

TESTIMONY OF MORGAN RICKS

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before the

United States House of Representatives

Committee on Financial Services

Task Force on Financial Technology

June 11, 2020

Chairman Lynch, Ranking Member Emmer, and members of the Task Force, thank you for the opportunity to testify today on the topic of “Inclusive Banking During a Pandemic: Using FedAccounts and Digital Tools to Improve Delivery of Stimulus Payments.”

The coronavirus crisis has highlighted critical shortcomings in the U.S. system of money and payments. Economic Impact Payments (EIPs) authorized by the CARES Act have been central to the federal government’s policy response to the pandemic and its economic fallout. EIPs can provide critical help to individuals and families struggling to make ends meet during an economic disruption, and they can soften the blow of macroeconomic crises by boosting aggregate spending. But to be maximally effective in providing relief to individuals and families and stimulating economic activity, EIPs must arrive quickly.

Unfortunately, in the wake of the CARES Act, millions of EIPs have not been distributed as rapidly as one might have hoped. Even taxpayers with direct deposit information on file with the I.R.S.—the first to receive their relief payments—often had to wait several days for their payments to clear through automated clearinghouse (ACH) systems. This is a meaningful delay in the context of an unfolding economic disaster. On top of that, tens of millions of Americans

have received or will receive their EIPs as paper checks, which must be printed and physically delivered—a time- and labor-consuming task. When time is of the essence, paper check distribution is far from ideal.

Why has the federal government resorted to distributing millions of paper checks, rather than paying everyone electronically? Part of the problem is that many Americans do not fully participate in the mainstream system of money and payments. Whereas bank account penetration in other advanced economies like Canada, France, Germany, Japan, and the United Kingdom exceeds ninety-nine percent,¹ 6.5 percent of U.S. households, made up of 14.1 million adults and 6.4 million children, are unbanked, meaning that no individual in the household has a bank account.² Another 18.7 percent of U.S. households, made up of 48.9 million adults and 15.4 million children, are underbanked, meaning that, despite having a bank account, they rely to some extent on expensive nonbank services—such as nonbank money orders, check cashing, and payday loans—for payments and other financial needs.³ Un- and under-banked households are primarily low-income and disproportionately minority.

Banks have little incentive to service low-balance accounts because it is typically unprofitable to do so. Consequently, bank branch locations are less prevalent in low-income communities and their hours of operation are inconvenient for many prospective users. Minimum balance requirements, account fees, and delays in check clearing deter low- and moderate-income households from opening or retaining accounts. (Bank of America announced in 2018 that it would begin imposing a \$12 monthly maintenance fee on all accounts not meeting certain

¹ See World Bank, *Global Findex Database 2014: Measuring Financial Inclusion around the World* at 84.

² See 2017 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS 1.

³ See *id.*

criteria, including minimum balance criteria.⁴) Other factors also come into play. For example, the second most cited reason for lacking a bank account is “don’t trust banks.”⁵ There can be little doubt that this distrust is attributable in part to previous bad experiences with banks, such as unexpected, costly overdraft charges.

Congress has at least two policy levers at its disposal to bring un- and under-banked households into the financial mainstream. One approach would be to impose universal service requirements on U.S. banks, an approach that has been used in countries such as Canada.⁶ An alternative approach would be direct public provisioning: the federal government could supply digital money-and-payment services directly to the general public.

In the remainder of my testimony, I will focus on one such public option: expanding access to the bank accounts the Federal Reserve already offers to a small, favored set of clients. These accounts consist of digital dollars—they are dollar balances maintained as ledger entries on the Fed’s electronic books. The Fed’s digital dollar accounts are highly attractive, offering instant payments, higher interest than ordinary bank accounts, and full government backing no matter how large the balance, with no need for deposit insurance. These accounts are currently restricted to an exclusive clientele, consisting of banks, certain other large financial institutions, and certain governmental entities.⁷ Privileged access to these accounts creates a striking

⁴ See Rachel Louise Ensign, *Bank of America: No More Free Checking for Customers With Low Balances*, WALL ST. J., Jan. 22, 2018.

⁵ See 2017 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS 24.

⁶ Bank Act, Canada § 448.1; Access to Basic Banking Services Regulations § 3.

⁷ In addition to U.S. depository institutions, see 12 U.S.C. § 342, the Federal Reserve is authorized to maintain accounts for the U.S. Treasury, see 12 U.S.C. § 391, certain government-sponsored enterprises in the residential mortgage area, see 12 U.S.C. §§ 1435, 1452(d) & 1723a(g), foreign governments, banks, and central banks, see 12 U.S.C. §§ 347d & 358, certain international organizations, such as the International Monetary Fund and the World Bank, see 22 U.S.C. § 286d, and certain designated financial market utilities, see 12 U.S.C. § 5465, as well as assorted other governmental and government-sponsored entities that I omit here.

asymmetry at the core of our monetary framework: government-issued physical currency is an open-access resource, available to all, but government-issued digital currency (in the form of central bank accounts) is not.

Under the FedAccount proposal, Congress would direct the Federal Reserve to give the general public—individuals, businesses, and institutions—the option to hold accounts at the central bank. The FedAccount program would put government-issued digital or “account” money on par with government-issued physical currency, transforming digital dollars into a resource that anyone can use. Digital dollars would be an open-access resource, a form of public infrastructure, just like the paper dollars that the Fed issues.

Under the version of the FedAccount proposal that I and my coauthors have described,⁸ FedAccounts would offer all the functionality of ordinary bank transaction accounts, except for overdraft coverage. They would come with debit cards for point-of-sale payments and ATM access. They would support direct deposit and online bill pay. Account holders could access their accounts on the internet or through a mobile phone application. Monthly statements would be supplied by email (preferably) or in hard copy. There would be a customer service number. But the Fed would charge no fees and would not impose any minimum balance requirements. FedAccounts would also have all the special features that banks currently enjoy on their central bank accounts: real-time payments, high interest compared with ordinary bank accounts, and full government backing with no need for deposit insurance.

Moreover, the Fed could partner with the U.S. Postal Service to serve as a ubiquitous physical branch network for these accounts. Thus FedAccounts could be merged with postal

⁸ See Morgan Ricks, John Crawford & Lev Menand, *Central Banking for All: A Public Option for Bank Accounts*, THE GREAT DEMOCRACY INITIATIVE (June 2018); Morgan Ricks, John Crawford & Lev Menand, *FedAccounts: Digital Dollars*, GEO. WASH. L. REV. (forthcoming 2020).

banking proposals to create a robust public system for money and payments.⁹ The U.S. money-and-payments system would, in effect, become fully public infrastructure akin to roads, sidewalks, public libraries, and the judicial system. Viewed from this infrastructural perspective, exclusion from the mainstream money-and-payments system is another dimension of the “digital divide” that has been exacerbated by the COVID-19 crisis.¹⁰

Opening up access to FedAccounts would offer a range of substantial public policy benefits:

- *Financial inclusion.* Properly structured, the FedAccount program could bring millions of households into the mainstream system of money and payments. This would not only lubricate future EIPs, as noted above, but also improve economic well-being.¹¹
- *Consumer protection.* FedAccounts would lessen consumers’ need for expensive nonbank credit products, such as payday loans, to cover cash shortfalls and emergency expenses, both because it would speed up payments (see below) and because it would help individuals qualify for credit cards and other forms of bank credit, which are cheaper and safer.
- *Financial stability.* FedAccounts would likely reduce the probability of future financial crises by “crowding out” unstable deposit substitutes, such repurchase agreements or “repo,” Eurodollars, and money market mutual fund shares, which are a major source of financial instability.

⁹ Regarding postal banking, see Mehrsa Baradaran, *Postal Banking’s Public Benefits*, AMERICAN AFFAIRS (Fall 2018); Mehrsa Baradaran, *It’s Time for Postal Banking*, 127 HARV. L. REV. F. 165 (2014).

¹⁰ See Klint Finley, *When School is Online, the Digital Divide Grows Greater*, WIRED, April 9, 2020.

¹¹ *FedAccounts Would Provide Economic Relief—and Inclusion—in the Short and Long Term*, ROOSEVELT INSTITUTE, Apr. 22, 2020

- *Payment speed and efficiency.* Payment delays are costly for the economy as a whole and are especially so for households living paycheck to paycheck.¹² While the Fed uses real-time gross settlement (RTGS) for interbank transfers, retail payment networks in the United States are far slower—another respect in which our payment system lags behind much of the rest of the world. FedAccounts would make the U.S. system faster and more efficient because all payments between FedAccounts would clear in real time on the Fed’s books, just like interbank transfers have for decades.
- *Monetary policy transmission.* Since late 2008, the Federal Reserve has implemented interest rate changes by adjusting the interest rate it pays to banks on their central bank accounts. But the Fed has struggled at times to achieve efficient “pass-through” of these interest payments to broader market interest rates. FedAccounts would improve the transmission of monetary policy because the Fed’s interest-rate adjustments would be transmitted directly to a wide swath of the public rather than just to banks. Congress could also authorize the Fed to conduct direct “helicopter drops” of money into FedAccounts for emergency stimulus if necessary.¹³
- *Payment system tolls (interchange fees).* The FedAccount program could greatly reduce payment system tolls, because the Fed presumably would not charge interchange fees to merchants accepting its debit cards. Reducing aggregate interchange fees would be a boon to businesses large and small. Ultimately the benefits would be passed along to consumers in the form of lower prices for goods

¹² See Federal Reserve System, *Strategies for Improving the U.S. Payment System*, Jan. 26, 2015, at 38–39; Aaron Klein, *How the Fed Can Help Families Living Paycheck to Paycheck*, Brookings Institution, Nov. 22, 2017.

¹³ See, e.g., Julia Coronado & Simon Potter, *Securing Macroeconomic and Monetary Stability with a Federal Reserve-backed Digital Currency*, PIIIE Policy Brief 20-4 (2020).

and services. In addition, the Fed could process peer-to-peer payments between FedAccounts for free, creating a frictionless system.

Far from straining fiscal resources, FedAccounts would likely generate revenue for the government, provided the program attracted profitable large accounts and not just small accounts. Central banks' asset portfolio returns typically exceed their interest payments and other expenses by a wide margin. These earnings are called "seigniorage": fiscal revenue from money creation. The amounts are large. The Fed remitted \$81 billion, \$65 billion, and \$55 billion in earnings to the U.S. Treasury Department in 2017, 2018, and 2019, respectively.¹⁴ The FedAccount program might very well augment these remittances because the Fed's incremental account liabilities would be matched by incremental interest-earning assets. In effect, large-balance FedAccounts would generate substantial earnings for the Fed, which could cover the cost of servicing smaller accounts.

To be sure, the FedAccount program would present implementation challenges. It would require the Federal Reserve to build the capacity to service retail accounts, which would be a major operational undertaking. In addition, cybersecurity and fraud prevention for FedAccounts would place a significant new burden on the Fed. While the Fed already runs a highly secure information technology system with expert cyber-defense capabilities at the *system* level,¹⁵ even the most robust perimeter security would not stop customers from compromising their *individual*

¹⁴ See Board of Governors of the Federal Reserve System, Press Release: Federal Reserve Board Announces Reserve Bank Income and Expense Data and Transfers to the Treasury for 2019, Jan. 10, 2020.

¹⁵ See Shane Harris, *Exclusive: Meet the Fed's First Line of Defense Against Cyber Attacks*, FOREIGN POL'Y, Apr. 29, 2014 (describing the National Incident Response Team, the Fed's "crack cyber security unit"). Furthermore, the Treasury auction process now includes hundreds of bidders and transacts trillions of dollars per year. See Treasury Auctions, Federal Reserve Bank of New York, available at www.newyorkfed.org.

accounts—misdirecting funds, losing their passwords, or falling prey to malicious actors.¹⁶ But the Fed could turn to the Department of Homeland Security or third-party contractors to ensure that its account security system is state of the art.

Congress and the Fed would also need to establish privacy protections to ensure that governmental actors do not misuse customer information or inadvertently or deliberately share it with third parties. Of course, the degree to which existing bank accounts are “private” should not be overstated. Information contained in bank records is not protected by the Fourth Amendment.¹⁷ Congress has chosen over time to strike a balance between privacy concerns and other priorities, especially crime prevention and national security. Bank Secrecy Act compliance by banks requires extensive reporting to the government of qualifying financial transactions. FinCEN’s database of currency transaction reports and suspicious activity reports contains hundreds of millions of entries; the database is searched tens of thousands of times daily by law enforcement agencies and government investigative bodies.¹⁸ In addition, the Federal Reserve is already subject to privacy laws, but new legislation might adopt more stringent privacy protections akin to those used for taxpayer information. The IRS has adopted comprehensive policies and procedures to protect private data¹⁹ and invests heavily in compliance.²⁰ Data access

¹⁶ See, e.g., Stacy Cowley, *Zelle, the Banks’ Answer to Venmo, Proves Vulnerable to Fraud*, N.Y. TIMES, April 22, 2018.

¹⁷ This is the “third-party doctrine.” See *United States v. Miller*, 425 U.S. 435 (1976) (holding that financial records given to a third-party financial institution receive no Fourth Amendment protection). Also, bank accounts can be garnished or levied by creditors, including federal government agencies acting in their creditor capacities. FedAccounts would be no more readily garnishable than commercial bank accounts.

¹⁸ See Brian Monroe, *After Upbeat Congressional Hearing, FinCEN Could Get Help in Information Sharing, Hiring, GTOs*, Assoc. of Cert’d Fin. Crime Specialists, May 5, 2017.

¹⁹ Internal Revenue Manuals Part 10, Security, Privacy and Assurance.

²⁰ See, e.g., 2017 Annual Privacy, Data Mining, and Section 803 Reports *passim*, Dep’t of the Treasury (describing measures implemented by the IRS, among other departments, in privacy protection and compliance).

is carefully limited and tracked within the agency,²¹ and unauthorized disclosure and even inspection are criminal offenses punishable by imprisonment²² in addition to civil damages, including punitive damages.²³ In creating a legal and logistical framework for privacy protection, the IRS could serve as a useful model for FedAccount. The Fed’s unmatched level of administrative independence supplies an extra layer of protection in this regard; unlike the IRS, the Federal Reserve Banks are not part of the executive branch.

Let me conclude by comparing FedAccounts to other approaches to implementing a digital dollar. Over the past few years, central bankers around the world have become increasingly worried that privately controlled digital currencies, like Facebook’s Libra, will relegate them to the sidelines of monetary affairs. To avoid this fate, central banks have been studying, and in some cases actively pursuing, issuing digital currencies of their own: so-called central bank digital currency (CBDC). China’s digital yuan is reportedly in pilot runs.²⁴

The FedAccount system *is* a CBDC—it is a digital dollar—but it differs from most CBDC proposals. Those proposals typically envision a closed system of digital wallets that is segregated from the existing system of money and payments, further balkanizing dollar-based payments. Oftentimes CBDC proposals foresee a digital dollar based on distributed ledger technology, like the blockchain technology that undergirds Bitcoin and (prospectively) Libra.²⁵

²¹ See Alan Rappeport, *Will a Leak Reveal Trump’s Tax Returns? Don’t Hold Your Breath*, N.Y. TIMES, Mar. 9, 2017.

²² See 26 U.S.C. § 7213(a)(1) (disclosure); 26 U.S.C. § 7213A (inspection).

²³ See 26 U.S.C. § 7431.

²⁴ Aditi Kumar & Eric Rosenbach, *Could China’s Digital Currency Unseat the Dollar?*, FOREIGN AFFAIRS, May 20, 2020.

²⁵ See, e.g., Tommaso Mancini-Griffoli et al., *Casting Light on Central Bank Digital Currency*, IMF STAFF DISCUSSION NOTE, Nov. 2018, at 29 (describing a CBDC design involving “preloading tokens onto a wallet”); Benoit Cœuré, *The Future of Central Bank Money*, speech at the International Center for Monetary and Banking Studies, Geneva, May 14, 2018 (“[C]entral banks today could make use of new technologies that would enable the

By contrast, FedAccounts, like existing reserve accounts that banks maintain at the Fed, would be fully integrated and seamlessly interoperable with the mainstream payment system—a significant advantage. FedAccounts would also rely on low-cost, reliable systems and technologies that the Federal Reserve has used successfully for decades.

To conclude, FedAccounts have the potential to deliver an array of transformative public policy benefits, both within and outside of times of crisis. The proposal deserves serious consideration from Congress. Thank you again for the opportunity to testify today at this important hearing. I look forward to answering your questions.

introduction of what is widely referred to as a ‘token-based’ currency—one based on a distributed ledger technology (DLT) or comparable cryptographic technology.”).