PSGR

Physicians & Scientists for Global Responsibility

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Submission

Digital cash in New Zealand

Submitted to the:

Reserve Bank of New Zealand

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PSGR would welcome an opportunity to speak to this submission.

Physicians and Scientists for Global Responsibility Charitable Trust (PSGR) works to educate the public on issues of science, medicine, technology (SMT). PSGR work to encourage scientists and physicians to engage in debate on issues of SMT, particularly involving genetics and public and environmental health.

In responding to the Reserve Bank of New Zealand (RBNZ), Digital cash in New Zealand Digital Cash (CBDC) Consultation, Physicians and Scientists for Global Responsibility Charitable Trust (PSGR) respectfully submit that both the Survey and the (different) Written Submission questions are not fit for purpose. They are exclusively couched in such a way as to limit critical appraisal that might concern broader issues of governance.

We include our discussion paper as an Annex.

> *PSGRNZ (2024) Stepping Back from the Brink: The Programmable Ledger. Four democratic risks that arise when Digital IDs are coupled to Central Bank Digital Currencies. Bruning, J.R., Physicians & Scientists for Global Responsibility New Zealand. ISBN 978-0-473-71618-9.*

In addition, the RBNZ have shaped the risk-benefit narrative for CBDC policy exclusively through their own framing, risk assessment and discourse. We observe no counter-debate from the academic, media and legal community. The public are being misled by such narrow rationale.

PSGRNZ identified that the release of CBDCs would expose the people and government of New Zealand to four democratic risks. The toggling of CBDCs with digital identities and biometric data expand government oversight, and enable actions to be undertaken at scale that are not easily traceable. The potential of these technologies creates risks for civil, constitutional and human rights, while the implications under constitutional and administrative law have been left off the policy table.[1]

The RBNZ's policy papers fail to address these wider governance concerns. There has been a remarkable absence of analysis or review by academic or legal experts that considers why central bank digital cash (CBDCs) may effectively erode the checks and balances, the necessary public accountability, that is essential for a functioning democracy.

A recent interview by the RBNZ official responsible for the CBDC consultation, Ian Woolford[2], reveals how Central banks claim that they must protect monetary sovereignty by securing the power to release CBDCs, but remain similarly unwilling to discuss the implications for trust in the digital New Zealand dollar should the Central bank take on powers to release a Central bank version, and how this might distort and undermine trust in the markets.

These risks are complex and long-term.

Parliament and other public sector officials are yet to seek independent enquiry on these broader governance issues. Contracting management consultants with a long history of co-operation with the financial and technology (Fintech) industries to launder policy and manufacture consent, cannot suffice.

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[1] PSGRNZ (2024) Stepping Back from the Brink: The Programmable Ledger. Four democratic risks that arise when Digital IDs are coupled to Central Bank Digital Currencies. Bruning, J.R., Physicians & Scientists for Global Responsibility New Zealand. ISBN 978-0-473-71618-9. Two-page summary. Easy read Executive Summary (Substack).

[2] Reidy, M. (July 19, 2024). Currency control? Why Reserve Bank of NZ and other central banks want digital money. New Zealand Herald.

In addition, the RBNZ have misleadingly communicated that they merely require public approval to take steps include start a trial (soft launch). Ministers and Parliament appear yet to be appraised of the potential for such CBDC-releasing powers to conflict with the RBNZ's already broad remit.

As a result of this failure to enquire by the broader legal and expert community, and RBNZ's narrow and biased perspective, the public and Parliament risk being misinformed and misled. PSGRNZ's enquiry revealed 'democratically existential' governance risks. As a result, PSGRNZ strongly recommend that:

> 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, at least two election cycles, 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.
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> B. That the RBNZ is not granted authority to issue CBDCs until after 2030. That any parliamentary vote is taken after a six-year period of observation of the impact on other jurisdictions, including impact on rights and freedoms.

As with many technologies, the wider interoperability is often dismissed at regulatory level. We consider that the democratic and governance risks presented by CBDCs are amplified because Central bank (RBNZ) CBDC accounts will be linked to digital identities, such as RealMe.

(Therefore PSGRNZ also additionally recommends that other forms of identification are accepted across government agencies and that an independent investigation is held into the potential abuse of power that may be enabled by government oversight of both CBDCs and digital IDs.)

The RBNZ's July 2024 Consultation.

The RBNZ have downplayed technical aspects which amplify the power of these technologies (which traverse ledger technologies, application programming interfaces, smart contracts, CBDCs and Digital IDs) in the consultation documents and completely ignored them in the survey and written response questions.

The Consultation documents and questions are narrowly constructed to guide the New Zealand public to comment on a range of issues that the RBNZ are prepared to discuss, and broadly constrains discussion on issues that may give rise to a broad uncertainty and risk.

Purpose

1. Do you have any feedback on the objectives for the digital cash to:
    i. ensure that central money is available to New Zealanders and allow it to be used digitally.
    ii. contribute to the innovation, efficiency and resilience of New Zealand's money and payments landscape.

i. Central bank digital money should not be available to New Zealanders. Digital cash is used across New Zealand at the retail level and there is no need for a Central bank/CBDC ledger tier.

The RBNZ seems to set aside or compartmentalise issues which conflict and contradict their CBDC campaign. As a Central bank the RBNZ not only responsible for monetary policy, but is financial markets regulator - responsible for oversight of the financial system and prudential regulation of banks, deposit-takers and insurance companies.

ii. The RBNZ can work to 'contribute to the innovation, efficiency and resilience of New Zealand's money and payments landscape' by working domestically and globally to ensure retail banks and other service providers innovate to improve the speed and efficiency of financial services and transactions, and particularly work to prevent cartel-like practices that squeeze out smaller players.

The efficiency and resilience of financial systems is dependent on a healthy amount of small financial actors, some medium and few large. Small financial actors are more likely to support local businesses and local innovation.

Unfortunately, the RBNZ appear seemingly unconcerned about these complex issues which can benefit from central government support, and more intent upon entering this market as a competitor.

The RBNZ can strategically work to prevent small shifts and decisions which lead to barriers in cash use, by businesses small and large. Where cash use is limited this reduces the resilience of financial systems, and leads to existential risks in times of emergency and/or outage.

2. Do you have any feedback on the digital cash principles of Uniform, Universal, Private, Reliable, and Orderly?

By answering this we infer consent for CBDCs, which we do not support. There is evidence, based on Bank of International Settlements white papers that the programmability (including smart contract) functions will enable targeted functions which contradict and conflict with the principles of uniform, universal, reliable and orderly.

The principle of private is dependent on whether the government declares a state of emergency, whether the policy or intelligence community declare a need to access account information. The principle of private is compromised by the coupling of CBDCs to digital identity information which also contains biometric data. This augments the potential for government institutions to access and take action to interfere with private accounts should the government wish to do so. While this can also be undertaken on private retail accounts, retail accounts are not so closely coupled to biometric data, and at scale (composable) functions are more difficult to achieve.

3. What are your biggest concerns with digital cash? What design changes, if any, could address your concerns?

Our biggest concerns regard CBDCs, not the misleadingly named 'digital cash'.

PSGRNZ have identified four democratic risks. These have been persistently ignored and set aside in RBNZ policy papers, this is not surprising, as RBNZ officials are seeking to limit public discussion of CBDC risks in order to secure public consent for these technologies.:

1. *Digital IDs coupled to CBDCs enhance all-of-government oversight over private activity.* Therefore, privacy issues in this document primarily concern government surveillance, including surveillance across government and 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 third party could be a government, corporation, United Nations agency or A.I. entity.

3. *The potential for erosion of parliamentary oversight.* New Zealand's Central bank, 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.
4. *Continued increase in oversight and delegation of the production of strategy, policy and rules to the Bank of International Settlements (BIS) and International Monetary Fund (IMF).* This can occur through mentoring, guidance, global harmonisation and 'best practice' arrangements. Such arrangements can undermine and erode the powers of sovereign governments. The BIS and IMF 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.

These extraordinary democratic and governance risks include a potential for surveillance at scale, and for actions at scale to be taken by the RBNZ and affiliated institutions, that may be contrary to the desires or interests of New Zealand people.

The RBNZ is reluctant to discuss the conflicts of interest that arise that may compromise that Central banks capacity to regulate markets impartially and even-handedly. RBNZ is not only responsible for monetary policy, the Central bank is financial markets regulator - responsible for oversight of the financial system and prudential regulation of banks, deposit-takers and insurance companies.

4. Benefits of digital cash

PSGRNZ consider that CBDCs contain no compelling additional benefits over traditional/existing digital cash that is held in retail bank accounts. We consider that broader governance and societal risks and uncertainties further diminish so-called benefits.

CBDCs are a direct liability of a central bank and they are held on Central bank controlled ledgers, i.e., they can be revoked. However, as we discuss in our paper, the programmability functions, the capacity for CBDCs to be revoked, for use to be constrained, for CBDCs to be time-limited are all risks that are presented by the Bank of International Settlements, by Fintech and Central banks as benefits. Retail digital cash and hard currency do not contain the same functionality.

As we discuss in our report (pages 52-53), the rhetorical tactic of using monetary sovereignty and increased financial inclusion as a rationale for CBDCs is an approach cut and pasted from global banks and the Fintech industry.:

> 'Monetary sovereignty and financial inclusion are the common rationale given by Central banks to justify the introduction of CBDCs. Concerns relating to 'monetary sovereignty'

were prompted by Facebooks' announcement in 2019 that they planned to release a digital currency. This resulted in the BIS, in that same year, establishing a unit to support Central bank CBDC work. Central bank officials were concerned that if CBDCs are not present, that there would be a risk from currency substitution by stablecoins whose value is fixed to a basket of currencies, and backed by a reserve of assets.

In October of the following year, the Bank of Canada, European Central Bank, Bank of Japan, Sveriges Riksbank, Swiss National Bank, Bank of England, Board of Governors of the Federal Reserve and Bank for International Settlements published a joint report. The joint report outlined the themes of monetary sovereignty and inclusion and the problem of a digital 'run' to foreign CBDCs. Central banks are worried that foreign, early adopter Central banks who release foreign CBDCs might displace them if they lag in issuing CBDCs.'

These actions and reports show no commensurate willingness by Central bank officials to situate the power to release CBDCs alongside existing roles and responsibilities. I.e. the excuse of monetary sovereignty has been taken in isolation from the responsibility to sustain cash (rather than let use erode) and to sustain trust in the New Zealand dollar (which is predominantly in digital form).
The RBNZ have compartmentalised their thinking.

5. Do you think digital cash can enable longer-term innovation for New Zealanders? And what innovative features in digital cash would you like to see?

As we responded in Purpose (ii) above we consider that the RBNZ is misleading the public if, as a Central bank, RBNZ officials recuse themselves from acting to ensure that retail digital cash supports innovation in retail digital cash environments. As we stated on page 87:

> 'PSGRNZ emphasises that innovation and advancements in global non-Central bank financial markets infrastructure design, including advances in the coordination (and networking) of global financial and retail markets using, for example, unified ledger technology which might create greater efficiencies in terms of faster transaction times at low cost in commercial retail and wholesale sectors – is a completely separate issue - from any policies relating to retail CBDC issuance.'

6. Do you think digital cash can improve payments reliability in New Zealand? And what reliability features would you like to see?

We consider that digital cash has no 'reliability' benefits or challenges that exceed retail digital cash challenges. Rather than the RBNZ creating its own private currency challenges we consider that a governance responsibility might involve the RBNZ supporting co-operation between all (not just exclusively selected groups) of consumer organisations, financial institutions and associated providers to ensure networks across New Zealand and globally.

7. How can digital cash support digital financial inclusion? And what features (technical, governance, standards, etc) are required to support digital inclusion and financial inclusion?

It is apparent that ‘financial inclusion’ is a (misleading) rhetorical ploy to garner support for CBDCs. New Zealand already has a high rate of financial inclusion, particularly as benefit recipients receive money digitally into their New Zealand bank accounts.

8. What problem could digital cash help you or your organisation address and what benefit could it bring?

In PSGRNZ’s discussion paper (Chapter 9) we dedicate a full chapter to discussing the appropriations and budgetary process as a political mechanism for allocating resources to ensure the benefit and wellbeing of New Zealand’s environment. The RBNZ does not want to discuss how this process is the accepted route of money creation to ensure that social, political, cultural, economic and environmental challenges are managed and stewarded.

We argue that it is misleading and inappropriate that the RBNZ would ask such a political question when it directly relates to the RBNZ seeking powers to control and release digital cash. Even discussions relating to universal basic income, and funding environmental challenges (such as how we design strategies to support farmers through drought, and research appropriate agricultural crops and farming patterns, for example that reduce drought risk) should be allocated through political discussion, and through the budgetary and appropriations process.

This question perhaps hints that the RBNZ, as unelected officials, are seeking to expand their powers in such a way that is inappropriate in a democracy.

Strategic design

9. Future stages of work will continue to refine the design details of digital cash and its ecosystem, including governance arrangements. To assist us we would like feedback from industry or possible partners.

10. Do you have feedback on the design models and the Reserve Bank’s preferred approach?

PSGRNZ consider that at this stage asking ‘industry and preferred partners’ to comment on technical and nitty-gritty details is inappropriate and legally flawed, when larger questions relating to the allocation of such powers, the inter-operability of digital IDs and CBDCs, the programmability and surveillance powers have not been addressed by experts who might address greater constitutional and governance problems.

This yawning gap must be addressed before the questions in these sections (Strategic Design, Managed Issuance) are asked.

11. What role might your firm or organisation take in the digital cash ecosystem, and what support would you require from the Reserve Bank? I.e.
    i. What products and services would you build off the options? What design functionality would you need to support you?
    ii. What core functionality should be provided by the digital cash platform and what should be provided by the market?
    iii. What key governance measures would you expect the Reserve Bank to provide in the digital cash ecosystem?

12. Intermediaries will still own the customer relationship including managing onboarding and AML/CFT requirements. What support or enabling functionality would you require?

Managed issuance

13. Future stages of work explore the potential impacts of digital cash on the financial system and understand the benefits, costs and risks. To assist with this we would like feedback from industry on the following:

14. Do you expect remuneration to be paid on digital cash holdings?
15. Do you think there should be holding limits for digital cash or other restrictions in how it is issued?