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BOOK REVIEW

Mark Kritzman, Senior Editor

BOOK REVIEW: THE FUTURE OF MONEY: *HOW THE DIGITAL REVOLUTION IS TRANSFORMING CURRENCIES AND FINANCE*

Eswar S. Prasad
(*Reviewed by Travis Whitmore*)

Money has a long and fascinating history. Over many centuries, the way in which humans transact with one another has changed substantially. From bartering to the use of official government minted coins, to acceptance of paper currencies with no physical commodity backing, innovation has always existed in the financial world. In his book, *The Future of Money*, Eswar S. Prasad explains that finance is on the verge of another transformation driven by the digital revolution, which will affect institutions, countries, and everyday consumers.

While most of us are aware of the transition from cash to digital payments, Prasad argues the most significant implications will be determined by central banks embracing (or not) digital currencies. In the cashless society that the author envisions, central banks will have launched digital currencies ("CBDCs") to remain "central." In turn, this will blur the meaning of money, transform the relationship between private and public institutions, and have a significant social effect.

Prasad starts by discussing the innovation brought on by fintech. In many parts of the world, especially emerging markets and developing economies, these firms have expanded financial access and made it more efficient to bank. While significantly improving existing investment products, fintechs still operate within financial markets and are not revolutionary in the sense that they will change the fundamental meaning of money.

Another innovation, one that is perhaps more impactful, is the rise of decentralized digital currencies. Through an in-depth review of Bitcoin, Ethereum, and the underlying technology, the book provides a foundation upon which the reader can understand the applications and drawbacks of currencies such as Bitcoin. Prasad is skeptical that pure, decentralized cryptocurrencies will gain wide acceptance given their inefficiencies and extreme levels of volatility. Instead, "stablecoins," which are digital currencies backed by a fiat currency, will become dominant.

Stablecoin currencies are attractive to businesses and consumers as they are less volatile and central banks can still step in during periods of an economic downturn or financial crisis. Unlike decentralized cryptocurrencies, these are often managed by large corporations or other private firms. For example, the largest stablecoin by market cap, Tether, is issued by Hong Kong company Tether Ltd. This is likely to become more prevalent and as Prasad puts it, would represent a shift of power from public institutions to private companies.

For Central Banks to remain relevant, they will need to disrupt themselves by creating digital currencies. Prasad argues this will be the most important innovation of recent decades. The issuance of CBDCs would serve as a reserve for private market digital currencies while improving transaction efficiency and the ability of central banks to implement monetary policy. Many major central banks, such as the European Central Bank and Federal Reserve have begun exploring digital currencies. Some, like the Central Bank of the Bahamas, have already launched a digital iteration of their currency. While Prasad makes a case for CBDCs, he is careful to discuss associated risks — decreased privacy of transactions, susceptibility to cyber-attacks, and potential instability.

Rigorous in nature, the Future of Money is a comprehensive introduction to digital currencies and their potential social, economic, and political implications. Prasad, a Senior Professor of International Trade Policy at Cornell University and former executive at the International Monetary Fund (IMF), brings in relevant examples and interesting anecdotes to keep readers engaged. I would recommend this book to anyone who wants to better understand digital currencies and their implications on the future of financial markets.