What Would Happen if the U.S. Government Issued an Official Cryptocurrency?

Matthew Firouzi

I. Abstract

In 2009, the world was introduced to a new monetary concept that would dramatically change the way individuals interacted with finance with the release of Bitcoin, the first successful cryptocurrency. Over time, a vast array of these cryptocurrencies have continued to arise, gaining significant transactions and eliciting uncertainty regarding how these new currencies will affect traditional currencies, especially the United States dollar which is currently the international reserve currency. Given the monetary unrest caused by the rise of these digital currencies, which pose an alleged threat to socioeconomic stability and international trade, this research paper examines what could happen to the value of the dollar if the US Government were to issue an official cryptocurrency.

II. Introduction

With over 420 million users worldwide, cryptocurrency isn't just an innovative currency, it is a financial force to be reckoned with. Given the sheer magnitude of this monetary system, questions have been raised regarding its future role in the economic state of the world. It's also called into question the role and longevity of traditional currencies moving forward, particularly the US dollar which holds a unique position in the world economy given its dominance as the international world reserve currency. Subsequently, the US dollar is able to act as an "anchor" for the global economy, possessing the ability to facilitate trade, underpin international transactions, and dictate the pricing of endless commodities. Over time, this has given the United States immense geopolitical leverage and driven its economic dominance. However, with the prospect of a new digital currency having arisen, it is inevitable that the dollar will slowly begin to falter, in part because the US Dollar is no longer backed by gold since President Nixon ended the Gold Standard in 1971. This is because cryptocurrencies offer an alternative to government-issued currency, allowing individuals and institutions to conduct transactions and exclude centralized authorities like the U.S. Federal Reserve or Treasury. For this reason, governments around the world have been implored to take action to protect their economic interests. In fact, as of 2025 over 100 countries are actively researching or have already implemented central bank digital currencies, including major players like China and India. By launching this initiative, these nations hope to modernize their transactional system and enhance financial inclusion. With this in mind, it begs the question: Should the United States commission an official, government backed cryptocurrency? In this research paper, we will evaluate this question, accounting for the perspectives of both proponents (who argue that it could reduce transaction costs and protect the dollar in world trade), and critics (who argue that it could disrupt central banking and destabilize the global market).

III. Background & Context

As cryptocurrency began to take hold worldwide, the way different institutions, political entities, and nations as a whole viewed money shifted dramatically. This is because it is conceptually different from standardized paper currency, as it is decentralized entirely from a governing entity. The growing popularity of cryptocurrencies has created both fiscal opportunities and challenges worldwide. On one hand, digital currencies have dramatically increased the privacy, security, and efficiency of financial transactions since they can be used in an online setting, untraceable via the reach of the Government. On the contrary, however, concerns have been raised regarding its systemic use. This is because when used on such an enlarged scale, widespread use of cryptocurrency could formulate severe economic vulnerabilities and directly undermine government authority. Given the harmful implications that often come along with cryptocurrency, interest in central bank digital currencies (CBDCs) has increased dramatically. This currency aims to harness the benefits of digital innovation while simultaneously preserving governmental authority over monetary policy. Unlike decentralized cryptocurrencies, CBDCs are centralized and carry the full backing of the issuing government.

Globally, efforts to develop CBDCs are accelerating. For example, in the People's Republic of China, a new digital currency called (e_CNY) has been launched and is currently in pilot programs across multiple cities. This form of digital yuan has already been used in millions of purchases. The European Central Bank is also exploring a digital Euro aimed at achieving the same goal as China's digital Yuan. These initiatives demonstrate a growing consensus among governments that digital transformation of currency is a strategic necessity as we embark upon an ever growing digital market. Another key motivator behind these projects is the desire to protect the geopolitical interests of the countries that are investing in them. For example, nations within the BRICS alliance, particularly China, have launched their official digital currencies in order to help weaken reliance on the US Dollar.

The United States, despite researching the idea of a digital dollar through initiatives led by the Federal Reserve and MIT's Digital Currency Initiative, has not yet committed to an official initiative to release one. This hesitation amongst US officials is indicative of the complex situation that the American financial system currently finds itself in given the faltering dominance of the dollar due to a larger surplus of nations, especially in the BRICS economic alliance, moving away from using the dollar for international trade.

Some may argue that given the advancements made by the over 100 countries that have adapted a CBCD, it is essential that the US innovates to keep up geopolitcally. Others, however, say that the dollar's dominance is backed more extensively than solely technology as it is embedded in legal contracts, trust, institutional strength, and historical precedent. Thus, while a digital dollar could reinforce U.S. monetary leadership, it would require extremely careful planning and execution on behalf of the government. This review of international case studies regarding the launching of digital cryptocurrencies worldwide, and potentially in the US, reveals that the US releasing its own digital currency is not a matter of technological capability, but rather strategic effectiveness geopolitically and economically. So, in the next section will dive into projected economic implications that could consequently be associated with the commissioning of an official U.S. Digital Currency.

IV. Economic Implications of a U.S. Digital Currency

Upon issuing an officially backed, digital currency, would have serious implications for the U.S. Government, ultimately giving it more oversight over the flow of transactions, and greatly improving the speed of financial transactions. With direct control over digital finances, the Fed could distribute stimulus payments much more efficiently, while simultaneously experimenting with the implementation of helpful monetary tools for Americans of all backgrounds to use. Now having possession of these advanced capabilities, the federal government could greatly stabilize economic cycles and reinforce trust in the dollar's adaptability.

Another consequence of the commissioning of an official digital currency is the altering of the traditional banking model. If citizens and corporations begin to store their funds digitally (backed by the federal government), commercial banks could face massive decreases in cumulative deposits, significantly reducing their ability to distribute loans. Thus, in order to mitigate these effects, experts have suggested taking an approach called a "two-tier approach" in which commercial banks and central banks work together, and central banks act as intermediaries in distributing CBDCs, and central banks maintain issuance control.

Furthermore, the introduction of a digital dollar could affect inflation expectations. Given the lack of physical backing that could be associated with the launching of a new digital currency, the public's general confidence and outlook on it could falter, leading to an excess supply of this currency. Thus, If managed well, this could increase the dollar's strength; mismanagement, however, could lead to unexpected, yet severe, inflationary pressures.

V. Risks & Challenges

While the benefits of a digital dollar are significant, the risks are equally prevalent and consequential. One of the most pressing concerns is privacy since, unlike physical cash, digital currencies can be tracked by the federal government. If the U.S. government has direct visibility into individual transactions, it could raise significant legal and ethical concerns, particularly with regards to taxation. This loss of financial privacy could hypothetically push citizens and businesses toward alternative currencies, reducing demand for the digital dollar and undermining its value. This would subsequently result in an economic catastrophe for the US Government.

Another major challenge is cybersecurity. A U.S. digital dollar would instantly become a prime target for cyberattacks from hostile terrorist organizations and other foes of the government. A successful attack on the system could lead to widespread panic, financial disruption, and a sharp decline in trust in the U.S. monetary system. Along with the panic, a large-scale cyberattack could lead to hyperinflation due to increased fiscal unrest.

There's also the risk of financial instability. If individuals rapidly move funds from traditional banks to CBDC accounts in times of uncertainty, it could trigger digital bank runs. Even the perception of insecurity in the banking sector could amplify this risk, potentially destabilizing the entire financial ecosystem.

Finally, there is the prospect of a negative international reaction to the commissioning of an official digital currency. This is because upon its release, Allies and trade partners might be hesitant to adopt or trust a digital dollar if they believe it gives the U.S. excessive surveillance capabilities or geopolitical leverage. This could lead to fragmentation in the global monetary system and reduce the dollar's dominance, something that the U.S. Government has been competing against its foreign adversaries to protect. If the dollar were to hypothetically lose its spot as the world reserve currency, this would bear significant geopolitical consequences for the US.

VII. Policy Recommendations & Future Outlook (700–900 words)

Throughout this research paper, we have explored the plethora of implications, both positive and negative, that are associated with the commissioning of an official, US backed digital currency. While the severity of these consequences do falter, it is essential that the commissioning of an official digital currency is looked upon with public approval and provides strong fiscal benefits to our nation. In this section, we will explore possible suggestions that legislators should follow in order to ensure the success of an official digital currency.

7.1 Adopt a Two-Tier Model

One of the greatest threats posed by the releasing of an official digital currency is its disruption of traditional, commercial banking. Hypothetically speaking, if the Federal Reserve were to offer accounts directly to the public, it could catalyze massive withdrawals of liquid assets from traditional banking establishments. This would, in turn, limit private banks' ability to issue credit, raising lending costs and weakening economic growth.

A two-tier model would address this skepticism since it would issue the digital dollar (by the Federal Reserve) from its distribution and account management (by private financial institutions). In this system, consumers still interact with their trusted banks, but their balances are backed directly by the central bank. This preserves the structure of credit markets and allows innovation to continue in the private sector while ensuring monetary control remains centralized.

7.2 Ensure Privacy Protections

One of the most contentious issues surrounding CBDCs is transactional surveillance. This prospect was discussed earlier in this paper (see Section 5: Risks and Challenges). This is because an officially backed digital currency would give the federal government greater access to surveillance of private transactions, which would have previously been untraceable. This would thus raise ethical and legal concerns over the validity of the federal government's role in fiscal affairs, especially with regard to taxation.

To preserve public trust, it is essential that the digital dollar include robust legal and technical safeguards. These could include tiered anonymity (e.g., smaller transactions remain private), secure encryption standards, and third-party audits to prevent misuse. This could be ensured by the establishment of clear legal frameworks to protect private citizens and businesses.

7.3 Coordinate Globally

As we have explored earlier in this research paper, the success of an official digital currency will certainly not be solely based upon the domestic reaction to it, but also the broader geopolitical implications and trade response it has. If, while releasing its currency, the US does not seek heightened global coordination, the creation of a digital currency could lead to a fragmented global payment system, which would, in turn, complicate trade, and disrupt global exchange rates.

The United States should work closely with global institutions like the International Monetary Fund (IMF), the Bank for International Settlements (BIS), and key trading partners to create shared technical standards, security protocols, and cross-border settlement frameworks. This will help preserve the dollar's role in global finance and ensure that digital infrastructure facilitates, rather than obstructs, economic integration.

Furthermore, the US should work closely with its international partners since, without them, the value of the dollar could significantly falter. This is because the creation of a new digital currency will allow for greater data collection from the U.S. Government which could lead to privacy concerns from other nations and falter their trust in the new monetary system (see the last paragraph of Section 5: Risks and Challenges).

VIII. Conclusion

All in all, it is clear that we are on the brink of major change that will befall upon us with the revolutionizing of new technologies. As it stands, the United States lacks an official digital cryptocurrency, however, with careful planning and execution, the commissioning of said currency could have monumental effects in configuring the future of the fiscal world, both domestically and internationally given the United States’ role in the global economy.

While this idea has circulated for quite an extensive period of time, the thought of a US digital currency is no longer theoretical, but rather a serious decision that the United States needs to make in order to keep up with the world as a whole.

In this paper, we explored this rather unsettling prospect, articulating what exactly a cryptocurrency is, evaluating the implications of such a major technological leap, and synthesizing different ways in which said advancement could be made to the most effective degree for the betterment of our nation.

IX. Bibliography

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