

**INSIGHTS FROM
CFA SOCIETY SINGAPORE**

Adam W Sandback



CBDCs can cut transaction costs and time, bring financial services to the unbanked, and appeal to younger generations who prefer digital transactions. PHOTO: PIXABAY

growth falls behind debt accumulation, the United States may encounter financial instability, including potential crises or the need for debt restructuring. Hence, managing fiscal policy, inflation, GDP growth, and debt remains a crucial, albeit complex task.

Effective debt management is essential to avoid significant interest rate hikes and ensure economic stability. However, relying on “easy money” policies and excessive debt could lead to political and economic strategies influenced by MMT, which promotes government spending funded by money creation to achieve full employment and focuses less on deficits unless they spur inflation. Such a shift could deeply impact economic stability and the United States’ international financial stance.

The dangers of MMT

If MMT becomes more influential in economic policy, it will radically alter how fiscal strategies are framed. According to MMT, taxation’s primary role is to manage inflation and allocate resources more effectively. This theory also promotes a shift in the Federal Reserve’s priority from conventional monetary policies towards more direct fiscal involvement. MMT in effect empowers substantial government spending on social and environmental programmes, because it asserts that monetary creation can support such spending without negative consequences until inflation becomes a pressing issue.

Thankfully, MMT has not garnered widespread acceptance among leading economists in the developed world. Even so, the political environment often favours short-term, straightforward solutions suggested by policymakers rather than more nuanced and logical alternatives. This tendency poses a significant risk to developed nations’ long-term global economic leadership.

The dollar’s pivotal role in world finance

The structural economic challenges in the United States date back to the inflationary pressures of the 1970s. These issues were managed by the neoliberal policies of the 1980s, which, despite their flaws, leveraged the dollar’s pivotal role in world finance. This role was cemented by globalisation and financial market advancements in the 1990s. However, the era of economic growth came to a screeching halt with the 2008 global financial crisis. Interestingly, this crisis reinforced the dollar’s reputation as a safe-haven asset, channelling global capital into US Treasury

Preserving the US dollar: Role of CBDCs in securing economic stability for future generations

Developing a US central bank digital currency is key to ensuring the greenback remains the leading global reserve unit. **By Adam W Sandback**

YOUNGER generations in the United States and other developed nations increasingly worry about economic trends that threaten to jeopardise their financial futures. The United States struggles with rising national debt, sparking fears that the US dollar might lose its dominant status as the world’s reserve currency.

This issue is further complicated by policies that favour easy money and significant budget deficits, potentially leading to skewed approaches to political economy such as Modern Monetary Theory (MMT).

Issuing central bank digital currencies (CBDCs) can help developed countries including the United States counteract these trends. CBDCs are digital forms of money issued by central banks, unlike decentralised cryptocurrencies such as Bitcoin. They come in public and institutional forms, serving as a digital replacement for physical cash and facilitating smoother interbank transactions.

Major economies around the world continue to rack up large budget deficits each year, prima-

rily to sustain existing entitlement programmes. They use fiscal stimulus as a short-term fix for sluggish gross domestic product growth without a matching increase in tax revenue.

The Congressional Budget Office (CBO) predicts that if current trends continue, over the next 30 years, the average US federal budget deficit will swell to 8.5 per cent of GDP and national debt will balloon to 166 per cent of GDP. Given this trajectory, achieving a budget surplus seems increasingly slim.

To make matters worse, interest rates will climb to support the growing debt burden, limiting the government’s ability to finance its entitlement programmes. This scenario hints at a potential slowdown in economic growth and escalating fiscal challenges.

The rising cost of servicing its burgeoning debt will force the government to raise taxes or cut spending, further complicating economic management. Elevated public debt could also divert savings from productive investments, hindering long-term economic growth. If economic