

On Cash

Cash is King, Cash is dead ... or long live the King?

Cash is surely surrounded by a lot of controversy. It is for quite some time that I wanted to express my personal views on this topic that is close to my heart – or shall I say close to my wallet.



I want to start with a recent personal encounter. My bank, a large European Player, send a seemingly innocent letter informing me on an update of its General Terms & Conditions. The Head of Customer Service casually informed me that the bank will introduce a fee for cash deposits and withdrawals. This news came as a shock and my mind started spinning: How far until negative interest rates are introduced to personal accounts? Could capital controls with limitations of cash withdrawals (c.f. Greece) become the new normal?

To recapitulate: The Pros and Cons of Cash have seen subject to endless, sometime very heated discussions. I would like to name but a few arguments on each side in the table below:

Pro	Con
Universal acceptance	Not suitable for high-value transactions
Convenience	Limited global reach / mobility
Zero transaction costs	Lack of efficiency for all stakeholders
Seignorage effect for Central Banks	Difficult transfer process
Security	No loyalty program
Contingency planning	No protection against theft
Value for individuals	
Trusted payment method	
Anonymity	
Behavioral control (you only spend what you have in your wallet)	

It is evident that new payment methods have revolutionized the way we transact and pay. With all the hype and lobbying for alternative payment methods it is, however, noteworthy to mention that fraud on Mastercard, Visa and the likes is higher by the factor of 50-100 when compared to cash (e.g. UK statistics on financial damage from 2014: cash counterfeits – 8,05 Mio. GBP, card fraud – 479 Mio. GBP). Or did you know that the digital currency Bitcoin was the worst-performing currency in 2014 (value depreciation: -56%) ahead of the Ukrainian Hryvnia, the Russian Ruble or the notoriously weak Argentine Peso? These facts tend to be omitted. After all, they are no trust-builders for digital payment methods.

Another key aspect is that cash should have a better backing of the general public – after all cash is one of the last ways to sustain independence and personal liberty. What the campaigners of non-cash payment often forget to mention is the fact that cash is unmatched with its offering of security, independence and personal control.

The low interest rates of today are already a stab in the back of the prudent saver. If negative interest rates or signs of capital controls were visible, the general public would react by exercising their rights to transfer bank money into physical money – the classical hoarding of cash would begin and this could in effect jeopardize entire economies. This reaction is possible as banknotes function as legal tender, being a universally accepted medium of exchange and storage of value. The exchange of banknotes is not stoppable or traceable, not even by its prime commander the Central Bank. Now imagine a future without cash, where digital currencies are the new platform for transactions and payments. It is likely that these platforms would reside in the hands of all-dominant corporations. Even if we discard the problem of who will control the new currency for a moment, other, possibly more critical, problems would persist. The general public would have no means to react to negative impacts and would be at the mercy of the payment platform owner. Negative interest rates? Here we go. Tobin Tax on any financial transaction? Nothing to do against it, as an exchange into a reserve currency that stores value is no more.

A further concern stems from the fact that privacy would slowly but surely vanish. I personally would not like every transaction detail and every movement of mine to be traced. Worse still, this valuable information could be (mis)-used by data brokers, advertisers or others against my own will. Remember, big data needs to have a source.

One last point I would like to make is related to the most perfidious argument against cash, namely that it is used by criminal organizations. This appeal to the righteous citizen implies that you should give up most valuable personal rights, such a privacy, for a greater good: eradication of crime. Does anybody really believe that crime will simply vanish if cash ceased to exist? Or does anyone believe that other means of payment are immune to misuse? The card fraud statistics and the uncontrollability of BitCoin indicate the contrary.

So is there still hope for cash? There surely is. If the user continues to vote for cash, the impact will be felt across the payment industry. You require an example? Uber, the omnipresent mobile ride request company, has recently introduced a cash payment option. This may be seen as a step back for a frontrunner in smart payments, but it is also a clear vote of confidence for cash by the user.

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