

ROUNDTABLE: PUBLIC MONEY

M. Ricks, J. Crawford, L. Menand, FedAccounts: Digital Dollars

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In 1989 the Board of Governors of the Federal Reserve System came out against the “basic banking” legislation that Congress was then considering, which would have required U.S. banks to offer no-frills transaction accounts at cost to all Americans.[1] While the Board “share[d] the belief that banking services should be widely available to all,” it doubted that there was really a problem to begin with. Low-income households might just have difficulties managing bank accounts and might distrust banks and prefer dealing with alternative payment service providers, it noted. “The Board does not believe that enough of a problem has been demonstrated to justify sweeping legislation.”[2]

But even granting that there was a problem, the Fed said, the proposed solution was wrongheaded. “[A]s a general matter, we question whether it is wise for the government to mandate the services that financial institutions must provide.”[3] A mandate to serve low-income households with basic banking services might “stifle innovation and experimentation,” it warned. “The Board believes that voluntary efforts by financial institutions will continue to be successful in meeting many of the concerns that have been expressed without the burden and cost that rules and regulations inevitably impose.”[4]

Thirty years later, those voluntary efforts have not borne

much fruit. Today, 6.5 percent of U.S. households are unbanked, meaning that no individual in the household has a bank account.[5] Another 18.7 percent of U.S. households are underbanked, meaning that, despite having a bank account, they rely to some degree on expensive nonbank services—such as nonbank money orders, check cashing, and payday loans—for payments and other financial needs.[6] These un- and underbanked households are primarily low-income and disproportionately minority.

In contrast to the United States, bank account penetration in other advanced economies like Canada, France, Germany, Japan, and the United Kingdom exceeds ninety-nine percent. At least some of those other jurisdictions achieve universal service through just the sort of mandate that the Fed opposed back in 1989.[7]

If universal service mandates are off the table, another possibility is direct public provisioning: a public option for bank accounts. The United States already has a big public bank, the Federal Reserve, and it already offers bank accounts (with trillions of dollars in total balances) and processes payments between them. These accounts consist of digital dollars—they are dollar balances maintained as ledger entries on the Fed's electronic books. The Fed's digital dollar accounts are highly attractive, offering instant payments, higher interest than ordinary bank accounts, and full government backing no matter how large the balance, with no need for deposit insurance. These accounts, however, are restricted to an exclusive clientele, consisting of banks, certain other large financial institutions, and certain governmental entities. Privileged access to these accounts creates a striking asymmetry at the core of our monetary framework: government-issued physical currency is an open-access resource, available to all, but government-issued digital currency (in the form of central bank accounts) is not.

This asymmetry is a policy choice—one that appears increasingly anomalous in the modern digital world. Other policy choices are available. In particular, Congress could direct the Fed to make its digital dollar accounts—call them FedAccounts—available to anyone who wants one. Digital dollars would be an open-access resource, available to all, just like the physical dollars that the Fed issues. Why should the central bank make its physical dollars available to the general public but restrict its digital dollars to banks?

FedAccounts might offer all the functionality of ordinary bank transaction accounts—debit cards, ATM access, direct deposit, online bill payments, online and mobile phone access, and so forth—but without any fees or minimum-balance requirements. Moreover, the Fed could partner with the U.S. Postal Service to serve as a ubiquitous physical branch network to service these accounts. Thus, FedAccounts could be merged with postal banking proposals[8] to create a robust public system for money and payments. The U.S. money-and-payments system would, in effect, become fully public infrastructure akin to roads, sidewalks, public libraries and the judicial system.

Opening up access to FedAccounts would have an astonishing range of benefits, which we describe in detail in a paper outlining the proposal. It would foster financial inclusion, bringing millions of households into the mainstream system of money and payments and lessening their reliance on expensive and subpar alternatives. It would reduce the likelihood of future financial crises by “crowding out” unstable deposit substitutes, which are a major source of financial instability. It would make the U.S. payment system faster and more efficient, because all payments between the accounts would clear in real time. It would improve the transmission of monetary policy, because the Fed’s interest-rate adjustments would be transmitted directly to a wide swath of the public rather than just to banks. The Fed could also conduct direct “helicopter drops” of money into FedAccounts for emergency

stimulus if necessary.[9] And it would reduce payment system tolls, because the Fed would not charge interchange fees to merchants accepting its debit cards.

Over the past few years, central bankers around the world have become increasingly worried that privately controlled digital currencies, like Facebook's Libra, will relegate them to the sidelines of monetary affairs. To avoid this fate, central banks have been studying, and in some cases actively pursuing, issuing digital currencies of their own: so-called central bank digital currency (CBDC).

The FedAccount system *is* a CBDC—it is a digital dollar—and it would be far superior to the CBDC approaches that dominate current discussions. Most existing proposals portray CBDC as a sort of disembodied physical currency—a digital “token” that retains physical currency's properties of anonymity and direct peer-to-peer transfer.[10] These proposals typically envision a closed system of digital “wallets” that is segregated from the existing system of money and payments and that is based on distributed ledger technology, like the blockchain technology that undergirds Bitcoin and (prospectively) Libra.[11] We question these design features. We do not think that the Federal Reserve and other central banks should be eager to facilitate anonymous transfers, which can be used for terrorist financing, money laundering, tax evasion, and other illicit activities. Nor is it apparent to us why central banks should wish to create a segregated, closed system that is walled off from the mainstream payment system. When it comes to money and payments, integration and interoperability are demonstrably better than fragmentation and balkanization. On top of that, distributed ledger technology, however ingenious its conception, remains extremely slow and inefficient compared to centralized ledger systems. For central banks, these cryptocurrency design features are a needless distraction.[12] The FedAccount system would be seamlessly interoperable with the existing system of money and payments

and would rely on low-cost, reliable systems and technologies that the Federal Reserve has used successfully for decades.

The Federal Reserve should keep it simple. CBDC does not require new technologies, it merely requires expanding access to a desirable, proven product that the Federal Reserve already offers: bank accounts at the central bank. Physical currency is already an open-access resource; digital dollars should be as well.

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[1] Martha R. Seger, Member, Board of Governors of the Federal Reserve System, Statement before the Subcommittee on Consumer and Regulatory Affairs of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, June 7, 1989, 75 Fed. Reserve Bulletin 550 (1989).

[2] *Id.* at 555.

[3] *Id.*

[4] *Id.* at 557.

[5] See 2017 FDIC National Survey of Unbanked and Underbanked Households 1 (“Approximately 8.4 million U.S. households, made up of 14.1 million adults and 6.4 million children, were unbanked in 2017.”).

[6] See *id.* (“Approximately 24.2 million U.S. households, composed of 48.9 million adults and 15.4 million children, were underbanked in 2017.”).

[7] For example, Canadian banks are required to open accounts for applicants unless an enumerated exception applies (generally relating to fraud prevention). See Access to Basic Banking Services Regulations (SOR/2003-184), § 3 (issued pursuant to §§ 448.1(3), 458.1(2), and 459.4 of the Bank Act (2001)).

[8] See, e.g., Mehrsa Baradaran, *Postal Banking's Public Benefits*, *American Affairs* (Fall 2018); Mehrsa Baradaran, *It's Time for Postal Banking*, 127 *Harv. L. Rev. F.* 165 (2014).

[9] See, e.g., Julia Coronado & Simon Potter, *Securing Macroeconomic and Monetary Stability with a Federal Reserve-backed Digital Currency*, *PIIE Policy Brief 20-4* (2020).

[10] See *Central Bank Digital Currencies*, Bank for Int'l Settlements Committee on Payments and Market Infrastructures and Markets Committee, March 2018, at 6.

[11] See, e.g., Tommaso Mancini-Griffoli et al., *Casting Light on Central Bank Digital Currency*, *IMF Staff Discussion Note*, Nov. 2018, at 29 (describing a CBDC design involving "preloading tokens onto a wallet"); Benoit Cœuré, *The Future of Central Bank Money*, speech at the International Center for Monetary and Banking Studies, Geneva, May 14, 2018 ("[C]entral banks today could make use of new technologies that would enable the introduction of what is widely referred to as a 'token-based' currency—one based on a distributed ledger technology (DLT) or comparable cryptographic technology.").

[12] Cf. Aleksander Berentsen & Fabian Schär, *The Case for Central Bank Electronic Money and the Non-case for Central Bank Cryptocurrencies*, 100 *FRBSL Rev.* 97 (2018).