

Fed digital currency gains steam with Democrats in power

By [Neil Haggerty](#) March 03, 2021, 3:55 p.m. EST 7 Min Read

WASHINGTON — Democratic leaders in the Biden administration and Congress are raising the volume on proposals for the Federal Reserve to issue a digital currency and establish government-backed accounts to expand banking options to underserved consumers.

It has been [no secret that the Fed](#) is studying the idea of [issuing a digital dollar](#) on the heels of other countries, such as China and Japan, actively testing their own central bank digital currencies.

But last month, Treasury Secretary Janet Yellen confirmed the administration's endorsement of a U.S.-backed digital currency, saying it could result in "faster, safer and cheaper payments" for U.S. residents who lack bank accounts.

On Monday, Senate Banking Committee Chairman Sherrod Brown, D-Ohio, who has championed legislation [to create FedAccounts](#), urged the Fed to move ahead. He called the Fed's study of a central bank digital currency "a natural complement" to his plan for the U.S. to provide every citizen with a free account that they could access at banks, credit unions and post offices.

"Access to the payment system is critical to full participation in our economy," Brown said in a letter to top Fed leaders, obtained by American Banker. "As we have seen through this crisis, it has only become more difficult to use cash, as people try to use digital platforms to reduce their exposure to the coronavirus."



"Access to the payment system is critical to full participation in our economy," Sen. Sherrod Brown, D-Ohio, said in a letter endorsing the Fed's study of a central bank digital currency. Treasury Secretary Janet Yellen could help the "too many Americans [that] don't have access to easy payments systems and banking accounts."

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Democrats and consumer advocates say that a U.S. digital dollar could strengthen access for unbanked and underbanked consumers to the financial system. Other proponents of a government-backed digital dollar say that it is necessary in order to keep up with global counterparts that have already issued digital currencies.

"We need one in terms of continuing to be the reserve currency in the world," said Dina Ellis Rochkind, an attorney with Paul Hastings who has served as a senior financial services staffer for Republicans in the House and Senate.

But Yellen zeroed in on the goal of giving consumers easier access to their money.

"Too many Americans don't have access to easy payments systems and banking accounts, and I think this is something that a digital dollar, a central bank digital currency, could help with," she said last month at a New York Times virtual event.

But the policy still needs to be hammered out as the Fed hears from stakeholders, including banks and financial technology companies, about what a U.S. digital dollar would mean for existing financial institutions and currencies.

Observers are still debating how a government-backed digital currency would be implemented to ensure it doesn't displace private sector institutions. The Fed is already busy constructing its real-time payments service, FedNow, which is seen as a potential competitor for private-sector payments options.

"There's a fear that some want to use the digital dollar as a way to kill private-sector innovation," Rep. Patrick McHenry of North Carolina, the top Republican on the House Financial Services Committee, said at a hearing last month.

The Fed published a document in February outlining "preconditions for a general-purpose central bank digital currency," including stakeholder input, a strong legal framework and robust technology.

The agency has said a digital U.S. currency would potentially be backed by U.S. currency, but it would be distinct from cash. Yet it is unclear whether the new instrument would be accessed directly through the Fed or with the existing banking system serving as an intermediary for storing and distributing the digital currency. The Digital Dollar Project, a partnership between Accenture and the Digital Dollar Foundation to explore a U.S. central banking digital currency, says it could take a tokenized form.

During hearings before Congress last month, Fed Chairman Jerome Powell reiterated the central bank's interest in the issue, but warned that issuing a Fed-backed digital currency may require legislative authorization.

"Depending on what we do, we could well need legislative authorization for such a thing, and that isn't clear until we see which way we're going," Powell told the House Financial Services Committee in February.

Yet so far the Fed has focused only on a digital currency and not on creating some type of digital account or wallet.

“If I create a digital currency, I need a digital account to keep it,” said Aaron Klein, policy director at the Brookings Institution’s Center on Regulation and Markets.

Brown’s FedAccount legislation was partly intended to give unbanked consumers easier access to government stimulus funds. It was introduced as stand-alone bill last year and would have provided all consumers with a digital bank account available through a local bank or credit union or the U.S. Postal Service. In December, House Financial Services Committee Chair Maxine Waters, D-Calif., told then-President-elect Biden that she was interested in working with the incoming administration on FedAccounts.

“The Federal Reserve’s efforts to study the potential for a digital U.S. dollar is a natural complement to FedAccounts — both are intended to ensure that working families have the same access to the payments system as Wall Street banks and wealthy corporations,” Brown wrote in his March 1 letter to the Fed. “The Federal Reserve’s recent publication outlining the goals for a central bank digital currency is a step in the right direction.”

Isaac Boltansky, director of policy research at Compass Point Research & Trading, said the Democrats’ push to establish a digital currency and FedAccounts is “within the context of [helping] the underbanked.”

“It fits within the Democratic narrative regarding access to credit, which is under the umbrella of economic equality,” he said.

Marcus Stanley, policy director at Americans for Financial Reform, said that a central bank digital currency could have a “transformative impact” on the financial system.

“Lower-income people pay a very high price for access to those sort of basic transactional services that you can get through a bank,” Stanley said. “And a central bank digital dollar would open up the possibility that a lot of those could be provided as a public service or almost as public infrastructure.”

But Stanley warned that a U.S. digital dollar will only promote financial inclusion if it is easily accessible to consumers.

“A key issue in question as this moves forward is, who is going to have access to it?” Stanley said. “Is this something that like Fedwire is just basically going to be bank-to-bank? Or is this something that retail customers can have access to? Is it something that small businesses can have access to?”

As advocates for financial inclusion push for a U.S. digital dollar and FedAccounts digital wallets that are easily accessible to consumers, Republicans and financial services industry advocates will likely push for the Fed to ensure that the private sector can still operate competitively.

"I think that there will be a battle between commercial banks and FedAccounts proponents at some point in the future," said Boltansky. "Can it be just a savings account? Can it be just a checking account that doesn't pay interest? How's it going to be structured? Are there going to be limitations to ensure a continued new role for commercial banks in the system?"

Some observers say there are still questions as to whether existing commercial banks will be able to act as intermediaries between the Fed and consumers using a U.S. digital dollar.

"If digital dollars move directly to an individual's wallet, instead of a bank account, those funds are not going to be available to capitalize the bank and that could affect the bank's ability to make loans," said Steve Kenneally, senior vice president for payments at the American Bankers Association.

George Selgin, senior director and fellow at the Cato Institute's monetary and financial alternatives center, warned that interest rates on FedAccounts that are competitive with banks' interest rates could push people out of the traditional banking system.

"These accounts, according to most of their proponents, would bear interest at the same rate [as] banks," Selgin said. "As interest rates get higher ... the FedAccounts could turn out to be an alternative to [consumers'] ordinary accounts. ... You can have a situation where there's a rush out of conventional banks and also money-market funds and other nonbank intermediaries."

Brown said in his March 1 letter that a central bank digital currency is necessary to ensure that private sector digital assets, which can experience swift price swings, don't dominate the currency market.

"The potential for nonsovereign crypto assets, like bitcoin, to become more widely used as a payment mechanism poses significant monetary policy and financial stability risks, including risk to our climate," Brown said. "They are highly volatile and speculative, can be used for illegal activity and consume incredible amounts of energy, driving up electricity use rates and putting the resilience of local grids at risk."

Rochkind said that a U.S. digital dollar should operate in conjunction with existing financial institutions.

"I don't think that people want the Federal Reserve to be, nor do I think the Federal Reserve has the resources to be, everyone's bank," Rochkind said. "So to me, it seems like it has to be some kind of public-private partnership."

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