



## Cash Is Dead. Long Live Cash. -- The Outlook

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As credit card use and digital payment systems like Venmo and Android Pay spread, Americans use less and less cash to buy things. Yet the amount of bills and coins in circulation continues to grow: Hard currency as a percentage of U.S. gross domestic product is now at 8.6%, the highest level since the early 1950s, an era long before the widespread use of plastic and smartphones. Europe, Japan, and Australia have similar trends.

The most likely reason for the cash paradox, analysts say: a thriving global underground economy of tax evasion, organized crime and terrorism financing. Digital payments may be faster and more efficient, but cash cloaks transactions in privacy.

In a 2015 report titled "Why Is Cash Still King?" Europe's police agency, Europol, concluded that "while cash is slowly falling out of favor with consumers, it remains the criminals' instrument of choice."

"The Fed has long known most of the \$100 bills aren't in America. It doesn't take great insight to realize they are being used to finance illicit activities," Alan Blinder, Princeton University economist and a former vice chairman of the Federal Reserve, said in an interview.

Such concerns last year prompted a global push against cash. Harvard economist Kenneth Rogoff's book, "The Curse of Cash," proposed phasing out \$100 and \$50 bills. Europe decided to phase out the EUR500 note. India moved in December to eliminate its 500- and 1,000-rupee bills. Countries including South Korea and Venezuela have withdrawn notes or coins in recent months.

But the push to get rid of cash is hitting speed bumps all over. India, for example, is already partly reintroducing its 500- and 1000-rupee bills after the government's abrupt demonetization program drew sharp criticism for hurting its cash-dependent rural population.

The U.S. shows no inclination to pare back its notes.

"I'm very conscious of the \$100 bill being the world's reserve currency, and every central bank around the world has stacks of \$100 bills where they used to have gold," Treasury Secretary Jacob Lew said in an interview with The Wall Street Journal shortly before he left office in January.

One reason it's a non-starter in the U.S.: About 8% of people don't have a checking or savings account, making it all-but-impossible for them to participate in a cashless economy.

Banning cash "would bring the economy and many people to their knees if enforced," said Hoover Institution economist John Cochrane.

In the aboveground economy, card-based and digital payment systems offering ever-greater speed, safety and convenience have been steadily encroaching on paper money, even for small consumer transactions. Euromonitor International, a market-research firm, said the volume of global cash payments in 2016 for the first time fell below payments on credit and debit cards.

Some of the growth in cash can be attributed to the financial crisis and the aftermath, when people lost faith in banks, and when ultralow interest rates and anemic investment returns reduced the opportunity costs of holding savings in cash. The number \$100 bills in circulation, worth \$1.15 trillion in December, has surged 76% since 2009, according to Federal Reserve data.

Mr. Rogoff sees sinister uses of cash. "The idea that today's high cash holdings are mostly explained by people engaged in legal activities taking advantage of low interest rates is nonsense," he said in an interview.

The underground economy is, by definition, difficult to measure, but large. In high-tax Europe it was 18% of GDP in 2015, and around 8% in the U.S., Japan and Australia according to Friedrich Schneider, a University of Linz economist, who's written extensively on the shadow economy.

The global turnover of organized crime in 2012, the most recent year available, was estimated at \$870 billion by the United Nations Office on Drugs on Crime, greater than the GDP of the Netherlands.

Yet it's unclear whether curbing cash would be effective in reducing crime -- or would just prompt resourceful criminals to find other means of doing business.

"If a limit on cash transactions were an effective means of fighting organized crime, then there wouldn't be a mafia in Italy anymore," cracked a German member of parliament during a debate last year on whether his country should follow Italy, France, and Spain in imposing maximum limits on the size of individual cash transactions.

Germany, like the U.S., has so far resisted following its neighbors, due in part to civil liberties concerns.

Similar views prompt objections from American conservatives. "The real reason for this war on cash... is an ugly power grab by Big Government," conservative publisher Steve Forbes wrote in a column in his magazine last year.

Rising interest rates are also taking some steam out of the argument for doing away with cash. Central banks in Europe and Japan have experimented with negative interest rates in recent years to spur spending and investment. Because cash undermines the effects of negative rates, some economists have argued for doing away with it. But now that rates are rising in the U.S. and will potentially follow suit elsewhere, the argument against cash becomes even less compelling.

Cash might have its dark undersides, but it is still king.

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