Evolution of debt-based money

Our money system consists of claims to money, backed by financial assets: debt. If the debt is not serviced, money is at risk. That is why governments prioritise collecting taxes and servicing of debts.

In a debt-based money system, it is essential that monetised debts are serviced, and taxes are paid. Otherwise the quasi monies on which this system runs (deposits and money market instruments) are at risk. Debt is the underlying value of these quasi monies. In this system the government prioritises servicing of debts and collecting taxes. Note that an important part of the monetised debt is government debt, hence the monetary importance of taxation. In this system society serves money. In this system it is impossible to make money serve society. So, we need to get rid of debt-based money.

Debt-based money has ballooned since WWII, as debt-based money was more convenient than cash: it enabled payment over distance. Digitisation made bank money (deposits) very convenient. In the meantime, cash was not digitised. That's why it is rapidly losing out to deposits.

The evolution of debt-based money is about to enter into a new phase, in which money market instruments trickle down to retail markets. Money market instruments are what professional cash managers use as money. They don't have a better alternative today. Money market instruments have an advantage over deposits because they are designed to make it easy to reclaim and recover the money if the fund ('shadow bank') goes bust. If a bank goes bust, it takes years for the money to be recovered (if recovered at all). Money market funds are a natural part of the evolution of debt-based money.

With money market instruments trickling down to retail markets, consumers will be offered better stores of value outside of the banking system. The biggest MMF in the world is already a consumer-MMF by Alipay. And the Libra is also about to provide a better store of value than banks do. Combined with ubiquitous electronic money functionality, that is a knock-out for bank deposits, and eventually also for national currencies. This should be a wake-up call for both banks and politicians. If governments stick to their current policies, they will lose control over money altogether. What then remains for them is collecting taxes to service government debt, to keep the debt-based currencies up. This concerns not only money. It concerns the primacy of democracy.

Banks and governments have a shared interest in improving the existing money system, to avoid losing out to a few big-tech companies and their global reserve funds. A public-private partnership around a personal safe account is just that. The government provides the 'public depository' which issues the safe accounts. The banks provide an open ICT-platform around it. The consumer 'owns' its safe account and decides which payment service providers and electronic money institutions can render services based on it to him. This prevents a lock-in and dependence on one or just a few big-tech companies.

Edgar Wortmann – June 24, 2019

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