

## **“The Future of Money – How the Digital Revolution is Transforming Currencies and Finance” by Eswar S. Prasad: A Book Review**

**Swayam Prava Mishra**

*Department of Analytical & Applied Economics,  
Utkal University, Bhubaneswar, Odisha, India  
Email: swayampravamshr@gmail.com*

**In the words of Crowther, “Money may be defined as anything which is generally acceptable as a medium of exchange and at the same time acts as a measure and store of value”.**

In the book “Money: The Unauthorised Biography” economist and fund manager Felix Martin revisits the history of money and finance and comes with a powerful argument i.e., the inability to understand the nature of money lies at the root of our inability to govern finance. As economists have continually stated that money changed barter to emerge as the greater handy facilitator of change and a frequent measure of value. Martin disputes that view by displaying that even in the historical world, items and offerings have been exchanged habitually on credit. Money solely served as a device for clearing accounts. As the economic society evolved, money developed into its current structure as “transferable debt”<sup>1</sup> and the present-day financial institution was born, and with it, the first shadowy economic gadget emerged.

Money’s political position was left out regardless of warnings from the rebels in the profession, such as the nineteenth-century economic journalist Walter Bagehot and the amazing twentieth-century thinker John Maynard Keynes. The Bagehot-Keynes subculture should be revived, and the ethical underpinning of economics ought to be restored if we are to rescue ourselves from the modern economic mess, Martin persuasively argues. Financial stability, in Martin’s worldview, is an honest social order and the value of money to consequently be calibrated with preserving democratic pursuits in mind.

Similarly in the book “New Money: How Payment Became Social Media”, Lana Swartz gave a new imaginative and prescient of money as a communication technology that creates and sustains invisible-often exclusive-communities. Payment systems-cash, cards, apps, or Bitcoin-are informational and symbolic equipment that combine us into, or rule

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<sup>1</sup> It is a way of keeping account of what people owe each other while allowing them to transfer their various "IOUs" to others.

out us from, the society that surrounds us. Examining the social politics of financial technologies, Swartz displays what is at stake when we pay. This handy and insightful evaluation comes at a second of disruption: from fin-tech startups to cryptocurrency schemes, a range of applied sciences are poised to unseat the usual monetary infrastructures. Swartz explains these changes, traces their longer histories, and demonstrates their consequences. She indicates simply how vital these invisible structures are. New varieties of money create new types of identity, new varieties of community, and new types of power.

With the evolution of technology, the world today envisages new forms of money. The term e-money or digital money is the most talked about thing in all financial dailies. There are a lot of research going on since the introduction of cryptocurrency in the world. Numerous types of research have cast possibilities as well as challenges that these new financial instruments pose. Prasad (2021) in his book “**The Future of Money – How the Digital Revolution is Transforming Currencies and Finance**” tried to attempt to answer certain questions pertaining to the digital transformation of currencies and finance.

This book consists of four parts. The first, “Laying the Bedrock” talks about the changing dimensions of money and finance giving a basic introduction to the theme. The second part, “Innovations” looks at the cryptocurrency, its evolution, and limitations. The third part is on “Central Bank Money” which speaks about the Central Bank Digital Currencies (CBDCs) and the fourth part, “Ramifications” says the probable consequences of the digital transformation for the International Monetary System.

In the “Money and Finance – The Basics” chapter the author described the functions and forms of money, the role of trust in the functioning of central banks and commercial banks, the concept of financial inclusion, shadow finance, and gaps in inclusion. The fact that banks are profit-making institutions gets reflected in the collaterals being used against loans and how the role of central banks becomes crucial in managing interbank payment systems.

In the second part of the book, Prasad questions if Fintech can make the world a better place. He starts with ATMs, debit cards, and mobile money as the Innovations in the Fintech industry. Fintech lending is seen as a mixed blessing with a rise in the market share in developed markets like the US mortgage market, yet jeopardizing the financial system with the financial risk posed by the online platforms in developing nations.

Blockchain technology is seen as transformative with decentralization of the validation process. The author gave a detailed explanation of how the blockchain works, from its historical origins to the technology underlying the system.

With the advent of cryptocurrencies like Bitcoin, the fintech market sets a new revolution. Bitcoin uses a ‘Proof of Work’ protocol to get its validation and immutability objectives. It needs miners who are block creators in order to solve a cryptographic problem that is randomly generated. There is no third-party validation that is needed. However, there is a lot of electricity consumption for the operation of the computers which is a downside to bitcoin usage. Apart from it, Bitcoin’s use is also made for illegal commerce like terrorism financing, money laundering, and human trafficking. For all its flaws, Bitcoin still dominates the crypto market.

In Chapter 5, the author gives an account of another cryptocurrency named Ethereum. It is based on the ‘Proof of Stake’ protocol which was developed due to the inefficiencies and cost of ‘Proof of Work’ protocols. In this case, the privilege of validating a block is based on how much has been “staked” by competing nodes. However, this approach encourages hoarding and is not effective as thought.

Prasad details the various other cryptocurrencies (like Monero and Zcash) which were introduced to maintain anonymity using more sophisticated technologies. However, the research shows that there is traceability and the guarantee of true anonymity is lost in most cases. The book provides an overview of the new terminologies in the crypto market like Smart contracts, Initial Coin Offerings (ICOs), Stablecoins, Security Token Offerings (STOs), and Hashed Time Locked Contracts (HTLCs) and encourages readers for doing a comparative analysis of the innovations for better profitable investments.

There is no uniformity so far as the regulation of cryptocurrencies is concerned. There are countries like the US where it is regulated and subjected to tax laws. Then comes the nations which have banned the use of the cryptos like China and India. And finally, countries like South Korea passively discourage the use of cryptocurrency although not banning it straightaway.

The third part of the book gives an exposure to the Central Bank Digital Currencies (CBDCs). At a conceptual level, a CBDC is a fiat currency issued by a central bank in digital form as a complement to or in place of a physical currency. Prasad offers a brief account of the benefits and costs attached to CBDC. He opines it would lead to transactional efficiency, financial inclusion, curtailing of shadow activities, and improving monetary and fiscal policy. However, as with innovation comes risks, so also CBDC is prone to technical vulnerabilities, hacking, and coming in stiff competition with the private sector for retail payment services.

The author ventures into some European nations and analyzed how the shadow economy was captured and tax revenues rose due to regulations pertaining to less use of cash. Each nation is buckling up for the introduction of its own CBDC with various perceptions and

views in mind. Some central banks see it as a tool for money creation, some for promoting financial inclusion, and some for warding off the dangers of shadow financing. Will the advent of CBDC lead to more chaos and complex legalities? Will the countries with an authoritarian government make CBDC a means for political and social control? Will the innovations in financial technologies widen the income inequality already persisting among all nations of the world? These are questions to be discussed and deliberated in due course as the CBDC come in full form across the nations.

Global financial stability matters a lot for domestic financial stability. So, in the last part of the book the author talks about the ramifications for the International monetary system. Post global financial crisis of 2008-09, the central banks are entrusted with financial stability along with the macro-economic objective of inflation targeting. New financial technologies and Innovations allow banks and NBFIs to expand their operations beyond national borders. However, the risks associated with regulation are immense. Simply switching to a digital version of a fiat currency with no changes in the underlying policies and regulations will not lead to financial stability and freeing a nation of its evils.

The *Future of Money* gives its readers an opening to some of the possibilities and threats for the financial sector as the world transits from a cash economy to a digital economy. It provides a wide-ranging account of the experiences of various nations and is beneficial for all those researchers working in the area of money and finance.

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