A Digital Dollar? Regulatory and Technological Considerations

Keynote Address by Representative Jim Himes

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FEATURING
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Good morning from Washington. I’m Matthew Goodman. I’m senior vice president for economics at CSIS and I’m delighted to welcome you here this morning for this event on “A Digital Dollar? Regulatory and Technological Considerations.”

This is the second in a series of events that we’re doing to explore the possibilities and challenges of a digital dollar. If you’ve been paying attention even lightly to the news in the last even week, there’s been a lot of talk about cryptocurrencies, about stablecoins. We’re going to probably touch on those issues, but we’re really focused here on the question of central bank digital currencies, and we’ve been doing this series over the last few weeks. Last week we learned at our first event that despite movement by other countries – China and others – towards establishing central bank digital currencies, the U.S. is a little further behind for reasons that we’re going to explore – we did explore last week and probably touch on again this week. The promise of a digital dollar has to be weighed against some of the issues around risk, around, you know, the dollar’s current position, its credibility, and its central role in international finance.

So this week we’re going to be joined by both leaders in government and in the private sector to explore some regulatory and technological considerations and challenges around the digital dollar. So we’re first going to hear from Congressman Jim Himes, who I’ll introduce in a second, for a keynote address. And then this will be followed by a moderated conversation with the congressman, led by my colleague at CSIS and senior fellow Gerard DiPippo. So, after that, Gerard will then moderate a panel with two private-sector industry leaders in this – in this field. So Gerard will be running the show shortly.

But now, with no further ado, it’s my honor to introduce Congressman Jim Himes, who represents Connecticut’s Fourth District. And he serves on the House Financial Service Committee, where he is chair of the National Security, International Development, and Monetary Policy Subcommittee. Congressman Himes is a leader in Congress on digital currency issues. Among other things, he was sponsor of a bipartisan 21st Century Dollar Act, and so he’s a real expert in this area and I’m excited to hear what he has to say about the conversation on the Hill about these important issues.

So, with that, over to you, Congressman Himes.

Yeah, good morning. Good morning. And a big thank you to CSIS and to the panel. I’m really thrilled to participate this morning, and “keynote address” sounds pretty daunting. I’m thinking of this as sort of four minutes of reflections on the state of the things that I know about, which is what’s happening inside this building and the Congress.
And it’s actually a pretty interesting moment. And just to – just to locate you, I am chair of the Subcommittee on National Security, International Development, and Monetary Policy, so my subcommittee has jurisdiction over the Federal Reserve and therefore over CBDC issues. I would contrast that – we don’t, for example, have stablecoins, which live in the Investor Protection and Capital Markets Subcommittee. I’ll quickly make some reflections, though, primarily on CBDC, a few on stablecoins.

First, let me just start by saying that – and I don’t say this a lot – that the institution in which I work is actually – I’m pretty proud of the way it is approaching cryptocurrencies generally, CBDC in particular. And the reason for that is that all of the various sort of factions and ideological groups in the Congress see in the possibility particularly of a CBDC but generally speaking in cryptocurrencies and stablecoins – see attractive possibilities and potential.

So my more progressive colleagues are really intrigued by the notion of bringing the unbanked into a more formal environment, lower-cost money transmission around the world, remittances. There’s a lot of people who are concerned about making sure that the dollar does not see its position as the primary reserve currency eroded. Many of us are super intrigued about the possibility of establishing a baseline CBDC that is a platform for all kinds of different innovative businesses and ideas, products and services, and a little concerned that we may, in fact, be just a little bit behind other countries, certainly the EU, the U.K.; China, which we worry less about because China has its particular issues with respect to a government-controlled currency. But nonetheless, it does feel like we may be just a little bit behind.

We are to hold a hearing in the full Financial Services Committee next week on CBDC, so I would urge you to tune in. But just to – just to paint a picture of sort of what the political questions look like here, what I just said stands largely true. There are those – it’s a relatively small minority, but those who simply don’t want to hear about cryptocurrency. And they’re thinking, I think, primarily about stablecoins.

I will tell you there are no worse ways to approach the United States Congress than to have Mark Zuckerberg appear with a global currency that we all fear he’s going to use – (laughs) – to try to take over the world. That was really not the way for the Congress of the United States to get introduced to the concept of a – of a CBDC or stablecoin.

And so, you know, there still are those who just are sort of uninterested, think that there’s nothing there. And then, on the other extreme, there is definitely pushback from kind of libertarian caucus, and the libertarian caucus sort of is really hard after anonymity, about a complete removal of the government from any role in money and monetary policy. The good
news is I think that those two instincts around here are pretty – are pretty small in size. But nonetheless, in the United States Senate in particular, small in size can translate into an ability to slow things down.

So what does this all mean? What this means is that the institution is sort of rolling around to the realization that we do need to advance the case for a CBDC and that we do need to continue to make progress on thinking about how we’re going to regulate stablecoins and cryptocurrencies generally. Not going to happen in this Congress, but you know, I do think that we’re sort of moving in the direction. Two years ago, if you had said cryptocurrency or stablecoins to most members of the Financial Services Committee, I would tell you that 10 percent might sort of be able to give you a couple of sentences. That’s changing pretty rapidly.

With respect to CBDC, last thing I’ll say in these opening remarks, there are other frictional forces. It won’t surprise you to know that private industry is very nervous about a CBDC for what I think of as good reasons and bad reasons. The bad reasons is I’ve been in this job long enough to know that most players in the private market – and by the way, true confession, I was in the private market; I was a Goldman Sachs banker for 12 years – but most people in the private markets are actually kind of not so much looking for free markets and the – you know, the aggressive hand of the market; they’re looking for, you know, having – they’re looking for protection, quite candidly, in many cases against innovation. They’re looking for sort of the stability of their legacy businesses. And so I can’t tell you the number of meetings I’ve had where, you know, somebody who has a legacy, you know, payment system or whatever comes in and says, well, there’s no use case, and by the way if you establish a CBDC you’re going to disintermediate and tank the financial services market, which – the answer to which, of course, is, no, we’re not.

You know, we’re about to release a white paper – when I say “we,” I mean my subcommittee – that will seek to advance this discussion by saying we should have an intermediated CBDC with limits on the amount of money that can be held in wallets so that there’s not a flight to, you know, CBDC wallets in a moment of adverse conditions in the banking industry. It won’t be a surprise to anybody because an awful lot of other countries have sort of arrived at a way you might think about a CBDC that does not – that does not threaten the banking system.

To to those who say, well, gosh, nobody’s going to want to use it, I say, well, why don’t we let the free market establish that? Let’s throw a product out there and see what people do on top of it – you know, what gets innovated, how people feel about it. My own suspicion is – and I say this without a ton of analytical work – but my own suspicion is that a CBDC and innovation on top of it will provide opportunities to people who, for whatever reason, are
skeptical of the traditional banking, traditional payment systems. I do think it’ll lower prices around things like remittances. I don’t imagine it’ll in a meaningful way squeeze out alternative payment systems, but I do think there probably is a demographic and a population that likes it. I do think that we can create it in such a way as to actually add opportunity to the financial services sector rather than threaten it.

I do – and this is sort of a matter of personal opinion – I don’t envision a world where there’s 15 stablecoins competing with each other. And in fact, the existence of a CBDC I think probably reduces the – as I sometimes jokingly say, you know, if you – if you have access to a CBDC, why do you really want to take the risk associated with, you know, Bill’s stablecoin. (Laughs.) There may be an answer to that, but it’s something to think about.

So, anyway, I’ll just close by saying that it sort of feels to me with slightly higher consequences for the financial services market. I was a technology banker in the ’90s, and it sort of feels to me a little bit like 1993 in – with respect to the internet, right? We knew there was something out there. It was big. There was all kinds of crazy ideas, many which – of which in retrospect we know to be truly crazy, but it did transform – it did transform the way we do everything. Now, I’m not sure that, you know – that the scope for cryptocurrencies and blockchain and stablecoins and CBDC, that’s not quite as transformative as – you know, as a global information network, but it feels the same. You know, there’s going to be some really interesting innovation. Congress needs to move in a careful and prudent way. And you know, I think revisit with me in a year or so, but I do think that we’re on that path to sort of understanding and, ultimately, providing the framework for the innovation and the good things that we think could come from CBDCs in particular, but from the – from the blockchain, stablecoin, and all the other products as well.

Gerard Dipippo: Thank you, Congressman Himes.

Hello, everyone. My name is Gerard DiPippo.

So I want to pick up on something you mentioned. You alluded to your belief that there probably won’t be any action this Congress on these issues. Can you just give a quick overview of what the state of legislation, if any, is relative either to a CBDC or to digital assets like stablecoins?

Rep. Himes: Yeah. So there are – there are plenty of frameworks out there. With respect to stablecoins, you know, the president’s working group released a report that I’m sure the people watching here have looked at. The main conclusion of that report was that issuers of stablecoins should have banking charters. That’s a controversial idea around here and we’ve expressed that to
Treasury. And it’s not controversial because it’s a terrible idea, but it’s controversial because, you know, there are those, including myself, asking questions – asking questions like: If you have a fully reserved, one-to-one redeemable stablecoin, do you need to be in a, you know, fully-loaded banking environment? The answer to that question is probably no. But you know, that serves as a framework.

The Federal Reserve’s white paper on a – on a CBDC is more or less at a point of consensus here in the Congress. And, yes, there’s legislation being proposed. My colleague Josh Gottheimer has a stablecoin regulation bill. You’ve seen a lot of activity from Senator Lummis and Senator Warren, in particular, on the Senate side. All of that is contributing to the discussion. But I wouldn’t look at any of that legislative text and say, you know, there’s a significant chance that any of this becomes law in the next six months or so.

Mr. Dipippo: So, building on that, you know, given that there’s no pending legislation on this – and, admittedly, this is a speculative question. But just imagining, let’s say, if in the next Congress there was some, you know, closer attempt at getting legislation passed, what would you think is the feasible timeframe for enacting, testing, and then deploying a CBDC in the United States?

Rep. Himes: Yeah. Let me try to answer the question directly. It’s measured in years, not in months. And the reason I can’t give you a great deal of specificity is that, again, while I think you could pretty quickly find political consensus around the idea that there should be an intermediated CBDC, I think you would pretty quickly get over the political objections of those who would want the Federal Reserve to hold accounts for all that that might imply for the banking system. I think you could pretty quickly get to a point where there was agreement on concept.

Let me just throw out a number and say that, yeah, early in the next Congress maybe the white paper turns into something of consensus. The uncertainty in my answer comes from the fact that the technological and architectural decisions and work that needs to be done here is pretty immense. Not just within the Federal Reserve, which has experience on the wholesale side, obviously, with things like FedNow or Fedwire, in terms of robust systems. But, you know, this is whole different order of magnitude of tech challenges and risks. And that’s true in the private sector as well. So that’s why I say that we’re probably talking years not months.

Mr. Dipippo: And, insofar as you think of this as being a race internationally – so, you know, China and some other countries are much further ahead – do you think that that delay will weaken the prospects for a CBDC? Is it something that bothers you?
Rep. Himes: It bothers me a little bit. And China bothers me less. You know, it’s hard to imagine, given the nature of the relationship between the regime in China and markets generally in the private sector, it’s sort of hard for me to imagine that, you know, Europeans or North Americans are going to be holding digital yuan anytime soon, right? For twelve obvious reasons, you know, including the fact that the Chinese have been pretty untransparent about what the characteristics of the CBDC – of their CBDC would be. In ways that we have to be transparent. I mean, you know, I hear people talk about, well, you know, CBDC would give the Fed the opportunity to impose negative interest rates. Like, all of a sudden you wake up one morning and you’ve got less, you know, CBDC than you did the prior day. I mean, that just poses massive legal and political issues.

So I don’t worry quite so much about China but, yeah, I mean, at a minimum – let me put it this way. You know, we don’t need to win every technological race out there, but we do need to at least be fast followers, right? So if we wake up one morning and the EU has a – has a euro CBDC that lots of, you know, British – well, it wouldn’t be British, I guess – but German and French companies are doing innovation on, you know, we want to be pretty close in that hunt. So yeah. I think one of the more compelling reasons to keep the conversation going – and I tell my private sector friends this a lot – is let’s not – let’s not find ourselves, you know, really left behind around this innovation that this could provide.

Mr. Dipippo: And so you also alluded to this, but that, you know, your view of how already existing, or maybe more, dollar stablecoins and a potential CBDC might coexist. But do you – do you see – or, what would you say to the view that dollar stablecoins are essentially a bridge to that future world? Or do you see them as something that’s kind of on a separate track?

Rep. Himes: It feels to me like a separate track. I’m a veteran of the money market fund regulation wars. And there’s a lot of analogies to be drawn because, of course, in the money market fund world, as I think people understand, there was this popular perception that it was like a dollar. You would – they would never break the dollar – until, of course, they did. And that, you know, set off all kinds of hair-on-fire politics in the Congress and ultimately led to a bailout, and continues to generate all sorts of regulatory push and pull. That obviously is not a world you live in when you’re talking about a CBDC. So I do think it’s actually substantially different.

And one thing I’d want to be a little bit careful about is – again, it’s hard for me to imagine a world of 20 competing stablecoins. That just may be a lack of, you know, creative thinking on my part. But I do think that the existence of a really well-designed CBDC probably, to some extent, constrains the market for stablecoins because, again, why take non-sovereign risk in a
payment system if you don’t need to do that? But again, that’s pretty speculative on my part.

Mr. Dipippo: Recognizing that we’re running out of time, just ask you quickly: If someone said what is your elevator pitch for why the U.S. needs a CBDC, what would you say?

Rep. Himes: I would really lead with, you know, an appeal to the fact that innovation in this country has always been really a joint venture between the government and the private sector. I wave my iPhone around to sort of illustrate that point, right? You know, it is the private sector that develops all of the really cool innovation around pretty much any of our technology, but it’s almost always rooted in basic research or basic investments that the – that the federal government in particular makes.

And so to me this is an analogous situation. You know, let’s create this framework. It’s not going to be to everybody’s taste. It’s not going to – it’s certainly not going to satisfy the libertarians. It’s not going to be a happy place for those who want anonymity, good and bad. But it’ll be a platform that people can probably do global and interesting innovation on. And let’s not get left behind in that fight. Because it won’t be innovation just for innovation’s sake.

It’ll also be innovation that drives – that creates some competition in the financial services markets. You know, as I told you, there’s an awful lot of people coming to visit me in my office about this. But which will also, I think, offer a unique opportunity for people who, for whatever reason, are a little bit uncomfortable in the traditional banking environment to be in a more formal, lower-cost system.

Mr. Dipippo: Congressman Himes, thank you so much for your comments and for your time.


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