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CBDC Prohibition Is Gaining Momentum

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Politico is reporting that a group of House conservatives are trying to tie a vote on Rep. Tom Emmer's (R-MN) central bank digital currency bill to a deal on broader cryptocurrency legislation. According to the article, the main reason to avoid this strategy is that it risks "isolating the few Democrats" who support Rep. McHenry's (R-NC) broader legislation.

Setting aside which members support broader crypto bills, stopping the Fed from issuing a CBDC should not be the partisan issue it is becoming. A CBDC gives the government untold economic power—irrespective of which party is in charge.

Launching a CBDC has nothing to do with losing a technology race, spurring faster payments, or protecting the U.S. dollar's status as the world's reserve currency. Regardless of what Rep. Stephen Lynch (D-MA) thinks, stopping the Fed from launching a CBDC does not equate to "sticking our head in the sand."

CBDCs are a desperate reaction by governments to prevent *decentralized* currencies from threatening the monopoly of national currencies. They enable maximum government control over people's lives through the direct provisioning of money and financial services.

Some variations of a CBDC draft private sector firms to help the central bank, but those are just as bad. Arguably, they're even worse because they effectively co-opt the private firms that could otherwise serve as a check on the central government's power.

It's been very easy to explain this danger to people because so many government officials around the world have been candid about why they want CBDCs. My colleague Nick Anthony and I have spent the last few years documenting these statements and dissecting the arguments for and against CBDCs.

Since February 2023, when we created our last digital compilation of those statements, government officials around the world have kept the hits coming. Sometimes, these officials seem less than straightforward.

This February, for example, the European Central Bank's Piero Cipollone assured the European Parliament that the ECB would not make any decision about launching a digital euro without new legislation. He clarified the ECB is not even "launching any of the development work now."

But in the same speech, Cipollone explained the ECB has started soliciting third parties to help "establish framework agreements with potential providers of digital euro components and related services." Cipollone also told Parliament that the ECB is "working on a draft rulebook [for the digital Euro] together with representatives of consumers, retailers and intermediaries."

He then touted the supposed benefits of a CBDC, implying it is a key to ensuring that "everyone, regardless of their income, can pay in any situation of daily life." (In fact, he referred to this supposed feature as a "fundamental right.")

Rather than stop there, he insisted that the ECB's "objective is to preserve the role and share of central bank money in payments, not to displace private money." But in virtually every developed country, the main role of central bank money is *bank-to-bank* payments.

Central banks already control bank reserve settlement systems, and most of them do so electronically. And central banks control the aggregate supply of reserves. In other words, central banks effectively already have CBDCs for central bank money.

Creating a retail CBDC, whether through private banks or not, is more than preserving the role of central bank money in payments. Much more.

For its part, the Federal Reserve has engaged in research, experiments, and pilot programs to develop a CBDC but has officially said that it is far from ready to launch one. That's the good news.

The bad news, though, is that there is more than enough gray area in the Federal Reserve Act to allow the Fed to launch a CBDC should the Fed change its stance.

Regardless, as Nick's Cato at Liberty post demonstrates, there are still a few important unanswered questions regarding the Fed and a CBDC.

For instance, many people were thrilled when Fed Chair Jerome Powell said the Fed is "nowhere near recommending or adopting" a CBDC. However, Powell has also stated that "If we were ever to do something like this—and we're a very long way from even thinking about it—we would do this through the banking system."

For anyone opposed to a retail CBDC—the government provisioning of money and financial services—this statement should be a warning flag. While the Federal Reserve Act prohibits the Fed from interacting directly with the public, there is no such prohibition on interacting with banks. Therefore, the Fed arguably has the authority to launch what it calls an *intermediated* CBDC, where it provides money to banks and the banks deal with the public.

Again, this type of CBDC is just as dangerous as one provided directly to citizens because it, too, enables the federal government to provide money and financial services. At best, this model would compete with private sector firms that provide money and financial services. But it doesn't take perfect vision to see that private sector firms can't really compete with the government in this manner.

According to the Human Rights Foundation's CBDC Tracker, 12 governments have launched CBDCs, and 37 have started CBDC pilot programs.

That's 49 too many. A CBDC is the perfect tool for the Chinese communist party, and that's exactly why all non-autocratic governments should avoid creating one.

Norbert J. Michel is vice president and director of the Cato Institute's Center for Monetary and Financial Alternatives, where he specializes in issues pertaining to financial markets and monetary policy. Michel was most recently the Director for Data Analysis at the Heritage Foundation where he edited, and contributed chapters, to two books: The Case against Dodd–Frank: How the "Consumer Protection" Law Endangers Americans, *and* Prosperity Unleashed: Smarter Financial Regulation.