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Central Bank Digital Currency: Unraveling Impacts on Freedom, Economic Development, and Privacy

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Recent research has pointed out a concerning trend: 84% of Americans are afraid to exercise their freedom of speech, according to a new national New York Times Opinion/Siena College Poll. While this statistic is alarming, what's even more concerning is the gradual erosion of freedom within American society. This erosion extends beyond mere limitations on speech, encroaching upon the very realms of thought and cognition.

Adding to these concerns are the discussions surrounding the development of a Central Bank Digital Currency (CBDC), which have been prominently featured in the media as of late. Although the idea of investing in its implementation resurfaces periodically, one might question its relevance to the concept of freedom.

To delve into this topic, it's worth revisiting Max Weber's definition of statehood as described in his book "Politics as a Vocation": "A compulsory political organization with continuous operations will be called a 'state' [if and] insofar as its administrative staff successfully upholds a claim to the monopoly of the legitimate use of physical force (das Monopol legitimen physischen Zwanges) in the enforcement of its order."

In the modern context, CBDC represents a means of monopolizing an industry that traditionally operates in synergy with the market, facing competition and surmounting challenges through efficiency and technological innovation. However, not all political representatives share this perspective, leading to ideas such as state-controlled cryptocurrency garnering public support.

Illustrating this point, Senator Kirsten Gillibrand (D-NY) stated, "I believe that a CBDC can offer a number of benefits to our economy and society, such as greater financial inclusion, lower transaction costs, faster payments, and enhanced monetary policy." While this may sound appealing to those unfamiliar with economics or competitive market dynamics, it conceals a significant threat, as articulated by Hayek: "The road to serfdom is paved with government control over the economy." CBDC represents the initial step towards eradicating a privately institutionalized sector, thereby exerting control over individuals' financial lives. In contrast, it seems accurate to affirm, the invisible hand of the market remains a more reliable force than the visible hand of government.

To illustrate the potential dangers of implementing a CBDC in a country's economy, it's crucial to examine a case study where such a concept has already been adopted. In this instance, we can look at the example of the eNaira in Nigeria, which presents several noteworthy peculiarities in its establishment.

The initiative began in 2012 under the leadership of former governor Sanusi Lamido, who introduced a cashless policy through the Central Bank of Nigeria. The primary objective was to diminish physical cash transactions and encourage online transactions. However, a pivotal shift occurred in 2021 with the official announcement of the ban on cryptocurrency within the country. At this juncture, a report from the World Bank Group revealed that 91% of Nigeria's population lived on less than US$6.85 per person per day. Cryptocurrency emerged as a means for the population to circumvent excessive taxes due to their meager incomes.

Subsequent to this prohibition, the eNaira was introduced merely eight months later, with strong backing from the government. However, it faced considerable obstacles, including volatility, instability, and escalated transaction costs. Furthermore, the government imposed stringent controls over eNaira accounts, enforcing restrictions on wallet balances, transaction volumes, and daily withdrawals. Additionally, the technology underpinning the eNaira lacks development on a public blockchain basis, resulting in diminished transparency and facilitating extensive government oversight and control.

Nevertheless, these measures proved insufficient. In December 2022, the Nigerian government intensified its campaign against physical cash. Despite only 0.05% of the population expressing support for cryptocurrency usage over physical currency, the government proceeded with its implementation.

As the eNaira expansion phase drew to a close, the government disclosed that 80% of the previously held US$7.2 billion had been transferred into digital accounts as CBDC. However, this initiative excluded the poorer segment of the population, comprising over half of the country's inhabitants, leaving them in the same dire financial circumstances. Moreover, despite assurances from the Central Bank of Nigeria (CBN) that physical cash would not be phased out until CBDC was fully operational, half of the nation found themselves holding old, worthless banknotes.

The journey toward financial liberation in Nigeria remains arduous. Nonetheless, through cautious deliberation and the examination of similar case studies, we can steer clear of replicating such phenomena as we contemplate further strides here in the United States.

While it may appear that we are somewhat removed from such a reality, it remains imperative to recall Frédéric Bastiat's timeless phrase: "The state is the great fiction by which everyone tries to live at the expense of everyone else." The government is unlikely to pursue systems that prioritize enhanced privacy and empower individuals beyond its control. Hence, it becomes necessary to delve deeper into the current state of CBDC adoption in the US and assess our proximity to its implementation.

As we navigate these discussions, it's crucial to remain vigilant about preserving individual liberties and resisting the encroachment of government overreach into financial affairs. Only through careful examination and informed decision-making can we safeguard our freedoms and chart a path forward that prioritizes the interests of the people.

In the US, despite projects from the Federal Reserve (FED) aimed at supporting and developing CBDC, the reality differs somewhat. As analyzed by Bank of America in a report shared by CoinDesk, a digital dollar seems unlikely in the near term.

In the pursuit of an article that aims to analyze data from the most accurate sources without bias, let's consider insights from the Federal Reserve website regarding the potential dangers of CBDC adoption, which are clear and acknowledged by the government, right under people's noses.

When addressing the risks of CBDC, the Federal Reserve website explains: "A CBDC could pose certain risks and raise a variety of important policy questions, including how it might affect financial-sector market structure, the cost and availability of credit, the safety and stability of the financial system, and the efficacy of monetary policy."

Indeed, nothing is certain; a working system remains undefined, leaving room for potential pitfalls. As Ludwig Von Mises once stated: "The excellence of money is to be something which has value in itself, apart from its use as money." CBDC appears to be just another means of commercializing, monopolizing, and creating costless tokens to offset government debt and irresponsibility.

As Austrians have long argued, market phenomena should unfold through market selection, with the most efficient and productive alternatives prevailing. However, CBDC represents a departure from this principle, as it seeks to eliminate the private banking sector and gradually establish state monopolization over the entire financial system.

Returning to the question of privacy, the Federal Reserve explains: "Any CBDC would need to strike an appropriate balance between safeguarding the privacy rights of consumers and affording the transparency necessary to deter criminal activity." However, as Murray Rothbard argued in Chapter 19th of his book "The Ethics of Liberty," the right to property implies the right to make contracts about that property without interference.

There is no negotiable balance or privacy to be compromised in the pursuit of a supposedly safer system. CBDC, often touted as a digital currency, represents a system with minimal government intervention, ensuring freedom from infringement. However, it masquerades as such while serving as a tool for state control, fundamentally altering the nature of money and posing significant challenges to economic freedom and individual sovereignty.

Given the preceding discussion, the question arises: How can we effectively oppose the development of such technology and chart a path toward economic development, growth, and freedom?

Drawing from the longstanding tradition of Austrian economists, the imperative lies in educating, enlightening, and guiding individuals who may lack a comprehensive understanding of economics. It is incumbent upon us to advocate for a future characterized by greater freedom, while actively defending the few freedoms and rights that remain intact. This entails opposing the tools of state control aimed at subjugating its citizens. Through concerted efforts in education, advocacy, and resistance, we can strive for a society grounded in economic liberty and individual autonomy.

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