Cornell University Law School
Scholarship@Cornell Law: A Digital Repository

Cornell Law Faculty Working Papers | Faculty Scholarship

8-20-2020

The Capital Commons: A Plan for Building Back Better and Beyond

Robert C. Hockett

Follow this and additional works at: https://scholarship.law.cornell.edu/clsops_papers

Part of the Banking and Finance Law Commons

The Capital Commons

A Plan for Building Back Better and Beyond

Robert Hockett*

Executive Summary

To build our Republic back better we must build our banks better. The overwhelmingly greater part of our investment capital is now publicly generated yet privately managed. But pervasive and still underappreciated recursive collective action predicaments endemic to all exchange economies, combined with the decoupling of profits from production made possible by stratified capital 'markets' in such economies, render this unsustainable.

The only way to get public capital allocation right, and thus to get credit modulation and long-term productive investment right, is to manage public capital publicly and private capital privately. This paper shows how to do that through the simple organizing framework of a public balance sheet conceived as a central bank balance sheet.

Restoring our Regional Federal Reserve Banks to their original status as a network of regional development banks – 'Spreading the Fed' – will ensure that all assets financed with public capital are productive assets. This it will do both by discounting production-associated business paper, as in the past, and by strictly conditioning Fed lending to private sector banks upon promised local and regional production.

The liability side counterpart to this asset side supplementation of the Fed balance sheet will be the provision to all citizens, businesses, and legal residents of digital P2P Citizen and Business wallets through which an upgraded 'People's Fed' issues 'Democratic Digital Dollars.' This will end commercial and financial exclusion, leaky monetary policy, and consumer financial data 'harvesting,' while enabling the equitable sharing of public wealth growth through 'Commonwealth Growth Dividends.'

A macroprudential Price Stabilization Fund – or 'People's Portfolio' – and FSOC-inspired National Reconstruction & Development Council, comprising the heads of all cabinet-level executive agencies with jurisdiction over infrastructure and industry, completes the picture, enabling perpetual democratic determination of what nationally 'counts' as 'development' and, therefore, 'productive.'

---

* © 2020. Edward Cornell Professor of Law, Cornell University; Regular Visiting Professor of Finance, Georgetown McDonough School of Business; Senior Counsel, Westwood Capital, LLC; Advisory Board, Public Banking Institute; Advisory Board, Stanford Digital Currency Lab; Founding Board, Digital Fiat Currency Institute. Formerly Federal Reserve Bank of New York and International Monetary Fund. Thanks to my colleagues, past and present, at these institutions, and to my 'Sounding Board' on matters digital, financial, industrial, and infrastructural:... Posthumous thanks to E. Böhm-Bawerk, I. Fisher, A. Hamilton, R. Hilferding, R. Luxemburg, G. Myrdal, J. Necker, J. Schumpeter, J. Steuart, H. Thornton, L. Walras, and above all P. Warburg and Knut Wicksell.

The Capital Commons

A Plan for Building Back Better and Beyond

Robert Hockett

CONTENTS

Introduction – Building Back Better by Building Banks Better

The greater part of our nation's monetized investment capital is publicly generated and at least aspirationally modulated, but privately allocated. (More on these terms in a moment.) It is privately allocated, moreover, no longer for purposes of production, but for profit, which is not the same thing.

This is the root source of near all of our economy's, and hence both our society's and our polity's, multiple dysfunctions of recent decades. It is our financial Original Sin, as it were: the abandonment to private management of our public capital, or what I call our *Capital Commons*.

Like any commons, the Capital Commons can be despoiled if not commonly managed – jointly, not merely severally, managed. But because the commonly owned resource in this case is not finite and preaccumulated like land or private wealth but instead indefinitely extensible and generated as monetized public credit, spoliation in this case takes different form.

It takes the form of combined underproduction and overspeculation, which it will barely be punning in this case to call two sides of one coin – each being 'the flipside' of the other.

The moment we *monetize* public capital and then turn it over to private management, we doom ourselves to this form of 'tragedy of the commons.' We effectively embrace, knowingly or not, perpetual misallocation, impossible modulation, and in the end secular stagnation.

Why?

Because collective action predicaments – I don't say mere 'problems' – endemic to all forms of decentralized market exchange, which intensify recursively and self-amplify without limit once capital goes monetary, ensure this. And they do so in ways that you needn't be economically 'radical' or 'heterodox' to understand.

The only way to clip back this one choking vine, which ramifies throughout the entirety of our society's systems of production and finance, is to restore public capital to public management, while leaving private capital to private management.

You must allow only privately owned, pre-accumulated capital to be privately allocated, while ensuring that indefinitely generable public capital is publicly allocated. And you must allocate, ever after, with a view to production, development, and perpetual renewal.

'Building Back Better,' a 'Green New Deal,' … *any* program of what I call *National Reconstruction and Development* – we might even say 'Building Back Better *& Beyond*' – starts there. It starts with recognition that 'building *back* better' means building *banks* better, and that building *banks* better means building our *central* bank better.

So, then, shall I. First 'public capital,' then 'private management' and its impossibility. Then 'public management' and what 'minimally invasive' reconstructive central bank surgery that is not merely cosmetic will look like …

1. Capital – Productive and Otherwise

First things first – capital.[1] Here I mean any non-human accessory to production. Machines, tools and factories of course come to mind, for in the first instance capital is like this. In non-barter exchange economies like ours, however,

---

[1] Because this document is meant to serve as a *Précis*, I will not cite or footnote heavily. Instead I confine myself in the main to noting at the start of each Section the prior work that the Section draws upon or abbreviates. The present Section abbreviates Robert Hockett, *The Capital Commons: An Excavation and New Architecture* (White Paper 2020).

capital also takes monetary form. It is, effectively, just purchasing power deployed in the purchase of inputs to productive processes.

It is common to call capital of this kind 'investment capital,' which we distinguish from 'speculative capital' – a variant species made possible by monetization itself, more on which momentarily.

The divergence between investment and speculative capital made possible by monetization is not the sole source of our present dysfunctions, but is easily the worst accelerant. For it enables the recursive widening without limit of a gulf between profiting and producing implicit in any decentralization of production in the form of disaggregated market exchange.

That is a widening that dooms any decentralized market exchange economy like ours to misallocation, underproduction, and over-financialization for as long as it decentralizes not only production, but also the *financing* of production.

Successful *private* ordering of *production* requires *public* ordering of the *financing* of production – at least where public capital is doing the financing.

2. Capital – Public and Private

So what is this 'public' capital?[2] In what sense is the greater part of investment capital now public? The answer resides in that 'monetization' I mentioned before.

Were banking and finance merely 'intermediation,' as bankers want you to think, all capital would be in a certain sense private, and unproblematic. For there would be inherent limits. All that was lent would have to have been preaccumulated – deposits would 'make' loans. But this is not how banks work – it is how mutual funds work. Where banks are concerned, it is truer to say 'loans make deposits.'

The key point you must bear in mind is that we, the public, supply most of the nation's investment capital by monetizing our public 'full faith and credit.' This takes a wee bit of detailed tracing to substantiate, both because it is counterintuitive at first – you've been trained through such words as 'intermediation' to think differently – and because the process of monetization occurs in 'black boxes' that we call 'banks.'

You've heard the phrase, 'the alchemy of banking'? You're about now to learn that alchemy. This is how we turn trust – public trust – into gold.

---

[2] This Section draws upon ROBERT HOCKETT, THE CAPITAL COMMONS: DIGITAL MONEY AND PUBLIC FINANCE IN A PRODUCTIVE COMMERCIAL REPUBLIC (Manuscript 2018); Hockett, *An Architecture*, op. cit.; and Robert Hockett, *Finance without Financiers*, 48 POLITICS & SOCIETY 3 (2019), available at https://journals.sagepub.com/doi/abs/10.1177/0032329219882190?journalCode=pasa.

Just watch …

You go to a bank for a loan to finance a remunerative project – a project you're sure will be profitable. You need purchasing power to purchase your project's inputs, but all that you have is your own private promissory note.

Your note is not legal tender – it's not recognized money – hence can't serve directly as monetized investment capital. So you go to the bank to exchange it – to swap it – temporarily for *public* promissory notes. These *do* count as legal tender, as money, and hence purchasing power usable to finance production.

Look at a dollar, read across the top. A dollar is a Federal Reserve Note – a 'note' as your promissory note is a note. But it is more widely usable. That's why it's money – public money.

The bank is going to evaluate your proposed project before approving your proposed swap. I want to talk about how it does that in a moment, for much hinges on that. But first let us see how the swap works and how it turns privately approved loans into publicly issued capital…

If the bank approves your swap application, it is going to trade for your promissory note not quite literal public promissory notes, but what used to be called their fiduciary equivalent. It is going to open an account in your name, credit an account already there in your name, or provide you a check – another variant on our old friend the promissory note – that instructs someone else to credit you.

Now for the kicker: you can immediately *spend* this credit – it is monetary from the get-go, requiring no antecedent accumulation of gold in a sack, bills in a vault, or whatever. You simply insert a chip, swipe a strip, or key a blip and you've paid for the inputs to your bank-financed project, be they machine tools or a ticket to Vegas (we'll come back to that).

What makes this possible – what makes it a private note / public note swap – is that the bank is a publicly licensed institution networked into our national payments system. At the center of that system sits … wait for it … our *central* bank. In the US, that is the Fed, a public instrumentality that oversees banks chartered by yet other public instrumentalities – the suggestively named 'Comptroller of the Currency' for national banks, and state banking commissioners for state banks.

A functioning money is just 'that which pays' in a payments system – 'that which counts' in a system of debit and credit and value accounting. And it is we, the public, who legislate what shall pay, what shall count, and who shall disseminate it when we generate it, *ex nihilo*, through public-private note swapping.

And here in the U.S., again, we have legislated that the public sector Fed shall generate and hence modulate it, while private sector banks shall allocate it.

I am not a licensed bank, so I can only *purport* to lend to you by 'opening an account' in your name and handing you a chip card or strip card to 'swipe the swap.' But when you swipe it to purchase your inputs – machine tools or plane tickets or otherwise – nothing will happen.

It 'doesn't count.' It will not pay. It is not money, it's not a public capital instrument swapped for your private capital instrument. Nor is it that instrument's instantly generable and indefinitely extensible fiduciary equivalent – a 'bank account.' For again, I'm not a bank.

This form of monetized public investment capital changes everything, and has done for centuries. Its analysis lay at the core of the work of the greatest economist you've never heard of, Sweden's Knut Wicksell (1851-1928), who called this stuff 'bank money.'[3]

You've heard of Keynes, and 'the Austrians,' though. Fragments – and alas, *only* fragments – of Wicksell's insights found their way into contemporary thinking through Keynes in the Anglosphere and 'the Austrians' beyond. But Wicksell's followers drew only modulatory, not allocative, lessons from his work.

And that is our tragedy, as we're nearly ready now to see.

Keynes and the Austrians 'got' the endogenous money and consequent bipolar 'swinging' to which Wicksell attended with ceaseless attention to detail. That's all that Keynes's 'credit money' spin on Wicksell's 'bank money,' and Austrians' 'business cycle' spin on his 'cumulative process' effectively were.

That is why 'neo-,' 'post-,' 'classical-,' and others whom I call '*x*, *y*, *z*-Keynesians' of all stripes fixate on the '*macro*-economics' that they credit Keynes with inventing. And it's why Austrians fixate on 'taming' endogenous money by shackling it to finite-supplied shiny metals or 'rules.'

None of these bromides helps much, however, as surely the past eighty years should have demonstrated. And this is because you cannot get the macro right without getting the micro right. You cannot well modulate until you well allocate.[4]

---

3 See KNUT WICKSELL, GELDZINS UND GÜTERPREISE (1898).

4 The distinction between and relations among what the present author calls 'credit-modulatory' policy on the one hand and 'credit-allocative' policy on the other are fundamental to the author's work of the past 12 years, and failure to attend carefully to their relations accounts for a surprisingly large portion of the most salient financial and macroeconomic disasters of the past century. For essential background, see, e.g., Robert Hockett, *A Fixer-Upper for Finance*, 87 WASHINGTON UNIVERSITY LAW REVIEW 1213 (2009), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1367278 (introducing the distinction and

What then to do?

The key is to reattach macro to micro – that is, modulation to allocation. For while those are analytically distinct, as both I and others have argued for years now, they are practically inseparable.

And to see how to do this – how to reunite modulation and allocation – we'll do best to return to your swap for a moment…

3. Capital & Production – Their Divorce, Our Broken Home

In evaluating your swap application, the bank asks itself whether you're apt to succeed with your project. That is a micro-, not macro question. And the bank will unpack and address this question by reference not to production, but to profit.[5]

That is the rational thing for the bank to do in a system where not only production, but also production finance, is left to market exchange. The bank survives and keeps its shareholders happy in our fragmented system only as it profits.

And our system of bank regulation – in the terms used above, our bank licensing regime – publicly endorses this. It polices primarily bank 'safety and soundness' – that's a regulatory term of art – and aims above all else to … another term of art … 'prevent bank failure.'

None of this would be problematic were profits and producing identical or even proximately linked, such that production would 'take care of itself' just so long as we ensured profitability. But alas, the monetization of investment capital as noted

---

proposing 'regulation as modulation' as preferred model of financial supervision); Robert Hockett, *The Macroprudential Turn: From Institutional 'Safety and Soundness' to Systemic 'Financial Stability' in Financial Supervision*, 9. UNIVERSITY OF VIRGINIA LAW & BUSINESS REVIEW 1 (2015), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2206189 (interpreting the move toward macroprudential finance oversight as reflecting long-awaited implicit recognition of the distinction's regulatory importance); and other sources cited infra.

For discussion of the practical inseparability of the conceptually distinct allocation and modulation functions, and of the consequences of this inseparability for the sustainability of our present practice of assigning allocation to Treasury and modulation to the Fed, see HOCKETT, THE CAPITAL COMMONS: DIGITAL MONEY AND CITIZEN CENTRAL BANKING IN A COMMERCIAL REPUBLIC (Manuscript 2018). And for a popularly accessible discussion of the conceptual distinction and the practical difficulty of maintaining it, see Robert Hockett, 'Money in Context, Part 1,' *Law & Political Economy*, April 8, 2020, available at https://lpeproject.org/blog/money-in-context-part-1/; and Robert Hockett, 'Money in Context, Part 2,' *Law & Political Economy*, April 9, 2020, available at https://lpeproject.org/blog/money-in-context-part-2/.

5 This Section draws upon the sources cited above in note 2, as well as upon Robert Hockett, *The Dialectic of Finance* (Manuscript 2017); and ROBERT HOCKETT, ROUSSEAUVIAN MONEY (Manuscript 2018), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3278408.

above *enables* a divergence, while the outsourcing of public capital management to profit-driven private sector financiers *guarantees* that divergence.

In fact, it guarantees not only that this divergence can and will happen, but also that it will steadily widen through time, 'feed on itself' without limit till terminal collapse.

That sounds apocalyptic – it should, for it is – and this might have led you to think I'll now posit some 'radical,' exotic, or 'heterodox' idea in explaining myself. Something about 'dialectic,' 'deconstruction,' 'Minsky Moment' or some such thing …

But I'm not.

The crowning irony of our present god-awful mess is that the dysfunction endemic to decentralized private management of centrally supplied public capital is entirely accessible to orthodox intuition.

It is, in other words, attributable to variants on orthodox 'market failure' more familiar in both 'freshwater' and 'saltwater' precincts even than in hotbeds of heresy like late 19th century Paris or London, or late 20th century Annandale-on-Hudson or Tennessee.

I am referring to collective action predicaments that loom around any setting in which people decide things individually that can affect all collectively. The garden-variety renditions of these challenges are familiar, while what I have long called their iterative, recursive renditions for some reason are not.

4. Collective Action Predicaments – Recursive and Otherwise

A collective action predicament – call it a 'CAP' – is a choice situation in which individually rational decisions aggregate into collectively irrational outcomes.[6] Think of the rush to the theatre door after 'fire!' is shouted, or of everyone's standing at once to 'get a better view.'

A CAP is in this sense a 'tragic situation' – tragic in the classical Greek – 'damned if you do, damned if you don't' – rather than in the trivial, 'bad news' sense. (I harp on this because the *structure* of the situation is what is critical, and only 'predicament' and the Greek sense of 'tragedy,' not the imprecise 'problem' or 'disaster,' convey that.)

6 This Section draws upon the last cited work, as well as upon Robert Hockett, *Recursive Collective Action Problems: The Structure of Procyclicality in Money Markets, Macroeconomies, and Formally Similar Contexts*, 3 JOURNAL OF FINANCIAL PERSPECTIVES 1 (2013), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2239849.

CAPs are familiar enough generically – again, 'fire!' – but their pervasive affliction of decentralized market exchange seems to be strangely underappreciated. And what I have dubbed their far worse *recursive* renditions – lets call them 'ReCAPS' – seem to attract no notice at all.

This, I believe, is why we don't solve them. It's why we keep getting finance and, accordingly, production all wrong.

A few examples to sharpen understanding …

The most salient *non*-recursive CAPs where production is concerned stem from what I call 'controllability' and 'capturability' problems, respectively, in economies in which production is delegated to decentralized private ordering. *Controllability* problems induce collectively irrational underinvestment in productive *industry* – why individually invest in a firm, for example, if underemployment, deflation or inflation in the macro-environment make future sales uncertain? *Capturability* problems induce collectively irrational underinvestment in *infrastructures* necessary to production – why individually invest if the 'positives' yielded by the investment are mainly 'external'?

Recursive CAPs – again, ReCAPs – are collective action problems with 'feedback effects.' They are self-worsening in consequence of their structure, which drives an iterative process pursuant to which individual reactions at time t+1 to events that occur at time t do not mute, nullify, or counteract those events, but repeat them in more acute and collectively devastating form.

Examples abound in decentralized markets, especially but not solely in banking and capital markets. A few more familiar examples will make the point …

Inflation: You and I see prices rising, hence rationally buy more now rather than waiting till later; but this just makes prices rise faster. *Deflation*: You and I see prices falling, hence rationally defer buying or hiring till later; but this just makes prices fall further and unemployment rise faster. *Bank Run*: You and I hear that our bank is faced with liquidity trouble, hence rationally 'run' there to withdraw our funds; but this simply hastens the eventuality we fear. *Asset Price Bubble*: Simply a hyperinflation in capital markets. *Market Crash* or *Asset 'Fire Sale'*: Simply a debt-deflation or 'bank run' on assets. And so on…

See?

The story of 'financialization,' productive atrophy, and crash-to-crash lurching on the part of our *macro*economy over the past 50 years just is the story of unnoticed collective action predicaments endemic to the *micro*structure of that economy. And that microstructure is a structure of scattered nodes of individual agency actuated by individual 'interests.'

That needn't be a problem for production. But it *will* be a problem for production if we let it act as a problem for production *finance*.

It is one thing to decentralize production, it is another to decentralize the *financing* of production – at least when we do so with public as well as private capital. The first simply isn't compatible with the second.

That's apt to strike you as counterintuitive at first – again, we've been taught otherwise, and have been taught not to think of production and production finance separately. But disaggregate and then think of them separately, and you will this is right…

Simply remind yourself that if finance is for profit, and profit is possible without production, then production will tend to be under-financed, while unproductive and even counterproductive profiting will be over-financed – indeed *vastly* over-financed once indefinitely extensible public capital ('bank money') gets into the act.

Hence my earlier mention of Vegas, where people go not to produce, but to win from others what they already have…

But what can we do about it?

5. Collective Capital Agency, a.k.a. 'Management' – What the Fed's For

To solve a collective action problem, you have to exercise collective agency.[7] We used to have a word for this – we called such agency 'governance,' and called its agents – our agents – our 'governments.'[8]

The chief secret of capital, I think, is that ungoverned production is in the long-run incompatible with ungoverned finance. And by 'governing' I don't mean reactive regulation. I mean proactive *allocation* – allocation on which production and, in the end, modulation itself depend.

And this takes us straight to our solution…

Here's something you might not have known. The Fed is a national development bank – *our* national development bank. Some sophisticates probably

---

[7] This Section draws upon Hockett, *Digital Money and Public Finance, op. cit.*; Hockett, *An Architecture*, *op. cit.*; and Hockett, *Finance without Financiers*, *op. cit.*.

[8] The 'Austrians' - Böhm-Bawerk, von Mises, Hayek, Schumpeter … - kind of 'got' this. But unlike the Swedes – principally Wicksell and Myrdal – who tipped them off, all of them save Schumpeter seem to have had Freudian 'issues' with authority. Hence they overlooked this solution, which is the only solution. In fine Habsburg fashion, they re-fetishized metal finery instead. Fisher, more on whom presently, 'got' it as well, but he seems to have thought we could get on *without* public capital. We can, provided we're cool with subsistence-level production.

understand, at least obliquely, that the Fed is a kind of public capital manager – that's sort of what credit modulation and monetary policy are all about once public capital has been monetized – but they won't get the development bit.

That is because we have severed capital from its original productive purpose, as noted above, while relatedly severing modulation from allocation and macro from micro. The three divorces are all of a piece. They are faces of one schizophrenia, a state of mind in which finance and development are unrelated or even at war.

Now if you want to find words like 'finance' and 'development' joined in one title or phrase, you have to read journals like 'Finance and Development' – the joint publication of the IMF and the World Bank, legally known as the International Bank for Reconstruction and Development. You won't find these things tied together in any self-styled 'developed' society.

We didn't *used* to think 'development' something only for 'underdeveloped countries.' Nor, accordingly, did we think of 'development finance' as a special kind of finance only for underdeveloped client states. *All* finance used to be 'development finance,' just as all capital was productive capital.

That was back when we understood public capital had to be not only publicly modulated, at the 'macro' level, but also publicly allocated, at the 'micro' level. You know how you can tell that? By looking at the Fed's 'federation' – its federated structure – which dates back to its establishment through the Federal Reserve Act (FRA) of 1913.

People often seem confused by the Fed. They speak of 'the Federal Reserve Bank' (not 'a thing'), then 'the Federal Reserve Board ('a thing,' but only as part of a bigger thing). When you then tell them that we have a 'Federal Reserve System' (*that's* the thing), they wonder how a 'System' can regulate or conduct monetary policy as if it had agency. Was Alan Greenspan 'a system'? Was Janet Yellen? Is Jay Powell?

Maybe best not to answer those last ones ...

The Fed is a 'system' because it comprises multiple distinct nodes of agency at two distinct 'levels' – one corresponding to what I've called 'macro' and 'modulatory,' the other corresponding to what I've called 'micro' and 'allocative.' The Fed Board is the first of those, while the Regional Federal Reserve Banks – I'll call them Regional Fed Banks or Regional Feds – constitute the second.

The Regional Feds were meant originally to help finance 'development' in our nation's many still 'underdeveloped' regions circa 1913, which they did by monetizing – 'discounting' – productive commercial paper.[9] That is a credit-allocative function – it's about productively directing the flow of public investment capital as I defined it above.

The Board was in turn meant to coordinate all of this regional development financing, to ensure that its partial decentralization across separate regions didn't fall prey to CAPs and ReCAPS as defined above, and in consequence generate nationwide modulatory dysfunction – inflation, deflation, hyper-inflation or debt-deflation.

This is a credit-*modulatory* function – it's about centrally orchestrating, via control of the national credit pipeline, the coherent functioning of regional public capital disseminators to avoid mis-allocation and, with it, mis-modulation.

This was a brilliant arrangement – maybe more brilliant even than its founders fully realized. In a single organizational stroke, it offered institutional means of solving the ages-old allocation/modulation conundrum, while relatedly defusing our ages-old national ambivalence over the dangers of capital concentration on the one hand, capital over- or under-generation on the other hand.

That conundrum and associated ambivalence had been the twin drivers of a strange national oscillation between central banking and *de facto* monetary anarchy from the era of Hamilton on down through the gilded age, and at last they were institutionally solved – in potential, at least.

The institutional solution, moreover, took a form that bridged not only macro and micro, not only modulation and allocation, but also *public and private*. For productive initiative was left to private sector producers and entrepreneurs, while decisions whether publicly to monetize project-associated private paper were assigned to institutions that were themselves hybrid entities – the Regional Fed Banks being, as they were, overseen by Boards of Directors with membership two-thirds determined by private sector entities subject to Fed Board approval.

And so there it was, a network of public-private regional development banks overseen by a nationwide public capital overseer. And hence an optimal half-centralization of public development finance in the cause of decentralized private productive activity.

So what happened?

---

9 Another tragically forgotten bit of Fed – and hence our Republic's financial – history. And an ironic one at that, given the near-obsession with discounting commercial paper as the right way to central-bank on the part of Paul Warburg, the most influential Fed founder. See the brilliant PAUL M. WARBURG, THE DISCOUNT SYSTEM IN EUROPE (1910), and try not to weep.

It grows a bit complicated here, as I've written at greater length elsewhere. Suffice it for present purposes to say that a national mobilization for world war only four years after the FRA's passage (*From Warburg to War*, one might say), followed by a global pandemic … hmm … and then a 'roaring' decade in which 'America's business was business' and politicians' business was to 'get out of the way,' led to our largely forgetting the Fed's modulatory and allocative purposes and consequent potential as public capital manager for private production.

Sure, we rediscovered the modulatory task and even dimly discerned its relation to the allocative task at the beginning of the New Deal after the Roaring 20s clammed up with a bang. That is what founding the mixed Board/Regional Federal Open Market Committee (FOMC) as permanent link between modulatory Board and allocative Regional Fed Banks amounted to.

But we've never grown clear, as a polity, about what this stuff's for or is all about. And so we now live with the upshot of inattention – inattention to what we actually have, right now, right here before us, thanks to our insightful and foresightful ancestors.

That upshot? Continual misallocation of public capital by privately profit-, not production-, driven 'financial' institutions; consequent capital mis-modulation by timid or ill-informed stewards of our capital commons; and thus perpetual under-production, over-speculation, and 'secular stagnation.'[10]

Let's fix this.

6. Publicly Managed Public Capital, Privately Managed Private Capital

As I've suggested, we already have most, if not all, of the institutions we need now to do what needs doing. Their enabling acts need not even be amended, but must simply read in accord with their origins. These are the legacies, indeed the bequests, of our forebears – Paul Warburg foremost among them. What's needed is re-appreciation of these institutions' institutional purposes – and associated re-appropriation of their originally mandated mandates.

What that means practically is that we must reconfigure a few things to take public capital management back under public management, while fittingly leaving private capital to private management. We've already begun doing this, as it happens – first with QE mortgage paper during the last crisis, and now with pretty much every kind of paper under the sun (including decidedly non-solar fossil fuels!)

---

[10] See, e.g., Robert Hockett & Richard Vague, *Debt, Deflation, and Debacle: Of Private Debt Write-Down and Public Recovery*, White Paper, Global Interdependence Center, Federal Reserve Bank of Philadelphia (2013), available at https://www.interdependence.org/wp-content/uploads/2013/04/Debt-Deflation-and-Debacle-RV-and-RH1.pdf.

during the present pandemic.[11] Isn't it time that we grew more deliberate – and transparent – about all of this allocation?

Note, even if only in passing, how politically attractive this will be if we're finally clear in pronouncements about what we are doing…

Want to 'End the Fed,' Representative Paul, where the management of private capital is concerned? You're right – leave that entirely to 'unfettered' private capital managers, so long as they're not money-laundering, financing drug-lords or terrorists, etc. Want to 'kill crony capitalism,' fellow Wall Street Occupier? You too are right – stop channeling public capital through profit-, not production-moved private 'financiers.'

But how? It's easier than you might think. We can organize thought and planning here in the way all intelligent investors and entrepreneurs do – by recourse to a balance sheet. 'Assets on the left, liabilities on the right.' Here is what proper accounting and accountability – that is, proper management – of our public capital stock will look like.

7. Public Assets – 'Spread the Fed'

Let's start with assets, since everyone wants those.[12] An asset is generated each time a loan is extended. Bank loans are assets on bank portfolios. As noted above, private sector bank loans effectively tie asset value to project profitability, which as also noted above is a very good idea if profitability perforce means productivity. But monetized capital and practically unrestricted betting opportunity on secondary, what I call *n*-ary, and derivative 'capital *markets*' divorces the two, underwriting our constant misallocations and consequent mis-modulations.

(Side bar: Why the scare quotes round 'capital markets'? Easy: There should be markets only in the *fruits* of productive activity, not in the *agents* of productive activity – labor and public capital. The reasons for saying this of capital are what you have been reading. The reasons for saying it about labor you'll find in a companion piece to this one – what I call *A Republic of Owners*.)

---

[11] See, e.g., the excellent summary compiled by my former colleagues at FRBNY: Gara Afonso et. al, 'A New Reserves Regime? Covid 19 and the Federal Reserve Balance Sheet,' *Liberty Street Economics*, July 7, 2020, available at https://libertystreeteconomics.newyorkfed.org/2020/07/a-new-reserves-regime-covid-19-and-the-federal-reserve-balance-sheet.html.

[12] This Section draws upon Robert Hockett, *Spread the Fed: Distributed Central Banking in Pandemic and Beyond*,14 VIRGINIA LAW & BUSINESS REVIEW __ (2020) (forthcoming), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3597724. Also Robert Hockett, 'Spreading the Fed: From Federal Disintegration through Community QE to Central Bank Decentralization, Part 2,' *Law & Political Economy*, August 11, 2020, available at https://lpeproject.org/blog/spread-the-fed-part-i/; Robert Hockett, 'Spreading the Fed: From Federal Disintegration through Community QE to Central Bank Decentralization, Part 2,' *Law & Political Economy*, August 12, 2020, available at https://lpeproject.org/blog/spread-the-fed-part-ii/.

To solve the problem, just pull a 'Parent Trap' – remarry production and profit. Do that by fine-tuning what we do now: Require private sector lenders and other financiers to finance projects in either of two ways, each keyed to the source of the capital to be invested…

For privately originated, pre-accumulated capital, let private sector lenders and financiers invest unrestrictedly – at least as consistent with the criminal law. For publicly generated, Fed-monetized credit-capital, require pre-approval of projects by regional Fed Banks. Instruct these institutions, in turn, to evaluate projects by reference not simply to profits, but to production.

You might at first wonder whether Regional Fed Banks are up to this task. The answer is that they are, and the question is not even a close. To see why, ask yourself first what they do *now*…

Have you ever noticed that what Regional Feds do now is essentially, in the words of one of my brilliant Research Assistants, simply to 'write papers and stuff'?

She's right. Ms. Yuan is correct. That's what I did when I worked there. But it's the 'and stuff' part that's most interesting where fine-tuning's concerned. Fed Banks have Research Departments, and what they research are economic trends and developments within their regions – just as assigned to them way back in 1913. All they do *not* do now that was assigned them back then is to *monetize* project *paper* – that is, purposefully lend public capital.

This is what I am saying that they should do. They should *monetize private paper again*, be it directly, or via private sector banks, or via Band of North Dakota style public banks, or all of the above. They know how to do it. Their Research Departments are practically telling them how to do it. (Banks use their research now, but banks can't solve CAPs or ReCAPS.) We're just not *letting* them do it. Let's let them do it – no, let's *make* them do it.

The present is an especially opportune time to make this transition – to 'cross (back) over' to our original way of doing things. There is even a beautiful sort of symmetry in what I shall propose – a symmetry beyond that of mutually offsetting assets and liabilities on our public 'balance sheet.' For a war and pandemic one century ago first took our Regional Feds off their mission, and the wars and pandemic of the present now offer the chance to restore them to that mission.

I allude to my 'Spread the Fed' proposal…

You've likely heard of the Fed's new Municipal Liquidity and Main Street Lending Facilities.[13] These are about aiding our states, municipalities, and small

[13] The author has been assisting state and municipal officials to tap into the new Fed facilities. See, e.g., Robert Hockett, *The Fed's Municipal Liquidity Facility: Present and Future Possibilities and*

businesses nationwide in riding out and reversing the devastation of the present pandemic – a pandemic our principal collective agent, the nation's Chief Executive – doesn't seem able to handle. (One who lacks agency – 'self-control' – lacks the makings of collective agency.) These programs are brilliant in conception and almost immeasurably promising in potential, working as they do to take assets associated with public goods and in need of public support onto the public balance sheet. But they are absurd in their present administration.

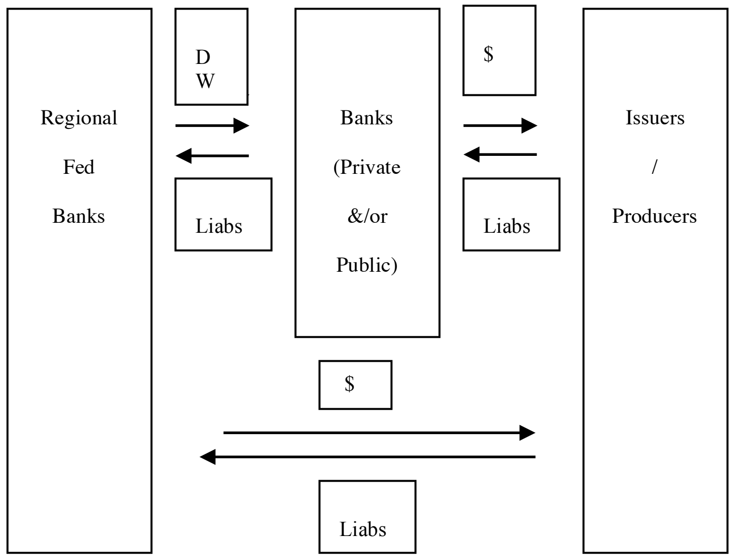
The reason is straightforward. The MLF is administered entirely out of the Federal Reserve Bank of New York in Lower Manhattan. The MSLF for their part are administered out of the Federal Reserve Bank of Boston in … yes, Boston. I have worked at the first and with the second. Their staffs are brilliant and earnest, creative yet sober. But they are tiny in number, and to ask them to sort out the needs Oahu and Billings, or of Tony's Tractor Repair in Dorado or Nancy's Nails in Watts is to do them and their beneficiaries – to do *us* – an intolerable injustice.

What should we be doing? Easy: Spread the Fed. Let Dallas handle Tulsa and Cleveland handle Ashtabula. Let Kansas City look after the financing needs of Packer Plastics in Lawrence and Atlanta those of Mimi's in the Marigny. Better yet, *incorporate additional* Regional Feds now that the western half of the country is filled-in as it wasn't in 1913.

It is ridiculous that Missouri has two Fed while California – no, while the entire West plus Hawaii – has one. But that doesn't mean 'redistribute' the Fed Banks, it means to make more. 'Re-Distribute' – restore to national distributed status – to make it the locally responsive national development bank it was always intended to be. Do that, and the Fed's role in publicly managing and investing our capital will look as depicted *Figure 1*, in which Regional Fed Banks lend, solely for projects reasonably likely to prove productive, to issuers.

Necessities, Memorandum, May 2020, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3597732; Robert Hockett, *Community QE2: New Key Provisions and an Updated 'Game Plan' for State and Municipal Action*, Memorandum, May 2020, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3589851; Robert Hockett, *Community QE: Key Provisions and a 'Game Plan' for Immediate State Action*, Memorandum, April 2020, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3574157. Also Robert Hockett, 'Community QE: An April Game Plan for States and Cities,' *Forbes*, April 12, 2020, available at https://www.forbes.com/sites/rhockett/2020/04/12/community-qean-april-game-plan-for-states-and-cities/#138495c03624; Robert Hockett, 'Optimize Community QE: An Open Letter to Fed Chairman Powell,' *Forbes*, June 14, 2020, available at https://www.forbes.com/sites/rhockett/2020/06/14/optimize-community-qean-open-letter-to-fed-chairman-powell/; Robert Hockett, 'Community QE – Illinois Signs On, and Eligibility Further Expands, But "Penalty Rates" Still Have to Go,' *Forbes*, June 5, 2020, available at https://www.forbes.com/sites/rhockett/2020/06/05/community-qe--illinois-signs-on-and-eligibility-further-expands-but-penalty-rates-still-gotta-go/#5b593cfb18f2; and Robert Hockett, 'Welcome to Community QE: Now Let Us Put it to Use,' *Forbes*, April 9, 2020, available at https://www.forbes.com/sites/rhockett/2020/04/09/welcome-to-community-qe/#1e84d9fcc415.

***Figure 1:* Reformed Bank/ ‘Spread Fed’ / Producer Relations**



Some of this lending will be direct, in the form of direct Fed discounting of privately issued paper issued for production, and some of it will be indirect, flowing through private sector banks and public banks accessing the Fed’s Discount Window just as Paul Warburg envisaged well over a century ago. All that changes relative to current practice is that the Regional Fed Banks now (1) take the lead role in lending, (2) resume early 20th century direct lending to producers, and (3) condition all lending on *ex ante* showings of reasonably likely production.

Lending of genuinely *private* capital, for its part, need not change at all. (Self-styled ‘conservatives’ should love this.) Banks may make loans for productive *or* merely speculative projects, provided they fund the loans fully with deposits, in effect *making* themselves what they routinely now falsely *label* themselves – ‘intermediaries.’

The reason is straightforward in light of the discussion above: unproductive lending is only a problem when publicly generated and indefinitely extensible public capital, not privately accumulated scarce private capital, is what is lent. This is the kernel of wisdom in Irving Fisher’s ‘100% Money’ proposals of the early-mid 1930s, which came a cropper only because they were all about ‘shalt not’s, not ‘shalt’s, where public capital is concerned. Ditto the many retreads of Fisher at present on offer.[14] What these all lack is a ‘shalt’ in respect of public capital – the ‘shalt’ of productive investment. And that is precisely what I am prescribing.

[14] See IRVING FISHER, 100% MONEY (1935). Keynes politely declined to endorse the plan upon receiving Fisher’s invitation to do so, as the plan included no public-issuance to offset the private contraction that Fisher’s narrow banking proposal would bring – in the midst of a debt-deflation no less. Regrettably, the many revivals of Fisher’s proposal proffered since 2009 suffer the same defect.

'Production,' of course – indeed by design – is doing a good bit of work here. I'll accordingly return to both it and 'development' momentarily. But let us complete our first pass at the national balance sheet first. Let's look at liabilities…

8. Public Liabilities – Digitize the Dollar, Widen the Wallets

Corresponding to the asset portfolio on the left hand side of any balance sheet are the asset-holder's liabilities on the right hand side of the same.[15] As discussed at some length above, our Fed already issues the principal tradable public liability that all of us now use in purchasing, paying, speculating, and investing. That is the Federal Reserve Note noted above – the Dollar.

The Fed also maintains a system of Reserve Accounts for our banks, thereby operating as a 'bank to the banks' – hence our term '*central* bank' – and using these accounts both as a tool of monetary policy (partly through Interest on Reserves, or IOR) and as a liquidity management device (partly through Reserve Requirements). This is the fiduciary rendition of the Fed's Notes – in Wicksell's terms, the Fed 'bank money' alongside its '*paper* money.'[16]

In effect, then, the Fed already stands between banks and the non-bank entities whose issuances it presently holds in its asset portfolio – principally Treasury Securities, Agency Securities, and IMF Special Drawing Rights (SDRs) during 'normal' times, supplemented by mortgage-related and now additional private sector issuances during recession and, at this point, pandemic. What I have done above is simply to add *productive private sector loans* to the portfolio, which invites us to ask what the *liability* side *counterpart* addition should be …

The counterpart to adding productive private sector loans to the asset side of the public balance sheet just is to add interest-bearing private sector peer-to-peer (P2P) digital wallets to the liability side of the public balance sheet.

---

15 This Section draws upon Robert Hockett, *The Democratic Digital Dollar: A Peer-to-Peer-Savings & Payments Platform for Fully Inclusive State, Local, and National Money & Banking Systems,* 10 HARVARD BUSINESS LAW REVIEW 1 (2020), available at https://www.hblr.org/wp-content/uploads/sites/18/2020/02/The-Democratic-Digital-Dollar_HBLR_FINAL.pdf; and ROBERT HOCKETT, FINANCING THE GREEN NEW DEAL: A PLAN OF ACTION AND RENEWAL (Palgrave 2020). Also Robert Hockett, *Money's Past is Fintech's Future: Wildcat Crypto, the Digital Dollar, and Citizen Central Banking*, 2 STANFORD JOURNAL OF BLOCKCHAIN LAW AND POLICY 1 (2019), available at https://stanford-jblp.pubpub.org/pub/wildcat-crypto-fintech-future/release/1; Hockett, *An Architecture*, *op. cit.*; and Hockett, *Finance without Financiers*, *op. cit.*.

16 WICKSELL, *op. cit.* There is a unfortunate tendency among some contemporary economists, not to mention legal and finance scholars, to interpret 'loanable funds' as a preaccumulated quantum exogenously supplied by bank depositors. Wicksellian loanable funds without endogenous bank money generation is a bit like decaffeinated coffee – the very point of the thing's been discarded. One contemporary economist who does not fall into this error is Woodford. See, e.g., MICHAEL WOODFORD, INTEREST AND PRICES (Princeton U. Press 2003), the title of which fittingly channels Wicksell.

This is how the Fed can and must round out and complete its ongoing pandemic-prompted balance sheet expansion as it (1) transitions, as it already now *aims* to do, to issuance of a *digital* dollar, and (2) upgrades, as it is already now *doing*, the national payments platform to permit real time clearing and settling of transactions (I refer to 'FedNow'). All it need do is add digital *citizen* banking and *business* banking to its current '*bank* banking.'

Here's how it will work. First, every citizen, business, and legal resident receives an interest-bearing digital wallet – call it a Democratic Digital Dollar (3D) Wallet – accessible by desktop, laptop, smartphone or other device. Second, each such wallet is endowed with (1) what I call 'vertical' connectivity to a 'master account' on the liability side of the Fed balance sheet, and (2) what I call 'horizontal' (again, P2P) connectivity to all other wallets.

I call the resultant digital payments platform the 'Democratic Digital Dollar,' or '3D,' platform at the national level, for which I've proposed both Fed and Treasury ('Digital Greenback' and 'Treasury Dollar') renditions.[17] I call it the 'Inclusive Value Ledger' (IVL) platform at the state and local levels,[18] with one version now before the New York State Legislature and another before the city of Kansas City.[19]

On any rendition, wallet holders are enabled to pay taxes, licensing fees, and other remittances, as well as to receive tax refunds, program moneys, and other disbursements, along the platform's vertical dimension. Then they can also make real time payments to *one another* along the its *horizontal* dimension.

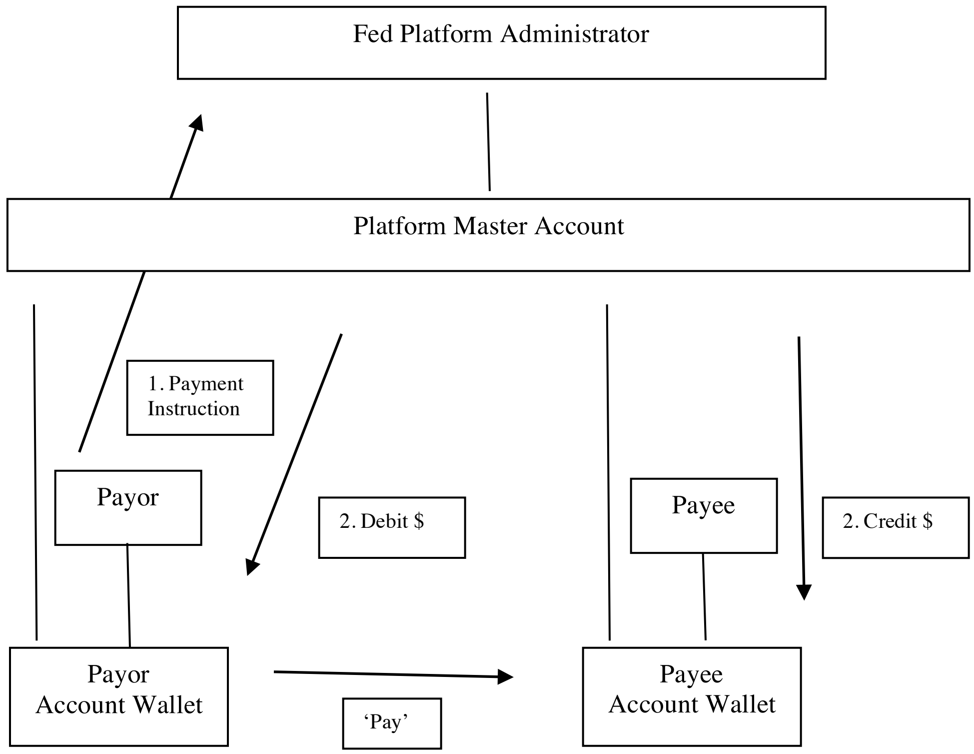
---

17 See Robert Hockett, *Digital Greenbacks: A Sequenced 'TreasuryDirect' and 'FedWallet' Plan for the Democratic Digital Dollar,* 16 JOURNAL OF TECHNOLOGY LAW & POLICY __ (2020) (forthcoming), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3599419. Also Robert Hockett, The Treasury Dollar Act of 2020 (Draft Bill), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3563007.

18 See Robert Hockett, *The Empire State Inclusive Value Ledger* 72 ADMINISTRATIVE LAW REVIEW __ (2020) (forthcoming)), available at https://ronkimnewyork.com/downloads/The-New-York-Inclusive-Value-Ledger-Sept-2019.pdf.; and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3470923.

19 See Robert Hockett, The Empire State Inclusive Value Ledger Establishment and Administration Act of 2019, available at https://assembly.state.ny.us/leg/?default_fld=&bn=A08686&term=2019&Summary=Y&Actions=Y&Text=Y&Committee%26nbspVotes=Y&Floor%26nbspVotes=Y.

Figure 2: **Democratic Digital Dollar ('3D') & Wallet Architecture**



Private sector payments over the platform will occur on the liability side of the Fed balance sheet, just as accounts and payments now respectively subsist and occur on the liability sides of combined private sector bank balance sheets which themselves are in effect on the Fed balance sheet at one remove, via the banks' own Reserve Accounts at the Fed. In effect, this will give perfect account-book reflection to the fact that, in trading with one another 'severally' in our private capacities, we are all trading liabilities that we 'jointly' issue – Fed promissory notes – in our public capacity

It is really that simple. And this should not be surprising. For, think about it: presently private sector banks hold privately extended loans on the asset sides of their balance sheets, and corresponding privately owned demand deposits on the liability sides of their balance sheets. All we are doing is removing those portions of both of these that involve public capital to the public balance sheet, leaving all that involves only private capital as is.

Before 'tying all together' by merging this liability side tweak with the asset side supplementation described above, it is worth quickly enumerating a few of the many advantages that the liability side supplementation will entail…

Inclusion: In a commercial society or exchange economy like ours, a payment system amounts to an essential public utility – a functionality that justice requires we make freely available to all. We will now have that. No more 'unbanked' or 'under-banked.' Call this the justice, inclusion, or public utility rationale for adding a universal 3D platform to the liability side of the public balance sheet.

Growth: Meanwhile, we measure the size and growth of our economy by reference to transaction volume, such that more efficient payments mean greater growth, *ceteris paribus*, and a larger economy over time. So, of course, does greater inclusion itself. Call this the growth or efficiency reason for adding a universal 3D platform to the liability side of the public balance sheet. Justice and efficiency thus converge to commend it.

Monetary Policy Efficacy: A 3D platform on the Fed's balance sheet will also enable much faster fiscal stimulus and other forms of monetary policy transmission than does our present system of private sector banking institutions, which we can only hope will transmit federal stimulus money to consumers in the form of cheap credit. *In extremis*, we will be able to drop digital 'helicopter money' directly into our digital 3D Wallets. In less volatile times – times that the reconstruction I'm prescribing will make far more common, indeed 'the new normal' – we can countercyclically modulate spending activity by raising 3D Wallet rates when we must slow down and lowering them when we must speed up spending activity.

Value: A digitized public payments platform on the liability side of the public balance sheet also will enable public agencies from federal on down to local, should we wish, to dispense monetary rewards to 'care work' providers and other contributors to the public good that our present payment arrangements render too difficult for most governments to deem feasible. A teen who helps grade-schoolers with homework after school, or a friend or family member who cares for a 'shut-in,' can transmit digital 'proof of work' (POW) to a city, state, or federal social services authority and receive spendable 3D credits in return. There will be no need for 'complementary currencies' – the newly digitized 3D will *itself* be that currency.

Privacy: Going digital will offer commercial and financial data privacy benefits too. Public administrators of Fed liabilities don't act for profit – there are no 'carrots' to entice 'data harvest.' They also are subject to both 4th Amendment constraints and criminal sanctions, unlike Wells Fargo or Facebook – there is a 'stick.'

No matter how one looks at the matter, then, it seems clear we should institute a universal 3D Platform on the liability side of the Fed balance sheet as the Fed digitizes the dollar and upgrades the national payments platform. Merge this with the public productive lending to be represented on the asset side of the Fed balance sheet, and you have in effect all the rudiments of a full Public Capital Manager to manage our public capital – *all while leaving* bona fide private *capital to* private *capital management*.

I promised before to return to 'productive,' which is what must distinguish public capital management from private capital management. Let us now complete our portrayal of renewed and regenerative public capital management by looking a bit more 'deeply' at what production both does and must mean. And let's link it up with the now clearly necessary project of national reconstruction – what I'm calling 'Building Back Better & Beyond.'

9. National Reconstruction and Development – An FSOC for 'R&D'

Have you noticed how the names of certain periods in our history, and of the institutions that we have established to manage significant challenges in those periods, tend to feature words like 'reconstruction' and 'development'?[20] And have you noticed how they also tend to run these together as if they were one-off, post-crisis affairs?

Such was the post- Civil War Reconstruction. Such was the Reconstruction Finance Corporation (RFC) that financed first our New Deal and then our Second World War mobilization. And such is the International Bank for Reconstruction and Development (IBRD, aka 'World Bank') that we established to rebuild the world after the Second World War.

Associating reconstruction and development is a good idea. Thinking of them as brief, one-off post-crisis affairs is not.

It is a tragic mistake.

It is, in effect, of a piece with, if not identical to, the mistake that has been our (1) long-term forgetting that capital is for production, not speculation, and thus (2) consigning our public capital to private management while (3) severing macro from micro and (4) modulation from allocation.

We should accordingly on the one hand 'lever' present appreciation of ongoing crisis necessitating a national 'reconstruction.' But we should on the other hand also make *permanent* those things that we *do* now reconstruct…

For *scientific and technological* development are *perpetual*, and so then must *national* development be. We speak of 'research and development' in the one case, and often abbreviate it as 'R&D.' Let's use the same conjunction henceforth for 'reconstruction and development' too, since the latter is always the fruit of the former.

---

[20] This Section draws upon HOCKETT, FINANCING THE GREEN NEW DEAL, op. cit.; Robert Hockett, *Productive Public-Private Partnering in Crisis and Beyond*, 63 CHALLENGE __ (2020), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3697293
; and Robert Hockett, *An FSOC for Continuous Public Investment: The National Reconstruction and Development Council*, 10 MICHIGAN BUSINESS AND ENTREPRENEURIAL LAW REVIEW __ (2020), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3697282.

Henceforth, then, 'R&D' will mean reconstruction and development too. And 'development' thus defined will in turn define … here comes the kicker … 'productive' as well. Here is the key to 'productive' as we move to make public investment – indeed, make America – both 'inventive-' and '*productive* again.'

How?

In other work, I have proposed establishment of new twinned national development institutions patterned in some ways after the War Industries Board / War Finance Corporation pairing and War Production Board / Reconstruction Finance Corporation pairing of the First and Second World War and New Deal eras, and in other ways after the Financial Stability Oversight Council (FSOC) of the post-2008/post-GFC era.[21]

Those pairings and conciliar arrangements, I've shown, simply reinstated in updated form Treasury Secretary Hamilton's Bank of the United States, which functioned both as a money-modulating central bank like our Fed and as a national development bank.

So how does my contemporary – and now permanent – rendition work?

The basic idea is this: Our Republic is now suffering the ravages of pandemic and a renewed worsening of racial and ethnic divisions rooted in developmental inequity. This comes atop the newly 'existentialized' threat of climate change that has emerged over the last decade. Whether we call it a Building Back Better or a Green New Deal, then, something like a national reconstruction and development is going to be necessary.

The sheer scale of the needs, along with the sheer number of distinct industries that will be touched, will in turn require an FSOC-like *coordinating council* to prevent mutually conflicting and needlessly overlapping national reconstruction and redevelopment efforts. It will also be necessary to facilitate adequate collaboration not only across executive departments, but also public and private sector agents, and among all 'levels' of government in our federated polity.

---

21 In addition to the sources last cited, see Robert Hockett, 'U.S. Must Take Equity Stakes in the Companies It Rescues,' *Financial Times*, March 28, 2020, available at https://www.ft.com/content/86a333d0-6dc3-11ea-89df-41bea055720b; Robert Hockett, 'The US Must Ramp Up Production by the World Wars I & II Playbook, Not the 2008 Playbook,' *Business Insider*, March 29, 2020, available at https://www.businessinsider.com/coronavirus-pandemic-us-should-ramp-up-ventilator-mask-manufacturing-2020-3; and Robert Hockett, 'We Are at War and Need Wartime Institutions to Keep Our Economy Afloat,' *The Hill*, April 4, 2020, available at https://thehill.com/opinion/white-house/491166-were-at-war-and-need-wartime-institutions-to-keep-our-economy-producing. Also Robert Hockett, *White Paper: How to Use the Military to Produce the Supplies America Needs to Fight the Coronavirus*, New Consensus (March 2020); Robert Hockett, *Immediate Coronavirus Economic Mitigation Measures*, New Consensus White Paper (March 2020).

What we must do, then, is establish what I call a National Reconstruction and Development Council (NRDC) charged with the task of developing and executing (1) a comprehensive yet coherent national pandemic response, then (2) a likewise comprehensive yet coherent infrastructural reconstruction, and then (3) an ongoing and continually updated national development policy – let's formalize it as an 'NDP' – recognized to be every bit as essential as national defense policy, national economic policy, national environmental policy, and so on. (Indeed the first is prerequisite to all others.)

In light of this mission, the Council must comprise the heads of the Fed, the Treasury, and all cabinet-level and other relevant Executive Agencies with jurisdiction over national industry and infrastructure – e.g., the Department of Energy, the Department of Transportation, the Federal Trade Commission, the Small Business Administration, the Department of Education, the Department of Labor, the Environmental Protection Agency, and so on. These persons will be charged with formulating long-term national development strategies within each of their respective jurisdictional mandates, then 'synching up' and synthesizing them into a single coherent and non-duplicative whole.

The *financial* operations of NRDC can be managed by an Investment Committee that I have proposed as an arm of the NRDC. These will be reminiscent of those of Hamilton's Bank, the WFC, and the RFC in developing means by which private sector agents can participate in public investment, thereby both conferring 'stakes' in successful development to citizens and businesses, and soaking up private capital that might otherwise fuel inflation by flowing to less productive, more speculative deployments.

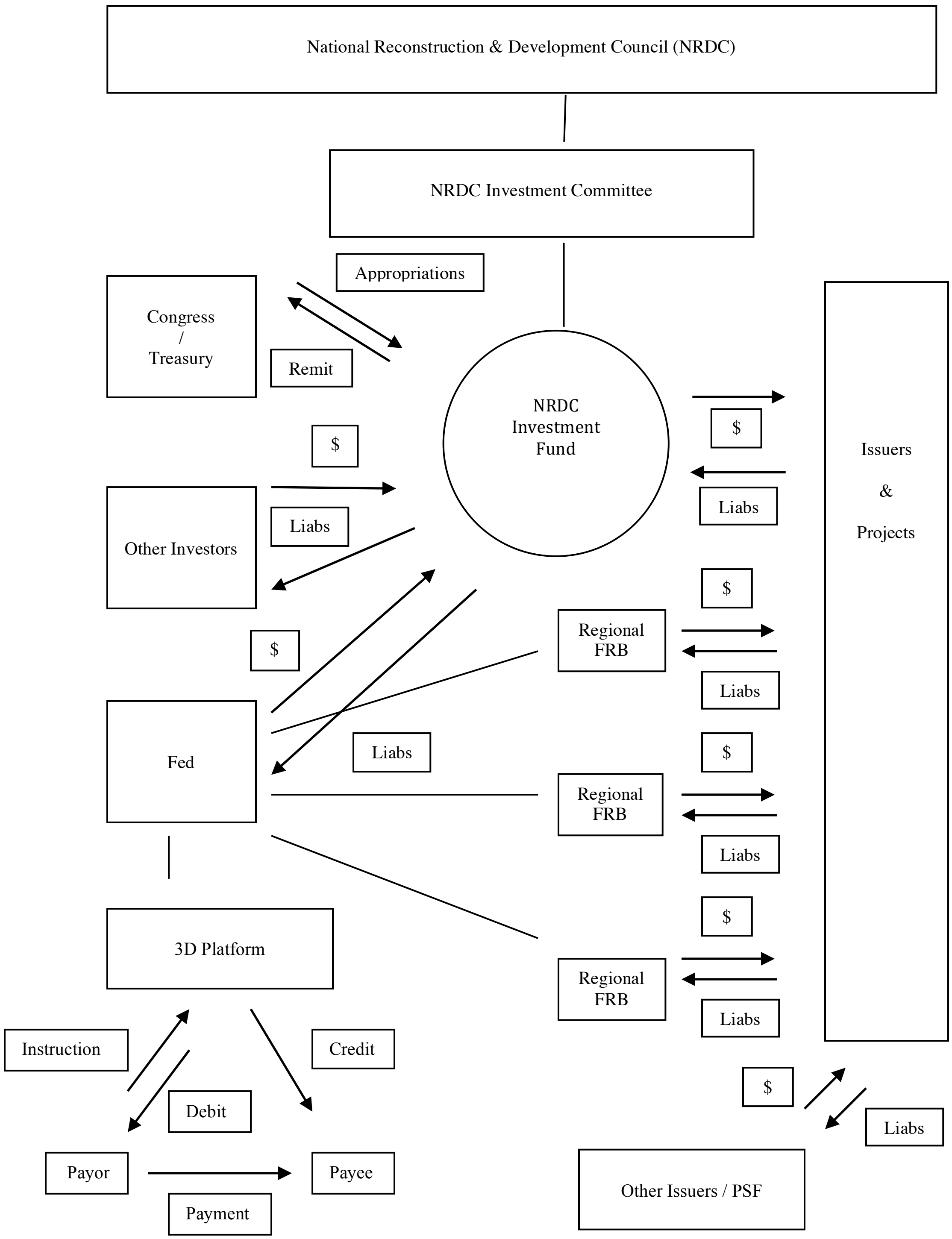
Bring these together with the 'Upgraded Fed' schematized above, and you have all that you need for efficient and effective public capital management both in reconstructing right now and in developing – or rather, perpetually *re*developing – ever after.

The NRDC, which in combining executive agencies is democratically accountable, democratically determine what we as a polity deem 'productive,' and acts to coordinate – in an information aggregating and facilitative sense – ongoing productive development across our full continent-spanning Republic. Meanwhile our 'People's Fed,' which remember is *part* of our NRDC, assists local businesses and local banks nationwide at the more 'micro' level, acting as a system of local development banks per the original vision of the Federal Reserve Act of 1913.

Figure 3 depicts the upshot. It is meant not to replace or displace *Figures 1 & 2*, but simply to combine and flesh out a bit more detail left implicit in both of them. Here we see (1) the role that the NRDC will play in democratically determining what counts as 'development' and hence what is 'productive,' (2) the role that the regional Federal Reserve Banks will play in choosing and funding investments thus counted as ‘productive,’ and (3) the combined role that the FRB and the NRDC Investment Committee and any fund or funds that it manages will play in assuring inter-regional allocative balance and, therefore, aggregate modulatory effectiveness in the financing of productive development projects nationwide.

The Price Stabilization Fund (PSF) or ‘People’s Portfolio,’ more on which in a moment, for its part can be either an NRDC fund or a Fed fund. Either way, the Fed and the NRDC will have to be ‘on the same page’ where its investments are concerned, the NRDC with a view to cross-sectoral allocative needs entailed by development needs, and the Fed with a view to cross-regional allocative needs in relation to modulatory needs.

Figure 3: 'People's Fed'/NRDC Administrative & Financial Flow Structure



10. *Sustainably Equitable* 'R&D' – Price Stabilization & Growth Sharing

A final word on price stability and equitable growth sharing.[22] Yet another class of new public investment instruments that either our new People's Fed or our NDRC's IC might hold could be shares in a new Price Stabilization Fund, or 'People's Portfolio,' that I also propose in other work.

Here the idea is to recognize that some market prices and indices of such prices are what I call 'systemically important,' by analogy to the Systemically Important Financial Institutions (SIFIs) that FSOC designates. These are prices that pervasively enter either directly into other prices as inputs, or indirectly into other prices by serving as benchmarks or reference points for other pricing decisions or derivative contracts.

The Fed has in effect long recognized at least one species of SIPI, and acted in the capital markets to 'collar' its movements within one narrow band – I refer to prevailing money rental, or 'interest' rates. Recent years have seen the Fed widen the sphere to include mortgage instruments and, now, even broad portfolios of corporate instruments – first in response to the dramas of 2006-09, and now in response to the Covid pandemic.

It is all but inevitable that the Fed, along with a new NRDC, will wish to target more such prices in future in the name of systemic financial stability. That will be partly because of effective credit-modulation's practical dependence on good allocation as discussed above, and partly because '*fine-tuning*' will be needed as the nation embarks next year on post-Covid reconstruction and then either a Green New Deal or a 'Building Back Better' revitalization of the kind also discussed above.

In time the most efficient means of handling this growing number of instruments traded in broadened Fed open market operations (or an NRDC equivalent) will be to hold all in one fund or, in investment-company-speak, 'family of funds.' This fund will have to be managed in close coordination with the development and execution of NRDC-determined national development policy, not to mention the Regional Feds' gatekeeping function in respect of private sector bank lending in keeping with evolving national development strategy as described above.

It will make sense, then, either for the NRDC's Investment Committee to manage this fund and sell the Fed interests in it, or for the Fed itself to assemble and

22 This Section draws upon Robert Hockett, *The People's Portfolio: A Macroprudential Price Stabilization Fund*, 64 CHALLENGE __ (2020) (forthcoming); Robert Hockett, *Open Labor Market Operations*, 62 CHALLENGE 113 (2019), available at https://www.tandfonline.com/doi/abs/10.1080/05775132.2019.1583418; Robert Hockett, *How to Make QE More Helpful—By Fed Shorting of Commodities,* BENZINGA (Oct. 14, 2011, 8:41 PM), https://www.benzinga.com/news/11/10/1988109/how-to-make-qe-more-helpful-by-fed-shorting-of-commodities; HOCKETT, FINANCING THE GREEN NEW DEAL, *op. cit.*; and Hockett, *Treasury Growth Dividends*, *op. cit*.

manage the Fund. Hence my inclusion of this Fund in *Figure* 3 above. Either way, this will afford another set of assets for the newly enlarged public asset portfolio corresponding to the newly enlarged liability side of the Fed balance sheet brought by Citizen, Business, and Guest Wallets.

Finally, we can imagine one additional source of enlargement of both the asset and liability sides of the new People's Fed balance sheet: If national redevelopment succeeds as investment becomes productive rather than merely speculative again, national wealth will be growing. So, then, will the Fed's asset portfolio, as investment returns flow in.

Why not *share these with citizens*, in a manner of growth-indexed UBI – at least insofar as this can be kept consistent with consumer price stability. We can think of these as 'Returns on Public Investment' (ROPI) wrought by public capital management alongside the more familiar 'Returns on Investment' (ROI) associated with private capital management.

In other work cited above, I have proposed these as 'Treasury Growth Dividends,' so-named in virtue of their association with my proposed Digital Greenback and Treasury Dollar. If we go the full Fed/NRDC route prescribed here, however, those will be best handled as I've just described – by our revitalized People's Fed and NRDC – and be called 'Citizen-' or 'Commonwealth Growth Dividends.'

Once again either way, the mutual enlargement of both sides of the Fed balance sheet seems fitting – indeed fully vindicating of the very point of this brief *précis*. For this has been all about reclaiming public capital for publicly cognizably productive investment – investment that grows the Republic's wealth. And the Republic's wealth just is the Citizens' wealth – our 'Commonwealth.' This is, of course, what we owe and are owed by one another.[23]

It's literally what we owe to ourselves.

Conclusion – Building Back Better and Beyond

And that's that. We have found the distinction between public and private investment capital, seen why the public and private sectors must manage their own shares of the aggregate, and designed a full architecture to enable that – an architecture that amounts to a natural extension of present arrangements, and changes them neither a whit more nor a whit less than what's requisite to achieving that task.

---

[23] See ROBERT HOCKETT, A REPUBLIC OF OWNERS (Yale U. Press 2021) (forthcoming); and HOCKETT, ROUSSEAUVIAN MONEY, *op. cit.*

The next steps, of course, are to promulgate new rules under old laws and get moving. And here, I must say, prospects have not in our lifetimes looked as promising as they do now…

Virtually everyone seems to agree that something's gone terribly wrong with our present financial arrangements – arrangements that sever public *capital* from publically cognizably productive *investment*. All appear likewise to agree that a national reconstruction, followed by serious national redevelopment, is now imperative. And now both the ideas of and the means to enabling public options for banking and even central bank-issued digital currencies are gaining traction as well.

Add in enthusiasm for a Building Back Better or Green New Deal, and it grows difficult not to grow giddy at this 'perfect storm' of readiness to do all that needs doing on both the asset and liability sides of our public ledger.

These things are all sure to happen if darker – or hotter – forces don't tear down or burn up our Republic before we've arrived. For the logic that forces them on us is hard not to see once it's been pointed out, especially as the dysfunctions that this logic shows to inevitable *until* we do it continue to gather all round us.

But there is no sense in *waiting* for these things to happen. The thing to do now is to do it, and do it now. Ours is a Capital Commons whether we see it and use it or not. It is, as the financiers say, money on the table' – in this case *public* money on the table.

It's time now to take it and grow it. It's ours.

****

Summary Appendix: 12 Steps to the Capital Commons

We can sum up the foregoing in twelve paragraphs. We might think of these as a sequenced '12-step program' for the reform first of understanding and then of action in the cause of both (a) ending our dysfunctional dependence on private management of our public capital, and symmetrically (b) re-assuming responsibility for the productive management of that capital. The thing to do, then, is to understand that …

1) Most investment capital in 'developed' nations is public capital, which is not pre-accumulated and 'intermediated' like private capital, but publicly generated and indefinitely extensible as 'endogenous credit-money.' Publicly licensed banks and bank-equivalents ('shadow banks') play a key role in generating this form of monetized capital. Hence Wicksell's 'bank money' and 'loanable funds,' which some self-styled heterodox and orthodox economists routinely mischaracterize as exogenously given private, not endogenously generated public, capital.

2) *Private management* of public capital inevitably results in misallocation (under-investment), ineffective modulation (over-speculation), and secular stagnation (under-production). That is thanks

to (a) the monetization of capital in all non-barter exchange economies, combined with (b) recursive collective action predicaments that pervade all 'privately ordered,' decentralized capital & money markets. The first separates profit and production; the second ensures that private sector capital and money managers opt for the former, not for the latter.

3) Both (2)(a) and (2)(b) above also drive 'financialization' in privately ordered markets for public capital – that is, the recursive stratification of capital markets into 'secondary,' 'tertiary, … '*n*-ary' and derivative markets. These are the subject of my 'Meta-Markets' and 'Dialectic of Finance' work. The process begins innocently as individually rational private sector attempts to re-socialize private investment-risk attendant on decentralized privately ordered production, but these quickly morph into collectively irrational sites at which capital managers find greater profit in *gambling* on *price movements* in 'capital *markets*' than in *investing* in productive capital *projects*. Financialization is in this sense 'the mother of' – or, better, the aggregation of – all recursive collective action predicaments in privately ordered markets in which public capital is privately traded.

4) Groups solve collective action predicaments through the exercise of collective agency – that is, through collective governance or public action. Publicly generated capital must accordingly, in light of both (2) and (3), be publicly managed, while privately intermediated capital may be privately managed. Privately ordered, decentralized 'capitalist' production is sustainable only if the public component of the nation's *capital* stock is *not* privately ordered or decentralized. Narrow banking proposals like Fisher's of the 1930s and its contemporary retreads reflect understanding of one side of this two-sided 'coin' but not the other – they 'get' the 'shalt not' of privately managed public capital, but are silent on the 'thou shalt' of *publicly* managed public capital.

5) Public capital management can be and is best modeled as a central bank balance sheet. In the U.S., that is the Federal Reserve ('Fed') Balance Sheet. Public reclamation of responsibility for managing the public share of the nation's capital stock will accordingly register as an augmentation of the Fed balance sheet, growing its asset and liability 'sides' in tandem. We can call the resultant augmented or 'upgraded' Fed 'a Peoples' Fed,' or 'Citizens' Fed,' tasked with publicly *managing* our *Re*public's *investment* capital – the wealth of our Commonwealth.

6) On the Public Asset 'side' of the Fed Balance Sheet, the most straightforward and non-'disruptive' corrective measure will be to reinstate the Fed's original role as a two-tiered public capital manager comprising both (a) at the 'macro' level, a Federal Reserve Board tasked with modulating monetized credit aggregates economy-wide, and (b) at the 'micro' level, Regional Federal Reserve Banks tasked with allocating public investment capital only productively, not speculatively, as befits that network of regional development banks which the Fed System's second tier was originally intended to be.

7) Productive Regional Fed lending will thus once again take both of the forms it originally took – (a) direct purchase of productive project-associated paper issued by local and regional 'operating companies' (that is, producers and service-providers), and (b) indirect lending to operating companies through public and private sector community banks that fund lending not with deposits, but through Fed Discount Window lending, which latter will be conditioned *ex ante* on projects' promising to be productive, not speculative. I call this 'Re-Distributing,' as in *again distributing* the project lending of the Fed over the full breadth of our continent-spanning Repubic. Our mantra should be to 'Spread the Fed.'

8) On the Public Liability side of the newly augmented or upgraded Fed Balance Sheet, the most straightforward and non-'disruptive' corrective measure will be to extend to all citizens, businesses, and legal residents of the nation interest-bearing P2P digital wallets, the balances in which will be new Fed liabilities corresponding to the new Fed assets described in (7). This is my 'Democratic Digital Dollar' and associated 'Fed Wallets' proposal, which should be considered (a) the 'end-game' of my more immediately implementable 'Treasury Dollar' and 'Digital Greenbacks' proposals now before Congress, and (b) the national rendition of my state and municipal 'Inclusive Value Ledger' (IVL) proposal now before the New York State Assembly and Senate.

9) Inasmuch as Federal Reserve Notes (paper dollars) and their fiduciary equivalent (Wicksellian bank money) are themselves Fed liabilities – indeed, our presently dominant form of monetized public capital instrument – the Democratic Digital Dollar will amount simply to (a) a digitization of already-existent Fed liabilities, and (b) a movement of the 'bank money' component thereof from private sector bank balance sheets to the Fed Balance Sheet. This will in turn make for far better banking than we presently enjoy.

10) It will make for better banking in multiple ways: (a) There will be no more commercial or financial exclusion ('unbanked' or 'underbanked' status) plaguing our citizenry or small businesses, nor will there be privately assessed rents known euphemistically as 'fees.' (b) There will be no more shortages of circulating payment media in isolated communities, and transaction speeds, hence growth, will accelerate. (c) Monetary policy will no longer be subject to leakage owing to reliance on private sector financial institutions that 'intermediate' – that is, interfere with relations – between the Citizenry and its Central Bank; the Fed will modulate the national credit-money supply by raising and lowering interest paid out on wallets, not merely private sector bank interest on reserves (IOR), and in extremis can even drop digital 'helicopter money' into citizens' wallets. (d) Public authorities will be able to compensate currently uncompensated 'care work' upon digital 'proof of work (POW). (e) Finally, the 3D being a public commercial utility (as FedWire and FedNow are now), profits are removed from the picture while 4th Amendment protections are added – there will be no more breaches of commercial privacy or 'harvesting' of consumer financial data.

11) We can complete the Productive Public Capital (PPC) picture with an organizational tweak to our existing system of cabinet-level executive agencies that exercise jurisdiction over the nation's infrastructure and industry: My proposed 'National Reconstruction & Development Council' (NRDC) - an 'FSOC for Development' comprising the heads of all of the aforementioned cabinet level executive agencies – will develop, regularly update, and execute a National Development Policy (NDP), which both (a) affords guidance as to what we democratically deem 'productive' for purposes of Fed lending, and (b) coordinates with the Fed in assuring that productive lending and national development occur evenly and equitably throughout our continent-spanning Republic in manners neither inflationary nor deflationary.

12) Finally, we can round out the public capital management upgrade with equitable growth sharing and macroprudential price stabilization - my 'Growth Dividends' proposal for regular UBI deposits into the Fed Wallets as national wealth grows as mentioned above, and a Price Stabilization Fund (PSF), a.k.a. 'People's Portfolio' for open market operations to collar what I call Systemically Important Prices and Indices (SIPIs) – housing prices, fuel prices, Libor, some additional staple and commodity prices, and perhaps the SSP or prevailing wage rates at the bottom of the wage scale. These are of course add-ons to the core upgrade elaborated above, hence can be postponed or severed if not already broadly supported by the citizenry.