Fewer Monies, Better Monies

Five years ago I thought blockchain technology had the potential to address the major problems of international payments, which are slow, risky and expensive, and in many countries and rural areas are difficult or impossible to access. That was a challenge that would have justified interest by central banks in this technology, but that promise has not been realised.

The title of this note is borrowed from a 2001 paper by the late Rudi Dornbusch in the *American Economic Review*, in which he made the case for pegging the currencies of Argentina, Mexico and other open economies to the US dollar, through commitment to currency board rules. In a recent paper I have gone further, showing that small economies no longer have a reason to issue their own currencies. They are better off using the US dollar for domestic transactions, since they are obliged to use the dollar for all the international commerce which fuels domestic activity (Worrell, 2021).

The challenges of international payments are explained in Worrell (2023, Chapter 10). Money everywhere is mostly digital, in the form of records of deposits and credit at banks and financial institutions. Most international payments are also digital, effected by instructions for debit and credit using cheques, credit, debit and cash cards, online payments, exchanges of cell phone credits and cell phone apps. Notes and coins are almost never used for legitimate international payments.

International payments are slow, risky and expensive because of the problem of verification. Moreover, poor people and people in rural areas cannot make international payments because they lack access to the banking system. We now routinely do international payments in real time for transactions large and small. However, there is always an interval before the payee has access to their funds, occasioned by the need to verify the identities of the seller and buyer, and the buyer's financial status. Also, because there is a financial institution at either end of the transaction, anyone who does not have a bank account is excluded from the international payments system.

The blockchain seemed to offer promise of providing an assured identification and verification of every transaction, embedded in the transaction itself. That, at any rate, is my understanding of the unique nature of the blockchain. The problem, however, is that it is impossible to represent the content of any transaction on the blockchain in language that can be understood by the active agents in any transaction - buyers, sellers, banks or regulators. It is for this reason that the blockchain does not appear to have a future as a solution to the deficiencies of international payments.

There is no need for, or interest in any new currency, digital or otherwise, which does not address the problems of international payments. There is no place in a modern economy for a currency, an entity that combines the means of payment, store of value and unit of value. We have real time payments instruments; what is lacking is real time settlement. It has never been possible to store value; the notion of a store of value is an illusion, an example of misplaced concreteness. The third supposed use of currency, as a unit of account, has become a trivial matter in a world of instantaneous communication. It is of no consequence what currency is used for accounts, when there is instantaneous information on the rate of conversion to any other currency, at all times. As for the problem of access to the international payments system for the poor and those in remote areas, the solution is to invest in telecommunications to provide access to the banking system.

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July 26, 2022

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