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Drumea, Cristina

University Transilvania of Brasov, Romania

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A PERSPECTIVE ON THE NEW TYPES OF MONEY AS THE ORGANIZATION'S ANSWER TO THE CHALLENGES OF THE GLOBALIZATION

Cristina Drumea

University Transilvania of Brasov, Romania

cristina.drumea@unitbv.ro

Abstract: The globalization of the economic activity is profoundly changing long established concepts, customs and ways of doing business all around the globe. One of those concepts is the currency. The globalization and the Internet, really two facets of the same phenomenon, people hugely removed in every way, can meet in the marketplace to exchange their wares. Which money should they use? Is the government issued currency fit for all the exchange purposes? This article will attempt to paint one more way in which the large corporations can act more like national governments.

1. Introduction

As everybody knows, the money is the blood of the economy. We shall start by asking ourselves what is money. It is a merchandise that can be accepted by all the sellers in exchange for their goods. It can have an intrinsic value (i.e. gold coins) or it can simply be a symbol (paper money), the latter being also called "fiat money". The "fiat money" is the one everybody, all over the world, is using daily. The name comes from the Latin word "fiat" which means "let it be" because, essentially, today's money is created out of nothing by government decision thus not being covered in specie. Another main feature of the money is that only the governments can mint it and they are jealously protecting this privilege.

2. Definitions

Another name for the new types of money is "alternative money" and it means exactly this: they are currencies that are not backed by the government thus not "real" money and they are not having circulation exclusivity nowhere. With the advent of the Internet, scores of alternative money schemes are created either for regional usage or for testing new concepts and schemes. The examples include: LETS, Ithaca hours, time dollars, EGold, SilverDollars, millennium dollars, berk shares, Japanese Astro Boy, to name just a few. Some may be tempted to add Paypal and Lunch checks or tickets to this list. Paypal adhered to the regulated financial institutions statute so it is simply a different kind of bank. As for the Lunch checks, they are apparently a new kind of money because one can use them instead of the regular currency to buy food items. While this is true, those papers are not new money mainly

because of two reasons: they are printed (minted) under full government mandate and close supervision and there's no secondary market for them, in other words, the parity rate is fixed by law.

3. Case study

A very new development in this sector is the currency for the cyberspace, Second Life currency and Microsoft points being the best known examples. In these cases, the interactions that take place in the simulated environments are producing monetary effects in the real world.

The following are some of the reasons for using the alternative money: low transaction cost, convenience, easy cross-border payments, worldwide immediate settlement, micro-payments, international remittances, on-line transactions, etc.

Reality check: even if all those systems are as successful as their proponents are pretending they are, their share in the global exchange cannot be detected without powerful instruments. The real application of the alternative money comes from elsewhere.

When the commercial activity of a firm reaches global levels, or even before that, the firm is confronted with payment issues: it has to pay suppliers all over the place as well as charge equally distributed customers, often using different currencies. In order to simplify the process and depending on the size, the firm can use credit cards and merchant accounts. There are three disadvantages to it: exchange rates, bank fees and taxes.

By using an alternative type of money (not necessarily one found in the above list), the organization can reduce the exchange transactions to a minimum. The example is the Microsoft online marketplace.

With its global reach and availability, Microsoft is having customers in practically every country on Earth, each of them with its own currency. The logistical and accounting effort to track hundreds of prices in various denominations, fluctuating exchange rates and countless tax regulations appears to be daunting and Microsoft chose not to go there. Instead, the company is selling those “points” through local sale spots and the customers are redeeming the points in exchange of goods for sale in the Microsoft marketplace. The customers also can earn the points by performing various tasks.

In other words, Microsoft minted a new currency, covered in its marketplace goods and backed by its colossal wealth and bona-fide.

4. Comments

As it can be seen, any firm with a global reach can benefit from the usage of the alternative money. This idea is not as far fetched as it looks because there are already very important actors that are quietly using the concept. Those actors are the multinational or transnational companies.

Normally, an important part of the business of a multinational company is being carried over national borders and using several currencies. In order to avoid the disadvantages we have discussed earlier, namely evolving exchange rates, bank fees and taxes, as well as uncontrollable inflation rate, the firm is creating an internal clearing house for all the subsidiaries. Now, all the transactions between the various parts of the huge company are centralized there and the subsidiaries are compensated, using a mechanism not unlike the one used by national banks. The cross-border transactions are becoming simply internal transfers thus being, depending on various regulations, often exempted from taxes, the bank fees and exchanges rates differentials having vanished earlier. Even though the internal currency is named dollar, euro, pound or something else, it is not a real currency but an accounting one that can still be called “fiat” but with a vengeance: it is fully backed by the assets of the company. The system was invented by the Lombard bankers several hundred years ago. The only occasions when the internal currency is exchanged to and from a classical one occur when the goods and services are penetrating the interface between the firm’s “shell” and the rest of the world. The

corollary of this observation is that the scale effect is having a very strong positive effect for the organization: the bigger it is, the less is forced to buy or sell classical currencies.

The insurance companies, with the global presence, are especially advantaged by this system because they seldom transfer goods across national borders. All they transfer is some sort of IOU redeemable everywhere.

We can observe now that the alternative money concept is not bringing significant benefits to the regular person. Instead, a softened version of it is improving the efficiency of the large companies.

5. Conclusion

The future of the alternative money is unclear at best. The national governments will not easily relinquish the privilege to mint money and to control the flow and quantity through centrally established interest rates and inflation rates. Unfortunately, by minting more fiat money than the available specie, practically all the governments are debasing the currency on a regular basis, and, as a consequence, diminishing the value of the wealth available to the citizen.

Some organizations can protect themselves against the politicians’ doings but everybody else’s earnings and saving are at risk. The only way to ensure a robust wealth creation could be through the use of a currency that is not subject to political decision.

However, the direction seems clear. More and more people and companies are trying to avoid the insecurity of the political decision regarding currency by insulating their assets from it and the alternative currencies might just be the right answer.

6. References

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