



Jaime Pozuelo-Monfort

*The Multidisciplinary European*¹

<http://j.pozuelo-monfort.com>

DECEM: FINANCIAL ALTERNATIVES FOR DEVELOPMENT AID (9)

*Monfort: the virtual global currency*²

The history of money dates back from the old days when barter preceded the buy and sell of goods in exchange of coins that were worth the monetary value they represented. Money is an abstract concept that we handle on a daily basis in a variety of transactions, without being aware of what it would be of our existence without it. Money allows to save and as a result to transfer monetary flows over time. Money transforms effort into coins and notes and allows to work today for the joy of tomorrow, turning our dedication into a monetary flow we can accumulate, transfer and spend anywhere anytime. As a second-generation payment vehicle, money enjoys structural features that barter lacked, faltering in many other aspects that we explain hereafter.

Many speak of the end of coins and notes as a means of payment, and predict a medium term future in which we will pay with electronic money in all of its varieties, an outcome perhaps feasible in the more advanced societies in which a majority of the population can access a current account. Access to basic financial services is an almost universal right that not everyone is granted, particularly in developing countries. Not being able to access basic financial services withdraws us from the possibility of transforming our effort into money, exempts us from the opportunity of moving forward on our own, and expropriates us the ability to become economically self-reliant. The third generation of payment vehicles is related not only to electronic money, but also to a currency immune

¹ About the author: Jaime Pozuelo-Monfort graduated from *Universidad Politécnica de Madrid* in 2000 with a master's and a bachelor's in telecommunications engineering, having also studied two years as an exchange student at *Telecom Paris* and *Universitat Stuttgart*. Subsequently he earned master's degrees in business administration from *College des Ingenieurs* in Paris, in financial economics from *Universidad Carlos III de Madrid*, in financial engineering from the *University of California at Berkeley*, and in economic development from the *London School of Economics*. He currently pursues a master's in public administration at *Columbia University*, and will start a master's in international law and politics at *Georgetown University* at this fall. He has worked in the technology sector in Madrid, Stuttgart and Paris, and in the financial industry in New York City and London. His interests lie in the interaction between financial economics and economic development. In addition he is a columnist in written and electronic press. He speaks English, French, German and Spanish fluently, and has a beginner's level in Arabic, Italian, Portuguese and Russian.

² This is the ninth article of the decem series, a series of ten articles fundamentally innovative that aim at the proposal of alternative financial mechanisms to considerably raise the amount of funds available for development in the third world. Throughout the series, the author will stress the implementation aspects of the suggested ideas and will propose arguments for and against.

to speculation, arbitrage, depreciation and hyperinflation, accessible to whomever is willing to save, and available to the poor in a majority of developing countries.

To speak about basic financial services should include an explicit mention to the currency in which money is saved. Currency is not a synonym of money. Money is a global concept. Currency is a magnitude that quantifies the amount of money available. We can extrapolate the concept of money to another magnitude such as weight. Weight is a global concept that requires the use of units to be understood. We can use kilograms in Europe or pounds in the United States. Both kilograms and pounds represent weight, existing a one-to-one relation between both. It does not matter whether we express weight in kilograms or pounds, for in any case, 9 kilograms will always be 20 pounds and vice versa. Money, however, suffers from human indecision and economic fashion. In certain financial times the relation between the pound and the dollar was intrinsic and as a result fixed, while nowadays this relation, known as exchange rate, is variable or floating. Remember the example introduced beforehand. Imagine that today 9 kilograms are equivalent to 20 pounds, but that tomorrow this equivalence can change. Perhaps by flying from Paris to New York, may you lose some weight if the intrinsic relation between the kilogram and the pound is subject to change, or perhaps may you lose so much weight that your life is at risk. This paradox is unusual in so many magnitudes such as weight or height, but surprisingly holds in the case of money, that allows for the existence of variable or floating exchange rates between two different currencies, with the corresponding impact described in what follows.

A BRIEF OVERVIEW OF THE GOLD STANDARD

Since the creation of the International Financial Institutions in the summit of Bretón Woods that took place in 1944 under the umbrella of the allied forces in the Second World War and carefully prepared by British economist John Maynard Keynes, it was determined that the exchange rate between any two currencies would be fixed and determined by the amount of gold reserves each country would have deposited in its Central Bank. Any time the bearer of a dollar-note could demand the equivalence in gold that would be provided in exchange of the dollar-note. This type of economy based upon the invariable value of money is known as keynessian, in deserved recognition of its parent. We show next a 20-dollar note from 1905 in which the owner could exchange it for gold, as it is indicated in its very bottom *payable to the Bearer upon demand*.



It was in 1971 when the United States of America decided to abandon unilaterally the gold standard, in a time of economic turmoil brought about by the unexpected rise in the price of oil. As the largest economy in the world, the decision of the United States triggered a chain reaction that meant the definitive goodbye to the gold standard and the adoption of floating exchange rates, in which the value of a currency varies with respect to another as a function of a number of macroeconomic variables that determine the economic stability of a country. Floating or variable exchange rates let a country establish its own economic policy, utilizing powerful tools such as interest rates and depreciation, that enable the reactivation of the economy in times of economic crisis. When the currency of country A depreciates against the currency of country B, the products of country A become more competitive and easier to export, whereas the products of country B, whose currency appreciates, become more expensive and as a result less competitive. Only a few hesitate about the convenience of the current system of floating exchange rates, particularly in the first world, where we have learned to live with it and we take advantage of its virtues, underestimating its collateral damage to a larger extent if it does not impact us, or does so in a minor way.

INCONVENIENCE OF FLOATING RATES

From the perspective of a developing country that lacks a strong Central Bank with the ability to control and defend the stability of its currency against other stronger currencies such as the dollar, the pound or the euro, floating exchange rates represent an important risk that anyone should carefully watch out for.

The phenomenon of globalization and the forced opening of borders to international monetary flows in the context of the negotiation rounds of the World Trade Organization make local currencies in the developing world an easy target within the scope and reach of financial speculators, that prefer the short-term and fulfill their hunger for profit gambling against the rise or fall of the local currency, oftentimes triggered by the financial gossip and the activity of Western investors. The depreciation of the currency renders too expensive goods that were reasonably priced beforehand. The depreciation of the currency and the ever-growing specialization that the rich world imposes on the poor following on economist David Ricardo's postulates, stops many countries from being capable of accumulating in advance the stock of raw materials

aiming at feeding a hungry population that lacks basic infrastructure, while in the meantime Europe and the United States, with its protectionist policies in the agricultural sector, stop many developing countries from literally flooding their markets with produce whose cost would be well below the subsidies granted by the uncompetitive agricultural industry of the West.

A bad and irresponsible mismanagement of a local currency leads to hyperinflation and the almost immediate loss of value in the money that many would dream of saving in other circumstances. As a result what was worth one before is now worth one hundred. The control of inflation so cautiously undertaken in the industrialized nations is oftentimes a battle for developing economies, that cannot, that do not reach to set up and implement appropriate monetary policies leading to monetary and fiscal stability, and to growth fostering local economic development, so oftentimes needed.

Consequently exchange rates harm the developing world, increasing the economic instability of poor countries, whose population is punished with the shocks in the economy, that force them into one-way streets, in which on an aggregate and global basis all are negatively impacted, although myopically, temporarily and locally there are a handful of speculators that catch the prey and return home with a full basket.

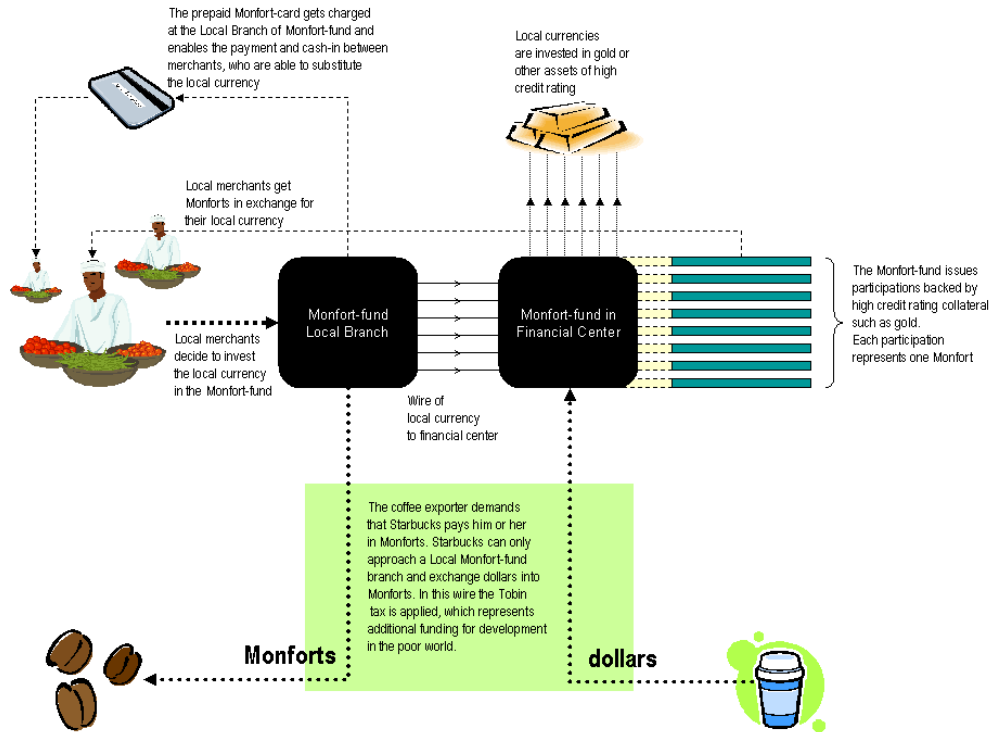
A VIRTUAL GLOBAL CURRENCY IN EXCHANGE OF THE GOLD STANDARD

Information technologies and the minituarization of technology allow as of today for the implementation of a virtual currency with the potential of providing the poor with basic financial tools and monetary stability. In a world of Internet, wireless communications, mobile telephony and connectivity, in a world of more economical laptops and increasing technological penetration in developing countries, it is feasible to foresee the creation and setting up of a global virtual currency (Monfort hereafter) allowing the poor to save without being exposed to speculative attacks disguised as financial trades coming from the financial hubs, a currency with the ability of bringing the poor tranquility and peace of mind, allowing them to transform their effort into money they can store, transfer or spend.

The come back to the fixed exchange rates gold-standard is not a utopic dream. A proposal that contemplates the creation of the Monfort is economically feasible and technically implementable. The creation of the Monfort as an exchange currency and use among the poor, will allow them to operate a current account in a context of stability similar to saving in a strong currency such as the dollar or the euro, without being exposed to the felonies of Western speculators or pirates of a heartless capitalism.

The implementation mechanism is simple, powerful and robust, as it is indicated in the figure shown next. In the operative an investment fund is set up in each country where the Monfort is to be available. The investment fund raises funds from those individuals willing to save, returning in exchange participations denominated Monforts. The Monfort is a virtual as well as private currency. The entity operating the Monforts would own the monopoly of the currency and is free to restrain access to individuals and institutions from the industrialized world. Contrary to other investment funds, the *Monfort-fund* does not borrow any funds or undertake any leverage, investing the local

currencies in assets of high credit rating and consequently low probability of default. In exchange of the initial investment, the individual in the developing world receives a number of participations in the fund, each of which would have an intrinsic value linked to the market value of the assets in which the *Monfort-fund* invests.



Such an operating procedure has fundamental advantages for the individual in the developing world, who oftentimes lacks collateral, who frequently is unable to open a bank account because commercial banks do not consider appropriate to render a service that, before their eyes, is not financially profitable. The adoption of the Monfort would incorporate the following advantages in the daily lives of millions of poor around the world:

1. Elimination of monetary arbitrage and currency speculation, granting financial robustness to the virtual currency and eliminating depreciation risk.
2. Protection from hyperinflation risk of the individual who invests and as a result saves in Monforts.
3. Setting up of a Tobin-like tax, that charges a commission to individuals and institutions in rich countries for operating in the currency of the poor. This mechanism allows to cash in the tax asymmetrically, so that it is only applied in one of the two directions of exchange.
4. Last it allows for the opening of a current account and the payment and cash in of money through a prepaid card with the name of *Monfort-card*, that eliminates the necessity of printing notes and coins of the local currency, and provides the poor in the developing world electronic money in the form of a prepaid card.

THE TOBIN TAX: A HISTORIC DEMAND OF THE POOR

James Tobin was a popular economist, internationally known for its simple proposal of taxing international financial transactions dealing with exchange rates. The Tobin tax has been for ages a matter of frustration and discussion among anti-poverty groups, who seek to penalize the negative impact that the pirates of heartless capitalism cause in the poor world, speculating and destabilizing currencies, countries and societies.

The creation of a new virtual currency enables the implementation of the Tobin tax in a surprisingly easy way without having to ask the larger commercial banks of the West what they think in this regard. The Monfort inverts the asymmetry of the economic power, in the hands of the West, and grants relevance to the inhabitants of the developing world.

If the Monfort was massively adopted by the poor, a coffee exporter in Brazil could demand the importer based in Europe or the United States to be paid in Monforts in exchange for the merchandise. If this were the case, the importer that could be Nestle or Starbucks, should deposit in the coffee exporter's current account the negotiated amount in Monforts. At the time of the exchange rate from euros or dollarts to Monforts, the entity operating in Monforts would establish the payment corresponding to a tax that would amount to a 0.5% or a 1% of the total wire. Nestle or Starbucks could only exchange euro or dollar into Monforts because the coffee exporter would only accept to be paid in Monforts.

The cash-in of the Tobin tax would be asymmetrical. The exchange from Monforts to a local currency in a developing country would not incorporate the Tobin tax., in such a way as to let the coffee exporter exchange the Monforts into Brazilian reais without being charged a commission at the time of undertaking the conversion mechanism.

AN ANTI-POVERTY TOOL

The *Monfort-fund* would invest the savings of the individuals in the developing world in assets of high credit rating. We can simplify the scenario and think that the *Monfort-fund* would only invest in gold. Each participation in the *Monfort-fund* that we have denominated Monfort, would have its associated value invested in gold. It is a stable investment, with a minimum depreciation or appreciation vis a vis the euro or the dollar.

As a result the individual in the developing world can accumulate money in the form of Monforts, a currency that does not appreciate or depreciate significantly vis a vis the dollar or the euro, a currency that maintains its value, a currency that does not suffer from hyperinflation episodes because it is not impacted by macroeconomic policies of the bad-performing local central banks, that oftentimes follow supposedly austere macroeconomic criteria, imposed by an institution known as International Monetary Fund, anchored in the past century, that plays less and less of a relevant role in the financial reality of the southern half of the globe.