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Money in One Lesson: How it Works and Why by Gavin Jackson, 400 pp, Macmillan (2022), ₹666

The impact of money is overarching owing to its ubiquitous role in our day-to-day lives. This book is one of the many recent attempts to deconstruct the mystique of money with sincerity to equip readers to make sense of the daily news and developments that take place in the field of finance. The author, with extensive experience as a correspondent with *The Economist* and *Financial Times*, channelises his professional learnings to deliver this information-intense book. A brief introduction of the book by the author is followed by 12 chapters, each of which deals with different dimensions revolving around the idea of money.

The first chapter of the book sheds light on the basics of what constitutes money through the example of events in Ireland in 1970. During this period, there was a half-year long strike by six of Ireland's largest banks that resulted in a complete shutdown of the banking system. In the absence of clearing and settlement mechanisms provided by banks, the mantle was taken up by the country's numerous pubs, which acted as exchange houses for carrying out day-to-day banking-related activities by its citizens, based on the public trust and reputation. The author then touches upon the important functions of money, *viz.,* medium of exchange, store of value and unit of account, and uses various historical insights to explain each function. The author concludes the chapter by delineating as to what constitutes modern money, including the notion of a 'fiat currency', the critical role of reserves and the importance of modern-day central banks.

In the second chapter titled "How do banks work?", the author delves into the mechanism of how modern banks work. He argues that elements like trust, management skills and liquidity underpin the transactions *via* banks. He touches upon the anatomy of a bank's balance sheet, and how it has led to the evolution of fractional reserve banking. The idea of "maturity transformation", wherein banks tend to undertake short-term borrowings in order to provide long-term loans is also explored, followed by a story of one of the earliest recorded bank run and bank bailout that took place in Sweden in

1664. The importance of holding a large amount of capital as a proportion of a bank's total assets is highlighted. The criticality of leverage is explained by the author using an interesting reel-life (as displayed in the 2019 Hollywood movie Uncut Gems) example along with a real-life (as witnessed during the Global Financial Crisis (GFC) of 2008) one. The chapter ends with the evolution of central banks and the monumental role played by them in keeping the financial system resilient and stable.

The third chapter titled "Why do we pay interest?" focuses on the historical and theoretical origins of the idea of interest. A brief introduction to the concept of interest and capital as espoused by theorists such as Wicksell, Böhm-Bawerk, Marx and Keynes has been provided, along with a case-in-point example of the lending mechanisms involved in the loans provided to the Parmesan cheese manufacturing farmers of Italy by the regional banks. The impact of negative interest rates, an unconventional monetary policy tool, that was intended to increase spending in the economy but had an adverse effect on pension funds and insurance companies, is analysed by the author.

The concept of inflation is dealt with in the fourth chapter titled "Where does inflation come from?" through the example of the demand and supply of cowrie shells in West Africa during the medieval era, where these were used as currency. It discusses the issues relating to velocity of money, while also providing insights into the contribution of Fischer, Phillips and Friedman to the major theories revolving around inflation. Lessons for monetary policymakers from Paul Volcker's experiment administering interest rate shocks to the US markets to tackle double-digit inflation has been discussed in this chapter. Volcker's interventions largely succeeded in draining excess liquidity out of the US economy to significantly bring down inflation and established a template for central bankers facing similar situations in future.

Chapter five of the book begins with the story of the evolution of London as a financial metropolis and emergence of the US dollar as the dominant global currency. The proceedings that took place at the Bretton Woods conference in 1944 led to the formation of the World Bank and the International Monetary Fund (IMF) as well as the introduction of the gold standard (which lasted till 1971) showcased the commanding role played by the US in the global economy. The IMF has emerged as a global creditor and has been providing conditional finance to troubled economies ever since. The

author has presented the case study of Argentina, which received multiple rounds of bailouts from IMF. The chapter concludes with a description of the steps taken in Europe to rebuild its economy after the end of the Second World War that led to the genesis of the Euro and the pivotal role played by Germany in it. The author feels that Euro has not been able to match the popularity of the US dollar in the global market, as it lacks the depth and liquidity of the US financial markets and due to lingering trust issues between various countries in the Euro bloc.

Chapter six titled "Why don't governments just print money?" provides a primer on the power of central banks to act as the sole agencies for printing money and the associated mechanisms, including quantitative easing which was used extensively by the Fed after the GFC. However, rampant flooding of the economy with newly printed money can also lead to hyperinflation as was observed in Weimar-era Germany and Zimbabwe. Debt management is also a tricky job for the governments and central banks around the world, with the possibility of default, such as the one faced by Greece during the tumultuous years of the GFC. Japan, which has the highest public debt-to-GDP ratio in the world, has been facing a persistently low growth and low inflation since the early-1990s. The dynamic relationship between governments and central banks floats on thin ice; the author discusses this relationship as part of the recent ideas of Modern Monetary Theory.

The seventh chapter of the book titled "Why do countries use different money?" provides an insight into the origins of various modern-day currencies around the world and the Asian Financial Crisis of 1997, which was primarily caused by liberal capital flow policies and build-up of credit bubbles in East Asian nations that eventually led to collapse of currency exchange rates and economic downturn. The economies that suffered the crisis subsequently undertook capital control measures to prevent the repeat of such instances in the future. The chapter provides an analysis of the current global norms pertaining to cross-border capital flows.

Chapter eight titled "Can more money make us rich?" begins with the various theoretical ideas propagated by Adam Smith and explores the trade-related power dynamics that existed during the era of imperialism and Industrial Revolution, while also venturing into a debate on the importance of productivity in an economy. The chapter then veers into the ideas of Friedrich

Hayek on neutrality of money, and the merits of a free market economy. The author argues that understanding the causes of the Great Depression of 1929 and the implications of the mitigative actions taken by the US Fed served as important lessons in managing the GFC.

Chapter nine titled “How do we save money?” discusses the different methods of savings by the public, including the Chilean pension system and chit funds in India. It is then followed by a discussion on the importance of concepts such as risk, statistical modelling and diversification in matters of decision-making pertaining to everyday finance. The author also looks into the complexities surrounding modern-day hedge funds.

Chapter ten begins with the demonetisation of ₹1000 and ₹500 notes in India in November 2016 and the mushrooming of a robust digital payment infrastructure in India. The author then highlights the global rise of cryptocurrencies, such as Bitcoins, which were designed as a decentralised tool of finance, serving as an alternate currency system based on libertarian ideals. The author opines that cryptocurrencies have not been very successful in fulfilling the three traditional functions of money due to high price volatility, being an inadequate store of value and acting as unreliable means of exchange, clubbed with a negative image of being used for illegal activities. The case study of Facebook’s push for Libra (now known as Diem) as a widely accepted stablecoin (with its value pegged to a basket of currencies) and the reasons for its downfall have also been discussed in this chapter. Stablecoins are prone to extreme redemption pressures, and have also witnessed periodic collapses, thereby, adding to financial stability concerns[1]. Central Bank Digital Currencies (CBDCs) are currently an area of intense scrutiny for most central banks around the world, and hold promise of being an important stage in the evolution of money.

The eleventh chapter titled “Can money save the world?” talks about the issues of climate change, global warming, the resulting potential risks faced by the global financial system and the role of central banks in tackling these challenges. These developments have led to the adoption of new mechanisms like green finance; Environmental, Social and Governance (ESG) investing; and carbon trading, while raising concerns about greenwashing.

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[1] Financial Stability Report, June 2023, Reserve Bank of India.

The final chapter of the book titled "Has money made us unequal?" reflects on the observable trend of the rising global inequality. The author also discusses the social welfare models followed by Sweden, which ensure publicly-funded healthcare and education for all its citizens through high taxation, and the US, which has lower tax rates and pursues less egalitarian policies towards its citizens. According to the author, although statistically, inequality is higher in Sweden than in the US, the poor in Sweden are in a less precarious situation due to better access to government-funded initiatives. The author also provides an enquiry into the intersection of money and gender in the modern world and suggests that the world of money is more resistant to the idea of gender equality. This is reflected in the poor representation of women in various academic disciplines on money and finance. It sums up how money dictates every activity of human life and will continue to do so in the foreseeable future.

In sum, the author covers most of the contemporary topics pertaining to money using a balanced approach. The vivid usage of relatable examples as well as comprehensive referencing makes the book a lucid read, demystifying money and its associated concepts, while also touching upon various topics pertaining to macroeconomics.

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