

Central Banks Moving to Digital Currencies

by Xiong Yue via kwang - Mises Institute *Sunday, Sep 18 2016, 9:27pm*

international / prose / post

On January 20, 2016, People's Bank of China (PBoC) released an announcement on its website about its digital currency conference. At the conference, the PBoC urged its digital currency team to speed up effort and [release its own digital currency](#) quickly. Similarly, [Bank of England](#), [Bank of Canada](#), and some other central banks also expressed similar intentions to or claimed that they had considered issuing their own digital currencies. Since its creation, Bitcoin and other digital currencies have inspired the issuance of many private-issued and denationalized digital currencies.



It now appears that the adoption of central bank-issued digital currencies are becoming a global trend.

Why do central banks, which already fully control the issuance of currencies, need to bother with digital currency?

Well, this question is both interesting and important. To answer it we need first to understand some basics, Digital Currency 101:

Unlike Internet banking and third-party payment services using traditional electronic payment tools to facilitate fiat money transmission, digital currencies represent a new class of technology. They are developed out of a number of brand new and groundbreaking technologies — they are not tools to transmit money; they are arguably money themselves. Among them, one particular kind utilizes modern cryptography, earning its name crypto-currency. Bitcoin is an example of this kind of digital currency. After its creation, the idea inspired and led to many similar systems. Some commercial banks and central banks also work on their own digital currencies. Depending on their issuers, we can divide all digital currencies into three categories:

1. Digital Currencies Issued by Non-Financial Institutions

In November, 2008, someone under the alias of Satoshi Nakamoto invented a new technology called Blockchain and for the first time introduced the concept of a peer-to-peer electronic cash system, also known as Bitcoin.¹ On January 3, 2009, the code was released. Due to its peer-to-peer and electronic nature, digital currencies can be transferred directly between two individuals without a centralized clearance house. Thus, it is a fast, low-cost, and nationality-neutral payment system.

2. Commercial Banks-issued Digital Currency

Some large international financial institutions, attracted by digital currency for its low cost, high speed, and security, are also trying to utilize its underlying technology, known as Blockchain, as the basis to build their own proprietary digital currencies. Banks involved in such areas include UBS, Deutsche Bank, Santander, and BNY Mellon, some of the most [prestigious banks worldwide](#). Their digital currencies are similar to the aforementioned ones, only they have different issuers. Worth noting is that most financial institutions' digital currencies are designed to meet their need for fast settlement, rather than to challenge the financial status quo by replacing central bank-issued fiat money.

3. Central Bank-issued Digital Currency

Some central banks, such as PBoC and Bank of England, after having done some research on digital currency, also plan to issue their own central bank-issued digital currencies (CBDCs). Technologically, CBDC is similar to the aforementioned two, but due to its pedigree, it might have greater economic implications and this is exactly the outcome that PBoC intend by introducing CBDC.

There are at least three implications of CBDC, i.e., three reasons for CBDC to governments.

To Create a Cashless Society

Governments hate cash. This is to a great degree the reason that the governments want the central banks to issue their own digital currencies.

For government, although cash is the original form of its fiat money, it has some obvious shortcomings. When compared funds stored in financial institutions, cash is less controlled by the government. Once cash leaves the banks, it becomes hard to trace. The government can't know the location of each bank note, who owns it, or even if it still exists. This made cash easy to be used for drug dealing, smuggling, tax evasion, money laundering, and even funding terrorist activities. Meanwhile, cash owned by individuals can also be the target of burglars and robbers.

What's more important is that cash can undermine the effectiveness of the government's negative interest policy. When the negative interest rates dropped to a unbearable level, savers would abandon the convenience and security of depositing money in banks — they may withdraw their money and store it at home in cash. This makes it hard to implement the negative interest rate policy.

This is the very reason why the European Central Bank decided to stop issuing the 500-euro note while Lawrence Summers, the former US Treasury Secretary, advocated abolishing the 100-dollar note — prior to it, the US already stopped issuing the 500-dollar note and larger ones in 1945.

However, as long as the public is still able to withdraw cash from banks, no matter how the government restricts the use of cash, large amounts of cash would continue to exist outside the government-controlled finance system. This is not something that governments want. But, in a society where central bank-issued digital cash is fully adopted, CBDC can replace traditional form of money and achieve the central bank's goal of removing cash. Once that comes a reality, governments can monitor citizen's personal financials down to every single transaction and invalidate ones that are deemed to be illegal. It also makes it impossible for people to withdraw cash and store it at home in response to negative interest rates. This will only serve to worsen the

financial exploitation. Just as Joseph T. Salerno pointed out in his article "[Why Government Hates Cash](#)":

Now the reason given by our rulers for suppressing cash is to keep society safe from terrorists, tax evaders, money launderers, drug cartels, and other villains real or imagined. The actual aim of the flood of laws restricting or even prohibiting the use of cash is to force the public to make payments through the financial system. This enables governments to expand their ability to spy on and keep track of their citizens' most private financial dealings, in order to milk their citizens of every last dollar of tax payments that they claim are due.

Steal the Spotlight from Bitcoin and Other Private-issued Digital Currencies

The current monetary system is unfair, riddled with flaws and built on shaky ground. Economists of the Austrian school, among others, have gone to great efforts to explain this. The birth of private digital currencies presented an opportunity to make a difference by reforming money and the financial systems. The governments, however, are inevitably threatened. They envy the attention that digital currencies have received. But most governments were reluctant to declare digital currencies as illegal since that would contradict their perceived stance of being supportive of technological innovation.

Thus, although there is no unified stance among different governments with respect to digital currencies, the difference among them is merely a matter of degrees — there is not a single government that has wholeheartedly embraced digital currencies. Those egomaniacs want to divert the public attention away from digital currencies by creating ones they can control themselves.

The outcome is that the government's stances are often in conflict with their own: On the one hand, they try to restrict the development of digital currencies, on the other, they also actively study and develop their own digital currencies modeled on Bitcoin. Take China, for example. On December 5, 2013, the central bank stated, "In order to protect the public's right to property and ensure RMB's legal status as a legal tender and reduce anti-money laundering law, and maintain financial stability." The PBoC worked with the Ministry of Industry and Information, China Banking Regulation Commission, China Securities Regulation Commission, and China Insurance Regulation Commission, and released a [notice](#):

Although Bitcoin is often called "Money," given it is not issued by any monetary authorities, they don't have the status as a legal tender, thus is not a true currency. Judging by its nature, Bitcoin is a virtual good. It doesn't have the same legal standing as currencies, and shouldn't be allowed to be in circulation in the market like real currencies.

No financial institutions and payment institutions should use Bitcoins to price their products and services. They shouldn't buy or sell Bitcoin or seek to insure any Bitcoin-related services or Bitcoin itself. They should not provide their clients with Bitcoin-related services, directly or indirectly.

But this doesn't mean that the PBoC considers digital currency as completely worthless; on the contrary, at their 2016 digital currency conference, they admitted that: "... We had established a dedicated research team starting in 2014, and it believes that "... exploring the central bank issuing digital currency has positive and real implications and fundamental historical meanings."

Replacing the genuine by releasing a copycat — this is certainly not the first time that a government

has done such a thing.

To Achieve a More Accurate Monetary Policy

Central bankers — a bunch of social engineers — have every confidence that they can regulate and control the economy by manipulating monetary policies. Every time their efforts fail, however, they try to scapegoat the market. For example, they would increase monetary supply as a way to give stimulus; however, the money meant to stimulate the real economy was often funneled into the financial market and used for purposes that contradict its original aim. In comparison, digital currencies can afford them better control of monetary policy. This is more than sending “money from the helicopter” to people’s wallets; given that these digital currencies are programmable; the government can even control exactly how to spend this new money using scripts.

For example, if the government plans to subsidize certain farms, say some corn farms, to support this sector of agriculture, they can directly add a certain amount of money to the wallets of some farms, for instance 100 million dollars and program this money to be sent to certain fertilizer merchants at a certain time, and that each can only spend maximum of 10 million dollars per year, and in this way, they can make sure that the farmers won’t squander the windfalls, and that this money won’t flow to other sectors, for instance, the stock market or real estate market.

Even though this kind of monetary policy is bound to fail, from the perspective of government officials, CBDC provides them a better tool. For them, with the help of the CBDC, they can plan and manage the economy better.

Conclusion

Although sharing some similar traits with Bitcoin and other free digital currencies, CBDC is in essence the opposite of what Bitcoin represents with the following three implications:

- (1) With central banks being the issuers of new digital currencies, the government may achieve its goal of building a cash-less society, and, for the general public, the financial exploitation they are subject to are likely to worsen.
- (2) CBDC will steal the spotlight of Bitcoin and therefore help governments to repress the digital currency revolution.
- (3) CBDC may be used as a tool for a more accurate monetary policy (although such effort is bound to fail in the long run).

Confronting this upcoming huge threat, lovers of liberty should stay vigilant and work on countermeasures early.

Copyright applies.

See also:

<http://www.informationclearinghouse.info/article45500.htm>



<https://mises.org/blog/why-governments-want-central-bank-issued-digital-currency>

Jungle Drum Prose/Poetry. <http://jungledrum.lingama.net/news/story-2360.html>