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The Great Paradox of Cash and Why its Reign is Far From Over

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FRAPPE LA MONNAIE ET LES ESPRITS



The great paradox – what does it mean?

1) The volume of a cash in circulation is on an ever-increasing trend

- Continuous growth over the past twenty years
- Significant increase in 2020

2) Cash still plays an important role as a means of payment

- Cash remains the primary means of payment in Europe
- Transactional use of cash is declining
- People do not want a cashless society

3) A shifting paradigm: from the death of cash to its defense

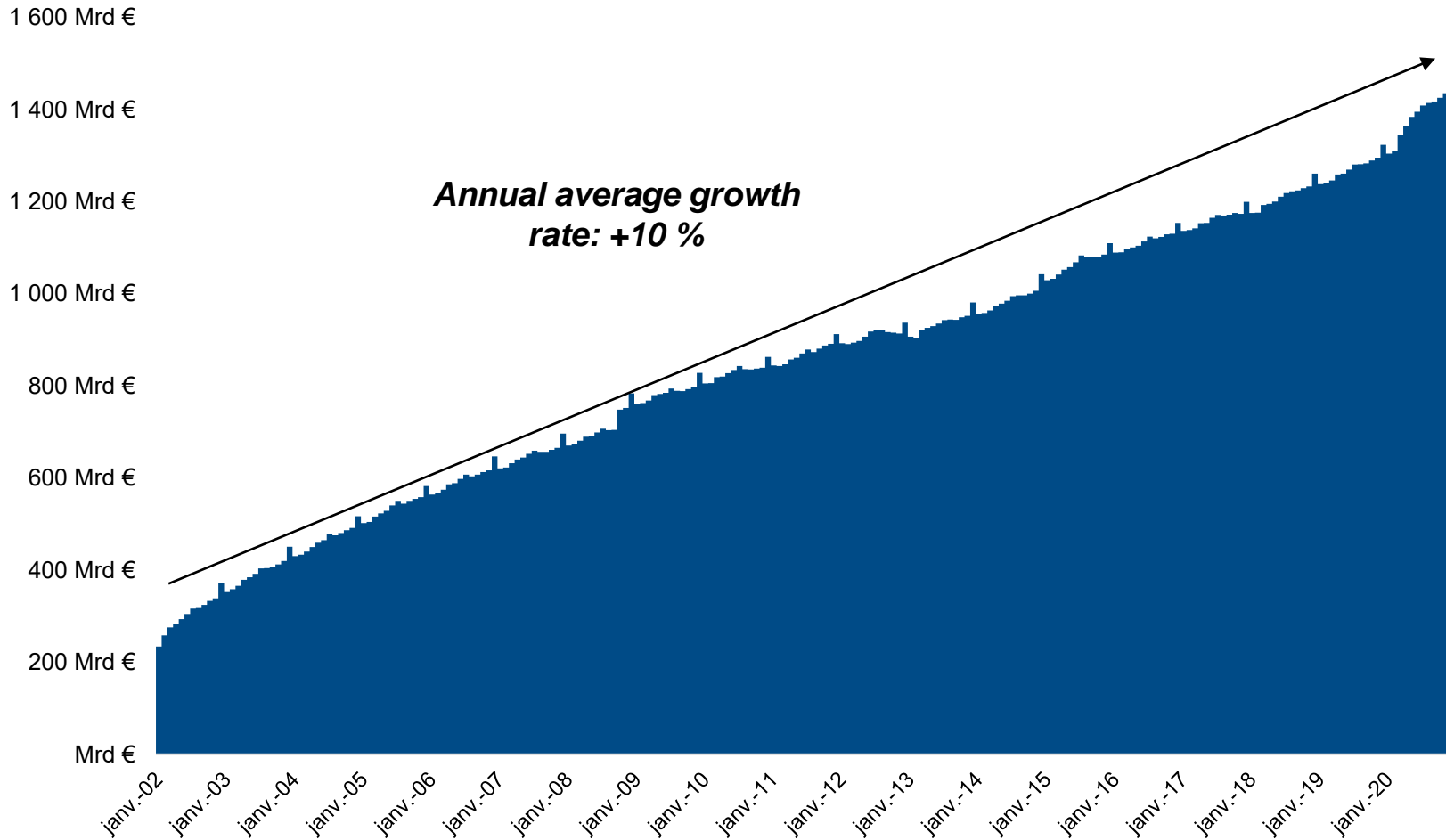
- Against the death of cash: cash as a public good
- Arguments in favor of keeping cash

4) Towards a central bank digital currency?

5) Conclusion: a public good which must be protected

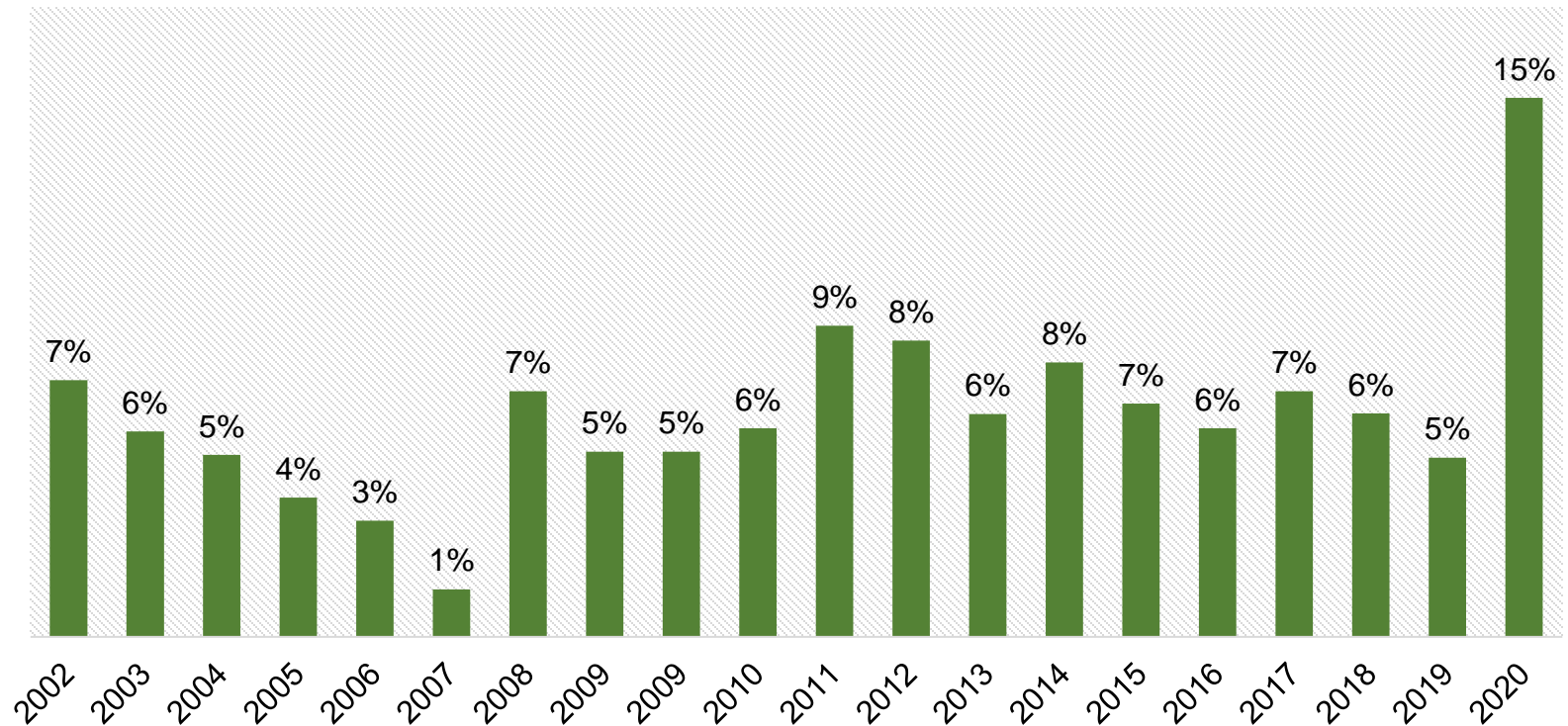
The circulation of euros (coins and bills) experiences continuous growth and has been multiplied by a six-fold factor since 2002

Cash in Circulation, billions of Euros



The circulation of US Dollars (coins and bills) is experiencing continuous growth and has been multiplied by a three-fold factor since 2002

Annual average growth rate for dollars in circulation: +6,4%

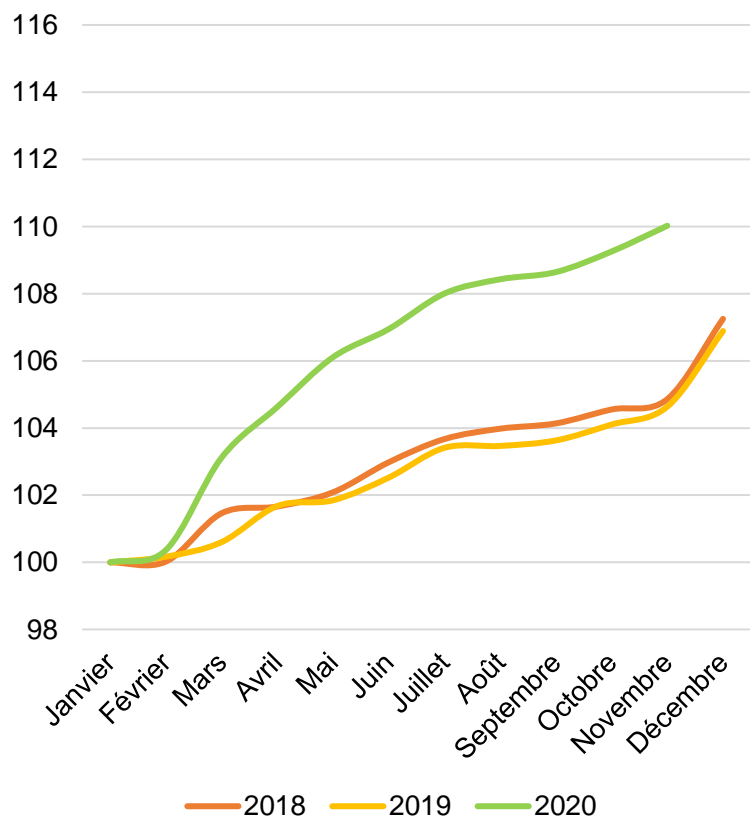


Source: Federal Reserve System

Cash in circulation increased faster in 2020 than in recent years

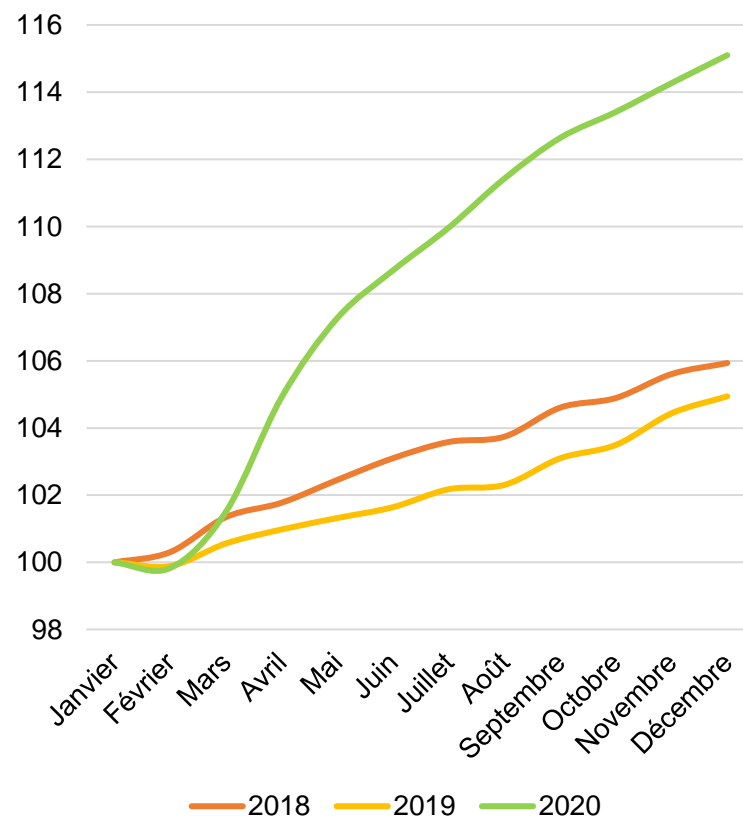
Evolution of cash in circulation

Billions of Euro, base 100, January



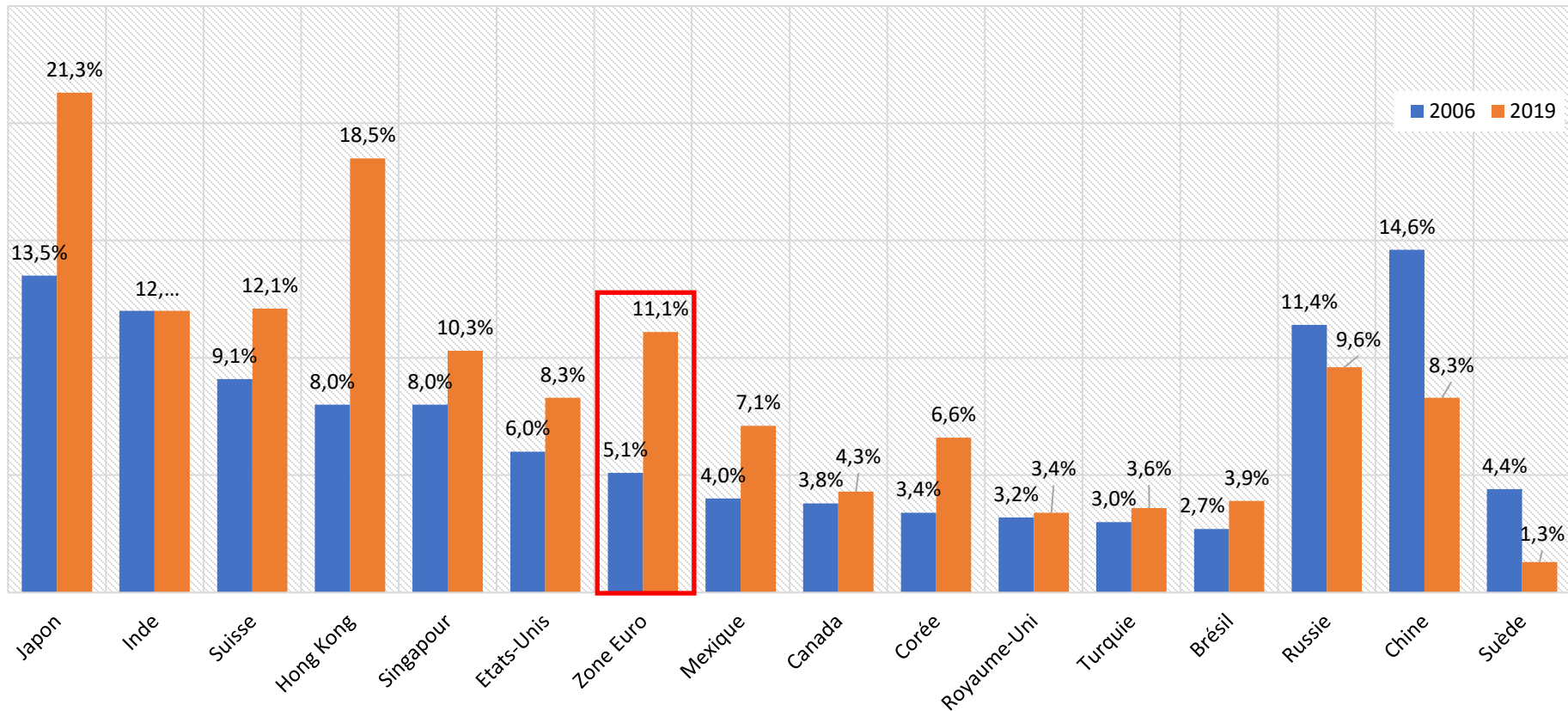
Source: European Central Bank

Billions of Dollars, base 100, January



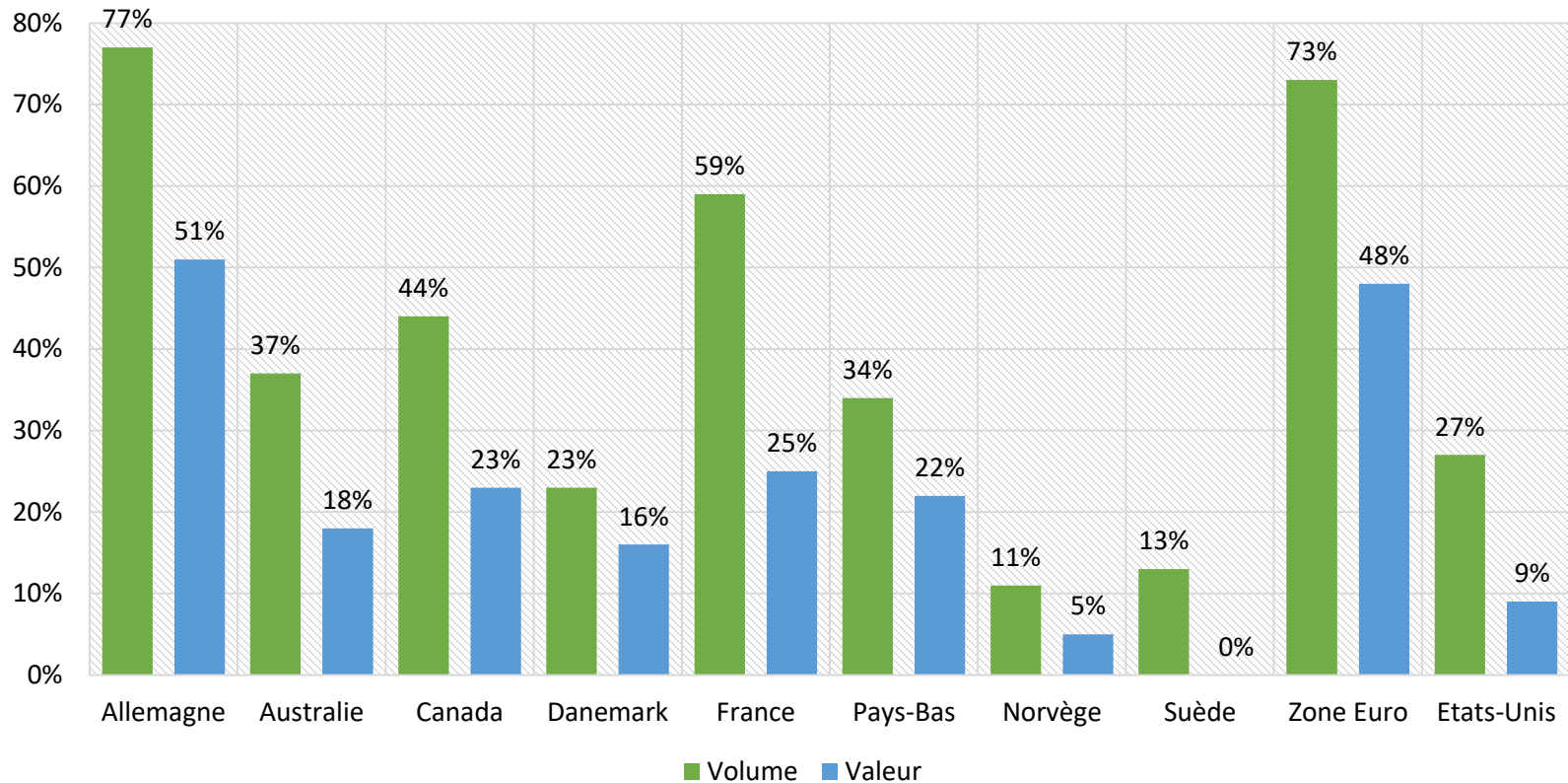
Source: Federal Reserve System

The ratio of cash in circulation to GDP is increasing in most economies



Source: Bank of International Settlements

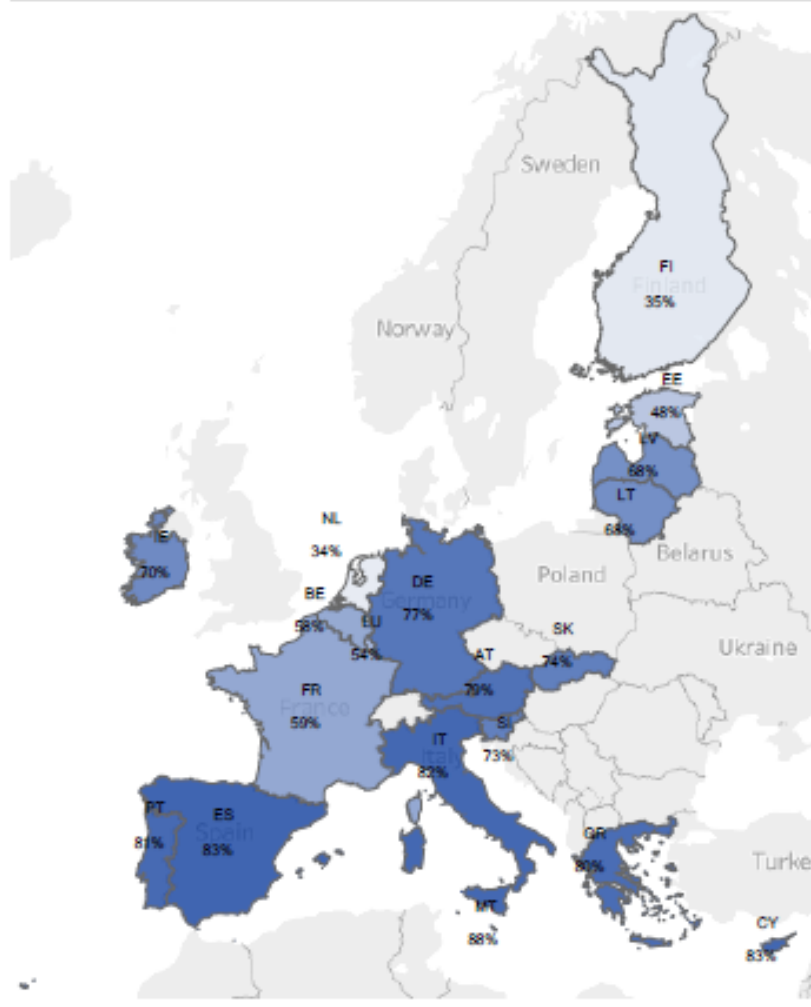
The share of cash payments in the payment mix varies significantly between countries



Sources: International Monetary Fund, European Central Bank

Cash payments – number and value of transactions

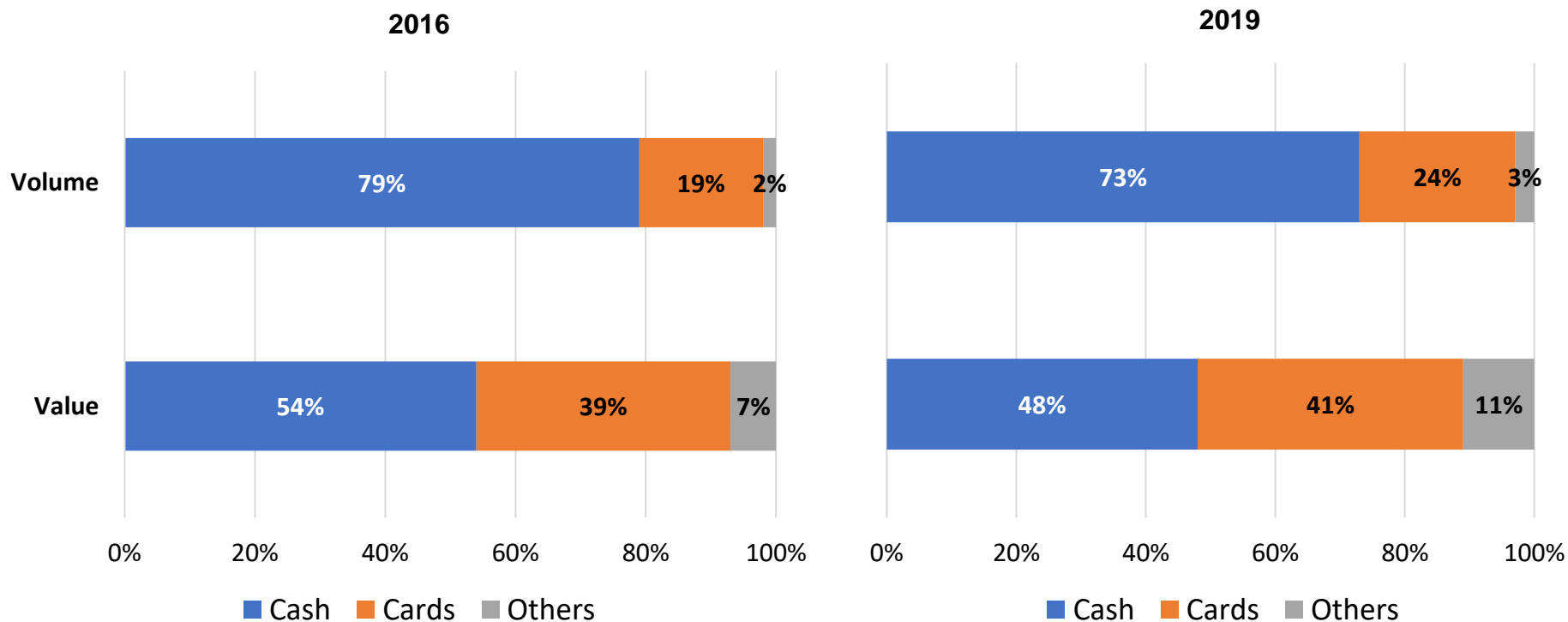
a) Number of transactions



b) Value of transactions



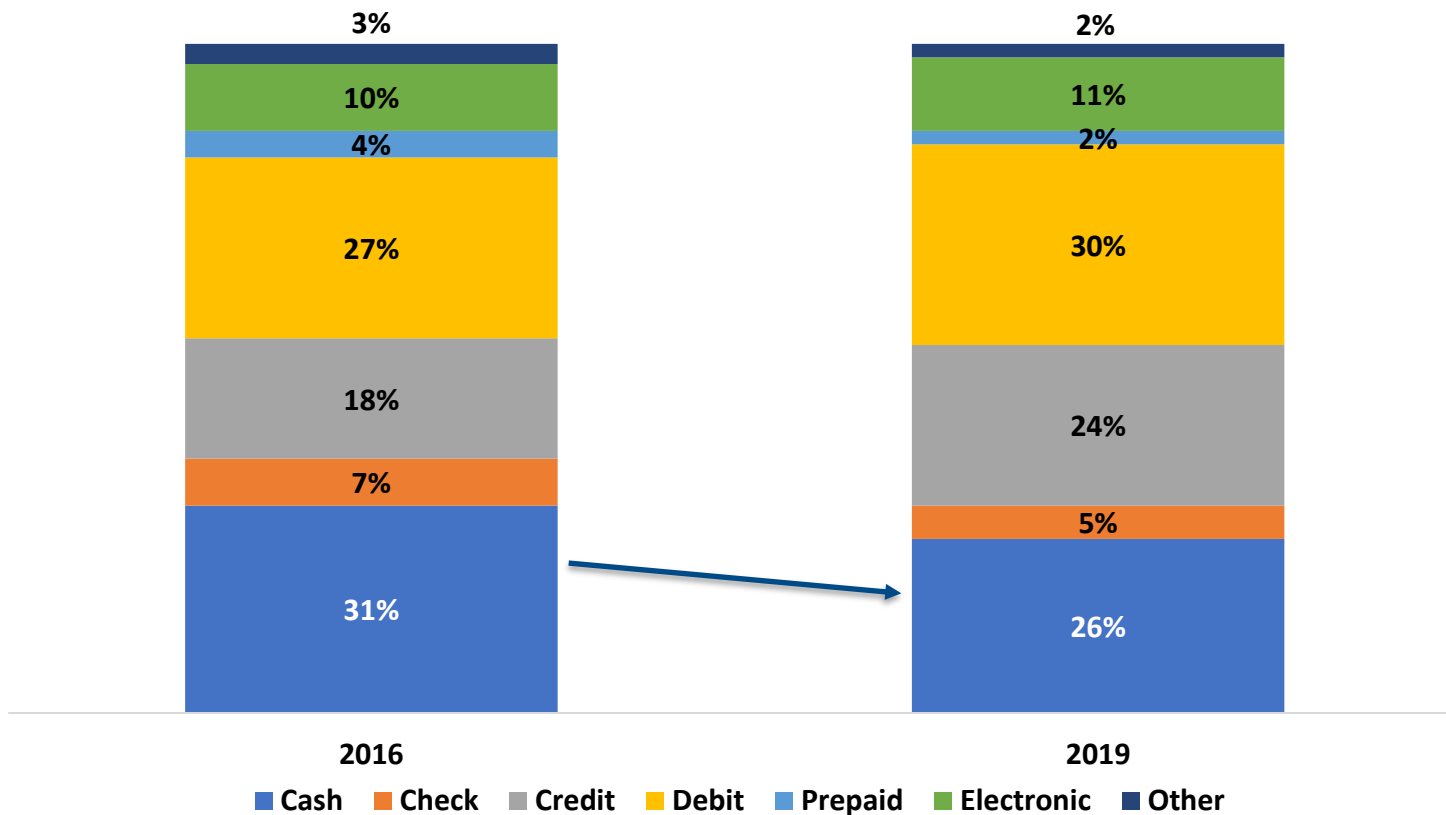
Cash remains the most favored means of payment for European consumers



Source: European Central Bank

The decreasing transactional use of cash is a long term trend

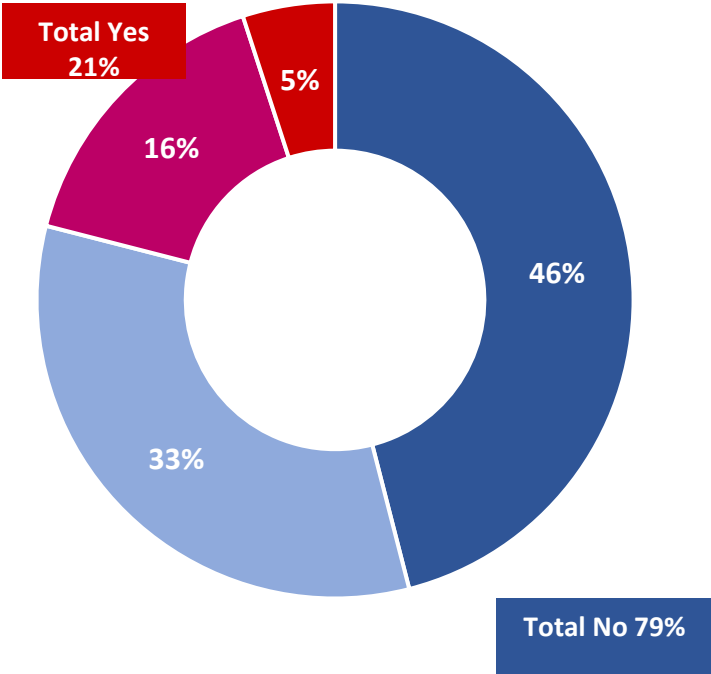
Market share of different means of payment in the United States



Source: Federal Reserve System

Citizens overwhelmingly reject the idea of a cashless society

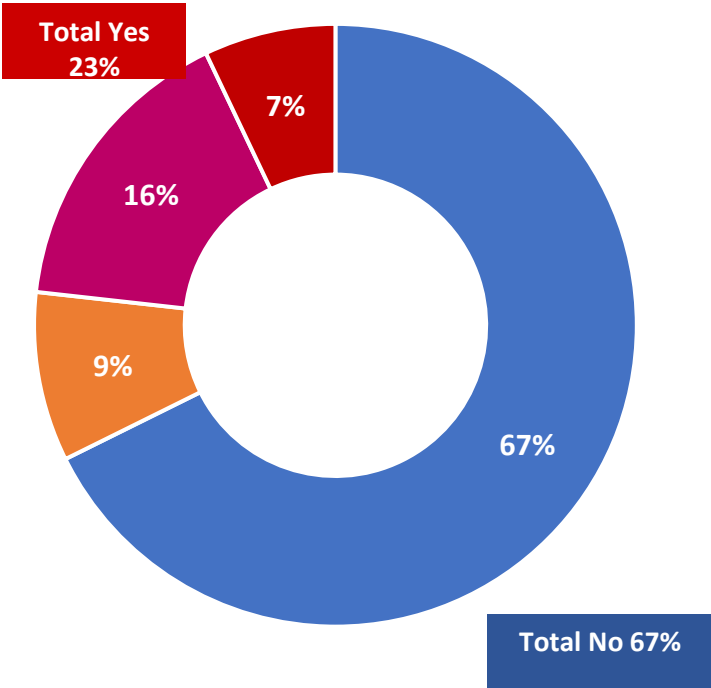
France



- Non, pas du tout
- Non, plutôt pas
- Oui, plutôt
- Oui, tout à fait

Source: IFOP

United States



- Against it
- No opinion
- OK with it
- All for it

Source: Civic Science

Ten reasons why citizens are still using cash and want to keep it

Rational Reasons	Emotional Reasons
Electronic payments are not yet accepted everywhere and for every transaction	Cash is the physical embodiment of monetary value
Paying with cash helps with budgeting	Coins and bills have a symbolic value: they carry signs that manifest and create a sense of belonging
Cash is the fastest way to settle small transactions	People trust cash, which was able to withstand fraud and counterfeiting
A significant proportion of the world population does not have a bank account	Cash is perceived as a safe store of value in times of crisis
Cash can always be used, even in case of a power outage	Privacy: many people dislike the idea that their payment habits can be tracked and recorded

Arguments in favor of keeping cash as a public good

Cash...

- Is universal, free and easy to use
- Is inclusive
- Is resilient
- Preserves freedom of choice and guarantees trust in money
- Protects personal data
- Upholds the social contract of money
- Is not the only means of payment that can be used to fraudulent ends

A central bank digital currency

- Should feature the same advantages as cash: trust, availability, ease of use, resilience, safety. It should also guarantee the integrity and safety of payments
- Could fragilize the financial system, creating an existential risk for commercial banks. In times of crisis, CBDC might cause a run on the central bank