



Rodney's Take

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FedNow: Schrödinger's Currency?

The Federal Reserve recently rolled out the new FedNow system, which allows participating institutions to send and receive funds in seconds any time of day, every day of the week. For anyone who has tried to send funds via ACH or a Fed wire, this is great news, but not everyone is happy.

Banks “make bank” on Fed wires, which cost customers from \$15 to \$35. We’re willing to pay, because Fed wires settle overnight. We use way more automated clearing house (ACH) transfers, which are how Venmo, Cash App, and other cash-sharing systems work, but they can take several days to settle. ACH transfers cost a mere half cent for banks, but we give up the immediate availability of the money. Note that while Venmo and Cash App might look like they transfer money in an instant, they still go through ACH and the funds aren’t truly settled for days.

The new FedNow system combines the best of both. The system costs participating banks a mere 4.5 cents per transaction and the funds clear in seconds, which is even better than Fed wires.

It’s hard to imagine that banks stood around and watched the Fed, which is owned by member banks, cut into their profit margins. I’d guess that banks will price FedNow transactions at less than a dollar for businesses and perhaps \$5 or maybe less for consumers. The key will be moving the vast majority of ACH transfers and Fed wires to the FedNow system, perhaps earning banks lower absolute profits per transaction but encompassing many more transactions.

This won't make bankers unhappy, but they aren't the ones who come to mind. Instead, those who think that the Federal Reserve and banks already are too much in our business will see this as a big first step in creating a controllable central bank digital currency, which our government and Fed will use to control us.

FedNow is not such an animal... but it could be.

FedNow is a verification system that allows known members to transfer funds via the Fed to other known members with a few keystrokes. That's it. The system is not a currency. It has no way to capture or store value. There are no FedNow bucks today, so people don't have to worry about their dollars going the way of the dodo bird. At least, not yet.

As far as I know, FedNow doesn't have the architecture to hold balances or the ability to set up accounts for hundreds of millions of individuals, but it doesn't have to. Remember, the Fed is owned by member banks, not me and you. Instead of recreating the wheel, the Fed could extend FedNow to every bank account already in existence in U.S. banks and regulate transactions at the consumer level. This still doesn't make FedNow a currency, but it definitely puts the Fed in control.

Today, FedNow is a lot like Schrödinger's cat, but in reverse. The famous paradigm considers a cat sealed in a box with a glass vial of poison. If the vial breaks, then the cat dies. But from the outside, how would you know if the cat is dead or alive? If you don't look inside, the cat can be thought of as both alive and dead. By the same token, FedNow doesn't exist as a currency... but it could.

Central banks, including ours, already control the value of their nations' currencies by changing interest rates and imposing capital controls, but that doesn't mean I want the Fed further into my business. If FedNow is priced right and makes capital flow more efficient, I'm all for it. Let's just hope that it doesn't awaken and become a fully living feline.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.