

The Fallacy of a Cashless Society

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Witness for the Defense

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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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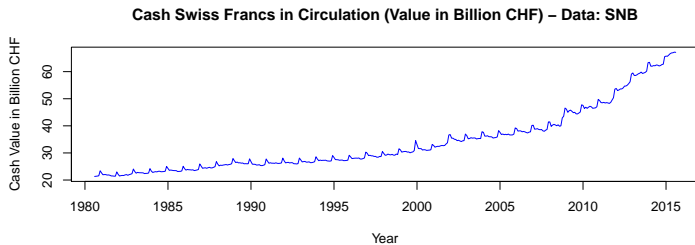
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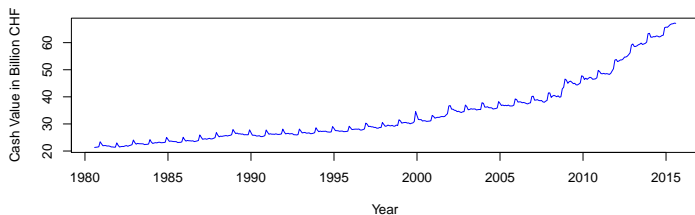
The new fallacy: Negative interest rates and cash

Cash in Circulation

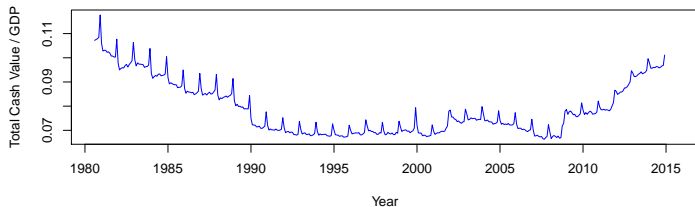


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Cash Swiss Francs in Circulation (Value in Billion CHF) – Data: SNB

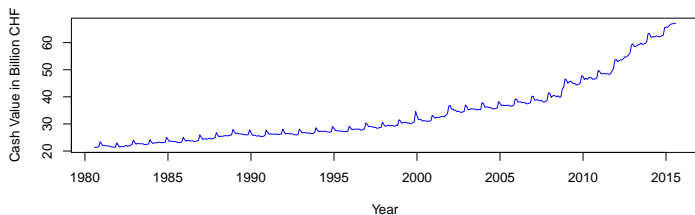


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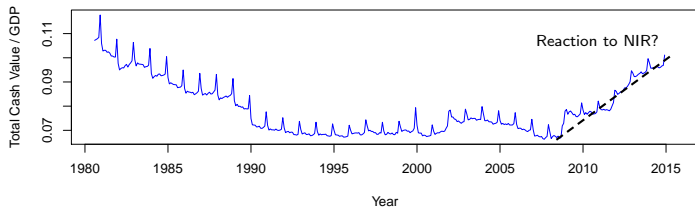


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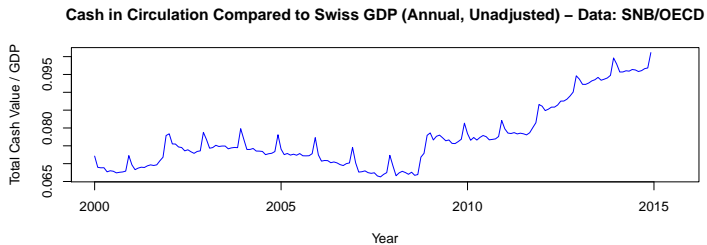
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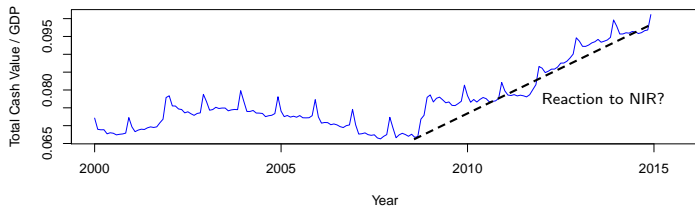


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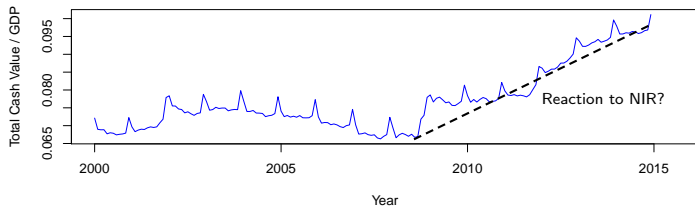
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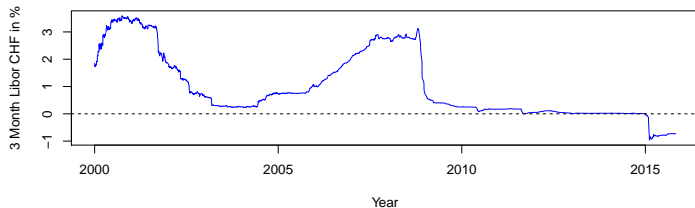


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CHF Interest Rates (LIBOR 3M) – Data: SNB/FED (FRED Database)



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- Opportunity cost
 - Riskless nominal bond

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- 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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▶ Fisher Equation

▶ Going Buitier

▶ Buitier's Would-Be Symmetry

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 precede 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

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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”.

← Pumpkin

"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