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### **“A US CBDC and the Black American Economy”**

In January 2022, the US Federal Reserve Board (FED) issued a long-awaited [report](#) on a central bank digital currency (CBDC). You may be familiar with digital money in the form of Bitcoin, Dogecoin, Stablecoins, etc. In this case, the FED report considered prospects for creating digital money to replace US dollars.

While it is not known definitively when the US will adopt digital money to replace what we know and use today as money, given the push by other large countries such as China and India to adopt digital currencies, it seems realistic that digital money will be in our future—in the near to medium term.

How would a US CBDC work? At least one version explained in the FED report would require everyone desiring to conduct economic transactions to have an account with the FED. Workers would accept compensation payments into their account at the FED. Sellers would accept payments for goods and services through their FED account, and they would make payments via that account. Checks as we know them today would disappear. Banks as we know them would be modified to serve mainly as lenders and investors. Of course, borrowed funds would be deposited in a borrower’s account at the FED. For the CBDC to function properly, the FED would require an even more massive and intricate financial

technology (FINTECH) system than it has currently. Given that all, or almost all, transactions would be conducted through FED accounts, transactions would be near instantaneous and efficient. Welcome to a new aspect of our 21<sup>st</sup> century world.

However, this financial innovation should cause all economic agents to pause and ask: What does this really mean? This is particularly true for Black Americans as some of our economic roles and activities are different from those of economic agents of other ethnicities. Below we highlight a few concerns that come readily to mind:

- Because there are significant “gray” areas in Black America’s economy, what could be “kept off the books” would be brought into certain relief under a CBDC. One important advantage of CBDCs is their ability to enhance tax compliance. This forcing of underground economic activity above ground could serve as a dis-incentive for certain Black American economic activities.
- Relatedly, demonetization may cause those who possess significant amounts of ill-gotten cash assets to lose those assets or risk being prosecuted when those assets are brought into the digital money system.

- At a minimum, CBDCs make possible explicit observance of transactors’ economic activities and a potential “invasion of privacy.”
- Government may very well exploit the CBDC system to impose financial sanctions on those who are deemed to be in violation of a range of rules or laws. Such action is par for the course today when sanctions are imposed on the international level. Also, recent actions by certain governments to impose mandates might be adopted by the US, and the CBDC system might be used to punish mandate violators.
- Because essentially everyone will be in one system, the use of Big Data analytics could facilitate the increased effectiveness of economic racial discriminatory practices—assuming that those who desire to discriminate can gain access to the system.

Undoubtedly, there are other reasons to be concerned about adoption of a CBDC.

Security is certainly an especially important concern about CBDCs that should raise a red flag for Black and White economic agents alike. What we all know for certain about our digital world is that, to date, it has been impossible to secure it perfectly. Therefore, unless the FED can ensure that it has identified the magic bullet for preventing hacking of the CBDC FINTECH system, then we should fear the day when we awaken to a nightmare that all our money has disappeared from our account, and we must fight an anonymous system to prove the validity of our claim and restore our money.

Economists might be over the moon concerning the CBDC system because it can provide the richest real-time datasets ever

with which to study, manage, plan, and experiment with the US economy. But for the average economic agent, a CBDC should raise real concerns that should be resolved before it is operationalized.

We would be remiss if we left this commentary without asking: How can Black America benefit from the new CBDC? One obvious answer is that, because it is a US Government system, Black Americans should benefit proportionally from the work and investments that are required to bring the system into full operation. Some might argue that Black Americans have a limited presence in FINTECH industries, and this may be true. However, there is no better time than now to assist Black Americans in entering the field so that we can benefit as we should. On the other hand, there is one key task that must be undertaken when the CBDC comes online: The destruction or recycling of all physical currency. This is a seemingly low-tech task for which Black Americans should be given the first opportunity to perform.

We close this commentary with a [reminder](#) that the FED will likely have two Black American economists on the seven-membered Board of Governors as final decisions are made concerning the adoption of a CBDC—assuming that these decisions are not already a foregone conclusion. We call on these Black FED Governors to act in our best interests as the process unfolds, and to ensure that we remain fully informed of developments as they occur. If we do not experience these results, then we can conclude that “our representatives” on the FED Board of Governors have been submerged in the system.

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