Markets, not governments, should drive cash's replacement

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American Banker and PaymentsSource

June 7, 2017

Cash is the most widely used payment system on the planet, in spite of commercial and government efforts to eliminate it. A six-year old and a Kalahari bushman will happily accept a $100 bill.

In the 21st century two "wars" are being waged against cash, one by commercial payment systems like MasterCard and Visa, and banks, the other by governments. The first is laudatory, the second at least somewhat troubling.

In April, 2017 there was a whopping $1.5 trillion in cash in circulation , roughly 8% of U.S. GDP employed planetwide. In 2012 Fed economist Ruth Judson estimated half of U.S. currency and two thirds of $100 bills circulated abroad.

Cash has been used at least since Lydian gold-and-silver alloy coins in the seventh century BC. China produced the first paper currency with the central government taking control of note issuance in the early 9th century AD.

In the early nineties Chuck Russell, CEO of the world's largest retail-payment network, Visa, declared war on cash and stated cash, not MasterCard, was Visa's primary competitor.

Consumers and businesses use MasterCard and Visa in lieu of cash because they're convenient, secure, and offer ready access to cash and credit worldwide, record keeping, and often rich rewards. Merchants accept them because they deliver guaranteed payment, boost spend, reduce breakage, are efficient, and people want to pay with them.

The war on cash is being waged worldwide by three hundred plus electronic-payment schemes enabling commerce anywhere anytime. A Manhattan e-tailer selling luxury goods by accepting Chinese e-commerce and mobile-commerce phenom Alipay in addition to American Express, Discover, MasterCard, PayPal and Visa, enables 450 million Chinese to buy.

Cash has limitations. Carrying or storing it can be dangerous. If lost or stolen it's gone. It's hard to send distances and awkward to spend online, though companies such as Amazon through "Amazon Cash" and PayNearMe enable consumers to pay with cash online.

Electronic payments rule the roost online. Burgeoning digital wallets such as Alipay, Google's Android Pay, Apple Pay, PayPal, Paytm, Samsung Pay and WeChat Pay reduce payments friction particularly from mobile handsets, and, bridge e-commerce, mobile commerce and payments at the physical point of sale.

Cash has been ceding share to electronic payments since the advent of general-purpose credit cards in 1950. By 2015 only 15.8% of US retail-payment volume and 26.8% of transactions were cash while 59.3% of volume and 59% of transactions were on payment cards. 14.5% and 7.6% used other electronic, systems including check conversion at the POS, ATM bill payments, and ACH-based insurance, utility and gym membership payments.

While some merchants, notably gas stations, offer cash discounts, electronic payments continue to displace paper notes and coins. An increasing number of merchants including airlines, cafés, unattended ticket and gas dispensers, and most e-tailers don't accept cash. Scandinavian beggars accepting credit cards are a sign of the times.

The second war on cash is being waged by the state.

Governments have a mix of four objectives: (1) to improve payment efficiency and thereby economic productivity, (2) to curtail tax avoidance, (3) to reduce illegal commerce, and/or (4) to enable negative interest rates to become an effective policy tool for central banks. Unlike commercial payment systems, governments use sticks rather than carrots.

While electronic payments are more efficient, the real issue is who should decide what's the best payment instrument for a transaction, private parties or the state? Some merchants won't accept cash. Some only accept cash. Most accept both. That should be their call, not government's.

Displacing cash in countries with large grey economies, otherwise legal commerce conducted in cash to avoid taxes, is difficult. It varies enormously based on tax rates and attitudes on tax avoidance. In 2007 the grey economy ranged from 8.1% of the total economy for Switzerland and 8.4% for the US, to 26.5% for Greece and 26.8% for Italy, to a whopping 62.7% for Zimbabwe and 63.5% for Bolivia.

Criminals prefer cash. In 2012 the UN's Office on Drugs and Crime estimated global transnational crime at $870 billion per year, most of which notwithstanding the cost of transporting and safeguarding it, is conducted in cash.

Some economists and central bankers don't like cash because it limits negative interest rates' effectiveness boosting consumption and investment to, in theory, drive economic recovery.

If the cost of debt capital were negative, hoarding cash would be worthwhile, frustrating central banks' attempt to spur spending. In The Curse of Cash economist Kenneth Rogoff argues for eliminating all cash except for coins and small bills to make tax avoidance and criminal commerce more difficult and negative interest rates an effective policy tool. But even a child wouldn't trade two chocolate bars today for one a year hence. Negative interest rates are an idea so foolish only an economist or central banker could advocate them.

In spite of increased electronic-payments use, cash in circulation, particularly large-denomination notes, has been increasing. This has been driven by growth in the absolute size of the world's grey economy, crime, and people in countries with sketchy currencies and/or repressive governments holding dollars as a store of value.

Governments are curbing cash. They've banned cash for large transactions, penalized its use, and retired large bills.

The finance ministers of France Michel Sapin and stubbornly cash-centric Germany's Wolfgang Schäuble suggested banning cash for transactions greater than €5000 across the EU. The European Commission is considering limits on cash transactions. Most EU countries already limit them.

Italy banned cash transactions greater than €1000. In 2015 France outlawed cash transactions greater than €1000, though tourists can spend up to €15,000. Greece made cash payments greater than €500 illegal. Belgium bans cash payments greater than €3000. Portugal imposes a €1000 limit. Spain forbids resident cash payments greater than €2500 and non-resident payments greater than €15,000.

In January, 2017 Greece mandated electronic payments for a range of tax allowances and deductions.

If large bills were eliminated, legal and illegal commerce in cash and hoarding cash would become more difficult. Canada and Sweden started phasing out $1000 and 1000 Krona bills in 2000 and 2013 respectively. In 2010 Singapore's Monetary Authority stopped issuing $10,000 notes. The ECB stopped producing 500 euro notes and will cease issuing them in 2018. And in December, 2016 Venezuelan Caudillo Nicolas Maduro eliminated the 100-Bolivar note.

In a precipitous strike against cash and the shadow economy the Indian government last December invalidated the 500 and 1,000-rupee notes representing 86% of the cash value in circulation. It replaced them with new 500 and 2000-rupee notes.

Anybody depositing or turning in more than 250 thousand rupees (~$3900) had to prove he'd paid taxes on it. *Forbes* editor Steve Forbes condemned the Indian government's move as "sickening and immoral." It upended millions of Indians' lives and put the burden on citizens to prove they'd paid tax.

Cash has advantages. Even in the world's most competitive electronic-payment-systems market the U.S., cash isn't going away anytime soon.

It’s inclusive. Anybody can use it. Roughly 7% of US households are unbanked. While they use general-purpose reloadable prepaid cards, they transact largely in cash. 48% of Americans earning less than $25,000 per year report cash is their preferred payment instrument. According to the World Bank’s Findex 2 billion people globally were unbanked in 2014.

Cash is anonymous. The reigning electronic-payment systems aren’t. While an electronic record of every payment would facilitate law enforcement, inevitably it would be abused.

Gold too is anonymous and a bearer instrument. It served as a medium of exchange, a store of value and a unit of account, i.e. money, for thousands of years. However, on top of not being legal tender, as a payment system it’s awkward. A company called MoneyGold solves these problems issuing consumers MasterCards to make fiat-money payments off gold accounts.

Central banks have entertained issuing digital cash. Fed governor Jerome Powell, however, rightly worries about privacy issues and the technical challenges keeping a cybercurrency safe and secure. He thinks the private sector may be better suited to addressing needs it would serve.

To its libertarian evangelists Bitcoin is a silver bullet. It’s digital, near anonymous and not susceptible to debasement by central banks running the electronic printing presses. Unlike gold but like cash bitcoins have no intrinsic value. Like gold but unlike cash supply is limited. However, as a payment system Bitcoin lacks critical mass, central support and a compelling licit use case. Like MoneyGold with gold, Xapo lets consumers attach a debit card to bitcoins and conveniently transact in dollars, pounds, et al.

Heralding what's possible, the UK's Royal Mint is developing a blockchain-based system "Royal Mint Gold" to digitally represent, buy, sell and hold gold. While it's aimed at trading and has no network, one could imagine it as a kind of global, hard digital cash.

However, physical cash is likely to have utility for years to come. If it passes away, better the death blow comes from superior commercial payment systems and market choice, rather than government edict.

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