

There's no commitment to 'general welfare' without cash!

By *Elisa Barwick*

Reality continues to reinforce the importance of cash as a means of exchange. In the wake of a flood, a cyclone and an earthquake all hitting the country within just two weeks, this could not be ignored by Reserve Bank of New Zealand Governor Adrian Orr in a press conference on 22 February. The RBNZ raised interest rates by 0.5 per cent that day, bringing them to a 14-year high. Announcing the decision, RBNZ Governor Adrian Orr said that with inflation remaining strong he expects tightening to continue. Assembled media queried whether the natural disasters should have dictated a hold on rates, given the disruption it will create for the local economy. Like a typical central banker, the RBNZ chief indicated that rebuilding efforts following those events would potentially add to inflationary pressure, supposedly underlining the importance of the rate rise!

One thing the RBNZ head did stress, however, atypically for a central banker, was the importance of cash during such crises. "Our drive to a cashless society shows how vulnerable we are", he said. "This is why we have been doing the work on cash and cash distribution throughout the economy." He acknowledged that the closure of bank branches as activity moves online has left communities exposed: "So, derisking, debranching, pricing cash management out of use, increases risk, reduces resilience."

Referring to the inability to use digital services during and after the natural disasters, Orr spoke about the importance of adjusting to the reality of extreme weather events. This is critical for monetary policy and for financial stability, he said, "and even through our cash management operations, ... [which is] a critical component. As is financial inclusion. You're seeing and reading some horrific stories out there at the moment of isolated communities. When people lose the ability, when they don't have a means of exchange, then social cohesion is very quickly challenged. And so these are vivid reminders right now of the importance of resilience through the system. And we could go on for days across almost every sector of the international economy at the moment, where just-in-time management has been taken to extremes, and just-in-case management has been left in the background, so [it's] a good, horrible wake up call."

In an interview with Bloomberg following the rate rise, RBNZ Assistant Governor Karen Silk backed up the governor. "What it is showing is the importance of physical cash still in society today." She told the publication she doesn't know if a truly cashless society is possible: "There'd have to be some quite significant changes from a technology perspective." The RBNZ, she said, was already examining how to ensure cash availability within all communities, but the events of February have "highlighted" the urgency. Reported Bloomberg: "Many towns in New Zealand are now without bank branches, which have been replaced with cash machines that rely on electricity and the internet to operate." Over 225,000 households lost power for several days after Cyclone Gabrielle swept through the North Island. During natural disasters, "cash becomes incredibly important as the primary form of payment," said Silk. "Having resilient distribution is important."

In 2019 the RBNZ held a consultation on the future of cash. A mammoth backlash to the prospect of outlawing cash was registered, with nearly 2,400 submissions received from the population of around 5 million. Orr declared that as a result, New Zealand would not go cashless. In a February 2019 speech he elaborated that "cash plays a critical role in

ensuring financial inclusion and enabling business continuity. We have heard loud and clear that the public insist on cash remaining as a payments option, even though the economics are evolving. Over coming months we need to make decisions on our safe keeping and distribution of cash. This will require legislative and industry collaboration to support the wider public good." A June 2019 Issues Paper, "The future of cash", noted a host of problems associated with declining cash access facilities across the country leading to exclusion of vulnerable constituencies. In October 2019 a Consultation Paper announced potential legislative changes "to promote a resilient and future-focused cash system. This paper proposes that the Reserve Bank take on a more active monitoring and coordination role in the cash system". This would likely include overseeing all ATMs, supermarket self-check-out machines, cash-in-transit operators and non-bank ATMs, combined with regulatory powers to ensure that banks "provide access to cash deposits and withdrawals". Sweden's moves to ensure banks provide access to cash (noted below), were cited in the report. ("Will RBNZ heed the people, or boost the bankers?", AAS, 11 March 2020)

Almost a year ago, on 3 March 2022, the RBNZ announced that its latest survey showed nearly two-thirds of New Zealanders used cash for everyday purchases. While that figure is in decline, cash "is increasingly important for many of us during times of uncertainty", the RBNZ noted, with a rising percentage keeping cash stored away (increasing from 37 to 46 per cent in 2017-21). However, "Our latest survey suggests cash users are finding it more difficult to find places to deposit cash, while ATMs and supermarkets are the main source of withdrawals.

"Having cash available, accepted in store, and readily deposited are key to both well-functioning local economies and communities where everyone is included. Closing bank branches, fewer ATMs, and reduced or removed cash services offered by banks contribute to falling use and difficulties. We are currently consulting on ways to improve the cash system and support cash use and acceptance."

The general welfare, or common good, is protected by the constitutions of many nations and even some central bank mandates, such as that of the Reserve Bank of Australia, which says the bank must act to uphold "the economic prosperity and welfare of the people of Australia". Protecting cash access is prerequisite to protecting *all citizens*, at all times, so they can access vital services under virtually any circumstances.

This necessity is being increasingly acknowledged across the world. Under its direct democracy system, Switzerland will soon hold a referendum on cash use (date to be determined), after the Swiss Freedom Movement collected the requisite 100,000 signatures to convene a national vote to protect cash use and enshrine its widespread availability into law.

Similar moves have been made, or are underway, in the UK, and Nordic states Finland, Norway and Sweden. In Finland the central bank has initiated legislation to protect cash usage. The head of the Payment Systems Department of the bank had insisted that cash plays a vital role, especially during a crisis or disruption such as a cyber-attack. In Norway, the government intervened to force the big banks to support the use of cash. In Sweden, legal measures requiring banks to provide access to cash have been introduced. Britain is considering legislation to give the Bank of England oversight of the wholesale cash network in the same way as New Zealand is considering. ("Europe scrambles to keep cash option", AAS, 26 Oct. 2022)