DOI: 10.1111/ecaf.12377

DISCUSSION

WILEY ECONOMIC AFFAIRS

The war on cash is about much more than cash

Kevin Dowd

Professor of Finance and Economics, Durham University

Correspondence
Email: kevin.dowd@durham.ac.uk

1 | INTRODUCTION

Over the last few years there has been considerable controversy over proposals to abolish cash, the so-called War on Cash (WoC). This idea was first put forward by Kenneth S. Rogoff in 1998 and has subsequently been developed further by other economists as well as Rogoff himself.[1] Among the principal benefits claimed for this policy are, first, that it would help combat crime, and, second, that it would give central banks additional room for monetary policy manoeuvre. Central bankers have long chafed at the constraints on monetary policy imposed by the zero lower bound, the inability to push interest rates below zero; and as interest rates have fallen, central banks have seen their ability to further reduce interest rates become severely squeezed. Abolishing cash would enable them to overcome this constraint and give them additional room for supposedly 'stimulative' monetary policy by allowing them to push interest rates deep into negative territory. The point here is that if central banks were to attempt to implement negative rate policies without first abolishing cash, people would switch large-scale into cash to thwart their efforts. So cash would need to be abolished to enable central bankers to force people into negative-rate assets.

The big-payments firms are also promoting the WoC. These firms, however, are not pushing the benefits of cashlessness out of any sense of public benefit, but for hard commercial reasons. Consider the following quotes from recent newspaper reports:

> *Visa is planning to pay British businesses not to accept coins and notes after its chief executive vowed to "put cash out of business" … the payments giant will soon attempt to strike cashless agreements with British shops and restaurants, which will see them offered lump sums worth thousands of pounds and free contactless technology upgrades. In return they must agree to ban customers from paying with cash and ensure that every item is bought using a debit card, credit card or digital payment like Apple Pay. (Morley, 2017)*

> *The move to drive cash out of the economy is not coming from public demand – even if many of us do often choose cashless methods of payment. There is a cold, calculated campaign led by the financial technology – or 'fintech' – industry developing software and hardware such as contactless payments to computerise money*

> *transfers. In 2016, the U.S. Department of Commerce went on, the payments industry worldwide extracted $1 trillion in fees from consumers using cashless payment methods. By 2023, the industry is counting on that doubling to $2 trillion. (Clark, 2019)*

If cash is abolished, then these firms are rid of a major competitor and can charge more for digital transactions. They also benefit from collecting data on our spending habits, data which cannot be obtained if we pay by cash.

The central issue in this controversy is not the benefits of digital payments versus cash. It is not even the benefits of a cashless economy versus an economy in which cash is used for some transactions but not for others. The issue is whether cash payments should be prohibited and people be compelled to make only digital payments.

2 | ARGUMENTS FOR ABOLISHING CASH

2.1 | Alleged inefficiency of cash payments

Advocates of the WoC like to point out that digital payments cost less than cash ones.[2] The implication is that cash is an inefficient medium of payment that is 'on its way out', so let's apply some pressure to get rid of it and achieve a more efficient all-digital monetary economy. For example, they sometimes point out that going digital-only makes for greater convenience in making payments. Now it is true that *some* digital payments (e.g. contactless ones) are highly convenient, but that doesn't mean that *all* digital payments are more convenient than cash ones. Focusing on the technical efficiencies of digital, however, overlooks some of the benefits of cash, such as the benefits of anonymity and of being able to make small payments without costly IT equipment (e.g. a mobile phone), which not everyone has.

In any case, how does it benefit me if I am compelled to make a digital payment when I would have preferred the convenience or anonymity of making a cash one? Who else but me should decide what is best for me? There is, thus, a hidden paternalistic premise in the WoC, namely that someone else has a better idea of what is good for me than I do myself, and therefore I must be compelled to act as they direct, *in my own interest*.

Conversely, if digital really is superior for all transactions, then there would be no need for compulsion or indeed for the WoC in the first place, because cash transactions would disappear spontaneously. The fact that cash transactions are being undertaken indicates that they serve some purpose that is not best served by using some alternative.

2.2 | Use of cash by criminals

WoC advocates also argue that cash should be abolished because bad guys (e.g. money launderers, drug smugglers, or terrorists) use it to carry out their nefarious activities.[3]

The premise of this argument is correct. Yes, bad guys *do* use cash, but so do the rest of us. Should we all lose the benefits of cash to inconvenience the bad guys, who would doubtless switch to some other payment medium anyway? Perhaps not. Consider also the implications of this argument: if we should abolish cash because bad guys use it, then the same argument applies to everything else we use such as sidewalks, the internet, and mobile phones. It also applies to digital money. There is much more criminal activity conducted through this medium than through cash, so by this argument we would have to abolish digital money too. Should we abolish everything we all use and go back to living in caves, merely because bad guys use those same amenities as well? Obviously not. But then why apply the 'bad guys' argument only to cash? Its advocates haven't thought their position through.[4]

It also turns out that cash isn't *that* convenient for illicit transactions. The term 'illicit transactions' conjures up images of drug deals in dark alleys or Al Pacino delivering suitcases of cash to his bank. The American crime film *Scarface* was made in 1983, however, and drug dealers now have easier ways of moving their money. The word on the street is that the ideal medium for illicit drug transactions is now Amazon gift tokens. To quote a recent article from the Toronto *Globe and Mail*:

> *The main attraction of gift cards for money launderers is their anonymity: Cash transactions to load up gift cards or prepaid credit cards do not need to be reported or logged, and the identity of someone stashing money on a gift card does not need to be recorded.*
>
> *By contrast, anti-money-laundering rules force banks and some other institutions to report suspicious transactions, including any transaction involving more than $10,000 cash. Gift cards are not considered monetary instruments, meaning they do not have to be declared and cannot be seized at the border.*
>
> *"If I was a lower-level criminal, I would be paying for everything through gift cards," said consultant Garry Clement, former national director of the RCMP's Proceeds of Crime program. "There is absolutely zero paper trail." (Dyck and Gray, 2018)*

Used carefully, gift tokens allow for anonymous payments and, unlike cash, which requires a face-to-face transaction, can be used to make payments all over the world. For today's modern criminal, cash is passé.

Cash also has the disadvantage of being small-scale. For large amounts of illicit transactions, you really need to go digital. As a blistering example, consider the recent Danske Bank money laundering case, arguably the largest money laundering scandal in world history. This case.

> *involves nearly a quarter of a trillion dollars of very suspicious money from Russia and the former Soviet Union that was funneled into the western banking system right under the noses of major banks and regulators in the United States and Europe, who either facilitated it or turned a blind eye. (Kroft, 2019)*

As further evidence, a 2015 UK government risk assessment of money laundering and terrorist risk financing found that the highest risks of the facilitation of illegal movement or store of funds were those posed by banks – which are already subject to extensive anti-money laundering regulations – and accounting services providers, such as Panamanian tax shelter specialists Mossack Fonseca (HM Treasury/Home Office, 2015). Cash came in third place.

So in terms of hindering criminal activity, what is the point of abolishing cash while leaving the more important channels of illicit activity wide open?[5]

Finally, if we are concerned about what bad guys are doing, wouldn't it make more sense to address those issues directly and/or reconsider current policies? Bothered about tax evasion? Consider tax reform. War on drugs? Reconsider prohibition. Money laundering? We already have regulatory controls against money laundering, but if you think those are not working properly, then examine how to improve them. Terrorism? How many more anti-terror measures do you think we need? Maybe we should do more to address the causes of terrorism, however.

3 | ARGUMENTS AGAINST ABOLISHING CASH

There are compelling arguments against the WoC.[6]

3.1 | Losing the benefits of cash.

The abolition of cash would deprive us all of the benefits of cash. There are many transactions for which cash is the ideal medium of payment, and it is not for nothing that cash is used in 85 per cent of global transactions.[7] Cash is a very efficient way of handling small transactions. It is costless and easy to use. Cash transactions are immediate and flexible. Cash is anonymous and, traditionally, the anonymity of cash was considered to be one of its greatest benefits. Cash does not need a password and, unlike a bank account, can't be hacked. The state of the art in anti-counterfeiting technology – think here of the Canadian dollar, not the US dollar! – makes it more difficult to corrupt than many digital currencies. The usefulness of cash is not dependent on technology that might break down: most of us have experienced situations where we had to resort to cash to pay a bill at a restaurant after some system failure on the part of our card provider. These are major benefits that would be lost if cash were abolished.

3.2 | Expropriation

Another issue is expropriation of property. If cash transactions were prohibited, then holdings of cash would lose most if not all of their value. Those who hold cash, especially those who hold large amounts of it, could then lose much of their wealth. Such an outcome is wrong in principle, because it amounts to the expropriation of private property. It also amounts to a form of default on the part of the issuing central bank and/or its sovereign.

Many of the victims of this expropriation would be people who have chosen to store their wealth in cash form because they have limited alternatives. These people often live under governments that practise financial repression and are unable to rely on their local banks to safeguard their savings. So they put their savings into US dollars or other hard currencies because *they trust Western central banks* and hide their holdings for a rainy day or until such time as they are able to draw on them.

The amounts involved are huge. For example, according to recent data from the Federal Reserve System[8] as of the end of 2018 the amount of US currency in circulation was $1.672 trillion and it is believed that up to half of this currency circulates outside the United States.[9] A considerable portion of this currency would be holdings of the sort I have described.

3.3 | Adverse impact on the vulnerable

Advocates of the WoC also overlook the impact of their proposals on vulnerable people, who risk being frozen out of the monetary economy.[10] To work as intended, *everybody* would have to have the digital technology and be able to work it. Many people don't have that technology, however, and there are many more who would struggle to work with it and would be made very vulnerable if they were forced to depend on it. As Ross Clark (2019) observes:

> *It may come as a surprise to many of the young, but one in ten Britons today has never used the internet, and only one in five over-65s owns a smartphone. What will these people do when the cash runs out?*

Most old folk struggle with new-fangled IT: they forget their passwords, and they forget how to use their mobile phones or where they put them. Many don't even have mobile phones in the first place. Those of us of a certain age well remember the difficulties that decimalisation caused for our grandparents. My grandmother had dreadful difficulties and never could get used to it. Banning cash would cause similar or worse problems now. There are also destitute people, many of whom are dependent for their survival on begging.[11] For many of these people, their very existence depends on cash. From this perspective, the proposal to abolish cash is simply cruel: it is hard to imagine any other single economic measure that could cause as much human suffering. Many of those who advocate the WoC haven't a clue what the consequences of their proposals would be.

It is not just these groups that would be adversely affected, but anyone without a bank account and potentially anyone with an unconventional digital profile that does not tick all the boxes. As Brett Scott (2016) writes:

> *So, good luck to you if you find yourself with only sporadic appearances in the official books of state, if you are a rural migrant without a recorded birthdate, identifiable parents, or an ID number. Sorry if you lack markers of stability, if you are a rogue traveller without permanent address, phone number or email. Apologies if you have no symbols of status, if you're an informal economy hustler with no assets and low, inconsistent income. Condolences if you have no official stamps of approval from gatekeeper bodies, like university certificates or records of employment at a formal company. Goodbye if you have a poor record of engagements with recognised institutions, like a criminal record or a record of missed payments.*
>
> *This is no small problem. The World Bank estimates that there are two billion adults without bank accounts, and even those who do have them still often rely upon the informal flexibility of cash for everyday transactions. These are people bearing indelible markers of being incompatible with formal institutional space. They are often too unprofitable for banks to justify the expense of setting them up with accounts. This is the shadow economy, invisible to our systems.*
>
> *The shadow economy is not just 'poor' people. It's potentially anybody who hasn't internalised the correct state-corporate narrative of normality, and anyone seeking a lifestyle outside of the mainstream. The future presented by self-styled innovation gurus has no scope for flexible, unpredictable or invisible people.*

3.4 | Reliance on fallible digital systems

The abolition of cash would make us dependent on digital systems, but WoC advocates ignore the downsides of this dependence and, in particular, the risk that these systems might malfunction or break down. Cash, by contrast, is much more reliable and is also useful in the event that something goes wrong with a digital system.

In this context, the *Guardian* published a story (Tims and Collinson, 2015) about an ordinary couple who were turned into financial pariahs when their bank unexpectedly blocked access to their account:

> *The Langley's [sic] nightmare began in Sainsbury's, when Marie's debit card was declined as she tried to pay. She went to a cash machine, only to find that transaction was also refused. Stranded with her shopping unpaid for, she called her husband. Worried that their account may have been hit by fraud, he immediately tried to log on to HSBC online. He then discovered that their joint account was inaccessible. … The Langleys now have no means to buy food or pay bills, and Shaun fears he is driving illegally as he is unable to renew his car insurance.*

One can only speculate why an ordinary couple was treated in this manner; and there have been a number of other reports in which legitimate customers have also had their access to finance suddenly cut off, leaving them unable to pay their bills through no fault of their own. Yet the abolition of cash would only make people more vulnerable and do nothing to make digital systems error-proof.

Or consider what might happen in the event of a natural disaster. In September 2017, Puerto Rico was devastated by Hurricane Maria. The storm knocked out the electricity supply, bank ATMs and credit card verification stopped working, and people were unable to buy food and other necessities with their credit and welfare cards. Store security guards admitted only customers who could pay in cash, and the Federal Reserve had to fly "a jet loaded with an undisclosed amount of cash" to the island, to meet payrolls and help avert disaster as peoples' cash holdings ran out (Levin, 2017). "In a cashless world, you'd better pray the power never goes out", observed Ryan McMaken (2017).

3.5 | Against negative interest rate policy

That the WoC enables negative interest rate policy (NIRP) is one point that both the advocates and the opponents of the WoC can agree on. For the latter, however, NIRP is seen as highly ill-advised.

The key problem with NIRP is that negative interest rates are unnatural and ultimately unsustainable. As any economics textbook will explain, economic theory suggests that interest rates should be positive, and for two different reasons. The first relates to time preference – our preference to consume now rather than later – which leads to a positive interest rate as compensation for deferring consumption. Alasdair Macleod (2015) is nicely to the point here: "NIRP is a preposterous concept. It contravenes the laws of time preference, commanding by diktat that cash is worth less than credit". The second relates to the productivity of capital and as compensation for the risk of default: I will lend to you to enable you to go ahead with your investment project, but only if you offer me some inducement to do so, for example, interest, which might also include an extra premium to compensate me for the risk that you might default. NIRP is, thus, better described as Totally Weird Interest Rate Policy, or TWIRP.

Walter Bagehot once wrote that "John Bull can stand many things but he cannot stand two per cent". By this he meant that John Bull could not stand an interest rate *as low as* 2 per cent, let alone a negative interest one. In fact, for 315 years prior to 2009, Bank Rate had never been below 2 per cent. Indeed, recent interest rates have been lower than at any time over the last 5,000 years (Haldane, 2015a). I suggest would that these facts are telling us something: they suggest that negative interest rates are unnatural and that attempts to *make* rates negative could be counterproductive in ways we can barely imagine. In any case, for those who advocate negative interest rates, then please explain: why is it that we never had negative interest rates in the four millennia since Hammurabi, but we *need* them now? In what ways has the world changed over the last few years to destigmatise something that what was considered absurd for millennia?

But let's put this problem aside and suppose that NIRP could be implemented and the central bank had selected the negative interest rate it thought appropriate. We would then have a shrinking steady state in which bank deposits were being taxed at that rate every year, so, roughly speaking, money supply would be falling at about the same rate. Thus, NIRP would involve a *tax* on deposits and a *falling* money supply. So where is the stimulus coming from? When is a tax ever stimulative?

What would NIRPist central bankers then do? Well, instead of concluding that their policies were inherently anti-stimulative, they would assume that their policies were not being stimulative enough and cut rates further! They would have no idea when to stop and the economy would then spin into a death spiral. As interest rates plunge ever further into negative territory, saving would stop, investment would stop, capital accumulation would stop and then go into reverse, and the financial system, predicated as it is on positive interest rates, would unravel. The contradiction between positive time preference and the return on capital on the one hand, and ever more negative interest rates on the other, would rip the economy apart.

How low can you go? No idea, but let's give it a go.

3.6 | Implications for civil liberty

A final concern with the WoC is the way it undermines civil liberties. We then come to realise that there is a third party pushing the WoC – the state itself, as part of its agenda for ever-expanding control. Consider the following quote:

> *the future cashless society that the social engineers are trying to bring in is a world of total government surveillance. The government is already reading your emails and listening to your phone calls. Do you really want them correlating all of that data with the record of everything you ever purchase, and to keep all of that on file for the rest of eternity? No, I thought not. (Corbett, 2015)*

The point is that once the government has coerced everyone into using electronic currency that it can control, it can then also control how they spend it. The government then has the power to control … everything. It can identify and block payments to or from individuals or organisations of which it disapproves. Its control of payments would be absolute and it could use that control to go after its enemies – real or imagined makes no difference – and destroy them by depriving them of their sustenance. We would then have a modern version of the ancient Roman punishment of *interdicere aquae et ignis* ('to forbid water and fire') designed to make it impossible for the victim to survive. Anyone who got on the wrong side of the authorities – political opponents, whistle-blowers, alleged criminals, anyone – can then be subjected to this form of modern outlawry and made to disappear merely by blocking access to their bank accounts.

You may say that governments wouldn't act this way. I would say that governments are already well advanced along this path. In any case, once we cede such power to these people, what assurances do we have that they won't abuse it? None, actually.

A government dominated by health fanatics could then compel us to follow personalised health 'recommendations' determined by the latest health fad. A government dominated by environmentalist fanatics could force us to 'save the planet' according to the dictates of the latest environmentalist fad. A government dominated by religious fanatics could prevent us from engaging in immoral activities, to save our souls. The possibilities are endless.

4 | CONCLUSIONS

Whatever the many merits of digital money, the use of cash confers important benefits that digital money does not. But the War on Cash is about *much* more than the benefits of alternative payments systems, narrowly considered. It doesn't just threaten to deprive us of the convenience of cash transactions. The WoC threatens to undermine our privacy, expropriate large amounts of legitimately acquired wealth, expose us all to the risks of fallible digital systems, inflict severe adverse effects on the vulnerable, enable central banks to embark on dangerous NIRP policies *and* destroy our civil liberties. Elaine Ou (2016) had it right: the WoC is a creepy fantasy.

NOTES

[1]See Rogoff (1998), Buiter and Rahbari (2015), Haldane (2015b), Summers (2016).

[2]Here is an example from Daniel Korski's (2017) article,'The future is cashless, we must embrace it': a lower proportion of cash transactions "will increase productivity. Economies with a lower percentage of electronic payments have a lower productivity of their banking systems." But this argument is irrelevant as a justification for the WoC. Even if cash is more costly for banks to process, there are benefits of cash to society as a whole that that digital payments cannot match. Comparisons of bank productivity are then moot because they do not address those benefits.

[3]The 'bad guys' argument is the central pillar of Ken Rogoff's *The Curse of Cash* (2016), which proposes to abolish large denomination notes. Rogoff's proposal is subject to most of the objections I make in the text and has been thoroughly demolished in a number of reviews. My favourite is that of Jim Grant (2016), who concludes: "Strip away the technical pretense and what you have is politics. The author wants the government to control your money. It's as simple as that." Grant is right.

[4]A more logical solution to the 'bad guys' problem is to find something that the bad guys need and no one else uses, and then abolish that. They would then be out of business. The trouble is that I can't think of what that something might be. But whatever it is, it isn't cash.

[5]On the criminality issue, advocates of the WoC also ignore the large and growing amount of online and credit card fraud. To quote Clark (2019):

> *Already, British consumers are losing far more to online criminals – £755 million in 2015 alone – than they are in fraudulent cash transactions. Figures from the Office for National Statistics reveal that in 2015, 0.7% of us had physical goods (including cash) stolen from us. In the same year, by contrast, 4.6% of us lost money in online or bank card fraud.*

[6]For longer critiques of the WoC, see Dowd (2017) or Hummel (2018).

[7]See https://newsroom.mastercard.com/wp-content/uploads/2014/08/MasterCardAdvisors-CashlessSociety-July-20146.pdf (accessed 29 September 2019).

[8]https://www.federalreserve.gov/paymentsystems/coin_currcircvalue.htm (accessed 12 September 2019).

[9]https://www.uscurrency.gov/life-cycle/data/circulation (accessed 12 September 2019).

[10]Small businesses would be adversely affected too, especially those in remote areas without a reliable broadband connection. To stay in business, they would be required to hire a terminal for handing card payments, but these are costly and don't work without a broadband connection.

[11]The number of people at risk in this respect is horrifying. I do not know the figures for the UK, but a recent study for the US suggested that there were 1.65m households in the US – with 3.55m children – who were living in extreme poverty defined as less than $2 per person per day in 2011. By my estimate, that is nearly 1% of US households. See Shaefer and Edin (2014).

REFERENCES

Buiter, W. H., & Rahbari, E. (2015). High time to get low: Getting rid of the lower bound on nominal interest rates. *Global Economics View*, 9 April.

Clark, R. (2019). Killing off your cash is a cynical bid to make fatcat bankers fatter. *Daily Mail*, 7 March.

Corbett, J. (2015). The criminalization of cash. *The Corbett Report*, 15 April.

Dowd, K. (2017). Killing the Cash Cow: Why Andy Haldane is Wrong about Demonetisation. Briefing Paper. London: Adam Smith Institute.

Dyck, D., & Gray, J. (2018). Not just a stocking stuffer: Gift cards a money-laundering loophole. *Globe and Mail*, 12 May.

Grant, J. (2016). Hostage to a bull market. *Wall Street Journal*, 9 September.

Haldane, A. G. (2015a). Stuck. Speech given to the Open University, 30 June, Milton Keynes.

Haldane, A. G. (2015b). How Low Can You Go? Speech given to the Portadown Chamber of Commerce, 18 September, Northern Ireland.

HM Treasury/Home Office (2015). *UK National Risk Assessment of Money Laundering and Terrorist Financing*. London: HM Treasury.

Hummel, J. R. (2018). Should Governments Restrict Cash? Policy Analysis No. 855, 14 November. Washington, DC: Cato Institute.

Korski, D. (2017). The future is cashless, we must embrace it. *i News*, 14 July.

Kroft, S. (2019). How the Danske bank money-laundering scheme involving $230 billion unravelled. *CBS News*, 19 May.

Levin, J. (2017). New York Fed president sent Puerto Rico a jet filled with cash. *Bloomberg*, 9 October

Macleod, A. (2015). From ZIRP to NIRP. *GoldMoney*, 24 September.

McMaken, R. (2017). In a cashless world, you'd better pray the power never goes out. *ZeroHedge*, 11 October.

Morley, K. (2017). Exclusive: Visa declares war on cash with plan to pay British businesses to ban coins and notes. *Daily Telegraph*, 13 July.

Ou, E. (2016). The war on cash is a creepy fantasy. *Bloomberg View*, 14 October.

Rogoff, K. S. (1998). Blessing or curse? Foreign and underground demand for euro notes. *Economic Policy*, *26*, 263–303.

Rogoff, K. (2016). *The Curse of Cash*. Princeton, NJ: Princeton University Press.

Scott, B. (2016). The war on cash has begun – and with it, the death of informal, unaccounted-for behaviour. *New Statesman Tech*, 23 August.

Shaefer, H. L., & Edin, K. (2014). The rise of extreme poverty in the United States. *Pathways*, Summer, 28–32.

Summers, L. H. (2016). It's time to kill the $100 bill. *Washington Post*, 16 February.

Tims, A., & Collinson, P. (2015). HSBC has wrecked our lives, say customers frozen out and unable to switch. *Guardian*, 3 October.

How to cite this article: Dowd K. The war on cash is about much more than cash. *Economic Affairs*. 2019;39:391–399. https://doi.org/10.1111/ecaf.12377