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## What Does the Decline in the U.S. Dollar's Global Role Mean for Cryptocurrencies?

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## WHAT DOES THE DECLINE IN THE U.S. DOLLAR'S GLOBAL ROLE MEAN FOR CRYPTOCURRENCIES?

CAROL R. GOFORTH\*

*May you live in interesting times.*<sup>1</sup>

### ABSTRACT

*Cryptocurrencies were at the forefront of a number of newsworthy events in 2021. One of those stories suggests that Bitcoin might be well-positioned to replace the U.S. dollar as the most popular global reserve currency. This article reviews what it means to be a reserve currency, as well as the costs and benefits for the United States to have its dollar serve as the medium of exchange for most international commercial transactions and to have it held by so many governments, central banks, and financial institutions. It then evaluates whether recent events that weaken the dollar's influence and popularity create a path for Bitcoin or other cryptoassets to step into this role. In addition to Bitcoin, private stablecoins and central bank digital currencies ("CBDCs") will be evaluated before concluding that, while the U.S. dollar might eventually be replaced as the most popular reserve currency, the time for that development has not yet arrived. Thus, the current, relatively cautious approach taken by the U.S. Federal Reserve with regard to a U.S. CBDC is probably the best option.*

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1. Reported to be a Chinese curse, although this is disputed. See Erin Servais, *Origin of "May you live in interesting times"*, GRAMMAR PARTY BLOG (Apr. 7, 2020), <https://grammarpartyblog.com/2020/04/07/origin-of-may-you-live-in-interesting-times/> [https://perma.cc/67V6-N4RS].

## INTRODUCTION

For those who follow crypto and fintech,<sup>2</sup> the first half of 2021 was indeed an interesting time. Bitcoin exploded through \$63,503.46 per coin value on April 12, 2021, dragging the total market capitalization of cryptoassets past the \$2 trillion mark.<sup>3</sup> Just as quickly, Bitcoin lost about half of that value, trading at a subsequent low of \$31,277.34 on May 23, 2021.<sup>4</sup> Tesla announced that it had invested \$1.5 billion in Bitcoin<sup>5</sup> before announcing a few months later that it would no longer accept payment in Bitcoin because of the environmental impact of the asset.<sup>6</sup> A respected crypto expert claimed that Bitcoin is “destined” to become the world’s currency with an infinite value.<sup>7</sup> In crypto news not directly involving Bitcoin, a single Non-Fungible Token (“NFT”) for a piece of digital art was sold at auction for an astonishing \$69 million.<sup>8</sup> Dogecoin, a cryptoasset that was originally started as a joke, increased 12,000% in value between January and May 2021.<sup>9</sup> And in news focused on conventional international

2. “Crypto” in this context refers to cryptoassets, such as Bitcoin and other digital assets hosted on blockchains, both public and private. “Fintech” is short-hand for financial technology, and it encompasses the use of technology into financial services for the benefit of financial institutions or consumers.

3. *Bitcoin to USD Chart (sorted by price over one year)*, COINMARKETCAP (Oct. 12, 2021), <https://coinmarketcap.com/currencies/bitcoin/> (showing Bitcoin high on 4/12/2021) [hereinafter *Bitcoin High Low*]; *Historical Snapshot*, COINMARKETCAP (Apr. 11, 2021), <https://coinmarketcap.com/historical/20210411/> (showing a total market capitalization for all cryptoassets of \$2,286,420,512,495).

4. *Bitcoin High Low*, *supra* note 3 (showing Bitcoin low on May 23, 2021) [<https://perma.cc/4NRB-52A9>].

5. Steve Kovach, *Tesla buys \$1.5 billion in bitcoin, plans to accept it as payment*, CNBC (Feb. 8, 2021, 1:43 PM), <https://www.cnbc.com/2021/02/08/tesla-buys-1point5-billion-in-bitcoin.html> [<https://perma.cc/TDV6-BUL2>].

6. Lora Kolodny, *Elon Musk says Tesla will stop accepting bitcoin for car purchases, citing environmental concerns*, CNBC (May 12, 2021, 8:26 PM), <https://www.cnbc.com/2021/05/12/elon-musk-says-tesla-will-stop-accepting-bitcoin-for-car-purchases.html> [<https://perma.cc/FUF8-HQCZ>].

7. Scott Reeves, *Bitcoin Destined to Be the World’s Currency, Value to Reach ‘Infinity,’ Crypto Trader Claims*, NEWSWEEK (Mar. 4, 2021, 2:07 PM), <https://www.newsweek.com/bitcoin-destined-worlds-currency-value-reach-infinity-crypto-trader-claims-1573881#:~:text=Newsweek,.Bitcoin%20Destined%20to%20Be%20the%20World’s%20Currency%2C%20Value%20to,%20Infinity%2C%20Crypto%20Trader%20Claims&text=A%20major%20crypto%20trader%20has,eventually%20become%20the%20world’s%20currency> [<https://perma.cc/CAJ9-MZKC>]. The commentator in question was CEO of the major crypto-trading exchange, Kraken.

8. Scott Reyburn, *JPG File Sells for \$69 Million, as ‘NFT Mania’ Gathers Pace*, N.Y. TIMES (Mar. 25, 2021), <https://www.nytimes.com/2021/03/11/arts/design/nft-auction-christies-beeple.html> [<https://perma.cc/8SFX-ELTY>].

9. Nicolas Vega, *Dogecoin up 12,000% since January — here’s how much money you’d have if you invested \$1,000 at the beginning of 2021*, CNBC MAKE IT (May 5, 2021, 7:29 PM), <https://www.cnbc.com/2021/05/05/how-much-a-1000-dollar-investment-in-dogecoin-is-worth.html> [<https://perma.cc/X58X-Q2H9>].

finance, Russia announced that it was divesting its wealth fund of the U.S. dollar, vowing instead to turn to the euro, the Chinese yuan, and gold.<sup>10</sup>

News like this undeniably makes for interesting times, but one claim in that laundry list of incredible reports deserves more consideration. Is it true that Bitcoin (or any other cryptocurrency for that matter) is destined to become the world's reserve currency?

Since World War II, the U.S. dollar has been the global reserve currency.<sup>11</sup> In 1944, negotiations at the United Nations Monetary and Financial Conference led to adoption of the Bretton Woods Agreement, pursuant to which 44 nations formally agreed to adopt the U.S. dollar as their official reserve currency.<sup>12</sup> Although that Agreement ended in or around 1971, with President Nixon formally decoupling the U.S. dollar from the gold standard,<sup>13</sup> most nations around the world have continued to rely on the U.S. dollar as the most redeemable currency for facilitating world commerce.<sup>14</sup> Recently, however, the dominance of the dollar has been challenged by nations that are dissatisfied with the position and power this has given the United States.<sup>15</sup> This, in turn, raises the issue of what the gradual decline of the dollar means for cryptoassets.

Following this brief introductory section, this article explains in Part I what it means to be the global reserve currency. Part II evaluates the risks of and benefits for a nation having its domestic currency serve in that role, and Part III looks at whether the long-standing pre-eminence of the U.S. dollar is currently threatened. Part IV looks at whether Bitcoin is in a position to usurp the U.S. dollar's role as the global reserve currency. Part V considers whether stablecoins are a more realistic alternative, and Part VI focuses on central bank digital currencies ("CBDCs") as a potential reserve currency. The article then concludes by looking at the U.S. Federal Reserve's policy on CBDCs and

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10. Sam Shear, *Russia says it will remove dollar assets from its wealth fund*, CNBC (June 3, 2021, 9:12 AM), <https://www.cnbc.com/2021/06/03/russia-to-remove-dollar-assets-from-national-wealth-fund.html> [<https://perma.cc/F4UQ-WCGU>].

11. Greg Rosalsky, *75 Years Ago The U.S. Dollar Became The World's Currency. Will That Last?*, NPR (July 30, 2019, 6:30 AM), <https://www.npr.org/sections/money/2019/07/30/746337868/75-years-ago-the-u-s-dollar-became-the-worlds-currency-will-that-last> [<https://perma.cc/NWE4-F4U5>].

12. Sandra Kollen Ghizoni, *Creation of the Bretton Woods System*, FED. RSRV. HIST. (Nov. 22, 2013), <https://www.federalreservehistory.org/essays/bretton-woods-created> [<https://perma.cc/DU6F-F8CE>].

13. IMF, *The end of the Bretton Woods System (1972–81)*, <https://www.imf.org/external/about/histend.htm> (last visited Oct. 7, 2021).

14. Kimberly Amadeo, *Why the US Dollar Is the Global Currency*, BALANCE (July 23, 2020), <https://www.thebalance.com/world-currency-3305931> [<https://perma.cc/9GA3-FYGK>].

15. CONG. RSCH. SERV., *THE U.S. DOLLAR AS THE WORLD'S DOMINANT RESERVE CURRENCY 1* (2020), <https://crsreports.congress.gov/product/pdf/IF/IF11707> [<https://perma.cc/U62Y-V2XF>] [hereinafter DOMINANT RESERVE CURRENCY].

suggesting that the cautious approach to development currently being taken is probably the best way forward.

### I. WHAT IS THE GLOBAL RESERVE CURRENCY?

Many countries have substantial difficulty in borrowing funds or paying for foreign goods in their own currencies and instead rely on reserves of foreign currency that can be used for these purposes.<sup>16</sup> Domestic currencies may lack the stability or liquidity that is generally required for international transactions. In addition, many commodities available in the international markets are priced in the reserve currency, meaning that countries must have this currency in order to buy these goods.<sup>17</sup> As a result, most international trade takes place in a reserve currency, and the U.S. dollar is the currency most commonly used.<sup>18</sup> For this reason, nations engaged in international trade hold reserves of the U.S. dollar to ensure access to imported goods, especially during a crisis, and to assure creditors that debt payments denominated in dollars can be made.<sup>19</sup> The reserves of U.S. dollars are held by governments, central banks, and other major financial institutions around the world.<sup>20</sup>

Dollars can also be used to influence domestic exchange rates, as a country can use their reserves to buy excess amounts of their own currency to shore up the value of their currency.<sup>21</sup> They can also buy U.S. dollars with their currency in order to prevent the comparative value of their currency from increasing.<sup>22</sup> By keeping the value of their currency relatively low and stable, the value of that country's exports are more affordable.<sup>23</sup> The International Monetary Fund ("IMF"), which is the international organization charged with monitoring the

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16. Anshu Siripurapu, *Backgrounder on The Dollar: The World's Currency*, COUNCIL ON FOREIGN REL. (Sept. 29, 2020, 10:00 AM), <https://www.cfr.org/backgrounder/dollar-worlds-currency> [<https://perma.cc/J9PD-WGU9>] (explaining reasons for a reserve currency); *What is a reserve currency? Definition and meaning*, MKT. BUS. NEWS FIN. GLOSSARY (2021), <https://marketbusinessnews.com/financial-glossary/reserve-currency-definition-meaning/> [<https://perma.cc/8L2S-WP4H>] ("A reserve currency, also called an anchor currency, is the foreign currency that a government, central bank and other major financial institutions hold as part of . . . their reserves.").

17. Tim Worstall, *Commodities Are Usually Priced In Dollars, Yes, But This Does Not Mean What You Think It Means*, FORBES (Dec. 5, 2014, 10:21 AM), <https://www.forbes.com/sites/tim-worstall/2014/12/05/commodities-are-usually-priced-in-dollars-yes-but-this-does-not-mean-what-you-think-it-means/?sh=405708a324a4> [<https://perma.cc/Q2U5-8SKZ>].

18. About half of all international trade is invoiced in U.S. dollars. DOMINANT RESERVE CURRENCY, *supra* note 15, at 1.

19. Siripurapu, *supra* note 16.

20. Justin Kuepper, *What is Reserve Currency?*, BALANCE (June 23, 2021), <https://www.thebalance.com/what-is-a-reserve-currency-1978926> [<https://perma.cc/S8AB-MGQZ>].

21. Siripurapu, *supra* note 16.

22. *Id.*

23. Elliot M. Kass, *How Exchange Rates Affect Imports and Exports*, AM. EXPRESS (2021) [<https://perma.cc/5BUY-RWG4>].

international monetary system,<sup>24</sup> currently recognizes eight major reserve currencies: U.S. dollar, euro, Japanese yen, British pound, Chinese renminbi, Swiss franc, Canadian dollar, and Australian dollar.<sup>25</sup> The U.S. dollar is by far the most prevalent reserve currency, making up more than sixty percent of foreign exchange reserves.<sup>26</sup>

## II. CONSEQUENCES OF HAVING THE U.S. DOLLAR AS THE GLOBAL RESERVE CURRENCY

The dollar's status as the most common reserve currency was once called an "exorbitant privilege."<sup>27</sup> One of the complaints was that this created cheap financing for U.S. investment in other countries.<sup>28</sup> Because there is a higher demand for U.S. dollars, the United States can issue bonds at lower interest rates, helping to keep costs down.<sup>29</sup>

The dollar's use in the global payments system also increases the effectiveness of financial sanctions put in place by the United States. Because most international trade relies on U.S. dollars, a refusal to allow correspondent banks with accounts at the Federal Reserve to transfer funds to or on behalf of certain nations can be a powerful inducement to cooperation. If the sanctioned nation does not comply with U.S. requirements, a ban on transactions conducted in U.S. dollars can be a substantial obstacle to its ability to do business.<sup>30</sup>

A final positive impact of having the U.S. dollar serve as the global reserve currency is that imports are generally cheaper.<sup>31</sup> This can redound to the benefit of U.S. consumers in the form of lower prices on goods.

Unfortunately, there are potential downsides to the situation as well. Decades of reliance on this privilege combined with a rapidly burgeoning federal

24. *About the IMF*, IMF, <https://www.imf.org/en/About> (last visited Oct. 8, 2021).

25. Alina Iancu et al., IMF, Strategy, Policy, & Review Department & Statistics Department, *Reserve Currencies in an Evolving International Monetary System*, No. 20/02, at 3 n.2 (2020), <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2020/11/17/Reserve-Currencies-in-an-Evolving-International-Monetary-System-49864>.

26. Siripurapu, *supra* note 16.

27. Gary Richardson & Cathy Zhang, Barry Eichengreen, *Exorbitant Privilege. The Rise and Fall of the Dollar and the Future of the International Monetary System*, 3–2 *OECOLOGIA* 337, 337–44 (2013) [<https://perma.cc/L5L2-MV9Y>].

28. Siripurapu, *supra* note 16.

29. *Id.*

30. Karen Yeung, *How the US uses the dollar payments system to impose sanctions on a global scale*, *SO. CHINA MORNING POST* (Aug. 25, 2020) [<https://perma.cc/8M6U-VTY5>]. See also Satyajit Das, *How the US has made a weapon of the dollar*, *ECONOMIC TIMES* (Sept. 7, 2018, 12:42 PM), <https://economictimes.indiatimes.com/news/international/business/how-the-us-has-made-a-weapon-of-the-dollar/articleshow/65715068.cms?from=mdr>.

31. Gwynn Guilford & Corinne Purtill, *The US can eliminate its trade deficit or run the world's dominant currency—but not both*, *QUARTZ* (May 16, 2018) [<https://perma.cc/T82Y-MZ7X>].

deficit and very low savings rates has the potential to place the United States in a vulnerable position if other countries were to stop holding U.S. dollars in reserve.<sup>32</sup> Some experts have opined that allowing the U.S. dollar to serve as the global reserve currency hurts U.S. exports and ultimately costs jobs. The Peterson Institute for International Economics wrote in a 2012 policy brief that foreign currency price manipulation growing out of the U.S. dollar's international role cost between one and five million jobs<sup>33</sup> and confirmed in a 2020 policy brief that the country was still losing jobs because of the high cost of exporting U.S. goods and the resulting trade deficit.<sup>34</sup>

Finally, allowing the U.S. dollar to serve as the world's global reserve currency places additional pressures on the U.S. Federal Reserve to act as lender of last resort across the world during economic crises such as the Covid-19 pandemic.<sup>35</sup> This can distract from domestic issues leading to internal discord while simultaneously increasing international resentment if the United States is unable to effectively assist in handling such events. The aggressive use of sanctions can also have a negative impact on international relations. For example, after President Trump's administration acted in 2018 to unilaterally reimpose sanctions on Iran, several other countries worked to develop alternate systems to evade the sanctions in defiance of U.S. efforts. Even traditional U.S. allies such as France, Germany, and the United Kingdom initiated such efforts.<sup>36</sup>

### III. IS THE POWER OF THE DOLLAR REALLY IN DECLINE?

Is the dollar's status actually declining? A number of factors have supported the U.S. dollar's dominance, including the stability of its value, the size of the U.S. economy overall, the sheer market for debt which exceeded \$28 trillion by

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32. Kimberly Amadeo, *Will the US Dollar Collapse*, BALANCE (June 30, 2020) [<https://perma.cc/2SDS-RGLL>] (“A sudden dollar collapse would create global economic turmoil. Investors would rush to other currencies, such as the euro, or other assets, such as gold and commodities. Demand for Treasuries would plummet, and interest rates would rise. U.S. import prices would skyrocket, causing inflation.”).

33. C. Fred Bergsten & Joseph E. Gagnon, *Currency Manipulation, the US Economy, and the Global Economic Order* 1 (Peterson Inst. for Int'l Econ., Policy Brief PB12-25, 2012) [<https://perma.cc/P9P9-79GG>].

34. Joseph E. Gagnon, *Taming the US Trade Deficit: A Dollar Policy for Balanced Growth* 1 (Peterson Inst. for Int'l Econ., Policy Brief PB20-15, 2020) [<https://perma.cc/D2Z2-JJYJ>].

35. Colleen Baker, *The Federal Reserve's Use of International Swap Lines*, 55 ARIZ. L. REV. 603, 621 (2013) (“During the financial crisis, the U.S. Federal Reserve arranged swap lines with 14 foreign central banks for a total amount of \$583 billion, making it the de facto international lender of last resort.”).

36. Mark Landler, *Trump Abandons Iran Nuclear Deal He Long Scorned*, N.Y. TIMES (May 8, 2018), <https://www.nytimes.com/2018/05/08/world/middleeast/trump-iran-nuclear-deal.html> [<https://perma.cc/V2NM-F3ER>].

May 2021,<sup>37</sup> and the prominence of the United States in geopolitical terms.<sup>38</sup> Notwithstanding these considerations, there is substantial evidence that the dollar's significance to international commerce is declining, although the pace of this decline is slow.

According to the IMF, the share of reserves held by central banks in U.S. dollars declined to a twenty-five year low during the fourth quarter of 2020.<sup>39</sup> U.S. dollars declined to about fifty-nine percent of reserves, while the share of reserves held in the euro increased to twenty percent, and the other reserve currencies including the Australian dollar, Canadian dollar, and Chinese renminbi, climbed to nine percent.<sup>40</sup> Some analysts have suggested this reflects the declining role of the U.S. dollar as other currencies used by central banks compete for international transactions.<sup>41</sup>

Russia has been taking steps to disengage from the U.S. dollar for a number of years.<sup>42</sup> In fact, both Russia and China<sup>43</sup> have been working in tandem to move the world away from the U.S. dollar, and the European unification and

37. Erin Duffin, *United States – public debt by month 2020/21*, STATISTA (June 8, 2021), <https://www.statista.com/statistics/273294/public-debt-of-the-united-states-by-month/> [https://perma.cc/GM48-8SVV].

38. Ivo H. Daalder & James M. Lindsay, *The Globalization of Politics: American Foreign Policy for a New Century*, BROOKINGS (Jan. 1, 2003), <https://www.brookings.edu/articles/the-globalization-of-politics-american-foreign-policy-for-a-new-century/> [https://perma.cc/W8CZ-VQ4T] (“The United States is today the only truly global power. Its military reach ... extends to every point on the globe. Its economic prowess fuels world trade and industry. Its political and cultural appeal ... is so extensive that most international institutions reflect American interests.”). Other commentators continue to articulate this belief. “When the U.S. government has unity of purpose it is the most powerful and influential entity in the world. The combination of military, economic, and scientific tools at its disposal ensure military and economic preeminence.” MICHAEL BROWN ET AL., THE BROOKINGS INSTITUTION, PREPARING THE UNITED STATES FOR THE SUPERPOWER MARATHON WITH CHINA 6, 14 (Ted Reinert ed., 2020), [https://www.brookings.edu/wp-content/uploads/2020/04/FP\\_20200427\\_superpower\\_marathon\\_brown\\_chewing\\_singh.pdf](https://www.brookings.edu/wp-content/uploads/2020/04/FP_20200427_superpower_marathon_brown_chewing_singh.pdf) [https://perma.cc/ATG6-ZNF5] (also noting that China is a threat to America's role in the foreseeable future).

39. Deepthi Nair, *US dollar's share of global central bank currency reserves drops to 25-year low*, NAT'L NEWS (May 6, 2021), <https://www.thenationalnews.com/business/money/us-dollar-share-of-global-central-bank-currency-reserves-drops-to-25-year-low-1.1217554> [https://perma.cc/B7HY-HRZS].

40. *Id.*

41. Serkan Arslanalp & Chima Simpson-Bell, *US Dollar Share of Global Foreign Exchange Reserves Drops to 25-Year Low*, IMF BLOG (May 5, 2021), <https://blogs.imf.org/2021/05/05/us-dollar-share-of-global-foreign-exchange-reserves-drops-to-25-year-low/>.

42. Sylvain Saurel, *Russia Drops the US Dollar — The End of the US Dollar Hegemony Over the World Is Getting Closer*, MEDIUM (June 8, 2021), <https://ssaurel.medium.com/russia-drops-the-us-dollar-the-end-of-the-us-dollar-hegemony-over-the-world-is-getting-closer-58e7454aaf7b> [https://perma.cc/APM8-S87Y].

43. Lan Cao, *Currency Wars and the Erosion of Dollar Hegemony*, 38 MICH. J. INT'L L. 57, 61 & 107 (2016). “China is seeking to diversify its reserves away from the US dollar at a time when the price of gold has fallen to near its lowest price since 2010.”

Covid-19 pandemic have produced a situation that both nations appear to be taking advantage of.<sup>44</sup> In furtherance of its long-term goal, Russia announced at the start of June 2021 that it is cutting the U.S. dollar from its \$186 billion National Wealth Fund.<sup>45</sup> In lieu of the U.S. dollar, Russia plans on investing in euro, Chinese yuan, and gold assets.<sup>46</sup> This is not an insignificant decision since it means Russia will be divesting itself of approximately 40 billion U.S. dollars.<sup>47</sup>

Other countries divesting themselves of the U.S. dollar include China, India, Turkey, and Iran.<sup>48</sup> Each of these nations has reasons to want to reduce the influence of the United States, particularly with regard to sanctions. While sanctions may not directly affect India, they do impact its trading partners, which is a huge issue for the world's sixth largest economy.<sup>49</sup> This has always been a risk of the United States "weaponizing" the dollar to impose sanctions.<sup>50</sup>

#### IV. WHAT DOES THIS MEAN FOR CRYPTO? IS BITCOIN THE ANSWER?

Despite the bold assertion from Kraken CEO Jesse Powell that Bitcoin is poised to become the world's currency,<sup>51</sup> it is unlikely that this will actually happen. As noted above,<sup>52</sup> one of the important attributes of a world reserve currency is price stability,<sup>53</sup> and Bitcoin has never exhibited this characteristic.<sup>54</sup> As a result of the inconsistency in Bitcoin's market price, U.S. Federal Reserve

44. Dion Rabouin, *The war against the dollar is heating up*, AXIOS (Aug. 18, 2020), <https://www.axios.com/us-dollar-euro-value-reserve-currency-918a7a7c-b974-42e2-b1f0-dbcdbb7b929.html> [https://perma.cc/Q4Z8-33YK].

45. Sam Shear, *Russia says it will remove dollar assets from its wealth fund*, CNBC (June 3, 2021, 7:03 PM), <https://www.cnbc.com/2021/06/03/russia-to-remove-dollar-assets-from-national-wealth-fund.html> [https://perma.cc/2Z86-3P9Z].

46. *Id.*

47. Saurel, *supra* note 42.

48. RT Team, *Top 5 countries opting to ditch US dollar & the reasons behind their move*, RT BUSINESS NEWS (Jan. 2, 2019, 5:18 AM), <https://www.rt.com/business/447915-top-states-ditching-dollar/>.

49. *Id.*

50. Joel Slawotsky, *US Financial Hegemony: The Digital Yuan and Risks of Dollar De-Weaponization*, 44 FORDHAM INT'L L. J. 39, 90 n.242 (2020).

51. Reeves, *supra* note 7.

52. *See supra* Part I.

53. Kevin Stankiewicz, *Bitcoin poses no threat to the dollar as the world's currency leader, Fed's Bullard says*, CNBC (Feb. 16, 2021), <https://www.cnbc.com/2021/02/16/bitcoin-no-threat-to-dollar-as-worlds-reserve-currency-feds-james-bullard.html> [https://perma.cc/2MEY-G5G9]. Bullard is the president of the St. Louis Federal Reserve.

54. As of June 13, 2021, the average thirty day volatility of Bitcoin was just over six percent, between 600 and 1200% greater than other major currencies. *The Bitcoin Volatility Index: Bitcoin Volatility Time Series Charts*, BUY BITCOIN WORLDWIDE (June 13, 2021), <https://www.buybitcoinworldwide.com/volatility-index/> [https://perma.cc/KL25-3LCU].

Chairman Jerome Powell has expressed his opinion that Bitcoin is too volatile to replace the dollar.<sup>55</sup>

The lack of price stability is not the only issue with Bitcoin replacing the dollar as the world's reserve currency. Another major issue is that the Bitcoin network is not capable of the volume of transactions that would be needed. This is generally referred to as a scalability problem.<sup>56</sup> To illustrate how significant this issue is, Bitcoin processes an average of 4.6 transactions per second because of limitations on block size and the speed with which blocks are validated, while Visa manages an average of 1,700 transactions per second.<sup>57</sup> The U.S. Federal Reserve processed an average of just over 747 automated transactions per second in 2020,<sup>58</sup> making the volume of Bitcoin transactions problematic.

For other economists, it is Bitcoin's fixed supply that poses the biggest obstacle to making this particular cryptoasset the world's global reserve currency.<sup>59</sup> To date, approximately 18 million Bitcoin have been mined, from the total cap of 21 million that was set at the original launch of the platform.<sup>60</sup> This limit could make it impractical as a substitute for the U.S. dollar and other reserve currencies currently in use.

An additional major issue with accepting Bitcoin as the world's reserve currency is the environmental impact such a switch would entail.<sup>61</sup> Reports suggest that the current carbon footprint associated with Bitcoin mining is

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55. Ben Winck, *Bitcoin won't replace the dollar because it's too volatile, Fed's Powell says*, BUS. INSIDER (Mar. 22, 2021, 3:42 PM), <https://markets.businessinsider.com/news/currencies/bitcoin-volatile-dollar-cryptocurrencies-digital-currency-federal-reserve-jerome-powell-2021-3> [<https://perma.cc/FG3F-56CA>]. Concerns about volatility have placed Bitcoin in the highest risk category for bank capital plans. Silla Brush, *Bitcoin Put in Highest Risk Category in Bank Capital Plan*, YAHOO! FINANCE (June 10, 2021) [<https://perma.cc/CG8X-LQBA>].

56. Kenny L., *The Blockchain Scalability Problem & the Race for Visa-Like Transaction Speed*, TOWARDS DATA SCI. (Jan. 30, 2019), <https://towardsdatascience.com/the-blockchain-scalability-problem-the-race-for-visa-like-transaction-speed-5cce48f9d44> [<https://perma.cc/T475-8WC3>].

57. *Id.*

58. FED. RSRV. BD., COMMERCIAL AUTOMATED CLEARINGHOUSE TRANSACTIONS PROCESSED BY THE FEDERAL RESERVE—ANNUAL DATA (2021), [https://www.federalreserve.gov/paymentsystems/fedach\\_yearlycomm.htm](https://www.federalreserve.gov/paymentsystems/fedach_yearlycomm.htm) [<https://perma.cc/TB5X-JGMW>]. This source notes that there are an average of 64.6 million automated transactions per day, which amounts to 747 transactions per second.

59. Frances Coppola, *Is a Global Digital Reserve Currency on the Horizon?*, AM. EXPRESS [<https://perma.cc/2SLM-HZKW>] (last visited June 13, 2021).

60. *Id.*

61. The environmental impact of Bitcoin was, for example, enough to prompt Tesla to announce it would no longer accept payment for its cars in the cryptocurrency. Kolodny, *supra* note 6.

equivalent to that of Argentina.<sup>62</sup> If Bitcoin values increase further, the amount of electricity expended in mining operations is likely to increase even further.

Another difficulty with suggesting that Bitcoin is positioned to be the global reserve currency is that it has actually been banned in some countries,<sup>63</sup> most notably China.<sup>64</sup> In addition, other countries have indicated the likelihood they will also act to ban the use of Bitcoin, including India,<sup>65</sup> with its growing economy.<sup>66</sup> Given that major parts of the world do not allow banks of businesses to accept Bitcoin or process transactions involving it, Bitcoin seems an unlikely candidate to become the dominant reserve currency.

#### V. WHAT ABOUT A GLOBAL STABLECOIN?

A cryptoasset is referred to as a “stablecoin” if its value is pegged to an external asset class such as a single fiat currency (with the U.S. dollar being the most popular) or a tangible commodity (such as gold).<sup>67</sup> Stablecoins are generally collateralized with tangible assets such as fiat or gold (resulting in “off-chain collateralization”) or other digital assets such as Ether (“on-chain collateralization”).<sup>68</sup> The value of the collateral ensures the holder of the stablecoin that the issuer can redeem the stablecoin for the appropriate value in the collateral.<sup>69</sup>

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62. Lauren Arantani, *Electricity needed to mine bitcoin is more than used by 'entire countries'*, GUARDIAN (Feb. 27, 2021, 3:00 PM), <https://www.theguardian.com/technology/2021/feb/27/bitcoin-mining-electricity-use-environmental-impact>.

63. Kevin Gabeci, *Countries That Bitcoin is Banned in 2021*, MEDIUM (Feb. 12, 2021), <https://medium.datadriveninvestor.com/countries-that-bitcoin-is-banned-in-2021-a29658d4046f> [https://perma.cc/3LHM-ER5M].

64. *China bans financial, payment institutions from cryptocurrency business*, REUTERS (May 18, 2021, 7:27 AM), <https://www.reuters.com/technology/chinese-financial-payment-bodies-barred-cryptocurrency-business-2021-05-18/>.

65. Reuters, *India to reportedly propose cryptocurrency ban, penalizing miners and traders*, CNBC (Mar. 15, 2021, 11:35 AM), <https://www.cnbc.com/2021/03/15/india-plans-cryptocurrency-ban-will-penalize-miners-and-traders.html> [https://perma.cc/M8KV-JMNY].

66. Press Trust of India, *India will be the world's fastest growing major economy in 2022: UN*, WEEK (May 11, 2021, 10:32 PM), <https://www.theweek.in/news/biz-tech/2021/05/11/india-will-be-the-worlds-fastest-growing-major-economy-in-2022-un.html#:~:text=The%20mid%2Dyear%20update%20said,UN%20forecasts%20released%20in%20January> [https://perma.cc/3WDF-4Q59].

67. Alyssa Hertig, *What Is a Stablecoin?* COINDESK (Sept. 24 2021, 10:49 AM), <https://www.coindesk.com/markets/2020/12/29/what-is-a-stablecoin/> [https://perma.cc/L27E-X8MY].

68. MakerDAO, *Stablecoins: Collateralization Types*, MEDIUM (Dec. 12, 2018), <https://medium.com/@MakerDAO/stablecoins-collateralization-types-2a860624dcd3>.

69. Hertig, *supra* note 67.

The first successful stablecoin, Tether (“USDT”), was launched in 2014, and each USDT issued was supposed to be backed by \$1.00 in U.S. dollars.<sup>70</sup> Subsequent events, including charges brought by the New York Attorney General’s office,<sup>71</sup> indicated that Tether’s parent company, iFinex, never had sufficient collateral reserves.<sup>72</sup> Tether’s most recent disclosure indicates that cash accounts for about 2.9% of its reserves, with commercial paper and fiduciary deposits that may be illiquid or insecure being relied upon for the bulk of its backing.<sup>73</sup> Other fiat-backed stablecoins include the United States Dollar Coin or USDC, TrueUSD, Paxos Standard, and Gemini Dollar.<sup>74</sup>

Not all popular stablecoins are centralized or backed by fiat. MakerDAO’s Dai stablecoin is collateralized in Ether,<sup>75</sup> and BitUSD, issued by BitShares, is backed by Bitshare’s native token, BTS.<sup>76</sup>

Although Tether and other stablecoins have been around for years, the single event that brought stablecoins to the attention of governments around the globe was Facebook’s announcement on June 18, 2019, that it was planning its own stablecoin to be named Libra.<sup>77</sup> Facebook’s original plan was to issue a Libra as

70. David Hamilton, *What is Tether? Everything You Need to Know*, SECURITIES (May 7, 2021), <https://www.securities.io/what-is-tether-a-look-at-the-worlds-most-popular-stablecoin/> [https://perma.cc/8RP7-AZKU].

71. Matt Stankiewicz & Michael Volkov, *The New York Attorney General’s Office Reaches Settlement with Bitfinex and Tether*, JDSUPRA (Mar. 15, 2021), <https://www.jdsupra.com/legal-news/the-new-york-attorney-general-s-office-9385268/> [https://perma.cc/RX2E-3RF8].

72. Frances Coppola, *Bitfinex: Cryptocurrency’s MF Global*, FORBES (Apr. 29, 2019, 6:53 PM), <https://www.forbes.com/sites/francescoppola/2019/04/29/the-cryptocurrency-mf-global/?sh=1ddd005e679f> [https://perma.cc/99BZ-WEVG] (“But in March [2019], Tether admitted that it did not have sufficient dollar cash reserves to back all the USDT in issue and was, in effect, acting as an unregulated (and unusually risky) fractional reserve bank.”).

73. ValExplorer, *Should we worry about Tether?*, MEDIUM (May 19, 2021), <https://medium.com/coinmonks/should-we-worry-about-tether-1fc1727ebe4c> [https://perma.cc/Q4DG-MXKM]. While in the opinion of this commentator, commercial paper is low-risk, that viewpoint is not universally shared. See Kate Duguid & Karen Perog, *Investors call for Fed to add liquidity into commercial paper market*, REUTERS (Mar. 16, 2020), <https://www.reuters.com/article/healthcare-coronavirus-fed-commercial-pa/investors-call-for-fed-to-add-liquidity-into-commercial-paper-market-idUSL1N2B951A> [https://perma.cc/MG2Y-V2S5].

74. Becky, *What is a fiat-backed stablecoin?*, COIN INSIDER (Feb. 6, 2019), <https://www.coininsider.com/what-is-a-fiat-backed-stablecoin/> [https://perma.cc/832N-K6H2].

75. JP Koning, *MakerDAO’s Embrace of Centralized Stablecoins Offers Risks and Rewards*, COINDESK (Oct. 12, 2020, 9:47 AM), <https://www.coindesk.com/policy/2020/10/12/makerdaos-embrace-of-centralized-stablecoins-offers-risks-and-rewards/> [https://perma.cc/H569-5KYP].

76. Bitspark, *What Is BitUSD? Everything You Need To Know About The First Stablecoin Ever Created*, MEDIUM - THE LEDGER (Aug. 21, 2019), <https://medium.com/the-ledger-by-spark/what-is-bitusd-everything-you-need-to-know-about-the-first-stablecoin-ever-created-72337c53fd> fa#:~:text=Crypto%20backed&text=Instead%2C%20it%20is%20backed%20up,%2C%20traded%2C%20moved%20or%20spent.

77. Mike Isaac & Nathaniel Popper, *Facebook Plans Global Financial System Based on Cryptocurrency*, N.Y. TIMES (June 18, 2019), <https://web.archive.org/web/20200519040623/>

a global stablecoin, backed by a basket of fiat currencies.<sup>78</sup> At the time of the original announcement, Facebook already had twenty-seven expected partners including eBay, Mastercard, PayPal, Spotify, Uber, and Visa, each of whom were expected to invest at least \$10 million in the venture.<sup>79</sup>

The reaction of governments to a stablecoin to be associated with a social media giant with literally billions of users was swift. Governments and leading banks around the world expressed fears that such a stablecoin could be an immediate threat to global financial stability, as well as the potential for it to increase money laundering and facilitate the invasion of personal privacy, while being “dangerous for consumers and stripping nations of the control of their economies by privatising [sic] the money supply.”<sup>80</sup> The pressures brought to bear caused many of the initial partners to back out, and the entire proposal was delayed, renamed “Diem,” and substantially scaled back before being abandoned near the start of 2022.<sup>81</sup>

At this point, there are a number of outstanding issues associated with privately issued stablecoins. One of the biggest concerns is how these assets will be regulated. One proposed U.S. bill, the Keep Big Tech Out of Finance Act, would have precluded platform utilities with assets in excess of \$25 billion from

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<https://www.nytimes.com/2019/06/18/technology/facebook-cryptocurrency-libra.html?action=click&module=Top%20Stories&pgtype=Homepage>.

78. LIBRA ASSOCIATION, LIBRA, AN INTRODUCTION TO LIBRA (2019) [<https://perma.cc/DJ6Z-7VQV>] (original White Paper).

79. Nick Statt, *Facebook Confirms it will Launch a Cryptocurrency Called Libra in 2020*, VERGE (June 18, 2019, 5:00 AM), <https://www.theverge.com/2019/6/18/18682290/facebook-libra-cryptocurrency-visa-mastercard-digital-currency-calibra-wallet-announce> [<https://perma.cc/7JKH-H9J6>]; Josh Constine, *Facebook announces Libra cryptocurrency: All you need to know*, TECHCRUNCH (June 18, 2019, 4:01 AM), <https://techcrunch.com/2019/07/16/libra-in-messenger-whatsapp/> [<https://perma.cc/XR69-YE4G>].

80. Richard Partington, *How the wheels came off Facebook’s Libra project*, GUARDIAN (Oct. 18, 2019, 9:42 AM), <https://www.theguardian.com/technology/2019/oct/18/how-the-wheels-came-off-facebook-libra-project#:~:text=The%20Libra%20cryptocurrency%20project%20now,of%20the%20control%20of%20their> [<https://perma.cc/4SEM-6XH2>].

81. The initial reaction was to scale back on the planned stablecoin. Hannah Murphy, *Facebook’s Libra currency to launch next year in limited format*, ARSTECHNICA – FIN. TIMES (Nov. 27, 2020, 12:02 PM), <https://arstechnica.com/tech-policy/2020/11/facebooks-libra-currency-to-launch-next-year-in-limited-format/>; Iliia Maksimenka, *Facebook-backed Diem, now close to launch, is propelling crypto into the mainstream*, FORKAST (Jan. 29, 2021, 7:05 PM), <https://forkast.news/facebook-diem-libra-launch-crypto-stablecoin/> [<https://perma.cc/EG6J-EW3>]. In addition, Facebook itself has been rebranded as “Meta,” for a variety of reasons. See Salvador Rodriguez, *Facebook changes company name to Meta*, CNBC (Oct. 28, 2021), <https://www.cnbc.com/2021/10/28/facebook-changes-company-name-to-meta.html> [<https://perma.cc/KTD4-4PBQ>]. However, in January 2022, Meta announced that it was abandoning its plans to launch Diem. *Meta abandons Diem? The indiscretion*, BITCOIN ETHEREUM NEWS (Jan. 27, 2022), <https://bitcoinethereumnews.com/technology/meta-abandons-diem-the-indiscretion/> [<https://perma.cc/59J4-6DPA>].

issuing digital currencies.<sup>82</sup> The Stablecoin Tethering and Bank Licensing Enforcement (“STABLE”) Act would have required anyone issuing stablecoins to obtain a banking charter, approval from the Federal Reserve, the Federal Deposit Insurance Corporation, and a state or federal bank regulator.<sup>83</sup> The Stablecoin Classification and Regulation Act of 2020 would have required stablecoins to be backed by the U.S. dollar on a 1:1 basis.<sup>84</sup> While none of these bills were enacted, they clearly indicate one reason why no current stablecoin is positioned to become a reserve currency. As long as regulation is in a state of flux, the very viability of such assets is up in the air.

## VI. ARE CBDCs THE LIKELY ANSWER?

A CBDC, or central bank digital currency, is a digitized liability of a central bank, although there are a number of different alternatives for how CBDCs can be structured.<sup>85</sup> For example, the roles of the central banks and private intermediaries can differ; some CBDCs may be centralized while others may rely on a decentralized digital ledger, and access may be anonymous or permissioned.<sup>86</sup>

The potential benefits of these kinds of digital currencies, however, can be profound. A CBDC could improve accuracy of payments and facilitate tracing of payments by the central bank. Use of blockchain technology could minimize delay in processing transactions and help avoid fraud.<sup>87</sup> CBDCs could also improve access for currently unbanked individuals.<sup>88</sup> It could also aid in a

82. Partington, *supra* note 80; Stan Schroeder, *It's on: The U.S. wants to ban big tech from issuing digital money*, MASHABLE (July 15, 2019), <https://mashable.com/article/keep-big-tech-out-of-finance> [https://perma.cc/SB9W-SVVM].

83. Nikhilesh De, *US Lawmakers Introduce Bill That Would Require Stablecoin Issuers to Obtain Bank Charters*, COINDESK (Dec. 2, 2020, 4:37 PM), <https://www.coindesk.com/markets/2020/12/02/us-lawmakers-introduce-bill-that-would-require-stablecoin-issuers-to-obtain-bank-charters/> [https://perma.cc/9NZ6-TJAW].

84. Stablecoin Classification & Regulation Act, H.R. 8827, 116th Cong. § 3(aa)(1) (2020) [https://perma.cc/MTD9-9J83].

85. COMMITTEE ON PAYMENTS AND MARKET INFRASTRUCTURES & MARKETS COMMITTEE, CENTRAL BANK DIGITAL CURRENCIES 1, 1 (Bank for Int'l Settlements 2018) [https://perma.cc/EG33-RCA7] (hereinafter BIS, *CBDCs*) (noting on p. 1 that “[m]any forms of CBDC are possible, with different implications for payment systems, monetary policy transmission as well as the structure and stability of the financial system.”).

86. STEPHANIE SEGAL & PEARL RISBERG, CENTRAL BANK DIGITAL CURRENCY, DESIGN CHOICES, AND IMPACTS ON CURRENCY INTERNATIONALIZATION, CSIS BRIEFS (Ctr. for Strategic & Int'l Stud. 2020), <https://www.csis.org/analysis/central-bank-digital-currency-design-choices-and-impacts-currency-internationalization> [https://perma.cc/QX52-GQPH].

87. Research Briefs, *How Blockchain Could Disrupt Banking*, CBINSIGHTS (Feb. 11, 2021), <https://www.cbinsights.com/research/blockchain-disrupting-banking/> [https://perma.cc/U76Z-TSM2].

88. James Wallis, *Unlocking Financial Inclusion with CBDCs*, RIPPLE (Apr. 21, 2021), <https://ripple.com/insights/unlocking-financial-inclusion-with-cbdc/> [https://perma.cc/3KZ8-23

government's control of monetary policy, facilitate cross-border payments, and reduce the costs of issuing and storing currencies.<sup>89</sup> Finally, a CBDC could address the potential challenges from private cryptocurrencies and stablecoins.<sup>90</sup>

On the other hand, there are a number of risks potentially posed by the creation and use of CBDCs. CBDCs can threaten the role of conventional commercial banks, depending on how the central bank works with private intermediaries. Such a threat could seriously interrupt the normal functioning of a nation's financial infrastructure.<sup>91</sup> In addition, if a CBDC issued by another country becomes paramount, other nations could lose control over their monetary policy.<sup>92</sup> There is always the risk that international trade could be destabilized if a CBDC assumes primacy as a reserve currency because of the necessary adjustments that will have to take place in order for this to function.<sup>93</sup> Depending on the architecture of CBDCs, they might also facilitate the use of crypto by governments, groups, and individuals engaged in illegal activities, including international terrorism.<sup>94</sup> There is also the risk of extreme intrusions into personal privacy, as governments might use CBDCs to more easily monitor and control their citizens' assets and spending.<sup>95</sup> For CBDCs that are centralized,

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HX] ("Retail CBDCs can help the unbanked and underbanked in two ways: by establishing a more inclusive digital payments ecosystem and creating financial data identities, often seen as a digital human right and a keystone to financial inclusion, particularly in frontier markets.").

89. BIS, *CBDCs*, *supra* note 85, at 2, 7.

90. *Stablecoins are Here To Stay: Can Stablecoins And Digital Currencies Coexist?* SILAMONEY (Mar. 16, 2021), <https://silamoney.com/cryptocurrency/stablecoins-are-here-to-stay-can-stablecoins-and-digital-currencies-coexist/> [<https://perma.cc/GV2Q-5QTH>] (noting that "while stablecoins helped to create CBDCs, it seems like CBDCs might be more powerful and more useful.").

91. For example, if the CBDC is issued directly to consumers, the role of commercial banks could be threatened. Johan Javeus, *SEB chief strategist: CBDCs could cause friction with commercial banks*, FINEXTRA (Mar. 30, 2020), <https://www.finextra.com/newsarticle/35538/seb-chief-strategist-cbdc-could-cause-friction-with-commercial-banks> [<https://perma.cc/MBJ6-H3GC>].

92. Antonio Diez de los Rios & Yu Zhu, *CBDC and Monetary Sovereignty* (Bank of Can., Staff Analytical Note 2020-5, 2020), <https://www.bankofcanada.ca/2020/02/staff-analytical-note-2020-5/> [<https://perma.cc/U4CH-559G>] ("Wide domestic adoption of a digital currency denominated in a different unit of account threatens a country's monetary sovereignty."). This source suggests that while the risk could apply to any digital currency, it would be greater for privately issued stablecoins in this position than for CBDCs.

93. Harrison Dent, *International Trade Law Concerns with China's Digital Currency: How Sovereign-Issued Stablecoin Can Destabilize International Trade*, 51 GEO. J. INT'L L. 919, 949 (2020).

94. Yaya J. Fanusie, *Central Bank Digital Currencies: The Threat from Money Launderers and How to Stop Them*, LAWFARE (Dec. 14, 2020, 10:47 AM), <https://www.lawfareblog.com/central-bank-digital-currencies-threat-money-launderers-and-how-stop-them> [<https://perma.cc/F865-ZPEA>].

95. Lawrence H. White, *Central Bank Digital Currency Threatens Financial Privacy and Economic Growth*, CATO LIBERTY BLOG (Dec. 4, 2018, 9:33 AM), <https://www.cato.org/blog/>

there are security concerns as banks are major targets of cyber criminals.<sup>96</sup> There may also be issues with weakness in the underlying programming, such as a lack of interoperability, that could lead to performance issues for particular CBDCs.<sup>97</sup>

Notwithstanding these concerns, by the start of 2022, central banks in eighty-seven countries had at least started their preliminary consideration of CBDCs.<sup>98</sup> Some nations, notably China, were significantly further along than others. China began work on the digital yuan in 2014, and it has already conducted a series of pilot programs to test its viability.<sup>99</sup> Widespread adoption of this CBDC, particularly for cross-border transactions, might help China become a global financial superpower, even potentially threatening the role of the USD as the world's reserve currency. The People's Bank of China has in fact confirmed that its digital yuan will not be limited to domestic transactions.<sup>100</sup>

The United States is somewhat behind the curve on this front, although Federal Reserve Chairman Jerome Powell has announced plans to move forward with a consideration of the digital dollar. The United States is still at the stage of seeking input; so, if there is to be a move away from conventional currencies to digital assets, the digital yuan is considerably more advanced.<sup>101</sup> There are numerous issues to resolve prior to designing and issuing a CBDC. A viable system would allow for payments on a 24/7 basis, preferably with the option for at least some offline transactions. It would need to be fault-tolerant and set up to minimize disruptions. The system would need to handle a large volume of

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central-bank-digital-currency-threatens-financial-privacy-economic-growth [https://perma.cc/7JXE-4JQT].

96. David Z. Morris, *What If Somebody Hacks the Money Pipeline Next?*, COINDESK (Sept. 14, 2021, 7:55 AM), <https://www.coindesk.com/tech/2021/05/13/what-if-somebody-hacks-the-money-pipeline-next/> [https://perma.cc/3BHS-CFHN].

97. Sky Guo, *It's Critically Important Central Bank Digital Currencies (CBDCs) Are Interoperable*, NASDAQ (June 25, 2020, 10:25 AM), <https://www.nasdaq.com/articles/its-critically-important-central-bank-digital-currencies-cbdc-are-interoperable-2020-06> [https://perma.cc/C6JJ-YQ3G].

98. *Central Bank Digital Currency Tracker*, ATL. COUNCIL, <https://www.atlanticcouncil.org/cbdctracker/#:~:text=Key%20findings,GDP%20are%20exploring%20a%20CBDC> [https://perma.cc/6829-E65J] (showing CBDC activity as of February 10, 2022).

99. Arjun Kharpal, *China has given away millions in its digital yuan trials. This is how it works*, CNBC (Mar. 4, 2021, 6:47 PM), <https://www.cnbc.com/2021/03/05/chinas-digital-yuan-what-is-it-and-how-does-it-work.html> [https://perma.cc/D8HZ-NTFU].

100. Steven D. Lofchie, *People's Bank of China Confirms Digital Yuan's Use for Cross-Border Transactions*, LEXOLOGY (Apr. 8, 2021), [https://www.lexology.com/library/detail.aspx?g=63ee46be-e230-46e9-949c-dec32a84968c&utm\\_source=Lexology+Daily+Newsfeed&utm\\_medium=HTML+email+-+Body+-+General+section&utm\\_campaign=Arkbar+subscriber+daily+feed&utm\\_content=Lexology+Daily+Newsfeed+2021-04-13&utm\\_term=](https://www.lexology.com/library/detail.aspx?g=63ee46be-e230-46e9-949c-dec32a84968c&utm_source=Lexology+Daily+Newsfeed&utm_medium=HTML+email+-+Body+-+General+section&utm_campaign=Arkbar+subscriber+daily+feed&utm_content=Lexology+Daily+Newsfeed+2021-04-13&utm_term=) [https://perma.cc/V2MC-5J34].

101. Kharpal, *supra* note 99; Press Release, Fed. Reserve Bd., *Federal Reserve Chair Jerome H. Powell outlines the Federal Reserve's response to technological advances driving rapid change in the global payments landscape* (May 20, 2021), <https://www.federalreserve.gov/newsevents/pressreleases/other20210520b.htm> [https://perma.cc/W622-FTGN].

transactions quickly and with certainty. Ideally, payments would be intuitive and user-friendly, with minimal technical sophistication required, and with allowances for users with disabilities or limited access to hardware or data networks. Costs would be clear and reasonable, and privacy protocols and expectations would need to be set and managed. Cyber-security issues would need to be taken into consideration and addressed to the extent possible while the system's architecture is being designed, along with details necessary to ensure compliance with anti-money laundering and know your customer requirements established by the Bank Secrecy Act.<sup>102</sup>

These possibilities have led national governments, central banks, and non-governmental organizations to consider how best to deal with CBDCs. The Financial Stability Board ("FSB"), with membership including monetary and fiscal authorities from twenty-four countries, has a particularly important role because it is relied upon to monitor and make recommendations to promote international financial stability.<sup>103</sup> In October 2020, the FSB released a report on how to enhance cross-border transactions, including suggestions for new payment infrastructures and arrangements such as CBDCs.<sup>104</sup>

Some experts have expressed concern that the "first mover" advantage might position China's digital yuan to replace the U.S. dollar as the global reserve currency.<sup>105</sup> Others disagree, and the Chair of the U.S. Federal Reserve has explained, "It's more important for the United States to get it right than to be first."<sup>106</sup>

At this stage, it is impossible to predict how CBDCs will affect the international landscape because it will take multilateral agreements and a consensus on standards that have yet to be developed in order for them to assume any degree of prominence.<sup>107</sup>

#### CONCLUSIONS

The gradually diminishing popularity of the U.S. dollar as a reserve currency creates both risks and opportunities. Despite some pundits' claims that Bitcoin

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102. For an updated explanation of BSA requirements, see Memorandum from Sullivan & Cromwell LLP to the public, *Anti-Money Laundering Act of 2020* (Dec. 17, 2020), <https://www.sullcrom.com/sc-publication-anti-money-laundering-act-2020>.

103. *About the FSB*, FIN. STABILITY BD., <https://www.fsb.org/about/> [<https://perma.cc/2U8D-LZMG>] (last visited Jan. 5, 2021).

104. FIN. STABILITY BD., *ENHANCING CROSS-BORDER PAYMENTS, STAGE 3 ROADMAP 1*, 13 (2020), <https://www.fsb.org/wp-content/uploads/P131020-1.pdf>.

105. *China's Digital Currency Could Challenge Bitcoin and Even the Dollar*, BLOOMBERG BUSINESSWEEK (June 1, 2020, 3:00 PM) [<https://perma.cc/DPA2-GNQD>].

106. IMF & World Bank Group, *Cross-Border Payments—A Vision for the Future*, IMF Seminar Event (Oct. 19, 2020), <https://meetings.imf.org/en/2020/Annual/Schedule/2020/10/19/imf-cross-border-payments-a-vision-for-the-future>.

107. SEGAL & RISBERG, *supra* note 86.

is poised to take over the role as a global reserve currency,<sup>108</sup> this appears unlikely to happen and certainly not in the foreseeable future. Similarly, governments around the world appear unlikely to welcome privately issued stablecoins in this role, and the future of CBDCs is not yet sufficiently fixed to know whether, at some point, they will be able to replace the conventional U.S. dollar as the predominant global reserve currency. Given the potential benefits of CBDCs, both domestically and in the role of a reserve currency, the Chair of the U.S. Federal Reserve may well be correct in suggesting, “[I]t’s way more important to get it right than it is to get it fast.”<sup>109</sup> By taking this approach, the move to CBDCs can come when the regulatory picture is clearer, and the United States and its CBDC can supplement<sup>110</sup> rather than supplant the U.S. dollar as the prevalent global reserve currency.

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108. Reeves, *supra* note 7; Vincent Ventures, *How And Why Bitcoin Could Become A New Reserve Currency*, SEEKING ALPHA (Jan. 20, 2021, 5:19 PM), <https://seekingalpha.com/article/4400007-how-and-why-bitcoin-become-new-reserve-currency> [<https://perma.cc/9ZE7-SY7P>]; Kevin Helms, *Morgan Stanley Strategist: Bitcoin Rising to Replace US Dollar as World’s Reserve Currency*, BITCOIN.COM (Dec. 12, 2020), <https://news.bitcoin.com/morgan-stanley-strategist-bitcoin-replace-us-dollar-worlds-reserve-currency/> [<https://perma.cc/2FTH-WVAL>]; Kaz Bycko, *BIP 2021: Bitcoin’s Path Toward Reserve Currency Status is Set*, BITCOIN MAG. (Jan. 5, 2021), <https://bitcoinmagazine.com/culture/bip-2021-bitcoins-path-toward-reserve-currency-status-is-set> [<https://perma.cc/9E3J-8XVB>]; Brett Munster, *Why Bitcoin could become the next world reserve asset - Part 1: Why the dollar could lose reserve currency status*, MEDIUM (Mar. 14, 2021), <https://medium.com/road-less-ventured/why-bitcoin-could-become-the-world-reserve-asset-4100f54b1093>; David Marshall, *Can Bitcoin Become the Next Global Reserve Currency?*, VMBLOG (Mar. 16, 2021, 11:40 AM), <https://vmblog.com/archive/2021/03/16/can-bitcoin-become-the-next-global-reserve-currency.aspx#.YVzfkkbMlaN> [<https://perma.cc/QCU8-N8CD>].

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