

THE CURSE OF THE WAR ON CASH

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The “war on cash” refers to a set of policies, in the United States and around the world, deploying the power of government agencies to suppress the use of paper currency. The principal aim is to shift transactions to credit card and bank account media that leave an electronic data trail for law enforcement and tax authorities. A secondary aim is to raise the cost of cash storage so as to allow the central bank to push nominal interest rates further below zero.

The phrase “war on cash” is of course intended to be dramatic. Harvard economist Kenneth Rogoff (2017) has objected to it as “a polemical exaggeration” in his response to a critical essay review (Hummel 2017) of his recent book on the topic. What he considers an exaggeration is not the term “war,” mind you, but the unqualified term “cash,” given that he himself advocates only “a war on big bills” and not a fully “cashless society.” Point granted. But this complaint about overly dramatic phrasing is a bit ironic coming from the author of a book entitled *The Curse of Cash*, not *The Disadvantages of High-Denomination Bills* (Rogoff 2016a).

Some other writers and officials wage war not only on big bills but also on all cash transactions and on other private payment methods like bitcoin. They do seek a cashless society. They want to drive *all* transactions into forms that leave an audit trail for the law

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enforcement and tax authorities. In this respect the phrase “war on cash” is too narrow rather than too broad. It is really a “war on financial privacy.” They would welcome us to a financial panopticon.

The phrase “war on cash” suggests a parallel to the “war on drugs” and aptly so. In both wars, traditional civil liberties are shunted aside in the criminalization, surveillance, and prosecution of victimless private activities.

The main indictments of large-denomination currency notes by anti-cash warriors are built on guilt by association: criminals use large notes, so anyone who uses them might be a criminal. It is of course true that the notes are used by tax evaders, money launderers, terrorists, human traffickers, drug dealers, and any other horrible type of criminals you might like to name.

But large notes are also used by noncriminals. While it is no doubt true that banning high-denomination notes would “make life harder” for criminal enterprises (Sands 2016), it would also, as I have previously written (White 2016), “make life harder for everyone else.” The rest of us also find high-denomination notes convenient now and again for completely legal and noncontroversial purposes, like buying automobiles and carrying vacation cash compactly. A serious survey of eurozone currency use finds that “in Italy, Spain and Austria . . . almost one-third of the interviewees always or often use cash for purchases between €200 and €1,000” (ECB 2011). A Deutsche Bundesbank webpage (2016) has noted that, in the eurozone, “Cash in circulation has more than quadrupled since euro currency was introduced; it now stands at more than €1 trillion.” Is this because crime has quadrupled? No. More likely, it is because cash is a convenient payment method, and cash has become less costly to hold with the euro bringing lower inflation to the formerly high-inflation member countries.

Coercive efforts to suppress cash deprive honest people of the ability to use their preferred method of payment. The demonetization fiasco in India, discussed below, is a dramatic illustration of the resulting harms.

Current Tactics in the War

The main policy tactics in the war on cash are currently four:

1. Abolish high-denomination banknotes.
2. Place a maximum legal value on cash payments.

3. Require declarations from any party carrying a cash amount above a specified value across the national border.
4. Require banks to report to authorities any cash deposits or withdrawals in amounts above (or suspiciously near) a specified value.

I will comment on the status of each of the four in turn, for the benefit of the reader who is not aware how far the war on cash has already proceeded. I note here without further discussion that there is talk in some developed countries of deploying additional weapons, including a tax on cash withdrawals above a threshold amount such as already practiced in Nigeria. I note also that since 2016 Greece has required citizens to declare to the tax authorities any personal cash holdings of €15,000 or more.

Abolish High-Denomination Banknotes

Central banks long ago (the 1930s in the United States) monopolized the issue of currency notes, banning private note issue by commercial banks in all but a few places (Scotland, Northern Ireland, Hong Kong). This may be regarded as an early government victory in the war on cash.¹ As a result governments can now restrict the sizes of currency notes in circulation merely as an administrative matter. A few central banks in recent years have withdrawn their popular high-denomination banknotes. Most prominently the European Central Bank, citing concern about the criminal use of currency, recently stopped producing its €500 notes and will stop distributing them in 2018. The largest U.S. dollar currency note has remained the \$100 bill since the \$500 bill was eliminated in 1969, but the \$100 bill today buys less than the \$20 bill did in 1969. It is because of the war on cash that the United States has not reintroduced a \$500 bill to keep up with inflation. Rogoff (2016a), Summers (2016), and Sands (2016) advocate removing the \$100 bill as soon as possible. Rogoff would also remove the \$50 and \$20 bills in due time.

As further discussed below, in November 2016 the Indian government suddenly withdrew its two largest and most popular currency notes, the Rs. 500 and Rs. 1,000, together constituting 86 percent of

¹The earliest laws on banknotes in the United Kingdom and the United States were actually bans on *small* notes, placing *lower* limits on the denominations that banks were allowed to issue.

the currency stock. But the “demonetization” was temporary: the government soon began replacing the old notes with a redesigned Rs. 500 note and a new Rs. 2,000 note. By mid-October 2017 the stock of currency in circulation had returned to 90 percent of its level before the note ban (Livemint 2017), and it remains on an upward trend. Contrary to the hopes of some that the shock policy would jump-start the replacement of cash by electronic payments, no sizable effect is evident.

The Swiss National Bank is the most important central bank still bucking the trend. It has said that it has no plans to withdraw its 1,000 Swiss Franc note (*Guardian* 2016b), worth US\$1,010 at the exchange rate of October 25, 2017.

Place a Legal Ceiling on Cash Payments

Ceilings on the allowed size of cash payments to businesses are common in Europe. A Deutsche Bundesbank (2016) webpage reports, “Restrictions on cash payments are currently in place in 12 of the 28 EU member states.” In Italy the maximum allowable consumer-to-business or business-to-business cash payment by residents is currently €2,999.99; in France and Spain the limit is €1,000; in Greece it is a mere €500. The German finance ministry in early 2016 proposed a national limit of €5,000 but met with strong political resistance from defenders of financial privacy (*Guardian* 2016a). Person-to-person cash payments appear not to be capped, which indicates that the target of the restrictions is tax evasion rather than terrorism or crime.

While such a cash payment ceiling has not yet been introduced in the United States, any business that receives \$10,000 in cash from a single customer must report it to the tax authorities within 15 days on IRS/FinCEN Form 8300. The Internal Revenue Service (IRS) shares the information with the Treasury’s Financial Crimes Enforcement Network (IRS 2017). Businesses that must often file Form 8300 include sellers of big-ticket items like automobiles, boats, aircraft, jewelry, and furniture, and providers of big-ticket services like law firms, real estate brokers, insurance agencies, and travel agencies.

Require Individuals to Declare Cash above a Legal Minimum Upon Entering the United States

Under the Currency and Foreign Transaction Reporting Act (CFTRA), the United States’ government requires any party (individual or group traveling together) bringing \$10,000 or more of cash

(or travelers' checks or other negotiable instruments) into the country to declare the sum at the border. Failure to declare makes the currency contraband subject to seizure. For entrants to the eurozone the threshold is €10,000. The European Commission has proposed expanding the scope of requirement to include gold and other precious commodities. For mainland China, the threshold is US\$5,000. Switzerland and Hong Kong, by contrast, have no cash declaration requirements.

Require New Reports on Cross-Border Currency Transactions for Financial Institutions

Under the same CFTRA, also known as the "Bank Secrecy Act," a U.S. financial institution must file a "Currency Transaction Report" (CTR) with FinCEN for any deposit, withdrawal, currency swap, or transfer involving \$10,000 or more in currency, whether or not the institution employees handling it consider the transaction suspicious. They are required to file a "Suspicious Activity Report" for any activity they do consider suspicious if it involves \$3,000 or more in cash.

Subdividing deposits or withdrawals in order to avoid triggering a CTR is itself a crime, called "structuring." Innocent family businesses have been charged with structuring, and had tens of thousands of dollars seized by the federal government, merely for making repeated deposits or withdrawals below the \$10,000 threshold. In the notorious case of dairy farmers Randy and Karen Sowers, who frequently deposited cash income from sales at farmers' markets, Treasury officials seized \$29,500 in February 2012, charging the couple with structuring, without suspecting them of any other crime. After an Institute of Justice petition and congressional hearings into the case, the federal government finally returned the seized money in June 2016.

Under public pressure, the IRS and Justice Department amended their policies in 2014 to forgo seizures for structuring where no other crime (such as tax evasion or money laundering) is suspected. During the period before that change, however, the Institute for Justice has estimated that the IRS took \$43 million from 618 people in cases similar to the Sowers' where mere structuring was the only charge (Rawlinson 2016).

Collateral Damage

The war on cash might be more accurately labelled the "war on people who use cash." What are suppressed by the above-listed

tactics are not inanimate objects but people. Cash itself experiences no harms. People do. Coercive anti-cash policies abridge the freedom and reduce the welfare of peaceful individuals who prefer to use cash.

More specifically, policies that limit cash use or otherwise compel people instead to pay through banks or credit card companies have the following effects:

- They compromise financial privacy and enable the prosecution of victimless crimes wherever banks are required to “know their customers” and to provide transaction records to government officials.
- They impose an unlegislated tax on money-holders, and leave them no means of escape into untaxed media of exchange, whenever the central bank decides to pursue a negative interest rate policy.
- They harm the livelihood of small businesspeople who rely on cash sales, particularly those serving the unbanked or operating in outdoor markets, and reduce the welfare of their (mostly poor) customers by raising transaction costs.²

The sudden anti-cash offensive of the Indian government at the end of 2016 dramatically illustrates the third set of harms. To summarize the story,³ on November 8 Prime Minister Narendra Modi suddenly announced that the two highest denomination rupee notes (the Rs. 500 and Rs. 1,000, worth about US\$7.50 and \$15) would become invalid at midnight. Indian citizens had 50 days to deposit the invalidated notes into banks for deposit credit, or swap them for new valid notes of Rs. 500 and Rs. 2,000. But initially the swaps could be made only in small amounts (Rs. 2,000, or about \$30, per person per day) because too few new notes had been printed, forcing hundreds of millions to waste literally billions of hours standing in queues. The two invalidated notes together made up 86 percent of the currency circulation by value, and currency made up 62 percent of the money stock (currency plus checking deposits). More than half of the nation’s money stock (86 percent of 62 percent) was thus temporarily immobilized. In the critical words of Norbert Häring (2017), “Narendra Modi performed the great and brutal experiment of starving the whole of India of cash for months.”

²See Desjardins (2017) for an infographic presentation of these and other points.

³Here I draw on White and Rajagopalan (2016) and White (2017b).

The currency shortage caused enormous hardship for the cash-dependent unbanked half of the Indian populace. For want of a circulating medium, wage laborers normally paid in cash went unpaid, and farmers were unable to sell their produce. By some counts there were more than one hundred deaths of people waiting in exchange queues, or unable to get medical treatment or medicine because of lost cash income. A policy ostensibly intended to inflict losses on tax evaders and criminals imposed severe collateral damage on honest users of currency.

The shock move was intended to impose a one-time wealth loss on tax evaders, bribe-takers, and other imagined holders of large “black money” currency hoards. Such people were expected to eat losses rather than risk the official scrutiny that would accompany an attempt to deposit or convert their hoards of old notes. As it turned out (Kaul 2017), 99 percent of the invalidated notes were returned. People with black wealth were either not holding much in the form of currency or successfully hired surrogates to swap or deposit their currency.

Commenting on the Indian experiment in its midst (November 2016), Rogoff (2016b) wrote: “Is India following the playbook in *The Curse of Cash*? On motivation, yes, absolutely. . . . On implementation, however, India’s approach is radically different.” Unlike Modi’s program, Rogoff’s plan calls for a gradual phase-out of big bills, has no reintroduction of them, and “is not aimed at developing countries, where the share of people without effective access to banking is just too large.” It is true that a preannounced phase-out of large-denomination currency notes need not create a temporary currency shortage. But even in rich countries it will raise the cost of transacting for law-abiding people who use large notes, and thus reduce their real income, just as in India if not so dramatically.

Large-note abolitionist Peter Sands (2016) supposes that “lower denomination notes offer an only slightly more inconvenient solution for ordinary people, given the sums involved,” while “only the very wealthy would be truly inconvenienced.” This kind of casual assessment does not show that the benefits exceed the costs of inconvenience for withdrawing the US \$100 bill, much less for also withdrawing the \$50 and \$20 bills. Note that the \$100 bill is popular around the world as a savings and transaction vehicle, such that its withdrawal would inconvenience a great many who are not very wealthy. And, when the governments of low-income countries

impose coercive policies to shove ordinary people out of cash and into other payment methods, it is the poor who are harmed.

Am I attacking a straw man here? Who actually advocates a war on cash in low-income countries? The important Better Than Cash Alliance (BTCA) does.⁴ Operating under the aegis of the United Nations, the BTCA advances the implausible idea that removing cash from the payment options of the world's poor will benefit the poor as part of a program of promoting "financial inclusion." Some of the funding partners of the BTCA, nonprofit organizations like the Bill and Melinda Gates Foundation and Omidyar Network, may sincerely have the interests of the poor at heart.⁵ Other funding partners may have other agendas, namely the giant payment processors Visa, MasterCard, and Citi, which can expect to gain transaction fees. Members of the BTCA include international agencies and governments that can expect to gain tax revenue by driving transactions out of cash.

The BTCA says that its goal is to promote "the transition from cash to digital payments *in a way that improves lives.*" But standard economic reasoning tells us that improving lives means adding attractive options, not removing what people currently consider their most advantageous options. Taking away people's best options (including payment options) is seldom a way to make them wealthier or better off as they see it. The BTCA studiously overlooks this obvious consideration. Its literature treats transition to digital payments as welfare-improving no matter the costs or compulsion involved. A BTCA report on "Accelerators to an Inclusive Digital Payments Ecosystem" (BTCA 2016) recommends "measures to encourage *or require* government entities, *private businesses, and individuals* to shift away from cash, sometimes in the form of policies that disincentivize cash usage" (emphasis added). It endorses Nigerian government policy measures that include a tax on cash withdrawals above a daily limit, a ban on unlicensed cash courier services, and a prohibition against banks cashing large third-party checks. Although they fly the banner of financial inclusion, as Häring (2017) observes, by advocating coercive policies, the BTCA and like-minded agencies actually "support financial exclusion of poor people by preventing them from using their preferred and often only means of payment."

⁴For more on the BTCA, see White (2017a).

⁵Note, however, that Pierre Omidyar's fortune came from cofounding the payment processor PayPal. For a skeptical view of Bill Gates' interests, see Häring (2017).

Is there a collective-action rationale (perhaps a network-externality problem) for compelling or subsidizing people to give up cash? Not that I have seen anyone spell out. There is no such problem evident in the process of attracting payers to use the banking system rather than cash. In every country where banks offer checking accounts, noncash payments have already established a foothold, and the infrastructure already exists for clearing and settling deposit transfers. At the margin of transactions between unbanked and banked individuals, people can be persuaded to move their payments from cash to digital transfer. They will be persuaded once digital payments become more beneficial or less costly to them than at present. Using compulsion is an admission that the benefits to the payers don't yet exceed the costs.

Attracting cash users to digital payments, in a way that improves their lives from their own perspective, is thus an entrepreneurial challenge, not a collective action problem. The BTCA's case for forcing people to stop using cash in *their own interest* is an empty box. To genuinely promote the well-being of the poor and everyone else, the BTCA should explicitly reject policies that restrict the choices of cash users.

Conclusion

Well-meaning supporters of the "war on cash" should ask themselves whether the war is really in the public's interest rather than only in the private interest of tax authorities and incumbent payment service providers. They should consider how it looks from the point of view of skeptics like Don Quijones (2016):

The war on cash is being waged for the exclusive benefit of those who already wield an inordinate amount of power and control over the economy and the people that are struggling in it. And they want more. By slowly, quietly killing cash, they seek to seize the last remaining thing that offers people a small semblance of privacy, anonymity, and personal freedom in their increasingly controlled and surveyed lives. And the way things are going, they'll get it.

The concerns of the opponent of rule by experts cannot be readily dismissed as unwarranted so long as the tactics used in the war really do threaten autonomy and financial privacy. "First, do no harm" should be the watchword for the doctors of political economy.

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