The Fed's Central Bank Digital Currency Report Falls Flat

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It took nearly a year, but the Federal Reserve has finally released its **report on central bank digital currencies** (CBDCs). The report fails to live up to the Fed's hype. If anything, it shows a CBDC is a solution in search of a problem.

The 40-page report contains so little information, it makes you wonder what the Fed has been working on for all this time. To be fair, the report does offer an idea of how the Fed envisions a CBDC taking shape, but their vision is a bad one. The Fed may have finally made good on its promise to deliver a report, but it has a long road ahead if it intends to deliver a CBDC.

The Fed's desired approach is for a CBDC that would be "privacy-protected, intermediated, widely transferable, and identify-verified." That might sound good at first glance, but a closer look reveals that this approach is really quite unfortunate.

Protecting the **privacy of the American people** has been one of the greatest concerns around the design of a CBDC. So it makes sense that privacy was listed first. However, at the opposite end of the list, the Fed hedges on that promise with just two words: "identity verified." Essentially, this means the Fed has abandoned the idea of crafting a CBDC that would act as a digital form of cash. It means people will need to have their identities verified before using the CBDC so that the Fed can keep a record of their transactions. Where cash offers Americans the freedom to make financial decisions in private -- a freedom that should be protected by the Fourth Amendment -- the Fed's CBDC would likely be another avenue for information collection.

What's more, it's unclear what real benefits the Fed's CBDC would have for consumers. In the report, **the Fed stated** that a CBDC could improve the speed of payments, financial inclusion, and the dollar's international status. But those are all areas that are being **fixed through other endeavors** -- endeavors that will likely be completed before a CBDC reaches the market.

For example, both the **private** and **public** sectors have been developing networks to speed up payments. For financial inclusion, **survey data from the FDIC** has found that the number of unbanked households decreases every year as technology makes banking more accessible. That rate of improvement will likely only increase as private sector initiatives to help the unbanked (e.g., **BankOn**) continue to get off the ground. Finally, every positive step for the dollar will improve its international status. A CBDC might help the United States keep up with the Joneses, but it's not unique in its ability to improve the dollar's status. More so, it is highly unlikely that a

"CBDC" is a necessary requirement to compete on the world's stage. People are not going to flock to the **Chinese yuan** or the **Nigerian naira** simply because they've "gone digital."

A CBDC may be an exciting prospect for central banks, but the Fed is going to need a much more robust set of benefits if it is going to justify experimenting with the money in people's wallets.

Just before the report's release, **Fed Chair Jerome Powell** wrote to Senator Toomey (R-PA) saying, "One critical question is whether a CBDC would yield benefits more effectively than alternative methods." By all accounts, it seems the answer to that question is no. Both the Fed and Congress will have a long road ahead if either one intends to justify the supposed need for a CBDC to the American people.

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