Money in Crisis: The Return of Instability and the Myth of Digital Cash

Ignazio Angeloni and Daniel Gros

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"Angeloni and Gros's important and lucid book traces money's complex past, present, and hopefully future role in supporting a flourishing society. They explain the risks posed by various manifestations of money and the technologies on which it is built so that we can better understand how to ensure it is a force for stability and prosperity, not volatility and crisis."

Steve Cecchetti, *Brandeis International Business School*

"*Money in Crisis* is a comprehensive, multidimensional analysis showing how money evolved over millennia and how it functions today. This is a readable, compelling overview of the central role of money in modern societies and should be read by anyone interested in modern economic affairs."

Jeffry Frieden, *Columbia and Harvard Universities*

"Angeloni and Gros have succeeded magnificently in addressing current questions about money, especially the future of digital money, in a simple, straightforward way that is easily accessible to ordinary readers. Their judgements on such on such knotty subjects as the role of cash and the future of CBDC are clear and well argued. A great book for starting to teach in this field."

Charles Goodhart, *Financial Markets Group, London School of Economics*

"This is an excellent and cohesive account of a very large and demanding subject – the creation of money. The reader is treated to an exceptionally well-written history of both the creation of money since antiquity and of the last century of monetary theory."

Niels Thygesen, *University of Copenhagen*

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Cover image: A big wave swallows the building - Hiroshi Watanabe. Getty Images
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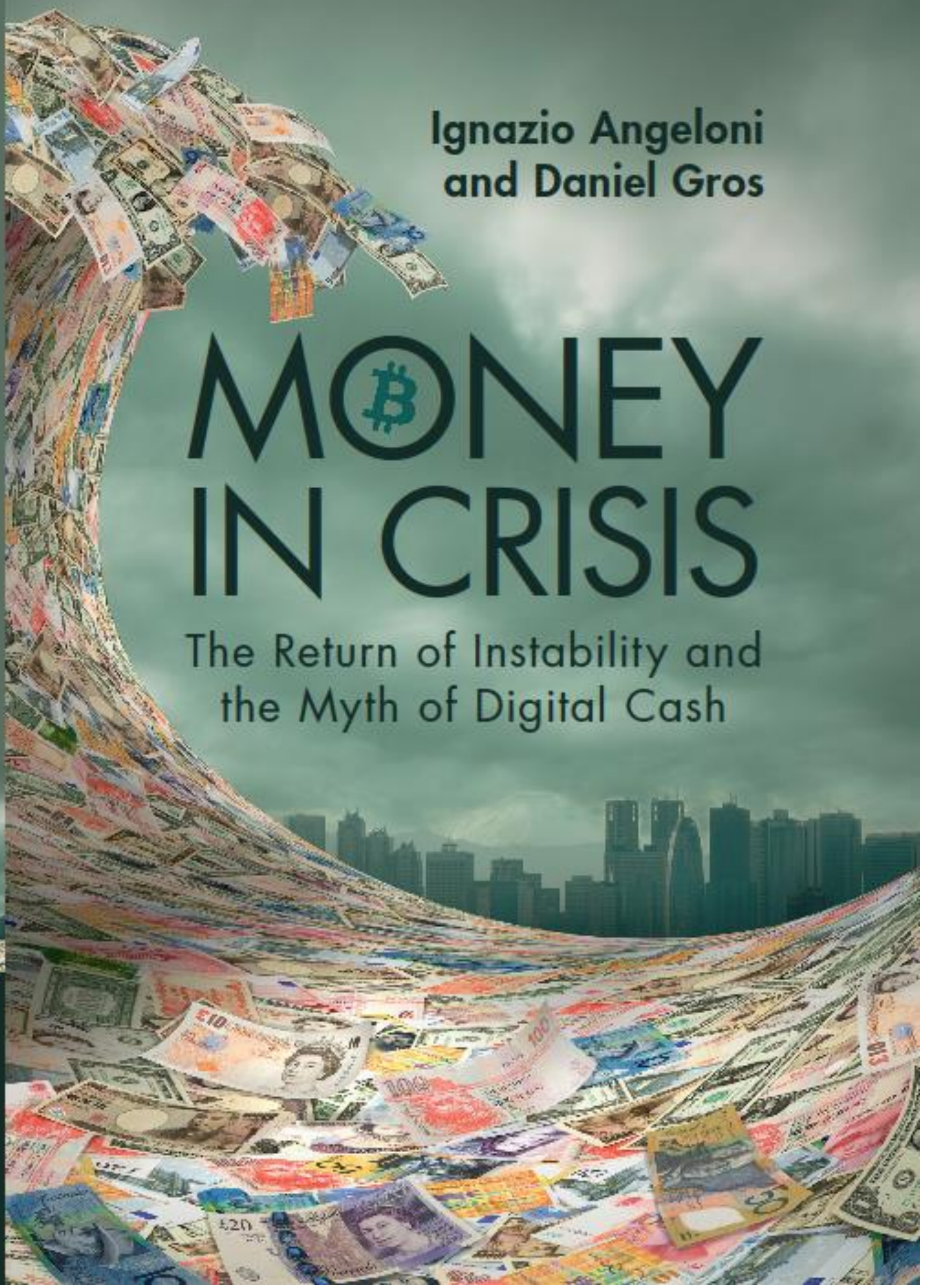
Angeloni and Gros MONEY IN CRISIS CAMBRIDGE



Ignazio Angeloni
and Daniel Gros

MONEY IN CRISIS

The Return of Instability and the Myth of Digital Cash

How we got interested in this

- Libra (2019, dead)
- The Bitcoin boom (2021, continuing)
- The CBDC frenzy (2021-22, now largely exhausted)
- The Stablecoin “twist” (2024-25, the strangest of all)
- Plus: all the politics behind

Our questions

- *Why all this fuss about money?*
- The serious questions:
    1. How do modern digital monies relate to what money <u>is about</u>, historically, analytically, socially?
    2. How do they relate to what money <u>should be about</u>?
    3. The positive and the normative sides
- Start with history...

Money and technology in ancient Mesopotamia

Public-Private Partnership Hypothesis

Every successful money relies on a balance between the public and private components:

- The public elements preserves the collective interests (money is a social construct, supporting societal interactions)
- The private element ensures state-of-the art technology and cost effectiveness, via competition

The pattern repeats itself

Epoch:	*Technology:*
• Babylon	Clay tablets
• Sardis, Athens, Rome	Metal coins (*)
• Nanjing, Beijing	Paper banknotes

(*) The most successful payment means ever

Maintaining the balance?

	Epoch:	*Public:*	*Private:*
BALANCE:	Babylon	Priests	Merchants
IMBALANCE:	Late Rome	Broken balance → debasement	
	China	Broken balance → hyperinflation	

Rome 161 – 305 AD

Mark Aurel: *silver content 75%*
Diocletian: *silver content 5%*

By the way, this is less than the 2% ECB inflation target!

Golden era of central banking (1920-2000)

Three main features:

- Experimentation and innovation in payments left exclusively to the private sector
- Massive application of telecommunication and digital technologies
- Central banks providing the bedrock:
  1. *central settlement* — *Security*
  2. *payment oversight* — *Security*
  3. *banknote production* — *Basic service*
  4. *convertibility or price stability* — *Stability*

Maintaining the balance?

	Epoch:	*Public:*	*Private:*
BALANCE:	Golden era of CBs	Central settlement Oversight CB independence	Financial markets Innovation, technology Competition in payments

Are we losing the balance?

Central Bank Digital Currencies

The digital euro has several issues:

- ECB/Eurosystem would settle private payments *(competing with the payment service providers it oversees)*
- It would offer its own payment applications *(discouraging private competition and innovation)*
- It would disintermediate the banking sector *(risking a credit contraction if successful and a reputational loss if it is not)*
- The concept seems old already *(FedNow, Wero, stablecoins, and more to come....)*

The ECB should revisit the retail digital euro project and focus on improving wholesale cross-border payments