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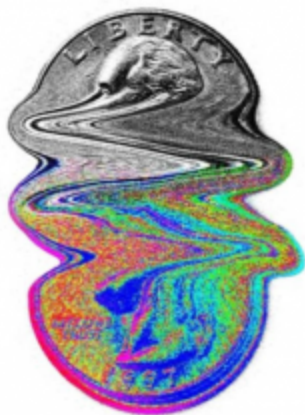
# In defense of central banks

04/12/2021

This will be a positive review of the book that was written in defense of central banking. It's about *The Future of Money* by Eswar S. Prasad. It was published by the prestigious publishing house *The Belknap Press of Harvard University*. What can the reader expect?

I will begin the review of this book in a very unconventional way, because I will refer to myself. One of the readers of the Financial Observer pointed out to me recently that my [last review](#) it was "iced" in the OF pages. I do not know how much truth there is, because it is difficult for me to judge myself. While I write to OF relatively often, the reviews are only a fraction of my articles. No wonder that when I review books, they are those that are extremely interesting to me, that I value and consider important.

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



Will I get this time for proposing a book that defends central banking? We'll see. Just in case, I prepare myself in advance for the accusation of being biased. What can I say, it's hard for me to be objective. In order to deal with potential attacks, I would like to ask one question: And what is the point of promoting by a central bank employee a book that attacks or even undermines the sense of the existence of central banking? So I admit that I am describing a book that defends the field to which I have devoted my research and professional life to date.

So today I present a book by Eswar S. Prasad entitled *The Future of Money*. It was published by the prestigious publishing house *The Belknap Press of Harvard University*. And reading it is encouraged by the same tastes, including two former governors of central

banks (Raghuram G. Rajan) and Mark Carney, as well as the former Secretary of the Treasury Lawrence Summers and an economist who probably does not need to be introduced to anyone here, John B. Taylor himself from Stanford University. It's hard to imagine a better recommendation. And what can the reader expect after taking this book into his own hands?

Despite his relatively young age, Prof. Eswar S. Prasad is already a researcher with a well-established brand in the scientific world. It is also known to OF readers thanks to a great review written by one of OF's professional reviewers, Piotr Rosik. It's about a book review on the Chinese yuan. Earlier, the same author wrote a book on the dollar, which in fact makes it a suitable candidate for considering the future of the international monetary system. After all, many experts predict that the 21st century will be the arena of confrontation between these two currencies.

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*" Many experts predict that the 21st century will be the scene of a confrontation between these two currencies - the dollar and the yuan. "*

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Prasad's scientific activity is not limited to a few details from his biography. Born in

currency issues, so it is worth recalling a among others, at the University of

Chicago, Prasad has ties to our country. In each book there is an entry in Polish. Always and forever dedicated to his spouse, Mrs. Barbara née Kamińska, who for him is simply Basia.

Most likely, Mrs. Barbara must have had a strong persuasion power, since young Eswar's scientific career began to be strongly associated with our country. Together with Michael Kean, who was four years his senior, he became interested in the Polish economic transformation. These interests resulted in a publication published under the auspices of the IMF, entitled *Consumption and Income Inequality During Early Transition: Poland, 1985-92*. And in the book I am reviewing, there are references to, among others, Polish mathematicians who disarmed the Enigma. Well, when writing about cryptocurrencies, it is impossible not to mention the issue of cryptography. And here it begs to write something about famous Poles.

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*" With the passage of time, the axis of Prague's interest began to shift more and more to the East, and more specifically to China. "*

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With the passage of time, the axis of Prague's interest began to shift more and more to the East, and more specifically to China. Today it is difficult to write anything meaningful about Chinese currency without referring to the writings of Prasad. And the author himself devotes a lot of space to this part of the world in his works and books. Being an expert on the PRC gives him the basis for writing a book on the future of money, and also shows his workshop. Because it is not easy to write about the role of China, mainly due to extreme positions, from attempts to underestimate the potential of this colossus through imagining a vision of an almost Chinese century.

As for the research workshop, Prasad believes that the basis of a good future projection is both historical knowledge and, above all, the ability to sketch well what is happening with money today. In search of the origins of fiat money, Prasad goes deep into the past, looking for its origins somewhere in the 13th century on the border of Mongolia and China. We are talking about the times and rule of Khan Kublai Khan (Kublai Khan), the fifth great Mongol khan and the first emperor of China in the Yuan dynasty. As I wrote before, Prasad is not some blinded sinophile and makes every effort to r... tions. In 2014, he wrote in the Financial Times, and then in an interv... er (when he was a guest of the

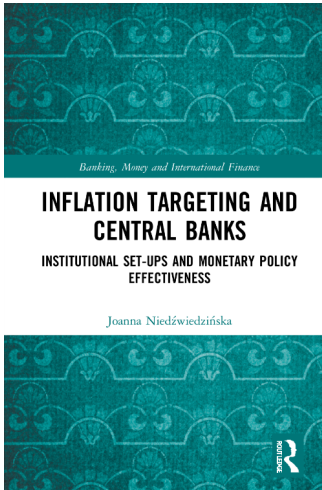
National Bank of Poland), he maintained his words that China is a great place to earn money, but not to hold them. The Chinese themselves don't really trust their country much.... It seems that not much has changed since then. So much for the author himself.

## The problem of fiat money


It will probably come as no surprise to anyone, as I have already mentioned, that in his book Prasad devotes a lot of space to the issue of fiat money. In his search for fiat money, he does not forget about the country where the first central bank was established. And whether history has come full circle thanks to today's China and Sweden (and more precisely, *People's Bank of China* and Riksbank, which are the greatest pioneers in promoting the concept of digital money issued by central banks), remains - probably in line with the author's intention - an open question ...

### Fachowo o celu inflacyjnym

*Paweł Kowalewski*



Polityka celu inflacyjnego weszła już w czwartą dekadę swojego istnienia, co czyni ją tym samym jednym z najdłużej stosowanych przez banki centralne rozwiązań. Jedynie chyba system waluty złotej trwał dłużej. Dlatego warto się przyjrzeć temu preferowanemu przez wiele banków centralnych rozwiązaniu. Bardzo pomocna będzie tutaj książka Joanny Niedźwiedzińskiej.



**Obserwator Finansowy: ekonomia, debata, Polska, świat**

As I have already written, Prasad begins with a faithful photograph of the present state. And a horse with a row of us who did not get lost in his knowledge about money in the age of many technological innovations in the world of finance and more. Prasad comes to our aid here by offering an excellent analysis that can act as a great repository for all readers with a special interest in the theory of money and international finance.

However, it will be a bit more difficult

apter for those who have tried to

learn finance on their own. Not only is there too much academic terms here. In addition, the description is prepared with an American recipient in mind. Reading the book, one can even get the wrong impression that the M3 monetary aggregate, which is also present in our country, is characteristic only for Sweden. Therefore, I would be somewhat cautious in recommending this book to students who are faced with the requirements of a macroeconomic exam. On the other hand, just such a description of the monetary aggregates may most likely indicate the marginalization of the Old Continent ...

On the other hand, in the description itself, devoted to the latest innovations in the use of money, you can find many interesting facts confirming the old adage that necessity is the mother of invention. We have here, among other things, a case study of various young people just studying in the US, who can no longer look at the high commissions charged by intermediaries when their parents transfer from their home country. Their irritation was the reason for creating *Easy Transfer* or *Flywire fintechs*. And we are talking about the young Chinese Gao Yutong and his Spanish colleague Iker Marcaide.

### **Cryptocurrency, especially bitcoin**

Prasad begins the topic of the most up-to-date cryptocurrencies, and bitcoin in particular, with a description of the motives behind the actions of the well-known Satoshi Nakamoto (whoever he is). We are talking about a strange coincidence, which boiled down to the launch of bitcoin almost at the same time as the collapse of *Lehman Brothers*, a drop in interest rates to 0%, and what was its derivative - starting an unconventional monetary policy. However, the title of the bitcoin chapter itself is very telling: Bitcoin begins a revolution and then begins to weaken (*Bitcoin Sets Off a Revolution, Then Falters*).

Prasad also deals with some of the truisms that surround the supposedly magical world of cryptocurrencies. The first is anonymity. In his opinion, this world is anonymous as long as decision-makers allow it. This is evidenced by the very precisely described history of the hacker attack on the Twitter account by the nondescript Graham Ivan Clark. It fell into the hands of the authorities due to payments made using bitcoin. The irony of the cryptocurrency world doesn't end there. As Prasad aptly points out, the world of cryptocurrencies is paradoxically dependent on the attitude of individual governments towards them. The decision of the latter has a huge impact on what is happening with cryptocurrencies. Moreover, Prasad only sees the future of cryptocurrencies that are backed by fiat money.

Unfortunately, the situation in the wo

s is so dynamic that the author did

not manage to comment on the recent very important events in his book, namely El Salvador's recognition of bitcoin as a means of payment and, above all, the ban on settlements by the PRC using cryptocurrencies. It is a pity, because it would certainly be interesting to know Prasad's opinion on these very important events.

Reading the book gives the impression that cryptocurrencies are a curiosity, but - although it may sound too pompous - both fiat money and central banking - are part of what can already be called the heritage of humanity. The point here is, first and foremost, that the fiat money supply is infinitely flexible. I am aware that not everyone likes it. However, it is difficult to call an attractive alternative in the form of a top-down limit imposed on bitcoin - the cap - 21 million bitcoins. After all, it is as if we were considering a *de facto* return to a gold-based currency, the supply of which is also limited. Mankind has remade this episode a long time ago and the conclusions from it were summed up by probably the greatest economist in the history of mankind, John Maynard Keynes.

### **The paradox of increasing wealth in the second half of the 20th century**

Much bad can be written about monetary policy (especially in a situation when inflation begins to raise its head again), but it is difficult to deny it considerable merits from the point of view of today's society. It may be a paradox, but such an increase in wealth, unprecedented in the history of mankind, as occurred in the second half of the 20th century, was accompanied by a rare erosion of the value of money.

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Monetary policy cannot be viewed solely through the prism of the value of money itself. The ability to neutralize all negative effects resulting from the volatility of economic cycles is not without significance. If bitcoin was a reaction to the aforementioned events of 2008, then questions must also be raised as to whether it is really fair to hold central banks responsible for them. Can the financial crisis be discussed as a result of the problem of the lust for possession? And the zero interest rate as a result of the problem of the lust for rather than the cause of the

ongoing demographic processes.


Of course, the digitization of money will definitely change and will change the world. In the era of this transformation, some kind of starting point is necessary. That is why it is so important how the currency authorities find their place in this new world. The author believes that central banks will continue to play a decisive role. They will be a kind of checkpoint of what will happen in the sphere of money. And the new era will bring with it new challenges for the currency authorities. Therefore, they must constantly work on modernizing the money transmission mechanism. Although the example given by the author seems to be quite bizarre, it is thanks to cryptocurrencies that the concept of the so-called helicopter money is no longer merely theoretical. According to Prasad, this concept has already been put into practice somewhere in the world.

## Historia inflacji w XX wieku

*Paweł Kowalewski*



Nasza wiedza na temat historii inflacji jest powierzchowna. Często ogranicza się do wydarzeń mających miejsce jeszcze w starożytnym Rzymie, wielkich odkryć geograficznych oraz wybranych epizodów z XX w. Nie ułatwia to dyskusji na temat coraz bardziej dokuczliwej inflacji. Dlatego warto się przyjrzeć jej dziejom bliżej.



**Obserwator Finansowy: ekonomia, debata, Polska, świat**

Prasad does not appear to be alone in his views. He is often echoed by Barry Eichengreen in his various [statements](#). Not only they. Famous (and widely read) Nobel Prize winners such as Joseph Stiglitz or especially Paul Krugman spoke very critically about cryptocurrencies (although the views of the latter are still evolving). And the reaction of the incumbent president of the Bank of England, Andrew Bailey, to the aforementioned El Salvador's decision to recognize bitcoin as a tender, proves that Prasad's views must also be close to him.

### A review (and book) as a Christmas gift

As a summary, I will use the thread from the beginning of this text. So - the review is very positive, but why waste your precious  r book? There is probably no worse

punishment for the author than the silence of the reviewer. I know something about it myself, because my only research book has not received any reviews ... In my case, the decision to review this and not another book stems from the belief that reading it will be a great way to spend your time.

As I wrote at the very beginning, this is probably one of my least objective texts. Such action was, however, deliberate, which probably only testifies to the reviewed book. Because a good book should not only be interesting, but should also encourage fierce discussions. So, can you imagine a better gift for a loved one under the Christmas tree? It will surely result in long and interesting discussions at the holiday table about what concerns all of us, i.e. money and its role in our lives.

*The author expresses his own opinions and not the official position of the NBP.*



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