

# The Fallacy of a Cashless Society

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► Disclaimer 1

► Disclaimer 2

# Two Errors of Thinking

Two errors of thinking for the construction of an argument against cash:

- A new fallacy.
- An old fallacy.

# The New Fallacy

- Because of cash, nominal interest rates cannot be set negative (ZLB, ELB).
- Consequently, recent interest rate policies are suboptimal.
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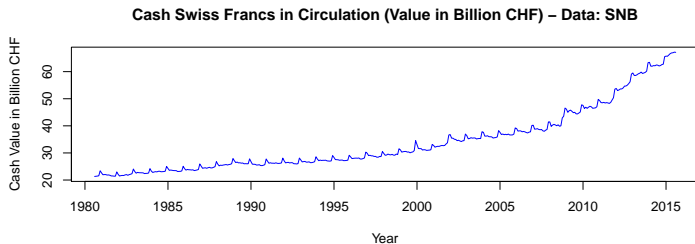
**Fact 2:** Abolishing cash will foster cash-like substitutes.



## The new fallacy: Negative interest rates and cash

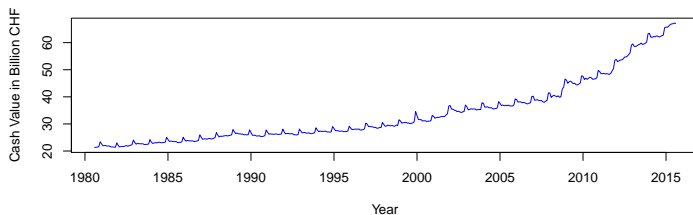


# Cash in Circulation

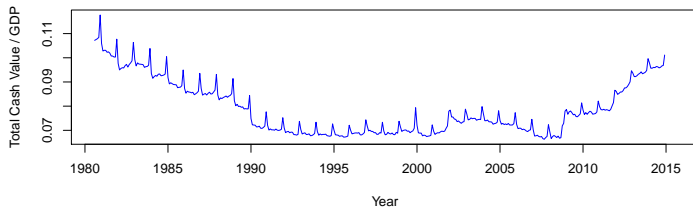


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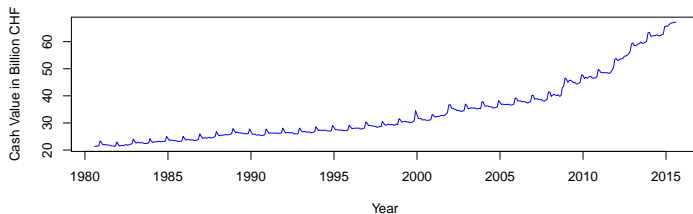


**Cash in Circulation Compared to Swiss GDP (Annual, Unadjusted) – Data: SNB/OECD**

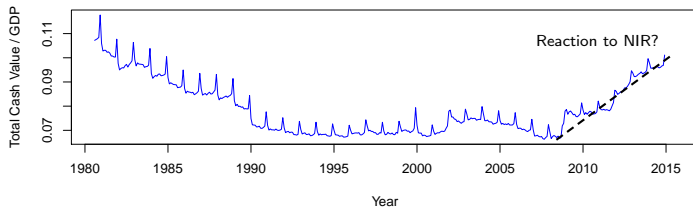


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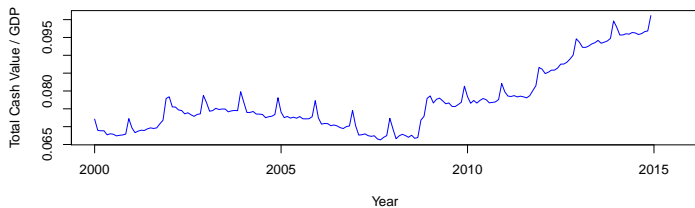


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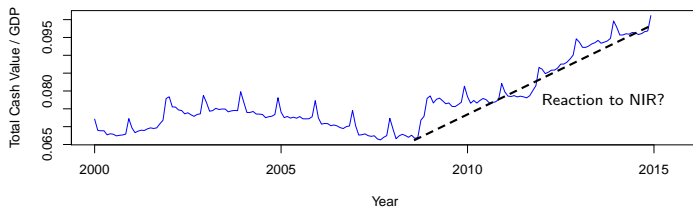
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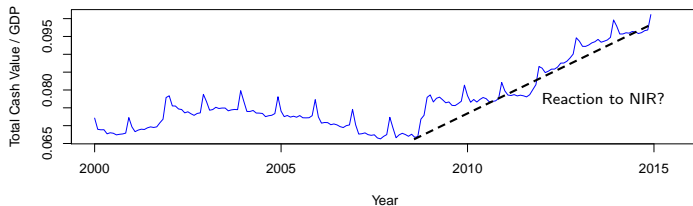
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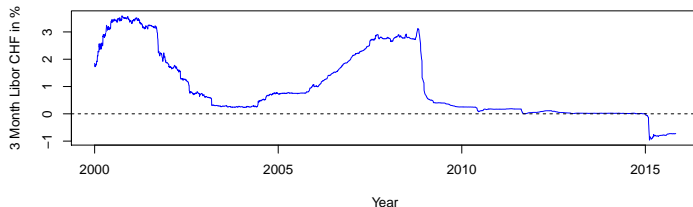


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**CHF Interest Rates (LIBOR 3M) – Data: SNB/FED (FRED Database)**



# Cash is Expensive



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- Opportunity cost
  - Riskless nominal bond

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- To avoid dependence on third party transaction processing:
  - Surveillance.
- For its transaction services:
  - Immediate settlement (no debt involved).
  - Anonymity.
  - Ease of use.

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**Conclusion:** There is no need to abolish cash.



**Digression:** Real negative interest rates are a bad idea in the first place.

# Negative Interest Rates

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# Negative Interest Rates

- The hunt for investment opportunities:
  - Real estate and housing bubble
  - Stock market bubble
  - Fixed income bubble
  - Art bubble
  - ...

**The old fallacy:** Cash is used in illegal activities and for tax evasion. Hence, we need to abolish cash to fight crime and tax evasion.

# No Cash, No Crime, No Tax Evasion

- Observation: Black and gray market activities often involve cash.
  - Informal sector / tax evasion
  - Illegal activities / money laundering

# Crime and Tax Evasion are Constantly Evolving

- Crime and tax evasion activities preceed cash.
- Crime and tax evasion activities are adapting.
- Example: New opportunities to make a living as an e-fraudster:
  - e-crime / cyber theft / identity theft
  - Single point of failure attacks.

# Cash Substitutes are Available

What would be the reaction to a prohibition of cash?

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  - Regulatory resistance.

# Cash v. Cash-Like

	No middleman	immediate settlement	person 2 person	in stores	online
Cash:	X	X	X	X	
Bitcoin:	X	X	X	(X)	(X)
DebC/CC:				X	X
Paypal:			X	X	X
Paymit:			X	announced	
Twint:			X	X	
Apple Pay:				(X)	(X)

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**Conclusion:** Prohibition of cash...

- has no effect on crime or tax evasion.
- is self-defeating for CB: loss of seignorage income.

# Summary and Conclusion

Two errors of thinking for the construction of an argument against cash:

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# Appendix

# Relative Return Rates

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To be continued?

$$\underbrace{i_t}_{-5\%} \approx \underbrace{r_t}_{-7\%} + \underbrace{\overline{E(\pi_{t+1})}}_{2\%}$$

## Going “Buiter”

*“But the effective lower bound on nominal interest rates is unlikely to be at the -5% or -10% that central banks may at times wish to set the policy rates at.”*

Buiter and Rahbari (2015)

Conclusion: Keep cash to prevent CB from going “Buiter”.



*“Bringing symmetry to the central bank’s traditional policy instrument, the official policy rate clearly makes sense.”*

Buiter and Rahbari (2015)

Investment 1'000 pumpkins:

Rate	Minimum Return	Private Gain	Social Gain
5%	$\geq +5\%$	+	+
-5%	$\geq -5\%$	+	+/-

**Disclaimer 1:** The content of this presentation reflects my own opinion and does in no way reflect the view of any other person or institution.

◀ Title Page

**Disclaimer 2:** The reasons for William H. Buiter's push toward a cashless society, of course, have nothing to do with pumping up earnings from bank card fees for Citibank.

◀ Title Page