Crypto-assets, Central Bank Digital Money and Libra: Implications for the International Monetary System

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THE BIG PICTURE (1)

Contours of digital payments still in the making (infinite number of variants)

- Thousands of crypto-currencies (not only Bitcoin and Ethereum)
- Private money (Libra, more generally GAFAs...)
- Digital local currencies

Backing (stable coins)?

- if so, what collateral (fiat currency, over-collateralization in crypto-currency...)?
- who supervises the reserve fund/guarantor/"insurer"?
- who acts as LOLR in case of run?

Central Bank digital currencies (again many variants)

THE BIG PICTURE (2)

Demand side

- Low cost transactions: low fees, low collateral ($\Rightarrow$ financial inclusion)
  - Especially for cross-border payments
- Escape from dysfunctional monetary system
- Less palatable aims (money laundering, crime, tax evasion; vague libertarian ethos)

Supply side (private sponsors)

- Direct profit: seignorage, transaction fees…
- Side benefits: consumer lock-in, data collection, ancillary services…

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BUSINESS CHALLENGES

Governance

- Decentralized system: who decides (forking event, scalability…)?
  - 51% rule (Bitcoin) vs. supermajory/unanimity? (manipulation/coalitions vs. deadlocks)
- Centralized system
  - Dominant player (but then protection of stakeholders?)
  - Cooperative (but Visa/MC's interests diverge from Uber/Spotify's, or Facebook's for that matter; Henry Hansmann's insights)

Transaction-friendliness (use as means of payment, not only as store of value)

- Price stability: bubble, can be highly volatile
- Two-sided market aspects (must attract sellers and buyers; most cannot compete with Visa/MC/Paypal/AliPay's business model)

7 PUBLIC POLICY CHALLENGES

(1) "Less palatable aims"

(2) Market power (EU concern about Libra)

(3) Loss of seignorage

- wasted (mining Bitcoins)

- privatized (ICOs)

(4) Privacy (Libra, but also public platform)

(5) Investor/depositor protection (a)

- protect consumers against hacking, swindles, front-running (centralized systems)… Will State be blamed for/ liable for a bailout if consumers, SMEs hurt? Shadow banking…

7 PUBLIC POLICY CHALLENGES

(5) Investor/depositor protection (b)

- Prudential aspects: monitor explicit or implicit guarantee/backing
  - standard issues: LCR, CAR… (temptation to under-hoard safe assets)

(6) Challenges for financial stability

- capital controls
- run on domestic currency

(7) Challenges for counter-cyclical monetary policy

MY VIEW

- Pushback from authorities is vindicated

- Benoit Coeuré's "wake-up call"

- Don't forget that technological progress does not invalidate economic fundamentals (platform economics, delegated monitoring of borrowers, prudential supervision …)