

# Payments as a Tool for Policy

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# What is Money?

**Standard definition :**  
Money is a medium of exchange (Locke 17<sup>th</sup> century)

**Alternative Framework:**  
Money is a system of debits and credits that requires third party acceptance without prior party consent.

# Money Requires Payments

- The payment system is used to settle debits and credits
  - Payment systems should be thought of as an aspect of money as payments are a prerequisite for money.
- Electronic payment systems dominate as most money is moved electronically.
  - Growing trend propelled by technology, accelerated by COVID.
  - Necessary for large sums, cross-border, global infrastructure.
- Currency of settlement dictates payment network to some degree.

# What is a Payment?

- Flow of money
  - Multiple party transaction – often 3 or more
  - Settlement risk between entities
  - Net payments in aggregate or settle individually?
- Flow of information
  - From who to whom
  - Amount
  - Time of payment

# Purpose of Payments

- **Maximize Economic Growth**

- Facilitate trade and commerce
- Large network
- Agglomerative economics
- Low cost
- High speed
- Universal Acceptance

- **Maximize Political power**

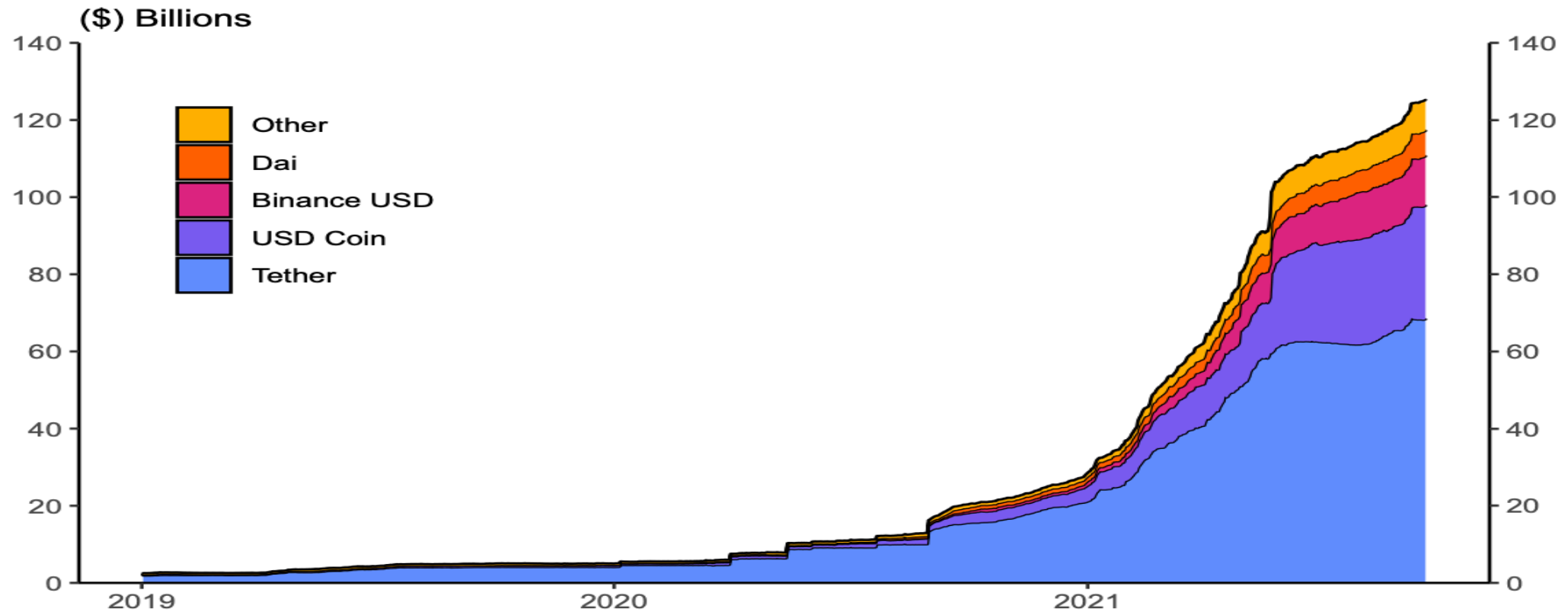
- Ability to ban specific actors/actions
- Control over certain types of payments
- Sending of information/data to government

# Payment Landscape

- Major global systems rely on US Dollar
  - Fedwire – 9,000 institutions daily
  - SWIFT – 11,000 institutions, 200 countries
  - CHIPS -- \$1.8 Trillion daily
- Alternative systems
  - CIPS – China's new system: 1,280 institutions, 103 countries
  - Cryptocurrency:
    - Non-governmental floating currencies (BitCoin, Ethereum, etc..)
    - Stablecoins usually pegged to USD (Tether, USDC, etc...)

# Growth of Stablecoins

Figure 1: Circulating supply of USD-pegged public stablecoins



# Dollars for Policy

- Ability to clear in dollars is required for all international banks. Access to dollars can be denied by US lawmakers and regulators.
- New sanctions policies (Iran) threaten global banks access to US dollars.
- Globalization increases payments leverage compared to Cold War era.



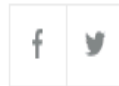
# International Payment Police

- Use of the dollar as world reserve currency makes access to America's payment critical.
- America is increasingly relying on its payment system as part of 'tougher sanctions'
  - Provides tool to cut off foreign countries and firms
  - Provides financial intelligence

## Special Report: How the Federal Reserve serves U.S. foreign intelligence

By Jonathan Spicer

12 MIN READ



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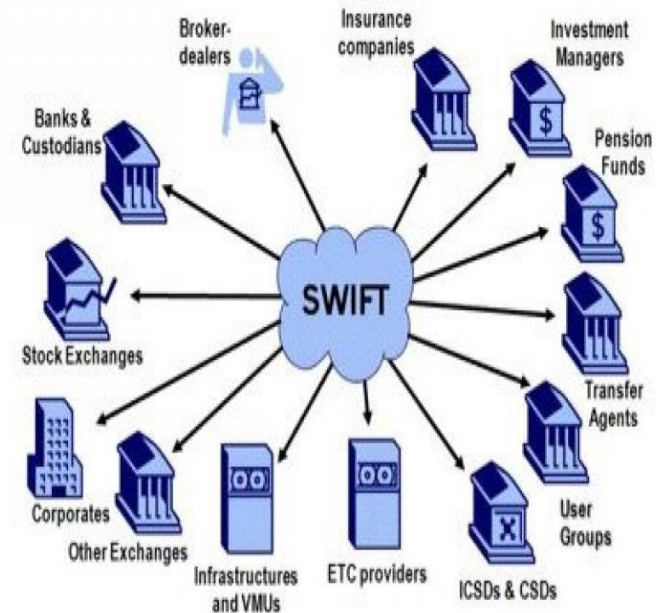
NEW YORK (Reuters) - The Federal Reserve's little-known role housing the assets of other central banks comes with a unique benefit to the United States: It serves as a source of foreign intelligence for Washington.

“The U.S. has thus found payments systems, and the financial system in general, a useful tool to combat crime and to enforce foreign policy.” Leibbrandt and De Teran (2021)

# Russia invades, America responds SWIFTly

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- “The exclusion of banks from SWIFT as part of Western economic sanctions also is not new... However, never before have banks of a comparable size and degree of connectedness with the global financial system such as Sberbank been banned from SWIFT” (Nolke 2022)



# Is Russia's Invasion Turning Point for 21<sup>st</sup> Century Conflicts?

- America's response to Russian's military action is economic.
- Economic sanctions focused on access to the payment system.
- Restricting Russian banks, leaders, and corporations from access to electronic funding
- 67% of Americans supported increasing economic sanctions on Russia, while at the same time 72% opposed direct US military action
- What does this mean for global economic policy previously predicated on a neutral, open payment system?



# America's Turning the Payments Dial

- Foreign policy
  - Cuba
  - Iran
  - Russia
- Domestic policy
  - On-line Poker
  - Pornography
  - Cannabis
  - Abortion/Guns

# Payments as Policy Trend: Will it Continue?

- How much can/should the US use its status with the dollar to achieve geopolitical goals?
  - Reactive usage so far, will there be more strategic employment in the future?
  - Substantial benefits appear with little cost as long as dollar remains world reserve currency.
  - Tipping points can be sudden and substantial.
    - Once leverage is lost it may not be able to be regained.
    - Broader economic consequences from dollar dethronement.
  - Is Crypto a game changer?

# Crypto Future: How Real a Threat to US Dollar?

- Crypto: Non-state money now possible.
  - Ability to have a monetary instrument without a central government could be attractive for a group of nations who want to move away from dollars but lack an alternative.
- Central bank digital currency: is the dollar left behind?
  - Growth of digital foreign currencies (China, Sweden, Bahamas) will the US follow and if so, will that allow for easier evasion of controls?