SHOULD WE GET RIDE OF CASH?

KITE & KEY
MEDIA

[VIDEO TRANSCRIPT]

A couple of years ago, when Aretha Franklin died, journalists noticed something odd about her financial history.

Despite being one of the most successful recording artists of all time, and having a net worth estimated at $60 million, the Queen of Soul had an unusual habit: she refused to perform unless she was paid in cash.[1]

Now, we don't recommend that approach, especially if you're making that kind of money. It's an almost foolproof way to get a call from the IRS—which **Aretha Franklin** did.

The Queen of Soul was far from alone on this front. There's a long history of recording artists having troubles with the taxman. It happened to everybody from Pavarotti and Prince to Shakira and Ozzy Osbourne. The all-time king, however, may be Willie Nelson—who was hit with a $32 million bill from the IRS in 1990. How did he pay off his debt? Partially through the release of an album entitled The IRS Tapes: Who'll Buy My Memories?

But her reasons for doing it weren't crazy. As a struggling young singer, she had seen many other black artists get cheated out of the money they were owed. The lesson she took from that? That you can only be confident you're getting what you've been promised when you actually have the money in your hands.

WATCH VIDEO ONLINE

Today, however, almost no one lives that way. With debit and credit cards, Apple Pay, Venmo, PayPal, and tons of other options, Americans are using less cash than ever before. By 2017, only 30 percent of consumer transactions in the U.S. were done with actual currency.[2] And that number is only going down.

You might think that cash usage is highest among older Americans, while younger consumers prefer digital methods. But it's not true! A 2019 study from the San Francisco Federal Reserve revealed that cash use is highest amongst Americans who are 18-25. The group least likely to use paper currency? Those who are 25-44.

Now, there's an obvious reason for this, which is that it's super convenient to use a card or your phone instead of carrying around actual money.

Well...it's convenient *for the most part*.

But this brings up an obvious question: do we even need cash anymore? That might sound far-fetched, but it's a question the experts are really asking.

In 2016, Larry Summers, the former head of President Obama's National Economic Council, called for getting rid of anything larger than a $50 bill.[3]

By 2020, Gary Cohn, the former head of the National Economic Council under President Trump, was suggesting we might just be better off getting rid of cash altogether.[4]

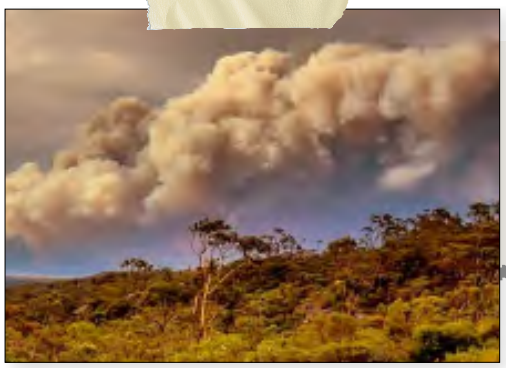
Here's how that argument goes. First of all, handling cash is more costly than digital transactions. It's estimated that producing, distributing, and storing physical money costs the equivalent of about half a percent of GDP in wealthy countries. In the U.S., that's over $100 billion.

Here's one of the weirdest costs associated with cash: the production of low-value coins is actually a net loss to the taxpayer. A 2018 report from the U.S. Mint noted that pennies cost 2.06 cents to create and nickels cost 7.53 cents.

And cash is the favored tool of criminals, drug dealers, and terrorists…but also grandmas, which seems like it ought to count for something?

Now, before we rush headlong into a cashless society, we've got to think about the potential drawbacks too. For instance, at a time when everyone is concerned about the privacy of their data, what happens in a world where every single transaction in your life—everything you buy, every donation you make, every gift you give a friend or family member—is kept in a form that could be targeted by hackers...or even potentially monitored by corporations or the government?

There's also the problem of what you do in the case of an emergency. **If all currency is digital, then no power equals no money.** What happens in the case of a natural disaster that knocks out power or a problem with the electrical grid? Those are precisely the kinds of emergencies where access to **cash matters most.**

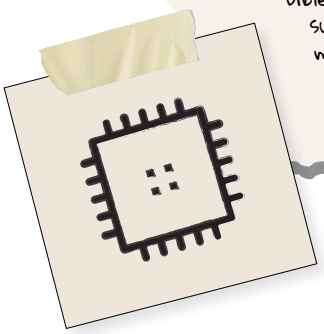


One example of this principle: During the 2020 Australian brushfires, ATMs, digital payment devices, and cell phone networks all went down simultaneously. "...[W]hen the power goes down," said the head of the Australian Strategic Policy Institute's Risk and Resilience Program, "...cash is gold."

And then there's the fact that some of the alternatives to cash are...just creepy. Sweden has gone digital faster than any country in the world—85 percent of transactions there don't involve any actual money changing hands.[6]

One of their alternatives: according to *The New York Times*, over 4,000 Swedes have actually had **microchip payment devices** implanted in their hands.[7]

Merely creepy or a sign of the end times? Many Christians are disturbed by the use of implanted microchips because of a passage in the Book of Revelation—the final book of the Bible, which deals with the apocalypse—that suggests the Antichrist will require a mark on the hand (or forehead) for people to engage in commerce.



Which is fine, I guess, if you want to be able to be tracked down in the same fashion as a lost chihuahua.

But while all those drawbacks are potential bugs, the one you most need to be aware of is, for some people at least, a feature: **a world without cash is a world where you can be forced to spend your money rather than save it.**

Now, they don't say it that way, of course. That's the beautiful thing about economics: you can be totally honest about what you're doing and people will still have no idea what you're talking about.

Let me explain: when you put money in a savings account, banks usually pay you interest, because having that money on hand helps them make loans. These days, however, interest rates are at rock bottom. You get almost nothing.

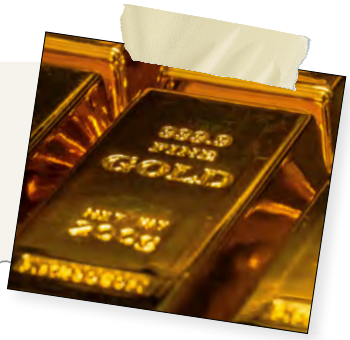
The next step the government could take would be negative interest rates, which means everything is upside down. If your money is in an account that would normally pay interest, the banks would now charge you to keep your money there instead. Your balance would actually be shrinking.

Now that's obviously a pretty bad deal, so banks usually won't do it. Otherwise, you'll just get frustrated and pull your money out. But the second cash goes away? So does that option. And that's why some policymakers like this idea. Because in this scenario the only alternative to watching the money in your account slowly decrease is to just go spend it.

So politicians get to say that spending is boosting the economy... even while your savings account is wasting away.

And this isn't some conspiracy theory: an analysis by the International Monetary Fund—basically the UN of money—says this pretty much outright.[8] Yes, that's right: some of the smartest people in the world and they couldn't come up with a plan any more sophisticated than breaking your piggy bank.

Gold is often touted as the ultimate safe investment, an asset that would retain its value even in the wake of a devastating economic crisis. A 2013 report in the Journal of Banking and Finance, however, found that less-touted metals like palladium and copper may actually be better investments in such a scenario.



Look, the point here isn't to scare you into hoarding precious metals. Many of these digital payment tools are great and they

make life way more convenient. And there's no reason we can't keep using them! But keeping cash as an option is probably worthwhile if for no other reason that it ensures you can keep the money you've worked so hard to save.

Remember, when in doubt: be more like Aretha.
But, you know...pay your taxes.

[END OF SCRIPT]

FOLLOW US ON SOCIAL MEDIA:
@kiteandkeymedia

SOURCES:

1 https://money.com/aretha-franklin-net-worth-paid-in-cash/ ("You Are Not Going to Disrespect Her: Why Aretha Franklin Insisted on Being Paid in Cash" — *Money*)

2 https://hbr.org/2019/07/is-the-u-s-on-its-way-to-becoming-a-cashless-society#:~:text=According%20to%20the%20FDIC%2C%20cash%20represented%20just%2030%25%20of%20all,63.8%25%20in%202015.&text=In%20the%20past%20four%20years,from%2046%25%20to%2037%25. ("Is the U.S. On Its Way to Becoming a Cashless Society?" — *Harvard Business Review*)

3 https://www.washingtonpost.com/news/wonk/wp/2016/02/16/its-time-to-kill-the-100-bill/?postshare=8671455627637815 ("It's Time to Kill the $100 Bill" — *Washington Post*)

4 https://www.ft.com/content/153778ba-862c-11ea-b6e9-a94cffd1d9bf ("Coronavirus is Speeding Up the Disappearance of Cash" — *Financial Times*)

5 https://www.economist.com/leaders/2019/08/01/rich-countries-must-start-planning-for-a-cashless-future ("Rich Countries Must Start Planning for a Cashless Future" — *The Economist*)

6 https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf ("Access to Cash Review, Final Report, March 2019" - Access to Cash Review)

7 https://www.nytimes.com/2018/11/21/business/sweden-cashless-society.html ("Sweden's Push to Get Rid of Cash Has Some Saying 'Not so Fast'" — *New York Times*)

8 https://blogs.imf.org/2019/02/05/cashing-in-how-to-make-negative-interest-rates-work/ ("Cashing In: How to Make Negative Interest Rates Work" — International Monetary Fund)

IMAGE CREDITS: Aretha Franklin (Wikimedia) // Coins (Wikimedia) // Igal Ness (Unsplash) // Pixabay // Brushfires (Wikimedia) // Jingming Pan (Unsplash)