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Central Banks Need Digital Currencies, Princeton Economist Says

By Olga Kharif

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- Efforts like Libra threaten roles, Markus Brunnermeier says
 - Brunnermeier: 'Will tech companies do most of our banking?'
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Central banks should start issuing digital currencies to protect themselves against threats posed by the likes of Facebook Inc.'s Libra token and the gradual disappearance of cash, according to Markus Brunnermeier, an economics professor at Princeton University.

Today, central banks supervise the banking industry, which holds deposits for and provides cash to consumers. But with cash's use declining, and with new digital cryptocurrencies potentially taking over, central banks may want to issue digital coins directly to citizens, Brunnermeier said in a phone interview.

"There's a lot of change going on, and there's also big transition in the banking industry," he said. "The question is, in the future, will tech companies do most of our banking, or will banks do our banking. Who will have access to our data?"

- Libra, the new cryptocurrency Facebook Inc. has proposed for use in transactions on the social network and beyond, could potentially overtake native currencies in small- to mid-sized countries, and take the power away from local central banks to manage their macro economies, Brunnermeier said. As a result, those countries may have a hard time stopping their economies from overheating, or from unemployment getting out of hand.
- The rise of Libra and similar private currencies could also lead to greater price instability in all currencies, including traditional fiat, Brunnermeier said. "Here it's much easier to run from one currency to another currency," he said.
- Still, for countries like Zimbabwe, where inflation is rampant, "that currency competition may not be a bad thing," he said. "This may give more discipline to many central banks. There are some positive aspects to that, too."
- Brunnermeier will present a paper outlining these challenges and solutions at the Peterson Institute for International Economics event next week.
- "Central bank digital currency ensures that public money remains a relevant unit of account," he said in the paper.

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