Financial Services Management

Dollar Dominance

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H.R. 3506, 21st Century Dollar Act

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Websites:
https://hill.house.gov/uploadedfiles/dollar_final.pdf

Impact Assessment

- A formal statement committing the U.S. to actions that support the dollar's reserve-currency status could have significant impact on the way in which the U.S. participates in cross-border payment systems, the evolution of CBDC, the construct of economic sanctions, and even FBO regulation.
- Growing U.S. pushback against perceived Chinese financial threats may hinder growing U.S. activities in China's financial market either via direct U.S. pressure or Chinese retaliation for U.S. actions.

Overview

Members of Congress have launched an initiative to secure continued dominance of the dollar as the globe's reserve currency, focusing on the extent to which China could over time threaten this via its own CBDC along with strategic financial activities such as its Belt and Roads initiative. Although Chairman Powell has expressed confidence in dollar dominance for the foreseeable future, giving the Fed ample time to consider its CBDC options, this bill makes it clear that some influential Members of Congress are not so certain. As a result, in addition to demanding a report from Treasury and the Fed, the bill would establish a formal U.S. policy prioritizing dollar dominance that would then limit the discretion Treasury and the Fed might have in actions related to CBDC, the extent to which the U.S. concedes in global payment-system negotiations, the role of the Fed in both the domestic and cross-border payments, and how sanctions are constructed or implemented.

Impact

Statements upon introduction make it clear that the bill's sponsors believe the dollar's status faces a significant threat from China that then poses a serious strategic challenge not only in terms of U.S. economic influence, but also geopolitical power. The sponsors are not alone – Members at recent hearings[1] have also worried about China's strategic threat, but the bill does not, as some have suggested, press the Fed to accelerate its CBDC work to ensure a preemptive central-bank-digital-currency strike. The bill also does not reflect demands in the last Congress seeking to force immediate implementation of instant payments via FedNow not only to speed transactions, but also to prevent a slow payment system from causing global migration to faster options that may work around the dollar.[2]

The bill could also challenge Fed participation in continuing efforts to create a digital currency for cross-border payments designed to limit reliance on the dollar. There is no indication that the Fed has conceded to these efforts, which were first initiated in 2019 in response to what some central bankers believed was economic warfare waged by the Trump Administration via sanctions that had undue effect in their view outside the U.S. because of dollar dominance. Although the Fed is working with other central banks on standards for CBDC and cross-border payments, the extent to which it might wish or need to make concessions to support global initiatives would be limited were Congress by law to stipulate that such efforts must not threaten the dollar's role. Any breakdown of global negotiations could not only continue the fragmented global payment system and resulting economic costs and systemic risks, but also speed development of alternatives. These might be cross-border payments denominated in a basket of currencies as was initially proposed for the global CBDC – i.e., a new global stablecoin – or greater use of private cross-border, digital options such as Facebook's continuing effort. This is now likely to be domiciled in the U.S. for regulatory purposes but would not be dollar-denominated.

Interestingly, the report to Congress described below is also to address the role of sanctions in relation to the dollar's reserve-currency status. As noted, sanctions have sparked calls for alternative reserve currencies, leading some to emphasize the importance of fast action on CBDC and the payment system and others who, while not necessarily opposed to this, prioritize a refined U.S. sanctions policy so that fewer sanctions are invoked to reduce the chances of a broader backlash against both the dollar and other instrumentalities of "soft" U.S. power. The extent to which sanctions effectively discipline those who are deemed to harm the U.S. is also under active consideration by the Treasury, a review with implications for the report demanded by this bill if it is enacted.

What's Next

This bill was introduced by Reps. French Hill (R-AR) and Jim Himes (D-CT) on May 26. There is no Senate companion, but Rep. Himes is chair of the key subcommittee on the House Financial Services Committee with jurisdiction in this area. The measure is thus likely to advance in the House. It is not likely to prove

1 See, for example, *Client Report* **GSIB19**, May 28, 2021.

2 See **PAYMENT16**, *Financial Services Management*, August 7, 2019.

controversial and thus could also be accepted by the Senate in connection with other legislation or in a freestanding bill if Chairman Brown (D-OH) turns to legislative business on this issue.

Analysis

As noted, the bill includes a formal statement that would by law set U.S. policy to "facilitate" use of the dollar as the primary global reserve currency through "vigorous support" for a strong and transparent financial market, continuous improvement to international payment methods that use the dollar, sound macroeconomic governance, rules-based international trade, and "clear and realistic" use of sanctions. The bill also requires a Treasury strategy implementing these objectives in consultation with the FRB on which a report to Congress would be due in 180 days. The report would need to describe measures the U.S. has or will take to accomplish this policy and the need for any legislation. The report must also assess efforts by other central banks, with only China's expressly named, to establish a CBDC and any risks these create to the U.S.; a report on the Fed's CBDC efforts would also need to be included in this report, which would also need to note the impact of U.S. CBDC efforts on the Treasury strategy. Like-kind reports would follow this initial one for the next seven years, with the reporting requirement – and perhaps also the statutory mandate – set to expire thereafter.

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