

The Case Against CBDCs

Why central bank digital currencies threaten financial privacy, enable government overreach, and risk displacing decentralized innovation

Rhode Island Bitcoin Policy Initiative | June 2026

Central Bank Digital Currencies (CBDCs) are digital versions of government- issued money, controlled and monitored by central banks. This paper examines how CBDCs fundamentally differ from cash, commercial bank deposits, and Bitcoin in ways that threaten financial privacy, enable government overreach, and risk displacing decentralized innovation. The paper concludes with policy implications for Rhode Island and the broader federal landscape.

137 Countries exploring CBDCs (Atlantic Council, 2025)	\$2T+ Cumulative e-CNY volume through 2025 (China gov)	EO 14178 U.S. retail CBDC banned (Trump EO, Jan 2025)	P.L. 119-27 GENIUS Act codified the ban (July 18, 2025)
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1. WHAT IS A CBDC?

A CBDC is a digital form of a country's fiat currency, issued and controlled directly by the central bank. Unlike cash, which is anonymous and physical, or commercial bank deposits, which are intermediated by private banks operating under existing reporting requirements, a CBDC gives the central bank direct visibility into and the technical capacity to control every transaction. Most CBDC designs under development internationally are "programmable" — meaning the central bank or its designees can place restrictions on what users can spend the currency on, when, and where.

Feature	Cash	Bank Account	Bitcoin	CBDC
Privacy from government	High	Low (reporting requirements)	Pseudonymous on-chain	None (by design)
Government technical control	Low	Indirect via banks	None at the protocol layer	Direct
Programmable spending restrictions	No	Limited	User-defined only	Yes (by central bank)
Censorship risk	Low	Medium (account closures)	Very low (self-custody)	Very high
Supply control	Central bank	Fractional reserve banking	Fixed at 21M	Central bank

Why this matters for legislators

A CBDC is not just a faster payment system. It is a structural change in the relationship between citizens and the state's monetary authority — one that combines, for the first time, full government transaction visibility with the technical capacity to restrict spending.

2. PRIVACY CONCERNS

A retail CBDC would give the central bank visibility into every transaction every citizen makes. This goes beyond current bank reporting requirements, which flag certain transactions above thresholds set by FinCEN. Under a CBDC, every transaction is by design visible to the issuer in real time.

China's digital yuan (e-CNY) — the largest CBDC deployment to date — had processed cumulative transaction volume exceeding \$2 trillion through 2025, per official Chinese government figures. Researchers have documented instances of the People's Bank of China limiting e-CNY use for politically sensitive activities, and the system enables real-time monitoring of every payment.

3. THE U.S. FEDERAL POSITION

The United States has taken a firm posture against retail CBDC. On January 23, 2025, President Trump signed Executive Order 14178 prohibiting the establishment, issuance, circulation, and use of a CBDC within the jurisdiction of the United States. The Federal Reserve subsequently confirmed it would not pursue retail CBDC development.

The GENIUS Act (P.L. 119-27), signed July 18, 2025, codified this position in statute, establishing a federal framework for privately issued payment stablecoins as the alternative model for digital dollar-denominated money. Under GENIUS, stablecoin issuance is reserved for regulated private institutions, with the Federal Reserve serving as supervisor rather than issuer.

Federal status (as of mid-2026)

Retail CBDC is **banned** in the United States by Executive Order and now codified in statute. The federal digital dollar conversation has shifted to privately issued, regulated stablecoins under the GENIUS Act framework.

4. INTERNATIONAL LANDSCAPE

As of 2025, approximately 137 countries representing 98% of global GDP are exploring CBDCs at various stages of research, development, or pilot deployment, per the Atlantic Council's CBDC

Tracker. The European Central Bank moved from its preparation phase to the next phase in October 2025; potential digital euro issuance is targeted for approximately 2029. The Bank of England launched a Digital Pound Lab in August 2025 but has not committed to issuance. The U.S. Federal Reserve, following the executive order and the GENIUS Act, is not researching retail CBDC.

Jurisdiction	Status	Approximate Timeline
China (e-CNY)	Live, expanding	Already operational; over \$2T cumulative through 2025
Eurozone (digital euro)	Preparation phase advanced (Oct 2025)	Potential issuance ~2029
United Kingdom (digital pound)	Digital Pound Lab (Aug 2025)	No build decision; consultative phase
United States	Banned by EO 14178 and GENIUS Act	Not being developed
Nigeria (eNaira)	Live since 2021	Low adoption; reported under 0.5% wallet uptake
Bahamas (Sand Dollar)	Live since 2020	Limited usage

5. WHY BITCOIN IS THE STRUCTURAL COUNTER-MODEL

Bitcoin's protocol design is the structural inverse of a CBDC: supply is fixed by software rules rather than set by an issuer; transactions clear on a public ledger maintained by thousands of independent nodes worldwide rather than a single central authority; ownership is controlled by cryptographic keys held by users rather than by the issuer. Self-custodied Bitcoin cannot be frozen at the protocol layer; governments can and do seize Bitcoin held at regulated exchanges and custodians, but the base layer remains a censorship-resistant settlement system.

For policymakers concerned about preserving citizens' ability to transact without arbitrary restriction, Bitcoin and CBDCs occupy opposite poles of the monetary design space. Both are digital. Only one preserves the structural properties of cash.

6. POLICY IMPLICATIONS FOR RHODE ISLAND

6.1 Federal preemption is now durable

Federal action under EO 14178 and the GENIUS Act has substantially settled the U.S. CBDC question at the national level. State-level CBDC bans would be largely symbolic given federal monetary supremacy, but state-level protection of digital property rights and self-custody remain

meaningful areas where Rhode Island can act.

6.2 Private key protection as the durable substantive issue

H.7957 / S.2196 (Cryptographic Key Protection Act) is the most directly relevant Rhode Island bill. By protecting individuals from compelled disclosure of private keys, the bill preserves the practical conditions under which a citizen can hold digital assets outside the supervised banking system — the structural alternative to CBDC-style direct issuer control.

6.3 Stablecoin policy as the alternative path

Under the GENIUS Act, stablecoins are emerging as the regulated U.S. alternative to CBDCs. Rhode Island's H.7413 (SPDI charter and regulatory sandbox) would position Rhode Island to charter institutions operating within this federal framework. State engagement at this layer is more consequential than legislating CBDC bans that federal action has already rendered moot.

7. RECOMMENDATIONS

1. Pass H.7957 / S.2196 (Cryptographic Key Protection Act) to establish state-level protection for self-custody, which is the practical alternative to CBDC-style central bank issuance.
2. Pass H.7413 (Economic Growth Blockchain Act) to provide a state framework under which institutions operating under the federal GENIUS Act stablecoin regime can be chartered.
3. Avoid stand-alone state CBDC bans as primary policy: federal action has already settled the question at the national level. State legislative attention is more productively spent on the operational frameworks above.
4. Monitor international CBDC developments — particularly the digital euro's preparation-phase progress and the e-CNY's expansion — as input to ongoing federal policy debates.

APPENDIX: SOURCES AND REFERENCES

U.S. Federal Policy

- Executive Order 14178 (January 23, 2025), prohibiting establishment, issuance, circulation, and use of CBDC within United States jurisdiction
- GENIUS Act, P.L. 119-27, signed July 18, 2025
- Federal Reserve, public statements on CBDC research status following EO 14178

International CBDC Data

- Atlantic Council, CBDC Tracker (atlanticcouncil.org/cbdctracker), updated 2025

- People's Bank of China, e-CNY cumulative transaction volume statistics (English. www.gov.cn)
- European Central Bank, Digital Euro Preparation Phase Next Step (October 30, 2025)
- Bank of England, Digital Pound Lab announcement (August 2025)
- Central Bank of Nigeria, eNaira adoption reports

Legal and Constitutional Context

- Coin Center, "Constitutional Analysis of Digital Asset Compelled Disclosure" (2023)
- Cato Institute, CBDC research and policy briefs
- Bitcoin Policy Institute, "The State of CBDCs" research series

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End of Report