

Money

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Money in Market Economies

- In market economies there is a primitive demand for a means to transact.
- When specie is scarce, privately-produced money arises.
- But there are two problems.

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.

The NQA Principle

- Solution: Design money so that it is information-insensitive.
- Its price is (almost always) constant.
- Info-insensitive: no agent has an incentive to produce private information, and all agents know this. NQA money.
- Debt
- Debt backed by debt: debt-on-debt.

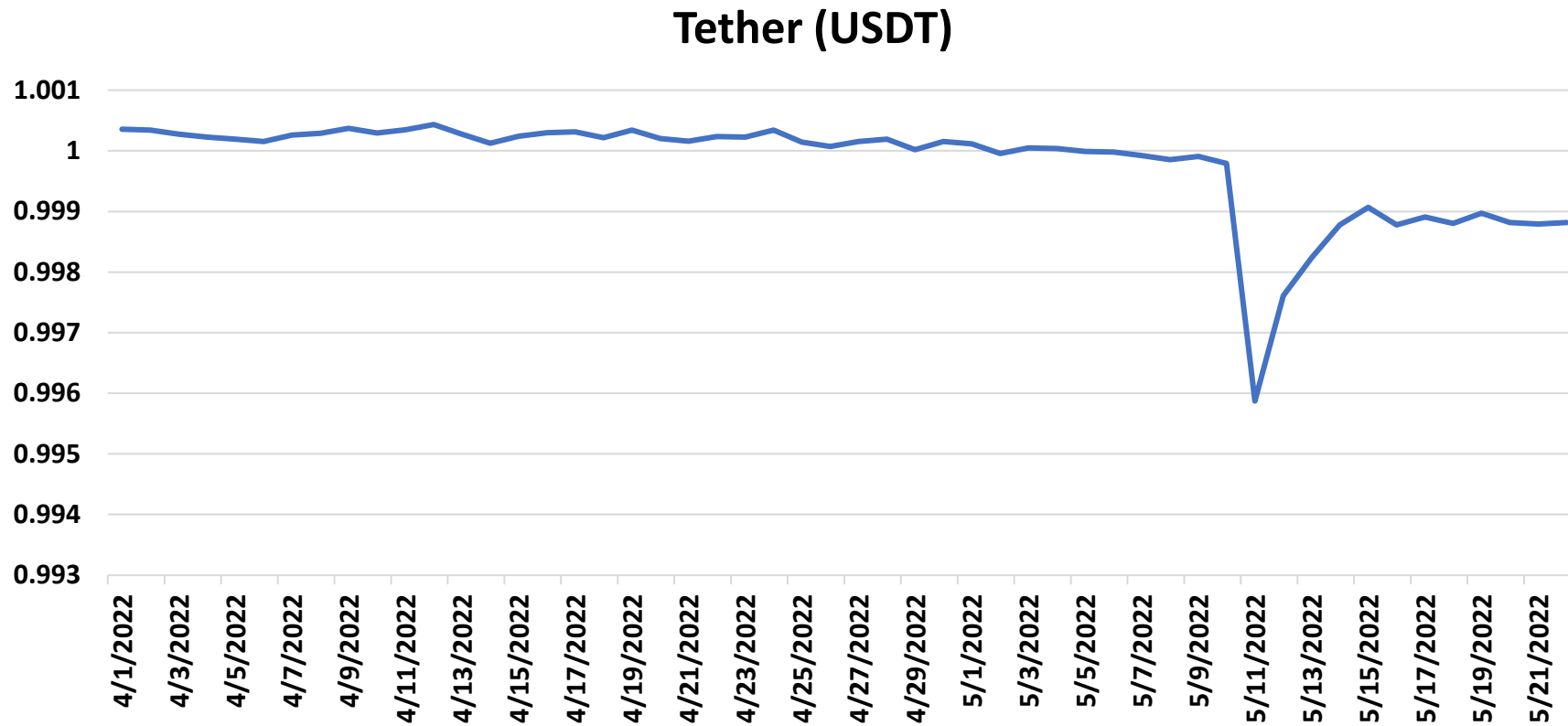
Problem No. 2

- Privately-produced is subject to 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 run.

Stablecoins

- Stablecoins are digital tokens purportedly backed one-for-one with safe assets.
- Stablecoins provide liquidity and collateral in crypto space. No alternatives.
- Stablecoin issuers are banks.

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.

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 - -