

Testimony
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Vice Chair Ammon and members of the committee, thank you for the opportunity to testify today. My name is Nicholas Anthony, and I am a policy analyst at the Cato Institute’s Center for Monetary and Financial Alternatives, a fellow at the Human Rights Foundation, and the author of *Digital Currency or Digital Control? Decoding CBDC and the Future of Money*. The views I express in this testimony are my own and should not be construed as representing any official position of the Cato Institute.

Over the past five years, the term “central bank digital currency” or “CBDC” has gone from a niche academic musing to an economic reality. According to the Human Rights Foundation’s CBDC Tracker, over 1.5 billion people currently live in countries where CBDCs have been rolled out. Yet, the public has largely been left out of this conversation. Many people still have no idea what a CBDC is—let alone whether their government is pursuing one.¹ It is for this reason that I am grateful for the opportunity to testify here today.

The State of CBDCs

So first, what is a CBDC? In short, a CBDC is a digital national currency that is a direct liability of a country’s central bank. Typically, discussions of CBDCs revolve around the retail model, where a CBDC is designed for consumers, but there are also other models designed for financial institutions to use behind the scenes.² At first glance, this description might sound uncontroversial considering most of us make payments digitally every day. What is different with

¹ In a 2023 poll, 49 percent of Americans surveyed did not know enough about CBDCs to say whether they supported or opposed them. Emily Ekins and Jordan Gygi, “Poll: Only 16% of Americans Support the Government Issuing a Central Bank Digital Currency,” *Cato Institute*, May 21, 2023, <https://www.cato.org/survey-reports/poll-only-16-americans-support-government-issuing-central-bank-digital-currency>.

² For a better understanding of the different CBDC models, see Nicholas Anthony and Norbert Michel, “A Breakdown of the Different CBDC Models,” *Cato Institute*, February 10, 2023, <https://www.cato.org/blog/breakdown-different-cbdc-models>.

a CBDC, however, is that the government would ultimately be the one processing those transactions.

So rather than have transactions spread across banks, credit unions, credit card issuers, and the like, financial transactions would all be centralized in the hands of the federal government. For this reason, the creation of a U.S. CBDC would pose a fundamental threat to financial privacy—likely the greatest since the enactment of the Bank Secrecy Act and the establishment of the third-party doctrine.³ Further, with so much information in hand, a CBDC would enable the government to restrict financial freedom in countless ways.⁴

Unfortunately, the observations in practice have given us little to be hopeful about. If I were to summarize the international experience thus far, it would boil down to two categories: a restriction on the lives of citizens and a waste of taxpayer resources.

In Nigeria, the government caused a cash shortage in hopes of spurring adoption when only 0.5 percent of the population was using its CBDC.⁵ In The Bahamas, the government will soon force commercial banks to distribute its CBDC.⁶ And most recently in Thailand, the government launched a quasi-CBDC through a digital wallet that restricts payments to government-approved goods at government-approved stores within the district listed on each person's ID card.⁷ In this last case, even supporters of CBDCs have acknowledged, "The Thai experiment will teach us a lot about what the future [of central bank digital currency] holds and serves as a warning about how technology might push us towards a dystopian world."⁸

These restrictions are also taking place in subtler ways. As documented in the Human Rights Foundation's CBDC Tracker, officials in The Bahamas, the Eastern Caribbean Currency Union,

³ To be clear, the current state of financial privacy is quite dismal. Nicholas Anthony and Naomi Brockwell, "The Illusion of Financial Privacy," *Reason*, May 30, 2024, <https://reason.com/2024/05/30/the-illusion-of-financial-privacy/>.

⁴ To fully understand the impact a CBDC would have on financial privacy, freedom, and markets, see Nicholas Anthony, "Digital Currency or Digital Control? Decoding CBDC and the Future of Money," *Cato Institute*, June 2024, <https://www.cato.org/books/digital-currency-or-digital-control>.

⁵ Nicholas Anthony, "Nigerians' Rejection of Their CBDC Is a Cautionary Tale for Other Countries," *CoinDesk*, March 6, 2023, <https://www.coindesk.com/opinion/2023/03/06/nigerians-rejection-of-their-cbdc-is-a-cautionary-tale-for-other-countries/>.

⁶ Nicholas Anthony, "Bahamians Didn't Want CBDCs—Now They're Being Forced to Use Them," *Cointelegraph*, July 11, 2024, <https://cointelegraph.com/news/bahamians-didnt-want-cbdcs-so-now-being-forced>; Human Rights Foundation, "The Bahamas CBDC Tracker," <https://cbdctracker.hrf.org/currency/the-bahamas>.

⁷ Nicholas Anthony, "Thailand Uses Digital Wallet for 10,000 Baht Handout," *Cato Institute*, August 14, 2024, <https://www.cato.org/blog/thailand-uses-digital-wallet-10000-baht-handout>; Human Rights Foundation, "Thailand CBDC Tracker," <https://cbdctracker.hrf.org/currency/thailand>.

⁸ Notably, Cornell University professor and former International Monetary Fund chief Eswar Prasad further said, "The Thai government has decided that only worthy individuals can benefit from the programme, must spend the funds in specific areas and cannot purchase products deemed undesirable. It is not hard to envision a future in which CBDC usage is restricted to "good" citizens and "acceptable" expenditures, as deemed by the government." Eswar Prasad, "Thailand May Tell Us A Great Deal About the Future of Money," *Financial Times*, August 5, 2024, <https://www.ft.com/content/9194ca11-7788-4aid-a6cc-cffeal8d0c9d>.

Jamaica, Lebanon, Nigeria, Peru, Rwanda, and the Solomon Islands have all said their goal is to go cashless and that CBDCs are a way to get there.⁹

Yet, there is also the question of whether CBDCs are an appropriate use of taxpayer resources. The international experience suggests no. From Jamaica to China, governments that have launched CBDCs are struggling to get anyone to use them on a day-to-day basis.¹⁰ These governments have tried to spur use through giveaways, discounts, and loyalty programs. Yet the public generally recognizes that their needs are being met by existing options like mobile banking, payment apps, and cash.

So, in the best case, CBDCs are a waste of taxpayer resources. They do not offer any unique benefits that are not already provided by the market, so people are hesitant to make the switch. In the worst case, however, CBDCs could threaten financial privacy, freedom, and markets—issues that have already begun to surface, even though CBDCs are a relatively recent development.

A Clash of State and Federal Policies

With these concerns in mind, what role is there for state officials? It's a difficult question. Members of Congress have the authority at the federal level to establish legislative guidelines that prevent the Federal Reserve and the Department of the Treasury from moving ahead without explicit authorizing legislation.¹¹ Unfortunately, however, options are limited at the state level.

With the time I have left, I'd like to walk through the three legislative approaches state officials have taken or considered thus far: namely, prohibition, classification, and participation.

The first option is to prohibit the use of CBDCs entirely. Given the concerns on the table, it's understandable why this option might appear appealing. However, it poses significant concerns in and of itself. First, imagine if a constituent went to, for example, The Bahamas on vacation and came home with some of the Bahamian CBDC left over. How would enforcement work? Would the state establish a surveillance network to monitor travel? Would this citizen be searched upon returning to the state? Unfortunately, this path can quickly devolve into its own assault on financial privacy and freedom.

The second option lies in what many states have done over the past few years: namely, classify CBDCs within state statute so they are excluded from the definition of money in the Uniform Commercial Code, or UCC.¹² Unfortunately, this option also has extended consequences. A person

⁹ Human Rights Foundation, "CBDC Tracker," <http://hrf.org/cbdctracker>; Nicholas Anthony, "Will CBDCs Mark the End of Cash?" *Cato Institute*, August 2, 2024, <https://www.cato.org/blog/will-cbdcs-mark-end-cash>.

¹⁰ Human Rights Foundation, "Jamaica CBDC Tracker," <https://cbdctracker.hrf.org/currency/jamaica>; Human Rights Foundation, "China CBDC Tracker," <https://cbdctracker.hrf.org/currency/china>.

¹¹ For examples of such federal legislation, see the efforts by Representatives Tom Emmer (R-MI) and Senator Mike Lee (R-UT). Nicholas Anthony and Norbert Michel, "Representative Emmer Says No to U.S. CBDC," *Cato Institute*, February 22, 2023, <https://www.cato.org/blog/representative-emmer-says-no-us-cbdc>; Nicholas Anthony and Norbert Michel, "Senator Lee Pushes Back at CBDCs," *Cato Institute*, March 24, 2023, <https://www.cato.org/blog/senator-lee-pushes-back-cbdcs>.

¹² For examples of these efforts, see the following bills: Florida Senate Bill 7054, 2023, Regular Session, <https://legiscan.com/FL/text/S7054/id/2796914>; Nebraska Legislature Bill 1305, 2023-2024, 108th Legislature,

or business may still use a CBDC under this approach. It's only that they are not afforded the legal protections one might typically expect under the UCC.¹³ So, again, it is citizens that stand to lose the most.

A third option—one that has appeared even more recently—is to explicitly prohibit state agencies from using a CBDC or participating in CBDC programs.¹⁴ Where the first option is too hot and the second option is (perhaps) too cold, this third option might be just right. It does not restrict the freedoms of individual citizens, but it does limit the hands of government.

Unfortunately, however, all three of these options appear vulnerable to the supremacy clause. In fact, Florida Governor Ron DeSantis acknowledged that his bill would likely be overridden if Congress chose to move forward with a CBDC—something legal scholars have agreed with when questioned about the bill.¹⁵

With that said, the Tenth Amendment Center has argued that the supremacy clause is not so black and white in practice.¹⁶ The same argument came up when states initially began to legalize cannabis. And the experience with the ongoing delay of Real ID implementation shows that states are, if nothing else, in a position to establish roadblocks that slow down the process.

With that in mind, there's a fourth option on the table that should also be considered. One thing all three legislative approaches have in common is that they send a message. They show that states are watching, and they will not silently fall into line.¹⁷ However, legislation is not the only

<https://legiscan.com/NE/text/LB1305/id/2886601>; Ohio House Bill 163, 2023-2024, 135th General Assembly, <https://legiscan.com/OH/text/HB163/id/2796616>; Oklahoma Senate Bill 1865, 2024, Regular Session, <https://legiscan.com/OK/text/SB1865/id/2888433>; South Carolina Senate Bill 861, 2023-2024, 125th General Assembly, <https://legiscan.com/SC/text/S0861/id/2852277>; Tennessee Senate Bill 1764, 2023-2024, 113th General Assembly, <https://legiscan.com/TN/text/SB1764/id/2883001>; Utah House Bill 164, 2024, General Session, <https://legiscan.com/UT/drafts/HB0164/2024>.

¹³ Jesse Hamilton, "Florida's DeSantis Waging Toothless Campaign Against Digital Dollars, Lawyers Say," *CoinDesk*, May 17, 2023, <https://www.coindesk.com/policy/2023/05/17/floridas-desantis-waging-toothless-campaign-against-digital-dollars-lawyers-say/>.

¹⁴ For examples of these efforts, see the following bills: Alabama Senate Bill 330, 2023, Regular Session, <https://legiscan.com/AL/text/SB330/id/2824342>; Indiana Senate Bill 180, 2024, Regular Session, <https://legiscan.com/IN/text/SB0180/id/2943477>; Georgia House Bill 1053, 2023-2024, Regular Session, <https://legiscan.com/GA/text/HB1053/2023>; Missouri Senate Bill 826, 2024, Regular Session, <https://legiscan.com/MO/text/SB826/id/2861827>; New Hampshire House Bill 1232, 2024, Regular Session, <https://legiscan.com/NH/text/HB1232/id/2868562>.

¹⁵ Jesse Hamilton, "Florida's DeSantis Waging Toothless Campaign Against Digital Dollars, Lawyers Say," *CoinDesk*, May 17, 2023, <https://www.coindesk.com/policy/2023/05/17/floridas-desantis-waging-toothless-campaign-against-digital-dollars-lawyers-say/>.

¹⁶ Michael Boldin, "States Vs CBDC: Here Comes the Opposition," *Tenth Amendment Center*, May 19, 2023, <https://blog.tenthamendmentcenter.com/2023/05/states-vs-cbdc-here-comes-the-opposition/>; Michael Boldin, "James Madison Vs a Central Bank Digital Currency," *Tenth Amendment Center*, May 12, 2023, <https://blog.tenthamendmentcenter.com/2023/05/james-madison-vs-a-central-bank-digital-currency/>; Mike Maharrey, "Signed as Law: Indiana Bans Use of a CBDC as Money in the State," *Tenth Amendment Center*, May 10, 2023, <https://blog.tenthamendmentcenter.com/2023/05/signed-as-law-indiana-bans-use-of-a-cbdc-as-money-in-the-state/>.

¹⁷ When reflecting on North Carolina passing its bill, State Senator Brad Overcash said, "It's an opportunity for us to send the signal that North Carolina, the ninth largest state in the union, is not interested in a federal central bank digital currency. Brianna Kraemer, "NC Overrides Governor's Veto to Enact Law Banning Federal Digital Currency,"

way to send a message. State officials are in a unique position to bridge the gap between citizens and the government at large. Raising awareness and making sure concerns are being heard by members of Congress is crucial. That can be done through townhalls, op-eds, letters, and even meetings such as this one. These avenues should not be underestimated.

Conclusion

In closing, the committee is correct to keep an eye on the rise of CBDCs and what options are on the table. I thank Vice Chair Ammon and members of the committee for the opportunity to speak on this issue, and I welcome any questions you may have.