



**Episode 465: The War on Cash: You Won't Believe How and Why Governments Are Waging It**

**Guest: Charles Hugh Smith**

**WOODS:** I didn't really think there was that much interest in the subject of the "war on cash," so-called, but I just saw some statistic about an article, of how many times it was read, and apparently there is some interest in it, so it's not just me, it turns out. So I decided I would do an episode on it, and by interesting happenstance, you happen to have an article on this subject. I've been reading Joe Salerno on this recently. So first of all, explain to us what exactly is the war on cash, in summary fashion.

**SMITH:** Well, Tom, I suppose there are several ways to describe it, but I would describe it in terms of control and, more specifically, centralized control. In other words, when money is issued, it's issued by central authorities, but once it's in our hands, we are free to use it as we see fit. But that leaves a lot of things in the economy outside the control of the central authorities, which is the central state – the government – and the central banks. So as things start unraveling, they want to take that control that we have with cash away, so that they will be able to control every aspect of money – not just the issuance of money and credit, but limiting the ways we can transact business with that money.

**WOODS:** All right, let's start off, though, giving them the benefit of the doubt, which I hate to do, but let's say we're going to take seriously the official rationales they give for the various ways they're trying to restrict the use of cash. And we'll get into a few examples of that in a minute, but I first want to go into how they're trying to sell this to people, because they have tried to say that it's really just for everybody's own good. They haven't said it's because we want to be able to plan the monetary system more effectively, and we don't want you people to be able to opt out of our crazy planning.

**SMITH:** Right, exactly. And that's always a good place to start, Tom. I think I totally agree with you. Let's look at the official explanations for why they want to restrict cash or even eliminate it. And they are pretty threadbare, frankly. It's like, why do they want to get rid of cash? Um, well, it's because cash is a useless relic from the old days. (laughing)

**WOODS:** But it's also used by terrorists.

**SMITH:** Right.

**WOODS:** That's the thing. Terrorists use a lot of cash.

**SMITH:** Right. And so do drug dealers.

**WOODS:** Right.

**SMITH:** Yeah. So therefore if you're using cash, especially in large amounts, you must be a) terrorist, b) drug dealer. (laughing)

**WOODS:** Yeah, and of course terrorists and drug dealers use the public streets, and they use public utilities, and so on and so forth, so if we were to take this to its logical extreme, it seems that there would be all kinds of restrictions placed on us. So there's that. It's the, we're just trying to track down the bad guys, and so on and so forth. But that, I'm just not convinced of that. And secondly, just do a better job of tracking down – well, I guess terrorists, I mean, there are all kinds of ways you can track down terrorists. But one thing you can't do, it seems to me, is just consistently – well, you can; metaphysically, you can do it – but you ought not to do is consistently interfere with the liberties of the population in order to do so. And a lot of times, I think people think that it's just stupid, out of touch, civil libertarians who are always whining about our liberties being trampled on in the War on Terror, but this is a very clear and practical case of it.

In fact, let me give you a couple of examples. I'm sure you know these, but you might not have the figures off the top of your head. I jotted them down last night. In just the last few years, Italy, for example, made cash transactions over 1,000 Euros illegal. Illegal to have cash transactions. Now, that's a country that's heavily in cash, just for cultural reasons. They're heavily in cash. I think it's like 7.5 million Italians who are, as we say, unbanked. They're not even in the banking system at all. They want to dragoon them into the banking system for reasons that we'll get into in a little while. Switzerland has proposed banning cash payments in excess of 100,000 francs. Russia banned cash transactions over 10 grand. Spain banned cash transactions over 2,500 Euros. Mexico, Uruguay, and so on and on. So this is not just some feverish conspiracy thought that you and I are having. This is actually taking place.

Now, why are they doing it? What's the real reason? Let's get into specifics. Explain the concept of negative interest rates, and explain how that applies to the war on cash.

**SMITH:** Okay, Tom, excellent topic. The negative interest rates are one tool that the central authorities have to influence us to spend the money we have, rather than save it and potentially invest it in productive resources. In other words, that's our options with cash, right? We can either save it to invest it in something productive, or we can spend it. So with negative interest rates, that means that it costs you money to keep cash in your bank, and there are several versions of negative interest rates.

One is that the bank simply charges you a fee for holding cash. In other words, instead of paying you 2% interest that you would earn, it takes a 2% fee away from you every month, and this puts pressure on anybody with cash to just go ahead and spend it now.

And that's what the authorities want, because they fear a recession, which could lead to deflation and basically the end of their credit bubble. So they want anybody with any kind of cash to spend it now, but they want us to spend it through official channels where it can be taxed. And so that's the other part of pushing you into the banking system, is that then, every transaction that you conduct will be visible to them and it also can be taxed.

**WOODS:** All right, explain a little further how negative interest rates are supposed to help the economy – I suppose in the same way that they say that cutting interest rates always spurs growth because it spurs credit activity and lending and entrepreneurial activity and so on and so forth. So I guess you extrapolate from this, and you get that negative interest rates would be even better than positive ones.

**SMITH:** Tom, that's the thinking of the Keynesian school, and this goes back of course to John Maynard Keynes, who supposedly solved the Great Depression by his insight that when people are nervous about the economy, then they hoard their money. And that this is a self-fulfilling cycle, where the more that we hoard our cash, because we're concerned about the financial circumstances that we find ourselves in, then spending goes down, and the economy spirals down, because nobody's spending, and so people can't hire more employees, and so on.

So his solution was to force everybody into spending all the money they had on hand, and then that would create a surge on spending, which would then boost the economy out of its recession. And so that Keynesian thinking is still extremely influential, basically globally. So the central authorities' idea is if they can just keep us from hoarding our cash, then the economy will boom, and everybody will be happy.

**WOODS:** All right.

**SMITH:** Yeah, that's the basic idea.

**WOODS:** So the idea is that if they had their way, we've seen some people – you talk about them in your article – who actually want to get rid of cash altogether. They don't just want to place restrictions on the use of it; they want to get rid of it altogether. Suppose those maximalist demands were met. There is no cash that I can just hold outside the banking system. I'd have to be banked – that is to say, I'd have to be part of the banking system. I couldn't escape this policy. They're eroding my purchasing power as a deliberate matter of policy, month after month. And so the incentive, as you say, is to spend immediately, because if you save, the value of what you save is eroded over time. So this will force you to go out and spend. That's what they want to do, and they know that if people have cash as an option and they see that banks are doing this to them, they'd just take the money out of the banks. But if there is no cash, you can't do that. What does that system look like, practically speaking? Would we all just have checking accounts but no cash?

**SMITH:** Yes, Tom, it would be, like, a lot of us already live using ATM cards, and your money is, say, your earnings are transferred automatically to a bank account of some

kind, which you then spend using your credit card or ATM card, your debit card. And so that's the ideal system for the authorities, because they can try to force us to spend money by negative interest rates on the money we have, and they can also access that cash in extreme circumstances with bail ins. In other words, that's when the authorities say the bank has failed, so we're going to take the depositors' money to make the bank whole now. And that's of course the blueprint that occurred in Cyprus and elsewhere. So they start that process as another reason why they want people to be banked, is so they can take people's cash, their assets and cover the bank's losses.

**WOODS:** Charles, let's talk for a minute about financial privacy. Cash gives you financial privacy, but money in the bank does not, because they can follow every single transaction. But if I buy something in cash – and by the way, I'm not even favor of fiat money. But I'm more in favor of something I can hold in my hand than something that's entirely electronic and in the hands of a system that the government can snoop through all the time.

**SMITH:** Right, and, Tom, as you mentioned earlier, even if we attribute the war on cash to the best intentions, that there are unintended consequences of this, even if someone naively believes that the war on cash is a good way to fight money laundering, drug lords, and terrorism, the unintended consequences are incredibly large, as you say, in terms of civil liberties. And the issuance of cash is something that we let the central government or central banks do. But what they're asking for is a whole level of control, that there's not only snooping, but there's easy access for them to take our money under one pretext or another – you know, either negative interest rates or bail ins or devaluations. So there's a lot of downsides to the war on cash, in terms of our freedoms. Yes.

**WOODS:** And of course, our financial well being, given that various schemes that these people have obviously cooked up for us. You cite in your piece a couple of fairly prominent economists. I mean, these aren't cranks – well, they are cranks, but by definition, if they're at a prominent university for some reason, they can't be cranks. I still call them cranks. But you cite a couple of major economists who have just come right out and said that cash ought to be abolished altogether. Can you say something about that?

**SMITH:** Yeah. The idea that these economists proposed was in the 2008, 2009 financial meltdown. They are saying we could have overcome that by simply imposing a 5% fee on all cash immediately. In other words, forcing everyone that has two nickels to put together to spend it, or else they're going to lose 5%. So this kind of draconian forcing people to spend whatever cash they might have has another very negative effect, Tom, which is it takes away our ability to plan long-term and make productive investments for our own households. Because if we have to spend every cent we have constantly before it's eroded by negative interest rates or bail ins, then we can't really build up any productive assets.

**WOODS:** Exactly, and so it's the perfect storm type of policy, when you look at all the potential effects. They're financial; they involve privacy and liberties. And then

another aspect of all this involves fractional reserve banking. The whole system that we have – this is all explained very well by Murray Rothbard; I'll link to some sources on the show notes page, [TomWoods.com/465](http://TomWoods.com/465). Of course I'll be linking to your article on the war on cash there and your blog and everything else people can follow you.

But what you have is a system in which the banks want to lend more money than they have in reserve, and it's tricky to do that in just a free market, because, well, people will make redemption claims, and sooner or later you'll have problems. So what they want is a system like they have now, where you have a Fed that more or less coordinates the process of money creation, so the various redemption claims cancel each other out and the system works fairly well. Now, Rothbard explains this all very clearly, and I've explained it in one of my books.

But the point is, if we have cash, and I pull cash out of the bank, the bank now has a smaller base of money to use to create additional money out of. The less money it has, the less additional money it can create out of thin air in the form of loans. So I'm shrinking the base from which they can make additional loans. I'm shrinking the base they can use in the fractional reserve system, so they don't like that either. Is that also an ingredient in this?

**SMITH:** Absolutely, Tom. And you describe how the banks really create the money, and that's one thing that the average American doesn't understand, that when they take a dollar of deposit from us, they can create \$19 in new money by issuing loans. So that's the system we have. The power to create money is concentrated in the few mostly too-big-to-fail banks. So, as you said, cash removes the deposits that they need to leverage into vast new amounts of debt, which of course collect interest.

So that's another topic that I think we need to mention here, which is the rising inequality. In other words, why are the rich getting so much richer at a much faster rate than the rest of us? And this ability to create money out of thin air, using our money as the base, that is a main driver of inequality. And so you mentioned Italy and a lot of other economies around the world, rely very heavily on what we call the informal economy, which is the cash economy. In other words, you don't put your money in the bank; you use barter, and you're keeping your cash out of the taxable system as the only way you can survive, because if you had to pay 45% of your dwindling income in taxes, you simply couldn't survive. So there's a certain element of necessity in having an informal economy, because an increasing number of people simply can't live in the banking system, because they simply don't make enough money anymore.

**WOODS:** Is there anything that we can do right now, given that cash is not illegal and it does exist – and it doesn't seem like there's any immediate prospect that any such hair-brained scheme to get rid of cash is likely to be successful. But all the same, there could be increasing restrictions on cash. Is there anything that we can do to protect ourselves against this or any smart moves we can make with our own money?

**SMITH:** Well, Tom, and this is not unique to me, but I'm just kind of speaking along the same lines that many other people have noted, which is the bail ins, like that happened in Cyprus, they tend to start with very large sums first. In other words, we're going to take money from rich people who don't deserve whatever money they have, and then the average person will say, oh, well, they're only taking accounts above \$100,000, so that's okay; it's just rich people. Then of course they move it down to \$50,000 and \$20,000, and that's the pattern. So one thing is not to keep very large sums of cash in one institution, and preferably perhaps not even in one national banking system, so that you're spreading your risk around of bail ins. That's something a lot of people suggest.

My personal preference is to invest whatever I can in a productive real-world asset that's not cash. In other words, it's fine to accumulate cash, but turn that cash into some productive asset, such as rental housing, a business – even if it's a sole proprietorship, some small business that generates an income stream – or an investment in another person's business, in your local economy, these kinds of things, where the authorities won't be able to get all your assets, because you've moved them out of cash.

**WOODS:** Well, good advice. People should be thinking about this, because the things I just read earlier on, what's going on in various countries, is just the tip of the iceberg, and you hear them, and you just can't believe they're happening. And it seems to me that that seems to be the trend of the 20th and 21st century history. First you hear something and say, ah, that could never possibly happen, and then within five years they're debating it, and then within 10 years it's mandatory. So prepare to adjust to what you can't anticipate. Now here, we sort of can anticipate it, because they're giving us signals of what their plans are, and we have to adjust our own plans accordingly. Well, Charles Hugh Smith, I appreciate your time today. We have to talk to you more often. You're always writing on a wide array of topics, and I sometimes wonder what I should cover on the show. I should just visit [OfTwoMinds.com](http://OfTwoMinds.com), and I'll get a bunch of ideas.

**SMITH:** Thank you, Tom. I'd love to be a guest on your show again soon.

**WOODS:** Thanks again.