Virtual Currencies and the State
B. Maurer, Money at the Zero Lower Bound

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I picked up a copy of the Financial Times in the Munich airport on my way home from keynoting the Bundesbank's biannual International Cash Conference. The lead article, headlined "Draghi calls for urgent spending as he relaunches stimulus," reported that the European Central Bank had lowered interest rates deeper into negative territory, to -0.5%. In the opinion pages, anthropologist and regular columnist Gillian Tett observed that negative interest rates were constraining policy options to stimulate growth, which might compel central banks to coordinate more directly with fiscal policy makers—thereby lessening, if not abandoning, central bank independence. Lack of monetary policy options was leading to a "changing zeitgeist," she wrote.

At the Bundesbank conference, attended by people affiliated with the cash payments divisions of central banks and others, researchers presented data on the increase in cash demand despite the decline of cash transactions at the point of sale. People are increasingly paying with their mobile phone or cards, but at the same time, negative interest spotlights the cost of bank deposits, suddenly making cash a smarter option for savings. At the conference, lighthearted disagreements over whether to call this "cash hoarding" gave way to more insistent pleas for what some called "non-transactional" cash to be recognized as a rational response to negative interest with consequences for commercial banking and banknote design.

If people are going to hoard cash, then perhaps banks need to get into the business of building vaults. And if people are going to want cash as a store of value resistant to negative interest, perhaps innovative banknote design should *support* hoarding: the cash should be more durable, stackable, maybe smaller than a standard banknote, and able to be kept in a cupboard and easily stashed in a backpack, should one need to escape a natural disaster, political instability, or war.

These were European designers, talking about European banknotes. This is a changing zeitgeist indeed.

Cash limits just how low interest rates can go, unless governments find a way to levy and enforce a tax on cash. Cash holdings are an alternative to paying the bank to hold your deposits—at least until the cost of storage, security and insurance approach the cost of paying negative interest. Hence: vaults. If for everyday transactions cash serves as a control mechanism for consumption (the pain of seeing your cash go away introduces a mental speed-bump in your spending), at the monetary policy level cash is a control mechanism defining a limit to the "innovative" monetary policies we have seen since the global financial crisis.

Potential liquidity traps, no-growth, and no-tools-left monetary policy (and, it is important to underscore, a level of political instability not seen in the industrialized North since World War II): into this world plunks Libra. Facebook's proposal for a new digital money, a competitor to state-issued currencies that nonetheless acquires its value from them, only makes sense in this broader context.

Libra is diagnostic for these constraints on monetary policy

and goes along with a paradigm shift taking place in the whole money system. After all, these apparently paradoxical things are happening in the same world: currency designers are designing for the hoarding of physical money, and Facebook's coders are proposing a new digital money. I say that from my view as an ethnographer of the zero lower bound—privileged to witness the personal and professional interactions and pronouncements of central bank researchers and tech developers interested in future moneys, as well as having an abiding interest in and ongoing conversations with the people who literally make the stuff of money, the designers and coders.

The last time a digital money made headlines it was Bitcoin and it was 2008 and the time of the global financial crisis. Bitcoin's founders famously memorialized the GFC in the currency's so-called genesis block, the first set of transactions verified by its distributed network and posted to its massively replicated database, the blockchain. Encoded in that block was the phrase, "The Times 03/Jan/2009 Chancellor on brink of second bailout for banks." The message referred to the Times of London headline, as the GFC ground on and quantitative easing had not spurred lending. That edition of the Times, in fact, has now become a talisman in the cryptocurrency community and even has its own website devoted to locating and verifying physical copies of the newspaper. It is "the most rare, and most valuable crypto collectible in existence". It is taken as a symbol of the failure governments and central banks to manage money, and a call-to-arms for adherents of non-state digital currencies.

I do not think it is a coincidence that people at Facebook came up with Libra in a similar monetary context. This time, however, the political situation is decidedly more unraveled: the post-Bretton Woods consensus is challenged not just by political and economic turmoil in Europe and North America but

by a rising China—with a billion users of mobile payment services WeChat and Alipay—and the dominant global reach of platform companies like Facebook, Amazon, Google and Apple. In 2008, the iPhone had only just been launched, and Facebook was still the #2 social network after… MySpace.

The other big change, I think, is that last time people actually *did* believe that innovative monetary policy would get us out of that mess, and this time, people are not so sure. And last time people thought Bitcoin was kind of a joke. This time? It is not the case that Libra is perceived as a threat to state-issued currencies. Honestly. Its travails before regulators—and its shedding of support from its initial backers like Visa, MasterCard and PayPal—suggest it will have to transform itself before it is ever launched in the first place. Sovereign producers of money are not so much afraid of a little competition from a private provider as they are the potentially profound transformation of their role that digital currencies could represent—if they themselves were to get into the business of digital currencies. For Libra is giving lift to another set of ideas inspired by Bitcoin but left by the wayside—until now, and with implications for what money may become.

On March 2, 2016, Ben Broadbent, Deputy Governor for Monetary Policy of the Bank of England, delivered a talk at the London School of Economics in which he floated the idea of central banks issuing digital currencies. He began with Bitcoin—not as a unit of account but as a settlement technology—and laid out the case for a clearance system for individual people to hold accounts at the central bank rather than at commercial banks. Clearly dazzled by the technological aspects of digital currencies, Broadbent was more clear-eyed on their implications for the supply of credit, since removing bank deposits from commercial banks would hinder their ability to

make loans. Others at the Bank of England (Michael Kumhof, Clare Noone) further explored the possibilities for and implications of central bank digital currencies.

But Libra—and the changing zeitgeist—"revivified" the conversation, to quote one of my interlocutors. The reach and power of Facebook, coupled with the zero lower bound and the strange circumstances of monetary policy generally (the new normal of low growth, negative interest rates, and observable changes in everyday cash demand, i.e., hoarding) brought to the surface another feature of hypothetical central bank digital currencies (CBDCs).

There is a political mythology on the far right and far left that central bankers secretly rule the world. It is a mythology rife with conspiracy theory, anti-Semitism, gold buggery, and anarcholibertarianism. But for some central bankers, CBDCs could represent the realization of that myth. If there were a CBDC, *and cash were abolished*, then there would no longer be an interest rate floor. Central banks could push as far into negative territory as they wanted or needed, simply deducting from people's accounts this tax on deposits. If there were a CBDC and no cash, central banks could also make so-called "helicopter drops" of money into individuals' accounts, to spur spending. And if there were a CBDC and no cash, central banks could also monitor accounts to mitigate if not eliminate tax evasion or fraud. Far from the Bitcoin-envisioned world of no state control, this would be a dystopic nirvana for central bankers indeed.

And the central bankers, in the main, I think realize this. In both Sweden and the Netherlands, the central banks have put the brakes on their earlier visions of a cashless society. Sweden's Civil Contingencies Agency issued guidance to the

country’s residents to stockpile physical cash in case of cybersecurity emergencies or other disasters.[1] The Netherlands central bank has issued warnings about the vulnerabilities created by the abandonment of cash, as well as the need to retain cash as a fallback mechanism in case of IT hacking or failure.[2] Above all, however, central bank officials demure when faced with the question of how people should pay or what form of money they should use: they support instead a broad range of choices in payment.

Some recent science fiction plays with what happens when despite a spectrum of moneys people are denied that choice. Martha C. Wells’ City of Bones presents a hierarchically structured world in which there are not just sumptuary codes but rules around payment, certain moneys to be used only by members of certain strata defined by geographical region of origin and species. Those who violate the norm are subject to arrest by the Trade Inspectors, authorities who always seem to know when someone of low status uses high status money in violation of the Coin Laws.

Wells’ authorities are persons; but how different is her world really from the shunted-off circuits of commerce in China’s WeChat Pay and Alipay, which make payment off-platform difficult, and subject all transactions to the surveillance state—which, incidentally, can remotely freeze your phone’s SIM card (it’s happened to me!).

Libra, too, will presumably work to keep its users within its suite of applications, funds kept in a de facto closed loop, generating fee income for the Libra Association’s members as well as interest income based on the float. The Libra Association’s founding documents in fact tie those income shares to each member of the Association’s stake in the

scheme. Those who pay more, get more.

Consider Libra, then, as a more sophisticated rent-seeking scheme than the traditional card networks. Visa, after all, was created as a cooperative association with the intent of making a new market, a market in payments, in which its member banks and credit unions could compete with one another by offering better rates to customers and better customers to merchants. No member of the association was guaranteed a revenue stream, however—some could, and did, fail. Libra obviates this by baking the revenue model into the cake. The Libra Association's founding members receive "Libra Investment Tokens" which grant "rights to a share of the future interest accumulated in the Libra Reserve."[3] Users' transactional activity—and presumably transactional data, as well—are harvested by the Libra Association for its members' ongoing returns. We get to pay for stuff. Libra's founders get a guaranteed tithe. There is a sort of feudal beneficence to the whole thing.

Yet how different would this be from a world of CBDCs in a low-growth global economy? Having a central bank alternately lower interest rates into negative territory or pump money into individuals' accounts via digital helicopter drops makes of money a centrally managed means of ensuring not wealth creation but simply the shuttling of tribute among the peasantry and its various overlords. It's hard to imagine, furthermore, how such an economy would work without something like the simultaneous introduction of universal basic income, so that there is at least some guarantee of a floor to people's ability to spend in order to support that economy. And UBI, in this scenario, would likely require a hardening of sovereignty, in order to circumscribe who is in and who is out of the polity for the whole thing to be sustainable.

This, again, starts to look something like feudalism, or the ancient empires based on redistribution and circulation. The scenario I am sketching out assumes that central banks continue to operate as they have much since the 1990s. It assumes they will remain focused on inflation targeting rather than fiscal demand management—the former seen more in line with so-called open markets (and inspired by Milton Friedman), which seems neutral and technocratic, the latter seen as too dangerously close to central planning (and inspired by Keynes), which seems more overtly political because it demands decisions on debt-financed public spending.

But which is more likely to be dangerous in a Libra/WeChat/CBDC world, a world of stratified currencies operating in closed loops segregating people from one another into new castes?

What is money, then? That is to say, what is money in a low-growth world shot through with new instabilities that will increasingly require welfare state apparatuses simply to allow people to continue to live but for which no one knows how to pay?

And what is the alternative? Perhaps a money whose problems are solved not by more technology, but by more democracy.

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[1] Kate Palmer, Sweden, nation that pioneered living without cash, warns: Hoard your banknotes. The Sunday Times, 5 May 2019.

[2] Janene Pieters, Dutch central bank concerned about decreasing use of cash. NLTimes.nl, 29 October 2018; National Coordinator for Security and Counterterrorism, Ministry of Justice and Security, Cyber Security Assessment Netherlands 2019.

[3] The Libra Association, p.1, available at: https://libra.org/en-US/wp-content/uploads/sites/23/2019/06/TheLibraAssociation_en_US-1.pdf