

Cash does not matter. Money is the important issue!

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Cash will soon disappear

- Cash (and coins) have always fascinated people: they were associated with wealth.
- Not true anymore: cash is not a good store of value. Rich people do not keep cash in their vaults!
- Moreover, cash is also dominated as a means of payment: high transaction costs, generates violent crimes (extortion, bank robberies..)

Electronic wallet dominates cash

Even if it has not picked up yet, the electronic wallet is a superior alternative to cash:

- Lower transaction costs
- Violent crime eliminated (but fraud and theft still possible)
- Anonymity can be preserved.
- Zero lower bound disappears!!! Negative interest rates easy to implement if cash disappears!

Will money also disappear?

- John Cochrane (2014) has the view that, as transaction costs become smaller and smaller on financial markets, the demand for money will ultimately vanish.
- He is probably right but we are still far from it (M1/GDP ratios remain huge in most economies!)
- In any case, even if M1 becomes small, money will still matter as a unit of account.

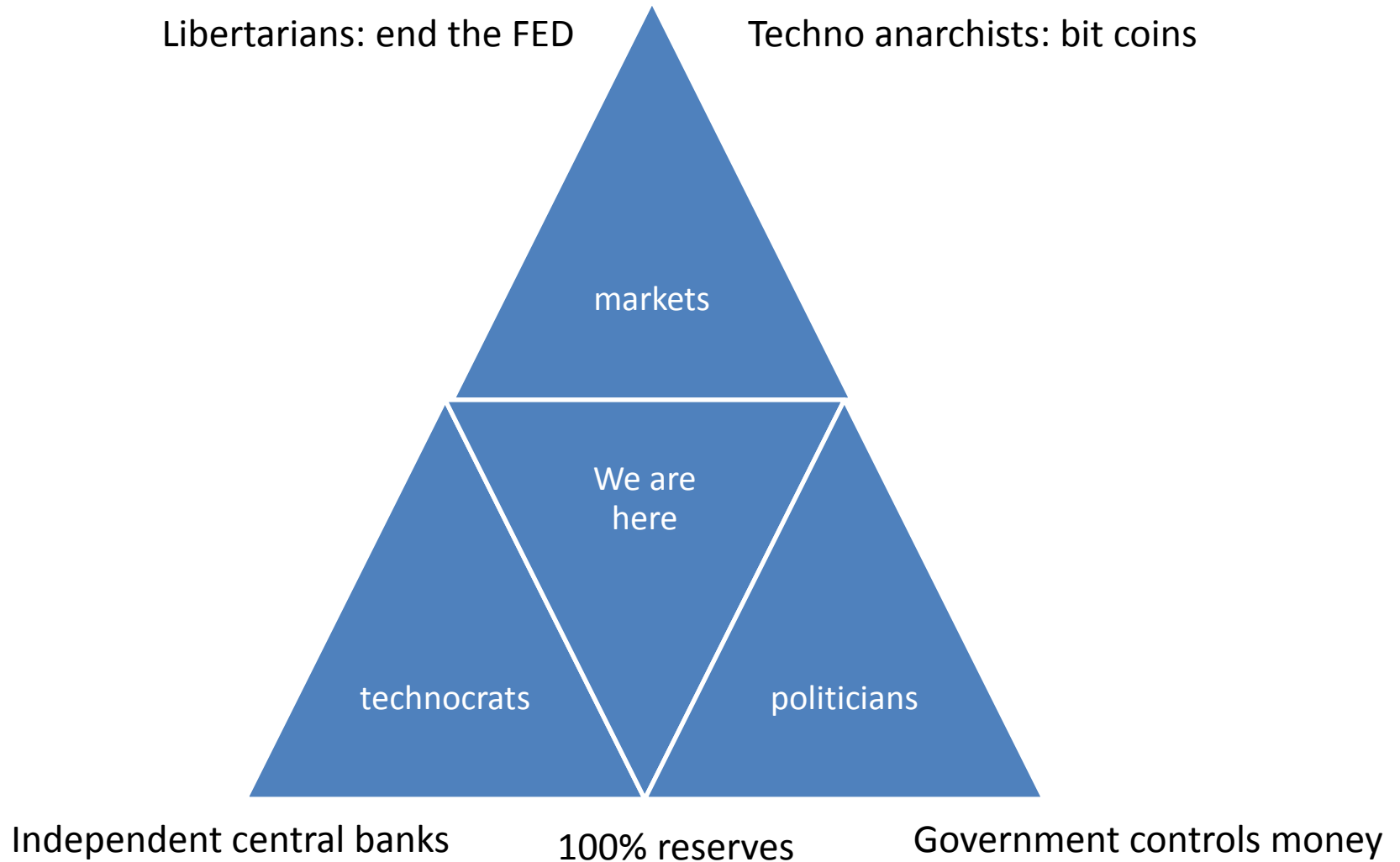
Monetary decisions have a big impact on people

- September 16, 1992: Bank of England devaluates £: George Soros + \$1bn, British people - \$1bn(probably more...)
- January 15th, 2015: Swiss National Bank abandons peg with Euro: ChF: +20%, Swiss Stock Exchange: -10%
- Quantitative Easing has massive distributional consequences BoE (2012), Beraja et al (2015).

A mini history of money

- Coinage controlled by sovereigns (Zhou dynasty 1000 BC, Croesus 700 BC,..)
- Bills of exchange and bank notes (Song Dynasty 11th century, Europe Middle Ages)
- Central banks (Riksbank 1664, BoE 1694)
- Bretton Woods (1944-1971)
- 21st Century: the triumph of technocrats. Central bank independence and non conventional monetary policy.

Who controls our money?



International monetary system: anarchy or collusion?

- Dollarized economies (Latin America)
- Pegs
- Currency boards
- Currency Unions (Euro area)
- Currency wars (Japan , China)
- Will the “exorbitant privilege” of the US end.

Two main issues: democratic legitimacy of
Central banks and international cooperation.

Conclusion

- After hundreds of years of academic research on money: we still don't understand much.
- This does not prevent policy makers from taking bold decisions: technocrats are in power.
- The most influential academic papers on Banking (Diamond Dybvig 1981) and Monetary Economics (New Keynesian DSGE models) do not explicit consider money!
- For my academic colleagues in the room, I suggest collective suicide as the most honorable solution!