



Zanetti Monday Missive 2023.04.17
CBDC or Central Bank Digital Currency

“If money go before, all ways do lie open.”
~ William Shakespeare

“Money is power, and rare are the heads that can
withstand the possession of great power.”
~ Benjamin Disraeli

Happy Monday Everyone!

We've gotten a few questions from our clients lately asking if a CBDC is going to be established and what would the risks of it be.

Enough of you have asked that I thought it might be worth addressing it in a missive.

First, what does CBDC stand for? It stands for Central Bank

Digital Currency.

Does it use blockchain technology like Bitcoin or the other countless cryptocurrencies?

It could, but doesn't necessarily have to.

For instance, China has instituted a Central Bank Digital Currency but is not using blockchain technology to do so. How can that be?

Well, much of our currency is already digital. Think about how much you buy online. When you buy some "thing" on Amazon, you enter your debit card or credit card data and then you get your "thing." Does Amazon then receive cash in the mail which it deposits into its own checking account?

Of course not! The entire transaction is done with electronic I.O.U.'s. Then Amazon pays its rent, or payroll, or whatever with a similar set of I.O.U.'s.



It's all a big ledger system.

Here's where the current system gets really complicated...

If you use a credit union for your personal banking, and you buy something on Amazon, Amazon probably isn't using your local credit union for its banking. It has its own bank.

Your credit union and Amazon's bank must relay their I.O.U.s back and forth to each other.

This happens trillions of times every day all over the world.

That's why businesses don't get credited in their bank accounts for their debit card or credit card sales for 2-3 days after they've made the sale. This is similar to how floating checks used to work.

But, still, it's all digital.

The CBDC concept would get rid of the middle-man. Who's the middle-man? The credit unions and banks. The Fed would become "The Bank."

And the efficiency for the end user would look appealing.

You can probably see how a lot of folks would quickly sign up for this. Especially if it meant they could get a "stimmy check" instantly. Or perhaps their tax refund – no waiting! Sounds great, doesn't it?

Sure, there would be several efficiencies tied to it. Just like there were when Alexander Hamilton explained that the United States needed one central federal currency instead of multiple state currencies.

Here's the one hang-up with that here in the U.S. The U.S. Treasury doesn't have the authority to issue a CBDC – at least, not without authority voted on by Congress.

Why would congress not just give it authority?

I could see an instance where congress might think it was in the best interest of its citizens and therefore vote to create a CBDC.

Let's say we were hit with, oh, I don't know... a global pandemic and Congress wanted to make sure stimmy checks got in the hands of their voters ASAP. A CBDC would look appealing in that case.

Why would Congress NOT vote for it? Well, first, instead of having a local bank, we all would have one Federal Bank. That's where most reasonable people do a double take.

There would be a monopoly on money – and therefore a monopoly on power. With one administration wielding the power to determine who gets it and why. And, because everything is digital and tracked, instead of us getting digital ads from Amazon or Facebook advertising the latest clothes or household goods they know we already buy – the Federal Government could warn you about discontinuing certain behaviors it disapproved of - or else.

And that's the BIG problem.

So, even though President Biden issued Executive Order 14067 on March 9, 2022, which gave the order to explore the creation of such a CBDC, there is currently no legal authority to create it.

PRESIDENT BIDEN'S EO ON CRYPTO

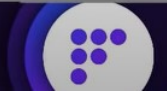
- Directs Treasury, State Dpt, AG to study CBDC
- FSOC will study financial stability of crypto
- AG, CFPB to look at digital asset impact on market competition
- Directs SEC, CFTC to look at market protection



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**BIDEN TO ISSUE EXECUTIVE ORDER ON
REGULATING CRYPTO NEXT WEEK**



There's plenty more to write about here, but in the meantime, this is one area you should know where your elected officials stand.

Your Don't-Forget-To-File-Your-Taxes Financial Advisor,

Walt

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