Money in the Time of Coronavirus

R. Hockett, The Democratic Digital Dollar: A 'Treasury Direct' Option

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Robert Hockett, Cornell Law School

Introduction

On March 23rd House Democrats did something I and many others have been advocating for some time – draft plans to legislate into existence a digital dollar, along with a system of digital wallets. The plan I've been pushing can be instituted by municipal, state, or national authorities, and at the national 'level' can be administered either by the Fed or by Treasury. (We proposed the state version in New York's Assembly and Senate last October, and it has generated much 'buzz' here ever since.)

It is the latter – the Treasury – version of the Democratic Digital Dollar that I want to emphasize here, in light of both (a) the 'need for speed' in aiding our Corona-hit public and flagging economy, and (b) the Fed's century long common-law marriage to Wall Street. The Treasury – an agency more democratically accountable than the Fed – *already has half of the requisite digital architecture in place*. Treasury has a universal account system – 'Treasury Direct' – available to all citizens and legal residents of our country. It would be easy in principle for Treasury to issue a new Fed 'dollar bill' equivalent – what I call a 'Treasury Dollar Bill' –

receivable into these accounts, then either facilitate easy convertibility into Fed dollar bills or – better yet – declare them legal tender as well.

This isn't as exotic as some might initially think. Our first truly nationally issued dollar – the 'Greenback' (sound familiar?) – was administered by the Treasury when it was first instituted during the Civil War – hence the 'bank regulator' OCC's name – 'Comptroller of the Currency.' The dollar only came to be Fed-administered about 50 years later, when we established the Fed so as to render the dollar supply more 'elastic.' But we'll come back to that. First some background…

1. *Background: The Democratic Digital Dollar & the Inclusive Value Ledger*

Last autumn, New York Assemblyman Ron Kim and State Senator Julia Salazar proposed legislation I'd drafted to institute what I call a Democratic Digital Dollar plan. The plan, designed and discussed fully here, is meant to be implementable at the state, local, or federal levels. At the federal level, it could be administered either by the Fed or by Treasury.

The plan's architecture is strikingly simple: via this 'public Venmo' or 'inclusive value ledger' (IVL) system, every person and business receives a smart-device accessible digital wallet, with what I call 'vertical' connectivity to the public fisc, and what I call 'horizontal' (think P2P) connectivity to all other wallets. All are thus able to pay taxes and receive tax refunds and other disbursements over the IVL, and all are able to make real time payment to one another over the same system.

The reasons to put such a plan into place are quite numerous and are especially strong now when the need to get stimulus moneys to hard-hit Americans' wallets is as urgent as it could possibly be.

For one thing, in any self-professed 'commercial society' and 'exchange economy' such as our own, a payments system must be considered an essential public utility, which justice requires we make freely available to all. People don't pay to use sidewalks, nor do they or small businesses pay to use nickels or dollar bills. Neither, then, should they have to pay to use digital payments media as these now supplant paper currencies.

For another thing, we measure the size and the growth of our economy by reference to transaction volume. That is all GDP is. It follows that a more seamless and efficient payments system, by enabling more rapid transacting and hence larger transaction volumes within any time interval, means much greater economic growth and a much larger economy. Justice and growth thus converge.

Thirdly, the presence of such a system, once it is in place, offers a host of collateral benefits too. If administered by a nation's exchequer or monetary authority (think Fed and Treasury), it will enable much faster fiscal stimulus or monetary policy transmission than does our present Baroque system of bank middlemen who we hope will pass cheap credit to consumers. Instead we just drop the helicopter money into our digital wallets.

And, in more ordinary times, we offer interest on savings in wallets, whereupon we can then move those rates up or down when we must slow down or speed up aggregate spending activity. Indeed we can even then ‘micro-target’ specific sectors of the economy where spending appears to be overheating or dangerously cooling.

Fourthly, an IVL system would enable cities and states to begin giving monetary rewards to ‘care work’ providers and other contributors to the public good that our present payment arrangements make too difficult for most governments to judge feasible. A teenager who helps grade-schoolers with homework after school, for example, or someone who looks in on and cares for a ‘shut in,’ can quickly transmit ‘proof of work’ (POW) to a city or state, even a federal welfare authority and receive spendable IVL credits in return. Given the long-term savings to municipal, state, and federal budgets such work affords, crediting it over the IVL is quite readily justified even on fiscal grounds, let alone Good Society ones.

Finally, going digital offers financial data privacy benefits too. Unlike private sector banks and online payment ‘service’ firms, public sector administrators of the IVL do not do what they do for profit – there are no ‘carrots’ to entice ‘data harvest’ and sale. They’re also subject to 4th Amendment constraints as ‘state actors,’ unlike, say, Wells Fargo or Venmo – there is a ‘stick.’. Adding more sticks through the criminal law, moreover, along with especially hard encryption for all transactions of amounts lower than what the law requires banks to report under anti-money-laundering law, is quite easily done on an IVL system.

No matter how you look at it, then, we should do this.

Commercial and financial inclusion, more rapid economic growth, leak-proof fiscal stimulus and monetary policy, valuing undervalued work, and tightening financial privacy … what’s not to like? Well, it rather depends, in the national case, on what Congress ultimately decides.

2. *Latest Congressional Discussions*

A lot seems to have happened in the last 24 hours or so. On March 23rd, reports emerged that something like IVL might be included in the House Democrats’ stimulus and relief bill as of that night. As more details emerged, however, it emerged that what actually was under consideration was multiple things. On the one hand, there was language suggesting that what was under consideration was something like what Morgan Ricks, Lev Menand, and John Crawford have proposed. On the other hand, there was also language suggesting that IRS accounts and prepaid debit cards of the kind I proposed for fast helicopter money earlier this week might be in the cards. And finally, there were sufficient references to wallets and digitization to make clear that the legislators really did have digitization in mind.

Needless to say, this is all very gratifying to the many of us who have been advocating central bank digital currencies in the name of more just and efficient commercial and financial architectures for so long now – not to mention the yet more of us who see the need to get money to struggling Americans quickly right now. But all is apparently up for grabs again now, given Congress’s decision to leave any digital dollar, Treasury-housed or otherwise, out of the current bill. We should nonetheless keep discussing how to go forward before the next stimulus bill, which will surely come. This could prove interesting even later, should the Fed’s long common-law marriage to the banking sector, or should its statutory constraints, prove at any point problematic. It’s also interesting because in Treasury’s case, we already have half of the architecture in place, as I’ll now explain.

3. *The Treasury Dollar Bill & the Treasury Direct Plan*

Few seem aware of this fact, but the U.S. Treasury already affords any citizen or legal resident who desires it a ‘Treasury Direct’ Account (TDA) with the Treasury itself. Through this portal, citizens and legal residents can purchase or sell all four of the principal classes of Treasury security – bills, notes, bonds and Treasury Inflation-Protected Securities (TIPS) – at any time, 24/7. All that is needed is (a) a net-accessible laptop, smartphone, or other device; (b) a Social Security or Taxpayer I.D. number; and (c) a bank account out of which payments for, and into which redemptions of, Treasury securities can be made. All that is needed to make this a full Treasury-administered Democratic Digital Dollar and IVL is to add one new Treasury security – a kind of digital cash – to the basket now offered, and to establish ‘horizontal’ connectivity between Treasury Direct Accounts to supplement the ‘vertical’ connectivity between these accounts and the Treasury – by making them P2P wallet-interactive.

Here, then, is the nucleus of what can be quickly scaled-up into a national savings and payments platform administered by Treasury.

First, Treasury will be authorized, and indeed required, to issue a new denomination of a Treasury bill with no maturity date and a face value of $1. We’ll call it a Treasury Dollar

Bill (TDB). It is effectively a one-dollar 'perpetual,' a.k.a. 'consol,' much like the Federal Reserve notes we call '*dollar* bills.' Treasury will directly convey Congressionally determined 'amounts' of these Treasury Dollar Bills, which we'll call 'Starter Deposits,' to holders of Treasury Direct Accounts, which can be digitized into digital wallets as described below. There will be no need to 'sell' them. Starter deposits then can be periodically supplemented by what we'll call Supplemental Deposits as Congress determines.

Treasury Direct wallet Accounts holding TDBs will be much like accounts held with present-day money market mutual funds (MMFs), save that they will be sovereign issuances with all the guarantees thereof. TDBs will for their part be reminiscent of the 'Greenbacks' that Treasury issued as the nation's primary currency from the mid-1860s until early in the 20th century, when the Fed was established and Fed Notes began to supplant Treasury issuances as primary currencies.

Second, through legislation we will mandate either (a) that henceforth Treasury Dollar Bills will be legal tender on the same footing as Fed dollar bills, or (b) that the Fed open individual deposit-cum-transaction accounts – we'll call them 'Fed Transaction Accounts' (FTAs) – for all who have Treasury Direct Accounts, with free transferability of funds between each pair of twinned Fed Transaction and Treasury Direct Accounts. Any and all such accounts will be digitized into smart device-accessible digital wallets as we upgrade the national payments infrastructure as most developed nations are now planning to do.

TDBs will thus constitute Congressionally determined 'helicopter money' that functions alongside garden-variety

Fed-administered money. Of course Treasury will coordinate with the Fed to prevent undesired inflationary impacts. Because what occasions helicopter drops is essentially by definition a significant contraction, however, this seems unlikely to become ‘an issue.’

Third, we supplement the currently open ‘vertical’ connectivity channel between Treasury and TDA wallet holders with universal P2P ‘horizontal’ connectivity among all TDA wallet holders themselves. We do that either between TDAs themselves, in the event that we opt for ption (a) just above, or between FTAs, in the event that we opt for Option (b) above. Again, then, TDAs or FTAs will become digital wallets, out of which anyone can pay anyone else for anything legally sold, and into which anyone can be paid by anyone else for anything legally sold.

As in my Democratic Digital Dollar and IVL plans more generally, private sector banking institutions will be required, as a condition of licensure, to be among those businesses with what I call ‘horizontal’ connectivity to TDA wallet-holders. In that capacity they will be required to offer full, fee-free access to teller windows, ATMs, and all other facilities at which anyone might wish to convert TDBs into Federal Reserve Notes (FRNs), coins, or any other form of legal tender cash we might ever include among our money forms.

Fourth, we will cryptographically protect all TDAs or FTAs, and all transactions performed with them. We should also guarantee cash-reminiscent anonymity of transacting for all transactions in amounts not already required to be reported to bank regulators under current bank privacy and money-laundering enforcement laws. Violations of these protections by any government official will not only constitute 4th Amendment violations, but will also be legally prosecutable – as, of course, will be any breaches by ‘hackers’ or other miscreants. Because the Treasury, unlike private sector banking institutions and payment ‘service’ providers, isn’t actuated by a profit motive, security and data protection seem likely to be easier assured on the new Treasury direct system than they are now. But there is no need to leave this to chance.

Finally *fifth*, once the system is fully up and running, we might commence paying interest on funds held in TDAs or FTAs, just as the Fed now pays interest on reserves (IOR) to banks holding accounts with it, and as private sector banks pay on checking and savings accounts held with them. The reason for doing this is that it will afford our monetary authority – be that the Fed, Treasury, or a consolidated fiscal and monetary authority such as that designed in work that I have now in press – a most potent, because ‘direct,’ monetary policy tool. Rates can be raised to slow spending, and can be lowered to boost spending.

There will be no more ‘pushing on a string’ problems or other leakages in monetary policy transmission should we go this route. Nor need we ‘hope banks will lend’ or ‘hope people will borrow’ in crises. We’ll simply ‘drop money in’ when we must, soak it back up other ways – raising rates high, impounding some funds, or raising taxes if necessary. As CPI inflation seems to have been lower than policy targets for decades now, though, that seems a fairly remote possibility. We shall soon see whether productivity drops owing to Covid-wrought social distancing measures might change that.

The ‘Treasury Direct’ plan, then, offers all the advantages I laid out above for *any* Democratic Digital Dollar and IVL plan. But there are also three more.

First, Treasury is generally more democratically accountable than the Fed. It is more forthrightly ‘the people’s fisc,’ than is the Fed, which is presently a bank for the banks. Second, the Treasury labors under fewer statutory constraints than the Fed, which might come in handy once we start ‘People’s QE.’ And finally, my Treasury Dollar Bills clearly resemble both Fed dollar bills held at banks and other, coupon-carrying Treasuries, affording a salutary reminder to the public that their Fed Note money, Treasury Note ‘debt,’ and indeed all sovereign liabilities in a democracy at bottom come down to our liabilities to one another.

*Conclusio*n

I hasten to add, in conclusion, that I am myself undecided at this point as between Fed and Treasury options for the Democratic Digital Dollar. In my work thus far, I’ve been interested only in saying that both can be done. I’ve taken a more advocative role here only for two reasons sharing a common cause: Our present pandemic-fueled hurry requires we act quickly, which Treasury Direct makes quite feasible. And, ironically, that same hurry has us talking about Fed plans while not giving Treasury alternatives their due.