

**Economics books****The Future of Money by Eswar Prasad – balances of power**

This assessment of the way cryptocurrencies will change the financial system argues that the state will always remain in control



A bitcoin ATM in a Hong Kong shopping mall © Marc Fernandes/NurPhoto via Getty Images

**Gavin Jackson** 3 HOURS AGO

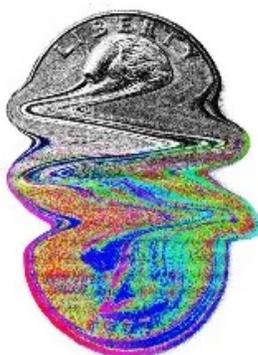
In the 13th century, Kublai Khan, grandson of Genghis Khan, created the first fiat currency, money that gets its value from the state declaring it has value. This was not the first paper money – Chinese merchants had been using deposit certificates since the 7th century. It was, however, the first not backed by any kind of commodity, such as gold, but solely the power of the state. Indeed, anyone not accepting the tokens risked being put to death. It was the birth of money as most of us know it today.

Now, according to Eswar Prasad, we are in the midst of a new revolution, this time launched by private innovation. The spark came from bitcoin in 2009, the first digital money that needed no trusted third party – whether a government, a commercial bank or payments processor such as Visa. While the libertarian ideal of its creators – a financial system free of state power – will be frustrated, he argues, the decentralised record-keeping that underpins cryptocurrencies will bring cheaper and more efficient payments.

In *The Future of Money*, Prasad envisages an era of monetary separation between the state and the private sector. While modern money, mostly, consists of bank deposits, the commercial banks depend on central banks to provide the reserves backing them and to administer the system of interbank payments. New technologies will break apart this partnership. While the state's money will provide a store of value, private currencies will, often, be used to make payment.

Take Facebook's mooted cryptocurrency, now known as [Diem](#). That could, Prasad argues, transform the creaky and expensive world of international payments. At present, cross-border payments hop from bank to bank with each adding fees at every step and repeating costly anti-money laundering checks. Instead, transfers could all take place by buying and then sending Diem. That would save often poor migrants from having to hand over to the financial sector a big chunk of the remittances they want to send home.

**The Future  
of Money** How the Digital Revolution  
Is Transforming Currencies and  
Finance **Eswar S. Prasad**



Diem is meant to be a “[stablecoin](#)” — a privately issued cryptocurrency backed by a reserve of fiat currency, such as the US dollar. These are the only cryptocurrencies that actually work as money, Prasad argues. The technology behind bitcoin facilitates cheaper payments, but the currency is far too volatile for making payment — rocketing one day and plunging the next.

Counter-intuitively the elasticity of fiat currency provides more stability than the artificial scarcity of bitcoin. It makes fiat currency a much more appealing prospect for businesses which can be assured that when times are bad the central bank can step in and print more.

That will mean central banks will remain, as Prasad puts it, central. Decentralised payments systems may become more common but the stablecoins built on top of them will be linked to fiat currency, leaving the central banks' role in macroeconomic management intact. Central banks' creating their own [digital currencies](#), too, is a matter of when not if — the Bahamas has already launched its digital Sand Dollar, while major central banks such as the [European Central Bank](#) are still exploring their options.

The combination of domestic central bank digital currencies and international stablecoins will both expand and reduce the state power embodied in money since the era of Kublai Khan. State-run digital currencies have enormous potential as a surveillance tool. In many ways that might be good — Prasad points out that in his native India corruption usually involves handing over an envelope of cash — but it could, without proper safeguards, mean losing privacy.

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New international currencies, on the other hand, will limit governments' ability to keep funds in or out through capital controls as well as providing an alternative to get around US sanctions. The dollar will remain pre-eminent, he argues, thanks to the vast amount of safe assets — US government debt — available. Cryptocurrencies cannot offer such a depth of reliable stores of value neither can they offer the same ease of trading, vital in a crisis. Nevertheless, new rivals will mean the dollar's dominant position will be [more fragile](#).

The book is comprehensive to a fault and a vital handbook for anyone looking to understand how finance is changing. The style, however, can be quite dry and the language, often, too academic. And while the author's vision of the future is, in many ways, plausible, is this really as new an era as he suggests? Stablecoins are very similar to [existing bank deposits](#). Indeed, the US is considering regulating cryptocurrencies [like banks](#). From a consumer point of view the future may look pretty similar even if, behind the scenes, payments systems work differently.

Prasad's prediction that the monetary balance of power will shift to the private sector will depend not on the efficiency of decentralised ledgers but the state's willingness to tolerate the challenge. Eras of "free banking" in Scotland and the US when [banks issued their own banknotes](#), similar to stablecoins, were brought to an end in the middle of the 19th century not because of better technology but because the state asserted control.

Indeed, since *The Future of Money* was written, regulatory pushback has intensified. China, in particular, has cracked down on bitcoin, [outlawing](#) foreign exchanges from selling in the country. It has humbled Ant Group, the financial services company run by Jack Ma. The government has forced it to break apart, including [turning over its user data](#) to a partly state-owned joint venture. Facebook's Diem, too, has been given short shrift by western regulators. Bitcoin might have unleashed a revolution but, like so many revolutions, it might have now come full circle.

**[The Future of Money: How the Digital Revolution is Transforming Currencies and Finance](#)** by Eswar S Prasad *Harvard*, \$35/*Belknap*, £28.95, 496 pages

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