

Remarks for Panel on Which CBDC, If Any, is Right for the U.S.?

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Thank you for the invitation to moderate this opening panel on “Which CBDC, if any, is right for the United States?”. To start, I will offer a broad framing for this discussion.

Digital assets has become a topic of great interest to policymakers in the U.S.. Digital assets are a financial instrument that may be transferred on a distributed ledger, sometimes with a blockchain technology for record keeping. This system enables payments and other financial transactions to occur possibly without intermediaries. In March, President Biden issued an Executive Order calling for a coordinated and comprehensive government approach to digital assets. With this executive order, government agencies will analyze how to ensure the responsible development of digital assets, recognizing the potential benefits of innovation but also the risks.

Today’s panel will focus on digital assets for money and payments, and in particular, digital currency issued by a central bank, or CBDC. We will leave aside cryptocurrencies with highly volatile prices, which are encompassed in the executive order, because they are a less likely or useful option for payments on a widespread basis.

To provide context for the discussion, it's helpful to look at some current money and payment systems. As you can see in the first two rows of a simplified table, today's payment systems include a blend of public and private provision of services. In broad terms, consumers and businesses use paper currency, which is a bearer instrument issued by the central bank, and use bank deposits, which are transferred by a range of technologies. Banks are usually involved in some part of the distribution or clearing of payments, and final settlement often ultimately takes place on the books of the central bank.

Money and payments have changed over time because of innovations to address market failures or to provide a public good. For example, in the 1800s, privately-issued bank notes often failed to trade at par and were subject to runs that generated financial instability. This was a market failure, the government stepped in and provided the public good of a uniform currency. Currently, new technology offered by FedNow aims to provide more real-time and more efficient payments to depository institutions, but does not create new monetary instruments. It will rely on the existing banking system and use deposit money.

In contrast, the next row in the table, stablecoins -- a digital asset pegged mainly to the US dollar and could be used for payments -- resurface old risks and market failures. Stablecoins are bearer instruments issued by nonbanks. They have the potential to generate destabilizing runs if the value of the assets backing the stablecoin decline abruptly. They may also introduce novel payment system risks related to distributed ledger technology. The President's Working Group, or PWG, along with the OCC and FDIC, produced a report on stablecoins and

highlighted these prudential risks, and recommended Congress pass legislation to address them.

Against this backdrop, we can ask “What does CBDC offer? What is the market failure that the public good of a CBDC could address?” The next slide highlights some key values expressed in the Executive Order which are relevant to the future of money and payments. Global financial leadership to reflect our democratic values, and national security are prominent. Other values include economic growth and financial stability, including global competitiveness; technology advances, including the ability to protect privacy; financial inclusion because of lack of access to financial services or high costs; and payment system efficiency. As you can see, there are many public goods on this list, which suggests that greater efficiency of the payment system may not be sufficient to justify a CBDC.

The executive order also calls on the Fed to separately continue to research and report on a potential CBDC and design features, to consider implications for the efficiency of payments and the ability to conduct monetary policy. This work will build on the recently-issued Federal Reserve paper on money and payments, which seeks public comments on the benefits and risks associated with issuing a CBDC.

We have a substantive set of issues to explore today. We will start with Professor Charles Kahn, University of Illinois, who has written a paper for this conference to provide insights from the experiences of other countries with CBDC. Then David Mills, Federal Reserve Board, will discuss the Fed paper and considerations for the US central bank; and Paul Kupiec, from AEI will offer a specific proposal for a new

money and payments system. We then will open it up for a general discussion among the panelists and questions from the audience.