

Dallas Fed

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Speech by President Lorie K. Logan

Opening Remarks for Technology-Enabled Disruption: Lessons from the Pandemic and the Path Ahead

Dallas Fed President Lorie Logan delivered this address to open the second day of the conference hosted by the Federal Reserve Banks of Atlanta, Dallas and Richmond Oct. 3-4 in Atlanta. The text is as prepared for delivery.

Good morning and thank you all for joining us for the second day of our conference on technology-enabled disruption.

This conference series started in 2018 as a collaboration between the Atlanta, Dallas and Richmond Federal Reserve Banks. The vision for the conference series was to bring together business leaders, academics, educators and policymakers to explore the implications of technology-enabled disruption for business, labor markets and, ultimately, monetary policy from a variety of angles. This model has proven remarkably effective, and we are delighted to be able to do the event in person again this year.

The broad theme of the conference series is to consider how technological change—driven primarily by innovations in information technology—is playing a disruptive role in economic life. Past installments, as well as yesterday’s sessions, have focused mainly on how technological change is disrupting existing business models and the broader macroeconomy. We have also made a point of hearing from educators and others involved in workforce development to better understand how education and training infrastructure needs to evolve to meet the needs of the future.

One theme we explored in the first conferences was the disconnect between the seemingly rapid pace of technological change and the disappointing pace of measured productivity growth. That puzzle has yet to be resolved. Yesterday, we learned that the surge in productivity that we saw during the pandemic did not herald a new age of faster productivity growth but rather was just a temporary deviation. Another topic of conversation at the earlier conferences was the disruptive potential of online education. I think we all learned during the pandemic that although online education has a role to play, it remains a poor substitute for in-class instruction for many students.

Today, we’ll get to look at disruption in an area that’s been a significant focus for me over many years—namely financial services.

Across a range of areas, technology is allowing the financial system to move faster, to serve new customers, but also to take on some new risks. During the pandemic, there was a big shift from cash to digital payments as more transactions were conducted online. Trading in crypto assets has grown substantially and brought with it a range of new use cases as well as growing operational, crime and other risks. More central banks are experimenting with digital currencies.

These developments pose important challenges for public policy. Well-designed improvements in financial technology have the potential to reduce frictions and make the financial system work better for all. For example, modernized payments systems can allow people and firms to move money faster, more securely and at lower cost both within the country and across borders. These improvements can have benefits all across the spectrum of income and wealth. Better cross-border payments are obviously useful for multinational corporations and can equally help immigrants send remittances to their families.

But it's crucial that technological improvements are, in fact, well-designed. The computer scientist Bruce Schneier published an insightful essay last week in the *New York Times* about the perverse incentives around security in new technologies.^[2] He pointed out that a start-up must focus on growing rapidly by providing the features its potential customers want before funding runs out or a competitor captures the market. As a result, security takes a back seat, and before long, the company may be serving millions of customers but without the security needed to protect them from hacking, fraud or worse. Moreover, once the service is under heavy use, it's difficult to rebuild it more securely, and there may be little commercial incentive to do so if the security flaws aren't readily visible.

Schneier's essay was about technology start-ups in general, but I'd note that these incentive problems are particularly severe in financial services and payments where network externalities increase the pressure on new entrants to quickly gain market share. And while Schneier focused on security, I'd argue that these incentive problems apply just as much to operational resilience.

Of course, innovation does not take place in a vacuum. Regulations establish the playing field on which innovators compete and the standards they must uphold. So there is a crucial role for public policy in creating an environment where technological innovation in finance and payments can thrive, but thrive responsibly.

President Biden's executive order on digital assets earlier this year emphasized the need for responsible innovation, and I was encouraged to see the Treasury Department's recent release of three reports studying these issues, as well as the Financial Stability Oversight Council's release of a report yesterday. The reports address the future of money and payments; the implications of digital assets for consumers, investors and businesses; illicit financing risks; financial stability risks and regulatory gaps. Across the reports, there is a recognition that opportunities exist for digital assets to improve the U.S. financial and payments system, but that these opportunities come with significant risks and challenges that public policy must address.

I'd like to talk briefly about the considerations on money and payments in particular. There are three broad strands of innovation in payments globally.

First, both the public and private sectors are developing faster payments systems. The Fed will launch our FedNow service between May and July of next year, providing broad access to instant payments and complementing private sector innovations.

Second, as I mentioned earlier, some central banks are experimenting with CBDCs [central bank digital currency]. In the U.S., no decision has been made on whether to create a CBDC, and the Federal Reserve has indicated that issuance of a CBDC would need clear support from the executive branch and Congress. Treasury's recent report highlights that extensive further research is needed. Key design choices affect a CBDC's efficiency as a means of payment; its accessibility to consumers, especially those who currently

struggle to access the financial system; its influence on the United States' role in global finance; and the risks it may pose to national security, such as through illicit transactions, or to financial stability, such as through the potential for destabilizing runs. Additionally, it is important to assess what benefits a CBDC could bring over and above the benefits of faster payments through FedNow.

Third, amid the overall growth of digital assets, the private sector has invented an array of stablecoins. If these assets' value is indeed safe and stable, they have the potential to serve as a form of private money—that is, a unit of account, store of value and medium of exchange. But safety and stability are not automatic, as the high-profile collapses of some algorithmic stablecoins have demonstrated. Even asset-backed stablecoins may fluctuate significantly in value if the assets backing them are not sufficiently safe or liquid, and the potential for these fluctuations can in turn lead to destabilizing runs and fire sales. Some jurisdictions are considering ways to bring stablecoins inside the regulatory perimeter as banks or other licensed entities, potentially creating the ability to back stablecoins with central bank reserves. But as I've discussed elsewhere, this could drive large and variable demand for central bank liabilities or could change the incentives created by the monetary policy implementation framework, and it is important to take a holistic approach to these decisions.^[3]

This morning, we will explore how the fintech industry has adapted and grown in the wake of the pandemic. The shift to remote work, social distancing and online retailing in 2020 accelerated trends in payments that were already in place before the pandemic, as I noted earlier. These changes raise important policy questions. The cash economy is accessible to all, but digital payments are less so. What progress has been made to make digital payments as inclusive as cash, and what further steps need to be taken? Does the shift to digital payments have implications for access to consumer credit, especially among those communities that have not historically had a strong relationship with the traditional financial sector? How should we think about balancing the risks and benefits from digital innovation in payments and finance?

Finally, let me thank our colleagues at the Richmond and Atlanta Feds for working with us on this conference series and the Atlanta Fed for hosting us this year. I look forward to our discussions this morning. Thank you all again for joining us.

Notes

1. See, for example, [this commentary](#) published by the Committee on Payments and Market Infrastructures.
2. "[The Uber Hack Exposes More Than Failed Data Security](#)," Bruce Schneier, *The New York Times*, Sept. 26, 2022.
3. "[Considerations on the Road Ahead for Monetary Policy Implementation](#)," Lorie K. Logan, remarks at the New York Fed and Columbia SIPA Monetary Policy Implementation Workshop, June 2, 2022.

About the Author

Lorie K. Logan is president and CEO of the Federal Reserve Bank of Dallas.

The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.