

# Forbes

## King Charles The Cashless: Forget About Banknotes & Coins

David G.W. Birch

September 12, 2022

You will undoubtedly have seen the sad news that our head of state Queen Elizabeth II passed away and has been succeeded by her son, who will reign over us as King Charles III. Which means there will soon be a new face on the notes and coins produced in our United Kingdom.

Is this really worth doing though? I mean are banknotes really going to be around that much longer? Only last week John Howells, the man who is in charge of Britain's ATM network, said that cash has as little as five years left as its infrastructure experiences “death by a thousand cuts”. This infrastructure, which includes the ATMs, security and bulk cash centres costs around £5bn a year and many of these costs are fixed and will not change as consumers move to digital payments.

Similar dynamics apply in the USA, by the way, where something like a sixth of adults say they make "all" or "most" of their purchases with cash, whereas five years ago it was around a third. Similarly, five years ago a third said that they made “only a few” or no purchases with cash whereas today it is two-thirds.

This timescale also resonates with the Bank of England’s view that that while a retail central bank digital currency (CBDC) is on the way, it won’t arrive any time soon. Five years seems a reasonable prediction for full-scale pilots in our United Kingdom. Indeed when you factor in the recent report from UK Finance that more than 23 million people in the UK used virtually no cash last year, while notes and coins (currently around a sixth of retail payments) will account for around one-twentieth of payments within a decade, the idea that we will see cash vanishing from polite society well before them seems far from fanciful.

That fact is, we are going cashless under King Charles. Now, as I have said before, “cashless” does not mean that there will be no cash in circulation at all. Of course some rump of cash may continue to circulate, much as British postal orders continued to circulate in parts of the Commonwealth long after the British Post Office was responsible for their mail. No, a cashless society isn't one in which there is literally no cash at all, but a society in which cash is irrelevant.

That is, it will no longer have any significant role to play in the economy. And that will happen under Charles.

There will of course continue to be post-functional cash that is printed and distributed for ritual or ceremonial purposes. People will continue to want to pin paper notes to a bride's dress at some weddings just as they will continue to use chips rather than chip cards in casinos. These are forms of cash that do not serve a function within the wider economy but have "ceremonial" functions in society and these will survive the transition to virtual money down to the retail and individual level.

### **Cash Bump**

If you look at the figures, cash in the UK actually had a post-pandemic bump. British Post Offices handled more than £800m in personal cash withdrawals in July, which is the most since records began five years ago and up more than 20% from the previous plague year. Natalie Ceeney, chair of the Cash Action Group, said it showed people are "**literally counting the pennies**" as they grapple with rising prices.

This may well be true but there's at least one more contributing factor in my opinion. On one of our local neighbourhood message boards the other day I saw a plaintive appeal from a man who had withdrawn a few thousand pounds in cash and then gone shopping. On his return home he discovered he'd lost the envelope with the cash in it. I doubt he'll see it again, but what interested me most was why anyone would be walking round with an envelope with thousands of pounds in cash on it in 2022.

I wasn't the only person to wonder this because there was several posts asking him the same question. He replied, predictably, that he was having some building work done on his house and needed to pay the builders. Now, you know as well as I do, that the only reason for paying tradesmen in cash is to avoid tax. This goes on all the time and something like half of what the Inland Revenue refer to as the "tax gap" (that is the difference between their estimate of the tax that should be remitted given the scale of economic activity and the size of the population and the actual amount of tax remitted) is down to small businesses not reporting transactions.

(One of the reasons why I get so upset about my huge tax bill is that I know other people aren't paying their fair share.)

It is not clear to me that cash and counting pennies is in any case the best way to manage hypothecation (that is, dividing up income and allocating it to specific purposes). For one thing, people who are trapped in a cash economy are the people who are mugged, shaken down and excluded from the best deals for goods and services. They are also the people who lack insurance and are vulnerable if cash goes missing. Furthermore, cash leaves no accounting trail so you cannot sit down at the end of the week and see where your money went.

Some years ago I remember taking part in an experiment in the north of England to look at the use of mobile wallets to manage welfare payments and as I recall, the participants were greatly in favour of this way of handling their limited resources. A great many people have smart phones

and hypothecation through a smart phone app can deliver much better financial health results than cash on the kitchen counter in jam jars.

So while I am sure that Natalie is right and some of the use of cash is “jam jarring” (that is, hypothecating income to manage expenditure carefully in times of hardship), I am also sure that much of it is to avoid value-added tax and payroll taxes.

Oh, and for crime, of course. A large part of the cash “in circulation” is actually under mattresses up and down the country. Such as, for example, the quarter of a million quid found **under the bed** of a Mr. Lin Gun. He was stopped by London police officers who found £20,000 in his rucksack. He also had £1,200 in Scottish banknotes in his pocket: I imagine that his business partners had refused to accept them on the grounds that they are not legal tender (even in Scotland.)

## **Junk**

Incidentally, whoever is on the banknotes, we should not ignore what a waste of money coins are. In Britain, there have been calls to do away with the one penny and two pennies coins for some time, although the government has committed to keeping them for the time being. I am certain the dropping the 1p and 2p coins and rounding to the nearest 5p would lead to absolutely no disruption to public life at all. Let’s not waste money and metal by mass producing pointless shrapnel with new King’s head on it.

In the US, where it costs approximately two cents to make a penny, more than half of voters think the government should **stop minting them**. America is not uniquely inefficient with respect to cash: In Australia it costs six cents to make a five cent coin and since everyone in Australia uses contactless cards all the time, it’s not obvious why they continue to mint these either.

I agree with The Cato Institute, **which says that** the case for producing these pointless coins is weak and that they are only minted because lobbyists harness nostalgia and “junk arguments” about rounding, but that’s a discussion for another day.