Can Currency Competition Work?

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Motivation

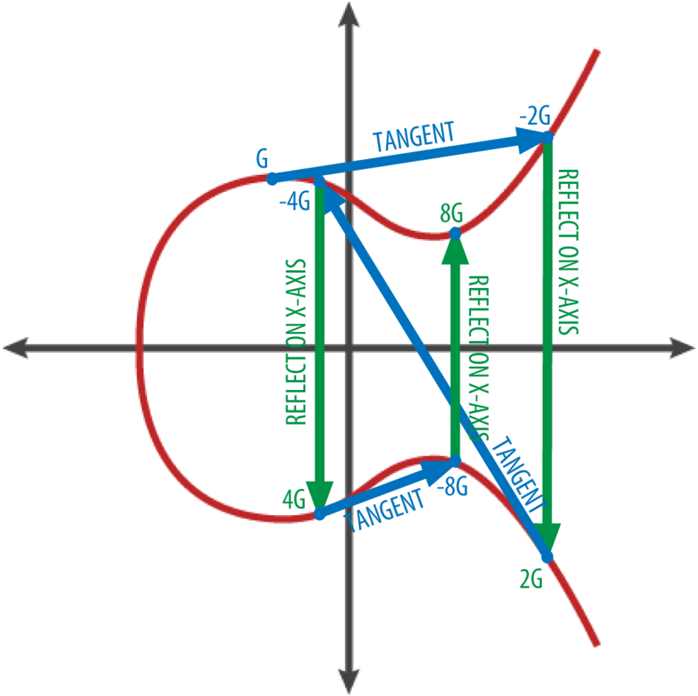
- The appearance of cryptocurrencies has triggered a wave of interest in privately issued monies:

    1. *Bitcoin*.
    2. *Ethereum*.

- 1 bitcoin is traded at $1324.48 (as of April 30, 2017).
- Available supply: 16,303,012 bitcoins.
- Market cap: $21,59 billion ($\approx$ American Airlines market cap).
- Two other cryptocurrencies (*Ethereum* and *Ripple*) have market caps over $1 billion and another 58 above $10 million.

New and old things

- New things:
  1. Computer networks have changed the logistics of distribution of private monies (separation from banks).
  2. Cryptography techniques prevent over-issuing, the double-spend problem, and counterfeiting.
  3. Possibility to automatically implement contingent contracts.
- Old things:
  1. Fiduciary currency: cryptocurrencies are not associated with any promise to exchange them for goods at a future date.
  2. Another asset with a degree of “moneyness.”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An intriguing phenomenon for a monetary economist

- Active competition among privately issue currencies.

- Not seen since the end of free banking (Scotland in 1844, U.S. in 1863).

- Although free banking was a different institution: cryptocurrencies perhaps closer to commodity money that uses an intrinsically worthless standard.

- F. A. Hayek (1999): The Denationalisation of Money.

    1. Private markets can implement desirable outcomes, even in the field of money.

    2. Privately issued currencies can deliver price stability.


A000000
A000000
£50
The Royal Bank
of Scotland plc
FIFTY
POUNDS
STERLING
£50

Questions

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Questions and (tentative) answers

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- Are security risk significant?