

**The Digital Dollar: A Threat to Economic Liberty and Privacy**

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The economists involved with the Digital Dollar Project want to maintain the stability of the U.S. Dollar, but what does that mean? To the American consumer, the only thing that is stable about the dollar is the fact that it loses purchasing power at a steady rate every year. Could economists see a digital dollar as a means to better manipulate citizens into compliance with desired fiscal and social policy? Transaction tracking, and nudging consumers into making desirable economic decisions by programming a digital currency to have certain characteristics would help the government do this. The issue of privacy arises in that digital currencies are programmable. They can be programmed to expire, devalue, record certain transactional information, etc., as the government sees fit to meet their economic ends. A digital dollar would be a tool the government could use to force citizens to make the economic choices to save or spend, based on what the government sees as desirable, resulting in a loss of privacy and freedom. Their programmability is the very feature that makes them dangerous to American's right to privacy, and a powerful tool for government to confiscate the wealth of Americans through inflation and the use of negative interest rates.

The Digital Dollar Project is intended to encourage public discussion and research regarding the potential benefits of implementing a fully digital U.S. Dollar central bank currency. The project intends to gain the support of influential private sector voices and have them propose ideas as to how the government could realize the digital dollar. The project refers to the digital dollar as a type of central bank digital currency, or CBDC (Giancarlo, et. al. 2020) The Project is working with several central banks, including the European Central Bank. The Project has also formed an advisory group of people from across all sectors of the economy and political spectrum to work out a design for the digital dollar, and to conduct pilot tests. (Giancarlo, et. al. 2020) Governments and private actors around the world are experimenting with digitized, tokenized items of value such as commodities, contracts, and digital currencies. The Dollar Project wants the U.S. to be an innovator in the development of such technologies and the infrastructures that support them. The creation of a U.S. Dollar CBDC is key to keeping the U.S. competitive in the global economic market. (Giancarlo, et. al. 2020)

A stated goal of the project is to maintain the stability of the U.S. Dollar currency through the development of a digital version. (Giancarlo, et. al. 2020) The Digital Dollar Project outlines several tenets of a digital dollar, including: tokenization (it is secure), it is a third form of currency

operating alongside fiat currency and commercial bank currency, it is conducive to maintaining the current two-tiered banking system, it is private, it is monetary policy neutral (does not affect the government's ability to manipulate monetary policy however it likes), it is future proof, it is friendly to private sector innovation of the economic infrastructure and payments systems. (Giancarlo, et. al. 2020)

According to the authors of the Digital Dollar Project, a digital dollar is logical, given the increased digitization of human activity. (Giancarlo, et. al. 2020) The interest in and support for a digital dollar is bipartisan. On June 30, 2020, the Senate banking committee held a hearing to discuss the idea of a digital dollar. Senator Tom Cotton (R-AR), speaking at the Senate hearing, said that the U.S. needs a digital dollar that is better than bitcoin, and better than the digital yuan. (Koffman 2020) The end goal of the Digital Dollar Project is to realize a fully digital U.S. Dollar that has the same legal status as physical bank notes. (Giancarlo, et. al. 2020) An important intermediate step on the way to this goal is to effectively tokenize the digital currency. This means to make the valuable data stream secure by substituting it with a non-sensitive equivalent. (Giancarlo, et. al. 2020) Tokenization means turning an asset into a digital representation. Currently, the dollar bill is such a token in physical form. It is hard to counterfeit, each bill is unique, a bill cannot be spent more than once per transaction, and a bill cannot be held by more than one person at a time. This would be the goal for tokenizing a digital dollar. (Giancarlo, et. al. 2020) Bitcoin and other digital currencies are tokenized this way by the block chain.

Creating a digital dollar would require the updating of the financial infrastructure, to wit: government and financial sector computer and payment systems. This would help “future-proof” the currency. The Digital Dollar Project points to the COVID-19 crisis relief payments as evidence for this need. 70 million people who need relief payments must wait for a paper check, rather than receive electronic payments. Payments are further delayed as they must be processed through outdated state and federal systems and mailed. (Giancarlo, et. al. 2020) Spurred by problems distributing COVID-19 stimulus checks, Congresswoman Rashida Talib (D-MI) recently co-sponsored a stimulus bill in Congress that also provided for the creation of a digital dollar. This bill proposed a \$2,000 per month payment to residents. It also would give the Federal Reserve the authority to create a “Digital Dollar Account Wallet” so people can access payments and other financial services through an application on their phone. (Koffman 2020) Current electronic transfers are basically electronic ledger, or book entries. The current payments system is a

message-based system where two parties are both reconciling their own ledgers when a transaction takes place. This means that dollars used in electronic transactions can, for a time, be held by two parties simultaneously, and therefore spent more than once at time. (Giancarlo, et. al. 2020)

The issue of privacy arises in that digital currencies are programable. They can be programmed to expire, devalue, record certain transactional information, etc., as the government sees fit to meet their economic ends. A token-based CBDC could be better to implement, regarding privacy, than an accounts-based digital payments system. An accounts-based system, as previously described, would give the federal government real-time access to all people's deposit transfers, as everyone would have retail checking accounts directly connected to the Federal Reserve. (White 2020) Since a digital dollar would be programmable, it can be designed to be interest-bearing or configured with security features to protect against fraud and counterfeiting. This would include the ability to make the digital dollar subject to both positive and negative interest rates. (Giancarlo, et. al. 2020) Digital Dollars, like their physical counterparts, will also be unique. Once withdrawn from a bank account and deposited into an individual's digital wallet, they are like physical cash in a physical wallet. If the wallet is lost or destroyed, the bank is not responsible for them. (Giancarlo, et. al. 2020) Physical cash is an easy way to defeat negative interest rates. In an all-digital economy, the government can force savers to spend by confiscating whatever they leave in their bank account through the implementation of negative interest rates. (Rickards 2019)

The use of physical cash, however, even to make small payments, is on the decline. This trend is likely to continue in the post-COVID-19 pandemic world. Proponents of a digital dollar cite this fact, and that a digital dollar would help give populations who are "under-banked" access to financial services, in support of its development. All people would have greater access to e-commerce where physical cash is not used. (Giancarlo, et. al. 2020) 14 million people in America do not have a bank account. It may be cheaper to provide digital wallet services to these people than for them to have a traditional bank account. It would help get government benefits and other payments to them more quickly and efficiently and give them greater access to e-commerce. (Giancarlo, et. al. 2020) This is a positive move in the eyes of the government.

The physical dollar, on the other hand, is not traceable, and neither is the transaction in which it is used. The government had to decide which transactions to encourage or discourage by criminalizing them and requiring them to be reported. A digital token could have this feature built into it. Economic privacy would be gone for all people, not just criminals. Gift cards purchased

with cash or credit card can be used like cash; they provide for anonymous transactions and neither record nor transmit transactional information. They do not, however, have the ability to accept peer-to-peer payments. Because they lack this feature, gift cards cannot effectively function as a digital currency. Digital wallets would be able to accept payments. It all comes down to whether the government decides to design the system around the privacy rights of its citizens. (White 2020) Holding a digital dollar issued by the Fed in a digital wallet would, theoretically, be private. The Fed would know how many digital dollars were in circulation because they issue them, just as they issue physical currency. Since they are held in digital wallets, not connected to the Fed system, individual transactions would be private, just as are physical cash transactions. (White 2020)

Driving the development of a U.S. CBDC is the thesis that the U.S. Dollar must remain technologically up-to-date if it is to continue to be the world's reserve currency. If the U.S. Dollar does not have the digital functionality demanded by the new banking and payment technologies being developed, the world will move to a currency that does. This will decrease the demand for U.S. Dollars and U.S. Dollar denominated securities abroad and reduce the influence of the U.S. around the world. (Giancarlo, et. al. 2020) China recently began testing their own CBDC, a digital yuan. This digital currency is set to be included in popular applications like AliPay. This is worrisome to the U.S. government, as adoption of the digital yuan in emerging markets could threaten the dollar's status as world reserve currency. (Koffman 2020)

A digital dollar would be a tool the government could use to force citizens to make the economic choices to save or spend, based on what the government sees as desirable. A digital dollar needs to balance the individual's right to privacy with the goals of law enforcement and national security. A fully-anonymous CBDC would facilitate illicit behavior; a fully traceable CBDC would most likely not be embraced by the public, and therefore diminish its value and usefulness. (Giancarlo, et. al. 2020) If a digital dollar is programmed to share transactional information with a third party, like the Fed, that info is freely available to the government. If it is not programmed to do so, then digital dollar transactions would be private and anonymous like physical cash transactions. (White 2020)

Physical dollars, however, cannot be programmed to record or transmit any type of information. It is a physical token. It would be naive of the public to trust that the government would never change its policy of programming the digital dollar not to share transactional information. Because of this a digital dollar issued by the Fed, by its nature, is a threat to the Fourth

Amendment rights of Americans. (White 2020) The digital dollar must embody the same American values as physical Dollars do: stability, individual liberty, privacy, free enterprise, and the rule of law. (Giancarlo, et. al. 2020) Case law involving the Fourth Amendment will ultimately decide how much and which personal information digital dollars collect and share. That question is still open. (Giancarlo, et. al. 2020) There is little Fourth Amendment case law regarding the privacy of transactions beyond the “third party doctrine”. The Fourth Amendment guarantees the right of Americans to be secure in their papers and effects. Information individuals share with third parties like retailers, utilities and, in the case of an accounts-based digital payments system run by the Fed, the Federal Reserve, would be free for the government to obtain. (White 2020)

While it is desirable for the United States to remain competitive through financial sector innovation, the privacy rights of American citizens must be considered above Fed monetary policy. Americans would do well to remember that it is not the federal government that guarantees their rights; the Constitution preserves the God-given rights of Americans and protects the citizens from the usurpation of their rights by the federal government. A digital dollar would be a dangerous and powerful tool in the hands of the government. Using a suitably configured CBDC, the government could, many orders of magnitude more efficiently than it does currently, manipulate the financial behaviors of its citizens to suit its globally-oriented fiscal and political goal, while simultaneously confiscating the people’s wealth.

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