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Predicting the Future: A Byte of Digital Currency

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Abstract

In this paper, I argue that central bank digital currencies (CBDCs) embody great promise in becoming a widespread unit of account. To this end, I begin with examining the current monetary infrastructure, emphasizing the evolution of money as credit and money's key role in financial governance. While my analysis is focused on developments in the United States, modern money creation by sovereign nations has generally followed a similar pattern. This informs my evaluation of the three dominant forms of digital currencies. Digital currencies can be grouped into three categories according to their parties of issuance: cryptocurrencies issued by private organizations such as Bitcoin, currencies promoted by global corporations such as Facebook, and digital currencies backed by the central bank.

Of these three forms, the first two currencies portend a dystopian future of opaque, concentrated power and exacerbated inequality. Without the backing of a sovereign nation, unaccountable and inexperienced governance could jeopardize the value of private currencies. As consumers will need to use existing wealth to purchase new tokens, private digital currencies provide no mechanism to facilitate the access of underserved populations to mainstream financial services.

CBDCs, in contrast, hold great potential for financial inclusion as they allow the unbanked to access the digital economy without a bank account. A majority of central banks across the world have expressed a desire to experiment with digital currencies, with a handful of jurisdictions already

engaging in CBDC test runs. At the same time, central banks might be inefficient at allocating credit, a role historically performed by commercial banks. Early experimenters of CBDCs have attempted to mitigate this potential pitfall by integrating private parties in the development and promotion of digital currencies.

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