

U.S. Will Need Congress Support For CBDC

- **No action anticipated in the next two years**
- **Central bank law changes may be required**

Although the U.S. Federal Reserve is investigating the design of a central bank digital currency (CBDC), legislative changes are required before the country can issue a digital dollar.

Countries such as the Bahamas and China are already rolling out their digital money, while the design of a U.S. digital dollar and its underlying legal framework is still under consideration.

U.S. Fed chair Jerome Powell has [reiterated](#) on several occasions that, as the world reserve currency, the U.S. has the responsibility to get the digital dollar right rather than fast.

However, as the years pass, the U.S. is risking the possibility that others, either private companies such as Facebook or countries that were quicker to issue their digital money, offer a viable digital alternative to the dollar.

Although Powell has not changed his stance on how to approach the digital dollar, U.S. lawmakers [are pushing](#) for the development of a CBDC that they believe can play “a vital role in the continued dominance of the U.S. dollar in international markets.”

Powell has recently confirmed to the Senate that a CBDC is a “very high priority” of the Fed and that the central bank is investing time and labour into the project.

“There are significant, both technical and policy, questions [relating to] how we are going to deal with that,” he said in his testimony before the Senate in February this year, adding that the Fed is “committed to solving the technology problems and to consulting very broadly with the public ... as to whether we should do this.”

Technical research is currently being carried out by the Massachusetts Institute of Technology (MIT) in collaboration with the Federal Reserve Bank of Boston. The participating research team has been investigating the issuance of a secure and responsible CBDC since 2016, but the project is expected to run for a further two to three years.

“I do not think either the Fed or lawmakers will act in the next year or two to enact any changes, as they will at least likely wait until the conclusion of the project with the Boston Fed and the Digital Currency Initiative at MIT,” said Martin Chorzempa, research fellow of the Peterson Institute for International Economics.

Although the Fed seems to fall short on providing any clear specifics on what steps are required

before the issuance of a CBDC, “there is broad consensus that Congressional legislation would be necessary,” Megan Gordon, a partner at Clifford Chance, told VIXIO.

According to a [Bank for International Settlements paper](#) from January, 48 percent of the central banks are uncertain whether they have the authority to issue a CBDC, and “the Fed has also signalled that they would likely need some form of legislation to proceed with the digital dollar,” Gordon added.

The issuance of a CBDC may raise questions about the underlying legal framework, an [International Monetary Fund working paper](#) warned last November, revealing that there may be changes required to the central bank and monetary laws, depending on the design of the digital currency.

In the case of a token-based CBDC, the central bank law should allow the bank to issue “other types of currency” in addition to coins or banknotes, while in the case of an account-based CBDC, legislation needs to allow the central bank to open its payment systems to the general public.

The Federal Reserve Act (FRA) currently “does not allow for the Fed to provide those services directly to individuals or commercial businesses,” Gordon said, adding that “there is relatively broad agreement that the requirement to amend the FRA will depend on what type of CDDBC structure the Fed would like to pursue.”

While the Fed is still mulling the design of the digital dollar, Representative Rashida Tlaib (D-MI) introduced the [Automatic Boost to Communities Act](#) in Congress. As part of a wider COVID-19 package, the bill would authorize the Federal Reserve System to develop and administer a system of digital dollar account wallets available to all U.S. citizens.

As for the monetary law issue, the Fed has previously [stated](#) that “by statute, all currency issued by the Federal Reserve is a valid and legal offer of payment for settling 'debts' to a creditor.”

However, it noted that U.S. statute and federal laws do not compel businesses to accept currency or coins with legal tender status as payment for goods or services.

A digital dollar’s legal tender status “would not guarantee its acceptance in commercial use; that would largely depend on the credibility of the CBDC, including the soundness of the legal framework underpinning it (for example, commercial law rules that facilitate market activities),” the central bank said.

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