Exploration of Gold Standard, Credit Currency and Digital Currency

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Abstract: In the perspective of present monetary system, the author proposes that we should analyze the comprehensive effectiveness with the combination of the former gold standard system and diversified monetary systems, such as the credit currency and the digital currency, which are highlighted in this new era, and confirm the more complete digital currency policy according to present development status so as to promote the healthier and more reasonable and effective development of the monetary funds. In this paper, the author launches research and exploration with the combination of gold standard, credit currency and digital currency.

Keywords: Gold Standard; Credit Currency; Digital Currency; Exploration and Analysis

In terms of the study of gold standard, credit currency and digital currency, this paper should grasp the development history of the three kinds of monetary policy systems and their different developmental grain and respective advantages. In the process of the study of credit currency and digital currency, we need to determine the corresponding policy of monetary management according to the different financial development situation. This paper mainly analyzes the different policies, and puts forward suggestions on the standardization of the currency and fund management according to the development of the new era.

1. Overview of the gold standard

The so-called gold standard is the gold standard system. This system is a kind of monetary system based on gold as the base currency. This monetary system is realized much more according to the different monetary value and the corresponding monetary content of gold. In the process of practice for different monetary policies, there are often different exchange rates with closed relation. In terms of this gold standard, it prevailed more in the middle of the 19th century. There are three forms of the gold standard. The first one is the gold coin standard, the next one is bullion standard and the last one is gold exchange standard. Among them, the gold coin standard system is a more classic monetary implementation system.

2. Overview of credit currency

Based on the fact that the emergence and growth of the currency of credit currency is closely related to the development of block chain and digital currency at the present stage, so in the process of research on monetary policy or digital currency and chain blocks, we should definite clearly the link between different credit currency and block chain. Thus to be true, even in modern society, more and more people pursue digital currency and chain blocks, but in fact, Bit coin exists as a bubble to a large extent. Only by clarifying the contradiction and continuity between virtual currency
and investment, we can carry out a further study in combination with the development of virtual currency and the
closeness between the monetary systems. So there is a saying “even if this is the biggest bubble in history, the only
right thing to do is to embrace it”.

Gold standard system not only help make the automatic regulation of the balance of payments, but also help the
social economy achieve the effective development and prosperity[1]. Among them, under the implementation of the gold
standard system, the fixed exchange rate also can effectively avoid the various impacts of exchange rate fluctuations so
as to promote the development of worldwide trade. Because of the different development systems of different countries,
the price of gold are relatively stable and promote the actual value stable, which also can enhance the development ef-
ficiency of different countries.

In fact, credit currency is the currency issued and created by the corresponding credit institutions, which is mostly
based on the customer credit as guarantee. In the process of the operation of credit currency, the development forms
are also developed continuously. At present, most countries in the world are liable to take such nature of currency.
Among these, the credit currency is also the consequences of the collapse of current metal currency system. In the
1930s, because of the fundamental influence on the gold standard and silver standard systems of most
tries brought by a massive worldwide economic crisis and financial crisis, the capital market nearly collapsed, and the
issued banknotes cannot be changed for metal currency. This circumstance will lead to the emergence of credit currency.
In the process of the development of market and human, they usually choose the way to trade with less trading costs, so
it can effectively promote the development of the market and trade, in which most of them can be divided into three
stages of development: Direct transaction, indirect transaction and credit transactions. At present, most countries
around the world adopt one or two or three of the above stages.

The development of credit monetary system has gone through two stages. The first stage is more based on two
different international monetary systems, which are named the Bretton Woods System and the Jamaica System. For
these two systems, the Bretton Woods System has a fundamental influence on the free exchange relationship between
gold and bank notes. In contrast, the Jamaican System cut off the free convertibility of gold and bank notes between
different countries and governments.

3. Overview of digital currency

3.1 Fundamental content

Digital currency is a kind of new currency related with network or digital encryption method in new times. The
core characteristics of this monetary policy are more to do with the present formula, the algorithm and the institutions
issued digital currency. Among these, once the number of the algorithm to be determined, the amount of digital curre-
cy will be determined correspondingly so as to help avoid the currency inflation spurred by currency spam. Besides, in
the process of trading, it is necessary to guarantee the security of digital currency transaction through the confirmation
of different nodes. Of course, the emergence of Bit coin at the current stage put forward a higher challenge for the digi-
tal currency system. This virtual digital currency often belongs to the category of virtual currency, but it is different
from the virtual currency issued by the network in essence, so it is called digital currency [2].

3.2 Application advantages

From the perspective of the current application, the usage of the digital currency application shows the following
advantages: (1) It can provide more effective payment systems. For the operating management of some regions, the
cash flow management requires higher economic cost, especially for the regions not covered by banks, the efficiency
and consequence of the transaction of the cash flow is poorer, and the use of numerical currency can reduce the cost for
new banks or cash management operation. At the same time, it can also enhance the currency efficiency of circulation,
which has got the larger application value. (2) It enhances the inclusiveness of the financial operation process. The use
of digital currency can provide people with a public digital payment method without requiring individuals to own
a bank account, which provides more conveniences for people. (3) The system is much more stable, and at the same time, it can also reduce the entry threshold for new companies, and improve the application flexibility of the payment system so as to increase the industry competitiveness. (4) It can optimize monetary policy. On the basis of the promotion of financial inclusion, the digital currency can successfully complete the charging of negative interest rate, which also lays the foundation for the successful improvement of monetary policy, and improves the orderliness of the system transmission process.

3.3 Application risks

To summarize the current application experience, in the process of promoting of digital currency, there are also risks of application as follows. Firstly, it will increase the risks of disintermediation of banks. The individuals can directly transfer the funds from the bank account to the personal digital currency account, which does not need to pass the way of original mediation. This will increase stress of the bank and reduce banks’ profitability, and thus lead to the circumstance of decreased credit-line and increased cost when the real economy entity applies for credit loans. Secondly, the named run risk. Under the circumstance of the application crisis, people will perceive the digital currency to be safer and mostly incline to the storage of digital currency, while reliable deposit insurance can continue to play a role of preventing the name run risks. In addition, if there is a run, it will be much easier for the bank to cope with the liquidity demand of the bank through digital currency, and to increase the risks of the currency using process. Thirdly, it will influence the debt ratio and the credit allocation. The increase in demand for digital money in the society will increase the balance sheet of banks. In order to guarantee the stability, the bank requires speeding up the outflow of a large amount of funds, which will also increase the credit risk of banks and affect the stable development.

4. Comparison of gold standard, credit currency and digital currency

4.1 Comparison between gold standard and digital currency

In contrast with digital currency, the gold standard is implemented to use as the basic evolution of currency. Firstly, it is mainly made of precious metals, and its value is always in a state of on-time change. However, the basic value of digital currency seldom changes, and it has strong stability in the process of use. Secondly, the monetary policies adopted by the two currencies are almost the same in application, while the gold standard has a strong hedging performance during its stage of use. For example, gold coins and bullion are common forms of hedging and are also the main ways adopted by most of the investors, but digital currency has a weaker performance in this perspective.

4.2 Comparison between credit currency and digital currency

With the transfer process from credit currency to digital currency, people’s way of trading has gradually transferred from offline to online. Comparing these two, we should pay attention to the following aspects: Firstly, credit money has weak ability of trace in the process of use. Weak ability of trace refers to the circumstance that transaction records are rarely left after the completion of credit currency transactions, which makes it difficult to accurately track the circulation direction and status of the currency, and thus reduce the validity of monetary policy. On the contrary, the circulation of digital currency will be supervised through big data, and the trading records and capital flows can be tracked. So it can provide reference for the formulation of monetary policy. Secondly, credit currency trading is of on-time nature. The whole process is operating on-time. The transparency of flow is a bit of low. It is difficult to effectively judge the implementation effect of monetary policy. Thirdly, digital currency has got a stronger security in the process of application, and reduces the transportation cost of offline transactions, and has a strong value of use in security applications.

5. Reflection on gold standard, credit currency and digital currency

Nowadays, with the development of the credit currency and digital currency, we should be positive to deal with
the benign specification concerning about modern computer technology and information technology, especially to deal with the standardized management of financial structure and digital finance, and to build the perfect digital trust mechanism. Combined with the digital assets, it should complete comprehensive market supervision and trusted institutions digital currency supervision. It should build a more perfect system of the application audit and a system of verification on the basis of the virtual currency development trend\textsuperscript{[4]}. At the same time, we must strengthen the optimized coordination with other countries, and help to strengthen the overall development vitality of the financial system. We should actively participate in and strive for the positive international voice, and deal with the regulated advises of the international financial transactions so as to achieve consensus of supervision. Of course, in the process of digital financial regulation, we should guarantee that we can unify with the international regulations, to build and jointly explore the feasible technical scheme to ensure that the illegal cross-border flow of capital can be avoided so as to effectively promote the healthy and sustainable development between the various regions.

6. Conclusion

Generally speaking, in the aspect of the gold standard, digital currency, credit currency, we should grasp the development situation and background of different monetary policies. At the same time, we should regulate and guide more comprehensively and effectively according to different monetary policies, actively build the perfect management regulations of digital currency and credit monetary management, and play a role of function of the state and government, promote the healthy and standardized development of finance and monetary.

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