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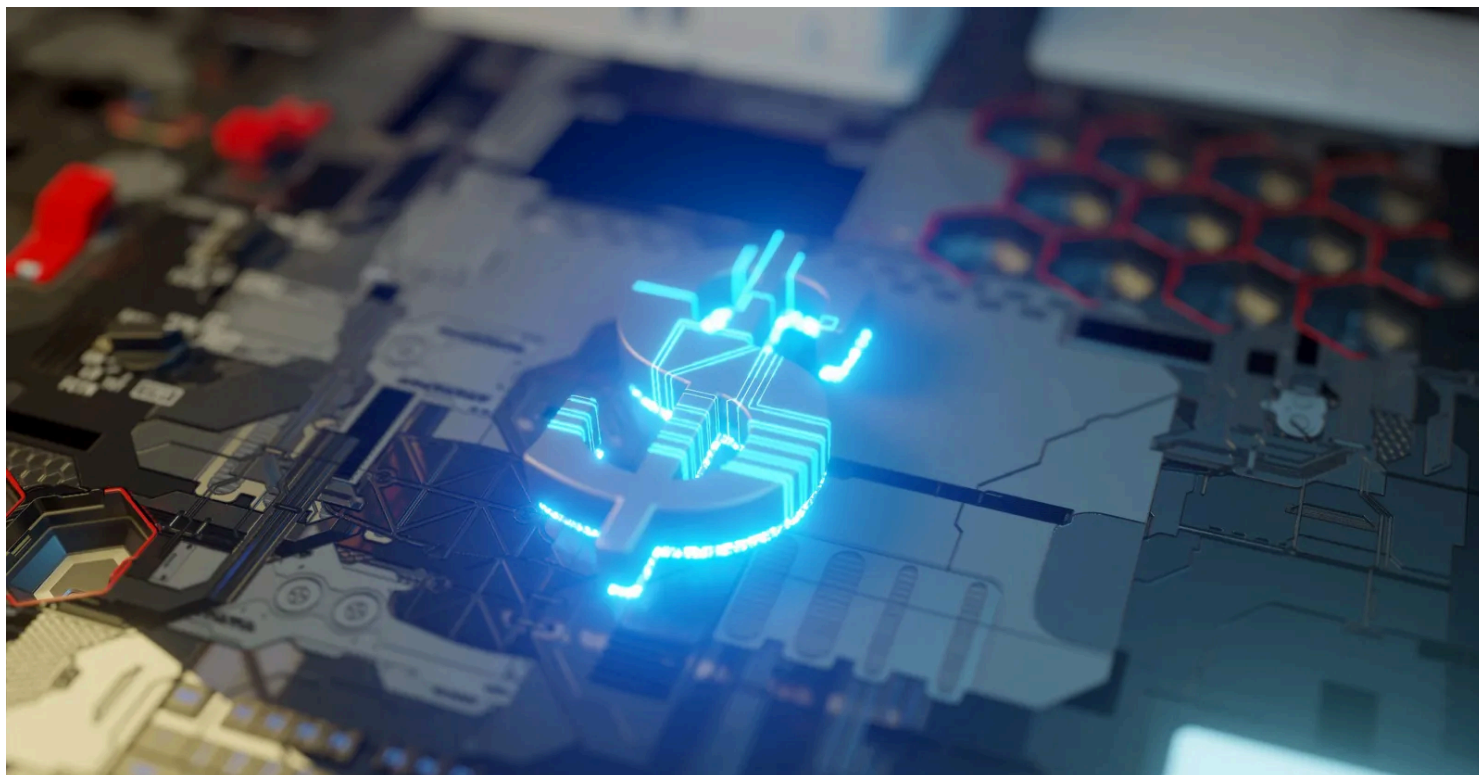
Features

# The White House Touts A Digital Dollar: What Does That Mean?

A CBDC, or Central Bank Digital Currency, is a step closer in the U.S., but going digital will take years.



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(Image credit: Getty Images)



BY ELLEN KENNEDY

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Disruption. It's coming for the U.S. dollar in the form of digital currency. Last week the Biden administration detailed a [broad plan](#) for adopting a central bank digital currency (CBDC) in the coming years. The Departments of Energy, Commerce, the Treasury, and other agencies weighed in on how to manage and regulate a CBDC.

The government is reacting in part to the explosive growth of digital currencies. About [three out of ten](#) U.S. adults currently invest in some form of cryptocurrency, or “crypto,” like Bitcoin or [Ethereum](#). These digital “coins” rely on a decentralized network of computers to verify financial transactions, cutting out third parties like banks or credit cards.

## The good, the bad, and the ugly of crypto

Advocates of crypto point to its affordability, efficiency, and its ability to reach consumers with little or no access to traditional banking services. With just a mobile phone or a crypto ATM, consumers can easily send and receive digital currency, even across international borders.

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On the other hand, crypto is still largely unregulated and volatile. Investors in Bitcoin, for example, saw returns of over 70% in 2021, but the currency is down almost 60% year to date. And if you send your payment to the wrong account (called a “digital wallet”) there may be no way to retrieve it. Crypto has also been used for money laundering, fraud, and to fund terrorism. Several [bi-partisan bills](#) have attempted to address some of these problems, and the industry itself has asked for regulation.

At the same time, creating a government-backed digital currency poses a raft of challenges. CBDC transactions could be tracked by the government, raising serious privacy concerns. Banks would stand to lose business and fees, which could disincentivize some lending in low-income communities.

U.S. Senator Mike Lee (R-UT) introduced a bill last week opposing the creation of a CBDC. “An American CBDC would offer U.S. citizens nothing that they cannot already obtain through private financial innovation,” said Lee. “Instead, it could make their every

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transaction known to the Federal Reserve, while converting banks and credit unions into merely wallets rather than private lending institutions.”

## Why does the government want in?

There is no guarantee that the CBDC will clear all of the political and logistical hurdles to launch a digital dollar, but there are two reasons why the administration is pushing the effort forward.

First, cryptocurrencies are no longer a curiosity or a fad; if the government does not develop a CBDC, it risks the greenback becoming obsolete in the long term. The dollar, remember, is the global reserve currency. Countries around the world hold dollars in central banks to balance interest rates and smooth international transactions. This system confers enormous financial influence and benefits to the U.S. If another country’s currency goes digital in a way that leaves the dollar in the dust, Americans will lose that financial advantage. Our ability to influence foreign governments, such as through recent sanctions on the Russian government and oligarchs, would also be impeded.

Second, the U.S. is well behind other governments in developing state-run cryptocurrencies. For example, China started work on its digital renminbi (e-CNY) in 2014, and by the Beijing Olympics in 2022 it launched a [successful trial run](#), though it remains a [prototype](#). The EU is developing a [digital euro](#), slated for testing by 2023 and launching by 2026.

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## What happens next?

The administration will continue to hammer out policy solutions for some of the thornier issues raised by a digital dollar. There will be tests and prototypes, as in other countries, and Congress will likely get further involved. So when will the CBDC launch? According to [Josh Lipsky](#), senior director of the Atlantic Council’s GeoEconomics Center, “the United States is far away! . . . Most likely it will be several years until anyone is using a digital dollar in normal life.”

## Topics

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Ellen writes and edits personal finance stories, especially on credit cards and related products. She also covers the nexus between sustainability and personal finance. She was a manager and sustainability analyst at Calvert Investments for 15 years, focusing on climate change and consumer staples. She served on the sustainability councils of several Fortune 500 companies and led corporate engagements. Before joining Calvert, Ellen was a program officer for Winrock International, managing loans to alternative energy projects in Latin America. She earned a master's from the U.C. Berkeley in international relations and Latin America.

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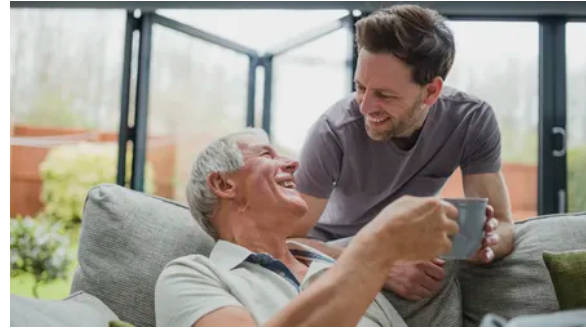
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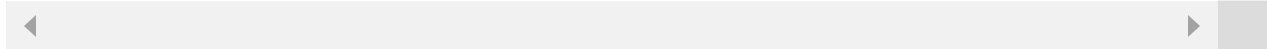
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