Mobile Macro-Economics

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- EN, CITI, Columbia, NYC.
- Citi has no relationship with the bank. The big difference is that we do not get billions of dollars in government support. Maybe we would get it if we were a for-profit company.
- CITI is a research center on the economics, business, strategy, and policy of media and communications. First at a major b school. 26 years, 65 or so books. About a dozen conferences a year.
- 2 weeks ago: state of broadband in America and Europe
- In 4 weeks: broadband and the smart grid—the convergence of electrical power grids and telecom.

Thanks. Jason, Loy, Bailey, and in particular, Jim Alleman,
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And in particular, Jim Alleman

I am the director and make the opening talk. But I have always avoided making this a ceremonial occasion, and instead chosen to set some of the issues, thoughts, and perspectives of the topic at hand.
By now, most of the people in this room have heard the basic story, many times.

The basic story comes in 3 chapters—
1. woe us. many poor people and poor countries are unbanked, which retards economic development in the aggregate and economic participation individually.
2nd chapter: hope is on the way, in the form of mobile phones
3rd: sure there are problems, and here is how one company, one country, one bank deals with them.
A happy ending.

All this is true.
But the interesting question is not so much how to get to full human electronic and financial connectivity. That’s happening, and if it takes 4 years longer or faster, that’s not a big deal in the bigger order of things.
What is really important, however, is what happens when we get there. When we get what we wish for.
• I do not mean to be negative at all. I’m an enthusiast.
• Exactly because M-finance will have such big impact, it will have consequences beyond convenience.

• We typically Overestimate the short term but underestimate the long term.
• So M-finance will not only change the mechanics in which we bank, but the banking sectors and monetary and regulatory policy as a whole.

Cashless Society?

Smart Cash

Weakening Tools of Monetary policy

• What m-money will affect hugely is, first, the ability for governments to conduct monetary policy
Monetary policy is conducted through the central bank’s control over the short term interest rates. Through the money supply and through control over the re-lending by banks, the reserve requirements.

Let’s start with the money supply.

Money Supply = cash + checking acct + savings accts + time deposits

All of these are affected by m-money.

Let’s start with cash.

Volume of cash is altered by stored value in the mobile terminals. With widespread m-finance terminals in every pocket and pocketbook, the volume of stored value might dwarf the actual currency in circulation. And much of it might be entirely outside of the monetary system. More about that later.

Interest bearing deposits would go up enormously. Why keep your money without them earning interest?

http://ronnie05.files.wordpress.com/2009/03/000036_mobile-payment.jpg
Creation of Money

• Next, these accounts will not be just debit accounts but also credit accounts
• In other words, they will create credit, especially microcredits.
• So this will expand the supply of money. It creates money.
• But the creators of such money may be offshore; may be non-banks; in fact, anyone can extend credit, and people can buy up this debt and bundle it and securitize it.

Private Money

• What will happen inevitably is the emergence of private moneys.
• If you have millions of phone cards, people start to use them to pay each other.

• So we will see new types of money and money creators.
• PayPal now permits 2 people to exchange money

We will see technical progress in a boring commodity—money
• Creation of smart money. Money that can do things. Cash that pays interest. Cash that can deposit itself. Cash that can time its own spending.
Ebay on iPhone

- Moneys that can earn discounts. Or get frequent shopper miles. Loyalty programs

Other attributes of the new money:
- De-territorializing money.
  - Already, for the US Dollar: ¾ of new US cash is going abroad
- And the privatization of money also adds another dimension, the De-governmentalization of money

- Government monetary policy might then be mostly to regulate the quality of private moneys rather than issue its own.

- And in the end, good old green Regular cash will be used only by drug dealers and the underground economy.

- When money is de-territorialized from an actual economy, and when much of the money supply cannot be reached, and with money being able to move instantly to other countries, the ability of governments and central banks to control the macro-economy is reduced.
• On top of it, E-money is created endogenously by economic activity, and is therefore pro-cyclical, not anti-cyclical. And this exacerbates instability.

• So you have greater instability, and less effective tools to control

Internationalized Financial Flows on the Consumer Level

• financial flows: individuals will be continuously arbitraging for best interest rates. On my mobile terminal I have already 2 banks, citi and chase. I could program things so that money instantly flows from one to the other if rates are better.

• And this could also be done internationally.

• Global system of huge financial flows, instantly responding

• Could such international financial flows be controlled, or limited to domestic banks? I cannot see how this could be enforced. All you need is a French SIM card for your American phone, and you can do business with Parisbas.
• And we will have Offshore tax havens, shadowy cyber banks
• Often used to dodge taxes.
• Although, the reduction of the cash economy will also reduce tax cheating

Opportunities

• The opportunity to link up financially all of the people of the planet is perhaps the most fundamental event in financial history.
• We will bring into the global economy people who a few years ago were engaged isolated, non-monetary lives and livings.
• For financial institutions this is big.

• As I said, I do not mean to be negative at all.
• Exactly because m-finance will have such big impact, it will have consequences beyond convenience.

• But if we add it all up—
• Greater instability
• Private moneys
• Extraterritorial moneys
• Money creation outside of easy control
• On the one hand
• AND, Less effective tools for government on the other hand.
Are there Possible upsides?

- And For central banks, The technology is not only destructive, but also constructive.
- It gives new tools.
- Perhaps the most important one is the ability to exercise control mechanisms beyond the small club of major banks which has been the system for a hundred years here, and 300 years in some of Europe.

Customized monetary policy

- Direct connectivity of central bank to individuals
- Can slow down individuals spending by targeted tax, or targeted interest rates.
- If cash becomes now smart, why should monetary macro regulation not be smart and micro?
- So there are really interesting ideas possible, and even though it’s all a little early, we should start getting comfortable asking those question and brainstorming about them

To Sum Up

- Significant reduction in cash
- Smart money
- Private currencies and creation of money
- Greater volatility
- But also, more targeted and customized monetary policies

End of Presentation

- So we will have new money, new financial institutions, new monetary policy, all interacting with the old.
- And it is therefore important that we discuss this here, in New York, at the Columbia Business school.
- Thanks for coming, thanks for helping, thanks for speaking.
• Teller use down in mature banking countries
• Can be a complement in under-banked countries
• Tax compliance is higher, bec cash economy declines
• Corruption may decline
• But offshoring easier and therefore the money laundering

• Physical exposure bec of walking around with your e wallet
• Credit lines created. Can be international. Overdraw.
• Phone bill can be a credit card statement. Money creation.
• Telecom companies would have to be regulated as financial instit

• Multi-swipe arrangement. USA.
• Micro-credits
• Low cost transaction
• Who bears the risk.
• Need to separate the phone functionality from the credit card.
• Frequent buyer arrangements; tracking user habits and cross -retailers; targeted advertising
• Earmarked money, like coupons.
• Donations for non-profits