

# Abolishing Cash as Solution Against the Evil

Friedrich Schneider

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» *Abolishing cash is hailed as an effective and simple solutions against many evils in the world, such as organized crimes or the shadow economy. Forget about that.*

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Over the last 6 months intensive discussion has arisen about the abolition of cash. All of a sudden the abolition of cash could do miracles: If cash did not exist, there would be much less crime and the shadow economy would be greatly reduced, because all transactions undertaken in the shadow economy are generally made in cash. Could it really be that simple? Honestly, I think the idea that with the abolition of cash, organized crime, the financing of terrorism, and the shadow economy would be severely reduced or even disappear is irrational. In the following, I will elaborate on why I think it is a foolish idea, which should soon be forgotten.

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F. Schneider (✉)  
Johannes Kepler University of Linz, Linz, Austria

## What Are the Sources/Origins of Organized Crime?

Organized crime has been around for a long time because the profits from such crime are very high. Drug dealing has a global turnover of at least USD500 billion per year, and the net profit of drug dealing is at least USD350–400 billion per year. As drugs are illegal and heavily sanctioned in most countries, they can only be offered through criminal organizations, which are sure to earn high profits. On average the profit increases tenfold from the producer to the gross dealer and another tenfold from the gross dealer to the street. To reduce organized crime, for example, in the drug business, a (partial) legalization of drugs would be much more efficient and could wipe out all organized crime related to drugs. To reduce organized crime, one has to fight the reasons it occurs. Abolishing cash would by no means abolish drug or human trafficking.

## No Cash, No Shadow Economy?

Shadow economy activities in highly developed OECD countries are mostly undertaken because, first, the burden of taxes and social security contributions on labor is too high. Second, the regulation of craft and service activities is very intensive, adding another substantial cost factor. Hourly wages in the shadow economy are on average between 10 and 20 euros, while an official craftsman or service will cost between 80 and 100 euros per hour. If there were no cash, the transaction costs of shadow economy activities would rise, but the tremendous cost difference between an hour worked in the shadow economy and an hour of official labor would be only marginally reduced. Hence, by no means would the abolition of cash lead to a severe reduction in the shadow economy. Estimates suggest that shadow economy activities might be reduced by 3–5 %. For Germany, where the shadow economy is estimated at 320 billion euros, the reduction would only amount to 5–6 billion euros.

## Abolition of Cash: A Free Lunch?

If cash were to be entirely abolished, this would also lead to two severe disadvantages for a society. The **first** disadvantage concerns the fact, that, for example, I, as an Austrian member of the European Union, can decide how I want to spend my cash, no one controls it, and it is my free will to use my cash

as I see fit. This is an elementary part of my freedom, and if cash were abolished, supervision by state authorities or big firms would be almost perfect. They could see what and when I buy and surveillance of people would assuredly be near perfect. A **second** disadvantage would be during severe blackouts; without cash, the whole economic system would break down. At least with cash a rudimentary economic life would still continue. Cash could be handed out by banks and I could still buy the necessities of life.

These two disadvantages of the abolition of cash are generally not discussed, and the possibility of cybercrime rises tremendously in cash-less societies. Of course, I am aware of the costs of cash, but they are still much lower than the advantages cash brings, as one of the oldest and most efficient forms of payment. Hence, abolishing cash is a crazy idea, which should not be considered further.