



“Future of Money”: Introductory speech for the Night of Ideas 2018

Marc-Olivier Strauss-Kahn, Banque de France, 25 January 2018

Ladies, Gentlemen, dear guests,

It is a pleasure for me to introduce this conference on the occasion of the 3rd Night of Ideas, on the general theme of "Power to the Imagination". What an alluring theme applied to the “Future of money”!

Indeed, money has been over time the fruit of imagination, private and then public: from spices (which gave the word "specie") to its current institutional forms, with metal coins, which became an instrument of sovereign power through taxation and seigniorage, then banknotes, electronic money and the different innovations that are now in the media's spotlight.

For we hold an official event of this Night in a central bank, this is a first. The Banque de France is naturally a symbolic place to discuss such topical matters, with neither taboos nor traps, as part of its task of providing economic and financial education to the public. It conducts this task together with a number of institutional partners represented here today.

This evening, we will discuss the innovations incorporated notably in coins and banknotes, cashless and digital payment media. These issues, among others, will be examined by the Panel, moderated by the philosopher Mark Alizart.

As an introduction to this Night of Ideas – a central banker's night, as it finishes at 9.30pm – I would like to put forward a few ideas about some paradoxes of money throughout history, as well as renewed risks and the need for regulation brought about by digitalisation.

HISTORY REVEALS AT LEAST THREE PARADOXES RELATED TO MONEY

First, money is based on confidence in the issuer which innovation must preserve and not undermine.

Over time, confidence has proved necessary for the three well-known functions of money as a unit of account, a medium of exchange, and a store of value. Money provides a service of general interest, guaranteed by the issuing authority, which

gradually became national, the king, the State, which then delegated it to central banks, stable and enduring institutions.

But money is also subject to periodic innovations aiming to meet the needs of its users without undermining this confidence and this stability. Money transformed from gold and silver coins to "fiat money", appropriately named as it is based solely on confidence in the issuer. The classic episode of John Law's bankruptcy came 80 years before the creation of the Banque de France by Napoleon Bonaparte. Central bankers maintain this confidence today thanks also to the state-of-the-art technologies limiting the counterfeiting of banknotes. Incidentally, the demand for banknotes and coins is still rising in the euro area and in France.

Then came cashless payment instruments - a form of digital money before its time – in particular cheques and then chip cards, a French invention, and a guarantee of greater confidence, as well as contactless payments, whose upper limit has recently been raised. Admittedly cashless payment instruments are issued by commercial banks, but the latter are authorised and supervised by a State-related authority.

And a digital currency issued by a central bank is being considered, based notably on the useful blockchain technology. The Sveriges Riksbank, the oldest central bank, is studying this possibility. The panel will discuss this.

Second paradox: money has gradually become centralised, which has not prevented a revival of local "currencies".

Centralisation with legal tender (i.e. currency cannot be refused for payment) has extended the advantages of the three functions of money, while reducing transaction costs in an increasingly large area (up to the example of a currency union such as the euro area).

Nonetheless, in France for example, "complementary local currencies" are recognised: they are local as they apply to a limited area, and complementary as they do not replace the legal currency. They are pegged to the euro, generally on a one-to-one basis, and they have the explicit support, notably financial, of the relevant authorities. They can only be used within a limited network of merchants. Lastly, they are regulated in a proportionate manner, and possibly supervised by the Autorité de Contrôle Prudentiel et de Résolution (ACPR – The French Prudential and Resolution Authority), when they can be dematerialised and reimbursed in euro.

Third paradox: money is sometimes associated with speculation but must be distinguished from speculative assets.

Historically, money has been seen as a vehicle for or even an object of speculation, and according to classical economists "money is a veil". In the collective imagination, international currency speculation stems from this view, exacerbated by certain historical episodes. I will take two contrasting examples: one ancient, under Nero, when the aureus was devalued by almost 40% and renamed solidus, which gave its name to the French sol or "sou". The other, just three years ago, with the more rare and sudden "revaluation" of the Swiss franc (almost 20% immediately), following the decision to abandon the threshold of 1.20 against the euro.

But today, we mustn't confuse a possible digital currency issued by a central bank with the crypto assets issued by unregulated entities. The blockchain technology is of course useful, as I have already stated, and is integrated in the work of the Banque de France, with its Lab which will no doubt be evoked; but I have to recall the speculative nature of the spike and the recent collapse in the prices of certain crypto assets, as well as their environmental cost.

Crypto assets, such as bitcoin, are not currencies. It is very rare for goods or services to be directly denominated in bitcoin. A merchant that, one day, accepts bitcoin payments, may, the next day, stop accepting them. Furthermore, bitcoin is volatile, not guaranteed in the event of fraud and has no sound economic basis, unlike for example the euro, which is based on a large and dynamic economic area. Holding bitcoin involves taking huge risks, an issue that I will now enlarge upon.

DIGITALISATION LEADS TO RENEWED RISKS ANT THE NEED FOR REGULATION

I will mention three illustrations of this: consumer protection, the fight against money laundering and effective regulation that must be global.

First and foremost, consumer protection. In order to ensure financial stability, with sound institutions and resilient markets, payment and settlement infrastructures must be solid. And yet innovation brings both benefits and risks which must all be properly identified.

Innovation in payments can of course promote financial inclusion, if households have internet access. It encourages firms to develop new models and activities that ultimately benefit consumers. One example of this concerns the SEPA area instant payments.

But innovation can also lead to problems in terms of fraud and security, as it exacerbates potential weak points” and multiplies the players involved in payment and financial processes, and increases the flows of personal data. These “cyber” risks raise concerns, including for a proven technology such as that of card payments on internet. Thus, younger technologies that are being tested, such as blockchain, might generate new security risks, which warrant early and extended scrutiny.

We therefore need to strike the right balance between innovation and security. Such a balance can only be reached through adequate and proportionate rules, based on the risk profile of the service provided and not on the nature or the legal status of the provider. For instance, along the lines of that which applies in the area of payment services, the Banque de France and the ACPR are favourable to a gradualist and proportionate approach in the regulation and supervision of Fintechs.

Second type of illustration, which is shorter: money laundering, compounded by crypto assets managed by unregulated institutions, and tax losses related to the black economy, once again facilitated by crypto assets. Here too, solutions need to be found, along the lines of what has been done for banknotes, admittedly anonymous but whose tangible use is limited by the effective work of the FATF and TRACFIN.

Lastly, the third illustration is also a paradox, that of the difficulty of reconciling currencies which remain national and regulation which must be global. While currencies are linked to countries, and while monetary policy has domestic objectives (be it at the level of the country or a currency union), both of them cross borders.

Just as a "currency war" would be detrimental to all, there is a strong need for international cooperation in order to minimise the risks and prevent circumvention notably associated with crypto assets. It is the role of the G20, in which central banks participate, to help regulate these crypto assets.

In sum, in order to overcome all these paradoxes, we will need lots of ideas and imagination. I'm sure that this will be the case for the panellists speaking after me, but it is also up to the moderator and the audience to stimulate this imagination. I'm counting on you. And I thank you for this.