Current Scholarship

The Capital Commons: Digital Money and Citizens' Finance in a Productive Commercial Republic

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All societies must address two questions where the organization of productive activity is concerned. The first is whether production will be mainly publicly managed, privately managed, or 'mixed.' The second is whether the financing of production will be mainly publicly managed, privately managed, or mixed.

In the American commercial republic, we seem more or less to have answered the 'who does production' question to our own satisfaction. From the founding era to the present, we have elected to leave production primarily, though not of course solely, 'in private hands.' Where the financing of production is concerned, on the other hand, we have been more ambivalent.

For the past 160 years, our financial system has operated as a public-private franchise arrangement. At the core of our franchise lie the sovereign public (the 'public' of our 'republic') and its money-modulator – the issuer and manager of its monetized full faith and credit, its 'money' – on the one hand, and the private sector financial institutions and markets we publicly license to allocate most of the resultant Wicksellian 'bank money' or 'credit-money' on the other hand. At the periphery of the franchise lie those institutions and markets that 'shadow bank' through relations with the banking core.

In recent years, developments in several distinct spaces have prompted what amounts to a broad reassessment of our hybrid financial arrangements. One such development is weariness with our system's penchant for over-generating public credit that fuels bubbles and busts rather than production, a product of leaving our public capital – by far the greater part of investment capital – to private management. This is what the author has long called poor credit modulation.

Another ground of critique is our hybrid system's poor record on what the author has long called credit allocation, from which modulation turns out to be inseparable. Our morbid fear of explicitly, rather than implicitly, 'picking winners and losers' is the culprit here. Finally, other sources of disenchantment are our system's long-term worsening of inequality, the scandal of commercial and financial exclusion our system permits, and the promise offered by new financial technologies where ending both that and leaky monetary policy are concerned.The current Covid pandemic and recent murder of George Floyd of course underscore these sources of disillusion.

This article embraces these critiques, which the author himself has leveled continuously over the past fifteen years, argues that privately ordered production requires publicly ordered finance, and shows how to order finance publicly on a Fed balance sheet forthrightly recognized as a Citizens' Ledger. New public investments will make up the asset side of the upgraded Fed balance sheet, while a corresponding system of digital public banking through 'FedWallets' will upgrade the liability side of the same. Newly restored regional Fed functionalities ('Spreading the Fed'), an FSOC-inspired National Reconstruction and Development Council (NRDC) and its financing arm (a restored RFC), and a price-stabilizing 'People's Portfolio' round out the new system of Citizens' Finance.

In the course of its arguments, the article traces all salient consequences that flow from its complete overhaul of our system of financing production, from banking through 'shadow banking' to the capital markets. It also makes some surprising discoveries along the way. Among these is that full separation of Fed and Treasury and hence monetary and fiscal policy, itself an artifact of franchise finance and hence the false hope of separating credit modulation from credit allocation, is no longer tenable. Another is that global central bank digital currency (CBDC) development is now corroborating much of what the article argues.

Hockett, Robert C., The Capital Commons: Digital Money and Citizens' Finance in a Productive Commercial Republic (June 1, 2018). Review of Banking and Financial Law, Vol. 39, No. 345, 2019-20