

Business Economy

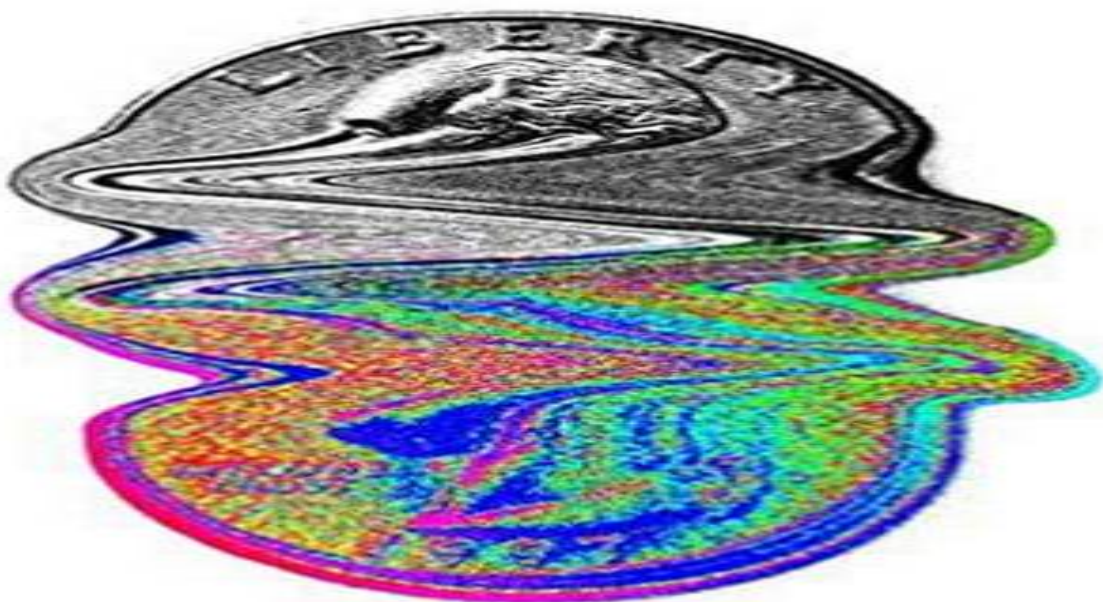
The coming impact of digital on world currencies

TCA Srinvasa Raghavan | Updated on October 15, 2021



**The Future
of Money**

How the Digital Revolution
Is Transforming Currencies and
Finance **Eswar S. Prasad**

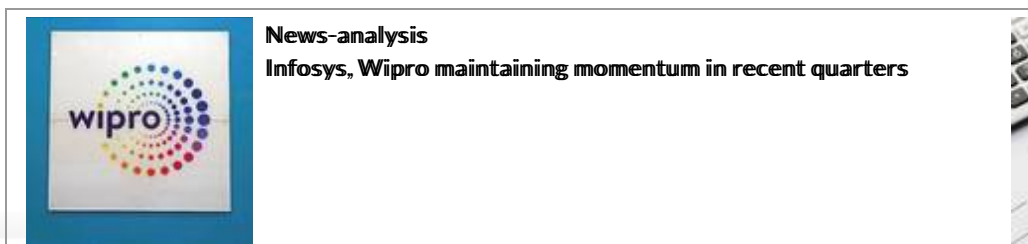


Economist Prasad says the world of finance is on the threshold of major disruption that will affect corporations, bankers, states, and people

Eswar Prasad has tackled a huge subject: money, which is like an octopus that's been mated with a centipede. There are ten tentacles and 100 feet to deal with before you get to the body and the brain. And even then you don't know what exactly you are dealing with.

That's perhaps why the book *The Future of Money: How the Digital Revolution is transforming Currencies and Finance* is so big, 485 pages. It has 124 pages of notes, references and acknowledgments alone. That leaves 360 pages of the text that comprise its chapters, of which there are 10. Even so, a 800-word review cannot do justice to it.

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These many pages can be daunting when the subject is so familiar and yet so infuriatingly arcane. Fortunately, not only has Prasad organised the matter well, he has written it nicely.

That said there are two caveats: while the price of the book is low enough, the weight isn't. The author should attempt an abridged paperback edition of about 250 pages, which ought to be easy.

Some more discussion of the costs involved in providing currencies that are not provided by central banks or the cost of all digital currencies would complete the discussion. It is now known, for example, that a lot of electricity would be needed for private sector currencies made from blockchain.

The reader needs to know how much. One estimate says to produce one bitcoin you need electricity used by 20 American houses. Is this true? Prasad doesn't tell us, or if he does, I missed it.

Also, the history of money is well known, as is its evolution from metal to paper and now to digital. In that sense, there isn't much that is new in the book.

Money changers

What is new, however, is the optimism with which Prasad has approached the inevitable, namely, the replacement of paper and coins with computer algorithms. It is only a matter of time, perhaps no more than a decade maybe, before all money becomes digital.

In China, he says, most people now only use electronic payment devices. India, too, is getting there rapidly.

This raises the all-important question of the role of central banks: how quickly should they start issuing their own digital currencies, namely, CBDCs or central bank digital currencies?

This is a truly tricky question, says Prasad, made trickier by the fact that CBDCs could well have to compete with private payment mediums. India has, sensibly, outlawed the latter. So when India gets its own digital

currency – China already has its – the RBI alone will be responsible for it.

The other risk, he says, is a direct reduction in central bank independence as governments force them to issue more and more CBDCs. What will happen generally to monetary policy and particularly to inflation targeting then, he asks.

Prasad is also aware that a digital currency-dominated world means the near-end of privacy. This private cost has to be balanced against the social gains. We don't yet know how it will all pan out.

There is then the question of seigniorage. Paper currency is costly to produce and handle while also being impermanent. Digital currency would be the opposite, even though the cost of electricity in producing it can't be shrugged off.

Net-net, however, says Prasad, CBDC would cost less, thus increasing the revenue from seigniorage which actually means more money for the government eventually. That surely is a mouth-watering prospect for all finance ministers.

He has also discussed a whole range of technical accounting and management issues in simple language.

Bye bye dollar, hello e-CNY?

The other set of tricky issues lie in the international payments systems. Right now it's all credit and debit in various national books. But the denomination is important: dollars or something else?

China under Xi Jinping is trying to steal a march over the dollar by making the yuan an international reserve currency and towards that end it has gone beyond the US in the use of digital currency, the eCNY or e-Chinese yuan.

But that's typically China: do flashy things without the policies to back it up. Thus, says Prasad, the Chinese financial system system is like a treacle pot – description mine – where it is tempting to dip your fingers but hard to pull them out. So, China still has a long way to go before the world begins to trust it enough to adopt the yuan as a medium of exchange and a store of value.

Conclusion

It is not customary to write a 'conclusion' for a book review but this one deserves it because it covers such a vast gamut of issues. Much if it is speculative, of the 'if this, then that' variety.

Ordinarily one could have dismissed the book as "just another of those things' but Prasad has marshalled his facts and arguments so well that all the speculation looks like clear possibilities. Which one actually becomes reality only time will tell.

That's what makes the book interesting. It serves up a menu of likely outcomes that those who take more than a greed-driven interest in money would do well to be *au fait* with.

The Future of Money: How the Digital Revolution is transforming Currencies and Finance

» **By Eswar Prasad**

- › Publisher: Belknap/Harvard
- › Rs 800
- › Pages 485

Check out the book on Amazon

(The reviewer is a senior Delhi-based journalist)

Published on October 15, 2021

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