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The Federal Reserve Announces Its First Big Step Towards a Digital Dollar

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The Federal Reserve Bank of the United States has announced that it is launching an instant payment transfer service called "FedNow Service," which has features of a Central Bank Digital Currency (CBDC) and some analysts believe is the first big step towards a "digital dollar."

On Wednesday, within hours of our reporting that the Silicon Valley Bank and Signature Bank failures could spur renewed calls for the U.S. to implement a CBDC, the Federal Reserve announced that the U.S. is rolling out the FedNow instant payment transfer service in July.

"The Federal Reserve announced that the FedNow Service will start operating in July and provided details on preparations for launch," the announcement read.

"We couldn't be more excited about the forthcoming FedNow launch, which will enable every participating financial institution, the smallest to the largest and from all corners of the country, to offer a modern instant payment solution," said Ken Montgomery, first vice president of the Federal Reserve Bank of Boston and FedNow program executive. "With the launch drawing near, we urge financial institutions and their industry partners to move full steam ahead with preparations to join the FedNow Service."

The Fed added that the FedNow Service "will launch with a robust set of core clearing and settlement functionality and value-added features. More features and enhancements will be added in future releases to continue supporting safety, resiliency and innovation in the industry as the FedNow network expands in the coming years."

"With the FedNow Service, the Federal Reserve is creating a leading-edge payments system that is resilient, adaptive, and accessible," said Tom Barkin, president of the Federal Reserve Bank of Richmond and FedNow Program executive sponsor. "The launch reflects an important milestone in the journey to help financial institutions serve customer needs for instant payments to better support nearly every aspect of our economy."

The Federal Reserve says that it developed the FedNow Service "to facilitate nationwide reach of instant payment services by financial institutions — regardless of size or geographic location — around the clock, every day of the year."

"Through financial institutions participating in the FedNow Service, businesses and individuals will be able to send and receive instant payments at any time of day, and recipients will have full access to funds immediately, giving them greater flexibility to manage their money and make time-sensitive payments," The Fed said. "Access will be provided through the Federal Reserve's FedLine® network, which serves more than 10,000 financial institutions directly or through their agents."

As noted by Steve Kaaru of CoinGeek, FedNow has been in the works since 2019 and is "touted to be the fastest way to make payments by financial institutions in the U.S. around the clock, every day of the year. Banks, payment services, and individual users will receive and have instant access to payments made through the service."

The report added that FedNow will "address a challenge that has plagued the financial industry worldwide for several decades: facilitating instant payments. Various players have come up with their own solutions, such as VISA (NASDAQ: V) and Mastercard (NASDAQ: MA), which have Direct and Send, respectively, to enable real-time payments."

It points out that in the U.S., a collective of banks and payment processors known as The Clearing House runs real-time payments, adding that one of the emerging solutions to this challenge has been central bank digital currencies (CBDCs) to facilitate real-time payments. In the U.S., Fed chair Jerome Powell has dismissed the need for a digital dollar, and FedNow is his response to the call for a CBDC.

"The jury is still out on whether FedNow will be a forerunner for the digital dollar or impede the CBDC's progress in the world's largest economy," Kaaru remarked. "For now, what's clear is that it will change the payments landscape in the U.S."

In December, Norbert Michel of the Cato Institute argued that the Federal Reserve should drop FedNow and any plans to launch a CBDC.

"Just like FedNow, CBDCs should be left on the drawing board," Michel argued. "Both usurp the private sector. Supporters of both ignore the many harms that the government has already done to financial markets and assume that the government will provide better solutions this time.'

"If Congress really wants to provide more access to financial markets and ensure more innovation in financial services, members should support more private innovation and competition," he added. "At the very least, they should work to lessen government monopoly and regulation while ensuring that the Fed cannot issue a retail CBDC. Then they can start getting the government out of the payments system business."

While there is currently no imminent plan for the Fed to implement a "digital dollar," a House bill was filed in 2022 to authorize the Treasury to create one. Rep. Stephen Lynch (D-MA) was joined by four other members of Congress in filing the bill: Jesús Chuy Garcia, (D-IL), Ayanna Pressley, (D-MA), and Rashida Tlaib (D-MI).

"The electronic dollar, a virtual representation of a US dollar, would allow people to make payments using tokens on mobile phones or through cards versus cash," Lucas Mearian of Computer World reported on the legislation.

"ECASH (electronic cash), as the bill calls it, would be a bearer instrument that wouldn't require payment processing intermediaries, such as SWIFT, the world's largest payment messaging network," the report noted. "That means payments using ECASH would be near instantaneous — even across national borders — and processing fees would likely be dramatically reduced."

In March 2022, President Joe Biden issued an executive order calling for more research on developing a national digital currency through the Federal Reserve Bank or "The Fed."

The Executive Order called for the Federal Reserve and the Treasury Department to "Explore a U.S. Central Bank Digital Currency (CBDC) by placing urgency on research and development of a potential United States CBDC, should issuance be deemed in the national interest. The Order directs the U.S. Government to assess the technological infrastructure and capacity needs for a potential U.S. CBDC in a manner that protects Americans' interests. The Order also encourages the Federal Reserve to continue its research, development, and assessment efforts for a U.S. CBDC, including development of a plan for broader U.S. Government action in support of their work. This effort prioritizes U.S. participation in multi-country experimentation, and ensures U.S. leadership internationally to promote CBDC development that is consistent with U.S. priorities and democratic values."

The Federal Reserve Bank is still exploring the development of CBDCs. 11 nations thus far have implemented CBDCs, according to the Atlantic Council's tracker.

The World Economic Forum supports the implementation of CBDCs to promote more inclusion and stability in the global digital economy. It cites America's central bank, the Federal Reserve, as saying that if CBDC were to be introduced, it would be "the safest digital asset available to the general public, with no associated credit or liquidity risk."

"The resilience of financial systems could also be boosted," WEF adds. "If a natural disaster or the failure of a payments company made cash unavailable, a CBDC could provide a back-up, the International Monetary Fund says."

More than 100 countries, including 19 G20 nations, are now exploring central bank digital currencies (CBDCs), the World Economic Forum noted.

In the wake of the SVB and Signature failures, the banking system is moving towards consolidation. First Republic Bank, on the verge of collapse, was rescued by a consortium of big banks and lending houses.

"A group of the nation's biggest banks swooped in on Thursday afternoon to rescue First Republic Bank with a $30 billion deposit, a move intended to shore up the beleaguered San Francisco lender amid fears of a broader financial crisis," Fox Business reported.

"JPMorgan Chase, Citigroup, Bank of America and Wells Fargo will each contribute $5 billion; Goldman Sachs and Morgan Stanley will deposit about $2.5 billion each," according to a news release from the banks. "Truist, PNC, U.S. Bancorp, State Street and Bank of New York Mellon will provide about

$1 billion apiece."

"This action by America's largest banks reflects their confidence in First Republic and in banks of all sizes, and it demonstrates their overall commitment to helping banks serve their customers and communities," the coalition said in a joint statement.

J.P. Morgan Chase and other big banks like Citigroup have been flooded with new clients in the aftermath of the bank collapses, the Financial Times reported on Tuesday. In the aftermath of the bank failures, two of the largest in U.S. history, there is renewed concern about a 'domino effect' and where it may be leading.

While the Federal Reserve Bank's official position is that it is yet to launch a CBDC and there are no current plans to implement a "digital dollar," the institution has a long history of moving the goal posts.

According to Fed Chair Jerome Powell's 2017 remarks on The History and Structure of the Federal Reserve, "America's central bank was founded through the Federal Reserve Act of 1913, which was largely a reaction to the Panic of 1907 that caused inflation-adjusted GNP to fall 12% (twice as bad as the fall during the 2008 crisis)."

"After the panic ended, there was a broad sense that reform was needed, although consensus on the exact nature of that reform was elusive," he added. "Some called for an institution similar in structure to the Bank of England at the time, with centralized power, owned and operated by the banking system.

Some wanted control to be lodged with the federal government in Washington instead… The resulting institution was a compromise, created by the Federal Reserve Act in 1913… a more federated system was created, establishing the Federal Reserve Board in Washington and the 12 Reserve Banks located around the country."

As Powell's statement conveys, the Federal Reserve was founded as a "federated system" but has evolved over time into "America's central bank."

"Today, the Federal Reserve sets the nation's monetary policy, supervises and regulates banking institutions, maintains the stability of the financial system, and provides financial services to depository institutions, the U.S. government, and foreign official institutions," the official website states.

As summed up by Thomas Jefferson in a letter to Samuel Kercheval in 1816, it is the tendency of government to grow more powerful and to corrupt society.

"And this is the tendency of all human governments. A departure from principle in one instance becomes a precedent for the second; that second for a third; and so on, till the bulk of society is reduced to be mere automatons of misery, to have no sensibilities left but for sinning and suffering," Jefferson wrote.

Such is the case with FedNow and may be the case with CBDCs. It will then be a matter of time before Fed proponents advocate for a digital dollar. And thus, by that time, it may be too late to stop it.

A digital dollar would be the ultimate instrument of economic and social control. It is therefore the dream of central planners and the nemesis of freedom-loving people in America.

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OPINION: This article contains commentary which reflects the author's opinion.
