

1. The long historic road to elastic money

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Basic observations about money

Friedman (1992)

The acceptance of money depends always and everywhere on trust. Be it fei (stones) on coral islands, or gold/silver in recent history, or balances on demand deposits now.

A paradox of monetary (or any complex) systems:

Trust is the essence of the financial system. However, the better the system and the more trust in it among end-users, the less end-users have to think about its substance and nature, and the more they can just use its benefits. The more we use it, the less we understand it!

Basic observations about money

Nevertheless, how exactly the trust is built and reinforced remains even now a question without a definitive answer.

Sound money should serve as:

1. Medium of exchange
2. Store of value
3. Accounting unit

In the past we believed the value comes from scarcity of money (a fixed or quasi-fixed stock of any medium of exchange).

Therefore precious metals so popular as money!



Source: <https://djp-jewelers.business.site>



Source: https://www.alibaba.com/product-detail/Very-old-golden-coin-from-year_50038025640.html



Source: <https://www.ruten.com.tw/item/show?21448862250484>

Money – continued...

However, even within systems of fixed or quasi-fixed money innovations going in the direction of flexible/elastic money.

Ferguson (2009):

- **The Netherlands** – the Exchange bank (Wisselbank)
- **Sweden** – Fractional Reserve Banking
- **Sweden and UK** – Central Banking

Money – continued...

Gradually for political or scarcity reasons new forms of money appear, namely monetary certificates, or paper money (a bit sooner in China).



Source: <https://onedio.com/haber/paraniz-olmasa-da-bilginiz-olsun-lidyalilardan-bu-yana-para-hakkinda-18-iliginc-bilgi-667831>



Source: <http://www.worldofcoins.eu/forum/index.php?topic=8648.0>

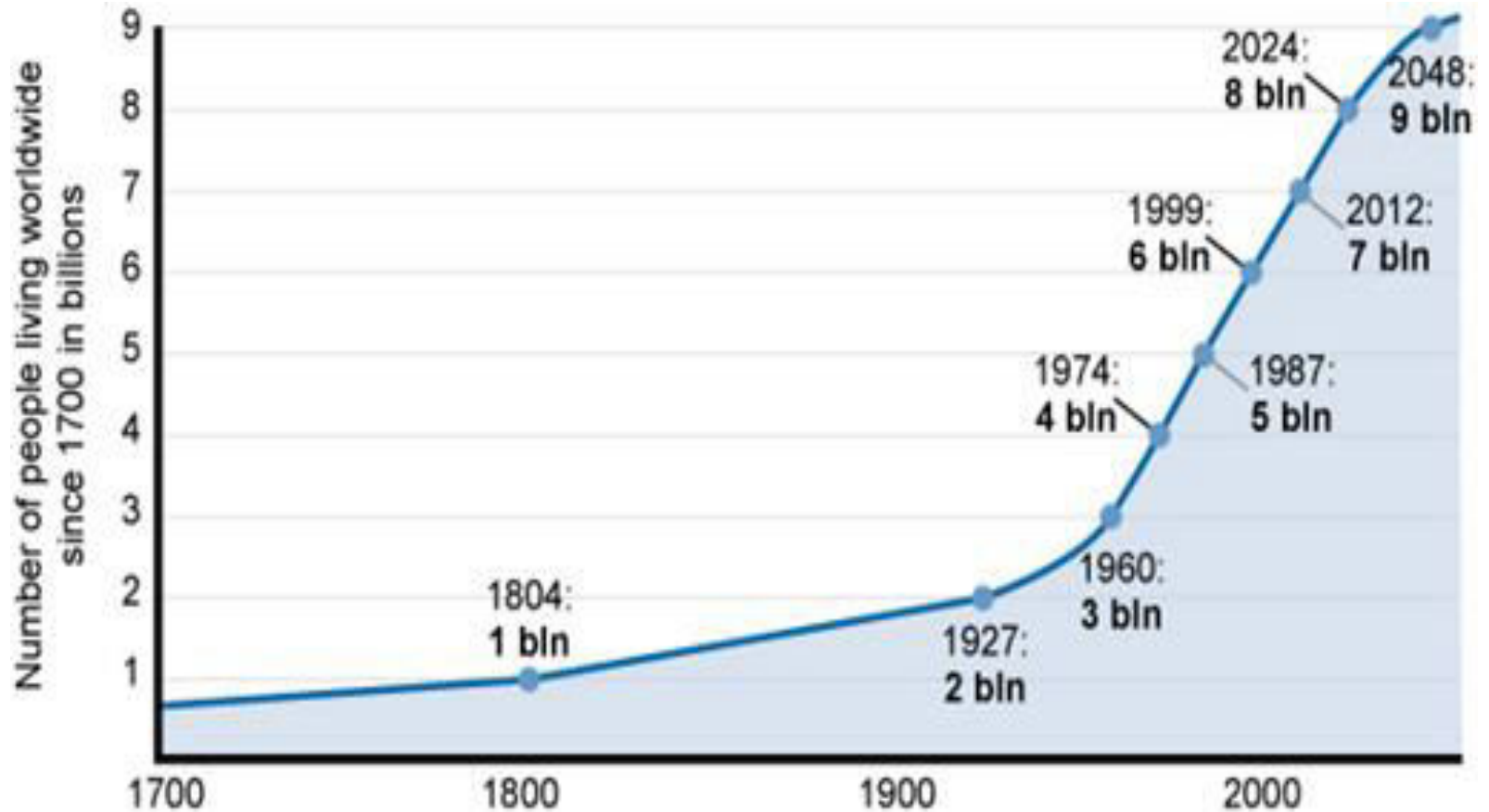
Money – continued...

Gradual shift to elastic money system accomplished in the 20th century.

Some like Reid et al. (2018) even argue that without elastic monetary systems expansion of population throughout the world would not have been thinkable and/or possible.

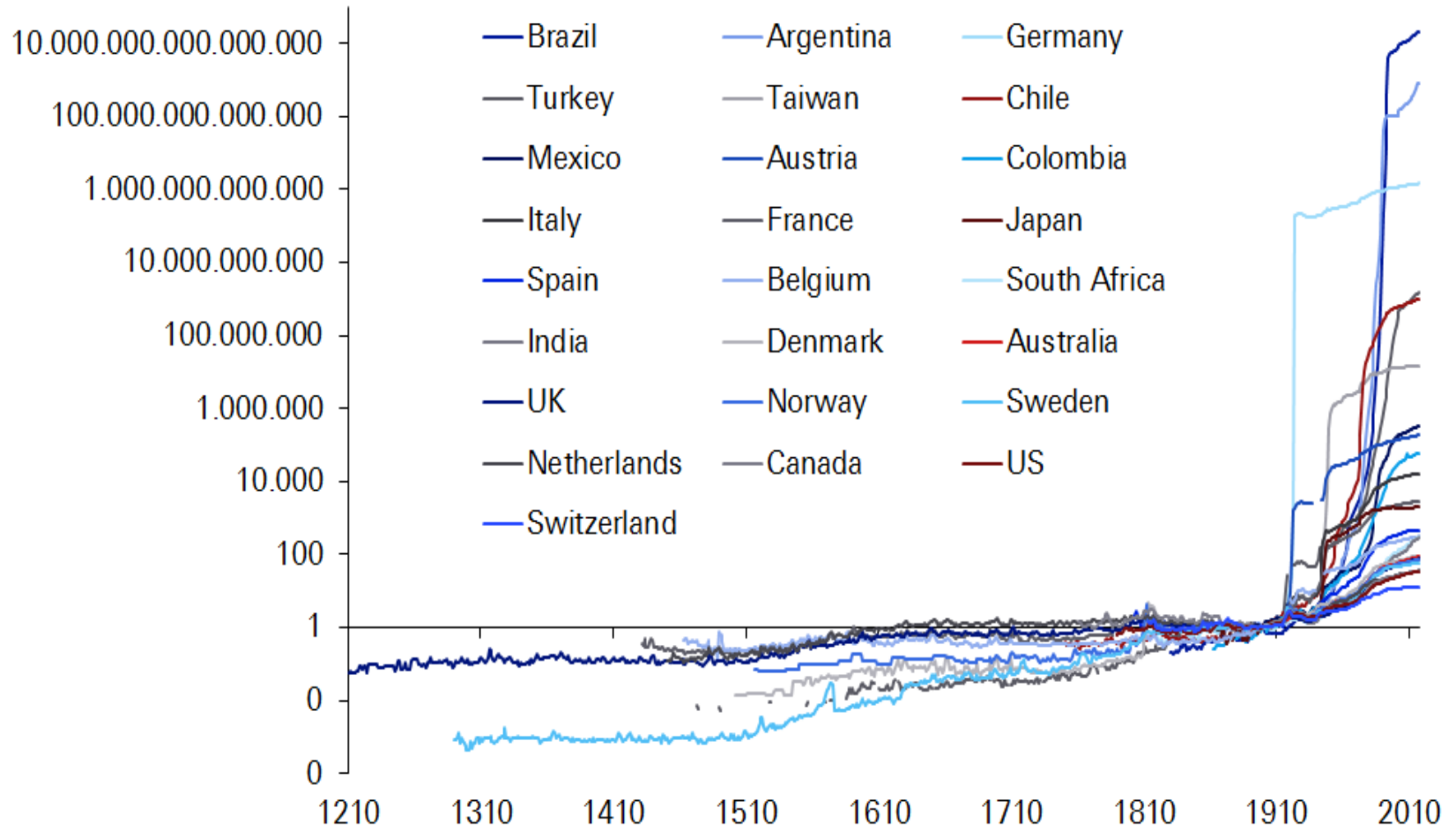
Study next three charts.

Elastic money in the last century or so and population growth



Source: Allianz

Elastic money in the last century or so and prices



Source: Deutsche Bank

Elastic money in the last century or so and inflation plus yields

Figure 37: Current yields* versus average inflation (geometric) post 1900

	Average Inflation	10y Yield	Difference (Yield - Inflation)
Germany	26.5%	0.3%	-26.2%
Brazil	37.1%	12.4%	-24.7%
Argentina	33.5%	10.4%	-23.1%
Chile	19.0%	4.8%	-14.2%
Taiwan	14.9%	0.7%	-14.2%
Austria	10.7%	0.6%	-10.2%
Japan	6.6%	0.1%	-6.5%
France	6.9%	0.7%	-6.2%
Italy	8.5%	3.1%	-5.4%
Belgium	4.9%	0.7%	-4.2%
Spain	5.3%	1.4%	-3.9%
Denmark	3.8%	0.3%	-3.5%
Mexico	11.3%	7.9%	-3.3%
Sweden	3.4%	0.5%	-2.9%
Colombia	9.7%	6.8%	-2.9%
Netherlands	3.0%	0.5%	-2.6%
UK	3.7%	1.4%	-2.3%
Switzerland	2.1%	-0.1%	-2.2%
Norway	3.7%	1.8%	-1.9%
Australia	3.8%	2.5%	-1.3%
Canada	3.0%	2.2%	-0.8%
US	3.0%	2.9%	-0.1%
Turkey	19.5%	19.9%	0.4%
India	4.8%	8.1%	3.2%
South Africa	4.9%	9.1%	4.2%

Source: Deutsche Bank, GFD, Bloomberg Finance LP. *Note: All local currency bonds with exception of Argentina (USD).

Money – continued...

Now majority of money in circulation does not even have any material form whatsoever. Also cheques almost disappearing...



Source: <https://quizlet.com/282894116/alejandro-moreno-chapter-5-vocabulary-flash-cards/>

Money – continued...

...while cashless digital demand deposits a norm

Zobrazení historie transakcí na účtu <https://www.servis24.cz/ebanking-s24/ib/base/pas/th/get?execution=e5s2>

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SERVIS 24
INTERNETBANKING

Daniel Zajíc
04/07/2012

ČESKÁ
SPORITELNA

Zobrazení historie transakcí na účtu

Číslo účtu 1176786013

Zobrazeno podle zadaných kritérií od 05/06/2012 do 04/07/2012

Bankovní spojení	Valuta zaúčtování	Variabilní symbol	Částka CZK
Položka	Datum zpracování	Specifický symbol	Storno
Název protiúčtu	Referenční číslo transakce	Konstantní symbol	
Zpráva pro příjemce	Zpráva pro příkazce		
0- 173264792/0600	26/06/2012		214.00
úhrada z jiné banky	26/06/2012		
KOUTNÁ ŠÁRKA	I19784301		
	INT: 25.06.12/12:07:45 0187808146		

Source: https://www.mimibazar.cz/rodinne_foto.php?id=4106825

Paper money still remains in circulation, its share rather declining over time.



Source: <http://oaxacanadventure.blogspot.com/2011/04/peso-watch.html>



Source: <https://www.voanews.com/africa/streets-harare-few-takers-chinas-yuan>



Source: <https://www.leftovercurrency.com/exchange/cfa-francs-central-africa/withdrawn-central-african-cfa-franc-banknotes/10000-francs-banknote-central-african-cfa-1994-to-2002-issue/>



Source: <https://www.kompasiana.com/choiron/550de2888133118b2cbc6036/dalam-uang-soekarno-lebih-narsis-daripada-soeharto?page=all>

Source: <https://www.bok.or.kr/eng/main/contents.do?menuNo=400179>



Source: <https://megamanchete.com.br/noticia/175/banco-central-anuncia-nova-nota-de-r-200>



Source: [https://commons.wikimedia.org/wiki/File:Euler-10_Swiss_Franc_banknote_\(front\).jpg](https://commons.wikimedia.org/wiki/File:Euler-10_Swiss_Franc_banknote_(front).jpg)



Source: <https://www.mashops.com/vanberkom/item.php?id=11249>



Source: <http://restobizindia.blogspot.com/2011/03/>



Source: https://www.lemke.nl/en/banknotes/azie-1/nepal-369/by_mf_name/results_1-30



Source: <https://www.banknotebank.com/collection/gx-series?page=1&sort=pop&sale=0&country=10053&sd=desc>



Source: <https://www.bloggang.com/m/viewdiary.php?id=vikings&month=07-2007&date=13&group=4&gblog=13>



Source: <https://www.baudelet.net/monnaies/ringgit-malaise.htm>



Source: <https://em-views.com/nigeria-inflation-highest-in-more-than-a-decade>



Source: <https://sites.google.com/site/ganardineroconencuestasperu/>

Money – finished

Therefore - a key questions of this course are:

What is the essence of elastic money system and its key features?

And are there any alternatives to the current monetary order?

References:

1. **Ferguson, N., 2009.** „The Ascent of Money. A Financial History of the World“, London, Penguin Books, 2009.
2. **Friedman, M., 1992.** „Money Mischief“, New York, Harcourt Brace Jovanovich.
3. **Reid, J., Craig, N., Burns, N., Mahtani, S., 2018.** „The History (and Future) of Inflation“, Deutsche Bank Research, 17 September 2018. www.dbresearch.com

Thank you for your attention!

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