

**Letter**

## Letter: Banks should not be the gatekeepers of digital currencies

From Daniel Aronoff, PhD Candidate in Economics, MIT, Cambridge, MA, US



© Bloomberg

4 HOURS AGO

The Financial Times endorses the Bank for International Settlements' proposal to restrict central bank digital currencies to commercial banks ([FT View](#), June 24). Keeping the public at "arms-length" from CBDC would, according to the FT, ensure privacy while preventing criminality. I wish to offer a contrarian point of view.

One of the promises of digital currency is to enable private parties to transact and structure trades with smart contracts without having to contract with third-party financial oligopolists. The goal is to reduce the approximate 7 per cent of gross domestic product attributable to transaction costs earned by financial institutions while lowering barriers to experimentation and innovation.

The BIS proposal to anoint banks as the gatekeepers would keep the current oligopoly in place and jeopardise many of the possible benefits of digital currency. For example, a CBDC held by the public would enable consumers and merchants to transact using CBDC and avoid debit card fees. Also, a CBDC could improve financial access for those currently excluded from banks. These things cannot happen if banks control access to CBDC.

The mooted privacy benefits of an account-based ledger held by banks is, arguably, illusory. Banks are highly regulated. Any government can likely find a way to obtain account information it wants to see.

The fear that a tokenised ledger enabling private parties to transact anonymously will facilitate criminality is legitimate but so far unproven. The ledger leaves an immutable transaction trail, and it may be no more difficult to hunt down criminal activity on a tokenised CBDC compared with other means of transacting.

Finally, there are cryptographic methods, known as zero knowledge proofs, that could possibly make an account-based ledger with personal identification, compatible with privacy. The government, after obtaining a court order, could require suspects to provide proofs of transaction activity without enabling the government to see any other transactions.

**Daniel Aronoff**

*PhD Candidate in Economics, MIT, Cambridge, MA, US*