

Why Alternative Monies?

Discussion points for the Everyday Digital Money
Workshop, UC Irvine, September 18, 2008

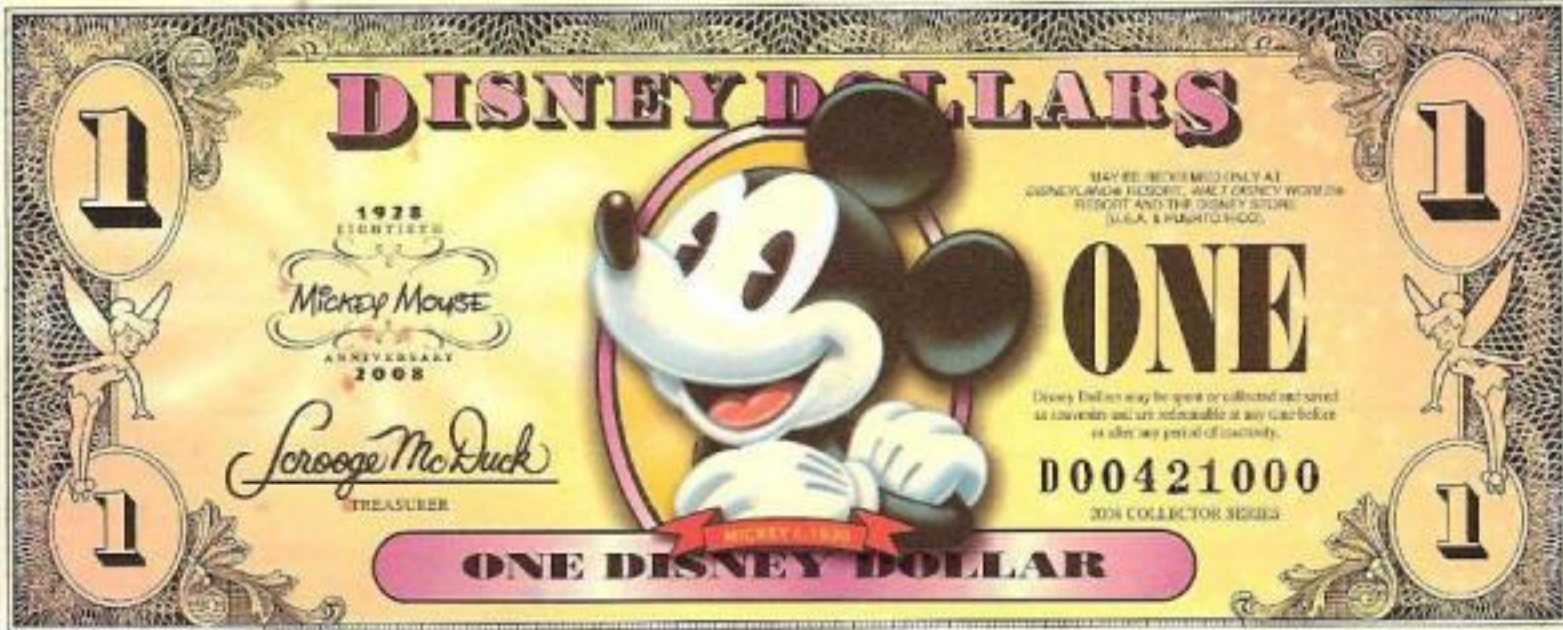
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What makes monies money?

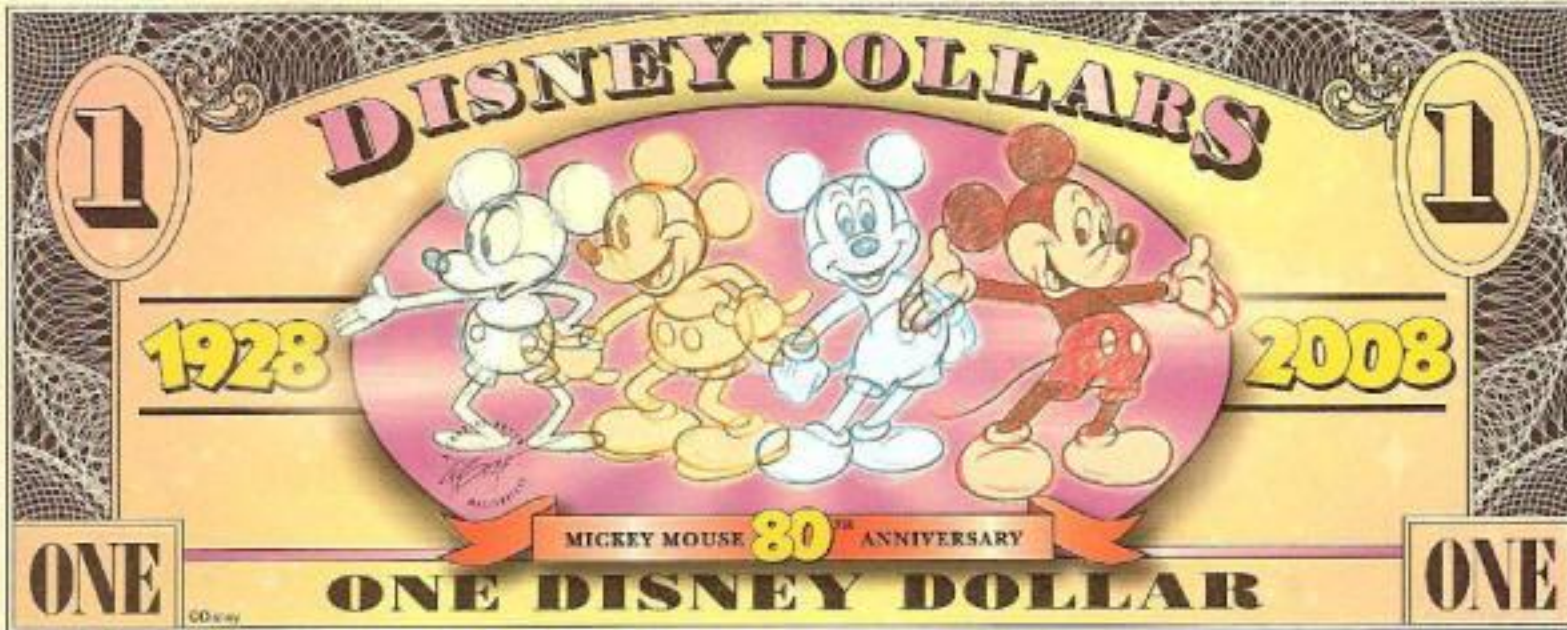
- The sages tell us that money functions as:
 - A medium of exchange
 - A store of value
 - A unit of accounting
- Let's examine this by looking at monies that may have problems

Money that needs to be exchanged to be useful



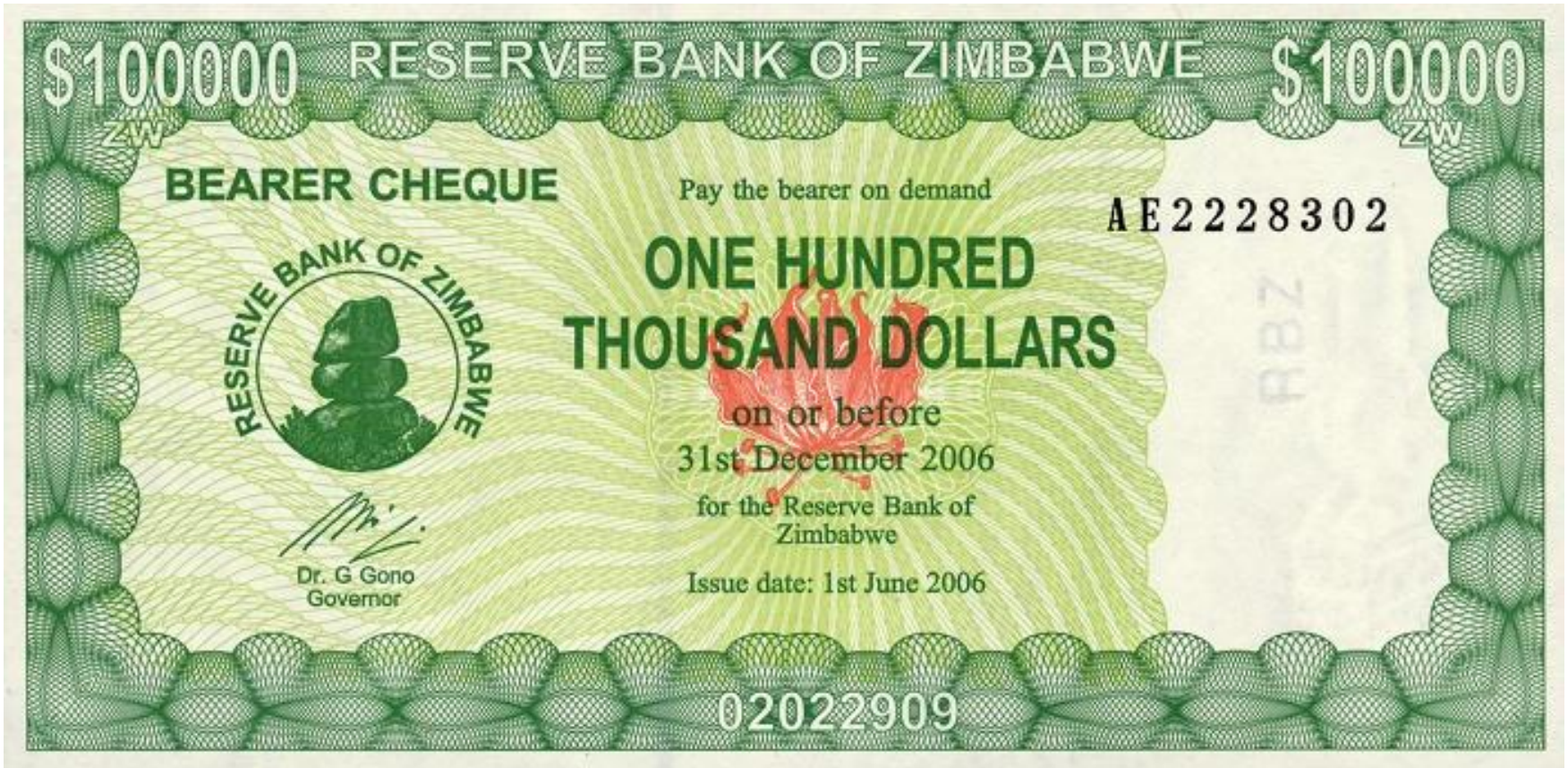


Money
that is
REALLY
limited.



Also
Berghoff
tokens.

Money that is not a good store of value



Money with competing uses

The Economic Organization of a P.O.W. Camp

by R.A. Radford

From *Economica*, November, 1945



<http://bkmarcus.com/cache/POW/>

Really, really bad money (Thank you, Douglas Adams!)

MANAGEMENT CONSULTANT:

Um listen, if we could, er, for a moment move on to the subject of fiscal policy -

FORD:

"Fiscal Policy"?!

MANAGEMENT CONSULTANT:

Yes.

FORD:

How can you have money if none of you actually produce anything? It doesn't grow on trees you know!

MANAGEMENT CONSULTANT:

You know If you would allow me to continue!

CAPTAIN:

Yes let him to continue.

MANAGEMENT CONSULTANT:

Since we decided a few weeks ago to adopt **leaves as legal tender**, we have, of course all become immensely rich.

FORD:

No really? Really?

CROWD MEMBERS:

Yes, very good move...

MANAGEMENT CONSULTANT:

But, we have also run into a small inflation problem on account of the high level of leaf availability. Which means that I gather the current going rate has something like three major deciduous forests buying one ship's peanut. So, um, in order to obviate this problem and effectively revalue the leaf, we are about to embark on an extensive defoliation campaign, and um, burn down all the forests. I think that's a sensible move don't you?

MARKETING GIRL:

That makes economic sense.

[Murmurs of agreement from crowd]

<http://www.clivebanks.co.uk/THHGTTG/THHGTTGradio6.htm>

One example of effective money



- Accepted by hundreds of millions of people
 - Medium of exchange
- Relatively stable exchange rates
 - Store of value
- It's just paper
 - No competing uses
- The paper is inexpensive, yet hard to counterfeit
 - Low transactions costs
- But ...
 - can be lost
 - has depreciated
 - has been counterfeited
 - is costly to exchange for other currencies
 - is supplemented by costly coinage

Another example of effective money



Visa. The Currency of Life.

- Widely carried by consumers and businesses and widely accepted by firms
 - Medium of exchange
 - No competing uses
- Low transactions costs
- Generally low exchange rates
- Does not require supplementary coinage
- But ...
 - Not generally used for consumer to consumer transactions
 - Can be stolen, copied, or phished
 - Is not available to all consumers
 - Is not a store of value, since not generally prepaid

Why do new monies arise?

- High relative transaction costs in existing monies
- Transaction disappointment due to inflation, depreciation against other currencies, counterfeiting, default, or lack of acceptance in other transactions, and unexpected fees
- Large numbers of people outside of monetary economy
- Dysfunctional economic systems – high unemployment of people and resources held back by systemic problems
- Desire to escape taxation, monitoring, regulation
- Interest in limited monies: e.g. “affinity monies” that support Buy Local campaigns, encourage charity, and generally try to shape attitude and behaviors
- Desire to escape or embrace “ascriptive allocation”