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## Does the U.S. Need a National Digital Currency?

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The nature of money is changing, and central banks around the world are debating whether they need to change with it.

As electronic payments take off and private cryptocurrencies such as bitcoin seek to gain traction, governments are exploring whether to issue digital versions of their national currencies that could be used as a universal form of payment in the way physical cash is today. These conversations gained urgency for some last year when [Facebook](#) Inc. announced plans to launch a cryptocurrency called libra, sparking concern that one of the world's most powerful technology firms could become even more powerful by operating its own digital money.

So far, few countries have implemented a digital currency, though China reportedly is close and several countries have done or plan tests. Considering the dollar's key role in global markets, should the U.S. commit to such a project?

Proponents say a digital dollar managed on a single network would facilitate faster, cheaper payments and protect the Fed's ability to conduct monetary policy in a changing world. Opponents say Fed-controlled digital currency would be costlier and less efficient than many expect, and it would harm privacy by giving government the ability to track all dollar spending.

Neha Narula, the director of the Digital Currency Initiative at the Massachusetts Institute of Technology's Media Lab, makes the case for digitizing the U.S. dollar. Lawrence H. White, a professor of economics at George Mason University and a senior fellow of the Cato Institute's Center for Monetary and Financial Alternatives, argues against.

### **YES: Payments Would Be Easier**

By Neha Narula

One would be forgiven for thinking we already have a national digital currency: My salary is directly deposited into my bank account, I use Venmo to split dinner with friends, and I haven't touched paper money in weeks.

These "cashless" payment systems may rely on digital interfaces and software, but in reality they aren't much different from paper checks. They rely on financial intermediaries, which demand compensation for the risks they take on by vouching for me as the payer. And while it might seem like these systems are free, merchants charge higher prices to cover the fees they incur from payment apps and credit- and debit-card issuers. Fees are even higher on cross-border

transactions, making micropayments almost impossible, and some transactions can take days to settle as money moves across slow, outdated networks of commercial and central banks

The U.S. could help pave the way for faster, cheaper and more secure payments by allowing consumers to hold central-bank-issued digital currency outside of commercial banks. Because everyone using this e-cash would be connected to a single network operated and maintained by the Federal Reserve, it would be as fast and easy to send money to someone across the world as it is to text them photos today. And if this new form of digital currency had an open application programming interface, or API, third-party developers could create new services that use it, and financial services could better interoperate.

What do you think?

The government could provide such a payment protocol as a service at cost, charging only what is needed to operate and maintain the system. A public payments option would spur competition, as commercial banks would have to work harder to attract customers, perhaps by offering higher interest rates on deposits instead of charging predatory fees.

How a Fed-issued digital currency might work remains to be seen. The Fed could provide accounts directly to consumers and businesses, in much the same way it does with commercial banks today. Or maybe the Fed would operate and control the payment infrastructure, while private firms provided the customer-facing services. It also could coexist with physical cash.

A Fed-issued digital currency would need to be carefully designed, implemented and regulated to reduce the risk of fraud, protect privacy and ensure that commercial banks aren't drained of the funds they need to make loans. It would have to be built on well-tested, hardened software that puts system security and privacy first. This isn't necessarily at odds with preventing criminal activity: Recent advances in encryption can be used to keep users' identities private, while still allowing regulators to monitor certain aspects of the system.

If the U.S. doesn't embrace this opportunity, someone else will. There is exciting experimentation happening with cryptocurrencies, and it might be tempting to leave innovation to the private sector. But payments systems have network effects—what if a small number of large companies comes to dominate and control payment, as with the internet today? These companies could collude to stifle competitors and innovation and undermine the Fed's ability to set monetary policy and regulate financial flows.

And what if another country launches a globally useful digital currency first? [A survey](#) by the Bank for International Settlements indicates that 30% of central banks say they are likely to launch a digital currency in the next six years and 10% have pilots in place. Currencies compete: Anything that makes another currency more attractive to use could cause people to shift transactions and even holdings away from U.S. dollars, undermining the U.S.'s ability to use economic sanctions as a foreign-policy tool.

We are witnessing a significant change in the way that money works. Cryptocurrencies showed us a new model where developers can create applications with money and consumers can digitally store value and make payments, all without banks. The rest of the world is embracing digital money. It's time the U.S. caught up.

**NO: It Would Be Costly and Inefficient**

By Lawrence H. White

The U.S. government already issues paper currency, so having it issue a modern digital currency might seem like a no-brainer. But a closer look suggests it won't be a "win" for the public.

What most proponents of central bank digital currency envision isn't a currency that would circulate peer-to-peer as dollar bills or bitcoins do without the banking system's knowledge. Rather, most favor a model in which the Fed would provide households and nonbank businesses with transaction accounts on its own books, giving government the ability to track all payments and eliminating the anonymity provided by physical cash today.

Advocates say a national digital currency would make retail payments almost instantaneous, costless and secure, and safeguard the Fed's ability to conduct monetary policy. These claims are dubious, and there are easier ways to speed up payments in the U.S. The Fed could facilitate faster check settlement by expanding the operating hours of the settlement services it provides to commercial banks, a move favored by the National Automated Clearing House Association.

A central bank retail-account system cannot be costless if it hopes to provide the level of customer service that consumers expect. The Fed deals only with commercial banks, the U.S. Treasury and other central banks, and knows only how to process payments at the wholesale level. To match the level of service provided by commercial banks today, the Fed would need to invest in branch offices, ATMs, websites and phone apps, and hire tellers and service representatives to process account applications, answer customer questions and more.

### Central Banks Going Digital

Given the government's poor record on efficiency, the likely outcome would be a system that falls short on customer service or loses money at taxpayers' expense—or both.

Consumers also want a payment system that continually improves through innovation. Entrepreneurs have launched successful digital payment platforms like PayPal and Venmo in the U.S., Alipay and WeChat Pay in China, Paytm in India and M-Pesa in Kenya. Private initiatives have introduced bitcoin and other cryptocurrencies. Central-bank bureaucracies? Not so much. The central bank of Ecuador launched a retail-account system in 2015, but the project failed to attract users due to poor design, poor marketing and lack of public trust in the system. It was terminated after three years.

Those who say the U.S. government needs to act to ensure the dollar doesn't lose its dominance to another nation's digital currency or a private cryptocurrency have it backward. The best way to improve the speed and convenience of dollar payments is through entrepreneurial competition, not the heavy hand of government. The dollar will reign so long as the Fed keeps the dollar inflation rate low.

Some economists are pushing a Fed retail-account system as a way to abolish most or all paper currency with less public inconvenience and complaint. Once that happens and the public can no longer cash out, the Fed will be free to impose negative nominal interest rates on all dollar-holders. This will improve monetary policy, they say. Some improvement.

A Fed retail-account system also raises serious concerns about privacy because the government would be able to track where every dollar goes. Unlike private firms that encrypt customer data, the Fed as an arm of the federal government can't be expected to protect users from surveillance.

Other federal agencies—such as the Internal Revenue Service, Drug Enforcement Administration, Bureau of Alcohol, Tobacco, Firearms and Explosives, and Immigration and Customs Enforcement—would likely meet less resistance when they pressure the Fed the way they pressure commercial banks to share account information.

Finally, moving retail accounts to the Fed would diminish funds in commercial banks, shrinking the volume of growth-enhancing small-business loans they make. In principle, that could be avoided if the Fed agreed to auction all of its retail funds back to banks with no strings attached. But given recent history, the Fed can't be expected to maintain a fair neutrality in credit allocation.

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