Kennedy School Review

20th Anniversary Issue

In This Issue:

4 | **In Guarding Democracy, Hindsight Really Will Be 2020:** The Tabletop Exercise as a Model for Securing American Elections

33 | **The Forgotten Climate Migrants:** How an Outdated International Legal Framework Is Leaving People Behind

126 | **Fulfilling the Image that Society Creates for Us:** A Conversation between Brothers on Criminal Justice Reform

DEMOCRACY DISPLACED: *Reimagining Policy for the Next Decade*

Volume XX | An HKS Student Publication

Kennedy School Review

Volume XX

An HKS Student Publication
Visit us online
harvardkennedyschoolreview.com

The *Kennedy School Review* (ISSN: 1535-0215) is a student publication at the John F. Kennedy School of Government at Harvard University. All views expressed in the journal are those of the authors and interviewees only and do not represent the views of Harvard University, the Harvard Kennedy School, the staff of the *Kennedy School Review*, or any of its affiliates.

Copyright 2020 by the President and Fellows of Harvard College. All rights reserved. Except as otherwise specified, no article or portion herein is to be reproduced or adapted to other works without the expressed written consent of the editors of the *Kennedy School Review*.

Kennedy School Review
John F. Kennedy School of Government
Harvard University
79 John F. Kennedy Street
Cambridge, MA 02138

Telephone: (617) 495-8934

E-mail: harvardksr@gmail.com

harvardkennedyschoolreview.com

Staff

Editor-in-Chief
Vandinika Shukla

Managing Editors

Print
Margaret Kadifa
Nikhil Kumar

Digital
Hilary Gelfond
Stephanie Nussbaum

Podcast
Phoenix McLaughlin
Prachi Naik

Strategy
Amanda Patarino

Associate Editors
Alex Domash
Alexander de Avila
Anders Corey
Andrea Alvarez Marin
Christie Lawrence
Daniel Remler
David Hicks
Derrick Flakoll
Hugh Verrier
Inayat Sabhikhi
Jaylia Yan
Jess Northend
Kanika Verma
Katie Miller
Katie Stenclik
Kevin Frazier
Lucy O'Keeffe
Nagela Nukuna
Nathaniel Kim
Samantha Batel
Sarah Jacobs
Simon Borumand
Vinith Annam
Zac Smith
Zayba Abdulla

Publisher
Martha Foley

Faculty Advisor
Richard Parker

Layout & Design
Liliana Ballesteros

Copy Editor
Tracy Campbell

Contributors
Aaran Patel
Adam Barsuhn
Aisha Iqbal
Alex Domash
Alexander de Avila
Alina Clough
Ana Ramos
Bochen Han
Chu Wang
Daniel Hernández Aldaco
Daniel Remler
Daniela Philipson García
Deeneaus Polk
Derrick Flakoll
Desmond Polk
Esther Brito Ruiz
Eva Heinstein
Gabriela Lastres
Gabrielle Hubert
Gaia van der Esch
Ghida Ismail
Holly Ransom
Jean-Baptiste Féline
Jeremy Ney
Jihae Lee
Joshua Baltodano
Joyce Ng
Lindsay Ashby Devonas
Lucy O'Keeffe
Marina Kusumawardhani
Melina Anlin
Nalini Tata
Nathaniel Kim
Sarmad Ishfaq
Simon Borumand
Stephanie Nussbaum
Will Hickey

Special Thanks
Nancy Gibbs
Shorenstein Center on Media, Politics and Public Policy

Editors' Note

This journal marks the 20th anniversary of the *Kennedy School Review*. Twenty years of ideas, voices, and bold visions to change the face of policy.

The first edition of the *Kennedy School Review* opened with the reflection that "we stand on the edge of a world we barely recognize." As the world around us is on trial, we once again find ourselves at the edge of the unknown. As homes, lives, and identities are displaced, democratic institutions struggle to endure. Yet in that displacement, we each have something to teach one another about freedom, equality, and *Veritas*. There is hope in the grassroots, and thus our journal for the new decade locates policy recommendations in those lived experiences.

The journal you are holding is the culmination of countless hours of research, on-the-ground reporting, difficult and emboldening conversations, and writing and editing from nearly 75 people. Our passionate and driven staff went through a record number of submissions to curate these 32 pieces. Our contributors tackle topics ranging from contradicting narratives about Mississippi's prisons to the rise of the evangelical right in Brazil. They offer lessons on polarization, election security, human-centered policy decisions despite disagreement, responsible and ethical technology, inclusion of the arts and sports in public policy, and the climate-driven migration crisis. Our journal breaks into new forms of storytelling, including photo essays, business ecosystem maps, and narratives from migrants in shelters far from home, reimagining not only policy but also communication for the next decade.

The hope and resilience in this journal's vision for public policy sets this edition apart. In our 20th year, the *Kennedy School Review* grew in its size and determination to promote bold ideas and elevate new voices. We have recruited more editors and published articles with more ambition in our print journal and our digital edition, harvardkennedyschoolreview.com, than ever before. The digital journal expanded its content reach, curating a special series on the 2020 US election and publishing insights on topics including the transatlantic freeze to the Hong Kong protests. Now in its third season, our podcast released first-hand accounts from the front lines of equitable pedagogy and interviews on right-wing extremism.

We are grateful and proud to be conduits for the power of words and ideas. We hope you keep reading and find faith in the revolutionary capacity of our collective voice.

Vandinika Shukla
Editor-in-Chief

Margaret Kadifa and Nikhil Kumar
Managing Editors, Print

The Case for a Digital Dollar: Security at Home and Abroad

Jeremy Ney

The US dollar must go digital. A digital dollar will not only benefit the US economy through financial stability at home, it will also improve America's financial security abroad, particularly in light of China's economic rise. In 2009, the late Paul Volcker quipped that the ATM was the most useful financial innovation in the last 20 years—more than a decade later, policymakers have the opportunity to create the next great financial innovation: central bank digital currencies.

Central bank digital currencies, or CBDCs, refer to the digital form of fiat money. Rather than issuing physical cash or coins, the government issues digital tokens whose value is backed by the full faith and credit of the government. Unlike Venmo balances or credit card accounts, CBDCs are the liability of the central bank, which in turn maintains deposits, reserves, and accounts rather than a private firm.[1]

America's interest in a digital dollar emerges from two spheres: financial security and geopolitical realities. First, a CBDC would allow Americans to deposit money directly at the Federal Reserve, thus creating a truly risk-free store of value. Second, China is currently pursuing its own digital yuan, which could undermine America's ability to implement sanctions effectively, particularly against North Korea.[2] America must therefore innovate in global payments not only to maintain critical diplomatic tools but also to ensure greater resiliency for the US economy.

Domestic Financial Stability

The most important benefit of CBDCs is the ability to improve the safety and soundness of the US economy. The safest place that depositors can keep their money is at a central bank.

Most CBDC research has focused on monetary policy effectiveness and expected benefits in payments systems, but less research exists to highlight how CBDCs may impact financial stability. If depositors switch from holding their savings at commercial banks and instead keep these funds at central banks, America will see significant shifts in bank business models, lending, and risk allocation.

Current workarounds for risk-free money fall short. The closest approximation of security is the federal deposit insurance system, but this provides a less-than-full guarantee. While the FDIC deposit insurance fund totals $41 billion, it is supposed to cover $6 trillion in insured deposits.[3] This means that the $250,000 FDIC cap could only reimburse 0.6 percent of deposits kept at banks in the event of default. As a result, bank runs may occur because depositors know that their money is not truly safe during crises. The government must therefore intervene during periods of distress via bailouts and new complex regulatory regimes.

Deposit insurance actually distorts market pricing in two ways. First, it explicitly lowers the risk premium charged by banks. In other words, banks know that the government is responsible for repaying losses to depositors in the event of a bank failure—thus, they do not accurately price their products according to the true risk they are taking. Economists have noted that this can distort the risk premium charged by

banks by as much as 25 basis points.[4,5,6,7]

Second, FDIC deposit insurance implicitly reduces market discipline. The World Bank summarizes this effect well: "When deposits are insured . . . bank depositors lack incentives to monitor. The lack of market discipline leads to excessive risk-taking culminating in banking crises."[8] While insurance is helpful to defend against bad outcomes, the current system has incentivized poor risk-taking practices.

The goal of CBDCs, in turn, is to provide the same type of risk-free store of value without the subsequent market distortions. Rather than creating a convoluted set of intermediates that require heavy oversight and engender moral hazard, CBDCs can provide a truly risk-free store of value. CBDCs thus become the public policy good that was desired all along. The obvious next question is how we can ensure that CBDCs do not cause similar or worse market distortions.

The International Monetary Fund's (IMF) 2018 framework, Casting Light on Central Bank Digital Currencies,[9] sheds light on this exact question. The IMF categorizes the risks of rolling out a CBDC into two different scenarios: the risks of disrupting bank business models in tranquil financial times and the risk of bank runs in times of systemic financial distress. The report notes that CBDCs may reduce lending in the short term, but if implemented correctly, this economic shift will be counterbalanced by a long-term improvement in credit quality. In other words, deposits will flow out of commercial banks and into central banks, yet this will ensure that the lending that banks do engage in will be of a higher quality.

There are, however, some challenges in implementing CBDCs. First, the Federal Reserve would be responsible for executing such a policy, yet it would need to develop the technical capabilities to allow all retail depositors to hold accounts there. Second, bank business models would have to evolve as these institutions lose a significant source of their funding to CBDCs. Deposits are considered a sticky asset, and banks may have to offer higher interest rates in order to attract regular deposits. Third, CBDCs may have disproportionate impacts in geographic locations in which community banks are especially reliant on deposits to fund their lending models. Despite these challenges, consumer safety and soundness remain paramount.

"If China is the architect of this new global payments system, the United States may struggle to monitor transactions and maintain sanctions."

National Security and Statecraft

America's international interests greatly outweigh any obstacles to implementing a central bank digital currency. America's influence in the global economy rests on two pillars. The first pillar is the strength of the US economy, which emerges from America's capacity to withstand financial shocks, to grow its GDP, and to maintain the US dollar as the global reserve currency. The second pillar is the financial infrastructure and payments processing that America and its allies rely on to track payments, including those by countries that violate sanctions. A digital currency created by a foreign country could weaken that second pillar of American influence if it became the standard for global payments. In such a scenario, countries could deploy digital currencies to bypass international sanctions, undermining a key instrument in America's foreign policy toolkit.

The largest threat to US economic primacy in international digital payments comes from China and its push to develop its own digital currency. The People's Bank of China (PBoC) has proposed[10] releasing a digital yuan and has filed over 50 patents[11] for a CBDC, which would allow anyone transacting in the new currency to operate outside of traditional payments infrastructure. This traditional infrastructure is currently operated by SWIFT, the Society for Worldwide Interbank Financial Telecommunication. Congressmen French Hill (R-Arkansas) and Bill Foster (D-Illinois) penned a letter to Federal Reserve Chairman Jerome Powell, noting that "the US dollar

could be in long-term jeopardy from wide adoption of digital fiat currencies."[12]

China's economic strength and size makes the digital yuan much more potent. In a country where annual mobile payment volumes are nearly $800 billion[13] (10 times that of the United States), a digital currency could be rapidly adopted.

Surveillance may be at the heart of China's decision to move forward with a digital currency. Privacy concerns have mounted as the PBoC has been compared to Big Brother[14] in its quest for insight into civilian transactions.

While a new global payments system may appear dangerous to US interests, the current system is not perfect either. SWIFT has come under considerable pressure in recent years, as notable cyberattacks, like the $81 million theft by North Koreans against the Central Bank of Bangladesh,[15] have highlighted end-point weaknesses in payments infrastructure. In this case, North Koreans were able to compromise a SWIFT computer to route payments to bank accounts across the world and would have stolen $1 billion were it not for several fortunate mistakes on the part of the hackers. As such, the infrastructure associated with a US CBDC could provide the technological rails to build a more secure ecosystem for transactions.

If China is the architect of this new global payments system, the United States may struggle to monitor transactions and maintain sanctions. For some nations (and non-state actors) that want to avoid US sanctions and oversight, the ability to skirt such regulations would be incentive enough to adopt the digital yuan. Former chief economist of the IMF Ken Rogoff has pointed out these threats: "Just as technology has disrupted media, politics, and business, it is on the verge of disrupting America's ability to leverage faith in its currency to pursue its broader national interests."[16]

The United States may increasingly need to rely on military force if American economic influence wanes. Since September 11, America has deployed "smart sanctions,"[17] which focus on arms embargoes, capital restraints, and asset freezes. President George W. Bush's passage of executive order 13224 and section 311 of the Patriot Act gave the Treasury Department broad powers to engage in sanctions. Several economists have noted[18] that sanctions are a non-violent solution that reduce the propensity toward war; actions that diminish the effectiveness of sanctions as a policy tool may spur the United States to rely increasingly on kinetic options.

"America must therefore innovate in global payments not only to maintain critical diplomatic tools but also to ensure greater resiliency for the US economy."

China is not alone in trying to develop a new economic system beyond US control. Russia,[19] Iran,[20] and Venezuela[21] have all announced that they are considering developing (or have already developed) digital currencies to liberalize the flow of money into their countries. President Maduro has claimed[22] that the Venezuelan digital currency, dubbed the "Petro," has raised over $3.3 billion since its launch in February 2018. President Trump signed an executive order banning Americans from purchasing crypto Petro.

Other cryptocurrencies, like Libra or Bitcoin, do not pose as serious a threat to US economic primacy. Today, roughly 5,000 digital currencies have a total market value of over $263 billion.[23] Of these, Bitcoin has the largest circulation, but it pales in comparison to the $1.75 trillion US dollars in circulation.[24] "While we debate these issues, the rest of the world isn't waiting," Mark Zuckerberg, the Facebook chief executive, said during his testimony in front of the House Financial Services Committee. "If America doesn't innovate, our financial leadership isn't guaranteed."[25]

In sum, the Federal Reserve, US Treasury, and Congress can work together to help America outmaneuver China. Former Commodity Futures Trading Commission (CFTC) chair Christopher Giancarlo and former CFTC chief innovation officer Daniel Gorfine argue that just as the Soviet launch into space

threatened US technological dominance, "recent developments in digital currencies similarly threaten the dollar's dominance." They posit that "a network of Beijing-dependent states trading a digital yuan . . . could end the delicate world economic order Americans have long taken for granted."[26]

Economic statecraft remains a critical tool in any country's arsenal. The above agencies must ensure that China does not gain the upper hand in soft power competition.

Conclusion

The US financial system can be restructured by giving universal direct access to credit risk-free central bank money. In the ten years since the financial crisis, technological advancements and regulatory tools have laid the foundation for the emergence of central bank digital currencies.

American policymakers must understand three key benefits and threats that digital currencies pose. First, digital currencies created by competing states may threaten economic primacy by allowing countries to bypass sanctions that provide a critical tool for American economic diplomacy. Second, digital currencies may improve US financial stability by providing a risk-free store of value for retail depositors. Third, policymakers at the Treasury Department and Federal Reserve ought to consider how CBDC design implications may disrupt bank business models, lending, and certain communities in America. As the global economy becomes increasingly interconnected and as technology continues to shape economic statecraft, CBDCs have emerged as a method to fundamentally reshape the financial system and promote long-term financial stability.

Jeremy is a dual-degree graduate student at MIT Sloan and the John F. Kennedy School of Government at Harvard University (MBA/MPA) studying the intersection of technology, policy, and income inequality. He previously worked at the Federal Reserve Bank of New York focused on developing new approaches to forecasting and crisis readiness.

Endnotes

1 "Digital Currency Wars: A National Security Crisis Simulation," Belfer Center for Science and International Affairs, 19 November 2019, https://www.belfercenter.org/dcw.

2 Kenneth Rogoff, "The High Stakes of the Coming Digital Currency War," Project Syndicate, 11 November 2019, https://www.project-syndicate.org/commentary/global-battle-for-digital-currency-supremacy-by-kenneth-rogoff-2019-11?barrier=accesspaylog.

3 Terry Burnham, "Is your money safe at the bank? An economist says 'no' and withdraws his," *PBS* (blog), 30 January 2014, https://www.pbs.org/newshour/economy/is-your-money-safe-at-the-bank-an-economist-says-no-and-withdraws-his.

4 Viral V. Acharya, Deniz Anginer, and A. Joseph Warburton, "The End of Market Discipline? Investor Expectations of Implicit State Guarantees," 1 May 2016, available at SSRN: http://ssrn.com/abstract=1961656.

5 Asli Demirgüç-Kunt and Harry Huizinga, "Market discipline and deposit insurance," Journal of Monetary Economics 51, no. 2 (2003): 375–99.

6 Jan Bartholdy, Glenn Boyle, and Roger Stover, "Deposit insurance and the risk premium in bank deposit rates," *Journal of Banking & Finance* 27, no. 4 (2003): 699–717.

7 Jan Bartholdy, Glenn Boyle, and Roger Stover, "Deposit Insurance, Bank Regulation and Interest Rates: Some International Evidence," 26 August 1999, available at SSRN: https://ssrn.com/abstract=5802.

8 Deniz Anginer, Asli Demirgüç-Kunt, and Min Zhu, "How does deposit insurance affect bank risk? Evidence from the recent crisis," *Journal of Banking & Finance* 48 (2014): 312–21.

9 Tommaso Mancini Griffoli et al, "Casting Light on Central Bank Digital Currencies," Staff Discussion Notes, International Monetary Fund, 12 November 2018, https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/11/13/Casting-Light-on-Central-Bank-Digital-Currencies-46233.

10 Bloomberg News, "Why China's Rushing to Mint Its Own Digital Currency," Bloomberg, 10 September 2019, https://www.bloomberg.com/news/articles/2019-09-10/why-china-s-rushing-to-mint-its-own-digital-currency-quicktake.

11 Brenda Goh and Samuel Shen, "China's proposed digital currency more about policing than progress," *Reuters*, 1 November 2019, https://www.reuters.com/article/us-china-markets-digital-currency/chinas-proposed-digital-currency-more-about-policing-than-progress-idUSKBN1XB3QP.

12 French Hill and Bill Foster, "Letter to the Honorable Jerome H. Powell on the Global State of Digital Currencies" (Congress of the United States of America, 2019) [PDF file].

13 Kevin Wei Wang et al., "Digital China: Powering the economy to global competitiveness," McKinsey Global Institute, December 2017, https://www.mckinsey.com/featured-insights/

china/digital-china-powering-the-economy-to-global-competitiveness.

14 Raymond Zhong, "China's Cryptocurrency Plan Has a Powerful Partner: Big Brother," *New York Times*, 18 October 2019, https://www.nytimes.com/2019/10/18/technology/china-cryptocurrency-facebook-libra.html.

15 Joshua Hammer, "The Billion-Dollar Bank Job," *New York Times*, 3 May 2018, https://www.nytimes.com/interactive/2018/05/03/magazine/money-issue-bangladesh-billion-dollar-bank-heist.html.

16 Rogoff, "The High Stakes of the Coming Digital Currency War."

17 Jonathan Masters, "What Are Economic Sanctions?" Council on Foreign Relations, 12 August 2019, https://www.cfr.org/backgrounder/what-are-economic-sanctions.

18 David J. Lektzian and Christopher M. Sprecher, "Sanctions, Signals, and Militarized Conflict," *American Journal of Political Science* 51, no. 2 (2007): 415–31.

19 Max Seddon and Martin Arnold, "Putin considers 'cryptorubble' as Moscow seeks to evade sanctions," *Financial Times*, 1 January 2018, https://www.ft.com/content/54d026d8-e4cc-11e7-97e2-916d4fbac0da.

20 *Iranian Virtual Currency Activity and Risks to Financial Institutions* (Standard Chartered Bank, 2019) [PDF file].

21 Simon Shuster, "Exclusive: Russia Secretly Helped Venezuela Launch a Cryptocurrency to Evade U.S. Sanctions," *Time*, 20 March 2018, https://time.com/5206835/exclusive-russia-petro-venezuela-cryptocurrency/.

22 Brian Ellsworth, "Special Report: In Venezuela, new cryptocurrency is nowhere to be found," Reuters, August 2018, https://www.reuters.com/article/us-cryptocurrency-venezuela-special-repor/special-report-in-venezuela-new-cryptocurrency-is-nowhere-to-be-found-idUSKCN1LF15U.

23 "All Cryptocurrencies," CoinMarketCap, February 2020, https://coinmarketcap.com/all/views/all/.

24 "How much U.S. currency is in circulation," Board of Governors of the Federal Reserve System, January 2020, https://www.federalreserve.gov/faqs/currency_12773.htm.

25 Cecilia Kang, Mike Isaac, and Nathaniel Popper, "Facebook's Zuckerberg, Accused of Lying, Withstands a Washington 'Beating'," *New York Times*, 23 October 2019, https://www.nytimes.com/2019/10/23/technology/facebook-zuckerberg-libra-congress.html.

26 J. Christopher Giancarlo and Daniel Gorfine, "We Sent a Man to the Moon. We Can Send the Dollar to Cyberspace," *Wall Street Journal*, 15 October 2019, https://www.wsj.com/articles/we-sent-a-man-to-the-moon-we-can-send-the-dollar-to-cyberspace-11571179923.