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SKILLS AND SURVIVAL FOR ALL SITUATIONS

A CASHLESS WORLD

HOW WILL IT AFFECT YOU?

BY: KEVIN FREEMAN

Like watching an all-too-predictable movie, the passage to a cashless society seems rather inevitable.

Each step seems logical, but there can be little doubt in regard to the destination. Cashless comes when technology matches scheme. The inexorable path to cashless comes from a series of problems and solutions. Each solution creates a new problem. Governments have been dreaming of a cashless society for decades due to the control potential it offers. Cash is anonymous. It can be used to evade taxes and hide money, but cash also has been a necessity. It solved the first problem of having a medium of exchange that could grow with the economy. How do you exchange wheat for eggs when you really need fertilizer? Money allows everything to be valued in comparable terms, but what qualifies as money?

Initially, money could be shells, beads, precious rocks, animal skins and sometimes cows. That made it a little difficult to transact business. Eventually, governments started to make money a little more uniform using coins and paper money. Technically, there are distinctions between money, currency, bills, notes, etc. For our purposes let's take an overview in broad conceptual terms.

PROPERTIES OF MONEY

Traditionally, the primary properties of money have been:

- A medium of exchange
- A unit of account
- A store of value.[1]

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FREERANGESTOCK - CHANCE AGRELLA

PAPER MONEY CAN BE DISCREET, BUT DENOMINATIONS OF $100 OR LESS BECOME BULKY FOR EXCHANGE IN LARGER TRANSACTIONS.

Of course, there are other properties that are quite important as well. Here are a few:

- Portability (easy to transport)
- Permanence/Indestructability (doesn't evaporate or disappear)
- Divisibility (can be divided into smaller units)
- Homogeneity (same basic value or quality)
- Cognoscibility (easily recognized for what it is)[2]

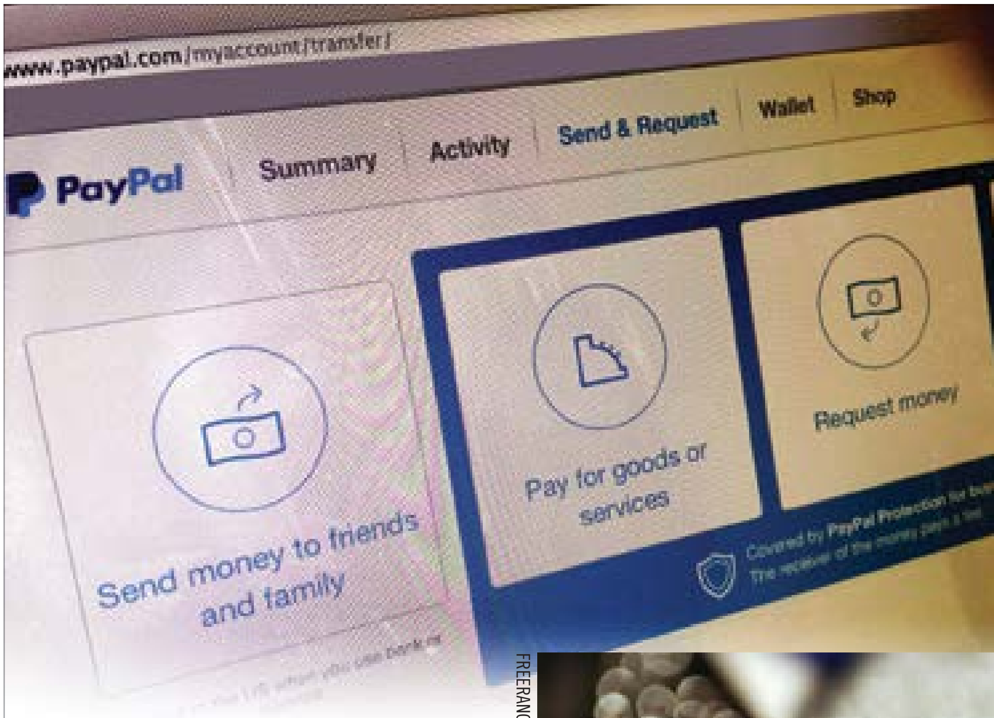
Paper money has many advantages. If you use shells as cash you have supply issues, they aren't easily divisible and can vary greatly in quality. With paper money and coins, however, all of the key properties can be met. Governments have printing presses and mints and can thus produce as much or as little currency as they would like. Sometimes governments allow the paper money to be converted to either gold or silver. Other times, governments prefer having cash as "fiat money" that they control compared to the old-fashioned gold- and silver-backed certificates. That means the paper money has worth because the government says it has worth rather than having some backing. And it also frees the government from the necessity of having a ready supply of gold to exchange for the paper.

As the economy has grown, even paper money has run into challenges. Problem #2 is that even paper money, at least in the normal denominations of $100 or less, becomes pretty bulky for exchange in larger transactions. Our economy is about $18 trillion in size.[3] At present, there is less than $1.5 trillion of cash (coins and bills) in circulation according to the Federal Reserve. [4] We don't have nearly enough cash to handle a year's worth of activity, let alone the asset purchases. It just wouldn't be practical to print that much money, at least not using the current denominations.

THE RISE OF FRACTIONAL BANKING AND ELECTRONIC MONEY

One solution, of course, is to have money written in a ledger at banks rather than printed as bills. The government can regulate banks and require them to keep only a small percentage of the money they have in cash. They could loan out additional amounts on credit for every deposit made. This is known as fractional banking. It vastly increased the money supply in the form of credit with much of it non-cash.

With the advent of computers, banks were



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CREDIT CARDS AND PAYPAL ARE TWO POPULAR WAYS TO PAY FOR GOODS AND SERVICES, ESPECIALLY ONLINE.

able to keep track of credit even more efficiently. Over time, most of the "money" in circulation has become electronic in nature. If you had $1 million in the bank and wanted to withdraw it, you would quickly learn that the bank vault wouldn't have enough cash on hand to pay you.[5] Instead, the bank has notations in the Federal Reserve and a list of places where the money is loaned or invested. It is all kept in the records on computers at the bank or in cyberspace.

The system works pretty well at present, as most people get paid electronically and spend money electronically. People don't write checks much either. Thus, the trend to cashless has been well under way.[6] So much of what we buy or sell is by credit card, paid online, or with Apple Pay or other electronic forms. This means that almost all money goes through the highly regulated banking system at some point. The government likes this as banks can be regulated. Over time, the government has benefitted from the expansion of credit and *the value of paper money has eroded.*[7]

Problem #3 has to do with debt. Fractional banking and fiat money have allowed a rapid increase in borrowing. As debt has increased, the economy has grown. The largest debtor in the history of the world also happens to be the one with the printing press. The U.S. Federal government owes almost $20 trillion directly[8] and has unfunded promises well over $100 trillion.[9]

The issue of having excessive debt is the cost required to carry it—interest. The Federal government owes almost $20 trillion. If it paid 10 percent interest (as was true in the early 1980s), the annual interest cost would be $2 trillion. That is unsustainable. The government would have to raise taxes by well over 50 percent to cover this cost.

The other answer might be to simply print more money (or to just add zeros to each bill.) This doesn't work well for long because you can only print so much money before it collapses the currency via hyperinflation. That has happened before in places like Zimbabwe, Weimar Germany and Latin America. In Zimbabwe, the inflation got so bad that they were printing $100 trillion bills.[10] In Germany during the 1920s they were printing bills with a denomination of a million or a billion. Even then, it took a wheelbarrow full of German Marks to buy a loaf of bread. Thieves would dump the money and steal the wheelbarrow.[11]

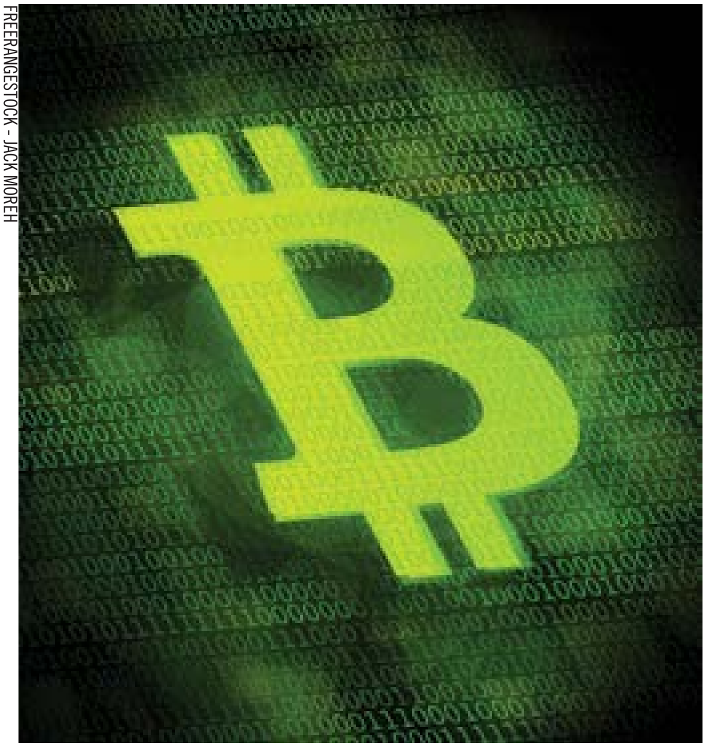
Fortunately, this is not happening here (yet.) Why? Because the American dollar is considered the most important reserve currency in the world.[12] People and other nations hold our government debt because they believe it is stable and likely to be repaid. But that isn't enough to cover all our debt. The Federal Reserve Bank (aka "the Fed") is really a private entity that is subject to government regulations and controls.[13] But the Fed also wields enormous power. One of the powers is to buy Federal Reserve debt and this has enormous impacts on the money supply.[14]

Because the U.S. government owes so much, the Fed has been very active in "buying" debt. This buying has the effect of forcing interest rates down due to the law of supply and demand.[15] Problem solved? Not exactly.

Problem #4: Lower interest rates hurt savers and in some cases suppress economic activity. At first, interest rates were forced to near zero in what is known as "ZIRP" or zero-interest rate policy.[16] It rewards those in debt, but hurts those who have been savers.[17] And, with a whole host of factors too numerous to fully explain in a short article, deflationary trends have set in around the world. The solution for this has been ever-lower interest rates. Some economists believe that massive debt increases lead directly to a deflationary spiral.[18] Low rates encourage more debt and less savings. That's where the need for money continues to build making it more and more valuable. The solution? Ever lower interest rates.

We have already seen places like Japan where deflation has taken hold and the government pushed rates so low they have gone negative.[19] Yes. Negative. Negative interest rates are where the lenders actually pay borrowers to take their money. It is upside down to anything we have experienced. Those who borrow love it, however, as they make money

FREERANGESTOCK - JACK MOREH



IF CASH WERE OUTLAWED AND BITCOIN REGULATED, THE GOVERNMENT COULD CONTINUE TO FUND DEBT AT NEGATIVE INTEREST RATES AND PEOPLE WOULD BE UNABLE TO EXIT THE SYSTEM.

by taking on debt. At present, more than $10 trillion of money around the world is loaned at negative interest rates, over a quarter of all government bonds measured in the JP Morgan Index.[20]

Of course, this creates Problem #5. No one wants to pay the bank to keep their money. Savers will pull money out of the bank and put it in their mattress at home or a safe. We know this logically, but also because safe sales explode wherever negative rates are implemented.[21] Cash demands explode as individuals have no way to record or show holdings outside the banking system.[22] This also has given rise to things like Bitcoin, where cyber-space and the Internet cloud keep track of electronic money.[23]

Problem solved? Of course. But the solution gives rise to Problem #6. Governments hate losing control to cash and things like Bitcoin.[24] Cash can be used by drug dealers, criminals, and terrorists to remain anonymous. [25]The government doesn't like that. So, the government has implemented a whole series of laws to stop this anonymous cash flow.

CONSIDER:

You have to report any cash over $10,000 when flying in or out of the country.[26]

If you either withdraw or deposit more than $10,000 cash in a day, you may be red-flagged by the bank and possibly investigated.[27]

If you deposit or withdraw less than $10,000 in a single day but in aggregate over several days exceed the $10,000 amount, innocently or nefariously, you may be charged with structuring and can lose your deposit.[28]

Banks are imposing limits on how much you can take per day in cash even more restrictive than Federal limits.[29]

Because cash is troublesome, some merchants want to limit the cash they deal with and many have started to prefer credit cards.[30]

NOW WE KNOW WHY CASH IS DYING

The net effect is that the use of cash diminishes and the use of electronic money explodes. This is all explained by the "war on cash" we are now experiencing and the advance of technology. If cash were outlawed and Bitcoin regulated, the government could continue to fund debt at negative interest rates and people would be unable to exit the system. Governments would gain strict regulatory control over all transactions.

Of course, this will create a whole new series of problems over time, but it explains why the death of cash appears inevitable. We are entering a brave new world of economics with technology leading the way. ✓

BIO

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