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The future of money

Global policymakers are still pushing CBDCs despite their failures

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Despite the risks and the failures associated with central bank digital currencies (CBDCs), global policymakers are pushing forward to make them a reality.

In November alone, officials from the International Monetary Fund (IMF), Bretton Woods Committee, and Bank for International Settlements (BIS) issued rallying calls for governments to push forward on CBDCs with courage and determination. But rather than double down on a bad idea and waste further resources in this pursuit, policymakers should let this idea go and focus on more fundamental reforms that would create a freer financial system.

The November CBDC campaign began when IMF managing director Kristalina Georgieva told policymakers, “If anything… we need to pick up speed [with CBDC development].” Bretton Woods Committee chair Bill Dudley likewise called not only for the United States to develop a CBDC, but for the BIS to establish an international standard for CBDCs. And BIS Innovation Hub head Cecilia Skingsley told an audience that CBDCs should not be dismissed as a “solution in search of a problem” because they might be useful one day.

These calls come at a strange time. As the Human Rights Foundation's CBDC Tracker indicates, nine countries and the eight islands that compose the Eastern Caribbean Currency Union have launched CBDCs; 38 countries and Hong Kong have CBDC pilot programs; and 68 countries and 2 currency unions are researching CBDCs. Yet, none of these projects have proven worthwhile.

For example, the CBDCs in The Bahamas, China, and Jamaica have struggled to gain adoption. Both the Bank of Jamaica and the Central Bank of The Bahamas have regularly advertised incentive programs to get people to use their CBDCs. These have included CBDC giveaways, discounts, and loyalty points. However, they have had little success. Even after millions of dollars had been given away in China, a former research director from the People's Bank of China said, "The results are not ideal [and] usage has been low, highly inactive."

Yet, some governments may not even have the money to give away. In Thailand, plans to give citizens 10,000 baht ($288) through a CBDC were delayed partly because the government had not identified where the 548 billion baht ($15.8 billion) needed to cover the handout would come from. Worse yet, others warned that the handout may not even be legal. It wasn't until later that the prime minister announced that it would be funded by government loans.

Elsewhere, the CBDC experience has been much worse. Nigeria's CBDC struggled to gain adoption so much that the Nigerian government started pulling cash off the streets. Within weeks, it created a cash shortage so severe that it led to protests outside of banks and riots in the streets. Still, CBDC adoption only increased from 0.5 percent to 6 percent.

So at best, the CBDC experience seems to be one of government waste. At worst, the CBDC experience is one of government control. And it is against this backdrop that it is difficult to understand why international organizations like the IMF, the Bretton Woods Committee, and the BIS are still calling for policymakers to charge ahead with CBDCs.

After seeing the failures in practice and considering the risks still looming, neither the U.S. government nor governments abroad should launch a CBDC. Put simply, the costs outweigh the benefits. There's no doubt that central banks and other organizations have invested their time, resources, and reputations in developing CBDCs. However, it would be a mistake to let those investments be a reason to fall victim to the sunk-cost fallacy.

With that said, if policymakers are eager to transform the financial system in a way the benefits everyone, there is much that can be done to create a freer, more accessible, and open financial system.

In fact, there is no shortage of policy reform ideas on the table. From strengthening financial privacy protections to establishing oversight of federal regulators, there are many opportunities to reform the financial system today.

For example, consider just the idea of reigning in the financial surveillance currently taking place. U.S. financial institutions spent an estimated $46 billion complying with financial reporting requirements in 2022. These are costs that end up making their way down to people trying to open accounts or acquire loans. More so, there is also the unseen costs of delays in transfers and payments as institutions work to verify identities, spending habits, and issue individual reports to the government. Reforming financial policy alone holds the potential to create a cheaper and faster financial system.

Perhaps best of all, reforming financial privacy does not require reinventing the money in everyone's pockets.

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