Part VI

Electronic Public Money
Chapter 18

Electronic Public Money

This chapter\(^1\) explores the futures of money in the age of blockchain technology, and propose our view that Electronic Public Money (hereafter called EPM) issued by blockchain and distributed ledger technologies as crypto public money will be money of the futures.

Under the current debt money system, large amount of money stock is created by commercial bank loans at interest due to fractional reserve banking. The prolonged global recession since 2008 prompted a discussion again, following the Great Depression in 1930’s, that this debt money system does not fulfill its function due to its structural defects, systematizing banking crisis, government debt accumulation, income inequality and environmental destruction. An alternative system of public money is proposed to solve the inherent problems of the debt money system in Part IV: Macroeconomic Systems of Public Money (Chapters 12 through 16). In the mean time, the proposal and implementation of Bitcoin \([59, 2008]\) inspired various blockchain-based money, including the proposal of electronic public money (EPM) system \([112, 2017]\). An expanded classification of money presented below in this chapter categorizes blockchain-based money into four types: Crypto-coin, Central Bank Cryptocurrency, Crypto-token and EPM. It is then analyzed that all blockchain-based money except EPM still suffer from the structural defects of the debt money system due to their dependence on it. A need for development of new EPM protocol is emphasized along with its core design configuration.

\(^1\)This chapter is based on my two joint papers with Yokei Yamaguchi. The first paper is titled "Peer-to-Peer Public Money System – Focusing on Payments" \([112, 2017]\), which was presented at the 2nd Asia-Pacific Conference of the System Dynamics Society, National University of Singapore, Feb. 20, 2017. The second paper is titled "Public Money, Debt Money and Blockchain-based Money Classified – EPM as Money of the Futures" \([109, 2017]\), which was presented at the 13th Annual AMI (American Monetary Institute) Monetary Reform Conference in Chicago, Sept. 16, 2017. The second paper is dedicated to the memory of Stephen Zarlenga, director of the American Monetary Institute, who passed away on April 25, 2017 at his home in Chicago. Without his vision on monetary reform and guidance through his work \([113, 2002]\), our present research on the public money system would not have gotten started.
18.1 The Year 2008

Current monetary system is based on a fractional reserve banking system. This is a system where bank deposits, which constitute large amount of money stock, are created when commercial banks grant loans at interest, or purchase existing financial assets from non-banking sectors. In short, the amount of nation’s money is tied with investment activity of private commercial banks. Since every aspect of our lives has come to rely on bank deposits created as interest-bearing debts, the present economic system is alternatively called the debt money system.

The year 2008 became an epoch-making year for this debt money system. First, the financial crisis and global recession reconfirmed, following the Great Depression in 1929, that the debt money system embodies structural design failures, systematizing monetary and financial instabilities. Secondly, two papers were published in that year which provided foundations for rethinking the debt money system: a paper on the accounting system dynamics macroeconomic model by this author [100, 2008], which later became a theoretical foundation of the proposal of Public Money System [103, 2011], and a paper on Bitcoin by Nakamoto [59, 2008], which provided technological breakthrough in designing peer-to-peer transaction system through blockchain technology.

ASD Macroeconomic Model

I have proposed the Principle of Accounting System Dynamics (ASD) in [94, 2003], a new computer simulation modeling method that combines Accounting System and System Dynamics: the integration of a robust double-entry bookkeeping foundation of social science and dynamical foundation of differential equation in natural science. By applying this analytical method, I have developed a series of macroeconomic modeling step-by-step; [97, 2005], [98, 2006], [99, 2007]. Then at the 26th international conference of the system dynamics society held in Athens, Greece, July 20-24, 2008, I have presented a complete accounting system dynamics (ASD) open macroeconomic model as cited above.

Less than two months after the presentation of the paper, the financial crisis took place. Being deeply distressed by this economic disaster, I have begun to search for a new economic system which will be free from the detrimental effects of the debt money system; [101, 2009], [102, 2010], [103, 2011], [104, 2012], [106, 2014], [108, 2015], [111, 2016]. My research has been led by the so-called Chicago Plan of monetary reform [14, 1939], which has been briefly covered in Part IV of the previous chapters. Accordingly, the public money system is proposed in this book as the alternative monetary system that addresses four systemic problems of the present debt money system: 1. Monetary and financial instability, 2. Government debt crisis, 3. Income inequality, and 4. Environmental destruction. Particularly, it has been emphasized that these problems are symptoms (system behaviors), not the causes (system structure), of the debt money system, and that, accordingly, re-designing the underlying structure is essential to genuinely overcome these issues. The alternative system design of public money is further developed in the context of Japan [107, 2015].
The upper part of Figure 18.1 briefly illustrates how the proposal of the public money system has evolved since the year 2008.

Figure 18.1: Proposals for Public Money System and Bitcoin in the Year 2008

**Bitcoin**

On October 31st of 2008, less than two months after the collapse of Lehman Brothers, Satoshi Nakamoto, a pseudonymous author, submitted a 9 page-long paper in a mailing list of cryptography: "Bitcoin: A Peer-to-Peer Electronic Cash System" [59, 2008]. Then, in January of 2009, the source code, later known as the Bitcoin reference code, was made open-source. On Jan. 3rd, 2009, the genesis block, the very first block of ever-extending blockchain for Bitcoin transactions, was successfully mined on the internet, breaking the dawn of unprecedented experiment of global peer-to-peer transaction system. The essence of Bitcoin is summarized in the first sentence of the original paper:

> A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution [59, 2008].

Bitcoin achieved the first decentralized transaction system on the internet that has practically avoided the so-called "double-spending problem" by combining the existing technologies of cryptography, the innovative idea of blockchain,
and proof-of-work (PoW) consensus algorithm in distributed computing system. Since then applications of blockchain technology opened up a possibility for designing a new type of decentralized infrastructures and organizations. The lower part of Figure 18.1 briefly illustrates how the blockchain technology has been evolving since the year 2008.

**Blockchain for Genuine Monetary Reform**

We are currently observing hundreds of new blockchain applications being proposed and developed across industries. As illustrated in the lower part of Figure 18.1, however, all blockchain applications are built upon the vulnerable structure of the debt money system, which was identified to cause monetary and financial instability by Irving Fisher in [12, 1935] and [14, 1939], and government debt crises by our joint paper in [111, 2016]. Main benefits of the technological applications will be lost when the underlying monetary system remains unfixed and fails to fulfill its functions. What is now needed is to reform the basic structure of the current debt money system through blockchain technology.

### 18.2 Money Creation Revisited

#### 18.2.1 Public Money and Debt Money

Our first step in rethinking the current debt money system begins by looking at different nature of money by analyzing how money is issued. This analysis is already done in Chapter 5. Accordingly, we make a quick revisit of the chapter so long as needed for the explanation in this chapter. Table 18.1, partially adopted from Table ?? in Chapter 5, classifies different types of money into two categories; public money and debt money. Public money is issued by the consent of the public as interest-free money, while debt money is issued by private parties as interest-bearing debt.

<table>
<thead>
<tr>
<th>Classification of Money</th>
<th>Public Money</th>
<th>Debt Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media</td>
<td>Money as Legal Tender</td>
<td>Functional-Money</td>
</tr>
<tr>
<td>Non-metal Commodity</td>
<td>Shell, Cloth (Silk)</td>
<td>Woods, Stones, etc</td>
</tr>
<tr>
<td>Metal Coinage</td>
<td>Non-precious Metal Coins</td>
<td>Gold, Silver &amp; Copper Coins</td>
</tr>
<tr>
<td>Paper Notes</td>
<td>Public Money Notes by PM Admin.</td>
<td>Goldsmith Certificates Central Bank Notes</td>
</tr>
<tr>
<td>Digital Cards &amp; Accounts</td>
<td>Digital Public Money (PM)</td>
<td>Digital Cash Central Bank Digital Currency (CBDC)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank Deposits (Credits by Loans)</td>
</tr>
</tbody>
</table>

Table 18.1: Public Money vs Debt Money
18.2.2 Money as Legal Tender

Table 18.1 then introduces the definition of money as legal tender. Money is nothing but information of value which can be exchanged for goods and services, and the stability of its purchasing power must be maintained over a period of time. As such, it does not concern how it is represented on what kind of media, be it tangible or intangible, except that its unit of measure is defined by law (legal tender) as observed by Aristotle (384-322 BC) in ancient Greece as follows:

and this is why it has the name nomisma - because it exists not by nature, but by law (nomos) and it is in our power to change it and make it useless [113, p.34].

Contrary to his recognition, money has historically been explained in terms of its physical properties, even though it has changed its form of media from physical to an abstract one along with rapid development in information technology. As an example, money in Japan consists of government coins, Bank of Japan notes and reserves (which are essentially electronic digits in the ledgers of Bank of Japan’s database), all of which have no intrinsic values.

Today, as one can see from Table 18.1, almost all of medium of exchange used in daily transactions are deposits expressed in the form of electronic digits at commercial banks’ database.

Unfortunately, however, Adam Smith (1723-1790), known as the father of economics, reversed the definition of money as legal tender as follows:

By the money price of goods it is to be observed, I understand always, the quantity of pure gold and silver for which they are sold, without any regard to denomination of the coin [113, p.313].

In this way, Adam Smith defined money as commodity. This erroneous logical step by the father of economics seemed to be widely used until this day. Advancing this idea axiomatically, many macroeconomics textbooks define money as an entity that meets the following three functions; (1) unit of account, (2) medium of exchange and (3) store of value. According to this axiom, gold and silver could be best qualified as ideal money because, by nature, their physical properties perfectly meet the three functions of money. This reversed definition has been a root cause of the confusion on the definition of money even among professional economists, and the public who are heavily influenced by them.

18.2.3 Bank Deposits as Functional-Money

Let us now look at three different measurements of money used in modern economy. Money used in our daily transactions is called money stock or money supply. It is defined as

\[ \text{Money Stock} = \text{Currency} + (\text{Commercial Bank}) \text{ Deposits} \quad (18.1) \]
CHAPTER 18. ELECTRONIC PUBLIC MONEY

Money stock thus defined is the total amount of money available in the economy as medium of exchange, regulating transactions and economic activities. The word currency appears for the first time in this measurement of monetary aggregates. It is strictly defined (such as in Japan and other nations) as

\[ \text{Currency} = \text{Coins} + (\text{Central Bank}) \text{ Notes} \]  

Therefore, currency is the same as "cash", and by definition it is legal tender in the sense that no one can reject to receive it for payments.

Under the current fractional reserve banking system, there is another type of money called (central bank) reserves, which are mainly used for final settlements between commercial banks. Reserves are legal tender held by commercial banks and other non-banking financial institutions at central bank. With currency and reserves, base money or monetary base is defined as follows:

\[ \text{Base Money} = \text{Currency} + (\text{Central Bank}) \text{ Reserves} \]  

How about commercial bank deposits? Are they also money as legal tender? According to Masaaki Shirakawa, a former governor of the Bank of Japan, the answer is negative.

Contrary to the central bank notes, creditors can refuse to accept bank deposits as the payments of debt obligations because of credit risks associated with bankruptcies of debtors' banks. However, in normal times, bank deposits function as money because of creditors' confidence that bank deposits can be converted to central bank notes [68, p.13] (translated by the joint authors).

Deposits are neither money as legal tender nor currency in this sense. That is why they are classified as functional-money in Table 18.1 even though they are widely accepted as the chief means of payment due to its convertibility with currency (legal tender). Let us emphasize again that deposits are nothing but functional-money created or destroyed by commercial banks under the fractional reserve banking system. This distinction of money from functional-money is the first step in rethinking the basic structure of the present debt money system.

18.3 Debt Money System Revisited

18.3.1 The Origin: Fractional Reserve Banking

The history of fractional reserve banking practices can at least be traced all the way back to the Venetian bankers in the middle of the 14th century [14, 1939]. Since then the age of free banking followed, in which commercial banks issued their own bank notes against deposits of precious metals such as gold and silver. For various historical contexts and political reasons, fragmented private banking systems began to be centralized through central banking system around the 17th century. No later by 19th century, gold standard system began to be
established. In order to maintain the gold standard as international monetary system by assuring the fixed gold unit against national currencies under the growing economy, central banks needed to take deflationary policy action (raise interest rates) as a result of a shortage in world’s gold reserves. Industrialized nations in the west suffered from the deflation, and transfer of large amount of gold for settling international trades became impractical particularly during the war time. Eventually, nations were forced to abolish ‘gold currency’. Finally, after the unilateral cancellation of the direct convertibility of the United States dollar to gold in 1971, the international monetary system abolished gold as a basis of money. This transition into fiat currency system under the fractional reserve banking, from another perspective, was a completion of the present Debt Money System in which money stock would no longer be limited by physical amount of gold and silver.

18.3.2 Structure of Debt Money System

Since the financial crisis in 2008, enormous amount of regulations and supervisory mechanisms have been implemented. However, they made the existing regulatory system more complex at best, if not any. In essence, the basic structure of debt money system remained the same before and after the crisis. Structure of the debt money system is summarized in the last column of Table 18.2, which is slightly modified from the original Table 16.1 in Chapter 15. It is a system in which base money is issued by central banks which are privately-owned in many nations, and deposits are supplied into the economy as interest-bearing debts through commercial banks’ loans.

<table>
<thead>
<tr>
<th></th>
<th>Public Money System (Proposed)</th>
<th>Debt Money System (Current)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Issuer</td>
<td>Public Money Administration</td>
<td>Central Bank &amp;</td>
</tr>
<tr>
<td>Its Owner</td>
<td>The government (Public)</td>
<td>Commercial Banks</td>
</tr>
<tr>
<td>Required Reserves</td>
<td>100% (for Demand Deposits)</td>
<td>Fractional</td>
</tr>
<tr>
<td>Role of Banks</td>
<td>Intermediaries of Money</td>
<td>Creators of Deposits</td>
</tr>
<tr>
<td>Money Supply</td>
<td>Base Money = Money Stock</td>
<td>Base Money: by Central Bank</td>
</tr>
<tr>
<td></td>
<td>(Financial system unaffected)</td>
<td>Deposits: by Bank Loans</td>
</tr>
<tr>
<td>Issuance of Money</td>
<td>Interest-free</td>
<td>Interest-bearing Debt</td>
</tr>
</tbody>
</table>

Table 18.2: System Structures of Public Money and Debt Money

---

2The central banks were accustomed to maintain a reserve of upwards of forty per cent in gold or gold exchange behind their note issuances [14, 1939].
18.3.3 System Behaviors: Four Built-in Failures

Behaviors of the debt money system are summarized in the last column of Table 18.3, which is slightly modified from the original Table 16.2 in Chapter 15. Debt money system has been observed to cause boom and bust, which in turn trigger monetary and financial instabilities, followed by accumulation of government debt caused by capital injection necessary to save the banking system and to implement fiscal stimulus policy. Over time, this system structure inevitably brings income inequality between a handful of financiers and the remaining non-financiers, leading to an extreme concentration of wealth. Furthermore, the debt-based monetary system forces economic growth that puts eco-systems under enormous stress, leading to environmental destruction. Accordingly, the debt money system is concluded to entail built-in system design failures of monetary and financial instability, accumulation of government debt, income inequality and environmental destruction as analyzed in Chapter 15 and [111, 2016].

It is emphasized that these problems are system behaviors (symptoms) largely driven by the underlying structure of the debt money system. Thus they can be only fixed by re-designing the structure which directs how the system would behave. Let us re-examine these four system design failures in more detail below.

<table>
<thead>
<tr>
<th></th>
<th>Public Money System (Proposed)</th>
<th>Debt Money System (Current)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary Stability</td>
<td>Stable Supply of Money</td>
<td>Excessive Credit Creation &amp; Crunches</td>
</tr>
<tr>
<td></td>
<td>Stable Price Level</td>
<td>Inflation &amp; Deflation</td>
</tr>
<tr>
<td>Financial Stability</td>
<td>No Bank-run</td>
<td>Business Cycles, Banking Crisis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Booms and Depressions)</td>
</tr>
<tr>
<td>Employment</td>
<td>Full Employment</td>
<td>Involuntary Unemployment</td>
</tr>
<tr>
<td>Government Debt</td>
<td>No Government Debt</td>
<td>Built-in Debt Accumulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ Recession &amp; Unemployment</td>
</tr>
<tr>
<td>Inequality</td>
<td>Income Inequality between</td>
<td>Income Inequality between</td>
</tr>
<tr>
<td></td>
<td>Workers and Capitalists</td>
<td>Financiers and Non-financiers</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Sustainability is Possible</td>
<td>Debt Accumulation (Private and Public)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ Forced Growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ Environmental Destruction</td>
</tr>
</tbody>
</table>

Table 18.3: System Behaviors of Public Money and Debt Money

1. Monetary and Financial Instability

Instability of Money Stock

Let us first consider monetary and financial instability since it is one of the most important criteria and the main purpose of system re-design. Under the debt money system, new deposits are created when commercial banks make loans, while, conversely, existing deposits are destroyed when loans are repaid. This
way, money stock or money supply, which we all rely on as chief mediums of exchange, is *endogenously* created and destroyed. This leads to inherent instability of money stock (supply) especially during the period of booms and busts as money creation is tied to lending business of commercial banks.\(^3\) Instability of money stock under the fractional reserve banking system was observed in the U.S during the Great Depression and is documented by Fisher [12, 1935]. In a recent cases of Japanese asset price bubble and burst during late 1980’s and early 1990’s, money stock continued to increase unlike the case of the Great Depression, because the government continued to borrow money this time, instead of debt-repaying private sectors, by issuing government bonds, which in turn has led to an acceleration of the government debt accumulation [108, 2015].

Financial System Crisis

Inevitable results of booms and busts are credit defaults, bankruptcies, foreclosures and bank runs, followed by higher rate of unemployment and long term recession. Financial crises are systematized by the underlying system structure of fractional reserve banking such that rational economic behaviors of repaying loans by private sectors during the economic downturn precipitate recession by further destroying money stock. The occurrence of this paradoxical phenomenon is identified as *fallacy of composition*.

2. Government Debt Accumulation

Under the debt money system, government is obliged to finance through taxation. For the amount of fiscal deficits, it has to rely on borrowings from private sector, mainly from banks and non-bank financial institutions (and indirectly from the central bank through open market purchases). Under such system, the government debt could grow at an exponential rate caused by a reinforcing loop of compounding interests. When private sectors stop borrowing from banks during economic recessions, the government instead has no choice but to borrow for implementing fiscal stimulus in order to maintain the level of aggregate demand, leading to further increase in its outstanding debts. These accumulated debts will surely trigger another type of economic crisis; debt crisis. In system dynamics, whenever an event is observed repeatedly and becomes a pattern, there must be a underlying system structure producing such a pattern of the event. Following this analytic approach, Parts II and III of this book explored system structure of the present system and identified it as a *debt-end* system. In short, the current debt-based system is far from a sustainable path and, sooner or later, destined to crash if no structural change is to be taken.

\(^3\)The simulation experiment using simple ASD model in [111, 2016] shows that compound changes in currency ratio and capricious behavior of banks’ lending ratio amplify instability of money stock, although base money remains entirely constant and stable.
3. Income Inequality between Financiers and Non-Financiers

As we have seen above, commercial banks and central bank collectively administer both payment system and money creation under the present system. Since almost all money exists in the form of debt, interest has to be paid as long as money exists. To be more specific, banking institutions earn vast amount of interest by creating and lending money to other non-banking private sectors and the government. This way, the current system works like a gigantic vacuum machine of national income, transferring large amount of income from non-financiers to financiers.

More specifically, when borrowers take loans at interest, interest payments go out of their equity and flow into the equity of banks as retained earnings. When buyers use credit cards and pay back by installments, they have to pay higher interest because they are getting loans from nonbank intermediaries who are essentially getting loans from banks as credit facility. Simultaneously, sellers or merchants have to pay card fees to nonbank intermediaries for the services they received from them.

In this way, equities of buyers and sellers (non-financiers) move to equities of nonbank intermediaries and banks (financiers). To sum, income redistribution is forcefully done from non-financiers to financiers under the current system. This is another type of income inequality under the current debt money system by way of transaction fees in addition to the one we have seen above.

![Equity Distribution](image)

Figure 18.2: Income Inequality between Financiers and Non-financiers

Figure 18.2 is produced by running "the payment system model through
nonbank intermediaries and multiple banks", illustrated in Figure 18.10 of the next section. It shows how equities flow from non-financiers (lines 1 and 2) to financiers (lines 3 and 4) when buyers purchase goods and services of 10 (thousand) yen every 3 months for two years (line 6).

In short, the current system of debt money is structured in such a way that it concentrates wealth into a handful of interest-earning financiers. Income inequalities is, indeed, an inevitable result of the system structure of debt money.

4. Environmental Destruction

More serious system design failure for our sustainable futures lies in the environmental destruction. Under the debt money system, borrowers are under enormous stress to repay loans at interest. Perpetual pressure to keep paying interests and pay back the principal incentivize borrowers (debtors) to minimize costs, discarding social investments for environmental protection. In other words, the system structure of debt money reverses systematic efforts for environmental protection and imposes behavioral structure of forced economic growth at the price of eco-system.

18.4 Payments under Debt Money System

It is essential for exploring money of the futures to understand how payments have been made under the debt money system. In this section we will investigate current payment methods in detail. Payments are made with currency (cash) and demand deposits.

Hence, they are divided into two categories; payments with cash and payments with deposits. Payments with deposits are further broken down into the one that goes through banks and the other that goes through nonbank financial institutions.

Figure 18.3 illustrates overview of all payment methods, including Bitcoin\textsuperscript{4}, under the current debt money system. Figure 18.4 enlarges the overview figure and focuses on 6 payment methods under debt money system; that is, payments with cash (\textsuperscript{1} and \textsuperscript{2}), payments through banks (\textsuperscript{3} and \textsuperscript{4}), and payments through nonbanks (\textsuperscript{5} and \textsuperscript{6}). Let us now take a look at the in detail, respectively.

18.4.1 With Cash and Electronic Cash

\textsuperscript{1} Payments with Cash

Money Stock consists of cash and deposits. In Japan, Currency in Circulation (cash) constitutes only as much as 15\% and the remaining 85\% are deposits. Let us first explore how cash is used for transactions. Figure 18.5 is a simple Accounting System Dynamics model of transaction with cash. Cash moves from buyers to sellers, while goods and services co-flow in an opposite direction.

\textsuperscript{4}Payments with Bitcoin is discussed in the sub-section 18.6.2 below
Figure 18.3: Overview of Payment System under Public and Debt Money
18.4. PAYMENTS UNDER DEBT MONEY SYSTEM

Figure 18.4: Overview of Payment Methods under Debt Money System

2 Payments with Electronic Cash

Cash can be substituted by electronic cash. Electronic digits are stored in electronic cards as prepaid money in exchange for currency (coins and bank notes), and used for transactions. As payments with electronic cash become more convenient, this type of payment is getting widely used. Figure 18.6 presents a simulation model of this payment method.

18.4.2 With Deposits through Banks as Intermediaries

3 Payments through Banks

Deposits (as functional-money) are created out of nothing as electronic digits in the database of banks. They are used for payments by transferring them between the accounts of buyers and sellers of a single bank or in multiple banks, which are then settled through their inter-bank database at the central bank.

Traditionally, most payments are done through cheques, and recently by online banking. If buyers and sellers reserve their checking accounts in the same bank, their transactions can be easily done through the proprietary database of the same bank. This payment is modeled in Figure 18.7.
If buyers and sellers have their checking accounts at different banks, their transactions have to be cleared through the inter-bank payment system and settled through the central bank reserves. This payment is modeled in Figure 18.8.

18.4.3 With Deposits: Non-banks as Intermediaries

Recent innovations in FinTech are advancing the area of payments with deposits; that is, payments by smart phones such as iPhone and laptops. Some well-known examples are PayPal, ApplePay, Square Reader(NFC) and Square Stand. Traditional service charge for credit card is between 5% and 8%. Square now offers only 3.25% for similar services. All other credit cards are forced to reduce their service charges of 4% - 5% to around 3%. In this way FinTech revolution is advancing the efficiency of credit card payments.

When buyers and sellers as well as nonbank intermediaries such as credit
card companies have their checking and deposits accounts within the same bank, their transactions are done through the proprietary database of the same bank. This payment is illustrated in Figure 18.9.

Payments through Non-banks and Central Bank

When buyers, sellers and nonbank intermediaries such as credit card companies keep their checking and deposits accounts at different banks, their transactions are cleared through the inter-bank database at the central bank. This payment model is exhibited in Figure 18.10.
CHAPTER 18. ELECTRONIC PUBLIC MONEY

Figure 18.7: Payment System with Bank Deposits
18.4. PAYMENTS UNDER DEBT MONEY SYSTEM

Figure 18.8: Payment System with Multiple Bank Deposits
Figure 18.9: Payment System © through Nonbank Intermediaries (Credit Cards)
18.4. PAYMENTS UNDER DEBT MONEY SYSTEM

Figure 18.10: Payment System © through Nonbank Intermediaries and Multiple Banks
18.5 Public Money System Revisited

18.5.1 The Origin: Chicago Plan and 100% Money

In this section we make a quick revisit of Part IV: Macroeconomic System of Public Money and my Japanese book: Public Money [107, 2015]. The Great Depression in 1929 was the first major economic disaster caused by the system design failures of the debt money (fractional reserve banking). Having recognized this, eight economists at the University of Chicago proposed an alternative system design called "The Chicago Plan for Banking Reform" in 1933 based on the original idea put forward by Frederick Soddy in 1926, who won the Nobel prize in chemistry in 1921. Their proposal was handed over to the President Franklin D. Roosevelt on March 16, 1933 through Henry A. Wallace, then Secretary of Agriculture. Unfortunately, however, it failed to be implemented as political oppositions, especially from bankers who retain the profitable system, were substantial [62, 1995]. Instead, the Banking Act of 1933 known as Glass-Steagal Act, which was less restrictive to bankers, was enacted on June 16, 1933 by FDR. Then, the Chicago Plan was vehemently carried on by Irving Fisher from Yale University [12, 1935] and his group of five economists as "A PROGRAM FOR MONETARY REFORM" [14, 1939], and later by Milton Friedman [33, 1948], [34, 1960]. Gradually, the Chicago Plan and similar sort of proposals began to be neglected and made a taboo subject [80, 2013] as an alternative economic policy discussion.

The monetary reform thus proposed as the Chicago Plan simply aimed to introduce 100% required reserve ratio for demand deposits such that

\[
\text{Money Stock} = \text{Base Money} \tag{18.4}
\]

Under this full reserve (100% money) system, all demand deposits (functional-money) will be all backed by base money, legal tender. This way, money stock, being defined by currency and demand deposits, becomes equal to base money.

Based on the Chicago Plan, we have proposed Public Money System in Part IV.

\[\text{They are: G.V. Cox, Aaron Director, Paul Douglas, A.G. Hart, F.H. Knight, L.W. Mints, Henry Schulz, and H.C. Simons.}\]

\[\text{The Act was repealed in 1999 by the President Bill Clinton, and replaced with the Glamm-Leach-Billey Act also known as the Financial Service Modernization Act of 1999, which was criticized of having ultimately led to the financial crisis in 2008.}\]

\[\text{They are: Paul H. Douglas, University of Chicago; Frank D. Graham, Princeton University; Earl J. Hamilton, Duke University; Willford I. King, New York University; and Charles R. Whittlesey, Princeton University.}\]

\[\text{As a recent case, Congressman Dennis John Kucinich, a member of the U.S. Representative from Ohio between 1997-2013, put forward the American Monetary Act in 2011, which is an equivalent of the Chicago Plan.}\]

On 26 July 2011, Kucinich invited Professor Kaoru Yamaguchi from the University of California at Berkeley and Doshisha University in Japan, to give a congressional monetary briefing on this idea. Any version of the Chicago Plan will be fought to the death by the banking system because it threatens both its power base and its business model. [51, 2012, pp.129-130]
of this book as an alternative system design to overcome structural flaws of the
debt money system.

Figure 18.11: From Debt Money to Public Money System

Figure 18.11 illustrates how two great economists learned important lessons
independently from the Great Depression in 1930’s; that is, 100% Money by
Irving Fisher [12, 1935] and The General Theory of Employment, Interest and
Money by John M. Keynes [45, 1935]. It also shows that a new macroeconomic
theory of public money system developed with Accounting System Dynamics
(ASD) modeling approach [105, 2013, First Edition] is an integration of the
above two lessons proposed in 1935 in the wake of the Great Depression in
1930’s.

18.5.2 Structure of Public Money System

Money exists by law as discussed in Section 2. Accordingly, money must be
issued as decreed by law (legal tender). And a reliable monetary system must
provide stability of its purchasing power. System structure of public money is
summarized in the second column of Table 18.2 shown above. Its gists are as
follows:

- Public money is issued at interest-free by the Public Money Administra-
tion (PMA) as equity of the nation, not by commercial banks as interest-
bearing debt.
• 100% required reserve ratio is held for demand deposits.

• Public money is put into circulation to sustain economic growth and welfare.

Banks as Intermediaries of Public Money

By requiring banks to keep 100% reserve ratio for demand deposits and to follow appropriate accounting journal entries for bank-lending transaction, banks become genuine intermediaries of existing money under the public money system. Separation of money creation and private lending business is thus achieved.

Loanable funds of banks come from three sources: (1) their own money (retained earnings), (2) time (savings) deposits and (3) loans repaid. Especially time deposits are savings of the economy and become a main source of loanable funds for commercial banking sector, connecting savers and borrowers in the economy. As a result, main source of income for commercial banking institutions consists of (a) earned interest income from lending business and (b) service fees for providing payment and custody service. In this way a robust and stable foundation of banking system will be established.

This business model of banks, which is what normal textbooks regard them to be, provides them with economic incentives to put weights on real investments that would result in stable returns rather than on zero-sum financial gambling. Consequently, banks under the public money system seek for real investment opportunities in more productive markets, making the whole financial sector more competitive and efficient. Thus, interest rates are determined in the financial market competitively. In this respect, the Public Money Administration will be free from monetary policy of manipulating interest rates through market operations as presently done by the central banks of the debt money system.

Issuance of Public Money

Who should issue money, then, in place of the privately-owned central banks and commercial banks? Issuance of money or legal tender is the prerogative of the public. Thus, we propose that the issuer has to be a public organization, politically independent from the influences of the government and vested interest groups. Secondly, it must be a sole entity under the publicly-elected legislative branch of the government regulated by the constitution, such as the Congress in the United States, the Parliament in the United Kingdom and the Diet in Japan. Such an organization is commonly referred to as the Public Money Administration (PMA) in Part IV of this book.

Concerning the role of government in the process of money creation, Frank H. Knight, one of the original proponents of the Chicago Plan in 1933 and of the founding members of the Chicago School of Economics, stated:

No violation of the basic principles of extreme laissez faire theory would be involved in separating the monetary system from the vicissitudes of speculative private business. [46, 1933]
To make this alternative system design workable while avoiding political pressures and fiscal dominance, the following two conditions must be strictly met:

C1. The Public Money Administration plays a role of *supply side* of public money, while the executive branch of the government (Department of Treasury in the U.S., Ministry of Finance in Japan, etc.) plays a role of its *demand side*. The amount of public money is determined by the interplay of demand and supply sides.

C2. Transparency of both information and decision processes of public money issuance has to be fully guaranteed to the public.

To implement the conditions of C1 and C2, an organizational structure of demand and supply side of public money administration is proposed in [107, 2015] as illustrated in Figure 18.12 as a case example in Japan. According to the proposal, the PMA is established under the direct supervision of the Diet as an politically independent organization from the influences of other branches of the government, politicians, lobbyists as well as special interest groups.

![Figure 18.12: Organizational Structure of the Public Money Administration (Japan)](image-url)
CHAPTER 18. ELECTRONIC PUBLIC MONEY

Public Money Policy and Fiscal Policy

Government needs to collect taxes for providing public services to the people. However, tax increase necessary for fiscal spendings during economic recession could dampen the aggregate demand and prolong or worsen the recession. Under the situation, the demand side of the PMA, say, Ministry of Finance, demands for additional amount of money to finance the fiscal deficits. Under the public money system, the demand side of the PMA needs to publicly disclose all fiscal information to justify their demand for additional money issuance. In this way both the supply and demand sides of the PMA interplay one another and perform a "check and balance" mechanism to keep fiscal (and governmental) dominance away from money issuance.

One may still wonder what happens if both sides of the PMA are corrupted, and large amount of money is issued in a short period of time? To guarantee the price stability even under such possibility, a third condition must be clearly stated as in the article 8 of the Public Money Act proposed in [107, 2015]:

C3. Minister of Public Money Administration shall resign, without exception, whenever price level fluctuates beyond $\pm 2\%$ in 3 consecutive months, compared with a corresponding period of previous year.

Choice of price index such as Consumer Price Index (CPI), the range of price fluctuation and its period shall be determined nation by nation on the basis of domestic economic conditions in accordance with monetary and financial environment of her neighboring nations.

Spending policies of public money may be outlined in the following categories:

Human Development Public investment in education and research (tuition-free higher education etc.) as human development program for future investment.

Infrastructures Investment for constructing 21st century infrastructures such as IT networks, green energies, and green transportation system.

Social Welfare Universal medical and healthcare program and other social welfare programs.

It should be noted that the Public Money Administration is an entity exclusively responsible for the management of money stock, and nothing else. Thus, under the public money system, the nation’s financial system remains the same except the detachment of money creation from commercial lending businesses.

18.5.3 System Behaviors: Four Failures Getting Fixed

Second column of Table 18.3 above summarizes the behaviors of the public money system. Under the public money system, four major system design failures in the debt money system are shown to be removed; that is, (1) monetary and financial instability, (2) accumulated government debts, (3) income inequality between financiers and non-financiers, and (4) environmental destruction.
1. Monetary and Financial Stability

Stability of Money Stock

Let us first examine the failure of monetary and financial stability. Whenever 100% required reserve ratio is introduced, money stock becomes equal to base money, meaning that all money in the economy is issued as public equity by the PMA (one of the government branches), and every commercial bank deposit becomes money (legal tender), as opposed to functional-money under the current system. Accordingly, instability in money stock is stabilized, and it would no longer be affected by the changes in liquidity preferences of depositors, capricious lending behaviors of banks, and debt repayments by borrowers [111, 2016].

Financial Stability

Under the public money system, bank runs no longer occur as each unit of demand deposits at each banking institution is fully reserved all the time. This leads to a robust banking system, and abolishment of too-big-too-fail policy.

2. Liquidation of Government Debt

Concerning the system behavior of government debt accumulation, the government now becomes debt-free as its securities are getting paid off with public money whenever they become due [102, 2010], [103, 2011], [104, 2012]. Government securities may be used as substitution by commercial banks for attaining 100% reserve ratio during the transition process as discussed in Chapter 16. Consequently, the executive branch of the government (MoF in Japan, and Dept. of the Treasury in the U.S.) becomes free-hand to pursue its public policies without being constrained by the burden of national debts and interest payments.

3. Income Inequality

Income inequality between financiers and non-financiers is reduced by the amount of interests previously concentrated to banking sector through public and private debts. Hence, income inequalities between financiers and non-financiers will be substantially removed over time. However, it should be remarked that no system structure is introduced, as discussed in Chapter 15, to reduce income inequality between workers and stockholders (or capitalists) under the public money system.

4. Improvement of Environmental Protection

Under the present system, banks ultimately decide where to invest and to which industry necessary funds are supplied. The system structure of public money introduces a number of economic incentive loops towards green businesses. One of them, which we believe is significant, is for commercial banks to take depositors’ opinion (social aspect of lending business) into account since they will
become intermediaries of money between savers and borrowers under the proposed system. In other words, socially responsible investments become more accessible. In this way, the structural cause of forced economic growth at the price of environmental destruction is removed in the public money system.

18.5.4 Transition Steps to the Public Money System

The current debt money system is transitioned to the public money system in the following two steps:

Step 1 Enact, say, the Public Money Act [107, 2015], thereby replacing the existing laws that authorize a fractional reserve banking system with 100% reserve requirement system.

Step 2 The Public Money Act dissolves the current central bank such as Bank of Japan, and incorporates it into the newly established Public Money Vault administered by the PMA.

Public money system discussed so far in this section did not consider any application of blockchain technology when it was first proposed in [103, 2011]. With our present proposal of electronic public money (EPM) system as in [112, 2017], the public money system discussed in this section will be referred to as the original public money system in comparison to the EPM.

18.5.5 Payments under Public Money System

Income Inequality caused by transactions fees still remains

Under the public money system, monetary stability is restored and government debts are liquidated [102, 2010], [105, 2013] [111, 2016]. Yet, payment methods do not change drastically; that is, payment methods (1) through (6) discussed in Section 18.4 remain the same. In other words, income inequality between bankers and non-bankers are reduced by the amount of interests previously concentrated to bankers through government debts and private debts, since deposits (and debts) are no longer created by banks out of nothing.

Yet, nonbank financiers continue to charge transaction fees so that income inequality between financiers and non-financiers by way of transaction fees still remains as before.

What is needed to reduce the remaining income inequality in the public money system is the introduction of peer-to-peer transaction design, which becomes available through the distributed ledger technology first introduced in Bitcoin [59, 2008].
18.6 Bitcoin and Blockchain Technology

18.6.1 System Structure of Bitcoin

Before we explore the EPM as money of the futures in the following sections, let us overview Bitcoin here as the first application of blockchain technology. Bitcoin has provided a new method to make peer-to-peer payments electronically across national borders. As described by Andreas [1, 2017, p.2], Bitcoin consists of:

- A decentralized peer-to-peer network (the Bitcoin protocol)
- A public transaction ledger (the blockchain)
- A set of rules for independent transaction validation and currency issuance (consensus rules)
- A mechanism for reaching global decentralized consensus on the valid blockchain (Proof-of-Work algorithm)

To avoid a trusted party in coin generation, the Bitcoin protocol is designed such that miners gain new amount of Bitcoin as a reward for successfully creating a new candidate block containing Bitcoin transactions, and being confirmed by other network peers. Each block is generated every 10 minutes on average. The maximum amount of Bitcoin supply is predetermined at 21,000,000 BTC that will be attained approximately by the year 2140. A rate of new Bitcoin generation per block is decreased by half in every 210,000 blocks (or 4 years approximately) and each block contained 50 new BTCs for the first four years. Anyone who wish to use Bitcoin can either try to mine new Bitcoin or purchase it at exchangers who facilitate potential buyers and sellers. However, the difficulty of Bitcoin’s mining have increased so high that ordinary users with normal computing machine cannot expect to win against other professional miners in the network.

18.6.2 Payments with Bitcoin

Payments with Bitcoin

It is pointed out in Section 18.2 that bitcoin is neither legal tender nor currency by all means; that is, it must be functional-money just like the present-day bank deposits. Accordingly, if we want to use bitcoin in broader economy, it must be exchanged for currency, or deposits. This aspect of Bitcoin as transaction medium is briefly illustrated in Figure 18.13 as overview of payments with Bitcoin. Therefore, it is better to be called digital (or crypto) ingot, similar to gold ingot. Gold ingots have been historically used to clear trade balances, and are traded as investment commodities nowadays. In this sense, it is appropriate to interpret Bitcoin as digital ingot, which plays a role of functional-money, similar to bank deposits that could be legally refused to accept as a means of transaction payments. Indeed, Figure 18.13 demonstrates how it is constrained...
as a means of exchange. Figure 18.3 in Section 18.4 illustrates overview of all payment systems we have discussed so far; that it, ① through ⑦.

Figure 18.14 presents its detailed payment system. Even though Bitcoin payments are peer-to-peer and in this sense the same as cash payments in Figure 18.5, it requires additional Bitcoin exchangers, similar to gold traders.

![Figure 18.13: Overview of Debt Money and Bitcoin Payments](image)

### 18.6.3 How Bitcoin Transactions Work?

**Distributed Public Ledger**

Until the introduction of Bitcoin, the only payment method with digital currency is by electronic cash stored in prepaid cards or other substitutes as illustrated in Figure 18.6. This was due to the difficulty of avoiding the so-called *double-spending* problem and *Byzantine Generals Problem* in the field of distributed computing. Bitcoin practically provided a breakthrough to these challenges with a brilliant idea of public ledger through proof of work.

Let us examine how it works in terms of system dynamics modeling framework. In system dynamics, cash flow of peer-to-peer transaction can be easily captured by stock-flow diagram as in Figure 18.15.
Figure 18.14: Payment System with Bitcoin: Peer-to-Peer
Dynamic equations of this stock-flow diagram can be written as follows:

\[ \text{Inflow}_t = \text{Receipt from } A_t + \text{Receipt from } B_t \]
\[ \text{Outflow}_t = \text{Payment to } C_t + \text{Payment to } D_t \]
\[ \text{Stock}_{t+1} = \text{Stock}_t + \text{Inflow}_t - \text{Outflow}_t, \ t = 0, 1, 2, \cdots (18.5) \]

Without losing generality, these equations of stock-flow relation are broken down and re-arranged into an accounting ledger of inputs and outputs relation at a discrete time \( t = 0, 1, 2, \cdots \) such that

\[
\begin{align*}
\text{Inputs}_t & \quad \begin{cases} 
\text{Stock(unspent)}_t \\
\text{Receipt from } A_t \\
\text{Receipt from } B_t 
\end{cases} & \quad \Rightarrow & \quad \begin{cases} 
\text{Outputs}_t \\
\text{Payment to } C_t \\
\text{Payment to } D_t \\
\text{Stock(unspent)}_{t+1} 
\end{cases} 
\end{align*}
\]

\[
(18.6)
\]

This is how the stock-flow relation in system dynamics is transformed into transaction ledger. In Bitcoin network, new transactions are first propagated across the network and stored in transaction pools of Full Bitcoin nodes located world-wide. Verified transactions are collected and put into a block every 10 minutes on average. The so-called miner who has solved the mathematical problem (finding a nonce) first is given the right to create a candidate block and propagate it to the network, generating a specified amount of new Bitcoin as a reward. Once it is validated by participating nodes, the new block is then added on top of the previous chain of blocks called blockchain.

As new block is added in this way, validity of the transactions in the latest block is reinforced by having the subsequent blocks built upon the previous block. No centralized authority of trusted third parties such as banks is needed in such system design. This vividly contrasts with privacy model and payments system under the debt money system described above, in which every transaction in our economy has to be executed through the centralized and trusted third parties.
18.7 CHALLENGES FACING BITCOIN

This decentralized peer-to-peer networks of trust realized by blockchain technology are transforming the payment methods in finance. A fundamental difference between the debt money system and Bitcoin is that any records of transaction are maintained by centralized institutions in the debt money system, whereas in Bitcoin they are shared as a global public ledger.

18.7 Challenges facing Bitcoin

Currently, Bitcoin faces fundamental challenges if it were to serve as a robust monetary system; that is, the fixed supply and volatility of its value.

a. Fixed Amount of Bitcoin Supply

The fixed amount of supply pushes up the Bitcoin prices as gold price used to be in the face of increasing demands, imposing deflationary pressure. The system design of fixed supply worked well during the infant phase of Bitcoin, because that attracted more Bitcoin users as its value went up as intended by Satoshi Nakamoto (unidentified) explained in the following internet post\(^{10}\):

As the number of users grows, the value per coin increases. It has the potential for a positive feedback loop; as users increase, the value goes up, which could attract more users to take advantage of the increasing value \([60, 2009]\).

The increasing value keeps incentivizing miners to invest more in hashing race, making the network more resistant to double-spending attacks. However, this fixed supply reminds us of the structural limitation under the international monetary system based on gold standard, which eventually forced the collapse of dollar-to-gold convertibility in 1971. In other words, as long as its supply is limited, Bitcoin continues to face similar challenges before serving as a sound means of exchange under a growing economy.

b. Volatility of Bitcoin Price

The increasing value has made Bitcoin an investment target, like gold, rather than a means of payment. The volatility of its purchasing power, thus, makes it unsuitable as a means of real transaction of goods and services.

c. Technical Shortcomings

In addition to these economic problems, Bitcoin faces technical shortcomings arising from the specific technical approach it has adopted in its mechanism\(^{10}\). However, Satoshi Nakamoto, the original developer of Bitcoin, suggests that it is technically possible to make Bitcoin as a stable means of exchange if we could find a trusted party who is able to actively manage the supply of money. This is indeed a promising insight in designing peer-to-peer public money systems in the next section.
design. To incentivize mining in proof-of-work approach, coin generation and block construction (transaction validation) are intertwined, concentrating the important functions of the monetary system into miners. Specifically, system design of Bitcoin results in: (1) high energy costs due to massive computations, (2) risk of validator concentration of power into a few large-scale mining pools, and (3) ambiguity in forming a unique blockchain (forking) and limited scalability. To overcome these shortcomings, entirely new approaches have been proposed such as Algorand (Algorithmic Randomness) by Micali [56, 2016], and Elixxir (Scalable Digital Sovereignty) by Chaum [5, 2018].

Current Blockchain Applications as Patchworks

In retrospect Bitcoin was the first application of blockchain technology. More precisely, the overall system design of Bitcoin and the underlying technology were inseparable. However, it is recognized that the idea of blockchain can be applied independent from Bitcoin through utilization of different consensus algorithms other than proof-of-work, and a recent focus has been more on the business application of blockchain technology rather than Bitcoin itself. Blockchain is technically evolving into Distributed Ledger Technology (DLT). Many applications of blockchain technology have been mushrooming not only as Alt(ernative) coins but also as "virtually everything of value and importance to humankind ... that can be expressed in code [76, page 7]."
mizing operating costs of the existing financial institutions.

As long as current blockchain applications continue to be developed on top of the debt money system, they could become nothing more than blockchain patchworks since they were not designed to address fundamental problems of the underlying debt money system as depicted in Figure 18.16.

18.8 Electronic Public Money System

18.8.1 Integrated Public Money and Blockchain

The public money system revisited in Section 18.5 is shown to fix system design failures of the debt money system revisited in Section 18.3. Yet its implementation has been difficult since its birth [103, 2011] because its predecessor, the Chicago Plan in 1933, has been made "taboo" in economics as discussed in Subsection 18.5.1. In Section 18.6, we examined Nakamoto's approach in designing a new electronic payment system that relies on cryptographic proofs in transaction validation and (computational) mining for new Bitcoin generation.

Yet, the absence of any trusted party to manage the supply of Bitcoin, thus its purchasing power, has led to challenges for Bitcoin to serve as an alternative monetary system to the debt money system.

Under these circumstances, blockchain technology appeared all of sudden as if it were a savior toward the public money system, because it could bring back, from a completely different angle of information technology, the old but greatly relevant issue of monetary reform out of the taboo subject. The practical use and implementation possibility of blockchain technology for nation's payments system are becoming increasingly hot subject. More specifically, blockchain could be built into a system design of public money to save the current debt money system from its complete meltdown. Such an integrated system design proposal is called Electronic Public Money (EPM) System by Yamaguchi and Yamaguchi [112, 2017].

Figure 18.17 illustrates how two separate developments of concepts since the year 2008, Chicago Plan and Blockchain Revolution, are integrated into a unified design of Electronic Public Money (EPM) system.

18.8.2 Structure of EPM System

The essence of the public money system is the separation of money creation process from commercial lending and investment activities, both of which are done by private banking sector under the current debt money system. This separation of two important functions of monetary system holds true in EPM system design. Thus, as in the original public money system, structure of EPM system is featured as follows.

- Electronic public money (EPM) as legal tender is issued at interest-free by the Public Money Administration (PMA) as public equity.
EPM is put into circulation to sustain economic growth and welfare at interest-free.

It is worth remarking here that the second structural feature of the public money system explained in Section 18.5.2 is missing; that is, "100% required reserve ratio is held for demand deposits". Under the EPM system, payments can be done directly between peer-to-peer parties with electronic cash. Under such system, payments by deposit transfer become less and less needed. Consequently, bank deposits are expected to gradually lose its dominance as chief means of payment, making the second feature of the public money system less irrelevant over time. Even so, nation’s financial system will remain the same in a foreseeable future under the EPM system as in the original public money system until a full transition to the EPM system is completed. Accordingly, it is fair to say that, as long as demand deposits exist,

- Commercial banks are required to hold money against every demand deposits (100% required reserve ratio).

As a result, money in the EPM system consists of coins, notes (replacing former central bank notes) and electronic public money (EPM) all issued by the PMA.
18.8. ELECTRONIC PUBLIC MONEY SYSTEM

Issuance of Electronic Public Money

In order to facilitate economic growth and welfare, EPM is issued by the (supply side of) Public Money Administration, which plays the ultimate role of a trusted party as in the original PM system. The PMA is a public institution established under the direct supervision of the legislative branch of the government, and is responsible for managing the amount of EPM stock (supply) as discussed in Section 18.5.2. This vividly contrasts with Bitcoin whose total amount of supply is predetermined to avoid any trusted (third) party in generation of new coins, or the debt money system where deposits are endogenously created and destroyed by commercial bank loans so that money stock cannot be directly controlled even by the central bank.

Public Money Policy and Fiscal Policy

Money stock is managed by the PMA in the EPM system as public money policy. In case of fiscal deficits, a uniform tax (a new tax scheme proposed as public service fees in Remark 1 below) is increased to meet budgetary balance. This public service policy is conducted by the Ministry of Finance (MoF) in Japan, for instance, in consultation with the PMA. Increasing the tax during economic recession, however, could worsen the recession. In such a case, the PMA could issue additional money (EPM), which will be put into circulation through expansionary fiscal policy. Recall, however, that the fiscal dominance over issuance of money is avoided since any final decisions on the new issuance of money are determined independently of the fiscal needs as explicated in Section 18.5.2.

18.8.3 System Behaviors of EPM Systems

EPM system fixes the four design failures of debt money system as the original public money system is expected to address. As listed below, behaviors of the public money system discussed in Section 18.5.3 are similarly observed under the electronic public money system such as monetary and financial stability, liquidation of government debt, income equality, and environmental protection. Income inequality will be more drastically eliminated because various payment methods will be simplified into peer-to-peer (P2P) payment methods under the EPM system\textsuperscript{11}. Hence, system behaviors will be summarized as follows.

a. Stabilization of monetary system and its increased resiliency to the internal and external financial shocks

b. Liquidation of government debt within each EPM region.\textsuperscript{12}

c. Elimination of income inequality between financiers and non-financiers.

\textsuperscript{11}This point will be further discussed in the last Section 18.10.

\textsuperscript{12}As shown in Figure 18.19 below, EPM regions based on different currency are expected to emerge.
d. Environmental protection within each EPM region.

Additionally, we consider that a world-wide network of EPM systems would attain, for example, the following cross-national behaviors.

e. Acceleration of cross-boarder capital flows into socially responsible investments, and environmental projects.

f. Expansion of peer-to-peer micro-lending investments, thereby stimulating community projects and small or medium-sized business opportunities.

g. Reduction of over-indebtedness and social unrests in favor of a sustainable growth path within each EPM region.

18.9 Blockchain-based Money Classified

18.9.1 Classification of Money after the Year 2008

For identifying money of the futures, we are now in a position to classify money, specifically blockchain-based money. To begin with, we broadly define blockchain-based money as (crypto-)money created by blockchain technology that are transacted on blockchain-based payment system. This includes Bitcoin and all other types of ‘cryptocurrencies’. Since the emergence of Bitcoin in 2008, more than 1,000 different blockchain-based money have been said to be created as Altcoins (alternative coins). Bitcoin was originally referred to as "peer-to-peer electronic cash" by Nakamoto [59, 2008]. Then all these blockchain-based money began to be called digital currency, virtual currency, digital money, digital cash and cryptocurrency without much care in their usage. Unfortunately, many confusions seem to have emerged as to the usage of the words such as money and currency in cryptocurrency space. As we have classified different types of money between public money and debt money, and between legal tender and functional-money in Table 18.1, the same classification should be applied to blockchain-based money.

According to our analysis, all Altcoins are similar to Bitcoin as far as their functional aspect as medium of exchange is concerned. Therefore, they should be classified as functional-money because they are not legal tender. On the other hand, the concept of electronic public money (EPM) has been introduced as another type of blockchain-based money. These two types are positioned in the functional-money and public money columns, respectively, in our extended classification of Table 18.4 below. Yet, debt money (as legal tender) column between the two still remains blank.

Only recently, as if remaining blank spaces in the classification table are being filled in, other types of blockchain-based money have been proposed and experimented. They are central bank cryptocurrency (CBCC) and crypto-tokens. As a result, four different types of blockchain-based money are newly added into
our classification table of money: Crypto-coin, CBCC, Crypto-token, and EPM as shown in the extended Table 18.4. Let us now explore these blockchain-based money in more detail.

<table>
<thead>
<tr>
<th>Public Money</th>
<th>Debt Money</th>
<th>Functional-Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media</td>
<td>Money as Legal Tender</td>
<td>Non-metal Commodities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shell, Cloth (Silk)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Woods, Stones, etc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Metal Coinage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-precious Metal Coins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gold, Silver &amp; Copper Coins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Metal Ingots (such as Gold)</td>
</tr>
<tr>
<td>Paper Notes</td>
<td>Public Money Notes by PM Admin.</td>
<td>Goldsmith Certificates</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Central Bank Notes</td>
</tr>
<tr>
<td>Digital Cards &amp; Accounts</td>
<td>Digital Public Money (PM)</td>
<td>Digital Cash</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Central Bank Digital Currency (CBDC)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank Deposits (Credits by Loans)</td>
</tr>
<tr>
<td>(After 2008)</td>
<td>&lt; EPM &gt;</td>
<td>&lt; CBCC &gt;</td>
</tr>
<tr>
<td>Blockchain &amp; Distributed Ledgers</td>
<td>Electronic Public Money issued by PM Admin.</td>
<td>Central Bank Cryptocurrency (issued as Base Money)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- M1-backed Bank token: MUFG coin (Japan)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- M1-backed Non-Bank token: Zen token (Japan)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- M0-backed EPM token (cash)</td>
</tr>
</tbody>
</table>

Table 18.4: Classification of Blockchain-based Public and Debt Money

18.9.2 Crypto-coin

**Bitcoin as Functional-Money**

Crypto-coins, consisting of Bitcoin and Altcoins, are what is often referred to as cryptocurrencies. Before Bitcoin, electronic money (digits) stored in digital cards and other substitutes issued in exchange for currency (cash) were the only digital cash or e-cash. From our strict definition of currency and money discussed in Section 18.2, Bitcoin must be distinguished from legal tender or currency because we can refuse to accept it in payments. In this sense, it is more appropriate to regard it as "digital ingot" or "crypto ingot" generated by miners similar to gold ingot, which can only be accepted as long as both parties in transaction agree. Accordingly, Bitcoin is categorized as functional-money.

---

13 Crypto-coins could further be classified into permission or permission-less (public) types, depending on whether a validating node is required a permission to join the network. Permission-type crypto-coins allow more functionality such as higher transaction throughputs. For the purpose of this chapter, however, the distinction between these two may not be needed.

14 Debit cards and credit cards such as Visa are not digital cash. They are payment instruments used in exchange for deposits at banks through card-issuing companies (non-bank payment service providers) by transfer of bank deposits.
in the classification of money in Table 18.4, since it functions as money similar to bank deposits under the debt money system. Other crypto-coins (Altcoins), though each crypto-coin may consider different security models and consensus algorithms, are also not legal tender, and only play a role as functional-money under the debt money system.

Readers may now wonder why these crypto-coins are classified under the umbrella of debt money? For example, a new amount of Bitcoin is generated so long as a new candidate block is successfully constructed and validated by other network peers. There is no debt or any form of lending activity is involved in the process. The same principle also applies to Altcoins in general. However, as discussed in Section 18.6, the use of Bitcoin and Altcoins is very limited, and they function not as alternative monetary systems, but as supplementary payment methods under the debt money system. Hence, they are classified under debt money in the sense that they serve as "functional money under the debt money system".

The World's Top 10 Crypto-coins

Their fixed amount of supply caused by the absence of value adjustment mechanism brings about volatility of values. Many crypto-coins are observed to share the same structural challenges as Bitcoin as discussed in Section 18.6, and have been regarded as high-risk and high-return investment products. Accordingly, almost all Altcoins that we know of today are classified as functional-money. Table 18.5 lists top 10 crypto-coins, as of Sept. 2, 2017, according to their scales of market capitalization.\(^{\text{15}}\) It has been said that more than 1,000 Altcoins have been created so far and many have already disappeared from the market. Accordingly, the list of top 10 rankings continues to change quarterly. Until recently, Bitcoin has dominated more than 50% of the market capitalization.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Market Capitalization</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bitcoin</td>
<td>$76,561,792,510</td>
<td>$4,629.09</td>
</tr>
<tr>
<td>2</td>
<td>Ethereum</td>
<td>$33,622,114,919</td>
<td>$356.22</td>
</tr>
<tr>
<td>3</td>
<td>Bitcoin Cash</td>
<td>$9,769,799,507</td>
<td>$590.08</td>
</tr>
<tr>
<td>4</td>
<td>Ripple</td>
<td>$8,872,381,573</td>
<td>$0.23</td>
</tr>
<tr>
<td>5</td>
<td>Litecoin</td>
<td>$4,196,792,392</td>
<td>$590.08</td>
</tr>
<tr>
<td>6</td>
<td>NEM</td>
<td>$2,770,884,000</td>
<td>$0.31</td>
</tr>
<tr>
<td>7</td>
<td>Dash</td>
<td>$2,689,302,539</td>
<td>$0.31</td>
</tr>
<tr>
<td>8</td>
<td>Ethereum Classic</td>
<td>$1,927,363,497</td>
<td>$128.13</td>
</tr>
<tr>
<td>9</td>
<td>Monero</td>
<td>$1,925,685,092</td>
<td>$128.13</td>
</tr>
<tr>
<td>10</td>
<td>IOTA</td>
<td>$1,839,117,905</td>
<td>$0.31</td>
</tr>
</tbody>
</table>

Table 18.5: Ranking By Market Capitalization

\(^{\text{15}}\)Source: https://coinmarketcap.com/currencies/
18.9.3 Central Bank Cryptocurrency (CBCC)

The current debt money system has been examined to have built-in system design failures that cause monetary and financial instability, government debt accumulation, income inequality and environmental destruction. Hence, the electronic public money (EPM) system has been proposed as its alternative system that eliminates these system failures. Recently a new possibility of utilizing blockchain technology for nation’s settlement system is increasingly discussed and experimented by central banks around the world. Yet we have not discussed whether the design failures of debt money system could also be removed if central banks issue digital currencies (CBDC) and cryptocurrencies (CBCC). In other words, the issuance of CBDC and CBCC under the debt money system is left unanalyzed so far in this book.

To answer this question, it’s essential to define CBDC and CBCC precisely. CBDC is digital currency issued by central banks; that is, electronic digits stored in the reserve accounts at their traditional data centers. Meanwhile, CBCC is the cryptocurrency (blockchain-based money) issued by central banks through distributed ledger technology and stored in the wallets of its users along with or in replace of central bank notes. Thus, CBCC and \( M_0 \)-based EPM token (discussed below) become similar type of blockchain-based money in the sense that all EPM tokens are backed by base money under the current debt money system. Some technical proposals have already appeared to implement CBCC such as RSCoin (a permission-type blockchain)[7, 2015].

Public Money vs CBDC

From the extended classification Table 18.4 of money after the year 2008, it becomes clear that CBDC has to be discussed vis-a-vis Public Money (PM) in the original PM system, because they are based on the same media of digital numbers. PM is defined above as the money issued by the Public Money Administration (whose issuance is authorized by Congress, Parliament or Diet) under the condition of the 100% reserve ratio for demand deposits in order to remove the four system design failures of the current system.

On the other hand, CBDC is issued when central banks newly allocate deposits accounts among non-banking financial institutions, non-financial corporations and households in addition to the traditional reserve accounts currently held by commercial banks and other financial institutions. In short, anyone can open demand deposit account with the central banks under CBDC.

Then, the question we have to pose more specifically becomes the following: Can CBDC thus issued fix the system design failures of debt money system? There are three major issues, it is analyzed, that would make the actual implementation of CBDC very difficult as follows.

1. Shortage of base money (\( M_0 \)) due to the fractional reserve banking system
2. Disruptive payment services of private sectors
3. Continuing design failures of the debt money system.
The first issue occurs during the transition phase. Surely the transition from the current system to CBDC will be hindered as soon as reserves of commercial banks are dried up as the demand for conversion from demand deposits (functional-money) to CBDC (legal tender) increases. However, this hindrance could be avoided either by requiring 100% reserve ratio in advance or an additional supply of CBDC through central banks’ purchases of government securities held by commercial banks, which has similar effects on the financial market as QE (Quantitative Easing) policies have had. However, QE policy and further injection of reserves into the banking system distorts the financial markets and incur various risks such as inflation under the current system.

The second issue is related to inconvenience caused by CBDC and disruption of financial innovation. Upon transition to CBDC, ordinary depositors will have to open at least two deposits accounts: CBDC demand deposit accounts at the central bank and savings accounts at the commercial banks. Would this inconvenience be accepted by them? Another issue is that CBDC would disrupt payment services industry since central banks will process all payments done by CBDC. Indeed, this is the issue that one of the Fed Governor has already pointed out:

A central bank-issued digital currency would compete with these and other innovative private-sector products and may stifle innovation over the long run.\(^{16}\)

Let us now consider the third issue by assuming that the transition is completed irrespective of such inconveniences experienced by users of CBDC. Even so, a more fundamental question remains unsolved. Under the current debt money system, the amount of CBDC (a part of \(M_0\)) in circulation is determined by the central banks that are privately owned in many nations. Under the circumstances, CBDC would still be issued at interest and the basic structure of debt money system remains the same. To avoid this monopolistic management of currency by private parties as well as political influences on them, we contend that central banks must be placed under the control of legislative branch of the constitutional government such as Congress, Parliament and Diet, as discussed in Section 18.5.2. Ironically, this reform turns out to be the same mechanism incorporated into the public money system for maintaining price stability.

As we have examined this way, it becomes clear that CBDC cannot remove system design failures, and, consequently, its benefits are minimal in comparison to the public money system. In other words, monetary and financial stability is impossible unless the structural elements of the public money system are incorporated into CBDC.

In addition to these three issues, it should be further pointed out that CBDC could expose the vulnerability of cyber security, because it concentrates the current centralized settlement system furthermore into a single point of failure at the data center of central bank. This makes the nation’s financial infrastructure a vulnerable target by an increased number of cyber attacks and potential

terrorist attacks. In other words, CBDC will have less tolerance to external attacks and internal malfunctions than the current system.

<EPM vs CBCC>

CBCC is issued by central banks as cryptocurrency. Accordingly, it has to be compared with the blockchain-based money of EPM (Electronic Public Money) for the comparative analysis. Contrary to CBDC, CBCC uses blockchain and may avoid centralization of settlement system as in implementing CBDC. Except this point, implementation issues discussed above under CBDC apply similarly to CBCC since every demand deposits (functional-money) is not backed by base money under the factional reserve banking system, CBCC is continued to be issued by the same central bank of the debt money system.

Differences in institutional design between CBDC and CBCC become clear at this point. Commercial banks no longer need to collect time deposits for investment under CBCC, simply because all transactions will be done on peer-to-peer basis and private investors will find direct investment opportunities by themselves through online peer-to-peer investment platforms. Such peer-to-peer lending businesses are emerging by now.\(^\text{17}\) Hence, under such landscape in the coming age of blockchain, it seems desirable that the nation’s payment system such as CBCC and EPM will be run by blockchain or, more generally, by distributed ledger technology. An ultimate question then arises: Can CBCC thus issued fix the system design failures of debt money system? In other words, can monetary and financial stability, liquidation of government debt, and reduction of income inequality be attained under CBCC? The answer would be Yes, if CBCC is to be integrated into EPM for the same reason as CBDC will be merged into PM in order to attain monetary and financial stability.

18.9.4 Crypto-token

To avoid price volatility of crypto-coins, crypto-token is proposed as stable token such that one unit of crypto-token is exchanged for one unit of money stock at any time. In Table 18.4, this type of crypto-token with stability of real money is further broken down into the following three groups according to different types of money with which crypto-token is backed.

- \(M_1\)-backed Bank token
- \(M_1\)-backed Non-Bank token
- \(M_0\)-backed EPM token

\(M_1\)-backed Bank token

This is the crypto-token issued by banking institutions, and backed by money stock \(M_1\); that is, currency in circulation and demand deposits. As an example,

MUGF coin is issued by the Bank of Tokyo-Mitsubishi UFJ (MUFG), Japan’s largest bank, at an exchange rate of one MUFG coin for one Yen. According to several media reports, it is under experiment, starting May, 2017, among about 27,000 employees of the bank, and planned to be made available as early as 2019 year as a large scale experiment among 100,000 users.

Another example is the token issued by Santander, a part of the Spanish Santander Group, which is using the Ethereum Blockchain technology. Santander will be the first bank, its officials confirmed, that utilizes the existing public Blockchain for issuing digital currency (or bank token in our classification)\textsuperscript{18}.

These banks experimenting $M_1$-backed bank tokens also belong to "R3 CEV’s Consortium" that uses Ripple coin (XRP). The Consortium is said to consist of 42 Banks with combined $600$ billion market capitalizations, 8 times as big as crypto-coin market capitalizations. Moreover, 60 \% of these banks are said to be global SIFIs (Systemically Important Financial Institutions); namely, "too-big-to-fail" banks.

It is interesting to observe that these SIFIs in the Consortium were the banks which received massive bailouts from the US government after the Financial Crisis in 2008, according to the "United States Government Accountability Office (GAO) Report to Congressional Addressees, July 2011"; that is,

\begin{itemize}
  \item Citigroup Inc.,
  \item Morgan Stanley,
  \item Bank of America Corporation,
  \item Barclays,
  \item Goldman Sachs,
  \item Deutsche Bank,
  \item UBS,
  \item JP Morgan,
  \item Credit Suisse Group,
  \item Wells Fargo & Co.,
  \item Societe Generale,
  \item BNP Paribas,
  \item Dresdner Bank.
\end{itemize}

In addition, big Japanese banks and financial institution such as Mizuho, SMBC, and Nomura as well as non-Japanese HSBC are the consortium SIFI members. We predict that global token wars for issuing their own crypto-token will break up among these SIFIs sooner or later in order to enclose clients towards their own crypto-token networks. However, as long as crypto-tokens are backed by $M_1$, their stability as blockchain-based money is subject to the system design failure of boom-bust banking crisis under the debt money system.

\section*{$M_0$-backed Non-Bank token}

To avoid the volatility of crypto-coin values, another type of stable crypto-token backed by money stock $M_1$ is issued by non-bank consortium, consisting of fin-tech startups and other non-banking companies. For instance, Zen token issued by the Japanese non-bank consortium called Blockchain Collaborative Consortium is now under experiment.\textsuperscript{20}

\section*{$M_0$-backed EPM token}

\textsuperscript{18}According to: \url{https://cointelegraph.com/news/santander-confirms-fiat-backed-token-project-on-ethereum-blockchain}

\textsuperscript{19}On Nov. 2016, Goldman Sachs, Santander and Morgan Stanley withdrew from the R3 CEV Consortium. J.P Morgan also exited the consortium by April, 2017

\textsuperscript{20}According to: \url{http://bccglobal.ja/articles/20170705.html} (last access on Sep 2, 2017).
$M_0$-backed EPM token is the third type of crypto-token, which is backed by $M_0$; that is, base money. In other words, this type of crypto-token is issued only in exchange for base money. In this sense, it is the most stable crypto-token. Practically, among two components of base money in equation (18.3), only currencies are in circulation outside of the banking system. Therefore, EPM token, which will be explained in the next chapter as a case, is issued in exchange for currencies (mainly central bank notes) at the designated exchangers who are, in turn, obliged to keep these exchanged notes at their vaults or their reserve accounts at central bank for future conversion into currency. By confining the issuance of crypto-token this way, EPM token has a functional feature of EPM itself as discussed in Section 18.8; 100% reserve ratio for demand deposits or "100% money" as described by Fisher [12, 1935]. Hence, crypto-tokens issued and backed only by base money are classified collectively as $M_0$-backed EPM token even if whichever type of blockchain technology is applied to the underlying transaction system.

EPM token is in this way introduced as a half way step towards the full implementation of the EPM system for pre-testing its safety and performances in a regional economic environment. Due to this feature of 100% money, EPM token is expected to attract steady demands as the most stable and safe crypto-token for P2P payments, compared with crypto-coins and $M_1$-backed crypto-tokens under the current debt money system.

18.10 EPM as Money of the Futures

18.10.1 Payments under EPM

So far we have illustrated 7 payment methods, (1) through (7), using system dynamics stock-flow diagrams. As discussed in sub-section 18.5.5, payment methods do not change drastically under both debt money and public money systems; that is, payment methods (1) through (6) under the debt money system as discussed in Section 18.4 remain the same under the public money system. Bitcoin payment is additionally added as peer-to-peer (p2p) payment method (7) in Figure 18.13.

What type of payment methods will be dominant when EPM is introduced then? Among these 7 payment methods (1) through (7), we pose that payment method (1) and (2) will become peer-to-peer electronic payments as physical cash are replaced with electronic means and underlying payment system evolves to achieve higher transaction volumes under EPM system.

In order for our prediction to be accomplished, EPM has to be recognized as if it is indistinguishable from cash. Indeed, success of EPM as money of the futures depends on whether we can attain its protocol that makes it close to cash payments. We examine EPM protocol separately as money system and payment system.
18.10.2 Design Configuration of EPM Protocol

(A) As Monetary System

To implement EPM world-wide as money of the futures, new EPM protocol needs to be developed. Since the introduction of Bitcoin [59, 2008], several approaches for attaining network-wide consensus on a single transaction history have been proposed such as Proof of Work (PoW), Proof of Stakes (PoS), Proof of Importance (PoI) and Practical Byzantine Fault Tolerance (PBFT). In the proposed EPM protocol design, issuance of EPM (coin generation transactions in Bitcoin) and transaction validation process must be functionally separated to overcome the technical problems that existing approaches are facing as viable system of money. Let us first discuss design configuration of EPM protocol as money system.

1. EPM Issuance EPM has to be exclusively issued by the Public Money Administration (PMA) as discussed in sub-section 18.5.2. In other words, PMA has to be the sole issuer of money, and any other network participants should not be allowed to create additional unit of account unlike commercial banks in the current debt money system and miners in Bitcoin. Hence, our first protocol requirement is that the issuance of EPM has to be solely made available by the PMA. The amount of new issuance is determined by the interplay of demand and supply between PMA and Treasury under the strict price stability objective. Once it is determined, new EPM is put into circulation through government expenditures.

2. Uniform Tax Rate Miners collect transaction fees from its users in Bitcoin protocol and payment service providers charges fees from consumers under the current debt money system. Additionally, in order for EPM to be legal tender that are widely used, the government has to accept it as tax payment. In EPM protocol we propose a uniform tax as way for collecting public service fees uniformly, and abolish all other types of taxing methods such as income tax, corporate tax and sales tax. That is to say, the government sets up a uniform tax rate as part of fees on all transactions, by building into payment protocol as public service fees by the government. The introduction of the uniform tax rate will drastically simplify the complicated tax system since it could remove bureaucratic processes necessary under the current system, saving significant amount of operational costs while increasing efficiency and reducing frauds.

As an reference level for the tax rate, the Zengin system, Japanese Banks Payment Clearing Network, handled approximately 2,800 trillion yen of domestic fund transfer in 2012, out of the demand deposit of 600 trillion yen outstanding in total. In addition, there are 100 trillion yen of Bank of Japan notes outstanding, which we assume to be used in payments for final consumption expenditure of roughly 250 trillion yen per year. Assuming that the average velocity of cash as 10 times per year, about 1,000 trillion
yen of transaction are made in cash payments. In total, about 4,000 trillion yen are used for total payments annually in Japanese economy. General tax revenues in Japan is about 55 trillion yen, and government expenditures are about 100 trillion yen. Given these rough estimates, a uniform tax rate of 2.5% would cover the current level of government expenditures without incurring fiscal deficits. Compared with 8% of the current consumption tax rate in Japan, the estimated uniform tax rate of EPM system is far smaller.

An another advantage of the uniform tax over the current system is individual privacy protection from the government as it is levied against all payments equally, eliminating the need for identification of tax payer’s personal information and possibility for tax evasion. In this sense, uniform tax under the EPM system becomes more efficient, transparent and fair.

3. Circulation Adjustment Rate One of primary objectives of public money policy under EPM system is price level stability as discussed in section 18.5. To achieve this, an appropriate policy tool becomes necessary to adjust the amount of EPM in circulation. Whenever the economy is deemed inflationary, the PMA is responsible for withdrawing a portion of EPM in circulation by raising circulation adjusting rate, and pull back excess supply of EPM to the national currency vault (digital wallet of the PMA).

4. Anonymity Under existing payment method with physical cash, anonymity is guaranteed: parties involved in the transaction can keep related information private such as who paid to whom, when and how much. The privacy of transaction payments has to be similarly guaranteed if EPM were to be used as money of the futures.

Comparing with the level of anonymity and privacy with cash, many existing blockchain applications could reveal meta data around transactions. For instance, the amount of payments can be easily identified by tracing records and meta data analysis can be performed on the public blockchain. We propose that EPM protocol must provide the same level of anonymity and privacy as cash payments.

(B) As Payments System

So far we have discussed the requirements of EPM protocol as a monetary system. For the EPM to be used as money of the futures, it also has to be convenient and safe as a payment system. These protocol requirements are different from those of monetary system and are more of technical specifications. We propose here three technical requirements of EPM protocol as payment system.

5. Low Transaction Latency Cash payments can be done instantaneously peer-to-peer in a few second, meanwhile credit card payments may takes a month. International remittance by SWIFT may take a couple of days, though it could be shortened into a couple of hours in the near futures.
Compared with latency in the current payments, EPM payment has to be as fast as cash payment. Otherwise, consumers and its users would not switch to EPM payments.

6. **Transaction Scalability** Payment transactions in countries with high population density become very large. For instance they may be more than few thousands of transactions per second (tps) in Japan at a peak level. If EPM is to be a nation-wide payment system, high level of scalability has to be provided at the payment system level.

7. **Security** EPM has to be safely stored in every wallets as store of value like gold, and be transferred among every users. It also includes security against cryptanalytic attacks and quantum resistance.

We have now proposed seven requirements of EPM protocol. As in the original public money system, the PMA under the EPM system also has to be managed independently but in a perfectly democratic and transparent way to avoid the concentration of power. This includes the comprehensive disclosure of all information related to monetary policy decision process (conditions C1 and C2 discussed in Section 18.5.2). Thus, the EPM protocol must be carefully designed both as monetary and payment systems. For this purpose, the above proposed protocol may not be enough, especially when it is to be used across

---

**Figure 18.18: A Network within a Single EPM Region**

---
EPM regions. Figure 18.18 only illustrates payment system of a single EPM region in which the issuance of money is centrally administered by the PMA node(s).

**Remark 1: EPM Regions**

The effective region of EPM spans across physical borders of nation-states. Transactions of EPM can be made available everywhere on the planet as long as its users accept each nation-state’s EPM just as central bank notes today are used everywhere in transactions with cash. Gradually, EPM regions of all nationality begin to emerge world-wide. Figure 18.19 illustrates how each EPM region starts to emerge and begin to overlap as if diverse colors of floral petals open up internationally.

![Figure 18.19: A Network of Worldwide EPM systems](image)

**Remark 2: Foreign Exchange Markets**

Under the EPM system, anyone who wishes to sell or buy foreign currency may well be able to exchange on a peer-to-peer basis. In this sense, the current foreign exchange markets will expand even to individuals who previously had no choice but to pay unnecessarily high transaction fees to the foreign exchange service providers. How should such foreign exchange services be smoothly handled across different EPMs? This becomes another important foreign exchange protocol of EPM. Yet, EPM protocol of foreign exchanges required is left undiscussed here, simply it is beyond our capacity at this moment. Therefore, we’d like to call for World-wide EPM System Forum, instead, to agree such foreign exchange protocol of EPM payment system.
Conclusion

In addition to the overviews of money creation under the current debt money system and newly proposed public money system, this chapter identified four different types of blockchain-based money since the year 2008; Crypto-coin, CBCC, Crypto-token and EPM, and expanded the previous classification of money in Chapter 5.

Then, it is analyzed that all blockchain-based money except EPM are directly or indirectly dependent on the fractional reserve banking system that entails structural defects such as monetary and financial instabilities, government debt accumulation, income inequality and environmental destruction. The distinction between public money and debt money is particularly emphasized to clarify the need for and benefits of structural reform towards the public money system, which is designed to fix these system-driven problems. Then, an integrated design of electronic public money (EPM) system is proposed, which is designed to fully utilize the benefits of public money system by applying blockchain technology. Finally, we proposed seven design configurations of EPM protocol for EPM to become truly money of the futures. This chapter is concluded by calling for the advancement of design configuration and implementation of a world-wide EPM systems openly and inter-disciplinarily among blockchain developers, cryptography researchers, system engineers, economists as well as policy makers.

World-wide EPM System Forum
— as Money of the Futures —
Bibliography


Index

100% Money Plan, 370

Accounting System Dynamics, 78, 80, 84
Adam Smith, 41–43, 61, 63, 64, 375
Adaptive Expectations, 31
Aggregate Demand Equilibria, 210, 216, 225, 232
American Monetary Act, 371
AppleSeed Enterprises, 84
Aristotle, 375
Auctioneer, 41, 45–50, 52–54, 56, 63, 68
Balance of Payments, 309, 312, 326, 328
Bank Loans, 110
Bank of England, 375
Bank Reserves, 449
Base Money, 152
BRICS, 464
Business Cycles, 110, 118, 120, 189, 258, 259, 288, 355
Capital Flow, 318, 326
Capitalist Market Economy, 106, 108
Chaos, 48, 54, 56, 60–63
Chicago Plan, 370, 371, 419, 420, 436
Co-worker Index, 464
Cobb-Douglas production function, 270
Consumption Function, 245
Cost-push Force, 277
Cost-push Price, 289
Credit Creation, 373
Credit Crunch, 123, 260, 356
Currency Ratio, 140, 141, 155, 157, 162, 174
Current Account, 322
Debt Crises, 364
Debt Money, 134, 135, 366, 375
Debt Money System, 395, 398, 448
Debt-GDP Ratio, 365, 369, 383–385
Defaults, 368
Dennis Kucinich, 371, 486
desired wage rate, 275
Discount Loans, 246
Dollar Standard, 367
Double entry rule, 77–80
Economic Recovery, 193
Efficient Markets Hypothesis, 371
Employment, 451, 453, 462, 508
Endogenous Government Expenditures, 209
Exponential Decay, 20
Exponential Growth, 16
Federal Reserve Act, 375
Federal Reserve Statistical Release, 365
Financial Account, 324
Financial Meltdown, 368
Financial Stability, 452
Financial Statements, 96
Fiscal Policy, 222
Fixprice Disequilibria, 258, 287
Foreign Investment, 317, 319, 324
Forrester, iv, v
Fractional Reserve Banking System, 138, 145, 157
Full Capacity Aggregate Demand Equilibrium, 285
George Berkeley, 375
Gold Standard, 366
<table>
<thead>
<tr>
<th>Term</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold-Dollar Standard</td>
<td>366</td>
</tr>
<tr>
<td>Goodwin Model</td>
<td>114</td>
</tr>
<tr>
<td>Government Debt</td>
<td>263, 294, 382, 384, 400, 401, 453</td>
</tr>
<tr>
<td>Great Depression</td>
<td>369</td>
</tr>
<tr>
<td>Greed</td>
<td>434, 435, 441</td>
</tr>
<tr>
<td>Green Village (MuRatopia)</td>
<td>459</td>
</tr>
<tr>
<td>Gross National Happiness</td>
<td>463</td>
</tr>
<tr>
<td>H.R. 2990</td>
<td>372, 486</td>
</tr>
<tr>
<td>H.R. 6550</td>
<td>371, 486</td>
</tr>
<tr>
<td>High-Powered Money</td>
<td>141</td>
</tr>
<tr>
<td>Historical Time</td>
<td>41, 45, 50, 53-55, 57, 63, 64</td>
</tr>
<tr>
<td>Human Development Index</td>
<td>463</td>
</tr>
<tr>
<td>Hyper-Inflation</td>
<td>368</td>
</tr>
<tr>
<td>Income Inequality</td>
<td>441</td>
</tr>
<tr>
<td>Inequality</td>
<td>454</td>
</tr>
<tr>
<td>Inflation</td>
<td>414</td>
</tr>
<tr>
<td>Information Delays</td>
<td>30</td>
</tr>
<tr>
<td>Interest</td>
<td>183, 184, 186, 187, 449</td>
</tr>
<tr>
<td>Inventory Coverage</td>
<td>288</td>
</tr>
<tr>
<td>Investment Function</td>
<td>243</td>
</tr>
<tr>
<td>Irving Fisher</td>
<td>420, 430, 445</td>
</tr>
<tr>
<td>IS-LM</td>
<td>206, 209, 232</td>
</tr>
<tr>
<td>Keynes</td>
<td>375</td>
</tr>
<tr>
<td>Keynes Adjustment Process</td>
<td>202</td>
</tr>
<tr>
<td>Keynesian Model</td>
<td>200, 208</td>
</tr>
<tr>
<td>Keynesian Revolution</td>
<td>369</td>
</tr>
<tr>
<td>Labor Market</td>
<td>275</td>
</tr>
<tr>
<td>Lehman Brothers</td>
<td>363, 364, 371</td>
</tr>
<tr>
<td>Liquidation of Government Debt</td>
<td>390, 410</td>
</tr>
<tr>
<td>Liquidation Trap</td>
<td>404</td>
</tr>
<tr>
<td>Logical Time</td>
<td>41, 45, 46, 50, 53-58, 63</td>
</tr>
<tr>
<td>Logistic Chaos</td>
<td>37</td>
</tr>
<tr>
<td>Lorenz Chaos</td>
<td>34</td>
</tr>
<tr>
<td>lost science of money</td>
<td>375</td>
</tr>
<tr>
<td>Material Delays</td>
<td>29</td>
</tr>
<tr>
<td>Maximum Tolerable Inflation</td>
<td>393</td>
</tr>
<tr>
<td>Missing Loops</td>
<td>331, 340</td>
</tr>
<tr>
<td>Monetary and Financial Instability</td>
<td>436</td>
</tr>
<tr>
<td>Monetary and Financial Stability</td>
<td>443, 462</td>
</tr>
<tr>
<td>Monetary Constraints</td>
<td>429, 440</td>
</tr>
<tr>
<td>Monetary Goodwin Model</td>
<td>121, 189</td>
</tr>
<tr>
<td>Monetary Policy</td>
<td>220</td>
</tr>
<tr>
<td>Monetary Stability</td>
<td>440, 451</td>
</tr>
<tr>
<td>Money Issuer</td>
<td>448</td>
</tr>
<tr>
<td>Money out of Nothing</td>
<td>381, 399</td>
</tr>
<tr>
<td>Money Supply</td>
<td>432, 434, 449</td>
</tr>
<tr>
<td>Mundell-Fleming Model</td>
<td>330</td>
</tr>
<tr>
<td>MuRatopian Economy</td>
<td>viii, 64, 455, 458</td>
</tr>
<tr>
<td>National Income Identity</td>
<td>316</td>
</tr>
<tr>
<td>National Model</td>
<td>vii</td>
</tr>
<tr>
<td>NCF</td>
<td>317, 318</td>
</tr>
<tr>
<td>NEED Act</td>
<td>371, 486</td>
</tr>
<tr>
<td>net cash flow</td>
<td>109</td>
</tr>
<tr>
<td>Nominal wage rate</td>
<td>275</td>
</tr>
<tr>
<td>Official Intervention</td>
<td>328, 329</td>
</tr>
<tr>
<td>Okun’s law</td>
<td>289</td>
</tr>
<tr>
<td>Open Macroeconomies</td>
<td>335, 336, 354</td>
</tr>
<tr>
<td>Open Market Operations</td>
<td>173</td>
</tr>
<tr>
<td>Oscillation</td>
<td>28</td>
</tr>
<tr>
<td>Overshoot and Collapse</td>
<td>27</td>
</tr>
<tr>
<td>PASD</td>
<td>78, 80, 84, 102</td>
</tr>
<tr>
<td>Phillips curve</td>
<td>290</td>
</tr>
<tr>
<td>PMA</td>
<td>388, 390, 406, 408-410</td>
</tr>
<tr>
<td>possession</td>
<td>456, 457</td>
</tr>
<tr>
<td>Price Flexibility</td>
<td>225, 229, 234, 266, 297</td>
</tr>
<tr>
<td>Production Function</td>
<td>269</td>
</tr>
<tr>
<td>Public Money</td>
<td>135, 374, 386</td>
</tr>
<tr>
<td>Public Money Administration</td>
<td>388, 408</td>
</tr>
<tr>
<td>Public Money Index</td>
<td>464</td>
</tr>
<tr>
<td>Public Money Policy</td>
<td>393, 412</td>
</tr>
<tr>
<td>Public Money System</td>
<td>405, 410, 439, 448, 460</td>
</tr>
<tr>
<td>Pure Exchange Economy</td>
<td>56, 66</td>
</tr>
<tr>
<td>quantity theory of money</td>
<td>374</td>
</tr>
<tr>
<td>Random Walk</td>
<td>15</td>
</tr>
<tr>
<td>Ratio Analysis</td>
<td>98</td>
</tr>
<tr>
<td>re-unification</td>
<td>455, 456, 460</td>
</tr>
<tr>
<td>Real Interest Rate</td>
<td>243</td>
</tr>
</tbody>
</table>
Real Money Supply, 208, 228, 239
Recession, 385, 413
Reserve Ratio, 140, 152, 156, 162
Retained Earnings, 112
RFE, 337
Runge-Kutta Method, 2nd-Order, 12
Runge-Kutta Method, 4th-Order, 15
Runge-Kutta Methods, 39
Securities, 112
Sensitive Dependence on Initial Conditions, 35
Spend Less, 384, 402
Steady-state Equilibrium, 116
Step Down, 415
Strange attractor, 35
Sustainability, 196, 454, 463
System Dynamics Adjustment Process, 205
System Sensitivity, 444, 445
Systems of National Account, 359
Tax More, 384, 402
The Wealth of Nations, 41, 375
UIP, 317
Unemployment, 403
Vault Cash, 152, 155, 156
Window Guidance, 260, 290, 292