

STEPPING BACK FROM THE BRINK – THE PROGRAMMABLE LEDGER.

Four democratic risks that arise when Digital IDs are coupled to CBDCs.

1. Digital IDs coupled to central bank digital currencies (CBDCs) enhance all-of-government oversight over private activity. Therefore, privacy issues in this document primarily concern government surveillance, including through backdoor access points.

2. CBDCs will be transferred electronically using pre-programmable smart contracts. Smart contracts are executable code. They can be deployed remotely or directly on Central bank ledgers. Three-party locks can be programmed whereby a third party can issue directions. The finance and technology (Fintech) industry will contract to governments to support the design and control of the digital infrastructure. Central bank papers anticipate that smart contracts will be deployed to achieve larger policy objectives. Smart contracts have potential to incentivise or disincentivise behaviour through the tethering of activities to access to CBDCs.

3. The potential for erosion of parliamentary oversight. The Reserve Bank of New Zealand (RBNZ), is, of course,

accountable to our sovereign democratic government. Conventional money creation through the budgetary (appropriations) process arises through processes of negotiation between Ministers, department heads and their staff and public lobbying. Private bank money creation through loans is a consequence of political and economic decision-making. Reserve bank power to create or release CBDCs would be at arm's length from these processes and remain largely confidential or secret in nature.

Unfortunately, much of the RBNZ's CBDC strategy development and consequent campaign has already been undertaken in secret. The RBNZ, a semi-independent government authority, is currently undertaking a major four-stage campaign to roll-out central bank digital currencies (CBDCs). The two final stages have not been publicly disclosed. It's unclear to what extent that Parliament and the Minister of Finance, Minister Responsible for the Treasury, has been informed of the Reserve Bank's CBDC strategy.

- 4. Continued increase in oversight and delegation of the production of strategy, policy and rules to the International Monetary Fund (IMF) and the Bank of International Settlements (BIS).** This can occur through global harmonisation and 'best practice' arrangements. Such arrangements can undermine the power of democratic governments. These institutions lead global policy on CBDCs; working closely with the 'Fintech' sector. These institutions are neatly situated to take advantage of delegation of powers, and the opportunities presented by interconnected Central bank ledgers.

PSGRNZ recommend: A minimum six-year moratorium.

TEN KEY PATHWAYS OF HARM

- 1) Adding another hat to the RBNZ's role could well be a recipe for democratic disaster.
- 2) How much power would the Bank of International Settlements hold over Central banks, including the RBNZ?
- 3) Early adopters of new technologies are not well placed to assess long-term, unanticipated and off-target risks.
- 4) Policy and legislation can end up being a Trojan horse for industry interests.
- 5) RBNZ claims rules will be transparent. However, smart contracts will be secret.
- 6) The combined power of Digital IDs and Programmable CBDCs is not considered.
- 7) Overarching policies and legislation have left out democratic values and principles.
- 8) Human rights are not taken into consideration, and smart contracts hold real potential for abuse of civil, constitutional and human rights.
- 9) There are constitutional and administrative law issues that must be addressed in public fora.
- 10) Decades of ignorance relating to fiscal policy has created a perfect storm for Central banks.

PSGRNZ consider that New Zealand should pause any development or trials of CBDCs and regard the inter-operable Digital ID-CBDC potential, with cautious skepticism. These technologies have not arisen in a response to public need. Rather, the policies, potential and resultant language about what can be achieved, have been driven by large institutions who have significant political and financial conflicts of interest, who are independent of democratic parliaments.

PSGRNZ recommend:

- A.** That a minimum 6-year moratorium, at least until 2030, is placed on any CBDC trial or project in New Zealand. This is in order to observe for an extended period of time how this technology and related financial system intersects with the political and democratic landscape, and impacts civil, constitutional and human rights in early adopting countries.
- B.** That the RBNZ is not granted authority to issue CBDCs until after 2030. That any parliamentary vote is taken after long-term observance of the impact in other jurisdictions, including impact on rights and freedoms.
- C.** That government agencies equally accept traditional identification, passports and drivers' licences in parallel with Digital ID's and should not, through the design of policy or online internet portals, favour Digital IDs over traditional primary forms of identification.
- D.** That the broad powers held by the Department of Internal Affairs requires some examination in the context of information sharing agreements between government agencies and the potential for Digital IDs and CBDCs to be deployed to fulfil political objectives.

These 4 recommendations are made because there is no expert independent comment on the implications of the inter-operability of this intended networked architecture. There is a dearth of research in academia. In the gap, management consultancies that are listed as a top 100 strategic partner of the World Economic Forum, an industry think-tank, should not step in and offer their services as a proxy for public-good expert review.