

Digital Currency: The Fed Moves Toward Monetary Totalitarianism

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The Federal Reserve is sowing the seeds for its central bank digital currency (CBDC). It may seem that the purpose of a CBDC is to facilitate transactions and enhance economic activity, but CBDCs are mainly about more government [control](#) over individuals. If a CBDC were implemented, the central bank would have access to all transactions in addition to being capable of freezing accounts.

It may seem dystopian—something that only totalitarian governments would do—but there have been recent cases of asset freezing in [Canada](#) and [Brazil](#). Moreover, a CBDC would give the government the power to determine how much a person can spend, establish expiration [dates](#) for deposits, and even penalize people who saved money.

The [war](#) on cash is also a reason why governments want to implement CBDCs. The end of cash would mean less privacy for individuals and would allow central banks to maintain a monetary policy of negative interest rates with greater ease (since individuals would be unable to withdraw money commercial banks to avoid losses).

Once the CBDC arrives, instead of a deposit being a commercial bank's liability, a deposit would be the central bank's liability.

In 2020, China launched a digital [yuan](#) pilot program. As mentioned by [Seeking Alpha](#), China wants to implement a CBDC because "this would give [the government] a remarkable amount of information about what consumers are spending their money on."

The government could easily track digital payments with a CBDC. Bloomberg noted in an [article](#) published when the digital yuan pilot program was launched that the digital currency "offers China's authorities a degree of control never possible with cash." A CBDC could allow the Chinese government to monitor mobile app purchases (which accounted for about 16 percent of the country's gross domestic product in 2020) more closely. Bloomberg describes how much control a CBDC could give Chinese authorities:

The PBOC [People’s Bank of China] has also indicated that it could put limits on the sizes of some transactions, or even require an appointment to make large ones. Some observers wonder whether payments could be linked to the emerging social-credit system, wherein citizens with exemplary behavior are “whitelisted” for privileges, while those with criminal and other infractions find themselves left out.

(Details on China’s social credit system can be found [here](#).)

The Chinese government is waging war on cash. And they are not alone. In 2017, the International Monetary Fund (IMF) published a [document](#) offering suggestions to governments—even in the face of strong public opposition—on how to move toward a cashless society. Governments and central bankers claim that the shift to a cashless society will help prevent crime and increase convenience for ordinary people. But the real motivation behind the war on cash is more government control over the individual.

And the US is getting ready to establish its own CBDC (or something similar). The first step was taken in August, when the Fed [announced](#) FedNow. FedNow will be an instant payment system and is scheduled to be launched between May and July 2023.

FedNow is practically identical to Brazil’s PIX. [PIX](#) was implemented by the Central Bank of Brazil (BCB) in November 2020. It is a convenient instant payment system (using mobile devices) without user fees, and a reputation as being safe to use.

A year after its launch, PIX already had 112 million [people](#) registered, or just over half of the Brazilian population. Of course, frauds and scams do occur over PIX, but most are social engineering scams (see [here](#), [here](#), and [here](#)) and are not system flaws; that is, they are scams that exploit the public’s lack of knowledge of PIX technology.

Bear in mind that PIX is not the Brazilian CBDC. It is just a payment system. However, the BCB has access to transactions made through PIX; therefore, PIX can be considered the [seed](#) of the Brazilian CBDC. It is already an invasion of the privacy of Brazilians. And FedNow is set to follow suit.

Additionally, the New York Fed has recently launched a twelve-week pilot [program](#) with several commercial banks to test the feasibility of a CBDC in the US. The program will use digital tokens to represent bank deposits. Institutions involved in the program will make simulated transactions to test the system. According to [Reuters](#), “the pilot [program] will test how banks using digital dollar tokens in a common database can help speed up payments.”

Banks involved in the pilot program include BNY Mellon, Citi, HSBC, Mastercard, PNC Bank, TD Bank, Truist, US Bank, and Wells Fargo. The global financial messaging service provider SWIFT is also [participating](#) to “support interoperability across the international financial ecosystem.” (This [video](#) details the pilot program and how the US CBDC would work.)

The IMF is also thinking of a way to connect different CBDCs under a single [system](#). In other words, the IMF plans to create a PIX/FedNow for CBDCs around the globe:

Things could change as money becomes tokenized; that is, accessible to anyone with the right private key and transferable to anyone with access to the same network. Examples of tokenized money include so-called stablecoins, such as USD Coin, and central bank digital currency.

The reception of Brazil's PIX shows that FedNow will likely be widely adopted due to its convenience; however, this positive economic and technological element should not overshadow the increased control instant payment systems will give to central banks. The BCB has access to all transactions made by Brazilians through PIX, and this would only get worse should a CBDC be implemented. With a CBDC, it would be easier for the government to carry out expansionary monetary policies (which cause misallocations of resources and business cycles) and exert greater control over citizens' finances.

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