



The world is in a frenzy because of Bitcoin and other digital monies that are all the rage. At first it was made out to be just another fad but as time goes by, it became clear that this new technology is revolutionary and here to stay. Chances are that we will soon see a dramatic change in banking; it might even be possible that banks and central banks will completely disappear soon!

That's not all. Technology like blockchain can also be used to disrupt and replace stock exchanges, deed registrations, insurance companies and much, much more. Many careers that are linked to these businesses, will fall victim to these developments. We are certainly at the beginning of a technological revolution and the sooner you master the technology and terminology, the quicker you will be able to take part in this exciting new world.

This article will discuss a few money terms.

Basically, there are two types of money; money that is distributed by a central authority like a central bank and private money. In most cases, central bank money is meant when referring to money. The rand, for instance, is "created" and distributed by the Reserve Bank and is legal tender in South Africa. The Reserve Bank is a statutory monopoly and is the only institution that is allowed to "create" the rand. Others may attempt to "create" a few rands on photocopiers but usually end up in prison.

Central bank money can also be called government money or state money and central banks are usually directly or indirectly owned and controlled by the government of a country. There's usually a whole lot of laws that regulate the do's and don'ts of central banks. More examples of government money are the dollar, pound, euro, yen and the like. Central banks can create unlimited amounts of money and if they make too much of the stuff, money loses its value; this is what we call inflation.

Private money is money that is created by private individuals or groups. Remember that money is anything that is generally accepted as money, and in the past all money was private money. First, we used shells or something else like gold as money and later private institutions made their own private money. Only much later did central banks make their debut as the sole money creator in a country.

Private money is old news. A gift voucher, for instance, can be offered at various shops and even cell phone airtime can sometimes be used as money. The tickets that you buy at a carnival to pay for your popcorn and candy floss, is nothing other than private money. To tell the truth, a group of people can decide amongst themselves what they want to use as money.

Digital money is money that does not exist physically. Digital money is also called electronic money as it exists somewhere on a number of computers. We use digital money when we pay with our credit cards or when we make an internet transfer between accounts. Other than with physical money, two people do not need to be in each other's presence to exchange digital money from one individual to another. With digital money, money can be transferred between people (accounts) even if the individuals are in different places in the world.

Central bank money mostly consists of digital money. The Reserve Bank, for example, creates most money by simply crediting accounts of banks at the Reserve Bank in exchange for certain assets, whilst only a small portion of the money consists of physical notes and coins.

Another characteristic of digital government money is that individuals cannot transfer money directly to each other. If, for example, you make an internet transfer, you give your bank instruction to transfer money to a different bank from where the money is then paid into someone else's bank account. Politicians do not like cash as it can exchange hands anonymously. It enables tax evasion and makes certain unlawful transactions easier. With digital government money, however, it is always possible to follow the "trail" of money on bank statements.

Private digital money is also possible. Simply put, any group can decide amongst themselves that they want to make their own money. By using technology like the blockchain, digital money can be created and the algorithms (formulas in the programming) can be written in such a way as to only allow a certain amount of money to be made. Furthermore, the computers of everybody participating in this scheme monitors and police each other. Therefore, private digital money is money that is privately created and that exists on a network that ensures that everyone remains honest.



DAWIE'S NOTES: ARE YOU CONFUSED BY DIGITAL/ CRYPTO-/ CYBER MONEY? YOU ARE NOT ALONE!

Digital private money can of course also be attacked and it is very possible to be misused and stolen. But that is also the case for state money. So far it seems many of these new private monies can be surprisingly secure and safe.

There is another characteristic of private digital money. Even though a network of computers check each other, it is possible to write the algorithms in such a way that everyone can check everyone without necessarily knowing who is checking whom. Therefore, private money is decentralised money and private digital money can offer a great measure of anonymity whilst it can also be transferred from one person to another, without a financial intermediary. The result of this is that financial transactions can be easily be hidden, which has immense implications for, for example, tax collection!

To make matters worse for politics, all of this can be encrypted. Without getting too technical, this simply means that the technology enables these private financial transactions to be "hidden" very successfully — just as your WhatsApp messages are already encrypted!

The last type of money is virtual money. It is something that is like money but is in fact pretend money. The game Monopoly's money is an example of virtual money.

There are of course yet more names and terminology that can be used, but the abovementioned is a simple explanation of the type of money that exists. Without a doubt, a lot of things are going to change drastically and the result will be more good than bad. It is necessary, however, that we all learn as much about the technology as possible and to remain vigilant. Private money should not (not yet) be viewed as an investment but buying a few rand to see what it's all about and how it works, is a good idea. Just be careful!

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