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5 Reasons the Fed Needs a Bitcoin-Style Currency

By **JEFF JOHN ROBERTS** December 26, 2017

Is it time for the Federal Reserve to join the cryptocurrency craze? The idea sounds far-fetched, but it's gaining traction with some economists, especially as people come to understand the technology that underlies bitcoin and other digital currencies.

The latest to make the case for a so-called Fed Coin is Campbell Harvey, a Duke University finance professor, who argues that a digital currency created by the U.S. government could rival bitcoin—or even push it aside. To carry this out, the Federal Reserve would create a supply of dollars on a blockchain, each with a unique identity like the serial numbers you find on dollar bills.

Longtime bitcoin believers, who favor a decentralized money supply beyond government control, would hate everything about this idea. Nonetheless, here are five arguments in favor of Fed Coin based on Harvey's article (these are his points not mine):

1) Fed Coin Would Be a Useful Tool to Stimulate the Economy

In the last financial crisis, the Federal Reserve bought assets like bonds and mortgages to pump liquidity into the economy. The policy appears to have worked, but it was not especially fast or efficient. If the Fed had a blockchain-based money supply instead, it could stimulate the economy more directly.

"A national cryptocurrency such as fedcoin 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 into every person's wallet."

2) Digital Currency Is More Efficient and Secure

Blockchain-based currency (including bitcoin) relies on an indelible ledger that shows who sent and received money, and when those transactions occur.

The Federal Reserve, of course, also records transactions, in part through the international money transfer system known as SWIFT. But a blockchain system would be superior: "Digital transactions are quick, cheap and potentially a lot more secure than the system we have today."

3) It Would Be Harder for Criminals to Hide Money

"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," Harvey notes. This underscores how cash is anonymous compared to crypto-currencies like bitcoin, which leave a digital transaction trail (though some currencies like Zcash may be truly anonymous).

If the U.S. government got out of the business of printing $100 bills, and relied on a blockchain to circulate its supply of money, it would be harder for the El Chapos of the world to stash their wealth.

4) It's Easier to Impose Negative Interest Rates

Recall how the central bank lowers interest rates to stimulate the economy and stave of deflation. But if interest rates fall to zero, the Fed's influence falls since people may choose to just keep their money in cash rather buy a security with a negative interest rate.

Harvey suggests this would not be the case if the central bank had Fed Coin: "With a national cryptocurrency, whose supply is controlled by the central bank, rates can be negative." (He leaves aside the question of whether negative interest rates are ever a good idea).

5) Cash is Going Away Anyways

A shrinking number of people are using cash—stores like the salad chain Sweetgreen don't even accept it, while cash is disappearing altogether in countries like Sweden. Meanwhile, central banks from Singapore to Canada are experimenting with blockchain technology as a way to control the money supply.

In other words, society is heading towards a digital currency world anyways, so the Fed might as well get going with Fed Coin sooner than later. Yes, we already move money around on the Internet through banks and clearinghouses, but putting the country's currency on a blockchain would be more efficient still.

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Some of these arguments are persuasive and it's hard not to see the Federal Reserve creating a Fed Coin *some* day. In the near future, though, it appears unlikely—especially given the hostility expressed towards bitcoin by the likes of former Fed Chair Ben Bernanke. Meanwhile, Vitalik Buterin, who created the world's second biggest crypto-currency Ethereum, recently suggested governments simply lack the technical chops to pull of something like a large-scale distributed ledger.

Finally, there's the question of how citizens would react if Uncle Sam tried to muscle out bitcoin with a Fed Coin, as Harvey suggested the U.S. could by tipping the regulatory scales. On one hand, the arrival of Fed Coin could destroy the value of existing crypto-currencies—though, on the other, people might flee to assets like bitcoin that are beyond the control of any government.

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