

Zur stabilisierenden Wirkung von Bargeld in Krisenzeiten

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The USP's of cash

- ✓ **anonymity** in use,
- ✓ **safe haven** in crisis periods,
- ✓ central bank money and therefore mostly trustworthy,
- ✓ no need for further involvement of service providers,
- ✓ offline payment medium,
- ✓ can be used for both small and large payments,
- ✓ **simple**, convenient and quick,
- ✓ definitive and final payment,
- ✓ **financial and payments inclusion**,
- ✓ overview and control of spending,
- ✓ relatively secure against counterfeiting,
- ✓ **cash** is much more than **payments**.

There is **no perfect digital/ electronic substitute for cash!**

From microeconomics to macroeconomics: Consequences of a monetary contraction

1. Lessons from the Great Depression (1929 – 1933)

Index of All Common Stock Prices in the US



Stock market
crash in 1929

Passive monetary policy by the FED contributed heavily to the Great Depression (Friedman & Schwartz 1963):

Federal Reserve Discount Rates New York in %



Interest rate increase during the crisis!

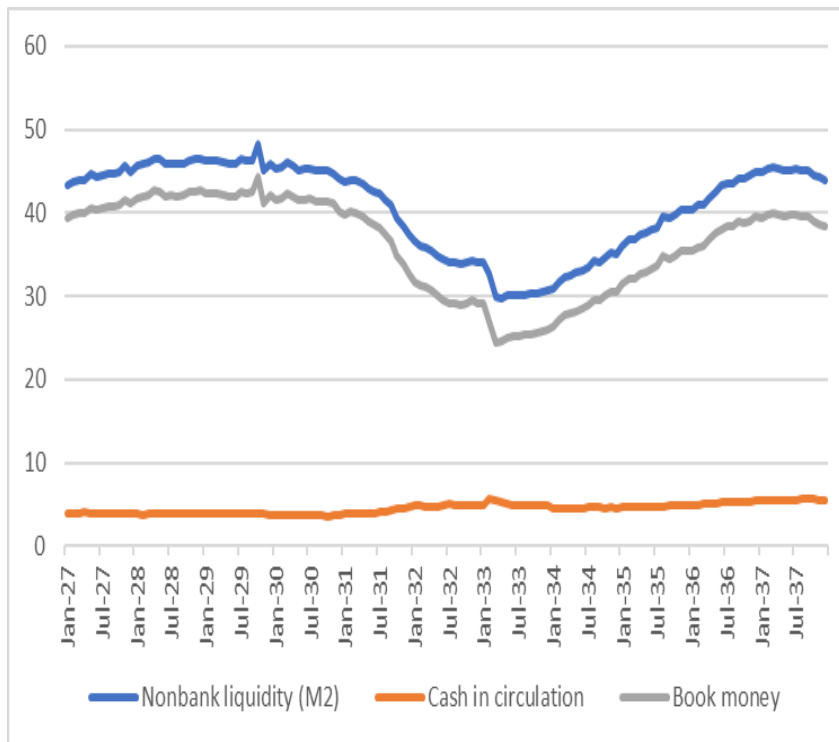
Reserves of US commercial banks with the FED in USD bn



Liquidity provision for US banks:
Too little, too late

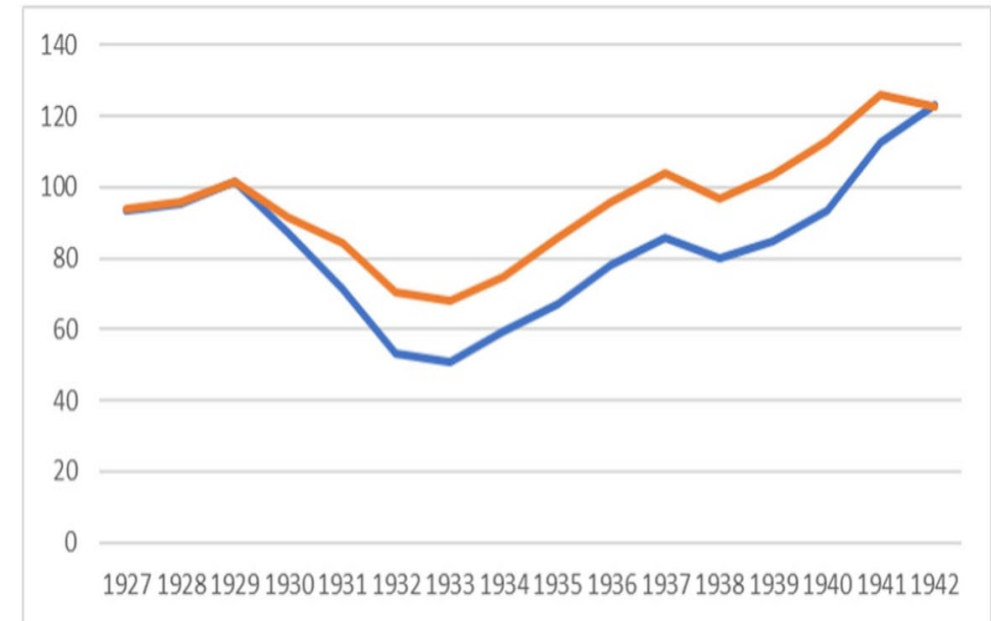
Devastating consequences for US money stock and real economy!

Nonbank liquidity (M2), book money and cash held by nonbanks in the US (USD bn)



US money stock declined by 33%

Nominal and **real** Gross National Product (GNP) in the US

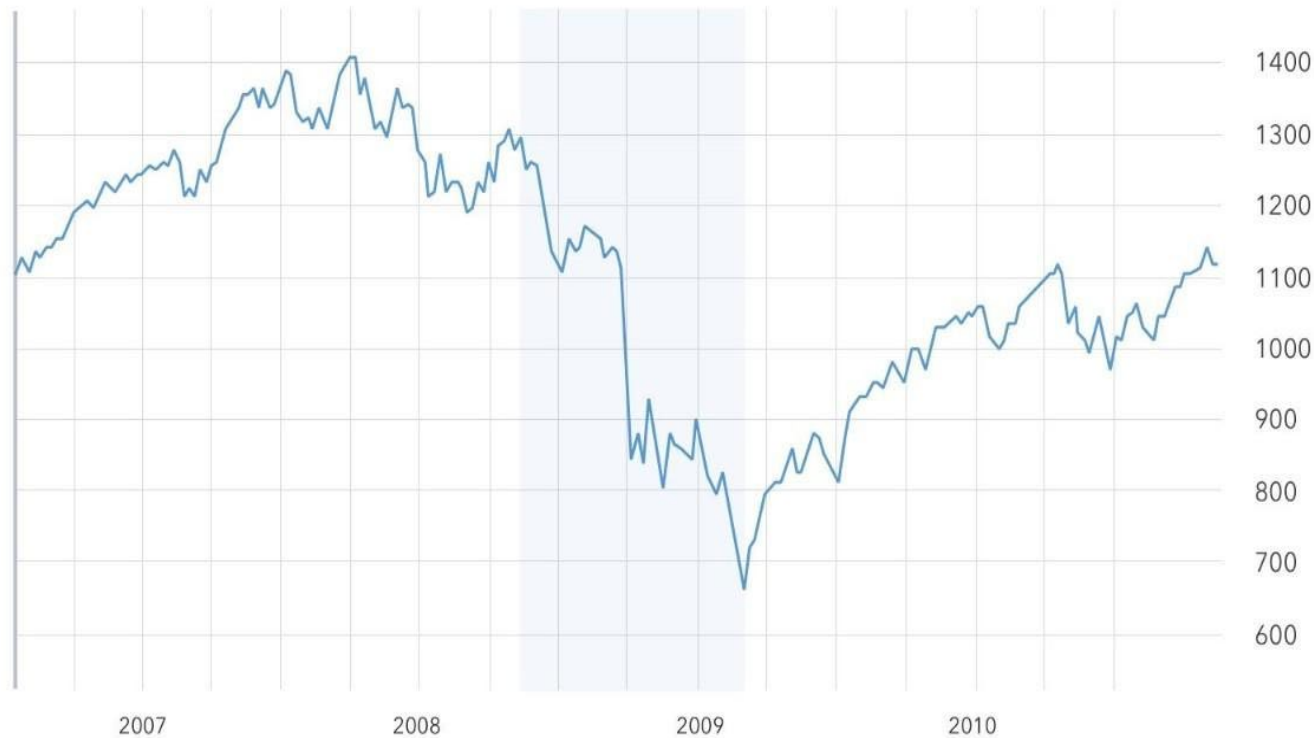


Real GNP declined by 33%

2. Great Recession 2008/9 – major mistakes not repeated



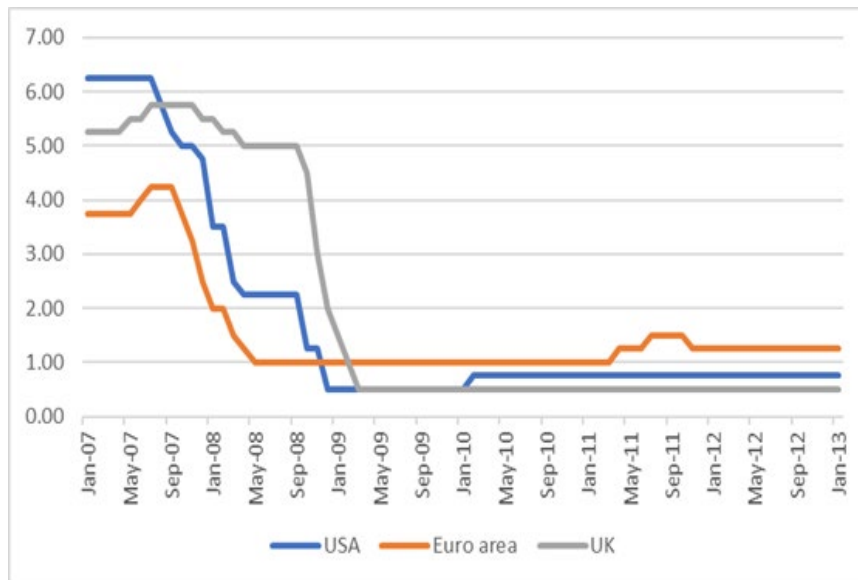
Dow Jones Industrial Average, 2008



Stock market
crash in 2008

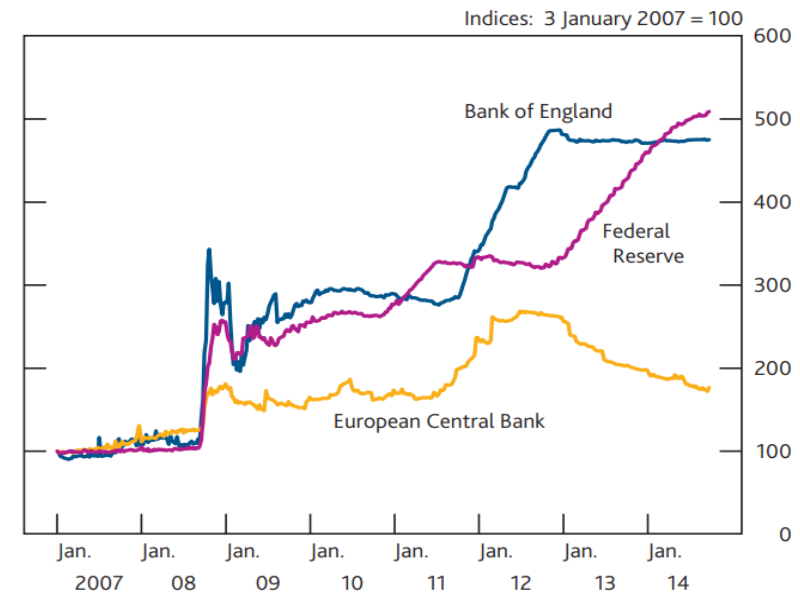
Active monetary policy worldwide contributed heavily to the quick economic recovery process

Central bank interest rates (%) in major currency areas



Deep and quick cuts in interest rates

Growth in central bank balance sheets in the US, Euro area and UK

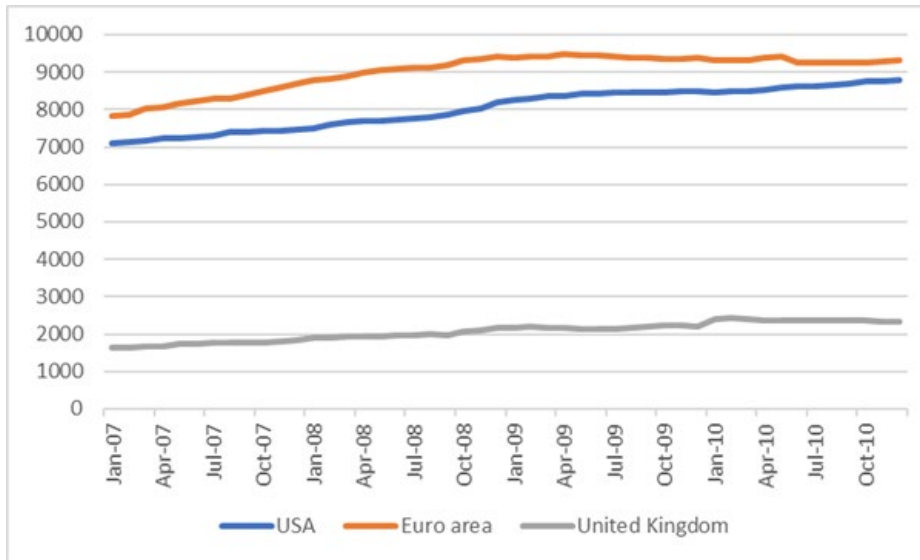


Sources: Bank of England, ECB and US Federal Reserve.

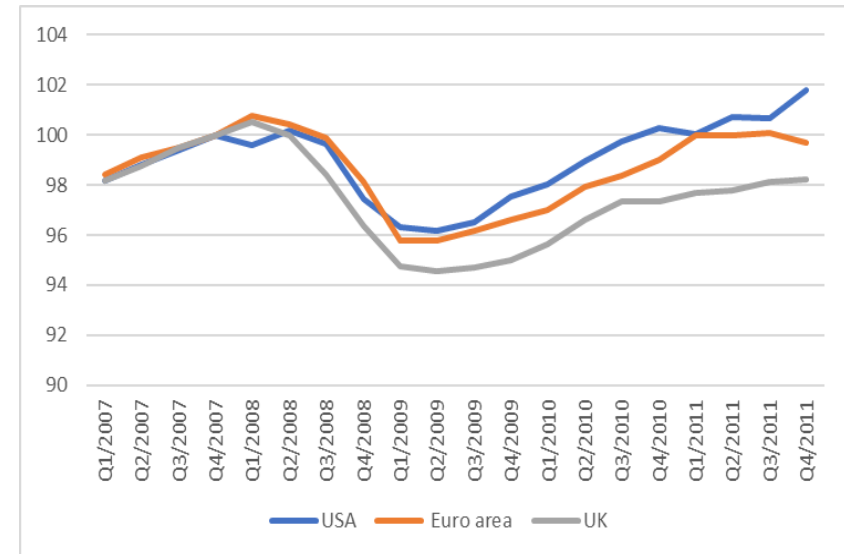
Ample liquidity provision for banks worldwide

Money stock continued to increase and accelerated the economic recovery

Nonbank liquidity for different currency areas in national currency bn



Real GDP in major currency areas



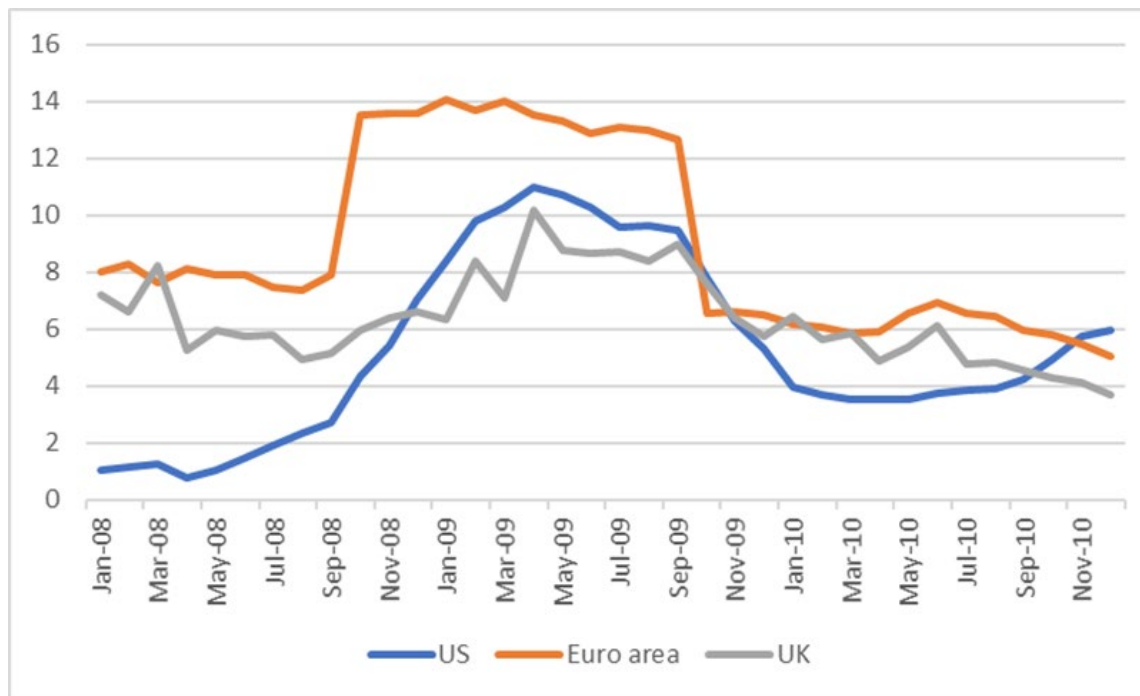
Money stock did not decrease in major currency areas

Real GDP declined only by roughly 5% in US, Euro area and UK

On the stabilizing role of cash

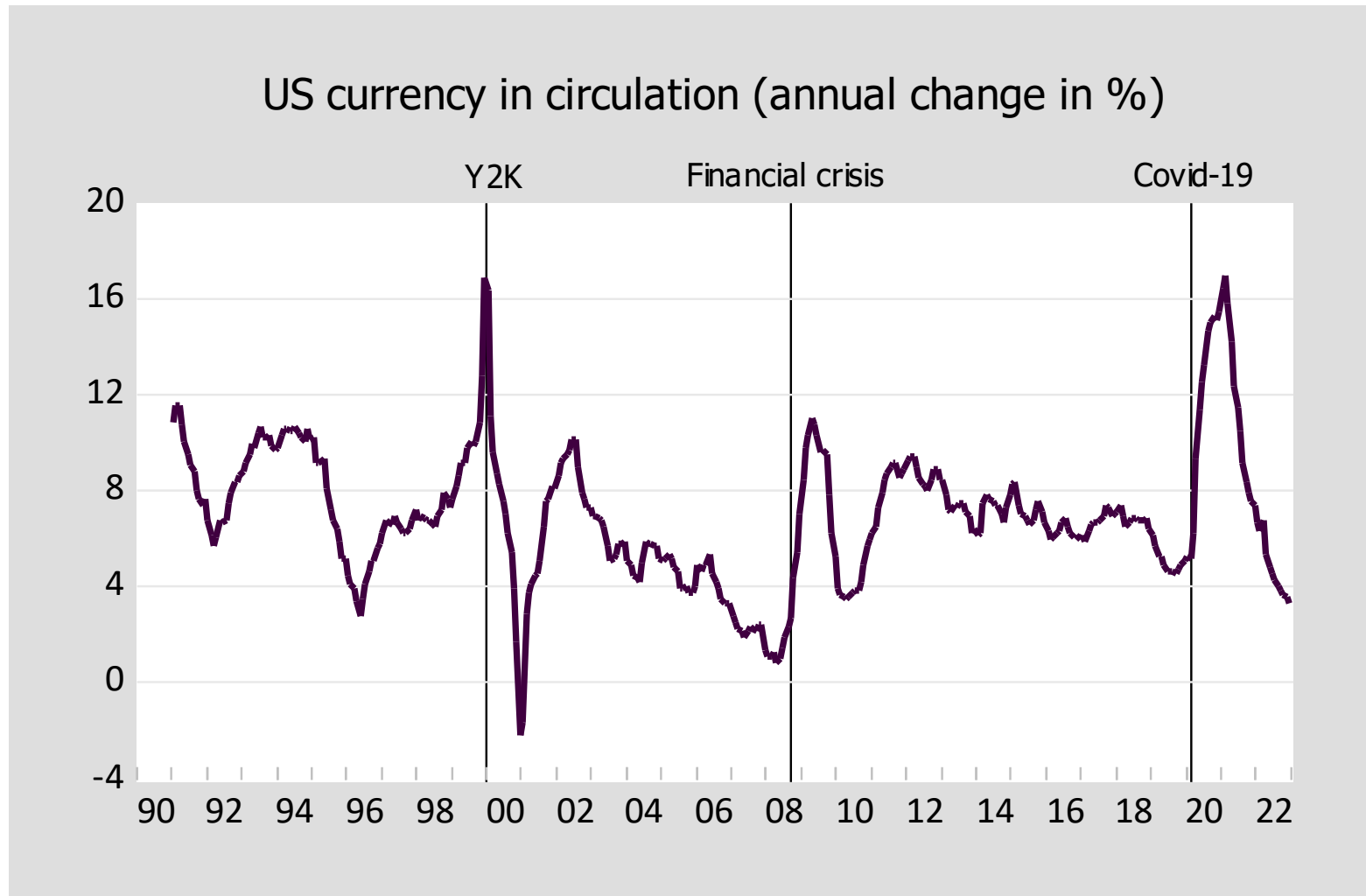
How did the central banks avoid a decrease in the money stock in the economy?

Annual growth rates of cash in circulation in major currency areas in %



Central banks provided cash in a perfectly elastic way!

A strategy that always works in times of crisis, see, e.g., the case of the US



Domestic demand for **domestic cash** in times of uncertainty

		Domestic demand for domestic cash as a	
		means of payment	store-of-value
Uncertainty of digital infrastructure		+	++
Confidence crisis of financial system		+	++
Natural disasters		++	+
Political uncertainty		+	++
Inflationary crises	considerable	++	--
	hyper	--	

Literature survey and case studies show **enormous heterogeneity in domestic demand for domestic cash during periods of uncertainty**

Notes: ++ = strong increase in demand; + = perceptible increase in demand; - = perceptible decrease in demand; -- = strong decrease in demand

Importing stability – domestic demand for foreign cash

Types of uncertainty		Domestic demand for foreign cash as a	
		means of payment	store-of-value
Digital infrastructure uncertainty		0	0
Confidence crisis of financial system		+	++
Natural disasters		0	+
Political uncertainty		+	++
Inflationary crises	considerable	+	++
	hyper	++	

Notes: ++ = strong increase in demand; + = perceptible increase in demand; 0 = demand not affected/negligible; - = perceptible decrease in demand; -- = strong decrease in demand

In times of uncertainty, foreign cash stabilizes domestic...

- inflation
- economic growth
- payment infrastructure
- savings (especially of the poor)

Channels

- ✓ private travel,
- ✓ cash remittances,
- ✓ international banknote shipments

Implications for cash supply

- **Governments** should ensure a proper **cash infrastructure**
- Central banks should **stockpile sufficient cash to meet crises**
- Central banks should always **provide cash** in a **perfectly elastic way**
- Central banks should also be willing to **meet foreign demand for domestic cash**
- **Seigniorage** from foreign cash demand is **well earned** due to stability export

Summary and conclusions

- Cash has its own **unique characteristics** which gain importance especially during times of uncertainty and crises
- Cash always **stabilizes** and leads to a more **resilient** economy, but the type of crisis determines if this role is exerted by domestic or foreign cash
- Cash acts as a **public insurance** the central banks pay out if the overall situation becomes dire
- Consequently, an **efficient payment mix necessarily includes cash**
- Cash is part of successful **crisis management** as it is the **physical** form of the **safest** asset in a currency area

References

- Rösl, G. & F. Seitz (2022), On the Stabilizing Role of Cash for Societies, IMFS Working Papers, No. 167, June.
- Rösl, G. & F. Seitz (2022), Cash Demand in Times of Crisis, Journal of Payment Systems & Strategies, Vol. 16(2), 107-119.
- Rösl, G. & F. Seitz (2023), Uncertainty, Politics, and Crises: The case for cash, Discussion Paper, June, forthcoming.