Digital Currency (DC)

Design principles supportive of a shift from bankmoney to DC

Conference on Money Reform, Vollgeld and Cryptocurrencies

Monetative e.V., IMMR and Frankfurt School Blockchain Center

Frankfurt, 24 Nov 2018

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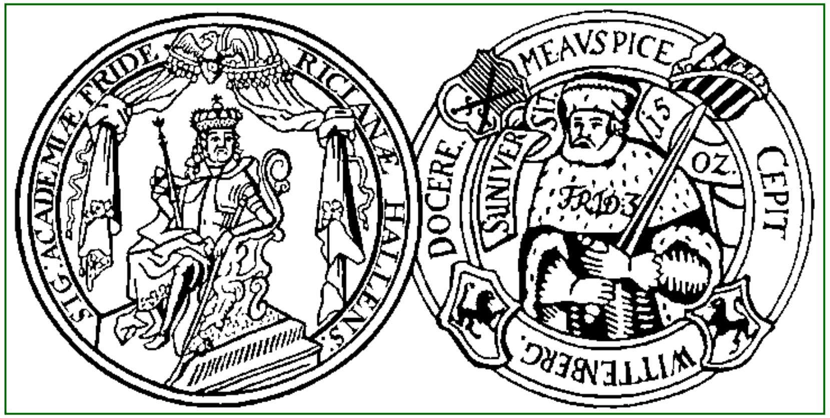


Explanation of Terms

Digital Currency (DC)

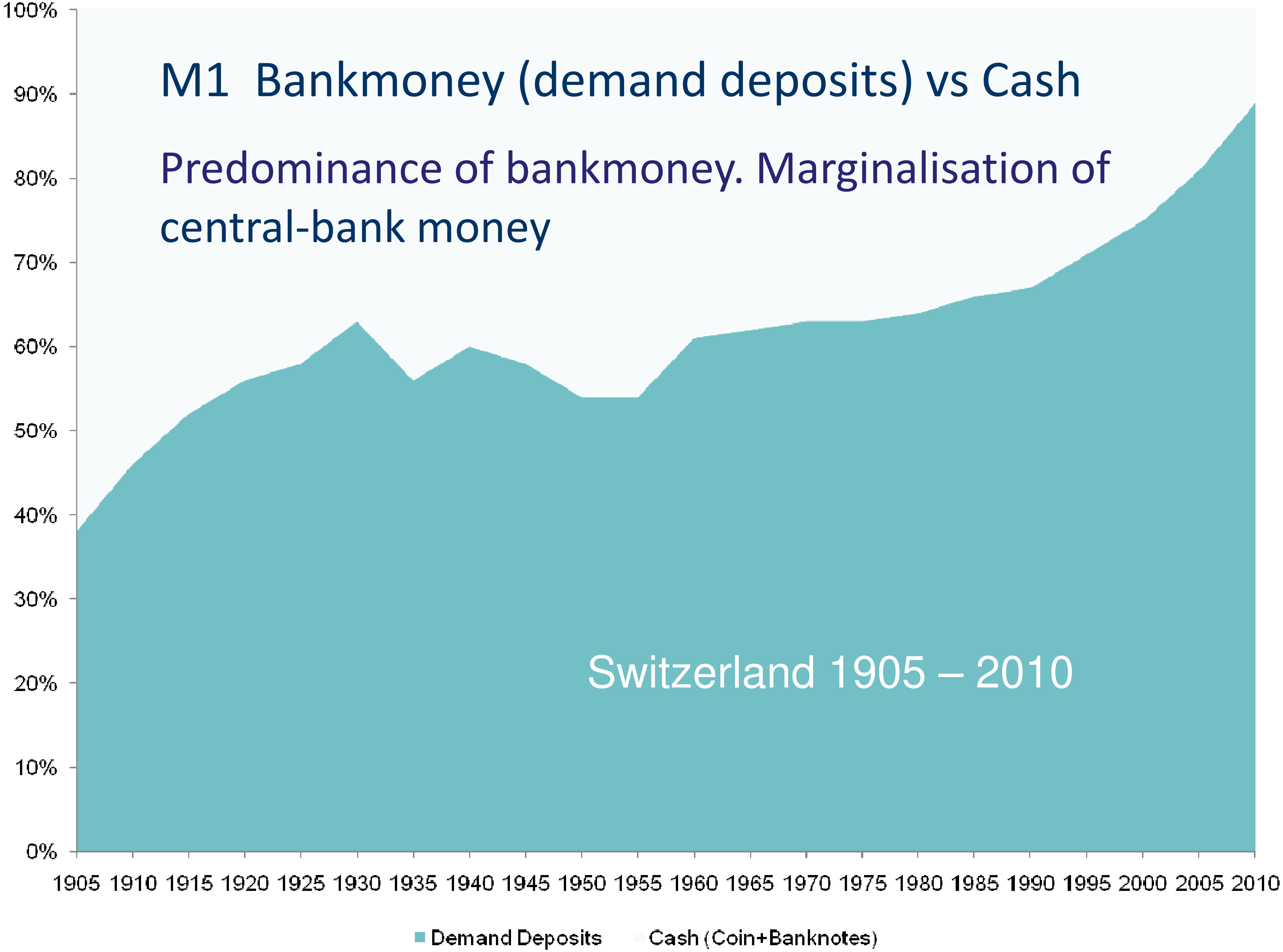
= central bank issued fiat money

= legal tender = sovereign money
like treasury coins and cbk notes and reserves

= money-on-account (deposit money)
rather than cryptocurrency

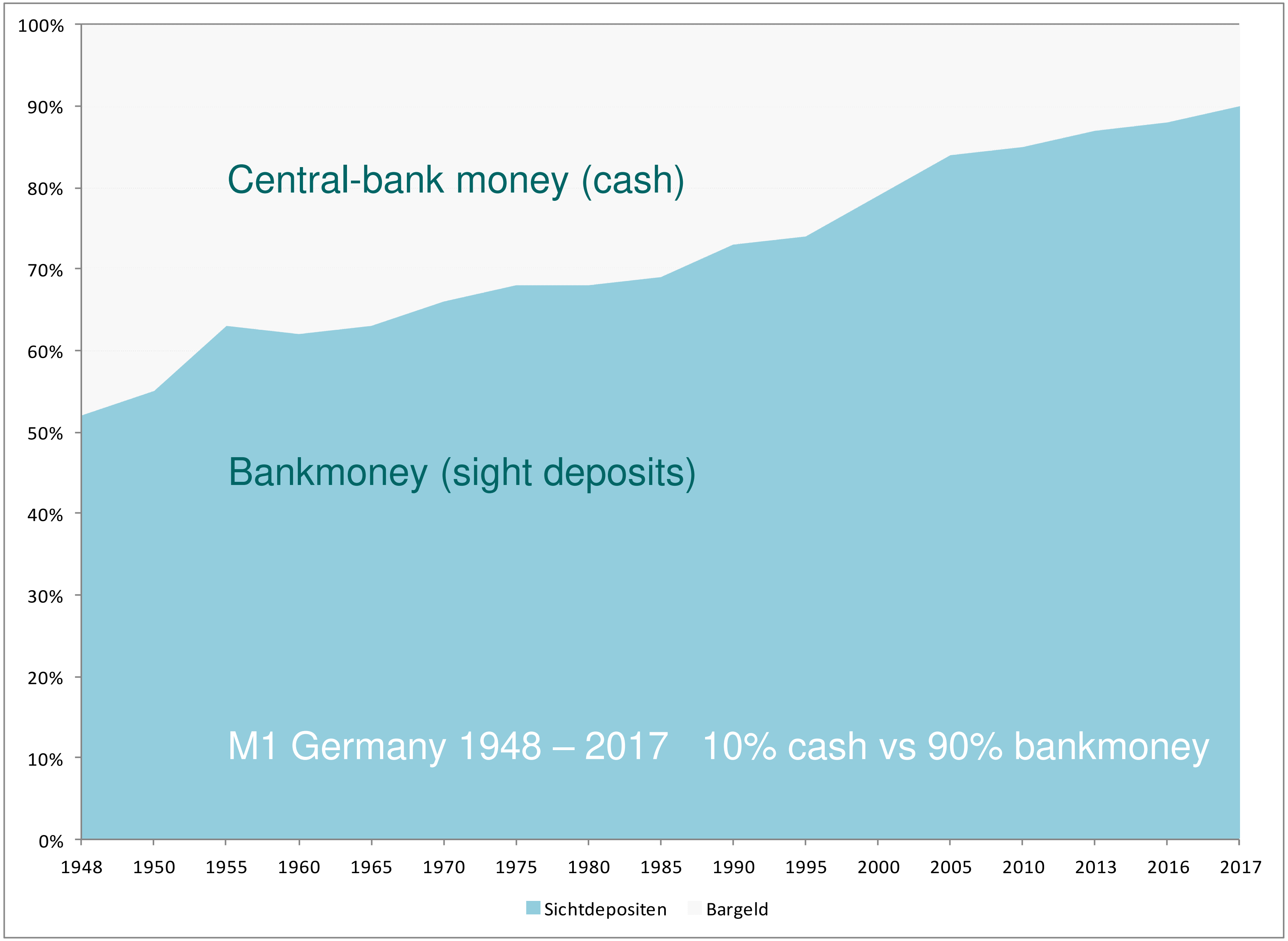
DC as considered by BoE staff or the E-Krona proposed

by the Swedish Riksbank both represent varieties of DC.



Data: Swiss National Bank, Historical Time Series, No.1, Feb 2007, 1.3, 2.3

Rise of the bankmoney regime, marginalisation of central-bank money



Daten: Deutsche Bundesbank, *Monatsberichte*, Tabellen zur bankstatistischen Gesamtrechnung, 1954-2017.

Advantages of Digital Currency

- Enhanced transmission and thus improved effectiveness of conventional instruments of monetary policy
- Complete safety. No counterparty risk in bank payments. DC thus highly trusted and accepted
- Comfort and costs of handling equal to bankmoney
- Costs of financing for banks about the same as with cash. Costs of handling much lower.
- Increased seigniorage (gain from money creation) to the benefit of the public purse.

Assumed problems with DC side-by-side with bankmoney

- Impaired ability of banks to lend and invest?
- Pro-cyclical shifting of account balances between bankmoney and DC?
- Heightened risk of bankruns?
- Deposit interest as well as negative interest on DC?
- New Gresham situation? (threatened 1:1 parity of bankmoney with DC).

Design principles supportive of a shift towards DC

- No restrictions on access to and quantities of DC
- Merging DC and interbank reserves into one circuit
- Full convertibility between bankmoney and DC …
- … including a conversion guarantee by the central bank, particularly in a bankrun situation
- Gradually reducing and ultimately removing state warranties of bankmoney
- Public bodies gradually increasing the use of DC
- Credit to banks not the only channel of issuance of DC
- Central-bank deposit interest on DC equal to deposit interest on bankmoney
- Ruling out negative interest.

Concluding Remark

The modern world has been living for 150–300 years with the conflicting situation of sovereign money and bankmoney coexisting side-by-side.
DC side-by-side with bankmoney will basically not be too different from that.

At all events, it is a step forward, coming to a degree with the advantages mentioned above.

By comparison, the problems inherent to the present near-complete rule of bank-money are still much bigger than problems related to DC ever might be.

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