Federal Financial Analytics, Inc.

MEMORANDUM

TO: Federal Financial Analytics Clients

FROM: Karen Petrou

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Last week, we laid out the macrofinancial implications of the Ukraine crisis – i.e., its impact on the global financial-and-regulatory order. Some of this analysis is founded on President Biden's digital-asset executive order, which also has profound and immediate impact on critical macroprudential issues at the border of innovation and regulation to which we now turn. To forecast how digitalization will come upon us, the digital-asset order must be read in the Administration's broader context in which high-impact political issues, such as racial equity, weigh at least as heavily as the complexities of CBDC or even the benefit of a future financial crises foregone.

Administration policy based on Democratic politics is set not only by the digital-asset order, but also by other White House directives that will define the boundaries of what Treasury and the agencies – the Fed included at least to a point – will do. To forecast digital-asset policy, one must thus also divine the outcome of two other executive orders.

First, there's the President's competition directive. Every critical consumer-protection question under the CFPB's purview is now considered first and foremost in terms of competition, with the agency's director making it manifestly clear that almost anything done by any big bank is a target for structural reform. Director Chopra doesn't like fintech or biotech much better than most banks do, but his approach to digital assets is likely only to squelch big banks as much as he can and thus to drive cryptoassets further into the darkest regions unless regulated companies lay out a path forward that takes account of his top-priority concerns.

The CFPB is of course not the only agency with say over either competition or digital assets. It's important, but still plays second fiddle to the Treasury Department. To fulfill Treasury's obligations under the competition order, the department has launched a study of competition at the financial-services frontier including those resulting from digital assets. Treasury is mindful of the risks of regulatory arbitrage, the hazards of institutions without prudential rules or community-service obligations, and the conflicts of interest often attendant to mixing banking and commerce. This broader view of competition can and will inform Treasury's study of money and the payment system demanded by the digital-asset order, making it essential to consider this broader competition construct as well as the issues defined by the CFPB as the industry charts its course.

The second executive order that plays an important role in setting digital-asset policy takes me back to where I started: the Administration's keen focus on racial equity enunciated by the President in an executive order upon his inauguration. The digital-asset order draws on this as it establishes a value proposition for the U.S. definition of money and the nature of the payment system, citing not only White House competition objectives and their focus on social justice, but also inclusion, access, and equity considerations specifically targeted at racial and ethnic minorities.

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This may seem a side issue prompted more by politics than policy, but minority communities are more deeply invested in cryptoassets than whites and Asians, in part because they distrust legacy financial institutions. Policy solutions that seem to unduly circumscribe digital-asset access will quickly be accused of anti-equity effect unless policy solutions take heed of this powerful economic-equality considerations.

Considered altogether, these three executive orders recast the U.S. financial-policy framework into one focused at least as much on social and public welfare as on longstanding concerns such as strengthening the regulatory perimeter to guard against yet another financial crisis. U.S. economic inequality and the disparities in any hope for financial security by all but a few Americans dictates this realignment, not just because they reflect voter concerns, but also because they respond to transformational forces. If these are not understood and addressed, then we'll have more financial crises if only because less equal countries have lower economic growth and riskier financial systems. As a result, the Administration's political focus that some financial companies view as only political pandering actually reflect vital macroeconomic and macroprudential concerns. Policy solutions that respond to valid White House objectives actually align private interests with the public good, which makes solutions even better.