Cambridge University Press & Assessment
978-1-009-75844-4 — Totalitarian Money?
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Excerpt
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The Case against Central Bank Digital Currencies

1.1 INTRODUCTION

For preliminary purposes, we can define a Central Bank Digital Currency (CBDC) as a digital currency issued by a central bank to retail customers.

When digital technology was in its infancy nearly fifty years ago, there was a sense that future developments in IT would pose a major threat to financial privacy and ultimately to civil liberties. This threat gave rise to a pro-privacy ‘cypherpunk’ movement whose efforts led to major improvements in cryptography and ultimately made it possible to build new private digital currencies – Bitcoin and the many ‘altcoins’ that followed – based on the principles of secure cryptography.

Over the past decade, however, the pendulum has swung back towards centralisation and control and given rise to CBDCs. These have proven to be popular among central banks and ruling elites all over the world; CBDCs would allow these groups to benefit from immense increases in their power to control ‘their’ populations, to the point where central banks could potentially monitor and control their every transaction. To quote Agustín Carstens, the General Manager of the Bank for International Settlements in a 2020 speech: ‘The key difference with the CBDC is the central bank will have *absolute control* on 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 [absolute control]’ (Carstens, 2020). This power could be used to strengthen and reinforce the elites’ power, promote their own political agendas and silence dissidents. Such concentration of power is inconsistent with the core principles of a free society and, as such, is wrong on principle.

Interest in CBDCs among central bankers has grown rapidly over recent years: the overwhelming majority of central banks have active CBDC development projects and a few have implemented CBDCs already.

However, CBDCs are not so popular among the general population. In the United States, a May 2023 poll by the Cato Institute (Ekins and Gygi, 2023) reported that only 16 per cent of the American public would support the Federal Reserve (the Fed) issuing a CBDC, while 34 per cent were opposed. Twenty-two per cent said they were likely to use a CBDC while 78 per cent said they were unlikely to use one. Results also revealed that a CBDC was about as popular among the population as the government installing surveillance cameras inside their own homes. In the United Kingdom, a 2023 joint initiative by the Bank of England and the UK Treasury was met by a huge public backlash as over 51,000 people expressed their concerns about the initiative during a public consultation. And in countries where CBDCs have already been implemented, the results have been distinctly unimpressive. Everywhere they have been tried, CBDC take-up has been almost homeopathically low despite gimmicky inducements and noisy public campaigns to promote their adoption. Should other countries also adopt them, as seems likely, we might reasonably expect similar results. The CBDC bandwagon is on course to become an enormous flop. Then in late 2024, Colombia, Canada and Australia all paused their CBDC programmes and, on 23 January 2025, US President Donald Trump signed an Executive Order effectively banning CBDCs in the United States.

Thus, the battlelines are drawn for a momentous struggle that will play out over the next few years: we have the elites who support CBDCs, because CBDCs give them more power, and we have the hoi polloi, who oppose CBDCs on the grounds that our self-appointed elites have more than enough power and privilege already.

1.2 Summary of Main Argument

The first point to appreciate about a CBDC is that it is quite unnecessary. Assume, as seems reasonable, that the private sector has at least the same technological capabilities as the public sector. If there is a market niche for a CBDC-type financial instrument, then the private sector could fill that niche at least as well as the public sector could fill it. Given that serious reservations have been expressed about the public sector issuing a CBDC (of which more below), then the wisest course of action would be for the public sector to allow the private sector to fulfil that niche by issuing a derivative known as a *dollar stablecoin* (or pound stablecoin, or whatever) or a *synthetic CBDC*.[1] And since the private sector is issuing stablecoins successfully already, then we know that the demand for an instrument to fill that niche exists. But there is no need for a *Central Bank* Digital Currency as such; that niche is already filled with a financial product that is, as we shall see later, also superior to an actual CBDC. Hence, a CBDC is not only unnecessary, but cannot match what the private sector already successfully delivers.

The main argument in this book is a simple one: that CBDCs offer no benefits to the public that cannot be better achieved using existing tools; at the same time, CBDCs entail substantial disadvantages and risks. These include the risks that CBDCs pose to the stability of the banking system, their inefficiency compared to private alternatives and especially the risks to civil liberties that come from giving the central bank an immensely powerful instrument of surveillance and control. We would be wise to reject them.

As the Canadian monetary blogger J. P. Koning wrote in 2021: 'I've listened to all the arguments made for issuing a CBDC in Canada or the US. It seems to me that everything that a CBDC is supposed to fix can already be achieved by another existing process or institution—and these alternatives are typically cheaper and less risky'(Koning, 2021). At the same time, adopting a CBDC would give policymakers major headaches and expose them to considerable new risks. To quote an American Bankers Association statement to Congress, 'The proposed benefits of CBDCs to international competitiveness and financial inclusion are theoretical, difficult to measure, and may be elusive, while the negative consequences for monetary policy, financial stability, financial intermediation, the payments system, and the customers and communities that banks serve could be severe' (American Bankers Association, 2021, p. 2).

Consider the main proposed benefits of a CBDC. Advocates say that a CBDC would provide consumers with *safe electronic money*. However, money holders are already entitled to safe bank accounts that benefit from government deposit insurance. It is not clear what benefit a new 100 per cent safe money would offer them.

[1] More on stablecoins below.

There is the argument that a CBDC *counterbalances monopolistic or oligopolistic tendencies* in the banking system. But the counterargument is that there are more natural ways to make the banking system more competitive than introducing a new state monopoly. For example, authorities could reduce existing regulatory barriers to entry and they could make it easier for new firms (including foreign firms, fintechs and private firms that issue private digital currency backed by riskless central bank currency aka the synthetics and stablecoins mentioned earlier) to enter the market.

One often hears claims that CBDCs would make the *payments system more efficient* but these claims unravel on close examination. In the US, the key barrier to clearing efficiency is not the lack of a CBDC, but the bankers' opening hours that the Fed still maintains. Move to 24/7 service and payments efficiency would considerably improve. Regulators in countries with better-functioning financial systems typically found no payments efficiency role for a CBDC and the biggest barrier to cross-border payments efficiency is not the absence of a CBDC but the existence of Anti-Money Laundering/Know Your Customer (AML/KYC) regulation that needlessly increases banks' regulatory compliance costs but is almost completely ineffective in achieving its main objective, which is to control criminal money transfers and the businesses underlying them.

Relatedly, it is sometimes said that CBDCs would make for more *efficient relief and stimulus measures*. However, relief payments are not slow because of the payment mechanism, but are slow because of information problems. As Koning (2021) observes, 'If those problems are solved, payments can be quickly sent electronically via regular bank accounts' but if 'those problems are not solved, a CBDC would do little to improve matters'. For governments to provide more rapid relief in future, they need to assemble information on how recipients wish to be paid. 'This is a simple fix' that 'doesn't require building an entirely new payments system' (Koning, 2021).

The most common argument for CBDCs is that they would *improve financial inclusion* – that is, they would help more people to become banked. However, a CBDC does *nothing* to address the reasons why people might not have a bank account and is likely to give them additional reasons to avoid banks. Many such people distrust banks, value their own financial privacy or cannot afford a bank account, despite a range of cheap accounts being offered to them. Also, to the extent that inclusion is an issue, the private sector is better equipped to deal with retail issues than the central bank and is well on the road to resolving it already. If central banks really wish to promote inclusion, they could do so in other ways, such as by reducing regulatory compliance costs to make bank accounts cheaper to hold.

It is sometimes suggested that CBDCs would *improve financial privacy* and provide more privacy than the private sector could. Such claims have it the wrong way round, however. The fact is that the private sector can deliver whatever levels of financial privacy customers might demand, but are restricted from doing so by state regulation, especially AML/KYC regulation. No central bank proposes CBDCs that deliver more privacy than that permitted under those regulations. Indeed, far from enabling greater privacy, CBDCs are a major and obvious threat to it.

Then consider that CBDCs are *dominated* by (that is, are never preferable to) synthetic CBDCs. Synthetic CBDCs are superior in every way – they avoid conflicts of interest and monopoly, promote financial stability, better mitigate cyber-vulnerabilities and so forth, while CBDCs perform worse across all points of comparison. There is *never* any rational reason to prefer a monopolistic CBDC to competitive synthetics.

For all these reasons a CBDC is merely a solution in search of a problem. To quote Facebook co-founder Chris Hughes:

> Well, I came to this excited about the idea of a central bank digital currency. I saw all the positives and everything that felt like it was worth exploration. And then, after spending a year talking to lots of experts researching it, reading everything I could get my hands on, thinking about the political dynamics of all of it, I had a day when I was whiteboarding it out and I just took a step back and said, 'This is really a solution in search of a problem.' We can solve all of these very real problems with other public policy interventions, and creating a CBDC is mostly just hype. (quoted in Brancaccio et al., 2022)

CBDCs are dominated by synthetics and do not offer any benefits that alternatives cannot deliver. There is also no problem to which a CBDC is the natural solution.

The CBDC project itself reflects confused thinking by its proponents. In problem solving, one should start with the problem to be solved, then find a solution that works. However, CBDC advocates start with a proposed solution, but then struggle to backfill it to find a problem it solves. To quote Dr Doug Jackson, the founder of e-gold:

> CBDCs are a terrible idea and central bank interest in the topic has the earmarks of a fad. Every proposed benefit of CBDCs could be provided at lower cost and risk by an alternative approach that would not require the operational participation of any government central bank.

> Moreover, strategic emphasis on CBDCs . . . fails to address multiple chronic – in some cases centuries enduring – problems with legacy monetary, payments and financial systems. . . . A clean sheet of paper approach to identifying these problems and their origins, undertaken at an appropriate level of abstraction and informed by historical data, would enable a systematic analysis revealing core principles and design requirements for possible remedies.
>
> [But this] was not the process that led to discussions of and pilot projects involving CBDCs. All such activities started with advocacy by certain constituencies for blockchain or DLT [distributed ledger technology] schemes and then backfilled to find a rationale for why/how these protocols might be needed or useful. (Jackson, 2019, p. 1)

CBDCs also entail substantial downsides: First, there is the risk that a CBDC would disintermediate the banking system by encouraging bank depositors to convert their deposits into CBDCs. Such an effect would draw deposits out of the banking system and make the banking system both less stable and less efficient. Financial stability problems can also arise out of the contradiction between the need to maintain an elastic CBDC supply, on the one hand, and proposals to reduce CBDC-induced financial disintermediation by issuing CBDCs in restricted quantities, on the other. This contradiction could potentially lead to a situation in which a surge in the speculative demand for CBDC could overwhelm supply constraints and see CBDC prices exceed their 'parity' prices, and thereby further aggravate financial instability.

Second, CBDCs are inefficient for a number of separate reasons: (i) Central banks are not good at retail-facing activities and will never be able to compete against private payments providers who are specialists in such activities. (ii) A central bank that offers payments services and regulates the financial system is conflicted, and it is unreasonable to expect that a conflicted regulator could ever deliver an efficient outcome: the central bank would always be inclined to promote its own payments systems against others'. (iii) CBDCs are more exposed to financial instability than are private sector firms because of single point of failure issues. (iv) Monopolistically issued CBDCs are subject to the usual efficiency drawbacks of monopolies that we see in other areas of the economy – they provide less choice, they charge higher costs, they are slower to innovate and so on. As former Bank of England governor Lord King observed, it would be somewhat odd to try to increase competition by creating a state monopoly. (v) CBDCs are subject to a negative seigniorage problem. The public would be reluctant to pay for them when they could choose to hold deposits that yield them a positive return instead. The banks would be reluctant to pay for them because CBDCs yield them no return and cost them the returns they could have achieved on bank deposits. So the only way to pay the costs of hosting CBDC wallets would be for the central banks to subsidise them. Thus, in adopting CBDCs, the central bank would be shifting from a system that previously worked well to one that can only be sustained by an ongoing public subsidy. The need for this subsidy implicitly acknowledges the inefficiency of the CBDC system and also violates the principle that the central bank should be neutral between different payments approaches.[2]

Third, CBDCs entail serious financial privacy concerns including the possibility of being weaponised against their users. CBDCs can be used to target anyone whose views are deemed to be unacceptable to those in authority, and those targeted could be subject to penalties that could be as severe as being digitally ostracised from the monetary economy. Such weaponisability is fundamentally at odds with the core principles of a free society.

Fourth, for CBDCs to work as intended, it is essential that the public trust central banks to manage the new powers that CBDCs would give them without abusing that trust, but there is no good reason for the public to give them that trust, and evidence, such as the UK public's backlash against the Britcoin proposal, indicates that the UK public do not trust them. The same would appear to be the case elsewhere. Yet central banks remain tone deaf to public concerns on this issue.

Fifth, going further, CBDCs are opposed by both the general public and the banks, and central banks have no practical chance of achieving widespread adoption against strong public opposition. The fact that so many central banks are determined to do their utmost to promote them, merely shows how out of touch they are with the public mood.[3]

Sixth, we should consider CBDCs' track record. Advocates of CBDCs cannot point to a single case where a CBDC has made a country better off. They have been tried and abandoned in Finland and Ecuador. Ongoing CBDC experiments in the Bahamas, China, Jamaica, the countries of the

[2] If the CBDC bears an interest rate, there is the problem that a CBDC would introduce a second interest rate that is risk-free. Even small movements in the spread between the original risk-free rate and the CBDC rate could then trigger large flows of funds seeking to exploit arbitrage opportunities between them. This problem is a major threat to financial stability and has the potential to make monetary policy much more difficult to implement than it already is.

[3] One should also consider the impact of the collateral damage that has been or could be created by efforts to introduce a CBDC. The most obvious example to date is the highly destructive assault on cash undertaken by the Nigerian central bank in furtherance of its policy to promote a CBDC.

East Caribbean Currency Union and Nigeria have extremely low take-up. Evidence from these experiments indicates that when people have alternatives to CBDCs they much prefer those and the average per capita holdings of CBDCs is negligible. Above all, these experiences indicate that the overwhelming majority of people in these countries do not want a CBDC.

Enthusiasts for CBDCs are presumably aware that the public do not want them, but simply cannot bring themselves to respect their wishes. To quote Dr David McGrogan from Northumbria Law School:

> It is, though, a sign of the times that what ordinary people want, or don't want, is not generally considered to be a relevant factor in decisions about policy. What the technocrat wants *is good* by definition, because it is the product of his expertise; the only relevant question to ask is how implementation should take place. Since implementation of a CBDC is thought to need widespread adoption, then people will be made to adopt it. Hence, we see an awful lot of emphasis in the CBDC literature on the question of how it is that people will be cajoled, nudged, persuaded, hoodwinked, or coerced into adoption – given that it must, self-evidently, ultimately be in their best interests [whether they recognise that or not]. (McGrogan, 2024c)

Yet the fact remains that retail CBDCs would provide no tangible benefits and entail serious problems that could be avoided by not introducing a CBDC in the first place. It is as simple as that.

The case for CBDCs should be dismissed.

1.3 Lawrence H. White on CBDCs

In a recent presentation (White, 2024) Lawrence H. White offers a succinct analysis of the basic economics of CBDCs. He destroys the case for CBDCs in half a page:

- First, that money balances are a private good because they are rival in consumption and excludable in supply, so the market does not fail to provide money efficiently. It follows that CBDCs would not provide greater consumer welfare than private alternatives.
- Second, CBDCs would be inefficient at retail payments because central banks have no experience at retail and are not set up to perform retail functions.
- Third, CBDCs would reduce the efficiency of credit allocation, because credit allocation would become politicised due to imposition of government mandates.

- Fourth, CBDCs would become a financial panopticon – the central bank would be able to see (and control) all financial transactions. Thus, a CBDC would threaten financial privacy.
- Fifth and finally, a CBDC would stifle dynamic innovation.

1.4 BEWARE THOSE WHO ARE PROMOTING CBDCS

It is also worth keeping in mind that a whole raft of major international organisations are pushing hard for CBDCs. These include the vast majority of central banks, many governments, the Atlantic Council, the Bank for International Settlements, the European Union, the International Monetary Fund, the World Bank, the United Nations and, of most concern of all, the World Economic Forum (WEF), which meets regularly at Davos in Switzerland.

The WEF has its own agenda, the ghastly Great Reset, based on the idea that the Covid-19 pandemic gives them the opportunity to 'reset' the world as they would have it. In the words of J. B. Shurk:

> The mission objective of the World Economic Forum (WEF) is remarkably simple: the smartest, best people in the world should rule everyone else. In WEF parlance, their schemes of total supervision and behavioral modification will create a 'sustainable' future for humanity. Humans become nothing more than 'things' to be counted, shuffled, categorized, tagged, monitored, manipulated, and controlled. They become nothing more than cogs in the WEF's great trans-humanist, technocratic machine.

Shurk continues:

> Separated from all its pretensions about 'saving the world' from unchecked population growth and climate apocalypse, the WEF is nothing new. Its foundations have been around at least since the time of Plato, when two and a half millennia ago the Greek philosopher proposed that the ideal city-state would be ruled by 'philosopher kings'. Just as Plato surveyed the world and predictably concluded that people from his own vocation should logically govern everyone else, the World Economic Forum's global 'elites' have come to a strikingly similar determination. . . . For a half-century, the WEF's members have been on a quest to devise the perfect global government without any say from Western nations' voting populations, and to no-one's surprise, those same 'philosopher kings' have nominated themselves to do the ruling. How convenient. (Shurk, 2023)

They propose a future in which the rest of us are merely 'useless eaters', superfluous humans who will 'own nothing and be happy' and whose sole purpose is to be reduced to eternal serfdom to serve their WEF

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masters and live at their pleasure. Digital vaccine passports will provide universal tracking of every person's movements but also ensure stick-and-carrot compliance with mandatory orders during periodic declared 'health emergencies'. Personal carbon footprints will measure each individual's 'culpability' for climate change and record everything a person eats and everywhere a person goes, all the time 'nudging' citizens with digital rewards or penalties to modify behaviour towards the government's preferred standards. People will be pushed into 'Fifteen Minute Cities' in which tens of millions can be crammed into small apartment complexes, and move through a maze of entrances and exits accessed solely through digital ID verification and approval. Everyone will get a Guaranteed Annual Income 'enough to keep them sated with avocado toast and vanilla lattes while they watch cat videos at the local Starbucks', as Doug Casey (2022) puts it. Government 'narratives' will dominate dissenting opinion via government-allied platforms that ridicule and censor the thoughts and words of dissident opinions, free speech will be labelled as dangerous 'misinformation' and much of it will be criminalised.

Of course, the WEF also promotes CBDCs that would allow governments not only to track every citizen's income and purchase history in real time but also to limit and control what a person may spend depending upon government-determined social credit scores that are based on how far they conform to government-imposed standards.

The whole WEF programme was condemned in no uncertain terms by Archbishop Carlo Maria Viganò:

> For months now, despite the deafening silence from the media, millions of citizens from every nation cried their 'NO!' No to the pandemic folly, No to the lockdowns, to the curfews, to the imposition of vaccines, to the health passports, to the blackmails of the totalitarian power enslaved to the elite. It is a power that reveals itself as intrinsically evil, animated by an infernal ideology and driven by criminal purposes. A power that now declares that it has broken the social contract and considers us not as citizens but as slaves to a dictatorship . . . (Viganò, 2021)

> My appeal for an Anti-Globalist Alliance – which I renew today – aims precisely to constitute a movement of moral and spiritual rebirth which will inspire . . . those who do not want to be enslaved as slaves to the New World Order. A movement that at the national and local level will be able to find a way to oppose the *Great Reset* and that coordinates the denunciation of the coup that is currently in progress. (quoted in Ellwood, 2021)