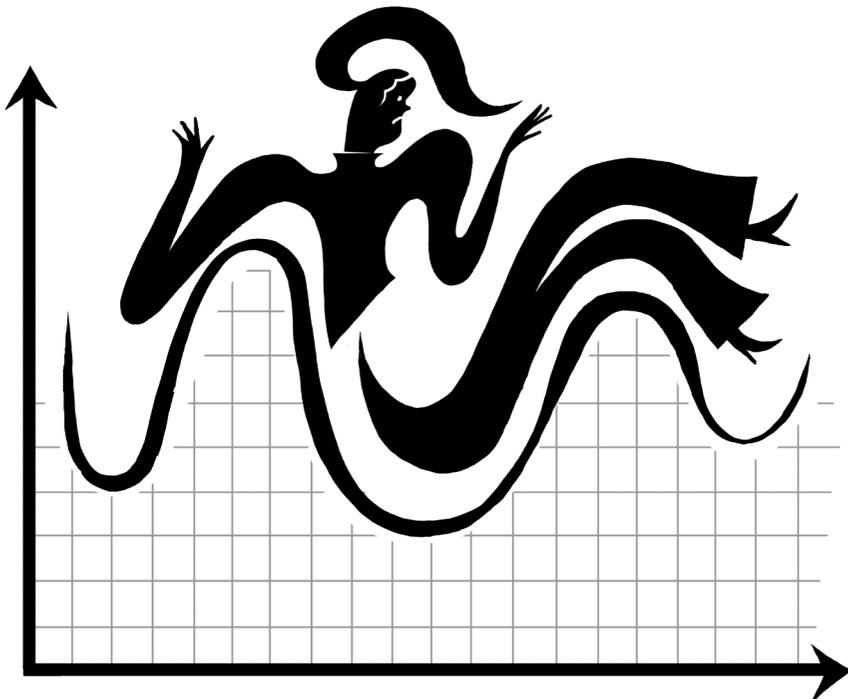


IDEA

The currency of power, the power of currency



From denarii to smartphones

34

Aspenia | 95-96 | 2022

Digital transformation has not eliminated the historical relationship between currency and power. It has rather introduced new and more subtle forms of monetary power for geostrategic or commercial ends. As for cryptocurrencies, they are not currencies at all but high-risk speculative investments. It is unlikely that “monetary innovations” can improve the present system of payments, particularly within the eurozone. Central banks still have a crucial role to play in governing currency, and currency remains an essential instrument in our lives.

Money is as old as civilization itself. Ever since what we call civilization has existed, money and power have been bound together by a continuous rela-

tionship, reciprocally synergic and causal. From the banks of the Euphrates to the banks of the Nile, beneath Mount Lycabettus and the Seven Hills of Ancient Rome,

Daniel Gros is a board member and distinguished fellow at the Centre for European Policy Studies.

Ignazio Angeloni is a research fellow at the Harvard Kennedy School and senior fellow at the Leibniz Institute for Financial Research, Goethe University Frankfurt.

in Renaissance squares and the capitals of the nation states, whoever held power – whether priest or sovereign, dictator or legitimate representative – has always controlled how money is created, preserved and exchanged.

MONEY AND POWER, FROM ANTIQUITY TO THE PRESENT. For much of history an exploitative relationship prevailed – the use of power to deprive citizens of their wealth. Third-century Rome provides the most fascinating example of this. The denarius, which under Marcus Aurelius was worth 75% of its weight in silver, had lost almost its entire value by the time of Diocletian. The nature of this debasement is well summed up in the remark which the historian Cassius Dio attributes to the emperor Caracalla, the initiator and chief agent of this debasement: “Nobody in the world should have money but me.” No other head of government before or since has ever expressed such clear intentions about how to use his power, both monetary and fiscal.

In the modern world, this relationship between money and power survives, but has changed. Defenses have been erected against lordly power, by entrusting the management of money to institutions – the central banks – responsible for preserving its value. Seigniorage still exists, but it is regulated by provisions that limit its scale and ensure its transparency and democratic supervision.

Nevertheless, new and more subtle forms of exploitation – new ways of exerting power through currency – have come to the fore. One example is the use of money for strategic ends. Measures adopted by the US Treasury regulate the application of sanctions – mostly financial – against entities involved or suspected of involvement in laundering and terrorism, for example. Today, financial sanctions are being used extensively to counter Russia’s aggression against Ukraine. The dollar’s predominance as the currency

of billing and settlement worldwide enables the United States to use banking provisions to support other strategic deterrents, by preventing transactions and seizing cash assets. Another example is the use of currency in the information field, for economic and commercial goals. How individuals use/spend their money and how they distribute their wealth represents information of commercial value. This abundance of information makes commerce more efficient but also makes it easier to exploit the unwary and facilitates the violation of privacy. An awareness of these risks has emerged in recent years, with consequent changes in the regulatory framework, but these remain imperfect.

36

Attention in this sphere is currently focused on a single aspect: the digitalization of currency. Experts within the institutions and throughout society are debating how to manage the prospect, considered certain and imminent, of currency losing not only all links with the value of underlying assets – a connection in fact severed as long ago as August 15, 1971, when Richard Nixon decreed the end of the gold standard. He thus turned the worldwide monetary system into an entirely fiduciary one, rendering any physical manifestation – whether a piece of paper or a metal token – redundant.

CURRENCY AND DIGITAL TRANSFORMATION. To find our way through this debate, we must first understand an often overlooked fact: currency began to adopt a digital form over a century ago. Pieces of paper were still exclusively used for payment messages and accounting purposes when the Federal Reserve was founded in 1913. Soon after that, however, the telegraph began to be used to send messages for interbank transactions. Fedwire, the federal system that to this day still manages such payments in the United States, gradually adopted digital technology soon after World War I. Europe introduced similar systems after World War II.

Credit cards, originally used to pay for restaurant meals – the legendary DinersCard! – simplified payments: it is easier to show a card than to write a check or hand over bank notes. Still, the underlying infrastructure remained the same: card payments are settled from bank deposits and ultimately from central bank accounts. Debit cards, now very widespread, are



37

particularly secure because they are settled directly from bank deposits, rather than creating credit relationships between users and card management companies. In both cases, of course, users (buyers and sellers) are unaware of what happens behind the scenes and are fully guaranteed with regard to the purpose of payments.

The use of cards has reduced the use of cash. In the United States, however, a large proportion of payments are still made using personal checks – an inefficient method that has almost disappeared from Europe. Until the 1980s, checks had to be returned physically to the issuing bank for settlement – a cumbersome and risky process. Check truncation resolved this problem and was one of the most important steps towards the digitization of money. Since then, digital images of checks have been sent to the bank of origin, electronically. Finally, the rise of the internet, in the 1990s, provided technical support for online banking, whereby the bank branch effectively shifted to private homes via a laptop.

By the turn of the millennium, the digitization of currency was already very advanced. The next step, smartphones – with their portability and unparalleled ease of use – put purchases and transactions literally within arm’s reach, enhancing the potential for peer-to-peer platforms such as PayPal and the like. Apps such as Applepay or Googlepay spare the user the bother of getting out a card, but still largely depend on credit cards or bank deposits, with transactions ultimately settled in central bank ledgers.

38

WHAT IS CHANGING WITH DIGITALIZATION? So monetary digitalization, as outlined above, spans more than a century, from Fedwire messages in the early twentieth century to those now transmitted when we point our smartphones at a supermarket cash register. Yet this revolution has not significantly altered the relationship between power and money. Indeed, the dominant dynamics whereby power uses currency to redistribute resources in society towards itself depends not on the form of currency but on the fiduciary nature of money itself. However, the same does not apply to the “new forms” of monetary power, starting with its geostrategic use.

Modern electronic systems render simple something that was previously impossible: they prevent states, groups or individuals from accessing money. An emperor could not prevent the denarius from being used beyond the frontiers of his empire. Roman coins found in India bear witness to cross-border circulation of which the emperor was probably not even aware. Today, however, the US Treasury can exclude anyone in the world from the Fedwire System, the only practical way to transfer dollars on a large scale.

Digitization has altered the relationship between money and power, strengthening it. There have been even greater changes in the information aspects of money. Every digital transaction leaves an electronic trace that reveals the preferences and habits of its maker. To offer one simple example: the pur-

chase of a football reveals an interest in sport that makes that consumer an attractive target for advertisements for sporting goods.

Traceability applies to all the “classic” variants – bank transfers, credit and debit cards, apps, PayPal and similar channels. The commercial use of such data has hitherto been limited by a combination of forces, including the reluctance of banks and credit card companies to share data, but these barriers are falling. IT and commerce are merging into a single sector that can exploit huge data synergies.

CRYPTO- AND TECHNO-CURRENCIES: PROMISES AND FANTASIES. Further possibilities relate to a greater or lesser extent to the newest forms of currency: cryptocurrencies. The best-known techno currency is perhaps the Libra project, subsequently renamed Diem. It was launched in 2019 by Facebook (now Meta) to great media acclaim, and it was recently sold to an investment fund for the modest sum of \$200 million. Central bank digital currencies (CBDCs) belong in the same category, but for contrasting reasons. The common element among all these new monetary technologies is two-fold: in the private sphere, it is the intention to separate the creation and use of currency from public supervision; in the public sphere, it is the desire to challenge this separation.

China – now the most advanced country in the development of digital currencies, with a digital yuan (or renminbi) already at the experimental stage and millions of wallets in existence – provides a clear example. Precisely because it is extreme and distorted, it demonstrates how a currency can be used for political purposes. The Communist Party of China knows better than anyone else the interrelationship between data and power and is determined to maintain its monopoly on both. The digital yuan enables the state to possess information about its citizens and to acquire new means of moni-

toring any opposition. Democratic countries' interest in CBDCs is less marked, less concealed and partly justified. The intention is to counter the erosion of the public monopoly on currency, and thus to maintain an active public role so as to prevent the risks and abuses that an exclusively private currency might entail.

After years of experience, it is evident that so-called cryptocurrencies are not currencies at all but rather high-risk speculative investments. The problem is not only the extreme price volatility – which make them unsuited to retail users – but also the limit on the number of participants inherent in any mechanism based on decentralized accounting records. That is, the scalability issue in distributed ledger. Bitcoin can handle a few thousand transactions, at limited intervals and at high monetary and environmental costs. So called stablecoins – financial institutions with associated payment services – involve financial risks similar to those created by money market funds during the financial crisis several years ago – risks that supervisory institutions are now planning to regulate.

40

By contrast, the present system, based on the complementary use of interbank payment networks and the central bank balance sheet, entails safeguards that have proved effective. Credit cards use the system to process hundreds of thousands of transactions per second, at a tiny cost. Interbank transfer networks carry out millions of ultra-fast transactions simultaneously. SEPA (Single European Payments Area) offers domestic and crossborder money transfers at zero cost and zero risk to users throughout the eurozone. During a short morning break while writing an article such as this, an author might pay personal bills, transfer a monthly allowance to a child living abroad and check bank incomings and outgoings. All in a matter of seconds, through a quick series of taps to a mobile phone. The quality and security of this service is unprecedented anywhere in the world.

GOVERNING MONEY. It is unlikely that the monetary innovations – whether private or public – about which so much is being said at present can significantly improve the existing payments system, particularly within the eurozone. Potential advantages over existing arrangements are small, and they could likely be achieved by less radical and invasive means. In some instances, the risks outweigh the potential benefits.

History has seen all kinds of monetary ups and downs – inflation and deflation, successful and unsuccessful reforms, progress and regression. Accumulated experience needs to be carefully examined when planning major steps forward. The digital form of currency born a century ago established itself thanks to a balanced relationship between institutions, technological innovation and political power. The linchpin of this balance is represented by the central banks – repositories of most of this experience. It falls to the banks, as it always will, to govern the instrument whereby we accumulate, preserve and use the fruits of our labor, and on which most of our certainties depend. This task cannot be delegated to computer algorithms, private bankers, nameless programmers or businessmen with conflicts of interest. The future of our currency is important, and it concerns us all.

