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REGULATION

Reasons Why Federal Reserve Need A Digital Currency

Economists believe it is time for the Feds to join the cryptocurrency market



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There are suggestions by economists that it is a good idea for the Federal Reserve of the United States to join the cryptocurrency market. The idea of issuing a digital currency seems a bit down along the way, but it is something to start considering now. The public are starting to get the hang of digital currencies and its underlying technology.

A professor of Finance at Duke University, Campbell Harvey believes that a 'Fed coin' or a cryptocurrency issued by the government of United States can compete with Bitcoin and even turn the digital currency market upside down.

This idea is the opposite what Bitcoin community who believe in a decentralized system without any government control would want. But in an article published by Harvey, he points out five arguments as to why a Fed Coin will be ideal right now.

1. Fed Coin ideal for stimulating the Economy

Federal Reserve purchased assets such as bonds and mortgages to boost the economy during last financial crisis. But, these actions took some time. However, in Harvey's article he shows how the use of Blockchain to circulate the money supply could stimulate the economy directly.

"A national cryptocurrency such as Fed Coin would be able to operationalize Milton Friedman's famous 'helicopter cash' as an alternative strategy to stimulate the economy. A single line of code could instantly put 1,000 USD into every person's wallet.

2. Secure and efficient transactions using a cryptocurrency

Digital currencies on the blockchain are in a distributed ledger with details of the sender and the recipient. These have time logs and cannot be changed as everyone have their own copy of the transaction details. According to Harvey, the blockchain will be a better system than the SWIFT international money transfer system used by the Federal Reserve.

"Digital transactions are quick, cheap and potentially a lot more secure than the system we have today."

3. Difficult for criminals to hide assets

"When police first captured infamous drug lord Joaquín "El Chapo" Guzmán, they also discovered a cash hoard including more than \$200 million, mainly in \$100 notes."

The above extract in Harvey's article show how money is anonymous unlike Bitcoin or similar digital currencies. Cryptocurrencies usually leave a digital transaction trail. So, the use of Blockchain for circulating the supply of money is an ideal solution to prevent criminals stashing wealth.

4. Possible to easily impose Negative Interest Rates

Central banks lower interest rates in line with economy. If the rate falls to zero the influence of Feds' fall too. Then people will keep money in cash than buy anything with negative interest rate. Harvey believes it will be different with a Fed Coin.

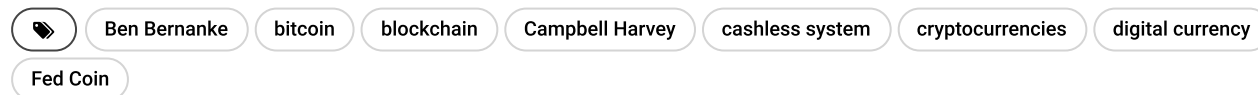
"With a national cryptocurrency, whose supply is controlled by the central bank, rates can be negative."

5. Federal Reserve better with a cashless system

Countries are looking at cashless systems and heads toward a world of cryptocurrencies. Some governments and central banks are already experimenting with Blockchain technology as a more efficient solution.

Several of these points are valid and convincing. So it is possible that we will see a Federal Reserve issued Fed Coin in future. But it might not be sometime soon as Chairman of Federal Reserve, Ben Bernanke is not a fan of Bitcoin. Vitalik Buterin, creator of Ethereum cryptocurrency explains the lack of technical advancements in government possession to create a large-scale decentralized ledger system.

When considering the reaction of the public, there could be two major possible outcomes. One is people starting to go for Fed Coin and reducing the value of Bitcoin greatly. On the other hand, people will neglect Fed Coin and proceed with Bitcoin and other cryptocurrencies which are outside of government control.



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