The Daily Dish

To CBDC or To Not CBDC

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Even casual followers of federal legislation will be unsurprised to learn that the recently enacted 21st Century ROAD to Housing Act contained a provision unrelated to housing. Yet even sophisticated observers might be surprised to find out that the provision amended the Federal Reserve Act to temporarily prohibit the Federal Reserve from issuing a Central Bank Digital Currency (CBDC). In the spirit of TANSTAAFL (There Ain't No Such Thing As A Free Lunch, popularized by the great Robert Heinlein beginning in The Moon Is a Harsh Mistress), we will refer to this as TAGBNSTAACBDC (There Ain't Gonna Be No Such Thing As A Central Bank Digital Currency; also a lovely village in Wales).

Specifically, the ROAD Act prohibits a "retail" digital currency. The Fed already offers a wholesale version of digital dollars in the form of bank reserves held at the Fed. All of the transfers and accounts are handled digitally, but you can't take your bank reserves and buy a Diet Coke and Twizzlers or a good meal at P.F. Chang's. Those are retail transactions; the ROAD Act is banning a retail central bank digital currency. As Oren Swagel notes in his new primer on the topic:

> *As a digital dollar issued by the Fed, a retail CBDC would be a digital analog to cash. The Fed, under both Chairs Powell and Warsh, has indicated that even after this ban sunsets, it will not issue a retail CBDC in the absence of congressional authorization.*

So, clearly, the Fed is not eager to get into the CBDC business. It is also not obvious exactly what the CBDC business would look like. As Swagel points out:

> *The retail CBDCs prohibited under the ROAD Act could be designed in a variety of ways. (A more in-depth discussion of design considerations can be found in the Fed's 2022 report on CBDCs, the report's accompanying summary of public comments, and a 2022 report from the U.S. Treasury.) One important design consideration is whether*

> *retail CBDCs would be held in accounts directly at the Fed or in accounts provided by commercial financial institutions. Another question is what payment technology would power CBDC transactions. Policymakers would also need to determine whether to make CBDCs interest-bearing, and whether a potential CBDC would have offline capability to conduct transactions without an internet connection.*

Of course, the ultimate question is whether a CBDC is a good idea. The primer contains a nice summary of the pros and cons of providing a retail CBDC. To Eakinomics' eye, it is not a slam dunk in either direction. This is probably not surprising. It seems inevitable that there will be a large amount of digital commerce and that it will be conducted using digital currencies, and financed using digital debt and digital equity vehicles. That's the future. The recent past is a strictly non-digital, off-line world. The key policy challenge in all monetary and financial policies is keeping a level playing field among the alternatives during the transition to the digital future.

That's a difficult policy design class and it may make sense to keep the retail CBDC out of the transition. For now, TAGBNSTAACBDC. But the issue will not go away forever.