

The promise and peril of new technology

Monetary Conference Examines Digital Currencies

Cato's annual Monetary Conference is the Institute's longest-running event, bringing together leading experts to discuss the most pressing issues in monetary policy. The 38th conference, held virtually on November 19, 2020, featured a slightly different focus than usual: the new world of digital currencies and their potential benefits as well as possible risks.

In his introductory remarks, James A. Dorn, Cato's vice president for monetary studies, noted that the topic is not entirely new to Cato. In 1996, the 14th annual conference focused on the theme "The Future of Money in the Information Age." The proceedings were published a year later along with other articles, including Federal Reserve Chair Alan Greenspan advocating for the private sector to have freedom to innovate digital payment systems. Cato scholars continued to examine the topic over the years, including at a 2016 conference, "Cryptocurrency: The Policy Challenges of a Decentralized Revolution."

Twenty-four years after the Monetary Conference first considered the topic, the prospect of digital currency and online payment systems is no longer hypothetical. Peer-to-peer systems such as bitcoin, launched in 2009, have since grown tremendously. In 2020, the market cap for bitcoin alone was nearly \$200 billion. While this is a small portion of traditional currencies such as the dollar, it is still substantial and poses profound questions about the future of money.

The possibility of competing private currencies has long been a topic of interest to libertarians and free-market economists, including F. A. Hayek. One important question is whether central banks should themselves launch their own digital currencies to compete in this market, alongside both traditional notes and private digital currencies.

In one panel moderated by Jeanna Smialek, Federal Reserve and economics reporter for the *New York Times*, Tobias Adrian, director of the IMF Monetary and Capital Markets Department, noted that in a sense we already have multiple competing currencies: private bank deposits, e-currencies, and asset-backed digital coins known as stablecoins. Into this existing diversity, Adrian contends that central banks may have a role to play in offering their own digital currencies. Lawrence H. White, Cato senior fellow and professor of economics at George Mason University, was more skeptical of the need for public digital currencies, noting that history suggests the market is more than capable of filling this need and that the private sector has led the way in new monetary innovations.



Left to right: **Phil Gramm**, former chair of the Senate Banking Committee. **Jeb Hensarling**, former chairman of the House Financial Services Committee. **Jeanna Smialek**, economics and Federal Reserve reporter for the *New York Times*.

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The prospects for privacy and civil liberties were also considered in a panel moderated by Rachel Siegel, Federal Reserve and economics reporter for the *Washington Post*. This is one area in which digital currency advocates see the most potential for new privacy protections, while authorities worry about the lack of surveillance tools they have in the traditional banking system. Jill Carlson of the Open Money Initiative sees these issues as benefits, noting that government surveillance of our money has not always

been benevolent. Martin Chorzempa from the Peterson Institute for International Economics also explained how new private digital options have reduced state control over the economy, but he added that there are real concerns about the possibility of an oligopoly in the market.

The conference's keynote address was offered by Caitlin Long, founder and CEO of Avanti Financial Group and a longtime participant in bitcoin markets. Long offered a series of 10 predictions about the advent of stablecoins, and talked about how they could upend traditional monetary policy.

The 2020 conference also saw the return of two regulars: Sen. Phil Gramm, economist and former chair of the Senate Banking Committee, together with his friend and protégé Rep. Jeb Hensarling, former chair of the House Financial Services Committee. The two former members of Congress, both Texas Republicans, conducted a conversation moderated by John B. Taylor of the Hoover Institution, in which they explored the prospects of digital currency and how it could interact with the future of monetary policy. ■

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