A Modest Proposal for Central Banks: Remaining Relevant in the Digital Age

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Many potential reasons for central banks to be interested in digital currencies

- Innovation in retail payments
- Replacing cash
- Improving monetary policy at zero-lower-bound
- Financial inclusion
- Simplifying wholesale transactions
But a key reason: Fear of Irrelevancy

Will the central bank lose connection to the payment system?
(And possibly its link to monetary policy?)

Note difference in Central Banks’ Response to Bitcoin and to Libra
A revolution in payments?

We’ve been here before
THE FUTURE OF MONEY

What the big mergers mean
Are banks really necessary?

PERSONALITY GENES
SCHOOL PRAYER LIVES!
THE FUTURE OF MONEY

What the big mergers mean
Are banks really necessary?
Will Microsoft control it all?
• What’s different this time?

• Challenge to the central banks themselves
• And so, serious investigation of possibilities for CBDC
• What has been learned

• Feasible for Central Banks: Definitely

• Advantages over Private Arrangements: Questionable

• The Modest Proposal

• Let private sector develop use cases.
• Focus on interoperability.
• The Australian Analogy

• Australian Fast Payments Strategy: Provide the rails, let the private sector provide the value-added services

• Suggestion for CBDC: provide the medium, let the private sector provide the value-added rails
• Clear advantages:

• Encouraging innovation
• Keeping the central bank in the game
• But what about

• Encouraging inclusion?
• Monetary policy?
• Isn’t that just reserves with a different name?

• Yes, but...

• Maintaining distinction could be useful for large versus small denomination transactions

• Privacy considerations
• Central bank roles:

• Interoperability
• Privacy
• Anti-money laundering
• Network safety
• Conclusion

• Central banks have the capability of issuing CBDC

But their key role needs to be standard-setting for the use of central bank money in private digital applications