

## **Govcoin: Capitalism without banks?**

**(The alchemy of capitalism)<sup>1</sup>**

It was the bitcoin and blockchain technology that first challenged banks showing that private businesses could be managed without banks and bitcoin, the private money was created for that purpose.

The next challenge was the appearance of payment apps: AliPay and WeChat Pay in China and PayPal in the Western world. They make payments easier and replace/simplify banking functions in retail trade. Stripe, an USA-Irish tech platform and Grab in Singapore make business lending without having own capital. Ant and Tencent also tried to spread in business banking (skimming the most lucrative activities, payments and trade) but Chinese government did not allow that.

Facebook tried to introduce Libra two years ago – later the name was changed for Diem – but it was not allowed. With its huge network and with more than 2 billion users Facebook's e-money could be a real threat to state currencies.

But a real dethronization is threatening banks by state e-currencies (govcoin), to be emitted by central banks. State e-currency has been introduced in the Bahamas and Chinese government launched pilot projects of this kind, involving 100.000 people. Central banks and international financial institutions are now studying the issue; how to introduce state e-money.

Why should it be done? What are the motivations to issue govcoin?

- First, in our age of the incredibly fast development of IT, if something is technically viable, it will be realized.
- Second, the intrusion of digital platforms into retail banking (and partly in business banking) causes uncertainty and disorder; due to this, managing financial-economic cycles and eventual crises becomes more difficult. Governments want to avoid it.
- Third, the plan of Facebook to introduce Libra (Diem) as world money prompted the governments to realise the project.
- Commercial banks are exposed to runs and eventual bankruptcies. Govcoin is a safe money because it is backed by the state as a “lender of last resort”.
- At last, the quick decline of cash also contributes to plans introducing govcoin.

If govcoins will be realized, instead of commercial banks deposits will be hold directly with the central banks.

The introduction of govcoin should bite in the very essence of capitalism:

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<sup>1</sup> A summary, based on The Economist May 8th 2021 Special report: The future of banking. Shaken structures.

- Today, more than 90 per cent of money supply is created by commercial banks backed by an implicit guarantee of the central banks. A great risk would emerge if the balance sheets of central banks swelled and got involved in commercial banking. A basic principle in the Western world is that the state should not involve in capital allocations (except infrastructure).

- The alchemy of capitalism is realised by commercial banks: they transform idle, passive, liquid, short term deposits into long term, active, illiquid loans which act as engines of economic activity and innovation. With an e-money and deposits held preferably and largely with central banks, how this role should be played by central banks?

- The network of commercial banks functions as interface between government and the economy. Phasing out this role should limit the tools of economic policy in an unacceptable way. Furthermore, it should need implementing such structures and means which were characterizing the economic management of former centralized socialist countries.<sup>2</sup>

- The economy, financed by commercial banks, is based on a wide and varied system of collaterals and guarantees. In the measure their activities are taken over by tech platforms, they should form their own collateral systems. This evidently should be based on the personal data of platform users. It seems that the same should refer to govcoin. The collaterals of a state e-currency also should be based on personal data.

Further negative consequences:

- A world without commercial banks (or with commercial banks of much less influence) should increase social risks and threaten privacy: disposal of personal data should further concentrate in the hands of digital platforms that spread power from retail commerce to business life. On the other hand, the state, running an e-currency should dispose of all personal data of citizens using that money. The concentration of state disposal above personal data of this size would pose an unacceptable risk.

- The danger of cyber attacks should enormously increase because instead of many banks they could aim at only one, the central bank to attack and, consequently, the whole financial system.

- At last, cash does not have traces of what it had been spent on. But the use of e-money is to be followed easily, its use can be programmed. (Dictatorial regimes would not allow its use e.g. on abortion or buying foreign newspapers.)

As concerns geopolitical aspects, if China introduced govcoin, that would be a threat to the dominance of dollar in world economy. (Although the control of capital movements so far impedes the yuan becoming a rival of the dollar.) However, China takes a defensive stand in this issue because the autonomy of its big digital platforms does not fit into its economic

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<sup>2</sup> As a survivor of 40 years of Hungarian communism and socialism, besides, as a former researcher of socialist economies I am completely astonished. The supporters of government e-money want to repeat central planning. At the end of the first world war a German philosopher foresaw that in twenty years another world war would break out. (Because the new generation after the war did not know the horrors of the previous war.)

policy. According to the Economist's evaluation, introducing govcoin in China could be prompted only if the USA already had done it.

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