Project Syndicate

A Central Bank Cryptocurrency to Democratize Money

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ATHENS – The history of money has been the history of the struggles to control the payment system and the money tree. Today, with control over both resting in the hands of bankers, central banks' efforts to boost business end up amplifying inequality while failing to address either economic stagnation or the looming climate disaster. The time for ending this scandalous cartel is now; the way to do it is by creating a central-bank cryptocurrency.

Whether you are charging a cup of coffee to your debit card or wiring money, the transaction passes through a digital system fully owned by bankers. What should be a public utility, like roads or sewers, is a lucrative cartel. Similarly, every time bankers lend, they mark up the balance of the borrower's account, thus creating new money. Dollars, pounds, euros, yen, and so on are conjured mostly by private bankers out of thin air.

Defenders of the status quo will protest that bankers' access to the money tree is constrained by the central bank. By imposing on bankers a minimum ratio of safe debts (such as US government bonds or real-estate collateral) for every loan they make, the central bank limits the production of new money. But while that may be true in theory, during a crisis, debts turn bad *en masse*, forcing the central bank to choose between letting banks fail and accepting increasingly worthless collateral.

Society's reliance on banks for its payments system has meant that since 2008 – and more so during the pandemic – central-bank money has been showered, via private bankers, on the ultra-rich, while everyone else suffers stagnation and austerity. Once caught in this trap, it became impossible for central banks to revive the economy while keeping financiers on a leash. To escape, it is necessary, though insufficient, to end bankers' dual monopoly of the payment system and the money tree. But how?

Bitcoin-like, non-state cryptocurrencies do threaten the bankers' monopoly over the payment system, domestic as well as international. But they are a terrible alternative in every other respect. Of their many defects, the one that stands out is that the crypto-money supply cannot be adjusted to reflect economic activity.

If such currencies had prevailed before the pandemic, governments would not be able to

support locked down workers and firms. As for developing countries that do not borrow in their own currencies, turning a bitcoin-like cryptocurrency into legal tender, as El Salvador did recently, promises to cause even worse problems than those caused by dollarization.
The aim ought to be termination of bankers' monopoly of payments and money creation, albeit without passing their exorbitant power to the central bank's bureaucrats. Central bank digital currencies based on bitcoin-like transparency-enhancing technologies are a promising way to achieve three objectives: liberating the payments' system from rentiers, guaranteeing unprecedented transparency regarding how much money is plucked from the money tree, and democratizing access to the tree's fruit.

Interestingly, the idea of central bank digital currencies is gaining support from the financial establishment such as the Bank for International Settlements, known as the central bank of central banks. These financial gatekeepers are embracing central bank digital currencies because they can see that, if they do not, someone else will, whether it is the People's Bank of China, whose own digital currency is at an advanced stage of development, or, more ominously, Big Tech. Their objective is to usher in digital currencies that preserve the current oligarchy's monopoly over money. The objective of progressives must be to wrest control away from them in order to promote shared prosperity with monetary stability.

The first step is to separate payments from the bankers' money tree. This can be achieved easily if the central bank automatically granted every resident (but also selected non-residents trading with residents) a digital account, a PIN, and a web/phone application that enables free, immediate money transfers.

In addition to the lure of free payments, a tax discount of, say, 5% on funds transferred to one's central bank account and used to extinguish taxes a year later would attract idle savings from commercial banks and give the government access to prepaid taxes. Bankers will have to offer customers genuine services to keep their business.

As for concerns about privacy, it is possible to anonymize central-bank accounts with digital tags that only an independent ombudsman, a post created in the spirit of a new separation of powers, can trace to physical persons. After all, lest we forget, our current payments system (with the strict "Know Your Customer" rules imposed on bankers) offers next to no privacy.

The second step will be to end socialism for the ultra-rich, also known as quantitative easing. Instead of the central bank financing banks that lend to corporates, which then use the money to buy back their own shares, thus boosting their wealth without a cent of actual investment, the central bank would automatically credit a monthly sum to every resident's account – with the government taxing, at year's end, the receipts of well-to-do folk. As economic conditions change, this direct dividend would fluctuate accordingly.

This system should be built on a bitcoin-like transparency-enhancing distributed ledger

for two reasons: resilience and trust. Any central-bank digital currency would be extremely vulnerable. But a distributed ledger architecture would be impervious to hacking or physical damage. And since the quantity of money would be set by the central bank, there would be no need for bitcoin-like mining which requires planet-endangering electricity consumption. Furthermore, it would give us common knowledge of the quantity of money in the system, thereby preventing the central bank from covertly inflating the economy while preserving anonymity.

Central-bank digital money will happen sooner or later. The great struggle over who will control the payment system and the money tree will continue. But we have a chance to use new technology to democratize money, to reclaim control over the money supply, to offer savers a decent interest rate without precipitating a new depression, and to lay the groundwork for a universal basic dividend – in short, to press the money tree into the service of people and the planet.

Who controls transactions, interest rates, and money creation controls politics. That's why the powers-that-be will fight this proposal tooth and nail.

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