

Abstract

## Seigniorage

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If there are some political restrictions limiting the offer of any services to the economy, there will generally be some lost opportunities and suboptimal results in this field of economy. For example if supply of some kind of services is subject to licensing or other type of legal barriers to entry, it will lead to rigid industry with all consequences that follows from this situation. Namely, the situation will harm customers leading to lower quality and higher price of the services concerned. On the other hand, it will help providers of those services, securing them an economic profit of (political) monopolistic nature. So, the consequences can be thought of as a redistribution of wealth from users of that services to its providers and inferior quality of that services.

In this paper I shall discuss above mentioned consequences in connection with payment services for the economy. It has been for long time recognized, that legal monopoly of issue of monetary assets may lead to monopoly profits of the issuer. Historical form of this profits were overpriced services of state-granted mints producing coins from monetary metal. It was called seigniorage and this term is also widely used today for description of central bank profits from issue of banknotes and non-cash elements of monetary base.

However, central banks are not the only subjects issuing monetary assets. Commercial banks can issue monetary assets as well and because they are by no means operating in an open industry, there is no reason to believe, that they do not secure an economic profit from this activity. Indeed, their income from issue of clients' current account balances is in no way different from the profit of central banks from issue of reserve balances of commercial banks (at least in certain conditions, which shall be discussed).

More over, if we shall use term seigniorage in the more general way, as an economic profit derived from operation of payment services secured thanks to legal monopoly (what I propose), it will cover little more than just matters tied up directly with issue of monetary asset. This redefinition or generalization of old term done in such a logical way enables us to apply it to a changing institutional environment and preserves thus the true meaning and substance of this concept for further use. So defined concept comprises every profit connected with operation of payment services, that is all profits derived from the monetary privilege, analysis of which is subject of this paper.

It is not precisely appropriate to speak of institutional arrangements in the terms of deliberate contracts based on a balancing of gains of individual parties involved and it can easily lead to an oversimplification and mistaken conclusions. But it is still not without interest to ask what advantages does state derive from granting of certain legal monopoly privileges. We shall find, that in the case of payment services, the state receives much greater share of (generalised) seigniorage than just the part collected by central bank. Namely, government obtains directly its share on commercial banks seigniorage thanks to banks extensive holdings of government debt securities.

There are also other subjects, participating on seigniorage of commercial banks. The big group is, beside of government, the private clients financed through bank loans. All in all, the redistribution of wealth connected with granting of legal monopoly in monetary sphere is far more complex than just a profit of central bank and it leads (as does any wealth redistribution) to real economic effects and modifies the way in which social economy operates.