Bitcoin
Basecoin
Bristol Pound
Pay-Pal

Key references:

Bank of England - Money Creation in the Modern Economy.

Ann Pettifor - The Production of Money.

Hyman Minsky - The Financial Instability Hypothesis

Gabor, D. and J. Vestergaard. Towards a theory of shadoq money. INET working paper.

Nader Al-Naji, Josh Chen, Lawrence Diao - Basecoin: A Robust,

HOW DO BANKS CREATE MONEY?

Money is no longer equivalent to gold or other commodities but merely entries in bank ledgers, it's a special kind of IOU that everyone in the economy trusts to be accepted. The Bank of England recognised in 2014 that money is not created by government but by the creation of IOU's by commercial banks. When you take out a loan, the bank does not credit you with "real" money but instead it credits your account with a bank deposit. No IOU from the central bank ("real" money) is used, the bank only issued an IOU to you. So, when the bank issues a loan of £100 it has created a new £100 'endogenously' in the economy.

Most of this money is used for speculation in housing and financial markets rather than supporting businesses (Table.1) which leads to price bubbles and instability. Because there is more demand for cash-like instruments than there is supply, shadow banking steps in. The process of shadow money creation is similar to bank money, with securities collateral replacing the state's promise to guarantee bnk deposits. In the case of the 2008- financial crisis, banks treated financial irresponsibility as a valuable commodity by encouraging everyone to take out as many loans as possible, securitised these loans and funded them with shadow money IOUs. This recklessness raised fundamental questions about the money creation process and scholars argue that a new money creation system is required, where money's primary function is the improvement of the general standard of living rather than just economic growth (Ann Pettifor, 2017).

MONEY EXPERIMENTS

In the 1930s several towns in Europe and the US tried using "free money" or "stamp scrip" to encourage people to spend money quickly to stimulate the economy, and reduce unemployment. Although in cases such as at Worgl in Austria they seemed successful, central banks believed it encroached on their monopoly to create money and stopped them after a few months. Rather than the incentive to spend relying on price inflation, these currencies used 'demurrage'. A stamp had to be purchased and fixed to the note every month to maintain its value so the incentive was to spend or invest money - some even paid their taxes early. The local government issued the notes and paid employees some of their wages in the new money. Municipal works were carried out and unemployment was drastically reduced. The Bristol Pound encourages people to spend their money locally and should in theory stimulate the local economy in a similar way. Because it is backed one-to-one by Sterling deposits the Bristol Pound does not create new money, and it does not use the demurrage mechanism used in Worgl. Because of these differences it has not had the same drastic effect on economic growth and local government finances.

CRYPTO-CURRENCIES

The rise of cryptocurrencies promise an alternative non-institutional financial system with benefits such as . Bitcoin, the first crypto-currency created, is used as a medium of exchange but since there is a limit on the number of Coins created, the price tends to inflate with increasing demand, encouraging people to use them as a speculative asset rather than a currency. However, crypto-currencies and especially Bitcoin are extremely volatile and expose contracts denominated in Bitcoin to extreme price risk, making price stability the biggest issue for the mainstream adoption of these currencies. Basecoin attempts to solve that problem by implementing the economic principles of the Quantity Theory of Money into its protocol. By controlling the supply of Coins in circulation through an interplay of Basecoins, Base Bonds and Base Shares, the protocol can expand and contract the coin supply just like the Bank of England to produce long-run price levels.