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The War on Cash Gaining Speed

From Keynesian economists to the European Central Bank, calls to eliminate physical currency in society are occurring. Excuses for this incursion into the privacy rights of citizens mirror previous power grabs by governments citing the need to fight the black market, illegal immigration and terrorism. The hidden reason governments now wish to eliminate physical currency (cash) is to gain greater monetary power.

The European Central Bank ended the printing of the 500 Euro note as of May 2016, citing its use in organized crime and terrorism. This reneges on the agreement that Germany insisted on to retire its Deutsche Mark in favor of joining the new European currency. Germany's troubled history leads a majority of citizens to hold large sums of cash in high value bills. The 1,000 Deutsche Mark note was a high denomination favored by citizens to store wealth in case of emergency.

In America, noted economist Kenneth Rogoff even has a book entitled "The Curse of Cash" in which he advocates the elimination of all notes above $10 in value to fight the drug and sex trades and terrorism. His argument is that the majority of $100 bills are held in the United States, but the location and ownership of the currency is unknown, as if it were his business to know. He also strongly advocates that authority to control monetary policy would be increased if individuals were unable to convert bank holdings into cash.

The recent push against cash actually has less to do with the black market, but rather it is greater control of monetary policy that some governments are trying to achieve. For eight years ,the United States and Europe have used "zero interest rate" policies in an attempt to stimulate their economies back toward a growth trajectory. Japan has used variations of "zero interest rates" for twenty years in a similar effort. Central bankers have, however, discovered that a lower boundary limit exists, where lower rates no longer induce corporations to engage in capital expenditures that enable economic growth. The next move by central banks was negative interest rates, something that had never occurred in the history of modern banking starting in the Renaissance. The theory is negative rates, where a depositor receives less money than he/she deposits, would stimulate consumers to spend money instead of leaving it in the bank. In effect, a person would rather spend $100 instead of depositing the sum in a bank or purchasing government bonds only to have $98 at the end of the year.

Consumers are fighting back, taking their money in physical form, creating "leakage" in economic terms, as money leaves the banking sector, which actually contracts the economy. Companies are warehousing physical cash rather than having it in a bank or a government bond in Switzerland as demand for the 1,000 Swiss Franc note grows. Companies would rather pay 1,000 Francs to ensure 1 million Francs worth of currency in a warehouse than suffer greater losses by depositing the money or buying government bonds. In Japan, sales of safes has risen 150% to 250% as individuals prefer to hold physical currency and even gold rather than accept negative rates from government bonds or financial instruments. Some Japanese are actually buying and shipping gold to be held in Switzerland, a country that does not recognize confiscation demands made by other nations. All this while physical currency in circulation has increased approximately 550% since 2010 in Japan due to greater consumer demand.

Valicenti Advisory Services, Inc.

400 East Water Street
Elmira, NY 14901
607-734-2665
Fax: 607-734-6845

447 East Water Street
Elmira, NY 14901
607-733-9022
Fax: 607-734-6157

24 West Market Street
Corning, NY 14830
607-936-1203
Fax: 607-936-0213

www.valicenti.com

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If governments could eliminate physical currency, it could mitigate a good percentage of the “cash leakage” being experienced in Europe and Japan. This is why calls have started for the elimination of high value notes that make it easy to hoard cash. In his 1906 writing, “The Natural Economic Order”, economist Silvio Gesell advocated for a system where money would suffer demurrage, losing value slowly over time (different than inflation), thereby encouraging consumers to use cash versus savings, stimulating the economy. Gesell required stamps to be affixed to currency notes in order for the note to remain valid, the more stamps over time, the less the note was worth versus its initial face value. Now, over 100 years later, negative interest rates are attempting a similar outcome. If currency were digital, it would be very easy to impose negative interest. Cash substitutes such as gold benefit in such an environment.

Expect a growing chorus calling for the elimination of physical currency as current monetary policy by the world’s central banks continues to fail to create meaningful economic growth. It is not criminal bogeymen that should be dreaded, it is the central bankers and their failed policies that should be feared.