



Wall Street Says a Fed Digital Dollar Spells Destruction for Banks

Description

USA: The U.S. Federal Reserve is considering whether to launch a CBDC like other nations, and bankers argue that's a dangerous idea.

Wall Street bankers are arguing that the Federal Reserve launching its own digital dollar could crack the foundations of banking as we know it, according to letters industry lobbyists sent to the U.S. central bank on Friday.

The Fed invited comments on a [report](#) exploring the future of a potential central bank digital currency (CBDC) issued in the U.S. A government-run digital dollar could have profound implications on the financial sector, and also on the stablecoins issued by cryptocurrency firms.

“Current research overwhelmingly undermines the purported benefits of a CBDC and instead indicates that a CBDC would seriously disrupt the financial system, significantly harming consumers and businesses,” said Greg Baer, who runs one of Wall Street’s lobbying arms in Washington, the Bank Policy Institute.

Another banking group in Washington, the American Bankers Association, predicted in its own letter that a digital dollar would mean “deposits accounting for 71% of bank funding are at risk of moving to the Federal Reserve.”

That would dramatically increase the cost of funding in the banking sector to an “unsustainable” level, the ABA [letter](#) said.

The Fed board has been weighing the logic of introducing a digital dollar, although officials have been careful to remain neutral and suggest that any plan should have the backing of Congress and the

administration. That's the line, too, that Michael Barr – President Joe Biden's pick to be the next Fed vice chairman for supervision – [echoed](#) at his confirmation hearing last week. However, several new Fed board members were sworn in on Monday, marking an official transition to the era of Biden appointees.

While a U.S. digital dollar has frequently come up in congressional hearings and debates over legislation, no bill has yet found traction that would encourage the Fed to set it in motion. The early negotiations over a CBDC often include its potential effect on stablecoins, and Fed Chair Jerome Powell has said he expects private stablecoins could coexist with a digital dollar.

BPI's letter also [argued](#) that “one of the most frequently cited reasons in support of a CBDC is that it would increase financial inclusion, yet, as discussed further below, we are unaware of any substantiated use case for CBDC that would benefit low- and moderate-income people.”

By Jesse Hamilton

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