# Central Banking for All: A Public Option for Bank Accounts

By Morgan Ricks, John Crawford, and Lev Menand* | June 2018

THE GREAT DEMOCRACY INITIATIVE

Among the perks of being a bank is the privilege of holding an account with the central bank. Unavailable to individuals and nonbank businesses, central bank accounts pay higher interest than ordinary bank accounts. Payments between these accounts clear instantly; banks needn't wait days or even minutes for incoming payments to post. On top of that, central bank accounts are pure money—economically equivalent to dollar bills—meaning they are fully sovereign and nondefaultable no matter how large the balance. By contrast, federal deposit insurance for ordinary bank accounts maxes out at $250,000[1]—a big problem for institutions with large balances.

The time has come to end this special privilege of banks.[2] We propose giving the general public—individuals, businesses, and institutions—the option to have a bank account at the Federal Reserve. We call it a FedAccount. FedAccounts would offer all the functionality of ordinary bank accounts with the exception of overdraft coverage. They would also have all the special features that banks currently enjoy on their central bank accounts—including unlimited secure balances, instant in-network payments, and a higher interest rate—as well as some additional, complementary features.

The FedAccount program would bring genuinely transformational change to the monetary-financial system, in ways both obvious and unexpected. Perhaps most obviously, it would foster financial inclusion. Today, millions of "unbanked" and "underbanked" households are partially or fully excluded from bank accounts, leading them to rely on costly and inconvenient service providers like check cashing outlets. FedAccounts, properly structured, would be a money-and-payments safety net for such households, lessening their reliance on expensive and subpar alternatives.

But FedAccounts would have benefits across the income and wealth spectrum. For small and large businesses as well as individuals, the boost in interest paid on central bank accounts, the immediate clearing of payments, and (for those

exceeding the deposit insurance limit) the nondefaultable status of balances would be transformative. Consumers and retailers would also benefit because the Federal Reserve would not charge interchange fees on debit card transactions. Further, free instant payments among FedAccount holders would create network effects: the system's value to existing users would rise as more users joined. For all these reasons, we expect that take-up would be robust.

If adopted on a large scale, FedAccounts would bring about less obvious, but no less profound, *systemic* changes. Financial stability would be dramatically enhanced: we expect that FedAccounts would crowd out unstable, privately issued deposit substitutes, which are one of the driving forces behind financial instability. Monetary control and monetary policy transmission would improve: current problems with "pass through" of policy rates would diminish or disappear. And far from being fiscally expensive, we expect FedAccounts to *generate* revenue for the federal government—possibly a lot of it—all while imposing minimal or potentially zero user fees.

Below, we describe the FedAccount proposal (or just "FedAccount") and its benefits.[3] We also describe its structural implications and compare it with other banking reform proposals. Finally, we consider costs and objections.

## The FedAccount Proposal

All U.S. citizens, residents, and domestically domiciled businesses and institutions would be eligible for FedAccounts. 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. FedAccounts might also offer checkbooks for a small fee.

There would, however, be some key differences between FedAccounts and standard bank accounts:

1. *No fees or minimum balances.* FedAccount fees would be minimal or zero. There would be no minimum balances or other policies that exclude the currently unbanked. Applicants would not be screened based on credit scores or similar metrics. No one would be denied an account based on profitability considerations.

2. *Interest on balances.* FedAccounts would pay the same interest rate that commercial banks receive on their balances, currently 1.75%

(versus a mere 0.05% average rate on ordinary checking accounts and 0.08% on savings accounts today).[4]

3. *Real-time payments*. Payments *between* FedAccounts would clear in real time, just like interbank payments processed by the Fed. A user-friendly web and smartphone interface would support free and instant peer-to-peer payments between FedAccount holders. The system would work like existing popular peer-to-peer payment services (Venmo, Square Cash) except that users would never need to "cash out" their balances to a bank account: FedAccount is a bank account.

4. *No interchange fees*. The central bank would not charge interchange fees in connection with debit card payments. This would reduce or eliminate an implicit tax on retailers and consumers.

5. *Pure money*. FedAccount balances would be fully sovereign money, just like reserve balances that commercial banks hold. There would be no possibility of default on balances of any size. Deposit insurance would be superfluous.

Although modern telecommunications and information technology—including the internet, mobile communication networks, payment card terminals, and smartphones—have made physical payment media less and less relevant to everyday transactions,[5] we propose enlisting the physical plant and personnel of the U.S. Postal Service to interface with the public on behalf of FedAccount. Fed ATMs installed at post office locations, and possibly also trained postal clerks, could handle cash deposits and withdrawals as well as check deposits (for those not using smartphone-based image capture) for FedAccount holders. Note that FedAccount would not be a *lending* program; we do not envision the Fed providing credit directly to individuals or businesses.

## Benefits

It is remarkable just how many seemingly disparate problems FedAccount would mitigate or outright solve:

***Financial inclusion***. Seven percent of U.S. households are currently "unbanked," meaning that no individual in the household has a bank account.[6] Another twenty percent of U.S. households are "underbanked," meaning that, despite having a bank account, they rely to some degree on expensive nonbank services—such as nonbank money orders, check cashing, and payday loans—for payments and other financial needs.[7] FedAccount would not have any fees or minimum balance requirements and would be marketed explicitly as a public service, open to all. It would attract millions of people who currently choose not to or are not able to maintain bank accounts. Greater inclusion would also reduce

payment-related costs for businesses (both in processing payroll and in receiving customer payments) and for the government (by easing administration of benefits transfers and tax refunds). Money is often described as a public good, and FedAccount would bring this conception to full realization by transforming the U.S. account-money system into public infrastructure akin to roads, sidewalks, public libraries, the judicial system, and law enforcement.

***Payment speed and efficiency***. FedAccount would reduce payment system frictions. While the Fed uses real-time settlement for interbank transfers, retail payment networks in the United States are far slower. Checks still take up to two days to clear.[8] Even wire transfers do not settle until the end of the day, and credit card payments may not settle for up to two days.[9] By comparison, Japan has had real-time payments since 1973 and other many countries, including South Africa, Singapore, India, and the United Kingdom, have transitioned to real-time retail payments in recent years.[10] Payment delays are costly for the economy as a whole and are especially so for households living paycheck to paycheck.[11] FedAccount payments would clear instantly for in-network users; any payment from one FedAccount to another would clear in real time, just like interbank payments have for decades.

***Financial and macroeconomic stability***. FedAccount would bolster financial and macroeconomic stability—maybe dramatically. It is no exaggeration to say that FedAccount could rival the 1933 advent of federal deposit insurance as a stabilizing force. By making pure sovereign money widely available in "account" form, FedAccount would crowd out runnable cash equivalents, all but eliminating a primary cause of macroeconomic disasters.[12] History has shown time and again that runnable cash equivalents—basically, the financial sector's short-term and demandable debt—present a grave threat to the broader economy. While deposit insurance basically ended runs on deposits, modern panics have involved runs on institutional deposit substitutes, like repo, Eurodollars, and money market mutual fund shares. FedAccount would offer a compelling alternative to private cash equivalents: pure sovereign money paying the interest-on-reserves rate, an asset currently available only to banks.

***Monetary policy transmission and reducing subsidies to banks***. If broadly adopted, FedAccounts would improve both the efficacy and the distributional fairness of monetary policy. In late 2008 the Fed started paying interest to banks on their central bank accounts. These interest payments, called interest on reserves or IOR, are now the Fed's primary tool for monetary policy. The theory is that IOR will "pass through" to market interest rates, allowing the Fed to control inflation and influence macroeconomic conditions. Problematically, pass-through has been lackluster, and weak pass-through raises two big problems: it hamstrings monetary policy and gives banks a windfall at the public's expense. Entities receiving IOR but not passing it through are extracting economic rents. In other words, the Fed is effectively subsidizing banks by paying them tens of billions of dollars per year.[13] Broad adoption of FedAccounts would ameliorate or eliminate these problems, as the Fed would pay the IOR rate

directly to individuals and nonbank businesses and institutions rather than seeking to "pass" it through banks.

***Eliminating fees (interchange)***. FedAccount would not charge any fees on payments. U.S. banks currently receive fees—"interchange fees"—when their debit cards are used in transactions. These fees amount to a tax on merchants and consumers. The Fed can avoid these fees by bypassing existing card networks. The Fed already processes payments by its account holders through Fedwire, its venerable real-time payments network. Fedwire currently processes payments to the tune of $3 trillion *per day*.[14] If the Fed processed payments from FedAccounts for free, merchants would pay no interchange or network fees when accepting payment via FedAccount-linked debit cards, provided they routed such payments to Fedwire. Reducing aggregate interchange fees would be a boon to merchants, and particularly to small businesses that can't negotiate with card networks for special interchange rates. Ultimately the benefits would also be passed along to consumers in the form of lower prices for goods and services. Peer-to-peer payments between FedAccounts would likewise be processed for free, as would wire transfers and bill payments from FedAccounts. By removing all per-transaction fixed and ad valorem fees from payments, FedAccount would create a frictionless system, like email.

***Regulatory streamlining***. FedAccount would open up opportunities to rationalize and simplify the existing U.S. financial regulatory regime. For example, many rules that have been promulgated since the financial crisis are directly or indirectly geared toward limiting financial institutions' fragile short-term debt funding.[15] By crowding out this fragile funding model, FedAccount would reduce or eliminate the need for these complicated regulations. Rules have also been developed to impose enhanced prudential standards on firms that the market might perceive as "too big to fail."[16] One side effect of FedAccount would be to reduce the size of the largest U.S. financial institutions. To the extent that these firms, due to their size and wide range of activities, are harder to supervise[17] or enjoy subsidies because of a market perception that they are too big to fail,[18] FedAccount would bring them more in line with other large regional banks and reduce their systemic importance.

***Fiscal revenue (seigniorage)***. Rather than weigh on the government's fiscal position, we expect FedAccount to generate revenue. 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 $98 billion, $92 billion, and $90 billion in earnings to the U.S. Treasury Department in 2015, 2016, and 2017, respectively.[19] Because FedAccount would probably greatly expand the Fed's balance sheet, these remittances could easily double or triple, even *after* accounting for the costs of maintaining millions of retail accounts. Incremental portfolio earnings would almost certainly dwarf FedAccount expenses, especially if FedAccounts proved attractive to businesses and institutions as we expect. Not only would this additional fiscal revenue not be economically distortive, we think

it would actually *remove* existing distortions by reducing implicit subsidies or "economic rents" that the financial system extracts from the public sector.

***Increasing trust in government***. FedAccount would give individuals, businesses, and institutions a direct and tangible benefit from government. At a time with trust in government institutions is low, FedAccount could be not only an example of a government program that works—and works well—but also a financial reform policy that has a tangible impact on huge swaths of the American public.

## Structural Implications

### Banking, Central Banking, and "Intermediation"

Large-scale adoption of FedAccounts would require a permanently large central bank balance sheet. We view this as a feature not a bug, but it would force some choices regarding the Fed's asset portfolio. Broad migration to FedAccounts would require the Fed to extend discount window loans, at least temporarily, to offset banks' lost deposit balances. (To the extent that bank deposits and their close substitutes are currently implicitly or explicitly guaranteed by the federal government, the government would *not* assume new credit risk as a result of this lending.) The Fed might choose to gradually wind down these loans over time, substituting other assets like Treasury securities. But the Fed might also see considerable upside in keeping a substantial quantity of discount window credit outstanding indefinitely. This can be understood as portfolio management outsourcing, which could improve resource allocation while also insulating the central bank's investment function from the appearance or reality of political meddling and favoritism.

Importantly, migration to FedAccounts should not be expected to affect the quantity or cost of credit in the broader economy. There is strong empirical evidence of a disconnect between banks' lending rates and their deposit costs. Specifically, bank deposit rates respond asymmetrically to moves in the fed funds rate: when the fed funds rate declines, banks quickly reduce deposit rates, but when it rises, banks are very slow to raise deposit rates.[20] (According to one study, sluggish deposit rate adjustments cost depositors *$100 billion per year* during rising rate environments.[21]) By contrast, the prime rate (the standard bank lending benchmark) adjusts instantly when the fed funds rate rises. It seems that banks capture much of the benefit of cheap deposit funding rather than "passing it along" to borrowers. Even if some of this bonus does get passed along, it is far from obvious that subsidizing *banks'* funding is a good way of administering desired credit subsidies (if any); other methods of subsidization avoid this kind of rent capture. Finally, if bank lending rates did rise post-migration and this had a *macroeconomic* impact, the central bank would respond with monetary easing, reducing borrowing rates for all borrowers without rent capture by banks.

## Relation to Other Reform Proposals

***Narrow banking.*** Narrow banking proposals are a perennial favorite among economists. These proposals aim to stabilize banking by restricting bank asset portfolios to super-safe assets. In the original and purest narrow banking proposal—called full-reserve banking or the Chicago Plan—deposit banks would own nothing but pure sovereign money: currency and central bank balances.[22] Full-reserve banks would essentially be cash warehouses. Modern narrow banking variants would give deposit banks slightly broader investment powers, allowing them to invest in extremely safe securities like Treasury bills.[23]

There is a sense in which FedAccounts, if broadly adopted, would modernize the original Chicago Plan by cutting out the middlemen. Rather than holding accounts at full-reserve banks—pass-through vehicles for government-issued money—people and businesses would just hold their accounts directly with the central bank. Economically, these approaches amount to the same thing. As noted above, today's increasingly paperless money-and-payment system means that an extensive brick-and-mortar banking presence is no longer required to service payments. The Chicago Plan's stability objectives can thus be achieved without any full-reserve "banks."

***Central bank "digital" and "crypto" currencies***. Central bank digital currencies (CBDCs) are a hot topic, but there is a frustrating lack of consensus as to what they are good for or even what they are exactly. Under some CBDC definitions, central bank accounts *are* CBDCs since they consist of "digital" ledger entries at the central bank. FedAccounts would therefore be CBDCs. But this is just semantics, and we see no advantage in using terms like "digital currency" or "digital wallet" in referring to central bank accounts, as opposed to more traditional terminology.

Others define CBDCs in terms of "distributed ledger" technology, exemplified by the blockchain technology that undergirds Bitcoin and other cryptocurrencies. In a typical version of this, the central bank would establish the distributed ledger and commit to redeem the associated "digital currency" for traditional base money on request. Given that much of the excitement about distributed ledgers arises from distrust of government and of central intermediaries, the central bank's role here seems strange. Besides, in their current forms distributed ledgers are painfully slow and costly compared with centralized systems like Fedwire.[24] And from a practical standpoint, FedAccount offers at least one enormous, decisive advantage over distributed-ledger CBDCs: FedAccounts would plug seamlessly into our existing, ubiquitous, time-tested money-and-payments system, rather than requiring widespread adoption of new, unfamiliar, and possibly unsound technologies.

***Postal banking***. Postal banking proposals would enlist the facilities, personnel, and civic mandate of the U.S. Postal Service to provide some financial services to

those whose needs are not met by banks.[25] The postal system boasts ubiquity, particularly in towns and neighborhoods where bank branches are closing.[26] Postal banking is well established in other countries[27] and has historical precedent in the United States.[28] The U.S. Postal Service already offers a few financial services, such as money orders.[29] Postal banking proposals would augment these services to include provision of prepaid, reloadable debit cards, savings account products,[30] and small-dollar loans.[31] The postal service would likely partner with one or more banks to provide these services.[32]

Postal banking is a worthy policy measure—but when it comes to money and payments, FedAccount is far better. Postal banking does not offer the myriad transformative benefits (apart from inclusion) described above: financial stability, payment speed and efficiency, monetary policy transmission, eliminating transaction tolls, seigniorage recapture, and regulatory streamlining. Further, the cost burden on the postal service would be substantial since it would service small accounts only. By contrast, because FedAccount would attract large accounts in addition to small ones, system revenues would be substantial, almost certainly covering system costs by a very wide margin.

Unlike postal banking, FedAccount does not have a consumer lending component. FedAccount therefore is not a robust response to the *credit* needs of low-income households. FedAccount is, however, compatible with consumer lending programs; indeed, small-dollar lending through the post office could easily coexist with FedAccount.

## Costs and Objections

This section addresses potential objections to and costs of FedAccount. None of the objections come close to undermining the case for FedAccount, and we do not think the costs are remotely substantial enough to outweigh the massive benefits described above.

***Institutional competence***. Some may question whether the Fed or for that matter any governmental organ has the institutional competence to manage a system like FedAccount. We do not share these qualms. At bottom FedAccount is a system for payments and accounts: a ledger combined with processes and protocols for debiting and crediting balances. The Fed already does this very efficiently on a huge scale. Today it maintains account liabilities totaling about $2.5 trillion,[33] and it has vast and longstanding expertise in transaction processing.[34] While the Fed does not have experience in *retail* operations, all sorts of governmental entities already interface directly with the public. Notably, the U.S. Treasury Department processes over one billion payments per year and disburses benefits to millions of Social Security and pension recipients each month. Treasury also settles claims resulting from forged, lost, and stolen benefit checks and collects monies from parties liable for fraud.[35] Following the botched roll-out of healthcare.gov, the Executive Office of the President set up the U.S. Digital Service ("USDS"), which recruits top technologists for term-limited tours

of duty in the federal government. USDS has dramatically improved direct services in areas ranging from the Education Department's $1 trillion student loan program to the Department of Homeland Security's immigration program.[36] The USDS could be enlisted to help set up FedAccount's consumer interface.

***Law enforcement and counterterrorism***. The Bank Secrecy Act of 1970,[37] as amended by the PATRIOT Act,[38] requires financial institutions to assist the government in preventing money laundering, countering terrorist financing, and addressing other suspicious financial activity. The Secretary of the Treasury, acting through the Financial Crimes Enforcement Network (FinCEN), administers these laws and has promulgated rules requiring banks to file currency transaction reports for transactions exceeding $10,000 and suspicious activity reports for behavior suggesting money laundering, tax evasion, or other illicit activity.[39] Banks must also conduct customer due diligence before opening new bank accounts.[40] The Fed is already intimately familiar with these rules since it helps enforce them for the banks it regulates. Although we expect BSA/AML compliance to be one of the biggest FedAccount expenses (alongside fraud protection and cybersecurity—see below), we foresee FedAccount ultimately reducing BSA/AML compliance expenditures for the financial sector as a whole,[41] owing to economies of scale and reductions in duplicative AML reviews.[42]

***Cybersecurity and fraud prevention***. Cybersecurity and fraud prevention for FedAccounts would place a significant new burden on the Fed. We expect that criminals, fraudsters, and opportunistic hackers would target FedAccounts just as they target existing retail banks and payment networks. The Fed already runs a highly secure information technology system with expert cyber-defense capabilities at the *system* level.[43] But even the most robust perimeter security would not stop customers from compromising their *individual* accounts—misdirecting funds, losing their passwords, or falling prey to malicious actors.[44] Such an effort, however, is not as far from the government's core competence as it might seem. Not only does the Fed already have experience protecting its existing payments systems, but other executive branch departments have taken an increasingly large role in helping retail banks protect their own systems.[45] 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. Of course, the Fed would not succeed in detecting or preventing all fraud, and we expect that the Fed would have to insure consumer losses, just as private banks do now.

***Privacy and civil liberties***. Managing citizens' bank accounts implicates their privacy and civil liberties. There is a risk that governmental actors could abuse the information or inadvertently or deliberately share it with third parties. While these concerns are legitimate, 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,[46] and while federal statutory law does provide some basic privacy coverage for financial records,[47] Congress has chosen over time to strike a balance between privacy concerns and other priorities, especially crime prevention and national security. Moreover, federal government

agencies are not exempt from privacy law and policy—far from it. The Federal Reserve is already subject to the Privacy Act of 1974,[48] the "grandfather of federal privacy,"[49] which requires government agencies to protect data they possess on individuals. And more stringent privacy protection can be brought to bear if desired. A highly pertinent example here is the Internal Revenue Service (IRS). Federal income tax records "are among the most protected pieces of personal information; laws strictly circumscribe law enforcement access to tax records."[50] The IRS has adopted comprehensive policies and procedures to protect private data[51] and invests heavily in compliance.[52] Data access is carefully limited and tracked within the agency,[53] and unauthorized disclosure and even inspection are criminal offenses punishable by imprisonment[54] in addition to civil damages, including punitive damages.[55] In creating a legal and logistical framework for privacy protection, the IRS could serve as a useful model for FedAccount. Finally, it bears repeating that FedAccount provides a public *option*. Those not comfortable with the Fed possessing their bank statements need not open an account.

***Fintech as an alternative***. Greater financial inclusion and payment efficiency are central benefits of the FedAccount program, but one may query whether technological advancements in the private financial sector—so-called "Fintech"—cannot achieve similar benefits.[56] We are not inclined to wait for this to happen. Other countries have achieved impressive financial inclusion and payment system efficiency without waiting passively for technological solutions. Recent Fintech developments have in some ways exacerbated U.S. payment system fragmentation, and they overwhelmingly serve those who were already "banked." And even if Fintech offered meaningful improvement along these dimensions, FedAccount offers a host of other benefits that no Fintech solution could realistically match: bolstering financial stability, improving monetary policy transmission, eliminating interchange fees, promoting financial regulatory simplification, and enabling the government to recapture seigniorage. While continuing Fintech innovations are welcome, they should not serve as an excuse for public policy stasis.

***Regulation as an alternative***. Another potential way to achieve financial inclusion is by regulatory mandate. In Canada, for example, banks are required to open accounts for applicants unless an enumerated exception applies.[57] Ninety-nine percent of Canadian households have full access to banking services. This would be a plausible approach to advancing financial inclusion in the United States, although fragmentation in the U.S. banking system and the paucity of trust in banks among underserved populations could limit the effectiveness of such a mandate. But, as with Fintech, a regulatory mandate to serve all customers would fail to yield the assorted other benefits of FedAccount, many of which would be difficult or impossible to achieve through regulatory means. And it goes without saying that FedAccount can coexist with and even complement regulatory measures to improve financial inclusion.

***Effects on lending, small banks, and financial innovation***. How would FedAccount affect private provisioning of financial services? FedAccount *might* increase costs of credit by removing distortive subsidies from banks' funding—but that would almost certainly be a *good* thing. In this regard, it is crucial to keep in mind that lending markets are competitive. Deposit banks have no monopoly on extending credit; they coexist with myriad other financial institutions that make loans and buy bonds. If profitable lending opportunities exist, the market should be expected to ferret them out. Relatedly, while some may be concerned that FedAccount would adversely affect small banks, we see no reason to expect any disparate impact. Large-scale migration to FedAccounts would require large and small banks alike to seek alternative funding, and discount window credit would be available to each. To the extent that small bank subsidies are desired, rates on discount window credit could be graduated. Nor do we worry that FedAccount would chill or undermine private sector innovation in financial services. Among other things, the Fed can adopt an open application programming interface (API) functionality that would allow third-party developers to design applications for FedAccount, thereby opening up avenues for innovation. And if private businesses can offer money-and-payment solutions that are superior to FedAccount, there is nothing to stop them from doing so.

***Political obstacles***. FedAccount would require legislation. While existing law empowers the Fed to lend to individuals and nonbank businesses,[58] it does not authorize the Fed to provide them with transaction accounts. The required amendments, however, would be minor. The Fed is already authorized to maintain accounts for depository institutions as well as for the U.S. government and certain of its instrumentalities, certain government-sponsored enterprises, and certain financial market utilities.[59] We propose that this list be expanded to include all U.S. persons[60]—and that the Fed be required to provide accounts to all qualifying applicants. Additionally, existing law empowers the Fed to pay interest on balances maintained "by or on behalf of a depository institution."[61] We propose that this provision be adjusted to empower the Fed to pay interest on balances maintained by all U.S. persons, and to require it to pay a uniform rate to all its account holders.

While the required legislative fixes may be minor, FedAccount would represent a major change in our financial and monetary architecture. Big changes in financial architecture are politically challenging, but we see reason for optimism in this case. Aside from banks and certain shadow banking institutions whose existing business models FedAccount would disrupt, practically every other segment of the American economy is likely to benefit. FedAccount would offer a free public option in banking to all U.S. residents without increasing their taxes or compelling them to switch. It would reduce or eliminate the regressive tax on retailers and consumers implicitly created by debit card interchange fees. Because it would meaningfully augment the Fed's annual remittance to the Treasury by reducing economic rents, FedAccount would appeal to deficit hawks. It would also appeal to institutional investors and businesses large and small because the program would greatly simplify cash management while offering

higher interest payments on cash balances and faster payment speeds. Given these benefits and others, it is easy to see how FedAccount could garner widespread political support.

## Concluding Thoughts

Money is an essential aspect of statecraft, and monetary dysfunction has played a persistent and crucial role in U.S. history, not to mention the histories of other countries and eras. From "not worth a Continental," to the Founders' knock-down battles over a national bank, to President Jackson's Bank War, to greenbacks and the *Legal Tender Cases*, to Populists, free silver, and the "cross of gold," to the upheavals of the Great Depression, to the rise of shadow money, the panic of 2008, the bailouts, the Great Recession, and the political convulsions that followed—monetary affairs have been central to our history and politics.

We think a better approach is now within reach, and getting there would not be all that difficult. FedAccount would reshape the sovereign "account money" system into an open access resource, just like the sovereign physical currency system. The effects would be transformative along multiple dimensions, as we have described. And one final advantage deserves mention. For most Americans, the central bank is an obscure and remote institution to which they feel little if any connection. With FedAccount, people would experience this organ of the federal government working directly for them. As we noted above, we think FedAccount could play some role, however modest, in restoring doubting Americans' faith that the government can make a positive difference in their daily lives. This would be no small accomplishment.

# Endnotes

[*] Morgan Ricks is a professor of law at Vanderbilt Law School, and was previously a senior policy advisor at the U.S. Treasury Department. John Crawford is a professor of law at the University of California Hastings College of the Law. Lev Menand served as Senior Advisor to the Deputy Secretary of the Treasury from 2015 to 2016 and previously worked for the Assistant Secretary for Financial Institutions.

[1] *See* 12 U.S.C. § 1821(a)(1)(E).

[2] 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 we omit here. We just say "banks" in the main text for expositional convenience.

[3] For related work that has influenced our thinking, see MEHRSA BARADARAN, HOW THE OTHER HALF BANKS (2015); Mehrsa Baradaran, *Banking and the Social Contract*, 89 NOTRE DAME L. REV. 1283 (2014); James Tobin, *The Case for Preserving Regulatory Distinctions, in* RESTRUCTURING THE FINANCIAL SYSTEM 167 (1987); Aleksander Berentsen & Fabian Schär, *The Case for Central Bank Electronic Money and the Non-case for Central Bank Cryptocurrencies,* 100 FRBSL REV. 97 (2018); Paul Tucker, *The Political Economy of Central Banking in the Digital Age*, SUERF Policy Note Issue No. 13, June 2017; Robert C. Hockett & Saule T. Omarova, *The Finance Franchise*, 102 CORNELL L. REV. 1143 (2017). Recently, the idea of public access to central bank accounts has percolated into public discourse. *See, e.g., Central Banks Should Consider Offering Accounts to Everyone*, THE ECONOMIST, May 26, 2018; Martin Sandbu, *Visa Glitch Shows It Is High Time for Digital Cash,* FIN. TIMES, June 4, 2018.

[4] *See* Weekly National Rates and Rate Caps, FDIC, as of June 4, 2018.

[5] *See* Geoffrey R. Gerdes, *Recent Payment Trends in the United States*, 94 FED. RES. BULL. A75, A75 (2008) (noting that electronic payments exceeded the number of check payments for the first time in 2003).

[6] *See* 2015 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS 13 (2016).

[7] *See id.*

[8] *See* Faster Payments Task Force, *The U.S. Path to Faster Payments Final Report Part 1: The Faster Payments Task Force Approach*, Appendix 3, at 52–54 (2017).

[9] *See id*.

[10] *See id.* at 30.

[11] *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, Nov. 22, 2017.

[12] *Cf.* Robin Greenwood, Samuel G. Hanson & Jeremy C. Stein, *The Federal Reserve's Balance Sheet as a Financial-Stability Tool, in* ECONOMIC POLICY SYMPOSIUM PROCEEDINGS (Federal Reserve Bank of Kansas City, 2016) (proposing that the Fed use its balance sheet to weaken incentives for financial institutions to issue runnable short-term liabilities).
[13] *See* Ann Saphir, *Yellen Draws Fire for Fed Policy to Pay Banks*, REUTERS, Feb. 10, 2016; *Is the Federal Reserve Giving Banks a $12 Billion Subsidy?* THE ECONOMIST, Mar. 18, 2017. The dollar amounts are likely to be much bigger in the future as rates continue to rise; Fed economists have projected IOR payments totaling $50 billion in 2019. *See* Erin E. Syron Ferris, Soo Jeong Kim & Bernd Schlusche, *Confidence Interval Projections of the Federal Reserve Balance Sheet and Income*, FEDS Notes, Board of Governors of the Federal Reserve System, Jan. 13, 2017, fig. 5.
[14] *See* Fedwire Funds Service – Monthly Statistics, available at www.frbservices.org.
[15] *See* 12 U.S.C. § 5321 (establishing the Financial Stability Oversight Council); 12 U.S.C. § 5322 (empowering the FSOC to designate nonbanks for heightened supervision); Proposed Rule, Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements, 81 Fed. Reg. 35,124 (June 1, 2016) (to be codified at 12 C.F.R. pt. 249).
[16] *See, e.g.*, 12 U.S.C. § 5365 (providing for enhanced supervision and prudential standards for certain bank holding companies).
[17] *See* Lev Menand, *Too Big To Supervise: The Rise of Financial Conglomerates and the Decline of Discretionary Oversight in Banking*, 103 CORNELL L. REV. __ (forthcoming 2018).
[18] *See, e.g.*, Fin. Stability Oversight Council, *2011 Annual Report,* at 108–09; Gara Afonso, João A.C. Santos & James Traina, *Do "Too-Big-To-Fail Banks" Take On More Risk?*, 3 J. FIN. PERSP. 1 (2015).
[19] *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 2017, Jan. 10, 2018.
[20] *See* John C. Driscoll & Ruth A. Judson, *Sticky Deposit Rates,* FEDS working paper 2013-80, Oct. 1, 2013.
[21] *See id.*
[22] *See, e.g.,* MILTON FRIEDMAN, A PROGRAM FOR MONETARY STABILITY ch. 3 (1960); Henry C. Simons, *A Positive Program for Laissez Faire: Some Proposals for a Liberal Economic Policy*, *in* ECONOMIC POLICY FOR A FREE SOCIETY (1948); IRVING FISHER, 100% MONEY (1935); Adam Levitin, *Safe Banking: Finance and Democracy*, 83 U. CHI. L. REV. 357 (2016).
[23] *See, e.g.,* LAURENCE J. KOTLIKOFF, JIMMY STEWART IS DEAD: ENDING THE WORLD'S ONGOING FINANCIAL PLAGUE WITH LIMITED PURPOSE BANKING (2010); ROBERT E. LITAN, WHAT SHOULD BANKS DO? (1987); *see also* Gary Gorton & Andrew Metrick, *Regulating the Shadow Banking System*, BROOKINGS PAPERS ON ECON. ACTIVITY 261 (Fall 2010) (proposing a narrow bank regulatory model for the shadow banking system).
[24] *See, e.g.,* Ed Lin, *Bitcoin Can't Take a Bite Out of Visa, Mastercard*, BARRON'S, Mar. 28, 2018 (citing an analyst's report that "Visa can process 65,000 transaction messages per second, at full capacity, compared with fewer than 10 bitcoin transactions per second").
[25] *See* S.2755, A bill to amend title 39, United States Code, to provide that the United States Postal Service may provide certain basic financial services, and for other purposes,

115th Cong. 2017-18 [hereinafter Gillibrand Bill]; BARADARAN, *supra* note 3, at ch. 7; Providing Non-Bank Financial Services for the Underserved, White Paper, Office of the Inspector General, United States Postal Service, Jan. 27, 2014 [hereinafter 2014 White Paper]; The Road Ahead for Postal Financial Services, Report, RARC-WP-15-011, Office of the Inspector General, United States Postal Service, May 21, 2015 [hereinafter 2015 Report].

[26] *See* 2014 White Paper, *supra* note 25, at i–ii.

[27] *See id.* at Annex C.

[28] *See id.* at Annex A.

[29] *See id.* at ii.

[30] The Gillibrand Bill, *supra* note 25, would cap permissible postal savings accounts at the larger of (i) $20,000 and (ii) 25 percent of the median balance in all U.S. bank accounts.

[31] *See id.* (authorizing the post office to provide "low-cost, small-dollar loans, not to exceed $500 at a time, or $1,000 from 1 year of the issuance of the initial loan").

[32] While the Gillibrand Bill rules out a USPS bank charter, it states the post office may offer savings and checking accounts "alone or in partnership with depository institutions." *Id.* The postal service's own documents, however, lean pretty strongly toward a partnership with private banks. 2014 White Paper, *supra* note 25; 2015 Report, *supra* note 25.

[33] *See* Federal Reserve Statistical Release H.4.1, Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks, April 26, 2018.

[34] *See* THE FEDERAL RESERVE SYSTEM: PURPOSES AND FUNCTIONS (10th ed. 2016) at ch. 6.

[35] *See* Congressional Justification for Appropriations and Annual Performance Report and Plan: FY 2018, Department of the Treasury, Bureau of the Fiscal Service, at 18–19 (2017).

[36] *See* Report to Congress: Fall 2017, United States Digital Service (2017).

[37] 31 U.S.C. § 5311 et seq.

[38] Pub. L. No. 107-56, Title III, 115 Stat. 272, 296 (2001).

[39] *See* 31 C.F.R. § 1010.311 (filing obligations for reports of transactions in currency); *id.* at § 1010.320 (reports of suspicious transactions).

[40] *See* 31 C.F.R. § 1020.220.

[41] The expenditures are large. *See* Emma Dunkley, *Vetting Clients is a Complex Problem for Banks: Collective Database is One Potential Solution*, FIN. TIMES, Sept. 26, 2016 (noting that large financial institutions spend up to $500 million per year on KYC); Tim Lloyd, *2017 AML Year in Review*, ABA BANKING JOURNAL (January 2018) (noting that AML spending by U.S. firms is estimated to reach $8 billion per year).

[42] Numerous checks are typically performed today when people move money between accounts at different financial institutions. Eighty percent of AML compliance cost is dedicated to information gathering and processing, tasks that are performed for the same customers over and over again by different institutions. *See* Could Blockchain be the Foundation of a Viable KYC Utility? KPMG (2018).

[43] *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.

[44] *See, e.g.,* Stacy Cowley, *Zelle, the Banks' Answer to Venmo, Proves Vulnerable to Fraud*, N.Y. TIMES, April 22, 2018.

[45] For example, the Financial and Banking Information Infrastructure Committee (FBIIC) promotes public-private partnerships to "improve the reliability and security of the financial sector infrastructure." FBIIC Mission and History, available at www.fbiic.gov. *See also* Press Release, Fed Prepares for Next Phase of Payments Security Effort as Secure Payments Task Force Concludes, Mar. 1, 2018 (describing past and planned future collaborative efforts with industry).

[46] 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.

[47] 12 U.S.C. §§ 3401–22; 15 U.S.C. §§ 6801–09.

[48] 5 U.S.C. § 552a; 12 C.F.R. § 261a.

[49] Erin Murphy, *The Politics of Privacy in the Criminal Justice System*, 111 MICH. L. REV. 485 (2013).

[50] *Id.* at 513.

[51] Internal Revenue Manuals Part 10, Security, Privacy and Assurance.

[52] *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).

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

[54] *See* 26 U.S.C. § 7213(a)(1) (disclosure); 26 U.S.C. § 7213A (inspection).

[55] *See* 26 U.S.C. § 7431.

[56] See, e.g., Michael Barr et al., *Enhancing Anti-Money Laundering and Financial Access: Can New Technology Achieve Both?*, The Brookings Institution Center on Regulation and Markets, Working Paper, Apr. 2018 (exploring how Fintech might increase financial inclusion without sacrificing other priorities in the area of cross-border payments).

[57] The exceptions generally relate to fraud prevention. *See* Access to Basic Banking Services Regulations § 3 (2003) (issued pursuant to §§ 448.1(3), 458.1(2), and 459.4 of the Bank Act (2001)).

[58] *See* 12 U.S.C. § 347c.

[59] *See supra* note 2.

[60] Non-U.S. persons would continue to use private sector bank accounts, but U.S. subsidiaries of foreign businesses would be eligible for FedAccounts.

[61] *See* 12 U.S.C. § 461(b)(12).