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* *Knights of Malta* *

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Chancellor's Update

Where are we Going?

With world leaders meeting in South Africa, we thought you might be interested in the following article appearing in AMAC Magazine July/August 2023 issue, page 42 ff.

“Recently, the Federal Reserve and the Biden administration have been considering the creation of a central bank digital currency (CBDC), which would be managed by the Federal Reserve. Many other countries are also developing or exploring CBDCs. However, the potential implementation of a US CBDC program is being evaluated and has become a subject of controversy due to concerns regarding individual privacy and freedom to spend versus government oversight and control. Some argue that the CBDC should replace the paper dollar as legal tender, while others have reservations about such a transition.

What is a Central Bank Digital Currency?

In summary, a central bank digital currency (CBDC) is a digital form of money issued by a central bank, similar to paper money but in electronic format. A US CBDC would be the digital version of the US dollar issued by the Federal Reserve, backed and regulated by the central bank. Unlike other cryptocurrencies, CBDCs act as legal tender and are supported by the issuing central bank.

Over 90 countries' central banks are currently exploring or implementing their own CBDCs. Some of them are even testing cross-border transactions or exchanges. China is the first major country to widely adopt a CBDC within its economy, and its central bank is actively participating in a cross-border payments development project facilitated by the Bank for International Settlements (BIS). The BIS, established in 1930, is an international organization owned by and serving 63 central banks, monetary authorities, and other international financial authorities, and supporting them in managing their foreign exchange assets.

In simpler terms, the Bank Policy Institute, a nonpartisan group representing major banks, explains how a central bank digital currency (CBDC) would function as a liability of the Federal Reserve. Currently, when people deposit money in a bank, it becomes a liability for the bank, and that money is used to fund loans, which are the bank's main assets. With a CBDC, if individuals and businesses switch from bank deposits to CBDCs, their money will no longer fund the economy through loans but will instead fund the government and government-sponsored enterprises. Essentially, it will shift the source of funding from the Private sector (banks and loans) to the public sector (government and its related entities).

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The China Currency Challenge

The Chinese Communist Party (CCP), which continues its adversarial challenge to the United States on many fronts, including economic infiltration and the military, is seeking global economic dominance to replace the US dollar as the leading international reserve currency. There is significant concern that it will seek to dominate the CBDC international financial network, as it has the World Health Organization and the World Trade Organization.

The Hoover Institution writes on China's actions to move into the CBDC international financial transactions arena:

"China's emergence as a first mover in this space gives Beijing a significant opportunity to cement its international leadership of payments technology innovation and adoption, to set economic norms and technical standards that align with its authoritarian governance system, and to increase its ability to undercut the traditional dominance of the US dollar as a source of geoeconomic and strategic influence" (Digital Currencies: The US, China, and the World at a Crossroads, Hoover Institution 2022).

In response, the Hoover Institution exhorts the United States to take the lead on its own and in concert with allies and partners-and establish international standards, to prevent the CCP "from undermining liberal democratic norms of freedom and human rights or eroding the United States' geo-economic and strategic influence" (ibid.).

Encroachment on Individual Privacy and Consumer Freedom?

Recall that President Biden issued the first veto of his presidency on March 20, 2023, rejecting legislation to void the Department of Labor's rule that erodes the exclusive fiduciary responsibility of fund managers and pressures them to consider also environmental (like climate change companies), social, and governance (ESG) factors when choosing investments.

In this vein, also remember the Obama administration's "Operation Choke Point" to control and impede consumer credit card purchases of guns or ammunition from firearms merchants and dealers, or workers getting "payday" cashing services, among other transactions it deemed undesirable.

These actions provide the "past is prologue" and foretell similar constrictions to be imposed by a federal CBDC if it displaces the paper dollar as the primary or sole legal tender.

In sum, the risk is that the federal government's potential total shift to a Federal Reserve CBDC could well spell federal control over what American consumers can and cannot buy, either by individual or by product."

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