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The Next "Too Big To Fail" is coming

- Carol Roth

In this informative newsletter, Carol covers what a CBDC is and how it is taking shape in the US and G7 countries; why a CBDC is a threat to your economic freedom; how a CBDC could create the biggest "too big to fail" scenario we have ever seen; how FTX and other issues in the crypto space could lead to CBDC approval; how you can hedge against all of this; and more.

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The Next "Too Big to Fail" is Coming

Crypto was supposed to decentralize money. Ironically, it may end up enabling a Central Bank Digital Currency

The Federal Reserve, whose policies, in large part, have helped destroy purchasing power and create substantial wealth transfers from Main Street to Wall Street, stands ready to "help" you again!

They are one of many central banks and governments around the world who are exploring not just any sort of digital currencies, but specifically central bank digital currencies (or CBDCs).

In fact, per the IMF, around 100 countries are considering CBDCs at different stages. Some are doing exploratory research, while others are in test phases. As interest in cryptocurrency threatens sovereign, central control of money, central banks seek to neutralize the threat.

The Federal Reserve and US government are using both the interest in cryptocurrencies as well as the spate of bankruptcies, frauds and other woes of the industry to conflate decentralized, blockchain-based crypto with the highly centralized, fully controlled central bank digital currency.

What is a CBDC?

A CBDC is merely a digital version of whatever currency the government is already backing with its "full faith". It is issued by and regulated by the same monetary authority or central bank that issues the country's "fiat" money.

In the US, what is currently being considered is replacing or supplementing some of the federal reserve notes with digital US dollars. Instead of a dollar that you keep in your physical wallet, under a mattress or in a safe, you would have a digital equivalent place of storage, since those dollars' forms are digital-only. That digital holder for money is a digital wallet.

The reality is that the US doesn't need this. We have plenty of digital payment systems that are quick and effective in transferring money, both at the banking-system level and at the consumer level.

So, the reason to bring to market a digital dollar is far more nefarious. Particularly at the retail level (meaning that you as a member of the public would or could transact in these digital dollars), the digital dollar is about power and control.

The Federal Reserve and the US government obviously have a lot of control over your money today. They set policies that impact inflation and the purchasing power of money. They create policies that tax away a portion of your money to pay for the expenditures that they direct. They create fines and taxes to incentivize or disincentivize behaviors. They incur debts on your behalf and weaponize the dollar to enact foreign policy.

In fact, the carelessness of the Fed and the government with money is one of the leading reasons that crypto fans have decided to embrace a decentralized currency.

While they have a lot of power and control, there are things the Fed and government can't do today. Depending on your behavior and how difficult you make it for them, they can't follow each of your dollars. They may have a general sense of what you earn and what you spend on or invest in, but there is still an arms-length distance between your money and them.

If the government and Fed enact a CBDC, they can take that away. The currency can be programmable, at scale, with sophisticated technology. They can trace the movement of every dollar, giving them complete transparency into everything you do. Worse, they can control accessibility to that money.

They can program the currency to be accessible based on their mandates and edicts. If they want to push "green" policies, they can cut off your payment if you have filled up your gas tank too many times in a given month or even refuse payment to gas stations in total.

Did you say something on social media the government deemed "bad"? Perhaps they enact a direct fine for that. Or, for your health, of course, they don't let you patronize the local ice cream shop more than twice a year.

While ten years ago that may have sounded more like a dystopian novel than reality, between covid-related policies and actions in America, and the freezing of the Canadian trucker "freedom convoy" assets over the past couple of years, this is much more a likely reality than fantasy.

Even if a CBDC comes about in phases, remember that small, seemingly innocuous shifts in a system can enable wholesale, monumental, and undesirable changes over time. The people who have the money, control and power will do everything they can to keep that money, control and power.

Really Too Big to Fail

Above and beyond its anti-economic freedom implications at the individual level, a CBDC doesn't remove systemic risk. Rather, it creates the ultimate "too big to fail" scenario. The more centralized the currency, the larger the scale of systemic risk.

When digital currency is less centralized, there may be more attacks on the system, but they are smaller in nature and any one or handful of them are unlikely to bring an economy to a grinding halt.

Once you fully centralize the currency, as would be the case with a CBDC, you have now created "too big to fail" on a level that makes the Great Recession Financial Crisis look like the JV team. A sophisticated hacker could theoretically bring down an entire economy.

Moreover, the incentives for bad actors, including unfriendly governments, to try to do this are large and vast.

This doesn't even touch on the implications of bad actors in the system domestically trying to attack individuals, or foreign entities trying to get access to more of your data.

CBDCs create severe security and privacy issues, too. The government and Fed have done nothing but erode trust, particularly when it comes to the stewardship of money. Why give them the ultimate in power and control?

Crypto Irony

Despite the enormous implications for privacy, economic freedom, and economic and national security, the CBDC agenda is picking up steam.

The recent collapse of FTX in the crypto world, along with other high-profile bankruptcies, like Voyager and Celsius Network, as well as frauds, hacks and other woes, create the perfect cover for confusion. And, confusion and crisis make the perfect recipe to allow the government to take advantage of its citizens.

While I am not sure what FTX actually was, it purported to be an crypto exchange (given the scope of related parties and the "effective altruism" stance and funding of politicians and political causes by the founder, Sam Bankman-Fried, it seems to perhaps be more than a garden-variety alleged financial scam). An exchange is a centralized financial institution, not a decentralized currency, despite aligning with decentralized currencies.

It doesn't matter that it was the behaviors surrounding the exchange that was problematic. The confusion and conflation of concepts in this opaque and emerging world will likely provide more calls for government regulation. The push for regulation will likely enable a very important addition to any proposal: congressional authority for a CBDC.

See, the Fed can't authorize a CBDC without the express approval of Congress. So, lawmakers will likely bury that approval and consent as part of a larger set of regulations around crypto, which they will sell as protecting the consumer. Despite the branding to the contrary, doing so will be the biggest assault on the consumer of all time and signal the end of individual rights as we know them in America.

The tide on CBDCs is starting to pick up force. In mid-October, financial officials from G7 countries, per *Reuters*, came together to endorse a set of policy principles (13 in total), not just for central bank digital currencies overall, but for retail (consumer-facing) CBDCs. You don't participate in this if it isn't something you are seriously considering.

In mid-November, *Reuters* reported that the New York Fed (the one with all the power) was launching a 12-week "digital dollar pilot" with various financial heavyweights, including Mastercard, Citigroup, Wells Fargo and others.

These are frightening developments that coincide with the perfect cover of needing to protect consumers from the "wild west" of cryptocurrencies.

They will tell you not to worry about the digital dollar CBDC. Do the opposite and start planning now.

Hedging for What's Ahead

Right now, I am viewing gold as a hedge on all of these developments, in addition to other economic issues. It is very important that if you see gold as an appropriate hedge for you as well, that you buy physical gold. "Paper" gold won't protect you against these issues that we are discussing herein.

In terms of the crypto services meltdowns, it illustrates the critical importance of asset custody. Having physical gold in your possession that you protect takes away counterparty risk that is center to these recent meltdowns.

It is also a wealth hedge against a digital currency in the US, as well as worldwide. While nothing is guaranteed and past performance doesn't guarantee anything regarding the future, gold does have a 5,000 year social contract and wide global acceptance; so much so, that central banks have been adding to their reserve stockpiles of gold as well (673 tons through the end of September 2022, the highest amount since 1967, a time when the dollar was on the gold standard).

Gold (as well as other precious metals) is an asset that you can have more control over as the landscape shifts, particularly related to the digital realm.

If you want some help sorting through these issues, consider giving my friends at Goldline a call.

Remember that if a government wanted to control how you acted and interacted, push an agenda for "the good of society" or exert other control, the easiest way to do that is through money. They are going to try to rig the system so they have even more control. Do what you can to keep at least a part of what you have earned in a form factor that **you** can control.