

Public Trust: The Role of the Private Sector in Exploring Central Bank Digital Currency

Remarks by

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Good afternoon.

Two years ago, Mark Carney, former Governor of the Banks of England and Canada noted:

“The value of money requires not just the belief of the public at a point in time but, critically, the consent of the public at all times....

When it comes to money, the consent and trust of the public must be nurtured and continually maintained.”

I'd like to speak to you about, not just the “value” of money, but the “values” inherent in the digital money of the 21st Century.

Modern money is changing. It is expanding from fungible cash bills and electronic notations on the balance sheets of central and commercial banks to unique digital notations on new digital infrastructure operated by global decentralized collectives, national sovereign governments and private sector entities.

In short, the Internet is doing to finance, banking and money what it has already done to:

- information gathering,
- retail shopping,
- entertainment,

- social networking,
- photography,
- journalism and so much more.

That is:

- increase efficiency and automation,
- lower costs,
- further inclusion,
- unlock new business models, and
- challenge traditional market structures.

Amidst such change, it is time to consider the process of nurturing the “consent and trust of the public” in the quickening digital future of money.

Digital Currency is Coming

Today, well over a hundred foreign governments, representing over 95 percent of global GDP are exploring various forms of central bank digital currency.

That includes 19 of the G-20, with **China** placing its digital Yuan, the eCNY, in over 240 million digital wallets, **the E.U.** potentially deploying a digital Euro by 2025 and, recently, the **U.K.** proposing to roll out a digital Pound by the end of the decade.

A Bank for International Settlements survey suggests that by 2030 there could be **fifteen** retail CBDCs intended for everyday transactions and **nine** wholesale CBDCs used for transactions between financial institutions.

Meanwhile, global stablecoin usage continues to increase dramatically.

Stablecoins settled over \$11 trillion on-chain transactions in 2022, almost surpassing the payment volume of **Visa** and reaching 14% of the volume settled by **ACH** and 1% settled by **Fedwire**.

The supply of stablecoins has grown from less than \$3 billion five years ago to over \$125 billion today.

Stablecoin adoption is inherently global, providing basic, dollar-based financial services to almost anyone/anywhere with an internet connection, providing an alternative from high-inflation currencies and fostering innovation upon new global open-network money movement rails.

It is clear that **both** sovereign and non-sovereign digital currency is coming, and coming swiftly.

Thus, the fashionable debate between CBDCs and stablecoins is already *passee*. It was always a false choice that is now moot.

The global economy of the twenty-first century will include a broad range of ongoing innovation in payments and money, and contain **both sovereign and non-sovereign** digital currency.

In fact, the success of one may be dependent on the success of the other.

In the traditional economy, access to central bank-backed public money—the most risk-free form of money—has always been necessary to support and stabilize bank deposits and all other forms of private money. Individuals have confidence in the safety of their commercial bank deposits, in part, because they know that in a crisis they can withdraw from an ATM physical cash that is backed by a government and its central bank.

It is likely that the success of non-public forms of digital money, whether stablecoins, commercial bank deposits, or other private forms of payment, will similarly depend on the ready online availability of sovereign digital currency, especially as cash use decreases.

And, yet, too little is being done by policy makers worldwide to shape and garner the consent or trust of the public in this evolution in money.

From some on the right side of the political spectrum, certainly in my country, but in Europe as well, comes highly aggressive opposition to CBDC based on little more than assumptions about key design features, including government censorship.

From the left side, comes opposition to developing stablecoin and broader digital asset regulatory frameworks for fear it will legitimize what is already moving mainstream among the citizenry.

Clearly, more needs to be done in Washington, Brussels, London and other capitals to seek the consent and trust of the public in inevitable future of digital money.

The Digital Dollar Project

It is almost four years since I completed my service at the U.S. Commodity Futures Trading Commission. During that time, my agency, the CFTC, oversaw the launch of Bitcoin Futures – the first and most successful crypto product traded in the United States that is legal, liquid, transparent and fully-regulated.

The performance of Bitcoin futures is proof that regulators can engage successfully with digital assets – and do so in a way that garners public trust and confidence.

In January 2020, I co-founded the Digital Dollar Project, a neutral, non-profit forum focused on exploring digital innovation in money and future-proofing the U.S. Dollar in a world of decentralized and centralized, digital currency networks.

The Digital Dollar Project does not call for ready deployment of a US CBDC—or digital dollar. But, it does encourage the U.S. to assert principled leadership in CBDC experimentation at home and digital currency standard setting abroad that is consistent with democratic norms, values, and rule of law.

When the Digital Dollar Project was founded three and a half years ago, it was ahead of the curve in seeing the direction of both sovereign and non-sovereign digital currency. Now it is in the middle of it.

The champion model of CBDC that the Project published in 2020 is today the most common form of CBDC being examined by agencies of the world's democracies.

Some of the work of the Digital Dollar Project is devoted to real-world testing of the challenges and opportunities of sovereign digital money. This summer, the Project published the results of a first-of-its-kind study on the **retail use** of a US digital dollar.

That study revealed the potential of a digital dollar to reduce counter-party risk, decrease settlement times, expand access and provide greater visibility and transparency to individuals sending money to loved ones worldwide. This pilot followed on the Digital Dollar Project's earlier work exploring CBDC for securities settlement.

The Big Deal of Digital Currency

We have all heard about the many possible benefits of digital currency, including programmable, instantaneous round-the-clock payments at much lower cost, and greater access to financial services for both retail and wholesale participants.

It will hopefully strengthen the ability of governments to implement benefits policy, allowing direct infusions of money across economies vastly improving the administration of payments compared to inadequate efforts in the United States during the COVID-19 pandemic issuing paper checks to people locked up at home without access to bank accounts.

Yet, these are only initial achievements.

Ultimately, the vision for digital currency is nothing less than the prospect of fully networked and integrated economies with digital currencies as operating systems and digital tokens as their value components.

In the same way that 19th century railroad and telegraph technology weaved together North America's disconnected regional economies into a continental economy, so does digital currency hold the promise of directly linking the world's many disparate, self-contained silos of financial activity into a series of global, digital currency-based, financial system networks.

Well-designed digital currencies will serve as a digital operating systems – a Microsoft OS – for fully networked digital economies driving far greater efficiency, automation, transparency and access than ever before.

The trajectory is towards the creation of massive-scale, singular currency platforms operated in some cases by central banks and governments. The informal “currency zones” of the twentieth century – the Euro Zone, the Dollar Zone - will yield to highly integrated, digital currency networks of the twenty-first.

The commercial and governmental powers that realize this vision will gain huge advantage in the digital networked future.

Digital Currency: Promise and Peril

Yet, it must be recognized that those digital currencies that prevail – both governmental and non-governmental - will be gathering points for massive amounts of data about the economic and financial activities of users, citizens and voters.

Many thoughtful people across of the political aisle are appropriately concerned about misuse of such “honeypots” of financial data. They are right to be concerned about government invasion of privacy with both CBDCs and stablecoins. They are right to be concerned about the risk of both direct access by government to such troves of private financial data as well as indirect access through political pressure on private-sector actors to conduct surveillance, report on activity and disable financial transactions with disfavored groups and activities in a similar fashion to Western governments’ now increasingly evident censorship of speech on social media.

Regardless of the form of digital currency – sovereign or non-sovereign, it is imperative that democratic society thoughtfully consider privacy implications and design the future of money to be consistent with key democratic laws, norms and values.

Protection of Privacy in Digital Currency

Fit for purpose digital currency regulatory frameworks, including CBDCs, must protect citizens’ privacy rights if the future of money is to enjoy their “trust and consent.”

In democratic societies, lawful transactions in digital money – sovereign or non-sovereign - must be immune from commercial and political surveillance, censorship and overweening pressure to disable otherwise legal transactions. Without it, private economic activity will be frighteningly beholden to BigTech monopolies and the shifting winds of politics.

That is why the advent of both stablecoins and CBDC offers the opportunity to reassess contemporary financial surveillance in its entirety. It is an opening to reverse the lamentable trend of modern information gathering and replace it with a new architecture that can better ensure privacy, while *effectively and efficiently* satisfying important law enforcement and national security objectives.

In fact, individual economic privacy and censorship resistance should be affirmative design features and competitive advantages of a CBDCs of democratic societies, including Europe and the

United States. Designed right, such digital currencies could run on systems that are operationally and objectively transparent, thus providing the public with independent assurance about technical function, security, and resistance to impermissible monitoring, data mining and other exploitation.

Such a design approach will only work, however, if democratic governments are willing to embrace new digital technologies and regulatory approaches for satisfying legitimate national security and law enforcement objectives.

Brilliant minds are developing privacy-enhancing or “PET” technologies such as zero-knowledge proofs, homomorphic encryption, and multi-party computation that enable parties to prove that an encrypted proposition is true without revealing underlying private information.

Combining these PET technologies with big data analysis, pattern recognition, and other algorithmic methods will allow law enforcement to protect privacy by identifying wrongdoing when it actually takes place, rather than invading people’s privacy in case it someday might.

By encoding individual economic privacy into its very architecture, CBDCs of democratic societies can serve as a desired instruments for their citizens and people the world over who aspire to financial autonomy and inclusion consistent with basic human rights and democratic values.

Conclusion

In closing, I return to Mark Carney’s realization that money is as much a social construct, as it is a government one. Its success indeed derives from the trust and consent of the ordinary citizens who place value in it.

They have as much to gain from the digital networking of the world’s financial systems as do governments. But free people also have much to lose if they are silent in the discussion over what values will be encoded in digital money, whether non-sovereign or sovereign.

The world will have a range of digital currencies regardless of whether Europe launches its Digital Euro or the U.S. issues a Digital Dollar.

It is clear that the future of money will be one of digital networks.

Therefore, the question is not a choice is between CBDCs and stablecoins. Nor, is it whether the digital future of money can be forestalled. It cannot.

The real choice is between financial freedom and financial control---and the role of democratic society in driving key design choices and related regulatory frameworks.

The question is:

- whether these new forms of digital currency and the digital network economies they power will make societies more open, prosperous, and free.
- Will they inhibit or empower humanity in the digital future of money?
- Will they diminish or enhance the worth of our fellow citizens and people everywhere?

The choice between freedom and servility in the digital future is being made now.

Democratic societies **must** assert their time-tested principles in a world seeking a sound foundation for a new digitally networked future.

Digital currencies that effectively protect financial privacy in lawful transactions will garner the enduring confidence of free people and those around the world who aspire to live free.

The nation that fosters such digital currencies will win the economic power prize and the enduring trust and consent of its citizenry.

Let's not be afraid of this innovation, but seize it and shape it in accordance with our finest and noblest values.

Thank you.