



## Unbeknown to Most, A Financial Revolution Is Coming That Threatens to Change Everything (And Probably Not for the Better)

### Description

**Given how much is at stake, this financial revolution is among the most important questions today's societies could possibly grapple with. It should be under discussion in every parliament of every land, and every dinner table in every country in the world.**

Around 90 central banks are either in the process of experimenting with or are already piloting central bank digital currencies (CBDCs). In a world of just over 190 countries that is a large contingent, but given they include the European Central Bank (ECB) which alone represents 19 Euro Area economies, the actual number of economies involved is well over 100. They include all G20 economies and together represent more than 90% of global GDP.

Three CBDCs have already gone fully live in the past two years: the so-called DCash in the Eastern Caribbean, the Sand Dollar in the Bahamas and the eNaira in Nigeria. The International Monetary Fund, the world's most powerful supranational financial institution, has been lending its expertise in the roll out of CBDCs. In a recent speech the Fund's President Kristalina Georgieva [lauded](#) the potential benefits (on which more later) of CBDCs while heaping praise on the "ingenuity" of the central banks busily trying to conjure them into existence.

Also firmly on board is the world's largest asset manager, BlackRock, which helps many of the world's largest central banks, including the Federal Reserve and the ECB, manage their assets while obviously keeping all potential conflicts of interests at bay. The fund was the [largest beneficiary](#) of the Federal Reserve's bailout of exchange-traded funds during the market rout of Spring 2020.

In his latest letter to investors, the CEO of BlackRock, Larry Fink, [said](#) the Ukrainian conflict has the potential to accelerate the development of digital currencies across the world.

"The Russian invasion of Ukraine has put an end to the globalization we have experienced over the last three decades As a result, a large-scale reorientation of supply chains will

inherently be inflationary...

“The war will prompt countries to re-evaluate their currency dependencies. Even before the war, several governments were looking to play a more active role in digital currencies and define the regulatory frameworks under which they operate...

A global digital payment system, thoughtfully designed, can enhance the settlement of international transactions while reducing the risk of money laundering and corruption. Digital currencies can also help bring down costs of cross-border payments, for example when expatriate workers send earnings back to their families.”

On Tuesday (March 22), the Bank for International Settlements published the findings of a [study](#) it had conducted with four central banks — the Reserve Bank of Australia, Bank Negara Malaysia, the Monetary Authority of Singapore, and the South African Reserve Bank — into the practical challenges of executing cross-border payments between different central bank digital currencies. The report concludes that while major hurdles still remain, financial institutions could use CBDCs issued by participating central banks to transact directly with each other on a shared platform:

The Bank for International Settlements (BIS) Innovation Hub, the Reserve Bank of Australia, Bank Negara Malaysia, the Monetary Authority of Singapore, and the South African Reserve Bank today announced the completion of prototypes for a common platform enabling international settlements using multiple central bank digital currencies (mCBDCs).

Led by the Innovation Hub’s Singapore Centre, Project Dunbar proved that financial institutions could use CBDCs issued by participating central banks to transact directly with each other on a shared platform. This has the potential to reduce reliance on intermediaries and, correspondingly, the costs and time taken to process cross-border transactions.

The project was organised along three workstreams: one focusing on high-level functional requirements and design, and two concurrent technical streams that developed prototypes on different technological platforms (Corda and Partior).

The project identified three critical questions: which entities should be allowed to hold and transact with CBDCs issued on the platform? How could the flow of cross-border payments be simplified while respecting regulatory differences across jurisdictions? What governance arrangements could give countries sufficient comfort to share critical national infrastructure such as a payments system?

The project proposed practical solutions for addressing these issues, which were validated through the development of prototypes that demonstrated the technical viability of shared multi-CBDC platforms for international settlements.

The findings of the experimental CBDC program could assist in the adoption of CBDC international settlement for G-20 nations, though given the rising geopolitical fissures in the so-called “international rules based order”, it is far from clear which countries would be willing to engage with one another in such a way.

China has already launched its own digital yuan and is piloting its use in more than a dozen cities and regions. It has also been experimenting with its cross-border functionality. This has ignited fears in the West that that U.S. “financial leadership” is under threat — fears that have been magnified by the way US and EU sanctions against Russia, particularly the confiscation of a large chunk of Russia’s foreign currency reserves have backfired, encouraging not just Russia but many countries on the planet to seek out an alternative cross-border payments system.

At the same time, the U.S. is determined to continue playing a leading role in the new global financial architecture. To that end, it has cobbled together a tentative consortium of “seven of the largest Western-aligned central banks, led in practice by the U.S. Federal Reserve and the European Central Bank... aimed at creating a system of ‘interoperable’ CBDCs,” reports Washington DC-based blogger and analyst NS Lyons in the article, [Just Say No to CBDCs](#).

But what are CBDCs? How will they work? What purposes could they serve? How might they affect the general populations of the countries where they are introduced? To answer the first two questions, here’s an excerpt from “[Just Say No to CBDCs](#)”:

You might assume that you are already using “digital currency” regularly if you rarely use physical cash anymore and instead buy almost everything with a credit card or a digital payment app. In truth, the process of moving money from A to B is vastly more complicated than that. It involves a tangle of payment processors, banks, financial clearinghouses, and, if your money is crossing borders, international communication and exchange systems, such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The money itself doesn’t move anywhere fast, so each intermediary institution must assume risks to fulfill your transaction by accepting promises, sending transfers, verifying receipt of funds, and so on. Many fees get collected along the way for such services.

A CBDC system would be radically simplified. A customer would open an account directly with a country’s central bank, and the central bank would issue (create) digital money in the account. Crucially, this makes the money a direct liability of the Fed, rather than of a private bank. Using a simple smartphone app or other tools, the customer can then initiate direct transactions between Fed accounts. The digital money is deleted in one account and recreated in another instantaneously. Moving money across borders no longer requires something as complex as SWIFT or wire transfers, and currencies can be exchanged instantly as long as friendly central banks have agreements to do so. No promises or trust are necessary; every transaction is permanently recorded on a digital cryptographic ledger in real time—a bit like Bitcoin, but exquisitely centralized rather than distributed.

This brings us to question 3: what purposes will CBDCs serve? The most commonly cited justification for launching CBDCs is to counter the risk posed by so-called “stable coins”, which are relatively new forms of cryptocurrency that are pegged to the value of a fiat currency (e.g, the dollar or the euro), to

material assets such as gold or property, or to another cryptocurrency.

There are also concerns that tech giants will begin challenging established banks and payment operators for market share in the financial sector, as already happened in China with Tencent and Alibaba. As a recent UK parliamentary report titled “Central Bank Digital Currencies: A Solution in Search of a Problem?!” [put it](#), “the use of physical cash is in decline in many countries and some central banks are worried that this could undermine public confidence in the monetary system if individuals are unable to convert commercial bank money into cash, which is a direct claim on the state.”

In March 2020, the Bank of England published a consultation which set out seven ways in which a CBDC could support the Bank’s objectives to maintain monetary and financial stability:

- By supporting a resilient payments landscape.
- By avoiding the risks of new forms of private money creation.
- By supporting competition, efficiency and innovation in payments.
- By meeting future payment needs in a digital economy.
- By improving the availability and usability of central bank money.
- By addressing the consequences of a decline in cash.
- As an enabler for better cross-border payments.

In a speech to mark the launch of the G7’s report on central bank digital currencies, the UK’s Chancellor of Exchequer Rishi Sunak described CBDCs as “part of the wider story of digital innovation” that is sweeping the planet. But most people in the West are not even aware of CBDCs, let alone how they could impact their lives. [According to](#) a survey by G+D Currency Technology, one of the companies helping to develop CBDCs, less than 20% of people in the U.S. and Germany were respectively aware of the digital dollar or the digital euro.

So how could CBDCs impact our lives? Here are four of the most important ways:

***It will grant central banks far more power over our payment behavior.*** A central bank digital currency system will technically no longer require middlemen such as banks or credit card companies. That said, one can safely assume that the largest financial institutions, most of which have been helping to install the architecture for the CBDC system, will find a new role in the new digital reality. NS Lyons notes:

[Central banks] will retain complete oversight and control over the creation, destruction, and “movement” of money, no matter where it is “held” or who “has” it. As Agustin Carstens, general manager of the Bank of International Settlements put it at a 2020 summit of the IMF: “We don’t know who’s using a \$100 bill today and we don’t know who’s using a 1,000 peso bill today. The key difference with the CBDC is the central bank will have absolute control [over] the rules and regulations that will determine the use of that expression of central bank liability, and also we will have the technology to enforce that.”

***That power could be used to “program” our spending.*** One way central banks could use its expanded influence is to exert control over people’s spending habits. In June 2021, the *Daily Telegraph* [reported \(behind paywall\)](#) that the Bank of England had asked Government ministers to decide

whether a central bank digital currency should be “programmable”. According to Tom Mutton, a director at the Bank of England, “There could be some socially beneficial outcomes from that, preventing activity which is seen to be socially harmful in some way.” This could bring huge advantages for both government and central banks, says Lyons:

The Fed could directly subtract taxes and fees from any account, in real time, with every transaction or paycheck, if it wished. There could be no more tax evasion; the Fed would have a complete record of every transaction made by everyone. Money laundering, terrorist financing, any other unapproved transaction would become extremely difficult. Fines, such as for speeding or jaywalking, could be levied in real time, if CBDC accounts were connected to a network of “smart city” surveillance. Nor would there be any need to mail out stimulus checks, tax refunds, or other benefits, such as universal basic income payments. Such money could just be deposited directly into accounts. But a CBDC would allow government to operate at much higher resolution than that if it wished. Targeted microfinance grants, added straight to the accounts of those people and businesses considered especially deserving, would be a relatively simple proposition.

Other potential forms of programming applications include setting expiry dates for stimulus funds or welfare payments to encourage users to spend it quickly.

As the FT reported, central bank digital currencies will almost certainly have to go hand in hand with digital IDs: “What CBDC research and experimentation appears to be showing is that it will be nigh on impossible to issue such currencies outside of a comprehensive national digital ID management system. Meaning: CBDCs will likely be tied to personal accounts that include personal data, credit history and other forms of relevant information.”

Combining digital currencies with digital IDs while phasing out, or even banning, the use of cash would grant governments and central banks the ability not only to track every purchase we make but also to determine what we can and cannot spend out money on.

They could also be used to strongly encourage “desirable” social and political behavior while penalizing those who do not toe the line. As Lyons points out, “The most dangerous individuals or organizations could simply have their digital assets temporarily deleted or their accounts’ ability to transact frozen with the push of a button, locking them out of the commercial system and greatly mitigating the threat they pose. No use of emergency powers or compulsion of intermediary financial institutions would be required: the United States has no constitutional right enshrining the freedom to transact.”

**No limit on negative interest rates.** Beyond having far greater control over people’s spending habits, central banks would also have the possibility of taking interest rates into far deeper negative territory. If there is no cash, there is no means for people to escape negative rates no matter how negative they go. This is one of the benefits often lauded by Harvard economist Kenneth Rogoff of a completely cashless society. Yet central banks continue to insist that physical cash will not be eliminated once the CBDCs are fully operational. But as I’ve noted previously, central banks are not exactly known for keeping their word.

**Financial exclusion on steroids.** One of the most important benefits of cash is its universality, making it a vital public good, particularly for the poorest and most vulnerable in society. Also excluded

in a purely cashless society would be anyone who objected to having others spy on their transactions (h/t hickory). As I note in my book, [Scanned: Why Vaccine Passports and Digital Identity Will Mean the End of Privacy and Personal Freedom](#), if central banks and governments were to do away with cash or to vastly accelerate its demise by penalizing its use (while incentivizing the use of CBDCs), we would probably see a huge increase in financial exclusion:

Even proponents of CBDCs admit that central bank digital currencies could have serious drawbacks, including further exacerbating income and wealth equality.

“The rich might be more capable than others of taking advantage of new investment opportunities and reaping most of the benefits,” says Eswar Prasad a senior fellow at the Brookings Institute and author of *The Future of Money: How the Digital Revolution Is Transforming Currencies and Finance*. “As the economically marginalized have limited digital access and lack financial literacy, some of the changes could harm as much as they could help those segments of the population.”

So, not only will the introduction of CBDCs strip global citizens of one of the last vestiges of freedom, privacy and anonymity (i.e., cash), it could also exacerbate the upward transfer of wealth and power that many societies have witnessed since the COVID-19 pandemic began.

Lyons warns that CBDCs, “if not deliberately and carefully constrained in advance by law,... have the potential to become even more than a technocratic central planner’s dream. They could represent the single greatest expansion of totalitarian power in history.”

Given how much is at stake, CBDCs are among the most important questions today’s societies could possibly grapple with — not only from a financial or business perspective but also from an ethical and legal standpoint. They should be under discussion in every parliament of every land, and every dinner table in every country in the world.

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