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The Dangers Posed by State-Controlled Digital Currency

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It doesn't require too dark an imagination to realize the gravity of the concerns over the digital yuan (<https://web.archive.org/web/20200708161839/https://mises.org/wire/covid-crisis-supercharged-war-cash>). China is a true pioneer when it comes to surveillance, censorship, and political oppression, and the digital age has given the state an incredibly efficient and effective arsenal. Adding money to that toolkit was a move that was planned for many years and it is abundantly clear how useful a tool it can be for any totalitarian regime. The ability to track citizens' transactions, access their financial data, control and freeze the account of anyone that presents a potential threat, it all opens the door to the ultimate oppression: total control over private resources, over people's livelihoods and their capacity to cover their basic needs.

But we don't even have to wait for the first signs of abuse of the system. As part of the government's COVID relief spending packages, digital vouchers were loaded to Chinese citizens' smartphones to encourage them to spend in their local stores. According to Dr. Shirley Yu, visiting fellow at the London School of Economics: "Digital coupons allow the Chinese government to trace the usage of these coupons," and they "allow the government to know which sector is most helped, who uses it and where money is actually spent." Of course, if the government has access to data that allows them to check if their policies were well transmitted and if the money was spent as they intended, they can also use that data to check and trace any transactions for any other purpose.

Xu Yuan, a senior researcher with Peking University's Digital Finance Research Centre, highlighted the regulatory benefits

of making all cashflow in society traceable. “In theory, following the launch of the digital yuan, there will be no transaction that regulatory authorities will not be able to see – cash flows will be completely traceable,” Xu said in an interview. Of course, this thought is scary enough on its own, but it becomes infinitely more terrifying when those who control the system have a very long track record of abuse and blatant disregard for basic rights and liberties.

'It Could Never Happen Here'

That's probably the most repeated argument in our “civilized” Western democracies, right before some terrible governmental abuse of power takes place, or before some new restrictive law or overarching regulation gets passed that limits individual citizens' rights. A lot of people thought that the PATRIOT Act could never get passed, that banking secrecy would always be respected, and that there was no way we'd ever see a global economic shutdown by decree. By comparison, a digital fiat currency is not really that farfetched. In fact, about twenty central banks apart from the People's Bank of China (PBOC) are already actively working on it. As for the possibility of digital currencies and payment systems being enforced, most central bank officials and politicians in the West seem to be quite confident.

In a recent interview, Philadelphia Federal Reserve Bank president Patrick Harker said that a real-time digital payment option was “inevitable,” while the chief of the Bank for International Settlements also recognized that central banks will need to issue their own digital currencies soon. During the corona relief debates in the US, Democratic senator Sherrod Brown advocated for the stimulus payments to be distributed through a digital dollar wallet. The so-called FedAccount program, which the Federal Reserve would be responsible for overseeing, would offer free bank accounts to receive money and make payments.

As for the EU, for many years there has been very strong support for the development of a digital single market. According to a recent European Parliament briefing, “There is no pan-EU retail payment method to date (other than cash in euros), as there is no European card scheme. This is a source of concern for the European Central Bank (ECB)...Thus, the ECB is calling for a European payment strategy to change this situation.” This is by all accounts the next step in the centralization and integration plan of the European Union, and this couldn't be a better time for it to materialize. Given the decline in public trust after the EU's handling of the corona crisis, financial “integration” could be a valuable tool to tie the members tighter together and to force all citizens into a common digital economy, centrally planned and managed.

A Fork in the Road

So, if we accept that digital currencies are inevitable and that arguably their emergence has been accelerated by the corona crisis, the real question is, Who controls them? Who issues and distributes them? Who determines their value? We

stand at a historic crossroads and the answer to these questions can determine the kind of future we'll wake up to. It could be a very bleak one, if the power remains with governments and centralized institutions. In this scenario, money will retain all the flaws and vulnerabilities of today's fiat currencies, only its digital nature will amplify them to an unimaginable extent. The privacy violations of today will become simply unstoppable, a mere fact of life, while disastrous monetary policies, like negative rates, so far only cushioned by individuals' ability to sidestep them through physical cash, will be forcibly and uniformly transmitted throughout the economy.

On the other hand, the future could instead be bright, if we take the other path, toward decentralization, free competition, and individual financial sovereignty. If we instead choose to break the state monopoly of money and allow private digital currencies to compete, a myriad of different solutions will emerge to serve a myriad of different needs. Savings can be accommodated through physical gold-backed digital currencies, real assets can be tokenized to facilitate and secure physical property sales, specialized cryptocurrencies can offer privacy and untraceable transactions. Far from being a pipe dream, many solutions like these already exist, while others are in the making. There is therefore a choice about what kind of future we want, and it is we, as individuals, who must make it.

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