Should the Central Bank Issue E-Money?
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Why the interest from central bankers?

- The potential threat of bitcoin and loss of seigniorage (or jobs)
- The desire to eliminate cash (expensive, used for illegal activities)
- Provide for broader constituencies of customers
- Better interoperability and stability than private arrangements
Why the interest? (Macro)

- Retain control over monetary policy:
  - Zero lower bound problem
  - Potential irrelevance of central bank money
Some of these are secondary concerns

• For zero lower bound problem, central bank digital currency already exists.
• It’s called reserves
• Fees for switching reserves to cash permits negative interest rates on reserves. (Kimball)
Some of these are secondary concerns

- Fear of irrelevance of CB money – not until wholesale is taken over.
And transaction privacy is good

- Not just for Illegal Transactions
- Protection from Counterparties (Kahn McAndrews Roberds “Money is Privacy” 2005)
- Protection from Provider’s Malfeasance or Negligence
• Distinction between accounts and tokens

Is payment linked to
• identity of account holder (in old days: checks, credit and debit cards)
• or to validity of object being used for payment (in old days: cash or prepaid cards)
• Account custodianship

• Underappreciated aspect of bank responsibilities

• Higher standards for account protection than for transaction processing

• Dealing with losses by individual account holders--not a skill central banks possess in abundance
• Thus successful schemes likely to be tiered, avoiding direct links between public and CB;
In short, skepticism about central bank’s provision of e-money

- Inability to service accounts
- Inability to guarantee privacy
- Advantage at offering reserves for other payment providers (but already exists)
Possible roles for central bank in e-money schemes

- Providing the tokens or reserves on which the system rests
- Deciding on access to these tokens or reserves
- Establishing rules for interconnections
• The key issues for private digital currency

Costliness of lack of coordination
  – but here it is the central bank payments backbone which matters

Danger of central bank irrelevance
  – but here it is the attachment of fintech firms to the backbone which matters
• Conclusion

• Real benefits from digital currency. Long run threats from digital currency to central bank monetary policy

• The key to the solution is not retail central bank currency itself, but effective links between private payment system operators and central bank payments systems:
  access and interoperability