

Haldane Cashes Out on Cash

By
Kevin Dowd*

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I've got ninety thousand pounds in my pajamas.
I've got forty thousand French francs in my fridge.
I've got lots of lovely lira,
Now the Deutschmark's getting dearer,
And my dollar bills would buy the Brooklyn Bridge.

There is nothing quite as wonderful as money!
There is nothing quite as beautiful as cash!

You can keep your Marxist ways, for it's only just a phase...
Money, money, money makes the world go round!!!

Monty Python

One of the most significant but least noticed developments in recent years has been a gradually escalating government war against cash: in fact, this war has already escalated to the point where the abolition of cash is now a very real possibility. At first sight, one might think that there is nothing too much to worry about: we are merely talking about technocratic issues related to payments technologies and the implementation of monetary policy, and cashless payments systems are already both commonplace and spreading. The reality is rather different: the issues at stake are of the most profound importance. The abolition of cash threatens to destroy what is left of our privacy and our freedom: we wouldn't be able to buy a stick of gum without the government knowing about it. Besides making us all entirely dependent on the whim of the state, it would also undermine economic prosperity and literally devastate the extreme poor. Quite simply, the government's war against cash is the state's war against us.

The proposal to abolish cash has been supported by a number of prominent economists, including Harvard economist Ken Rogoff,¹ Citi chief economist Willem Buiter,² Paul Krugman,³ and Peter Bofinger, a member of the German Council of Economic Experts.⁴ Then, on September 18th, in a speech to the Portadown

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¹ K. G. Rogoff, "Costs and Benefits to Phasing Out Paper Currency," paper presented at the NBER Macroeconomics Annual Conference, April 11, 2014.

² See, e.g., W. Buiter and E. Rahbari, "[High Time to Get Low: Getting Rid of the Lower Bound on Nominal Interest Rates](#)," *Global Economics View*, April 9th, 2015.

³ P. Krugman, "[Secular Stagnation, Coalmines, Bubbles, and Larry Summers](#)," *New York Times*, November 16, 2013.

⁴ T. Durden, "[Leading German Keynesian Economist Calls For Cash Ban](#)," *Zero Hedge*, May 17, 2015.

Chamber of Commerce in Northern Ireland, another prominent economist – Andy Haldane, the chief economist of the Bank of England – announced that he too was in favour of abolishing cash.⁵

Haldane's support for the abolition of cash did not receive the generally positive response that normally welcomes his policy statements. Instead, his speech evoked considerable protest. My own straw poll of the blog comments about it in the *Financial Times* immediately afterwards suggests that some 75-80 percent of readers were opposed to it, some very strongly. "It's almost fascist in its undertones. A totalitarian move to track and control all spending," wrote one blogger. "Lives in intellectual bubble. Would endanger our democratic freedom for financial experimentation," wrote a second. A third wrote:

So, Mr. Haldane, you want me to put my hard-earned savings to work in a world of asset prices that you have already inflated? You want me to add my hard-earned savings to the ocean of printed (oh, pardon me, I mean digitally created) money you and yours have already swamped the world with? And, Mr. Haldane, you wish to deprive me of my ability to put my savings in cash... what next, make it illegal? ... will you make it illegal to hold precious metals as well or any other 'store of value' that I choose? Keep your theories to the realm of text books and extremist blogs, Mr. Haldane, as I suspect you have little idea of the consequences of your actions.

His critics included Andrew Sentance, a former member of the Monetary Policy Committee: "Sorry to say but Andy Haldane's spouting rubbish here," Sentance said on Twitter. Haldane's speech is, thus, controversial.⁶

Haldane's speech

Haldane's endorsement of the proposal to abolish cash is perhaps his most significant policy statement to date, and his reasoning warrants careful examination, not least because his speech provides the most clearly thought-through articulation – the definitive account even – of the case for banning cash.

His starting point is the "problem" – at one point, he even describes it as the "clear and present danger" – posed by the Zero Lower Bound: the inability of the central bank to set negative interest rates on currency.

To quote:

Among the large advanced economies, official interest rates are effectively at zero. Japanese official interest rates have been there for

⁵ A. G. Haldane, "[How low can you go?](#)" Speech to the Portadown Chamber of Commerce, September 18th 2015.

⁶ My own view, as will become clear, is that any proposal to ban cash is both dangerous and ill-advised, and it is high time that the idea was debunked once and for all before the bandwagon builds up any more momentum – and I say this as a long-standing friend of Andy's and as someone who has admired his work for many years. But on this topic we are poles apart.

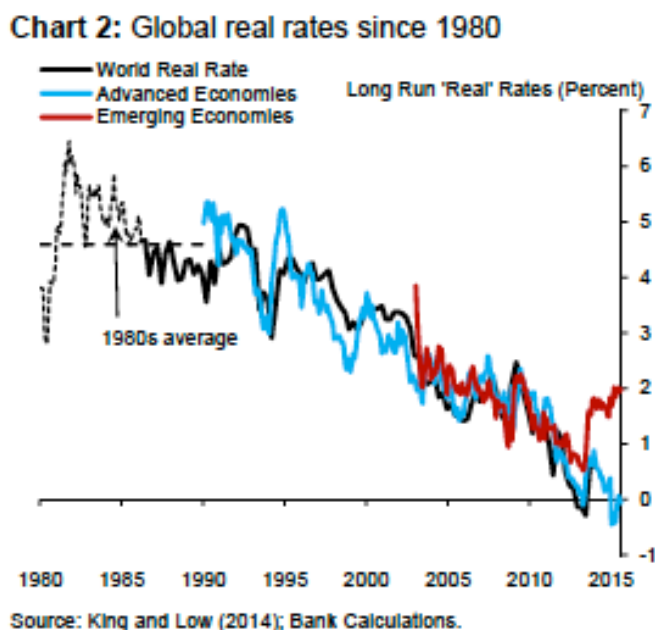
over 20 years. ...

The need for unconventional measures arose from a technological constraint – the inability to set negative interest rates on currency. It is possible to set negative rates on bank reserves – indeed, a number of countries recently have done so. But without the ability to do so on currency, there is an incentive to switch to currency whenever interest rates on reserves turn negative. That hinders the effectiveness of monetary policy and is known as the Zero Lower Bound – or ZLB – problem.⁷

He then goes on to suggest that this ‘problem’ might be a long-term one:

... the prevailing orthodoxy among academics and policymakers is that the ZLB problem, while more persistent than expected, will still be a passing one. As countries recover from the Great Recession, the ZLB constraint would be expected to slacken, its policy relevance to weaken and the ZLB debate to return to an academic stage. That, after all, was the lesson from the Great Depression. Yet that may be the wrong lesson. It was not the crisis alone that caused the ZLB constraint to bind: its deep roots in fact appear to predate the crisis. And it is questionable whether this constraint will disappear once the global recovery is complete: the deep roots of the ZLB constraint may be structural and long-lasting.⁸

The problem is that real interest rates have been falling. His Chart 2 (reproduced below) shows the striking downward trend in real interest rates: they were over 4 percent in the 1990s, about 2 percent at the dawn of the crisis, and have since “fallen further to around zero, and perhaps even into negative territory” (Haldane, p. 4).



⁷ Haldane (2015, p. 3).

⁸ *Loc. cit.*

He attributes this decline to factors such as slowing growth, ageing populations, weaker investment, rising inequality and a savings glut in emerging markets, none of which are will-of-the-wisp or likely to reverse soon. Lower real interest rates combined with a ZLB serve to reduce central bankers' room for manoeuvre, i.e., their ability to reduce interest rates in order to stimulate the economy.

He then discusses three possible ways to address this ZLB problem. (Sneak preview: sadly, I believe he misses the best solution, which is to leave the darn thing alone and move on, but I shall come to that presently.)

The first is to raise the central bank's inflation target: he suggests that raising the current target from 2 percent to 4 percent would give it considerably more "monetary policy space to cushion all but the largest recessions historically" (p. 7). He then discusses the pros and cons of a higher target – noting by the way that surveys of public opinion suggest that the public seem to prefer inflation to be below rather than above the current target, i.e., real people are more averse to inflation than is the central bank, which suggests to me that the inflation target should be reduced rather than increased. Haldane however dismisses the welfare costs of a higher inflation target – "there is little evidence to suggest that these costs would be large", he states – but ends up concluding that on balance a rise in the target inflation rate would be a "voyage into the monetary unknown" and probably not be a good idea.

I agree with him about not raising the inflation target, but I beg to differ on the costs of inflation. There is considerable literature to suggest that the costs of even moderate inflation are quite high.⁹ But rather than rely on economic model-based estimates of the costs of inflation, one should also consider the direct impacts on specific groups, some of whom are very vulnerable to inflation. Consider the case of a newly retired 65 year-old who buys an annuity that gives them £1000 a month for the rest of their life. By the time they get to age 90, their real monthly income will have fallen to just over £600 if there is an inflation rate of 2 percent, but it will have fallen to just under £370 if inflation is 4 percent. Even moderate inflation can be very damaging over the long term, and I would assert that the central bank has a moral obligation to protect such people and avoid policies that produce arbitrary redistributions of wealth.

The second response is "to accept the ZLB constraint and allow currently "unconventional" monetary measures to become "conventional" – a rather unclear choice of wording that seems to mean "accommodating QE as part of the monetary policy armoury during normal as well as crisis times ...", i.e., allowing QE to

⁹ For a survey of estimates of the cost of inflation, e.g., K. Dowd, [Competition and Finance: A Reinterpretation of Financial and Monetary Economics](#) (Basingstoke, Macmillan, 1996), chapter 15. More recently, the Bank of Canada conducted extensive research into the optimal rate of inflation and concluded it was zero or slightly negative. Unfortunately, owing to the ZLB bogeyman, the Bank chose to recommend staying with the existing 2 percent inflation target rather than reduce it to zero. See O. Kryvtsov and R. R. Mendes, "[The Optimal Level of the Inflation Target: A Selective Review of the Literature and Outstanding Issues](#)," Bank of Canada *Discussion Paper* 2015-08, October 2015.

become permanent.¹⁰ He then goes into an analysis of the pros and cons of QE, before dismissing QE as “a desirable steady-state [i.e., long-term] solution to the ZLB problem”, though he is still quite willing to endorse QE as a short-term emergency measure.

This takes him to his third “and perhaps most radical and durable, option”: to find some way to levy a negative interest rate on currency. He acknowledges that this idea is not new, and refers as an example to Silvio Gesell’s proposal for stamped money, the purpose of which was to pressure people to spend their cash as fast as they could¹¹ – Gesell was widely regarded as a monetary crank, by the way – before noting that Keynes approved of his proposal in the *General Theory*. He then writes that

More recently, a number of modern-day variants of the stamp tax on currency have been proposed – for example, by randomly invalidating banknotes by serial number.

A more radical proposal still would be to remove the ZLB constraint entirely by abolishing paper currency. This, too, has recently had its supporters (for example, Rogoff (2014)). As well as solving the ZLB problem, it has the added advantage of taxing illicit activities undertaken using paper currency, such as drug-dealing, at source.

As a second aside, I think we can nail the illicit tax argument on the head. A recent study by the Institute of Economic Affairs suggested that the black economy accounted for only about 10 percent of GDP. Many of the people working in it are below the tax threshold anyway, and certainly below the VAT threshold. So the tax collected even with a complete clamp down (which is impossible anyway) is unlikely to amount to more than 1 percent of GDP.¹² The size of the black economy would also be reduced considerably further if the government were to simplify the tax system and legalize hard drugs and prostitution, so earnings from these activities could be taxed in the same way that earnings from other industries are taxed. The argument that we should abolish currency to stop tax evasion is, thus, a red herring.

Anyway, to return to Haldane:

One interesting solution, then, would be to maintain the principle of a government-backed currency, but have it issued in an electronic rather than paper form. This would preserve the social convention of a state-issued unit of account and medium of exchange, albeit with currency

¹⁰ Haldane (2015, p. 7).

¹¹ This proposal is a low tech means of imposing a negative interest rate on cash. Holders of cash would be required to go to the post office each month to have their notes stamped. The cost of the stamp is then equivalent to a negative interest rate. If this strikes you as barmy, that is because it is. See S. Gesell, *Die natürliche Wirtschaftsordnung durch Freiland und Freigeld* Leipzig: Bernhard Hermann, 1919.

¹² See F. Schneider and C. C. Williams, *The Shadow Economy*, London: Institute of Economic Affairs, 2013.

now held in digital rather than physical wallets. But it would allow negative interest rates to be levied on currency easily and speedily, so relaxing the ZLB constraint (p. 11).

So, in essence, the argument is this: we (i.e., they) want to levy negative interest rates on currency. However, if they simply impose negative interest rates on bank deposits, then people would withdraw those deposits and keep the cash under the mattress.¹³ So we abolish cash altogether, which also has the additional benefit of taxing bad guys who get to evade taxes because the government makes their products illegal. Once people can no longer escape to cash, we can then hit their bank deposits with any tax we want.

My concerns with Haldane's suggestions fall under a number of headings: these include concerns about low interest rate policy (LIRP), zero interest rate policy (ZIRP), negative interest rate policy (NIRP) and, specifically, the abolition of cash. I am also concerned with the underlying macroeconomics and with the broader social and economic consequences of these measures, including their impact on poverty, destitution even, property rights, civil liberties and the balance of power between the individual and the state. And I am concerned about the dangers of monetary experimentation – in effect, treating the economy as some sort of guinea pig to be experimented upon – and the dangers posed by the aggressive risk-taking and the extreme short-termism that are now centre stage of central bank policy.

Low interest rate policy (LIRP)

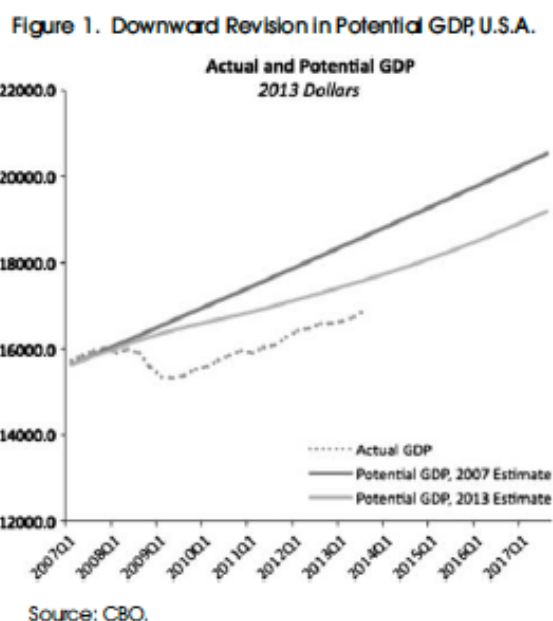
Let's start on some familiar ground by taking as read the problems posed by LIRP and ZIRP policies. These include their negative impacts on saving and long-term capital accumulation, the losses inflicted on savers, pension funds and the retired, and the enormous and ongoing damage caused by boom-bust cycles in markets across the world, themselves stimulated by such policies, including also policies of Quantitative Easing (QE): the costs of asset mispricing and associated capital misallocations, and so forth. Leaving aside the enormous costs of these policies – the damage of the financial crisis has been compared to that of a world war, and even as early as 2009, the amount of state support provided to the banking system in the UK was nearly 75% of GDP¹⁴ – my immediate concern here is simply with the fact that LIRP and ZIRP policies have failed to achieve their desired objectives, most notably to stimulate the economy. Indeed, the more extreme ZIRP or near-

¹³ Strictly speaking, the decision whether to keep deposits in the bank or withdraw them as cash depends on the carry costs of currency and on the non-pecuniary benefits of deposits vs. cash. The former potentially include the costs of storage, safekeeping, handling and transportation and the latter include, e.g., the benefits of direct access to the electronic payments system. So ignoring differences in carry costs for the sake of illustration, bank deposits have the advantage over cash that they can be directly used for electronic payments systems, whereas cash cannot. The upshot is that most of the time most people would be willing to accept a small negative interest rate on their deposits before converting to cash. Of course, as interest rates fall further, then people will definitely convert to cash. Thus, the real bound is not so much zero but typically a little below zero.

¹⁴ Cited in Haldane, "[Banking on the State](#)", presentation to the Chicago Fed twelfth International Banking Conference "The International Financial Crisis: Have the Rules of the Game Changed?" September 25, 2009.

ZIRP policies have been tried in the US, the UK and the Eurozone for about 7 years and in Japan for over 20 years. To say that the results have been disappointing would be an understatement: in each case, output and bank lending have been sluggish, unemployment has been poor and government debt has skyrocketed.

Consider the following chart on actual vs. potential output in the US, reproduced from a recent article by former US Treasury Secretary Larry Summers, which shows estimates of US economic potential revised considerably downwards since 2007:



As Dr. Summers observes:

the economy is now 10 percent below what in 2007 we thought its potential would be in 2014 ... through this recovery, we have made no progress in restoring GDP to its potential.¹⁵

One wonders why he uses the word ‘recovery’ at all. Real GDP per capita has barely risen from \$49,500 in 2007:Q4 to \$50,900 in 2015:Q2,¹⁶ and the ratio of employed males to the total number of males in the 25-54 year old range – a key indicator of the state of the economy – has fallen from 87.3% in 2007:Q4 to 84.0% in 2014: Q4.¹⁷

Summers concludes:

It is fair to say that critiques of macroeconomic policy during this period, almost without exception, suggest that prudential policy was insufficiently prudent, that fiscal policy was excessively expansive,

¹⁵ L. H. Summers, “U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound,” *Business Economics*, 2014, Vol. 2, No. 2, p. 66.

¹⁶ Federal Reserve Economic Data (FRED), series A939RX0Q048SBEA.

¹⁷ FRED, series LREM25MAUSQ156S.

and that monetary policy was excessively loose.¹⁸

Faced with such a record of repeated failure, one might expect that people would draw the lesson that policies that attempt to achieve stimulus through ever lower interest rates have been thoroughly tested to destruction and should be written off as failures. Monetary policy has been excessively loose, as Summers acknowledges. The more moderate Keynesians scratch their heads and some even admit they are stuck, but more extreme Keynesians have managed to convince themselves that the problem is not that their interest rate policies are inherently unsound, but that they haven't been tried on a grand enough scale: first they assured us that we needed LIRP, then when that failed they assured us that we needed ZIRP, and now ZIRP has failed, they confidently assure us that the solution is to slurp up on NIRP. So let's consider NIRP in more detail.

Negative interest rate policy (NIRP)

The first problem with negative interest rates is, quite simply, that they are unnatural. As any decent economics textbook will explain, economic theory suggests that interest rates should be positive – and for two different reasons. The first relates to time preference – our preference to consume now rather than later, which leads to a positive interest rate as compensation for deferring consumption.¹⁹ Alasdair McLeod is nicely to the point here: “NIRP is a preposterous concept. It contravenes the laws of time preference, commanding by diktat that cash is worth less than credit.”²⁰ The second relates to the productivity of capital and as compensation for the risk of default: I will lend to you to enable you to go ahead with your investment project, but only if you offer me some inducement to do so, i.e., interest, which might also include an extra premium to compensate me for the risk that you might default. NIRP is, perhaps, better described as totally weird interest rate policy or TWIRP.

Of course, having suggested that interest rates should be positive, I would not presume to suggest that they should take some particular value that pops into my head. Instead, I would suggest that interest rates be set by market forces in the context of some conservative monetary rule that governs the issue of money. Whether that monetary rule should be some fiat monetary rule or a commodity standard is a separate issue, although I prefer the latter. But one thing we can be sure about: under any such rule, interest rates would be positive. Consider the historical experience of the gold standard during its golden age – 1821 to 1914. During this period, the ‘official’ interest rate, the Bank Rate, never fell below 2 percent. As Bagehot once put it, “John Bull can stand many things but he cannot stand two per cent” – by which he meant that John Bull could not stand an interest rate *as low* as 2 percent, let alone a negative interest rate, which would have given the poor man a coronary. In fact, for 315 years prior to 2009, Bank Rate had never been below 2 percent: some minimum return on capital was always deemed to be

¹⁸ Summers, *op. cit.*, p. 67.

¹⁹ “I value certain things now more than I do in the future. I am prepared to pay a premium for certain things now than in the future,” as Toby Baxendale explains. See T. Baxendale, “[Haldane the Omniscient](#),” Cobden Centre, September 21, 2015.

²⁰ A. McLeod, “[From ZIRP to NIRP](#),” *GoldMoney*, September 24, 2015.

necessary. One can go even further: interest rates are lower than at any time over the last 5,000 years.²¹ My view is that these facts are telling us something: they are telling us that negative interest rates are unnatural, and that policymakers are playing with fire if they attempt to promote them. In any case, for those who advocate negative interest rates, then please tell me: why is it that we never had nor wanted negative interest rates for 5 millennia, but we suddenly *need* them now? How exactly has the world suddenly changed? How can something that what was considered highly damaging before the crisis be considered necessary now? I have yet to hear a good answer from the TWIRPists.

A second problem is that NIRP/TWIRP will not achieve the stimulus its proponents hope to achieve from it. To understand why, we need to consider that the factors driving real interest rates - such as slowing growth, ageing populations, weaker investment, rising inequality and the emerging markets savings glut - would appear to be secular long-run factors that mostly, if not entirely, operate beyond central bank control, i.e., they are mostly, if not entirely, exogenous to the central bank, and there is nothing in Haldane's discussion to challenge this view. Now suppose for the sake of argument that the central bank has the means, somehow, to make nominal interest rates negative. Thus, *ex hypothesi*, the central bank has the means to control nominal interest rates but not the means to control real interest rates. It then follows that any reduction in nominal interest rates will lead to a matching reduction in inflation in the longer term.

The relationship between these three variables is given by

$$(1) \quad \text{real interest rate} = \text{nominal interest rate} - \text{inflation rate}$$

which implies

$$(2) \quad \text{nominal interest rate} = \text{real interest rate} + \text{inflation rate}$$

and where we are now assuming that the real interest rate on the right-hand side of equation (2) is given in the long-term. If the central bank reduces nominal rates to minus 1 percent, then the only way in which the real interest rate can remain at its current value is for longer-term inflation to fall by 1 percent point. Similarly, if the central bank reduces nominal interest rates to minus 2 percent, then the only way in which the real rate can remain at its current value is for longer-term inflation to fall 2 percent points, and so forth. The net result is a deflation rate equal to minus the interest rate, e.g., so if the interest rate is minus 5%, then in the long-term, prices will also fall by about 5% a year.

We can also look at the efficacy of NIRP through the lens of the Quantity Theory of Money: this gives rise to a second channel through which the policy impacts the economy, and let's call this the money supply channel to be distinguished from the interest rate channel I have just described. According to this channel, our policy is to reduce the currency supply over time. So if the nominal interest rate is set to

²¹ A. G. Haldane, "[Stuck](#)," speech given to the Open University, Milton Keynes, 30 June, 2015, p. 3, chart 5.

minus 1 percent, then the currency supply is to be reduced each year by 1 percent, and so forth. It follows that – other things being equal – moving from a policy of nominal interest rates being zero to a policy of nominal interest rates being equal to minus 1 percent will have the effect of reducing the currency supply after 1 year by 1 percent relative to what it would otherwise have been. After 2 years, the currency supply would be 2 percent lower than it would otherwise have been, and so forth. The equilibrium price level will match the currency supply movements: after 1 year, the equilibrium price level would be 1 percent lower than it would otherwise have been, after 2 years, it would 2 percent lower than it would otherwise have been, and so forth.

Now recall why we might want to implement NIRP in the first place – to stimulate the economy. Bear in mind that stimulus comes about from either lower real interest rates and/or a higher money supply. But then consider the impact of NIRP. If we focus on the interest rate channel, the policy has no impact on longer-term real interest rates and therefore produces no long-term stimulus, and if we consider the money supply channel, the policy reduces money supply, and is therefore an anti-stimulant. Nor should we be surprised at this outcome: it stands to reason that reducing the base money supply is hardly going to stimulate spending and consumption: instead, it would produce the deflation that the Keynesian advocates of NIRP fear most! The irony, therefore, is that even if we could get NIRP to work, it still wouldn't give us the stimulus that NIRPists seek.

In fact, they have even forgotten their own Keynesian economics: after all, negative interest rates are a *tax* on deposits, and they are now telling us that *higher taxes promote* stimulus! Maybe I missed that particular class, but I thought it was supposed to be the other way round.

The lesson I draw is then very simple: it is not possible to achieve any lasting monetary stimulus below the ZLB, even if we could somehow implement negative interest rates.

There is another reason why NIRP would not have the effects that its proponents expect. NIRPists imagine that people would respond to NIRP by spending money they would otherwise keep, and it is this spending that would generate the stimulus that they want. However, we have to consider why people hold deposits in the first place, and that is to be able to make transactions *and* to have a safe savings vehicle. So now imagine that the central bank is able to implement NIRP. Depositors' response would *not* be: I need to spend more, because deposits are more expensive to maintain. Instead, their primary response would be to substitute their savings out of conventional deposits, and in particular, to look for better savings outlets. They would want to keep the minimum possible in their conventional bank deposits, and that only for transactions purposes. They would be acutely aware that NIRP was making them poorer and people don't normally respond to reductions in wealth or income by spending more – and in any case, even if they did, any such response could only be temporary and would lead to even less spending down the road. To repeat, people would respond to NIRP first and foremost by looking for alternative vehicles that better protected their savings. As John Butler points out

If hoarding physical cash was made illegal, what would households hoard instead? Gold? Silver? Scotch? Cigarettes? Ammunition? A private sector that wants to save and de-leverage will find a way to save and de-leverage regardless of whatever shenanigans the [central bank] decides to pull.²²

It is difficult to see how the central bank can prevent the public hoarding *something*. Besides the usual safe-haven assets, one could imagine financial institutions meeting their demand for safe savings vehicles by offering all manner of new savings accounts whose returns were protected against losses produced by NIRP: their returns might be pegged to commodities, financial assets, price-indices, foreign interest rates and exchange rates.²³ This asset substitution effect would undermine NIRP right from the go, and would also create a major headache for the central bank which would then have to deal with a sudden sharp fall in the demand for bank deposits, i.e., a massive bank run, with knock-on effects on public confidence and bank lending and the potential for a major crisis. And once it became clear that their policies were not working because people were switching to safer vehicles to protect their savings, then the NIRPists would soon be agitating for ever-escalating capital and possibly also deposit-withdrawal controls in a (hopefully) futile attempt to stop them. To have any chance of effective implementation, NIRP would have to be supported by a very extensive apparatus of controls to stop people escaping the pen into which they are to be coralled, and even that would only be partially effective, though doubtless also very costly. The TWIRPs have not thought the issues through.²⁴

There are also other operational problems to consider and the danger of being sucked into a deflationary black hole. Consider the question posed by the title of Haldane's speech: if interest rates are to be made negative, then how low should

²² J. Butler, "[There May Be No Free Lunch, but Is There a Magic Wand?](#)" *Financial Sense*, 09/02/2010.

²³ The possibilities of escape to safe-havens are almost endless. Apart from straightforward hoarding, perhaps the most straightforward is to switch savings deposits to banks overseas where people can avoid negative interest rates. One can also imagine them using savings accounts that were hedged against NIRP-related losses, e.g., where returns are hedged using price-index derivatives. These are easy to structure and could be put together quickly.

²⁴ As ever, there must be plenty of other unintended consequences too. To give some illustrations, John Butler (2012) and Kenneth Garbade and Jamie McAndrews (2012) suggest that NIRP could produce, in the latter's words, "an epochal outburst of socially unproductive—even if individually beneficial—financial innovation. Financial service providers are likely to find their products and services being used in volumes and ways not previously anticipated, and regulators may find that private sector responses to negative interest rates have spawned new risks ..." These consequences might include: special purpose banks (including possibly Islamic banks) that perform transactions services against portfolios of equities, so clients can write cheques against these holdings whilst receiving dividend payments; the growth of certified cheques as popular means of payment, because they can be made to order, be endorsed and hence circulate; and the emergence of innovative interest-avoidance strategies in personal and corporate financial management (e.g., taxpayers paying large excess payments on their tax filings, credit cardholders paying large lump sums up front and slowly running down their balances, etc.). See John Butler, "[Par for the Pathological Course](#)," *The Amphora Report*, Vol. 3, 18 September 2012, and K. Garbade and J. McAndrews, "[If Interest Rates Go Negative . . . Or, Be Careful What You Wish For](#)," *Liberty Street Economics*, August 9, 2012.

they go, and how would we judge when the negative interest rate experiment had succeeded or failed, i.e., what would ‘success’ or ‘failure’ look like? The danger here is obvious: that we might get sucked into a vortex in which interest rates spiral ever further into negative territory with potentially catastrophic consequences.

To spell the argument out: suppose the Bank manages to impose interest rates of minus 1 percent, and suppose – as seems likely for reasons just explained – that that policy does not produce the increased stimulus that the Bank had hoped for. Presumably, the Bank would then be calling for interest rates to be reduced to minus 2 percent, but what happens when minus 2 percent also fails to produce the desired stimulus? Does the Bank keep reducing interest rates indefinitely? The temptation will be to imagine that the policy has failed not because it cannot work, but because it hasn’t been tried vigorously enough. This might seem familiar: this is rather like the Inquisition insisting that the reason why we still haven’t solved the witchcraft problem is because we haven’t burned enough witches. But if the Bank the continued to insist that NIRP is fundamentally sound, and if I am right that it cannot work, then it is hard to see how the Bank would respond to the repeated failures of ever lower interest rates to stimulate the economy *other than* by lowering interest rates ever further. We then get caught in a spiral of falling interest rates and escalating deflation, i.e., in the end, everyone gets burned as a witch. So, Andy, as regards negative interest rates, *how* low can you go? Would you allow interest rates to fall all the way to minus 99.99 percent, and if not, why not? How would you know where to stop?

One shudders to think of the unintended consequences of such a voyage into the monetary unknown, but at some point in this process – as interest rates fall ever further – saving would stop, investment would stop, capital accumulation would stop and then go into reverse and the financial system, predicated on positive interest rates, would unravel. The contradiction between positive time preference and the return on capital, on the one hand, and ever more negative interest rates, on the other, would tear the economy apart and in ways that we can barely begin to understand. Again, how low can you go? No idea, but let’s try it anyway. To quote Canadian economist Basil Zafiriou:

This stuff is so absurd you just cannot make it up. We used to think that building confidence in the financial system was a key objective of monetary policy. But now, under the new ‘innovative’ thinking, we are now devising new means to destroy that confidence. The consequences are unpredictable, but they would certainly not be benign: we risk unleashing the winds of Aeolus.²⁵

The scope for NIRP-induced monetary mischief is simply unfathomable. Consider also this warning from Alasdair McLeod:

By forcing people into paying to maintain cash and bank deposits, central bankers are playing fast-and-loose with the public’s patient

²⁵ Personal correspondence.

acceptance that state-issued money actually has any value at all. There is a tension between this cavalier macroeconomic attitude and what amounts to a prospective tax on personal liquidity. Furthermore, NIRP makes the hidden tax of monetary inflation, of which the public is generally unaware, suddenly very visible. Already ZIRP has created enormous unfunded pension liabilities in both private and public sectors, by requiring greater levels of capital to fund a given income stream. Savers are generally unaware of this problem. But how do you value pension liabilities with NIRP? Anyone with savings, which is the majority of consumers, is due for a very rude awakening.

We should be in no doubt that increasing public awareness of the true cost to ordinary people of monetary policies, by way of the debate that would be created by the introduction of NIRP, could have very dangerous consequences for the currency. And once alerted, the public will not quickly forget. So not only are the central banks embarking on a course into the unknown, they could also set off uncontrollable price inflation by creating widespread public aversion to maintaining any cash balances at all. ...

And if NIRP gains traction at the Top Table, the life-expectancy of all fiat currencies could become dramatically shortened.²⁶

In short, instead of regarding the ZLB as a barrier that prevents the central bank from ‘stimulating’ the economy even further – notwithstanding the fact that stimulus generally fails, and notwithstanding the point that overcoming that barrier *still* wouldn’t allow the central bank to achieve greater stimulus – we should regard the ZLB as one of those natural constraints that it would be wise to accept and live with, and not try to circumvent. As Zafiriou puts it, it is “an embankment to safeguard rather than an obstruction to tear down”.

Going further, one can also argue that the ZLB problem isn’t really a problem at all. It is only a concern to those who are fixated with the idea that 9 years after the onset of the crisis, we should still be focused on delivering stimulus to get us out of it. My own view is that the priority should be, and always should have been, to fix the banking system: the economy would then have recovered by now of its own accord. How best to fix the banking system is another topic – personally I would have recommended some combination of liquidationism to let the weaker banks fail,²⁷ the imposition of extended personal liability on bankers and of much higher and much more robust capital adequacy standards on banks to restore their financial health and get them lending again. I am prepared however to grant that there may, at most, have been a case for some short-term stimulus – some lowering of interest rates and some liquidity support – to help ease the banking

²⁶ McLeod, *op. cit.*

²⁷ “Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate,” argued U.S. Treasury Secretary Andrew Mellon in face of the sharp downturn of 1921-22. “It will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up from less competent people.”

system over the hump of the crisis, but not as a substitute for fixing the banking system and not as a long term solution. By this point, in late 2015, we really should conclude that attempts to generate further stimulus have failed, and policymakers should accept that point and reflect on where they went wrong, i.e., they should refocus on fixing the banking system, and they should dispense with gimmicks such as stress tests which they have used to suggest that the banking system is much stronger than it really is.²⁸ But I digress. My main point here is simply that the ZLB is only a problem if we want yet more stimulus, and we shouldn't.

Randomly invalidating bank notes

We come now to Haldane's suggestions for breaking through the ZLB. The first of these is to randomly invalidate banknotes. This idea was initially suggested in 2009 by Greg Mankiw or, more precisely, by one of his grad students whom he doesn't name. To quote this proposal:

Imagine that the Fed were to announce that, a year from today, it would pick a digit from zero to 9 out of a hat. All currency with a serial number ending in that digit would no longer be legal tender. Suddenly, the expected return to holding currency would become negative 10 percent.

That move would free the Fed to cut interest rates below zero. People would be delighted to lend money at negative 3 percent, since losing 3 percent is better than losing 10. Of course, some people might decide that at those rates, they would rather spend the money—for example, by buying a new car. But because expanding aggregate demand is precisely the goal of the interest rate cut, such an incentive isn't a flaw—it's a benefit.²⁹

Well, Greg, I can't exactly see people being "delighted" at having to lend at minus 3 percent, when the alternative imposed on them is to hold cash under the mattress and expect to lose 10 percent instead. Instead, I can see them holding the minimum possible amounts of working cash, and putting their money elsewhere where their wealth is safer – into foreign bank accounts, into gold and silver, commodities, stocks and shares, and cryptocurrencies such as Bitcoin. I can also see that this 'flight from cash' could cause major problems for central banks – forcing them to buy it back or find ways of sterilising or even repudiating it, lest it lead to major inflation. I can also see people seeking to move out beyond the realm of regulated transactions into the anarchic fringe that lies beyond it, where they can engage in barter and other transactions free of government control and even of government taxes. I can also see considerable distress when people find that their banknotes are invalidated through a lottery and they lose their money through no fault of their own. I can see this distress falling especially on the poor, who are more dependent on banknotes and less able to bear the losses. And I can

²⁸ The Bank's party line is that the banking system is sound; however, this is simply not borne out even by the Bank's own stress tests. See K. Dowd, [*No Stress: the Flaws in the Bank of England's Stress Testing Programme*](#) (London: Adam Smith Institute).

²⁹ N. Gregory Mankiw, "It May Be Time for the Fed to Go Negative," *New York Times*, April 18, 2009.

see considerable public anger at the injustice involved, which violates the fundamental principle that the government should treat people equally, and not force them into a lottery that they did not voluntarily choose to participate in. The word “delighted” hardly enters into it.

One also has to consider what conceivable ‘benefit’ is provided by forcing people to spend when they would prefer not to do so: the people being coerced presumably don’t benefit much, otherwise they wouldn’t need coercing.³⁰ Indeed, the only benefit is to the monetary central planners at the central bank, the ones who presume the power to coerce private citizens in their everyday economic life, who might imagine – I believe falsely for reasons already explained – that this abuse of the state’s coercive powers would help them to achieve some end that they have set themselves, as if such an end were more important than people’s rights and in this case their right to spend their own money as they wish, as opposed to being coerced to obey some government or central bank official who presumes the right to dictate to them how they should spend their money. Such thinking gets “the point and purpose of the economy the wrong way around. We, us people, the citizenry, we’re not here to make the economy hum along. Having an economy that hums along is nice of course but it is to serve us, not the other way around.”³¹ To think otherwise is to convert us, the people, into mere tools of the state, which, in turn, is to buy into the core premise of Totalitarianism. The state should serve us, not we the state. Those who advocate forced spending have long since lost sight of this most important principle.³²

Bad as this proposal is, I would suggest that the proposal to abolish cash is even worse, if only because a deeply flawed cash is better than none at all. So let’s move on to consider this proposal, before considering the broader implications of both.

Abolishing cash

I would not presume to be able to describe all the negative effects of abolishing cash, but some are obvious. To begin with, we should remind ourselves that there are many transactions for which cash is the ideal medium of payment, and it is not for nothing that cash is said to be used in 85 percent of global transactions.³³ Cash is a very efficient way of handling small transactions; it is costless and easy to use; cash transactions are immediate and flexible; cash is highly anonymous and traditionally, the anonymity of cash was considered to be one of its greatest benefits; it does not need a password and can’t be hacked; and it is not dependent in any way on sophisticated technology that might break down. Most of us have

³⁰ Nor, contra Keynesians, is there an ‘external’ benefit whereby everyone benefits collectively, even though individuals suffer individually, where “virtue becomes vice and prudence becomes folly ... saving may be a personal virtue, but it’s a social vice” as Krugman (2013) puts it in his usual ‘clever’ paradoxical way. This is because – to repeat – the policy does not produce any stimulus; instead, it produces the deflation that they abhor.

³¹ T. Worstall, “[Let’s try not to abolish cash](#),” ASI blog, May 16th 2015.

³² Leaving aside this point of principle, proponents of forced spending can’t even point to the supposed benefits of their policy – the benefits of stimulus – because the policy would be counterproductive. There are no ‘paradox of thrift’ benefits here. Our rights to use cash and spend as we wish to would have been thrown away for nothing.

³³ See http://www.mastercardadvisors.com/_assets/pdf/MasterCardAdvisors-CashlessSociety.pdf

experienced situations where we had difficulty paying for a bill at a restaurant or gas station because of some system failure on the part of our debit or credit card provider, and have then had to resort to cash to sort the problem out. Good luck trying to sort out such problems when the government won't allow you to use any cash at all: what are you supposed to do then? Then there is the question of broader dependence on fallible systems. As J.K. Brown observes:

What always seems to be overlooked in these cashless schemes is the fact that they depend on a complete and uninterrupted electrical and communications grid. While in the West these networks are almost always on, they aren't always on. Electricity is reliable except in storms and perhaps will become increasingly unreliable as more stochastic renewables are added to the mix. Communications networks are hacked, attacked and can be simply overloaded to deny service. In a cashless society, when the power goes out or the bots attack, the economy, at least the consumer economy, stops. In addition, in the aftermath of a disaster, you'd lose the ability to purchase needed supplies just when you needed them most.³⁴

These are all important benefits that digital technology cannot deliver, or can only deliver imperfectly, depending on the precise digital system – benefits that would be lost if people were prevented from using cash.³⁵

We should also consider the impact on vulnerable groups. To work as intended, *everybody* would have to have the digital technology and be able to work it. Well, wakey-wakee: many people don't have that technology, and there are many more who would struggle to work with it and/or would be made very vulnerable if they were forced to depend on it. Consider the destitute, dependent for their survival on begging for spare cash on the street corner. Their very existence depends on cash, and it cannot reasonably be expected that such people could switch over to a cashless economy and survive: many don't have mobile phones, don't know how to use them if they have and would starve if they lost them or were robbed of them. And can you imagine how they might beg: instead of asking for spare cash, and some kind soul rushing by in a hurry to work who barely stops to give them whatever spare cash they might have in their pocket before moving on, that kind soul now has to stop, get their mobile out and conduct an electronic transaction instead: I can't quite see that working in the same way. One also has to consider how cashlessness would affect the mentally infirm, who cannot get used to the technology even if they have access to it, which many won't. Speaking of which, I think of myself here: I have a PhD and am an expert (or maybe I am deluding

³⁴ See comment 4 on the Worstall piece cited earlier.

³⁵ I stress that the issue here is *not* the simplistic one of whether cash is better than digital substitutes or vice versa. They each have their own niches and there is no question that digital currencies will play an increasing important role in the monetary economy in the years to come. Instead, the question at issue here is whether governments should use their coercive powers to prevent the use of cash, as opposed to sitting back and letting market forces determine the future evolution of the payments system, especially bearing in mind that no-one can possibly claim to be able predict how this system will or should evolve in the future. Planned 'solutions' of any kind would be ill-advised – and this point alone ought to be enough to have the proposal to ban cash immediately thrown out.

myself) in computer modelling and digital technology, including Bitcoin, and yet I am still dependent, if not on kindness of strangers, then on the kindness of my two daughters, to get the damn payments technology to work. And then I also think of the old, who have great difficulty adjusting to the new even when they are corpus mentis: I remember all too well the difficulties my grandmother experienced after the UK currency was decimalised in 1971. She was smart as a button, but couldn't get used to the new decimal currency system, which she regarded as a con to produce higher prices. (She had a point too: decimalisation coincided with onset of the Heath-Barber inflationary boom, and prices were going up sharply. I also agree with her that the pre-decimal system was much better: it was perfectly simple and we all understood it.) My point is that abolishing cash is a much more radical proposal than decimalisation, and it is unreasonable to expect significant sections of our society – the most vulnerable sections, especially - to be able to adjust to it. Indeed, I think I can say with certainty that a large number of these people – the destitute, the infirm and the elderly, i.e., the most vulnerable in our society – would be devastated by the abolition of cash because they would fall through the cracks and be shut out of the monetary economy entirely, as opposed to merely hanging on to the edges of it as many of them just about manage to do at the moment.³⁶ From this perspective, the proposal to abolish cash is simply cruel: it is hard to imagine any other single measure that could cause as much human suffering. Naturally, I am not suggesting for a moment that any of those who advocate the abolition of cash intend any such consequences; I am suggesting that they haven't got a clue what the consequences of their proposals would be.

The proposal to abolish cash is, therefore, bound to have all manner of unintended consequences, many of them deeply negative. One is reminded of the wise words of Sir Robert Giffen back in 1892:

For a good money is so very difficult a thing to get, and Governments, when they meddle with money, are so apt to make blunders (and have, in fact, made such blunders without end in the past, of which we have had so many illustrations lately in the experience of the United States, the Argentine Republic, Russia, and other countries), that a nation which has a good money [in this particular instance, plain old cash] should beware of its being tampered with ...³⁷

It is interesting to note how little has changed over the last 123 years – even the monetary villains have remained the same!

The war against cash

³⁶ The number of people at risk in this respect is horrifyingly large. I do not know the figures for the UK, but a recent study for the US suggested that there were 1.65 million households in the US – with 3.55 million children – who were living in extreme poverty defined as less than \$2 per person per day in 2011. By my estimate, that is nearly 1 percent of US households. See H. L. Shaefer and K. Edin, "[The Rise of Extreme Poverty in the United States](#)," *Pathways*, Summer 2014, pp. 28-32.

³⁷ R. Giffen, "Fancy Monetary Standards," *The Economic Journal*, Vol. 2, No. 7 (September 1892), p. 465.

We should also see the proposal to ban cash not as a bolt out of the blue, but as the logical endpoint of an ongoing government war against cash. All over the planet, governments are placing restrictions on the use of cash. As citizens, we are being told that this is being done to thwart criminals, terrorists, drug runners, money launderers and tax evaders, i.e., that cash is bad because bad guys might do bad things with it. Other forms of payment are much easier for governments to track, and so governments very much prefer them. In fact, we are at the point where the use of large amounts of cash is considered to be a "suspicious activity" in and of itself. These days, if you pay a hotel bill with cash or if you pay for several hundred dollars worth of goods at a store with cash you are probably going to get funny looks.

In the last few years, one country after another has lowered the maximum permissible limit on cash transactions. The French case was particularly revealing: the limit on cash transactions was lowered from €3,000 to €1,000 in the wake of the Charlie Hebdo atrocities earlier this year, the excuse being given that the terrorists had been partly financed by cash. Well, what a shock that criminals use cash! They also use transport and public sidewalks, they buy food and so on. So are we going to control all these activities too, in the hope that that would also help to avert a future terrorist activity? And do we really believe that lowering the maximum limit on cash transactions would stop a future terrorist? At most, it would merely inconvenience them a little, by requiring them to go to the bank three times instead of just once – or they would find some other means of transferring cash. But one thing is for sure: reducing the limit would certainly inconvenience many law-abiding people too and achieve no useful end. Governments are not so stupid as to think that reducing such limits would do anything to avert terrorist attacks, but the attacks provide a convenient excuse to proceed with their agenda of squeezing cash.

A number of governments are already explicitly seeking to get rid of cash altogether. One of the world leaders in this respect is Denmark: its government has plans to allow gas stations, stores and restaurants to refuse cash payments and insist that customers use contactless debit cards or some other means of electronic payment instead, but the plan is for cash payments and normal bank deposits to be gradually phased out, with people switching over to using Danske Bank's official app, MobilePay, to carry out financial transactions. Officially, the aim is to ease "administrative and financial burdens", such as the cost of hiring a security service to send cash to the bank. One has to remember, too, that the central bank already charges 75 basis points on its deposits. One can imagine that Denmark might be the first country to go fully cashless and that other parts of Scandinavia – one thinks especially of Sweden – might soon follow them. Let's hope they know what they are doing.

Then there is Switzerland. In January 2015, the Swiss National Bank cut its deposit interest rates from 0.5 percent to minus 0.75 percent in response to the upward pressure on the Swiss Franc from massive capital inflows. Negative interest rates were meant to discourage such inflows. This measure soon caused Swiss pension funds to withdraw their deposits from their banks and store the cash in vaults because the cost of carry on deposits was now greater than the cost of storing

cash: with negative interest rates, Swiss pension funds now pay their banks to hold their money for them.

One pension fund manager calculated that he would save CHF 25,000 per year on every CHF 10 million by withdrawing it and putting it into vault storage – and this despite the costs involved in renting and insuring a vault, cash transportation and other expenses. He then told his bank that he would be making a large withdrawal soon – after all, he had a fiduciary duty to his clients, and if he can save money for them, he is obliged to do so. His bank’s response was stunning: “We are sorry, that within the time period specified, no solution corresponding to your expectations can be found,” it informed him, i.e., it refused to allow him to withdraw his fund’s deposits! This response was blatantly illegal – the pension fund had a sight account and has the contractual right to withdraw its money at will. The answer, it would appear, is that the bank had received a “directive” from the SNB. Such directives are not legally binding and the SNB is not allowed to influence contracts between banks and their clients. The SNB can, however, issue directives to the banks “in the collective interest of the Swiss economy”. It would now appear that Swiss banks are able to enforce negative interest rates and prevent cash withdrawals because the SNB has given them the nod to refuse large withdrawals – and never mind banks’ contractual obligations to their clients.³⁸

The most blatant examples of the government war against cash come from the Land of the Free. In the United States the war on cash amounts to a sustained attack not just on currency, but on the very principles of individual liberty and private property.

Perhaps the most bizarre case comes from Louisiana, of all places. In 2011, the Louisiana State Legislature passed a bill that made it illegal to go to a garage sale and buy a second-hand table lamp using cash, i.e., U.S. legal tender currency – this despite the fact that every currency note issued by the Federal Reserve bears the following in big bold letters: ‘THIS NOTE IS LEGAL TENDER FOR ALL DEBTS PUBLIC AND PRIVATE’. I emphasise the word ‘all’ here: Federal Reserve notes are legal tender, period, no exceptions – except now in the state of Louisiana under Louisiana state law.

When one man then tried to pay his mortgage in cash at a Bank of America branch, he was arrested and a reporter who came to follow up on the story was accused of casing the joint.

Under this law, anyone deemed a “secondhand dealer” is forbidden to accept cash as a means of payment. As Joe Salerno explains:

State representative Ricky Hardy, a co-author of the bill, claims that the bill targets criminals who traffic in stolen goods. According to Hardy, “It’s a mechanism to be used so the police department has something to go on and have a lead.” The bill prohibits cash transactions by “secondhand dealers,” defined to include garage sales,

³⁸ P. Tenebarum, “[The War on Cash Migrates to Switzerland](#),” *Acting Man* blog, April 24, 2015.

flea markets, resellers of specialty items, and even non-profit resellers like Goodwill. Curiously, it specifically exempts pawnbrokers from the ban. But of course, pawn shops – and not rented stalls at local church flea markets – are notorious as places that criminals frequent to convert stolen goods into quick cash. So what gives? Are the authors of the bill and those who voted for it ignoramuses – or are they deliberately obscuring the real purpose of the bill?

The answer is clear once we examine the other provisions of the bill. In fact, the bill goes far beyond banning cash transactions. As lawyer Thad Ackel notes, the bill requires: “secondhand dealers to turn over a valuable business asset, namely, their business’ proprietary client information. For every transaction a secondhand dealer must obtain the seller’s personal information such as their name, address, driver’s license number and the license plate number of the vehicle in which the goods were delivered. They must also make a detailed description of the item(s) purchased and submit this with the personal identification information of every transaction to the local policing authorities through electronic daily reports. If a seller cannot or refuses to produce to the secondhand dealer any of the required forms of identification, the secondhand dealer is prohibited from completing the transaction.”

So the aim of the bill is not to aid law enforcement in apprehending criminals, none of whom would be ever stupid enough to turn over such information. The real intent is to feed government’s insatiable hunger for tax revenues by completely stripping law-abiding citizens of financial privacy in secondhand transactions, every detail of which is fed directly into police files.³⁹

And never mind that the law would force people to use inconvenient and unnecessarily expensive payments media, intrude on their most harmless everyday activities, generate a huge amount of digital paperwork and raise almost nothing in extra tax revenue!

The onslaughts against cash at the federal level are even more sinister.⁴⁰ Since 1992, federal regulations require banks to file ‘suspicious activity reports’ or SARs on their customers. Banks have minimum SAR quotas that they need to submit to the government: if they don’t file enough, they can be fined and their executives and directors can be jailed for non-compliance. There is no penalty if bankers claim that a transaction is suspicious when it turns out not to be – and hence no disincentive to file false reports – and banks are not even allowed to inform suspects that they are under investigation.

³⁹ J. T. Salerno, “[Forcing Cajuns to Go Cashless](#),” LewRockwell.com, April 14, 2015.

⁴⁰ See, e.g., M. Slavo, “[Government Orders Bank Tellers To Alert Police About Your Cash Withdrawals: So They Can “Seize the Funds... Investigate](#),” *IWB Investment Watch*, March 23, 2015, or S. Black, “[Justice Department Rolls Out an Early Form of Capital Controls in America](#),” *Sovereign Man*, March 20, 2015.

But now the Justice Department is saying that filing SARs is not enough. Whenever banks suspect that a customer is seeking to make a 'suspicious' transaction, they want bank employees to directly inform the police:

[W]e encourage those institutions to consider whether to take more action: specifically, to alert law enforcement authorities about the problem, who may be able to seize the funds, initiate an investigation, or take other proactive steps.

'Suspicious activity' can be anything at all, but it definitely includes, e.g., transactions that withdraw or attempt to withdraw \$5,000 from your bank account.⁴¹ So attempting to withdraw a few thousand dollars to, say, buy a second-hand car or meet a family emergency can get you placed under suspicion. Then it can get much worse. Once you have been flagged up as having made or attempted to make a suspicious transaction, it is then easy enough for the police to get you if they are minded to. They can turn up at your door with a K-9 unit that will inevitably find traces of illegal substances on your cash (because all cash has such traces). Then they can identify you as a suspected drug dealer, which gives them the authority to seize your cash, your car and even your house. Under existing asset forfeiture statutes, the police can seize the property allegedly involved: there is no presumption of innocence, and assets can be seized without probable cause, warrants, charge or trial, and police seizure can be very costly to contest in court afterwards. And you can be arrested too. But even if you merely become the subject of an SAR, if there is a suspicion – no concrete facts or irrefutable evidence needed – that your suspected suspicious activity is terrorist-related, you can be placed on the government's terror watchlist, which authorizes secret government spying on you. The same applies to anyone who is suspected of being associated with someone who is suspected of terrorist-related activity.

This is a problem in the UK too. The UK has similar legislation and there have been a number of recent cases where perfectly decent people have had their bank accounts suddenly frozen without any warning or even explanation. Earlier this month, for example, HSBC did this to a couple in Sheffield: the wife suddenly found herself unable to pay for her shopping at the supermarket, and the couple then found themselves unable to withdraw money, pay their grocery or utility bills or even give their daughter school dinner money. Having turned them into financial

⁴¹ I have encountered two of these SARs myself, one from the UK and one from the US, and very entertaining they were too. In the first case, I and several colleagues were fortunate enough to get a research grant from an overseas educational foundation in the late '90s. The money was transmitted to a bank in the UK, which then issued me with a summons to go to one of their branches in Sheffield and present evidence of my bona fides: passport, utility bills, etc. When I went to the branch, the bank staff hadn't a clue what to do and I had to explain to them what it was they were supposed to be doing. In the second case, a few years ago I was due a small royalty payment from a risk management publisher in NYC. Some twit in FinCen then blocked the transaction because the payment was to our joint account in the UK and my wife's name looked suspicious. I had to provide Mahjabeen's passport details to the relevant authority, but in attempting to comply with this demand, I inadvertently added an extra integer to her passport number. I realized my mistake afterwards but thought it might look suspicious if I then attempted to correct it, so I let it be. This government official didn't notice that the passport number had the wrong number of digits and the money came through soon afterwards.

pariahs, the bank then refused to provide any explanation. He is an IT consultant working for the police and she is a childminder, and they have no particular overseas links.⁴² The journalists covering the story could only speculate that the couple were an inadvertent victim of the bank's "de-risking" in response to large fines it has received for laundering billions for drug cartels, terrorists and rogue states – but why this couple should be treated this way when it is their own bank that is at fault is quite another matter. There have been a number of similar cases, and the Financial Conduct Authority has warned that whole categories of bank customers, including charities and people with families in countries deemed high risk could be exposed in the same way. If you think it can't happen to you, think again: it is already happening to people just like you.

These examples ought to teach us that protecting the right to carry out cash transactions unmolested by the government – or by banks who are being pressured by the government – is a key pillar to our economic and political liberties. This, in turn, points us to the core issues raised by the proposal to abolish cash. It turns out that there are not one, but two elephants in the room, and they are real mammoths too: the scope for much greater financial repression, and the attack on civil liberties, aka, the abolition of the right to financial privacy. Taken together, we are talking about an all-out-war waged by the state against its own citizens.

Consider each of these in turn:

The scope for much greater repression ... financial and otherwise

Once cash has been eliminated and everyone forced to use only government-controlled electronic money, then the government would be free to impose its coveted negative interest rates – and to impose whatever rates it chooses. Savers would no longer have the protection once afforded by being able to keep their money under the mattress, and the way would be wide open for the government to seize their property at will. They would be vulnerable like never before, and any attempts to escape financial repression – by buying Bitcoin, or gold and silver, and so forth – could easily be blocked off.

The point is that once the government has corralled everyone into using electronic currency that it can control, then it can also control how they spend it. It then has the power to control ... everything. As Mark Hendrickson observes:

It seems clear that elite political planners, whether elected officials, central bankers, or unelected officials in multilateral [or] supra-governmental bureaucracies like the IMF, are striving to dramatically increase government supervision and control over economic activity.

By forcing everyone to transact business through the financial system,

⁴² A. Tims and P. Collinson, "[HSBC has wrecked our lives, say customers frozen out and unable to switch](#)," *The Guardian*, October 3, 2015.

government is paving the way to regulating how much we spend and where we spend it. What F.A. Hayek called “the fatal conceit” tragically persists. The would-be lords of the economic universe still haven’t learned the crucial lesson from failed socialist experiments – that central planners cannot possibly have enough specific knowledge to coordinate the economic activity of millions of human beings.

Government schemes to abolish cash will reduce not only our freedom, but also our standards of living. Welcome to the progressive planners’ brave new world.⁴³

After all, what is the point of their having such absolute power if they don’t use it, especially as they know best, and what assurance would we have that they wouldn’t abuse that power? Absolutely none.

It goes without saying that the government would soon prevent people spending in ways of which it did not approve. If it decided that people should not purchase Bitcoin, or gold or silver, or frankly *anything*, it can insert automatic blocks that would prevent people using their own money to purchase whatever it is that the government thinks they shouldn’t. The possibilities are endless: it can block any transactions involving countries on the government’s shit list, and it can block payments to organizations of which the government approves – one thinks here of how the U.S. government attempted to destroy Wikileaks by pressuring the major payments providers to freeze its accounts, an illegal blockade that was only averted by Wikileaks switching to bitcoins instead, but this defensive tactic wouldn’t work any more if the government could block people from buying bitcoins in the first place.

Nor would it be long before the state’s absolute power over spending was brought to bear for supposed law enforcement purposes, and the obvious targets would be illegal drugs, prostitution, etc., and the government’s old favourite, ‘suspicious’ transactions, which may be related to illegal activity, but much more often are not. Any suspicious transactions would be flagged up and those involved would be drowning in checks – police checks not financial checks – and paperwork to reassure the government that they were bone fide, but one imagines that such transactions would simply be driven further underground and financed in different ways, such as through cryptocurrencies: one should never underestimate the ability of the private sector to find innovative solutions to such problems. Best of luck to them too.

We should also expect to see the nanny state get involved to dictate how we spend in our own better interests, since we cannot be trusted to act as grown-ups and make these decisions for ourselves. Some paternalistic busy-body would soon persuade the government that since it has the apparatus to control how we spend our money, then it should use that apparatus to promote worthy causes such as the latest medical health fad. And who can argue that healthy eating is not a good thing? Instead of having to go through the long drawn out process of persuading

⁴³ M. Hendrickson, “[Farewell to Cash](#),” *Forbes*, May 28, 2015 .

us to eat what is best for us, as they used to do when we had free choice, these self-proclaimed experts could now force us to do whatever they thought was best for us, so cutting out the tiresome non-compliance and making us do just as we are told and not be difficult about it. So when these experts decide that Weetabix is good for us, they can make us buy the stuff regardless of whether we want it or not, and when they change their minds they can prevent us from buying it, even if we want to. The point is that they decide what is good for us: we don't.

You can see where this is going. We will soon have our own registered state accounts, conveniently combining our financial information with compulsory health 'recommendations' that determine what we can and cannot buy. My entry might go something like the following: Kevin, 57, married, non-smoker, overweight, family history of hypertension and stroke risk, poor exercise regime, excessive carbohydrate intake, etc. helpfully followed by my own computer-generated allowances regarding what and how much I can purchase, tailor-made for my particular needs, with particular restrictions in my case about intake of salt, carbs, and so on, so I don't overdo it, which I am all too prone to do. So even if I want to do something I shouldn't – when I have a craving for a pizza – the system will protect me by automatically rejecting my attempt to order a pizza from Domino's. I may not particularly like it, but deep down I know it's for my own good: they know best.

Going further, we can also imagine the government indulging itself in sado-economics, i.e., punishing groups it does not like.⁴⁴ A classic example is Keynes's policy of "euthanizing" the rentier, i.e., destroying the saver, a policy enthusiastically pursued by post-War governments in the UK. My friend Martin Hutchinson describes how his great aunt was victimized by this policy. This lady had worked and saved all her life, and had patriotically invested her savings into war bonds to help the war effort: she had done all the good things that good citizens are supposed to do. Having provided for her old age, she retired in 1948 but

by the time she died in the 1970s she was completely indigent, since the real value of both her capital and income had declined by about 85 percent as had even the money value of her bonds, which were irredeemable. She was a lifelong Tory voter, and had been a great fan of Stanley Baldwin, so doubtless the postwar Labour government considered her "lower than vermin"; its economic policies certainly had the effect of treating her as such. My aunt in her retirement (she previously had a 40-year small-business career) was a rentier such as Maynard Keynes wished to euthanize ...⁴⁵

The ultimate in sado-economics is for the government to use its absolute control over currency to go after its enemies – real or imagined makes no difference – and destroy them by depriving them of their sustenance. We would then have a modern version of the ancient Roman punishment *interdicere aquae et ignis* ("to

⁴⁴ M. Hutchinson, "Sado-Economics", *The Bear's Lair*, December 24, 2012.

⁴⁵ M. Hutchinson, "The death-knell of Bernankeism", *The Bear's Lair*, July 21, 2008.

forbid fire and water”) designed to make it impossible for the victim to survive. Anyone who got on the wrong side of the authorities – political opponents, whistleblowers, alleged criminals, anyone, even people who end up on the government’s black list because of some personal grudge or clerical error on the part of the official with the power to decide who gets whacked – can be subjected to this form of outlawry and made to disappear merely by blocking access to their bank account. We then get the monetary hell described by Bill Bonner:

With modern face-recognition technology, the feds could identify almost anyone in any setting – at a café, a public meeting, or an ATM. Then with a couple of strokes on a keyboard, the accounts could be frozen... or confiscated. The poor citizen would “disappear” in seconds – unable to participate in public life and forced to scrounge through trash cans to stay alive.

Who would dare to help him? Who would dare to support him? Who would dare to speak out against this new diabolical system? They, too, would be marked as undesirable... and disappeared. Imagine the political candidate who suddenly discovers his backers have no money? Imagine the whistle-blower who suddenly has no whistle to blow?⁴⁶

This is *Enemy of the State* for real: what is chilling here is not just the extremity of the punishment, but how easy it would be for some official working for Big Brother to inflict it on someone, and how the victim would not only be deprived of their sustenance, but also of their ability to seek redress: once cast into the outer darkness, they cannot make it back.

The abolition of the right to financial privacy

The abolition of cash would also lead to the end of what little remains of the right to financial privacy. Consider the following two quotes:

... the future cashless society that the social engineers are trying to bring in is a world of total government surveillance. The government is already reading your emails and listening to your phone calls. Do you really want them correlating all of that data with the record of everything you ever purchase, and to keep all of that on file for the rest of eternity? No, I thought not.⁴⁷ (James Corbett)

The cashless society is the IRS’s dream: total knowledge of, and control over, the finances of every single American.⁴⁸ (Ron Paul)

Those who advocate the abolition of cash overlook the point that financial privacy is a key civil liberty. As Martin Hutchinson explains, financial privacy serves to

⁴⁶ B. Bonner, “[A Vision of Monetary Hell Troubles Our Sleep](#)”, Bonner and Partners, May 21, 2015.

⁴⁷ J. Corbett, “[The Criminalization of Cash](#),” *The Corbett Report*, April 15, 2015.

⁴⁸ Quoted in N. Giambruno, “[The War on Cash: Transparently Totalitarian](#),” LewRockwell.com, April 30, 2015.

protect the individual against the depredations of the state:

The first bank secrecy law was written by Switzerland in 1934 and played a vital role in enabling at least some German Jewish people to preserve both their lives and their assets during the horrors of World War II. The "key civil liberty" aspect of bank secrecy laws thus cannot be dismissed [and] there are plenty of regimes around the world that oppress their subjects, and those subjects need an asset bolt-hole where they can preserve their wealth while they emigrate or simply decide to wait for better times.

It's not surprising that there were no bank secrecy laws before 1934. The London merchant banks and private banks of the 19th Century would have binned immediately a demand from any government other than Britain's for their customers' records. Numerous dissidents such as Louis Napoleon (the future Napoleon III) and Lajos Kossuth, the Hungarian revolutionary, could keep their money in London entirely without fear of expropriation for that reason. As for Britain itself, with income tax at less than 5 percent for most of the nineteenth century there was no great incentive for tax evasion, although accounts were occasionally seized in fraud cases.

... Thus banking secrecy in 19th century London was in practice regarded as sacrosanct, yet was protected by banking ethics and practices, not directly by legislation.⁴⁹

In the years afterwards, high rates of taxation and other forms of financial repression, including in some cases exchange controls, drove many otherwise law-abiding citizens to seek ways to squirrel their money abroad so it would be safe from government predators. It was in this context that the Swiss passed their bank secrecy law to prevent bank employees selling customer information to governments hostile to them. As Hutchinson continues:

Government responses [against bank secrecy] were fairly slow in arriving; the U.S. Bank Secrecy Act was passed only in 1970, and even in the 1970s morning trains from Brussels to Luxembourg were full of comfortable burghers (proverbially "Belgian dentists") with bearer bonds tightly wrapped around their upper bodies, going to clip coupons. Then some governments reacted the opposite way; Austria passed bank secrecy legislation only in 1978, in an attempt to get some of Switzerland's business. It was said to be tighter than Swiss legislation, because you never needed to give your real name, merely show the nationality of your passport. If you said your name was Mickey Mouse the bank staff would accept this, and when you visited the bank cheerfully greet you with "Gruss Gott, Doktor Maus!"

Of course, governments and the media will often say that tax havens and bank

⁴⁹ M. Hutchinson, "Bank Secrecy is a Key Civil Liberty", *The Bear's Lair*, April 29, 2015.

secrecy regimes should be shut down, but matters are not so simple, either economically or ethically, because governments themselves are often prone to plunder their own citizens and cannot be assumed to have any moral high ground. Their being able to evade this predation is key to their protecting their own property:

Lord Salisbury in 1859 defined democracy as "a system of combined taxation and reform, according to which the poor are exclusively to fix the revenue which the rich are exclusively to pay." It was a pretty good description of British government from 1945-79, and indeed much U.S. government since the New Deal. In such circumstances, bank secrecy, accompanied by the ethically unpleasant practice of tax evasion, is the only instrument (other than bribing politicians, which few of us have the means to attempt) by which the rich can resist economic oppression, when such is the fashion of the governing class. ... rentiers have a duty to themselves and their families not to allow themselves to be euthanized.⁵⁰

Bank secrecy (and anonymous cash) are, in short, much needed bulwarks against tyrannical taxation, foreign exchange controls and financial repression generally.

The broader implications of modern central banking

I would like to end with some reflections on the broader tendencies implicit in modern central banking. Recall that we started with a non-problem, the 'problem' of how to boost spending in the early days of the financial crisis, having ruled out or not even considered the much better response of letting the economy take the shock back, fix the banking system and then sit back as the economy recovered. Instead, the Bank tried and tried and tried to resolve its stimulus problem – it tried QE, ultra-low interest rates and various other measures, but these failed to produce the desired results and were also highly counter-productive: one thinks especially here of the devastating impact of QE on savers and of the monetary policy-induced creation of a series of bubbles around the world, on a scale that dwarves the pre-2007 bubbles, which were also induced by loose monetary policy, and which helped set the stage for the Global Financial Crisis. But rather than acknowledge that loose monetary policy creates bubbles that pose grave threats to the economy⁵¹ and fails to stimulate the economy, modern monetary policy makers are still fixated on the mirage of stimulus 9 years after the onset of the crisis and appear to have learned nothing from their all too costly failures: to hammer the point home, to a man whose only tool is a hammer, every problem looks like a nail.

⁵⁰ Hutchinson, *op. cit.*

⁵¹ Haldane himself is a notable exception. "If I were to single out what for me would be the biggest risk to global financial stability right now it would be a disorderly reversion in the yields of government bonds globally", he told the Treasury Committee in June 2013. "Let's be clear. We've intentionally blown the biggest government bond bubble in history," Haldane said. "We need to be vigilant to the consequences of that bubble deflating more quickly than [we] might otherwise have wanted." The Bank then rushed out a statement to clarify that his comments were his own "personal view" and were not to be confused with the Bank's official position.

Rather than admit defeat and accept that the Great Monetary Stimulus Experiment has failed, the Bank of England is even now minded to give it yet another go. We are not talking here about even more rounds of QE, bad enough as they would be. We are talking about breaking through the ZLB barrier with the sledgehammer of NIRP underpinned and made possible by the abolition of cash. Haldane acknowledges that such a policy would be “radical” – an understatement if ever there was one – but it is also untested, not so much highly dangerous as potentially catastrophic and rife with the perils of unintended consequences. Proposals for NIRP remind me of those horror movies where the archaeologists come across the mummy’s tomb, are warned of the curse against entering it, but take a sledgehammer to the entrance anyway and afterwards rather wish they hadn’t. Nor am I reassured by the inauspicious history of this proposal, which is essentially a digital version of stamped money, a scheme which has long since been a byword for monetary quackery, Keynes’s endorsement proving the point. What the ban cash brigade propose is no less than a headlong dive in the murky, deep, uncharted and frankly unknown waters of negative interest rates, where no man and no central bank has ever gone before: experiments with NIRP so far (e.g., as in Denmark or Switzerland since early 2015) have only dipped their toes into the shallowest sections of the negative interest rate ocean, i.e., where interest rates are only a little below zero, and no one knows what might lurk in the deeper regions (e.g., where we might have interest rates of, say, minus 5 percent). Whatever is there, however, is unlikely to be friendly: NIRP itself has the potential to suck the economy into a deflationary vortex that could destroy it, and the proposal to ban cash would have enormous detrimental effects on our civil liberties and in one stroke would destroy what is left of our right to financial privacy. But hey, ho, that’s OK because it would solve the Bank’s ZLB ‘problem’ – even though it actually wouldn’t, and even though the ZLB doesn’t really pose a problem in the first place – and help to tax some bad guys too, even though the tax yield would be minimal and there are better ways of collecting it.

There was an Old Lady who followed a fly. I don’t know why she swallowed a fly, but swallow one she did. She went on to swallow a spider to catch the fly that wriggled and wiggled and tiggled inside her; she swallowed the spider to catch the fly; she then swallowed a whole bunch of other animals, each to catch the previous one, and one worries that she is about to tuck into the horse that will kill her. If it were any old lady, I would advise against but let her get on with it and leave us in peace. But unfortunately, this particular Old Lady has the power to force the rest of us onto her lethal horsemeat diet too.

It is impossible to exaggerate the uncertainties involved in such a dive into the unknown. Anyone who doubts this should consider the following quote from 91-year old Charlie Munger:

This has basically never happened before in my whole life. I can remember 1½ percent rates. It certainly surprised all the economists. ... I think everybody’s been surprised by it, including all the people who are in the economics profession who kind of pretend they knew it all along. But I think practically everybody was flabbergasted. I was flabbergasted when they went low; when they went negative in Europe

- I'm really flabbergasted. How many in this room would have predicted negative interest rates in Europe? Raise your hands. [No hands go up]. That's exactly the way I feel. How can I be an expert in something I never even thought about that seems so unlikely. It's new territory....

I think something so strange and so important is likely to have consequences. I think it's highly likely that the people who confidently think they know the consequences - none of whom predicted this - now they know what's going to happen next? Again, the witch doctors. You ask me what's going to happen? Hell, I don't know what's going to happen. I regard it all as very weird. If interest rates go to zero and all the governments in the world print money like crazy and prices go down - of course I'm confused. Anybody who is intelligent who is not confused doesn't understand the situation very well. If you find it puzzling, your brain is working correctly.⁵²

A second broader concern is the transformation of the central bank from being the prudent guardian of the financial system that it used to be into the most reckless risk-taker of them all: its unique pivotal position exposes the whole system to the consequences of any mistakes it makes in a way that no other institution can match. From being the guardian of the financial system, it has become its pre-eminent point of failure. This transformation strikes directly against the heart of traditional central banking, and no-one has expressed this better than Mervyn King once did in a delightful speech at a dinner in Plymouth in 2000:

I tell you that our ambition at the Bank of England is to be boring. Not, I hasten to add, at events like this. But in our management of the economy where our belief is that boring is best.

Macroeconomic policy has, for most of our lifetime, been rather too exciting for comfort. As Miss Prism told her charge in *The Importance of Being Earnest*, "Cecily you will read your Political Economy in my absence. The chapter on the Fall of the Rupee you may omit. It is somewhat too sensational". ...

I hope you now understand why our ambition is to be so boring. Our aim is to maintain economic stability. A reputation for being boring is an advantage - credibility of the policy framework helps to dampen the movement of the see-saw. If love is never having to say sorry, then stability is never having to be exciting. Miss Prism should not have to tell future Cecilies to omit the chapter on the activities of the Monetary Policy Committee.⁵³

⁵² Phil DeMuth, "[Flabbergasted! Quote Of The Year From Berkshire Hathaway's Charlie Munger](#)," *Forbes*, March 26, 2015.

⁵³ "[Balancing the Economic See-Saw](#)," speech given by Mervyn King, Deputy Governor of the Bank of England 14 April, 2000.

I fear it may be a bit too late for that. Central banking is meant to be conservative, prudent and risk-averse, and its primary duty is to protect the financial system rather than endanger it. Above all, the central bank is *not* meant to gamble or to engage in potentially dangerous experiments as if the banking system or the economy were some dispensable guinea pig to experiment on. If its experiments fail, then it is not just the guinea pig that suffers.

Modern central banking has long since ceased to be conservative, however – and long before 2000, by which point Lord King was already deeply worried about central banking having become much more exciting than it was supposed to be. It has also become a whole lot more exciting since: a modern central bank is much more like a gambler at a roulette wheel who tries to gamble their way out of their accumulating losses – which then fall on us. This transformation means that the central bank itself is now the number one threat to the safety of the entire financial system, and has therefore abdicated its primary responsibility and forfeited its right to exist. Instead of abolishing cash, we should abolish the Bank and restore the issue of cash to where it rightfully belongs, to the private sector. Indeed, the case for abolishing the Bank of England has never been stronger or more urgent.

But perhaps the deepest and most disturbing issue with the central bank embracing NIRP is its adoption of the mindset underlying NIRP: an attack on stewardship and a disregard for the future, an astonishingly irresponsible mindset that goes against the advice of sound economists and philosophers over the ages, not to mention the basic common sense of good housekeeping. A policy of negative interest rates pressures us to maximise short-term consumption regardless of the longer-term consequences, even though many of us would prefer to save for the future. It is the literal epitome of the ‘now’ society, in which we are encouraged to live for today, eat, drink and be merry and let the future go to hell, and never mind the fate of our children and grandchildren. Such a policy can only ever end in tears – and we can even say that this is its key design feature. As Friedrich Hayek warned at the end of his *Pure Theory of Capital*:

a most harmful doctrine has gained ground in the last few years which can only be explained by a complete neglect - or complete lack of understanding - of the real forces at work. A policy has been advocated which at any moment aims at the maximum short-run effect of monetary policy, completely disregarding the fact that what is best in the short run may be extremely detrimental in the long run ...

I cannot help regarding the increasing concentration on short-run effects ... not only as a serious and dangerous intellectual error, but as a betrayal of the main duty of the economist and a grave menace to our civilisation. ... It used, however, to be regarded as the duty and the privilege of the economist to study and to stress the long effects which are apt to be hidden to the untrained eye, and to leave the concern about the more immediate effects to the practical man, who in any event would see only the latter and nothing else. The aim and effect of two hundred years of continuous development of economic thought

have essentially been to lead us away from, and "behind", the more superficial monetary mechanism and to bring out the real forces which guide long-run development. ... [There] can be no excuse for the present tendencies which have already gone far towards taking us back to the pre-scientific stage of economics, when the whole working of the price mechanism was not yet understood. ... It is not surprising that Mr. Keynes finds his views anticipated by the mercantilist writers and gifted amateurs: concern with the surface phenomena has always marked the first stage of the scientific approach to our subject. But it is alarming to see that after we have once gone through the process of developing a systematic account of those forces which in the long run determine prices and production, we are now called upon to scrap it, in order to replace it by the short-sighted philosophy of the business man raised to the dignity of a science. Are we not even told that, "since in the long run we are all dead", policy should be guided entirely by short-run considerations? I fear that these believers in the principle of *apres nous le deluge* may get what they have bargained for sooner than they wish.⁵⁴

I leave the last word to the Prophet Jeremiah:

And I brought you into a plentiful country, to eat the fruit thereof and the goodness thereof; but when ye entered, ye defiled my land, and made mine heritage an abomination.⁵⁵

⁵⁴ F. A. Hayek, *The Pure Theory of Capital* (Chicago University Press 1941 [1940]), p. 408-410.

⁵⁵ Jeremiah, 2:7, King James version.