The Road to Dystopia is Paved with CBDCs

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- What is a Central Bank Digital Currency and how would they work?
- How would a CBDC be different that Bitcoin, Etherium, or other cryptocurrencies?
- Would an American CBDC been an economic boom, or a liberty bust?

In every dystopian novel or movie I can think of, there is either an oppressive government or a government not functioning at all. As we travel this road of life, we should be asking ourselves if any action we take will lead to more liberty or more control? Take for example Central Bank Digital Currencies, or CBDCs for short. Would this new currency allow Americans more liberty or would it give government more control of our lives? To understand this, we first need to look at what CBDCs are. Then we need to answer a couple of questions. First, would an American CBDC be constitutional? Second, let's look at this proverbial digital coin and decide for ourselves. Do the benefits outweigh the costs?

What is a Central Bank Digital Currency?

The main difference between digital currencies and what most people think of as currency, is physical existence. The current dollar is a physical currency. You can hold it in your hand, either as coins or bills, trade it with others, or store

it for later use. A digital currency only exists in a digital form, meaning they're only numbers on a ledger somewhere, and can only be traded via computer or other electronic device like a smartphone. Digital currencies should not be confused with payment apps like Venmo or PayPal or with credit or debit cards. All current payment options, whether digital or physical, are trading in "physical" dollars created by the Federal Reserve, though that's a good place to get an understanding of how an American CBDC would work.

In today's economy, the Federal Reserve, America's central bank, creates money digitally. They don't create a digital currency, but they create money by making changes to a digital ledger, then buying bonds from the U.S. Treasury in the same amount. In effect, the Fed creates money to loan to the federal government through the U.S. Treasury. This money then enters the economy through the reserve banks, where other banks can borrow at what is known as the Federal Funds Rate. This is the interest rate we keep hearing about when the news reports the Fed is raising or lowering interest rates. When you go to your local bank for a loan, they give you the money from their assets, and if necessary, borrow additional money from the federal reserve to keep themselves liquid. The important difference between the money the Fed creates out of thin air and the digital currency we've been talking about is, you can always convert your money into physical cash, which you cannot do with a digital currency.

How Did We Get Here?

When I was a child, living in New York City, I was not allowed to leave the house without a dime in my pocket. (Yes, a payphone in New York City was only a dime when I was a child!) This is an example of physical currency we're all familiar with. Just like any physical currency, it has its drawbacks. It can be lost or stolen, and it can be quite inconvenient when dealing with large sums of money or when trying to get change from that teenager working behind the counter. When I

was a child, certain businesses would extend credit to good customers to make life easier. Don’t worry about carrying cash or making change. Simply charge it to your account, then pay the bill at the end of the month. This, too, was inconvenient, since you had to pay each business separately, and it didn’t work at places where you had not previously set up an account. Then credit cards entered the scene.

The first credit cards, Diners Club, were given out in 1950 (before I was even born), and were only accepted at a handful of restaurants around New York City. This idea exploded, and today there are hundreds, if not thousands, of companies offering credit cards. On its face, a credit card is a simple thing. When you purchase something on a credit card, the credit card company pays that business, minus a fee. Then, at the end of the month, you get a bill from the credit card company showing all of the charges you have made, and you write them one check. This is quite a convenience, especially in today’s mobile and online society. After all, you can’t exactly put a bunch of twenty dollar bills into your computer when you purchase something from Amazon. I still remember, when I first entered the business world, my father recommending I get an American Express card. They are accepted all over the world, and they have no fixed spending limit, which is very helpful when you have to fly to San Jose, CA, with very little notice. Like anything else though, credit cards have their downside. The fees charged by the merchant banks that process the credit card transactions can become quite expensive, driving the cost of goods higher. I still remember when gas stations used to charge different prices whether you paid in cash or with a charge. The second problem was that these card companies were extending credit to their users. This made it harder for young people, just entering the market with no credit history, to get a credit card. Enter the debit card.

In 1966, the Bank of Delaware issued the first debit card. It

works similar to a credit card, except the company doesn't extend you credit for the purchase, they deduct it directly from you bank account. For that reason, debit cards are generally issued by banks or other institutions where you keep your money. This direct withdrawal from you account solved the credit issue, but not the cost of accepting these cards. However, their convenience has led to the widespread adoption not only of accepting credit and debit cards, but using them instead of cash even for a small purchase. Credit and debit cards are not a form of digital currency. When you use "plastic" to pay for things, the currency is still dollars, yen, or British pounds. Also, you are doing business with your bank or credit card company, not the government. If you've ever looked at the little terminals you use for a card purchase, you've seen "Authorizing" pop up on the screen. This is the terminal contacting the business' payment center to make sure they will get their money. If you don't have sufficient funds or credit on your account, your purchase will be declined. The ubiquity of the use of credit and debit cards have helped create the situation where digital currencies can flourish. The other phenomenon leading to this push for CBDCs was the explosion of cryptocurrencies.

Cryptocurrencies

In response to the lax monetary policies created by Congress, people have always looked for ways to protect themselves from the volatility and inflation of government fiat currencies. (A fiat currency is one not backed by physical assets such as gold or silver.) The problem is, most alternatives involve physical assets which have the same problems as cash. Which gave rise to the cryptocurrency. In 1983, cryptographer David Chaum proposed a form of electronic cash, a token currency that could be transferred between individuals safely and privately. Chaum founded DigiCash in 1990 and created the first cryptographic currency called eCash. Although DigiCash went bankrupt in 1998, the encryption tools played an

important role in the development of today's cryptocurrencies. Not all digital currencies are cryptocurrencies. The Bitcoin and Ethereum most people are familiar with, use cryptography to both secure and verify each transaction. Cryptography is also used to create and manage the currency itself.

The biggest advantage of cryptocurrencies to date is that they do not involve any government entities. When you make a digital transaction using a credit or debit card, you are still transferring dollars, created and managed by the federal government. Not so with most cryptocurrencies. Attempts have been made to create a cryptocurrency based on the U.S. dollar, but it was unsuccessful. There are several practical disadvantages to cryptocurrencies. First, the cost of creating the currency is quite high, which helps lead to the second disadvantage, volatility. If you wish to trade in cryptocurrencies, you better have nerves of steel as the value of a single Bitcoin or Ethereum token can change by thousands of dollars in a single day, or even in a single hour. The last disadvantage I want to bring up today is more technical. Every cryptocurrency I know of uses a blockchain as its ledger. The cryptography necessary for the blockchain to work requires a significant amount of computing power. For this reason, anyone using a blockchain has to balance how frequently the blockchain updates with the cost of the computing power needed for those updates. For that reason, most large scale blockchains I'm familiar with only update every 5-15 minutes. Most people I know don't want to be standing in the checkout line at the grocery store for five minutes while their cryptocurrency transaction gets posted to the blockchain.

From a government point of view, cryptocurrencies pose a problem. The government can't see what's going on. Most of you probably know that any transaction over $10,000 are reported by the bank to the IRS. You may even know that it is considered a federal crime to structure your deposits to remain under the $10,000 threshold. Recently, the IRS has been

warning people that transactions over $600 through online payment facilities. like PayPal or Venmo, will also be reported to the IRS. All of this under the guise of preventing money laundering and financial terrorism. That means that the federal government is surveilling as many of your financial transactions as they think they can get away with, but what happens if cryptocurrencies find a way to mitigate their disadvantages or people just get fed up with the ongoing surveillance state? They may start doing business in crypto, and leave ole' Uncle Sam in the dark. Enter Central Bank Digital Currencies.

American Central Bank Digital Currency

Before getting into the details, there's a question we need to answer. Would an American CBDC be constitutional? Under Article I, Section 8, Clause 5 of the Constitution, Congress has the power,

To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;

U.S. Constitution, Article I, Section 8, Clause 5

Like so many words in the English language, their meaning is dependent on the context and on the part of speech. In the phrase, "To coin Money", the word "coin" is a verb, meaning:

1. *To stamp a metal, and convert it into money; to mint.*
2. *To make; as, to coinwords.*
3. *To make; to forge; to fabricate; in an ill sense; as, to coina lie; to coin a fable.*

Coin (verb), Webster's 1828 Dictionary

That means that Article I, Section 8, Clause 5 delegates to Congress the power to make money, including a digital currency. There are some real advantages to a digital currency. Much like a credit or debit card, it would be easy

and convenient to use. Since most of our credit and debit cards have chips on them, I wouldn't be surprised if early version of an American digital currency would be issued on a the exact same type of card. Of course, there would also be an app for your phone, but issuing currency on a card would both be familiar and help calm any fears many people would have about requiring the use of a smartphone or smartwatch for all of your transactions.

Conclusion

Since a digital currency would not have the cryptographic overhead of a cryptocurrency, the transactions would be faster. Not just in person, but for anything you pay for, like mortgages, utility bills, or buying a car from a neighbor. No worries about the check bouncing or having to wait days for it to clear. Digital currencies would also be cheaper, with no transaction fees to be paid. While some proponents point to saving money on wire transfers, that's something I don't think most Americans use regularly, so this points to the largest disadvantage of CBDCs.

When you use a credit card, debit card, payment app, or wire transfer, you are dealing with a bank or credit card company. When you use a CBDC, you are dealing directly with the Federal Reserve. That's right, each and every transaction you make with a CBDC will be recorded by the Federal Reserve, and therefore be known to the federal government. Remember when you saw "Authorizing" on your payment terminal? Well, with a credit card, debit card, or payment app, that was the system checking with your bank or credit card to authorize the purchase. What happens though, when it's the federal government that's doing the authorizing?

Do you remember when Canadian Prime Minister Justin Trudeau froze the bank accounts of truckers for peacefully protesting COVID lockdowns? Proponents of CBDCs claim that these concerns can be mitigated by not making their use mandatory. Now take a

look at recent history. Do you really believe that governments won't outlaw the use of other currencies? Back in 1971, then President Richard Nixon ordered his Treasury Secretary John Connally to suspend the ability of foreign banks to exchange dollars for gold. This was the end of dollars being attached to the price of gold, or as it's more commonly known, the gold standard. What would stop a future President from simply issuing an executive order to prevent federal departments from accepting or paying with anything other than an American digital currency? Based on recent actions in response to COVID-19, I would expect just about any President to issue an executive order demanding that companies with more than 100 employees only do business in "Digital Dollars".

Now imagine you are making a purchase using your "Digital Dollars". That "Authorizing" message has new meaning, as you wait to see if the federal government will authorize your purchase. Unfortunately, that won't be the end of it. Suppose the Federal Reserve decides to implement a negative interest rate. How can you protect your money from these federal raiders if you are required to keep your money in accounts they hold? Imagine going to purchase something only to find that some percentage of your bank account disappears every month. Imagine the federal government decides to fine you for misinformation. You know, like PayPal tried. No trial, no due process, just money gone from your account. And in the midst of this, you have no place to go. Sure, you could probably trade in gold and silver on the black market, but wouldn't you expect Congress to pass a law calling that money laundering or financial terrorism?

Should the United States implement a CBDC, then the failure of the republic would be complete. All it would take is the Fed refusing to honor cash and everyone would be forced to do business with one bank, the Federal Reserve. We would look more like Communist China than the country created by the Framers of the Constitution. This experiment in self

government will have failed, and the answer Benjamin Franklin's gave to "what kind of government have you given us?" will haunt our ears.

A Republic, if you can keep it. – **Benjamin Franklin**

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