“Digital Currency Economics and Policy” – Conclusion

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A big thank-you to the presenters, commentators, and all the participants.

A big thank-you to MAS for jointly supporting and organizing the workshop.

We have had an intellectual feast:
- Covered more grounds than expected
- Heard first principle based analytics and insights.
Admit that we were motivated by the proliferation of digital currencies

Possibly a desire in some to have some freedom in carrying out transactions beyond using fiat money, beyond the reach of governments and dominant financial institutions

Technological progress just came conveniently
Two types of technological progress

- E-payment arrangements reduce transaction costs and facilitate more thorough record keeping than before
  - Recently widely adopted in countries like China
  - Use less cash

- The block-chain type → bitcoin, cryptocurrencies
  - Many related applications, beyond bitcoin
    - Supply chain management, medical, ...
    - Decentralized, scalable, and resilient
Block chain - Cryptocurrencies, a trustless decentralized system

- Facilitate out of the system transactions,
  - can be anonymous and may be “illegal”
  - may weaken capital flow management & monetary policy effectiveness
  - limit seigniorage
    - magnitude may be marginal

- Consume high energy costs, transaction speed is slow, and expect forking.

- Traded, volatile price.
  - do not pass the test for being money - a unit of account, medium of exchange and storage of value.
  - cannot serve up the role of trusted lender of last resort
  - or the decentralized system can make intelligent discretionary decisions to stabilize our economy.

- But, it is an alternative some like, seen as their economic freedom.
Immediate investment regulatory concerns

- Proliferation of private cryptocurrencies
- Many enthusiastic souls see jackpots, e.g., buy cryptocurrency and invest in ICO
  - ICO - Money for tokens, the money invested in finishing a platform, tokens used in the platform or traded on cryptocurrency exchanges
- The irony: the technology promises reliable “trustless-ness” but generates traditional governance and investor protection concerns
  - Some lead to jackpot returns, many fail
  - Market solution may not be there yet - too few experts
- Regulations
  - Ban, Warn, Sandbox, Classify (e.g., duck test) and apply the relevant regulation
- Government challenges
  - Too much protection stifles innovation and risk taking
  - Not having enough talent in the intersection of law, finance, and technology, ..
  - Not knowing what we do not know!
Government will act

- To limit illegal activities, e.g., tax evasion, “black” activities, by-pass capital flow management.
- To protect seigniorage income and monetary policy effectiveness.
- Crypto-algorithm notwithstanding, we cannot let something we do not know well with no one accountable take too much space and responsibilities
  - Anyway, people use less cash. E-arrangements for efficiency gains?
- Choices:
  - Regulate
  - Embrace technology: simply going to all e-transactions to offering digital fiat currency
    - limited access vs full fledge cashless digital arrangement, e.g., a debt-card for all.
  - The choice ought to be grounded on the fundamental role of government - nurture the development of a stable and value enhancing system and a smooth transition path
Positive considerations for offering a digital fiat money

- Raise efficiency, reduce transaction cost, especially in international payment.
- Constrain illegal transactions,
  - Note, however, we can do these without digitalization of the fiat currency
- Digitalization relaxes the constraints of monetary policy at the zero lower bound, e.g., using negative interest rate
- Critically, the government, through digitization, will acquire a lot more information than before.
  - stronger surveillance of transaction activities
    - More policy angles and freedom, e.g.,
      - Better constrain illegal activities, better tax collections, etc.
      - More focused and effective policy, e.g., drone dropping of money (Rogoff’s book), engineering stability, ..
Negative considerations for offering a digital fiat money

- CBDC impacts on the private sector’s financial institutions, affects economic behavior
  - With a full fledge debit card type of CBDC, private sector financial institutions may have to focus purely on term structure and credit transformation.

- The risk of fast run on banks
  - People can run to CBDC for safety by just pushing a button.
  - Thus, private sector financial system’s stability is a concern
Really lots of unknowns, disruptions

- What is the implication on the cost of capital from investors’ perspective in a full reserve system?

- What will the world be like if traditional financial institutions lose their transaction banking business and not rewarded for leveraging?

- Would CB have to hold more reserves if their liabilities include all current bank deposits?

- If non-residents have access to CBDC, what is the cross border ramification and externalities?

- Then, the cybercrime issues?

- Generically, how will our economy/financial sector function then?
What is the fundamental issue?

- Technological progress allows government or the private sector to have more records, thus, possibly more information.
  - Expands everyone’s feasibility set

- A system design problem: cash vs CBDC vs bitcoin is a centralized vs a decentralized system in generating (or not generating) the data and in allowing access of the data.
  - Should the government have all the transaction records
    - Is this too big a temptation in developing an overbearing government?
  - Generically
    - How and what data should be generated and collated by whom?
    - Who should have access to the data?
    - Data are not information. Who should generate the information? With the right incentives?
    - Who should have what market power? Regulatory power? Political power?
      - Power corrupt people? Power breeds angels?
We hope to nurture the development of research on digit currency economics.

- ABFER will organize a special session and a master class on digital currency economics in our May 2019 workshop.

- The 2019 AMPF will feature “digital currency” in its Policy Notes session.

- Cooperating with CEBRA and CEPR and many central banks to have a research conference on digital currency economics on 18-20 July 2019 in NYC.
Let me again thank you all for being here. Special thanks to the presenters and commentators.

Your write-ups and comments by 2019 Autumn, which we shall put onto our web pages.

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