

Cash is King | Is Cash King?

by Ian Murdoch



When Cash Was King.....

I received my first pocket money on a Monday morning in September 1957. From then on I was the proud recipient of the princely sum of sixpence a week. That first Monday was a red-letter day for me - I was excited to be the proud owner of my own money and felt strangely grown-up. I had arrived in the adult world.

Financial arrangements in England in the 1950's were very different to today's world. Not everyone had a bank account: wages (and some salaries) were paid in cash. Credit cards were unheard of and large purchases were effected either by hire-purchase (e.g. furniture) or by taking out a mortgage (e.g. a house purchase). Payments otherwise were in cash or - for those with a bank account - by cheque. For holidays abroad, you typically took a mixture of cash and travellers' cheques. Cash was King. Simple times indeed!

"Things Ain't What They Used To Be"

declared Duke Ellington in 1941: a statement which applies just as much when comparing the everyday financial world of today to that of the 1950's. Today debit cards, credit cards and bankomat cards are commonplace. Paypal and on-line payments have joined the game: smartphones can be used - cryptocurrencies are springing up. Plans by both the European Central Bank and the Bank of England to introduce an E-€ and E-£ in the near future are under way (more about that later). Cash appears to be on the back foot.

Take a country like Austria - one of the most cash-loyal countries in the EU. Even here, reliance on cash is reducing. Whereas 86% of all purchases were made by cash in 2011, this proportion had reduced to 82% in 2018. Over the same period of time, the number of credit-card holders increased, the number of credit-card transactions doubled and - significantly - the average size of a credit-card purchase dropped. Payments via smartphone increased fourfold in the period 2013 to 2019. Growth in e-commerce and the changes in purchasing habits brought about by Covid can be expected to accelerate the advance of credit transactions.

So, What Is Driving The Cashless World?

Most of the factors at work here can be summed up in two 'c' words - convenience and control. To take convenience first: the complex, interconnected, globalised world of today - a far cry from the world of the 1950's - needs quick and efficient methods of moving money which cover the globe and are easy to operate. Low transaction costs and quick service times (no queues at a bank) complete the picture.

The second 'c' word - control - has for many (in particular those who bend the law!) a less pleasant ring. Any transaction running through an IT - system leaves a footprint. Transactions can be monitored. The black economy is harder to operate. Tax evasion becomes more difficult. The criminally inclined will doubtless find ways round this (how about the anonymity of cryptocurrencies for example?): but for the law-abiding, the feeling of potential surveillance is not entirely banned. Is big brother watching us? Also - is a lack of cash actually safe? Agreed: cash theft decreases in a credit-driven society - but what about credit card fraud or identity theft? Does credit really decrease crime - or merely change its form?

Anyone For Cash?

Which brings us back to cash. Is cash doomed or are there arguments in favour of it? Those in favour of cash emphasise the privacy which it brings to our finances (something which most of us appreciate). The emotional attachment to cash is also important to many: it feels more personal to receive a gift of €100 in the form of a banknote than to have the donor pay it into our bank account. The advantages of cash dealings to the weaker members of society should also not be forgotten - those who have no access to credit, those without a bank account, and those on the fringes of society would find it hard to survive without the existence of cash.

Which raises the association of cash with black markets and underworld dealings. Undoubtedly such a connection exists, but as argued above, the underworld will find ways to thrive in a non-cash environment if it needs to. Another point to consider - are black markets always bad news? They can play a valuable role in keeping an economy going during a collapse - a point understood by, for example, the Polish after the fall of the Wall. On being taken to a black market near Warsaw in 1990, I was surprised that no attempt was made to conceal it (it was about the size of the Naschmarkt and trading was quite open in broad daylight). On expressing my surprise, the answer was " Ah, yes - but this is an OFFICIAL black market" (!!). I rest my case...

A New Entrant

The plans for an E-€ and E-£ could be a major change waiting to happen. These new beings should be distinguished from existing (private and restricted) cryptocurrencies. They are intended to be nothing other than existing currency, available to all in an encrypted version, which can be used exactly as physical cash can be now. Will this be a kind of half-way house between cash and non-cash?

How this will work in practice remains to be seen: but could it be the sought-after win-win? A win for the citizen, in that his money is protected by his encryption code and is secured by the backing of a Central Bank (and not just a clearing bank) and he doesn't need to keep coins and notes in his pocket? A win for Government, in that it can reduce physical cash (which it can't control) and in that it can get money to individual citizens quickly in an emergency (e.g. to reflate the economy) without having to go through the clearing bank system? But - how anonymous will the new arrangements be? This will be a crucial element (the crucial element?) in determining their acceptance. Pure cash is largely anonymous. It is difficult to see E-currency being widely accepted by citizens without the same feature .

Is Cash Still King?

Changes are afoot and cash is on the retreat. This is clear even in a country as cash-loyal as Austria: other EU countries such as Sweden - where even children pay by credit card - are further down the road to a cashless society than we are. In part this is due to convenience, but governmental action also plays a role. Countries such as Greece have imposed limits on the size of individual cash transactions and the EU Commission has proposed a limit of €10,000.

Many of the arguments in favour of cash centre on liberty (the liberty of privacy, the liberty of discretion, the liberty to do as we wish), whereas many arguments for non-cash revolve around control (control of the undesirable, control of the potentially illegal). Is the cash / non-cash debate to be seen as one facet of the larger debate within society - the balance between freedom and control?

Let's also not forget that we are creatures of habit. Those like myself who grew up with cash remain comfortable with it: those younger than I who are used to a cashless way of being are equally happy with that. Do we have a generation issue as well?

Future developments seem likely to take us further down the non-cash road. We will have to wait and see how they are rolled out (e.g. E-€) and how much acceptance they gain. We should also not forget one simple point: in Austria at least, millions of us still rely on cash for our everyday purchases. No - cash is no longer King and it may be dying, but it ain't dead yet.

Let us have your views and comments!



About the author

Ian Murdoch is a Board Member of the Austro-British Society and is a UK native. He worked for a number of international companies and corporations in the financial and professional business consulting sector and finished his career as a Senior Director of pwc-Price Waterhouse Cooper in Vienna two years ago. The opinions expressed in this article are entirely his and reflect in no way the opinions of the ABS.