THE DIGITAL DOLLAR AND PERSONAL LIBERTY

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ON MARCH 9, President Biden unleashed the federal government to reform the U.S. dollar into a digital entity—an historic milestone. A big transformation is looming. Done well, the digital dollar will cement U.S. leadership in global finance. Ill-done, America will become second tier.

The digital dollar has the power to effect financial inclusion, boost general prosperity, and enhance social accountability (see my book, *Tethered Money*). If ill-handled, however, the digital dollar will choke innovation, place Americans under tight surveillance, and shift power away from the people and onto their government.

Can we trust the government to do it right? No. And not because government planners are ill-spirited. It is because, like every government, ours deems itself good, and socially meritorious. Smart, too— so it deserves to be given the power to guide society for society's own good, and make sure that the new form of money will become a tool used by the government to serve the people the way government thinkers see fit.

Thus, one would expect a government-shaped digital dollar to increase government visibility into every financial movement of every citizen, 24/7, that is, to create a state of constant surveillance. Coming in the wake of privacy lost in nonfinancial matters, this prospect is extremely alarming.

WHAT CAN BE DONE?

Let's unite behind the singular notion of payment privacy. The digital-money community is diverse, with no unity of opinions on anything. I hope, though, that a critical mass can unite around the fundamental notion of securing cash-like payment, that is, a payor and a payee able to execute a payment such that none besides these two is in the know.

Moreover, the payor and the payee may be privy to very little about each other. Payment privacy is the core of personal freedom in cyberspace, so hallowed that, arguably, it deserves a Constitutional amendment: "*The right of payor and payee to exchange value privately shall not be abridged.*"

In China, as a case in point, the digitization of the national currency is carried out top-down. A commission decides what is best, and mints accordingly. We have a better idea. It's called capitalism and competition.

Suppose the government, say the Federal Reserve, in consultation with the U.S. Treasury, prepares a regulatory framework for commercial mints to offer the public a digital claim check against the U.S. dollar. This claim check is given to a purchaser against a nominal amount of dollars, and when this claim check is submitted for redemption, it fetches the same nominal sum of dollars (minus a small service charge). This is what is known as a stablecoin. Any bank, or any entity commanding public trust, can declare itself a mint, submit itself to the issued regulatory guidelines, and compete for public attention. Each mint will be free to put out its own protocol, spell out its own terms, charge its own fees. Each will have its own wallet, its own service, its own security.

The key regulatory requirements will be: (i) payor-to-payee payment privacy shall be upheld; and (ii) the various mints (stablecoins) will honor each other's products. They will form an InterMint that operates like banks in the automated clearing house network.

This call for banks and nonbanks to compete against each other will unleash the wisdom of crowds that has served us so well throughout history. The winners will become the dominant stablecoins. All the benefits associated with digital currency could be offered by these winning stablecoins—so much so that, possibly, there would be no need for the Federal Reserve to create a digital dollar. DT