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Limiting the Use of Cash for Big Purchases

Assessing the Case for Uniform Cash Thresholds

**Peter Sands, Haylea Campbell, Tom Keatinge
and Ben Weisman**

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Royal United Services Institute
for Defence and Security Studies



Occasional Paper

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Executive Summary

FOR ALL THE hype about electronic payment systems, cash remains by far the world's most popular financial transaction mechanism. However, over the past year there has been an intensification of the discussion about the role of cash in society. Cash has great advantages: it is familiar; simple to use; and ubiquitously accepted. But cash also has downsides: as cash transactions leave no record, cash plays a critical role in money laundering, tax evasion and terrorist financing.

The purpose of this paper is to provide a critical assessment of the case for cash thresholds – legal limits on the size of transaction for which cash can be used – and to evaluate whether such thresholds should be set at a uniform level across countries. This is a live policy debate within the EU. Some member states, such as France, Belgium and Italy, have already introduced cash thresholds at levels between €1,000 and €15,000. In others, such as Germany, the idea has triggered fierce opposition.

Thus far, the arguments for such legislation, at least at EU level, have largely been framed within the broader objective of implementing a common counterterrorist financing strategy.¹ The arguments against have typically focused on the infringement of privacy and individual liberty and the belief that such thresholds are a step towards eliminating cash altogether. Yet there has not been much considered assessment of the arguments for and against cash thresholds that looks more broadly at the potential impact of such thresholds on tax evasion and financial crime and the possible disruption of legitimate economic activity.

Key Findings

- **There is a robust underlying logic for why cash thresholds should have a beneficial impact in curbing the illicit use of cash.** This is despite the lack of hard empirical evidence that cash thresholds are effective in deterring financial crime. Criminals like to use cash because it is so widely accepted, anonymous and virtually impossible to track. Cash thresholds make it harder to move large volumes of money into or out of the legal economy.
- **Cash thresholds are likely to have most impact on tax evasion and money laundering connected to organised crime, but relatively limited direct impact on terrorist finance or petty crime.** Cash thresholds make it harder to avoid taxes on high-value purchases. Cash-based tax evasion, through avoiding VAT or sales taxes, and under-reporting profits, is the largest source of tax evasion in most countries. Cash thresholds also make it much harder and more expensive to launder the cash proceeds of organised crime.

1. European Commission, 'Communication from the Commission to the European Parliament and the Council on an Action Plan for Strengthening the Fight against Terrorist Financing', COM(2016) 50 final, 2 February 2016.

Criminals can break up large sums into many smaller transactions (known as ‘smurfing’), but this is more costly and slower. Cash thresholds would have limited direct impact on terrorist operations as these typically involve relatively low-value financial transactions. However, to the extent that cash thresholds impede organised crime, such measures could conceivably help undermine the financing of those terrorist networks dependent on such funding.

- **There appear to be limited downsides to implementing cash thresholds in terms of the impact on legitimate economic activity or concerns about individual privacy.** The overwhelming majority of legitimate cash transactions are below the levels at which cash thresholds would be imposed. High-value cash transactions that are not motivated by illegal purpose appear to be rare and only relevant to a small, wealthy proportion of the population. Privacy concerns, while legitimate, seem of less relevance to high-value transactions, since a large proportion of transactions of this magnitude require some recording of personal details.
- **Cash thresholds appear to be an attractive policy option for curtailing the illicit use of cash with limited adverse effects or implementation risks.** Thresholds need to be set at a level well above the purchase price of most consumer durables, but low enough to capture the purchase of vehicles and luxury items. This should have an impact on money laundering and tax evasion with little inconvenience to law-abiding citizens.
- **There is a compelling case for setting such thresholds at a similar level in a common currency area, such as the Eurozone, but a much weaker case across countries with different currencies.** There is evidence that the imposition of cash thresholds in specific Eurozone countries has driven money laundering transactions into neighbouring countries.
- **It should be possible to generate better evidence of the impact of cash thresholds,** particularly if tracking measures are established as part of the threshold implementation. For example, analysis of VAT returns of sectors involved in high-value transactions before and after the imposition of thresholds could provide insights into the impact on tax evasion and money laundering.

Recommendations

- The EU should pursue the introduction of a maximum uniform cash threshold, at least within the Eurozone. Although setting the initial level of this maximum threshold is not a precise science, a limit in the €3,000–€4,000 range seems not unreasonable.
- Other countries should consider the introduction of cash thresholds at equivalent levels as a complement to existing measures to combat financial crime.
- The Financial Action Task Force (FATF) should encourage consideration of cash thresholds among its members, facilitating the transfer of best practices in implementation and impact analysis.

Introduction

THE DEBATE SURROUNDING the move towards an increase in digital payments generates strong feelings, to the extent that it is sometimes depicted as a ‘war on cash’.¹ Some decry moves to curtail cash usage as an unwarranted encroachment on individual liberty and a manifestation of an over-reaching state, while others see physical cash as a costly remnant of a pre-digital age that should be eliminated as soon as is feasible. Yet it is also possible to hold a position between these extremes: acknowledging the continued value of cash in modern society while seeking ways to curb its misuse.

In 2016, a number of policy initiatives aimed at curbing the illicit use of cash were introduced. For example, the European Central Bank (ECB) decided to stop issuing the €500 note due to concerns about its role in illicit finance. India implemented a radical ‘demonetisation’ strategy, abolishing the INR 500 (approximately £6) and INR 1,000 notes in an effort to tackle the scourge of ‘black money’. Various governments promoted innovative digital payments systems to replace cash, accelerate financial inclusion and reduce benefit fraud.

One less dramatic innovation that has been gradually gaining favour in Europe and a few countries elsewhere is the notion of cash thresholds: legal limits on the size of transaction for which cash can be used. Proponents of cash thresholds see them as a way to constrain the worst abuses of cash for illegal purposes, while causing minimum inconvenience to legitimate users. The logic is that almost all legal use of cash involves relatively small transaction values, while a high proportion of large-value transactions conducted in cash are connected to money laundering, tax evasion or other illegal activities. Thresholds are therefore seen as a way of making cash less useful to criminals, without reducing its value to law-abiding citizens.

The purpose of this paper is to provide a critical assessment of the case for cash thresholds. The approach has involved: an in-depth literature review of papers and reports from academics, governmental bodies, law enforcement agencies, think tanks and NGOs; analyses of available data sources, such as payment diaries (surveys based on individuals recording their payment behaviour in detail over a period of time); and interviews with policy experts in governments, central banks, law enforcement agencies and academia.

The paper is divided into five chapters. Chapter I provides a summary of the role of cash in financial crime as an enabler of tax evasion, corruption, terrorist finance and money laundering. Chapter II provides context for cash thresholds by outlining the policy options that can curtail the illicit use of cash. Chapter III provides an overview of the current status of cash thresholds in Europe while Chapter IV describes the current status of cash thresholds elsewhere in the world. Chapter V provides an assessment of the case for uniform cash thresholds.

1. Jeff Desjardins, ‘Governments Have Declared a War on Cash’, *Business Insider UK*, 19 January 2017; Brett Scott, ‘The War on Cash’, *The Long+Short*, 19 August 2016.

I. The Role of Cash in Financial Crime

DESPITE THE ADVANCES in electronic payments, cash continues to play a highly important role in facilitating legitimate economic activity. It is still by far the dominant payment mechanism as measured by number of transactions, if not by value.¹ However, there is also clear evidence that cash remains the vehicle of choice for criminals laundering money domestically, regionally and internationally; that cash payments are a primary mechanism of tax evasion; and that cash plays a key role in terrorist finance.² This should come as no surprise. From a criminal perspective, cash offers an unbeatable set of attributes. As Peter Sands and colleagues and Kenneth Rogoff describe in two 2016 publications, the fact that cash transactions are universally accepted, irreversible, anonymous and leave no transaction record make them superior not only to all types of bank transactions, such as credit cards or wire transfers, but also to Bitcoin and gold.³ Table 1, on the next page, compares the key attributes of payment options from a criminal's perspective.

The advantages of cash from a criminal perspective are well described in Europol's report, *Why is Cash Still King?*, published in 2015 and arguably the most authoritative law enforcement literature on how criminal groups use cash to facilitate money laundering, both in Europe and globally.⁴ Europol's report succinctly explains the link between crime and cash, stating that 'cash in itself is not a method of laundering the proceeds of crime, nor is it an illegal commodity; rather it is an entirely legal facilitator which enables criminals to inject illegal proceeds into the legal economy with far fewer risks of detection than other systems'.⁵ The anonymity of cash and the fact that it leaves no transaction record are key to the widespread use of cash in money laundering. As Europol's most recent Serious and Organised Crime Threat Assessment states, cash smuggling is still identified as one of the main ways in which money is laundered in Europe.⁶

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1. John Bagnall et al., *Consumer Cash Usage: A Cross-Country Comparison with Payment Diary Survey Data*, European Central Bank Working Paper Series No. 1685 (Frankfurt: European Central Bank, 2014).
 2. European Commission, 'Communication from the Commission to the European Parliament and the Council on an Action Plan for Strengthening the Fight against Terrorist Financing', COM(2016) 50 final, 2 February 2016.
 3. Peter Sands et al., 'Making it Harder for the Bad Guys: The Case for Eliminating High Denomination Notes', Mossavar-Rahmani Center for Business and Government M-RCGB Associate Working Paper Series (No. 52), February 2016, p. 3; Kenneth S Rogoff, *The Curse of Cash* (Princeton, NJ: Princeton University Press, 2016).
 4. Europol, *Why is Cash Still King? A Strategic Report on the Use of Cash by Criminal Groups as a Facilitator for Money Laundering* (The Hague: European Police Office, 2015).
 5. *Ibid.*, p. 9.
 6. Europol, *European Union Serious and Organised Crime Threat Assessment: Crime in the Age of Technology* (The Hague: European Police Office, 2017), p. 19.

Table 1: Attributes of Payment Mechanisms from a Criminal Perspective

	Payor/Payee Anonymity	Lack of Traceability	Ubiquity of Acceptance	Immediacy of Value Transfer	Irreversibility of Value Transfer	Value Constancy	Transaction Cost/Spread	Physical Convenience
Bank Transfer	No	No	Needs payor and payee to have bank accounts	Typically 1–3 days	No	High	Variable	Yes
Non Bank Wire Transfer	No	No	Through agent	Increasingly real time	Sometimes	High	Variable	Yes
Bitcoin	Yes	No	Very limited	Instant	Yes	Extremely volatile	Extremely low	Yes
Gold	Yes	Yes	Limited	Yes	Yes	Volatile	High	Heavy and bulky
Diamonds	Yes	Yes	Very Limited	Yes	Yes	Volatile	Very high	Very compact
Cash	Yes	Yes	Accepted everywhere	Yes	Yes	High	Low	Can be heavy and bulky for large values

Source: Sands et al., 'Making it Harder for the Bad Guys', p. 10.

The Financial Action Task Force (FATF) is the global standard-setter on anti-money laundering and counterterrorist financing (AML/CTF). In its October 2015 report, 'Money Laundering Through the Physical Transportation of Cash', FATF acknowledges that cash is 'still the preferred method of settlement for goods and services for billions of people in the world today'.⁷ FATF notes that these transactions are for the most part legitimate, and that people like to use cash for many reasons, ranging from ease of use and universal acceptance to cultural considerations and weaknesses in the banking infrastructure in some countries.⁸

However, like Europol, FATF also highlights the role of cash in money laundering. FATF estimates the amount of money laundered annually through the smuggling of cash across international borders to be 'between hundreds of billions and a trillion US dollars per year'.⁹ To put this figure in perspective, the total value of cash outstanding in the world amounts to about \$4 trillion.¹⁰ If this estimate is correct, despite widespread legitimate use, a significant proportion of the world's physical cash, and particularly of high-denomination bank notes, is being used for illicit purposes.

Much of the recent focus on illicit financial flows in Europe has been on terrorist finance. In its Action Plan, the European Commission notes the use of cash in terrorist financing.¹¹ Cash plays a role in funding terrorist operations, where anonymity and the lack of a transaction record help terrorists evade detection. Cash also plays a role in organised crime activities – such as participation in drug and human trafficking – and secret donations that fund terrorist organisations.

Less prominent in the political debates about cash, but of huge relevance to governments' fiscal positions, is its role in tax evasion. In most countries, cash-based tax evasion is a primary driver of the 'tax gap' – the difference between the tax flows the system should theoretically yield versus what the government actually receives. For example, in the EU, lost tax revenues from VAT evasion amount to almost €160 billion per year.¹² Much of this is through customers paying for goods and services in cash, which is often either unreported or under-reported. Evidence suggests that smaller businesses in both the US and Europe, and even more in the developing world, under-report a significant proportion of their cash revenues in order to avoid VAT or sales taxes and to understate profits and reduce corporate tax.¹³ Payment of wages in cash also enables employers to avoid social insurance charges and employees to avoid income

7. Financial Action Task Force (FATF), OECD and the Middle East and North Africa Financial Action Task Force (MENAFATF), 'Money Laundering Through the Physical Transportation of Cash', FATF Report, October 2015, p. 8.

8. *Ibid.*

9. *Ibid.*, p. 3.

10. *Ibid.*

11. European Commission, 'Communication from the Commission to the European Parliament and the Council on an Action Plan for Strengthening the Fight against Terrorist Financing'.

12. European Commission, 'Study and Reports on the VAT Gap in the EU-28 Member States: 2016 Final Report', TAXUD/2015/CC/131, 23 August 2016, p. 8.

13. See, for example, Susan Cleary Morse, Stewart Karlinsky and Joseph Bankman, 'Cash Businesses and Tax Evasion', *Stanford Law and Policy Review* (Vol. 20, No. 1, 2009).

tax.¹⁴ Unsurprisingly, when the US Internal Revenue Service sought to improve tax compliance through more extensive auditing, they primarily targeted ‘self-employed workers who deal largely in cash’, even when the overall focus was on higher-income individuals.¹⁵

Some would argue that the huge social benefits that cash provides in facilitating everyday economic activities in the legitimate economy overwhelm the negatives of cash, in terms of its role in enabling illicit activities, such as money laundering, terrorist financing and tax evasion. The argument is that proposals to eliminate or even reduce the use of cash are misplaced. Yet this perspective misses a crucial difference between the legal and illegal uses of cash. While there are differences between countries, reflecting history and cultural traditions, payment diaries and surveys conducted by central banks indicate that law-abiding citizens almost always use cash for smaller transactions. And as transaction values increase, law-abiding citizens are increasingly switching to other payment mechanisms, such as credit and debit cards, cheques and bank transfers. In most countries, the majority of people would make large transactions (for example, more than €1,000) using a non-cash payments instrument.¹⁶ Similarly, most people hold their savings not in cash but in bank accounts or forms of mutual funds.

By contrast, criminals hold, move and transact large volumes of cash. Of course, much petty illegal activity is conducted in cash, such as small bribes and the under-reporting of tips, but criminals also use cash for large transactions and to hoard and move illicit gains. As countries continue to strengthen AML policies for the banking sector, many criminals are finding it increasingly difficult to effectively launder the proceeds from crime through the formal banking sector and with the help of professional enablers. Purchases of high-value goods using cash offer criminals the ability to integrate cash into the legitimate economy without raising AML flags. This is why high-denomination bank notes are disproportionately used for illegal activities and why a significant share of high-value cash transactions is likely to be connected to illicit activity.

Given this skew in usage patterns, it seems logical to focus efforts to curb the illicit use of cash on measures that make it harder to move, store and transact large volumes of cash. Eliminating high-denomination notes or imposing cash thresholds make it more difficult for criminals to use cash to conceal the movement or payment of large amounts of money, while minimising the impact on the legitimate use of cash.

14. Abbi M Kedir, Meryem Duygun Fethi and Colin C Williams, ‘Evaluating Tax Evasion in the European Union: A Case Study of the Prevalence and Character of “Envelope Wage” Payments’, University of Leicester, Department of Economics, Working Paper No. 11/33, June 2011.

15. Tom Herman and Rachel Emma Silverman, ‘IRS to Increase Audits Next Year’, *Wall Street Journal*, 23 November 2005.

16. Bagnall et al., *Consumer Cash Usage*.

II. Policy Options to Curb the Illicit Use of Cash

TO ASSESS THE case for cash thresholds, it makes sense to examine other policy options. Recent measures taken to curtail the illicit use of cash largely reflect this focus on high-value transactions and the movement and storage of large volumes of cash.

Eliminating High-Denomination Notes

In May 2016, the ECB announced that the €500 note would no longer be issued from the end of 2018, due to ‘concerns that [this] banknote could facilitate illicit activities’.¹ The impetus for this decision sprang from the intense desire within the EU to take decisive action on terrorist financing following the Paris attacks in 2015. The logic of ending the production of high-denomination notes such as the €500 was set out by Peter Sands and colleagues in February 2016 and was strongly supported by Europol.² The essence of the argument was that high-denomination notes are increasingly rarely used for legitimate purposes, yet are heavily used by criminals, since they enable large sums of cash to be moved, stored and transacted covertly. Although it is not the highest value bank note in the world (Singapore’s SGD 5,000 note (approximately £2,900) and Switzerland’s CHF 1,000 note (approximately £810) have higher value), the €500 has by far the largest outstanding stock – worth more than €300 billion – and there is ample evidence of its use in drug trafficking and other crimes.³

It is worth noting that the ECB has adopted a gradual approach to removing the €500 note. Issuance will continue until 2018 and the note will remain legal tender indefinitely. As yet, there appear to be no plans to accelerate withdrawal from circulation of existing stock once issuance ends. Such an approach minimises the risk of inconvenience to legitimate users, but also undermines the disruptive impact on criminal business models.

Imposing Reporting Requirements on Bulk Cash Movements

While relatively few countries have introduced cash thresholds, many have well-established reporting requirements for cash transactions of certain types and values. Some countries have thresholds that apply only to transactions conducted with financial institutions, whereas others address high-value purchases from retailers and other businesses. Such reporting requirements

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1. European Central Bank (ECB), ‘ECB Ends Production and Issuance of €500 Banknote’, press release, 4 May 2016.
 2. Ben McLannahan, ‘Ban high-denomination notes to cut crime, says ex-bank chief’, *Financial Times*, 7 February 2016.
 3. See Melvin Soudijn and Peter Reuter, ‘Cash and Carry: The High Cost of Currency Smuggling in the Drug Trade’, *Crime, Law and Social Change* (Vol. 66, No. 3, July 2016), pp. 271–90.

have a dual purpose: first, they provide a record of such transactions to financial intelligence units (FIUs) and other law enforcement agencies; and second, by the very fact of requiring such a record, they make it more difficult for criminals to launder cash.

There are well-established mechanisms requiring the declaring and reporting of large cross-border flows of cash. In the Eurozone, €10,000 or equivalent must be declared when leaving or entering, and elsewhere in the world the threshold is typically the equivalent of \$10,000. However, the efficacy of such reporting requirements can be questioned for two reasons: first, huge volumes of cross-border cash smuggling continues undeclared; and second, even when declarations are made, and reports filed, there is usually little action. This is partly because, in some jurisdictions, there is no legal basis for further investigation, and partly because of the sheer volume of such reports. In the US, for example, the Financial Crimes Enforcement Network (FinCEN) received almost 16 million reports on cash transactions over \$10,000 in 2006.⁴ FIUs such as FinCEN struggle to process such volumes. Moreover, most FIUs are designed to assist in criminal investigations, but not to conduct investigations themselves. In the case of FinCEN, reports are received and processed, but there is no capacity to investigate until they are approached by another law enforcement agency, such as the FBI.⁵ In addition to the overwhelming volume of reports, there is also the problem that there is nothing inherently illegal about using significant amounts of cash. Thus, were law enforcement and tax agencies to seek to build criminal cases on currency transaction reports, they would need much more information than is typically given on such a report.

Reporting requirements for large-volume domestic cash transactions vary by jurisdiction. In some countries, companies using large volumes of cash are designated High Value Dealers (HVD) and are subject to specific reporting requirements. Such regulations vary in scope and efficacy. For example, in the UK, any business that accepts cash payments of more than €10,000 must register as an HVD and carry out AML checks.⁶ However, the UK government's *National Risk Assessment of Money Laundering and Terrorist Financing* suggests that the true number of businesses accepting payments of more than €15,000 is higher than the number of businesses that have registered.⁷ A November 2015 Transparency International report examined the UK's AML regime and specifically highlighted the luxury goods sector and HVDs as an area of weakness.⁸ The luxury goods sector submits a remarkably low number of Suspicious Activity Reports to authorities.⁹ In the EU, the Fourth Anti-Money Laundering Directive requires those

4. US Congress, House Committee on Financial Services, 'Suspicious Activity and Currency Transaction Reports: Balancing Law Enforcement Utility and Regulatory Requirements', 110-30, 10 May 2007.

5. *Ibid.*

6. 'The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (UK)', s.27(3).

7. HM Treasury and Home Office, *UK National Risk Assessment of Money Laundering and Terrorist Financing* (London: The Stationery Office, 2015), p. 59.

8. Transparency International UK, *Don't Look Won't Find: Weaknesses in the Supervision of the UK's Anti-Money Laundering Rules* (London: Transparency International UK, 2015), pp. 57–58.

9. *Ibid.*

receiving €10,000 or more to declare the transaction,¹⁰ with the logic that large cash payments are ‘highly vulnerable to money laundering and terrorist financing’.¹¹

Banks are also required to identify suspicious cash transactions, such as repeated large-volume deposits or withdrawals, using sophisticated transaction surveillance systems to generate alerts. Where further investigation suggests an alerted transaction could be linked to money laundering, the bank is obliged to file a Suspicious Transaction Report (STR). Although STRs can yield valuable intelligence, it is widely recognised that this system is fairly ineffective. There are two fundamental problems. First, the sheer volume of alerts and STRs overwhelms the capacity of law enforcement agencies, and as a result most STRs are not investigated. Second, STRs are generated from the transaction data of individual banks, rather than from data pooled across banks, but sophisticated criminals disperse their transactions across multiple banks to avoid arousing suspicion. These problems are particularly acute with cash transactions because it is impossible to piece together the trail of transactional activity, unlike with transactions through bank accounts.

Promoting Electronic Alternatives to Cash

Alongside measures to constrain the use of cash, many countries have actively supported the development of electronic alternatives, such as contactless cards, mobile payment systems, or electronic benefit disbursement schemes. By actively promoting alternatives to cash, governments reduce the appeal of paper currency and bolster financial inclusion to minimise the potential negative effects of policies that reduce the value of cash to criminals. Many national and local governments now provide transfer payments to citizens exclusively through electronic means, with some, such as Denmark, providing free bank accounts and debit cards to ensure low-income households without bank accounts are able to access their funds.

Sweden has arguably done more than any other country to encourage the adoption of electronic alternatives to cash. Sweden has one of the lowest levels of cash outstanding relative to GDP (at 1.73%, compared with 10.63% for the Eurozone and 7.9% for the US) and cash usage is declining as consumers and businesses increasingly use electronic alternatives for all types and sizes of payments.¹² The Riksbank, Sweden’s central bank, announced in November 2016 that it hopes to be the first major central bank in the world to launch its own digital currency, the *ekroner*.¹³ After eliminating Sweden’s highest-denomination note (1,000 krona, worth approximately £94),

10. Council of the European Union, ‘Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the Prevention of the Use of the Financial System for the Purposes of Money Laundering or Terrorist Financing, Amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and Repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC’, *Official Journal of the European Union* (L 141/72, 5 June 2015).

11. *Ibid.*, (6).

12. Deep Narayan Mukherjee, ‘Hype Around Cash-To-GDP Ratio Misses Critical Nuances’, *Bloomberg*, 29 December 2016.

13. Charles Duxbury, ‘Sweden’s Central Bank Considers Digital Currency’, *Wall Street Journal*, 16 November 2016.

the government also smoothed the transition to electronic payments through measures such as distributing card-reading devices to churches and homeless people to enable them to receive donations.¹⁴ Denmark has similarly seen demand for cash decline, facilitated in part by the introduction of Mobile Pay, a mobile app that enables Danes to make payments directly to businesses or other individuals quickly and easily from their smartphones.¹⁵

These developments are not limited to highly developed countries. In Kenya it has become the norm to make payments using mobile money. More than two-thirds of the adult population use the M-PESA system, with an annual transaction volume equivalent to 25% of GDP.¹⁶ The suite of demonetisation efforts in India has included measures to promote the opening of bank accounts and has led to a surge in the use of various electronic payment platforms.¹⁷

The aim here is ultimately to render cash unnecessary by ensuring that consumers and businesses have access to a wide range of flexible payment and storage options with minimal transaction costs. Take-up of such systems varies enormously across the globe, reflecting differences in technology, culture and incentives. However, it is increasingly the case that viable electronic alternatives to cash exist in almost all markets, including the developing world.

Pursuing a Multi-Pronged Approach

The most far-reaching of recent initiatives to stop the illicit use of cash and accelerate the switch to electronic payment methods has been India's demonetisation programme, launched in November 2016. This combined the abrupt withdrawal of the INR 500 (approximately £6) and 1,000 notes as legal tender, with the imposition of cash reporting limits, cash thresholds and the accelerated rollout of electronic payment schemes. While it is too early to judge the full impact of these dramatic interventions to tackle 'black money' (funds earned on the black market on which income and other taxes have not been paid), it appears that they have triggered a significant shift towards electronic payment alternatives, but at considerable cost and disruption, particularly for the more impoverished who rely on the informal economy.¹⁸

Both the strategy and execution seem flawed. Removing India's highest-value bank notes, the INR 500 and 1,000 notes only to replace them with a 2,000 rupee note, seems illogical (although it should be noted that these are all relatively low denominations in US dollar terms). One reason cited was the extent of counterfeiting of the existing denominations.¹⁹ The short timeframe leading to the withdrawal may have increased the disruptive impact on those holding illicit proceeds in cash, but when combined with the limited availability of alternatives (other

14. Jon Henley, 'Sweden Leads the Race to Become Cashless Society', *The Guardian*, 4 June 2016.

15. *Ibid.*

16. *The Economist*, 'Why Does Kenya Lead the World in Mobile Money?', 2 March 2015

17. Wade Shepard, 'After Day 50: The Results from India's Demonetization Campaign Are In', *Forbes*, 3 January 2017.

18. Haylea Campbell, 'The Global War on Cash: Another Front in the Fight Against Corruption and Crime', *RUSI Commentary*, 2 December 2016.

19. Sharmad Mahajan, 'India's Fight Against Fake Currency', *The Diplomat*, 15 November 2016.

denominations or electronic methods), plus the lack of preparedness of the banks, the speed of change exacerbated the disruption to normal economic activities as well.

Imposing Cash Thresholds

Set against these policy options, cash thresholds, the subject of this paper, look to be a relatively low-risk yet potentially effective option for constraining illicit cash usage. Cash thresholds are often seen as politically easier to implement than eliminating high-denomination notes, and potentially less disruptive to legitimate cash usage, but more effective than simply imposing incremental reporting requirements on banks or HVDs.

However, despite having been introduced in a few countries in Europe and elsewhere, cash thresholds are often overlooked as a policy option. The next few chapters discuss the current status of cash thresholds in Europe and elsewhere in the world, along with a considered assessment of their merits and of the case for adopting consistent thresholds across countries.

III. Current Status of Cash Thresholds in Europe

TWELVE EU MEMBER states have already implemented cash thresholds at various levels (Table 2). In the wake of recent terrorist attacks, there is increasing discussion about whether a uniform threshold should be imposed across the EU.¹ Europol has recommended that all EU member states consider ‘the introduction of common cash payment thresholds’ to tackle the prevalence of money being laundered through the cash purchase of high-value items.² Europol cites the thresholds enacted by Spain, Italy, Greece and France – which can be seen in Table 2 – as good practice. In a similar vein, the EU Counter Terrorist Finance Action Plan envisages examining the case for EU-wide restrictions on cash payments above a certain amount.³

Table 2: Limits for Cash Payments in the EU

EU Member State	Cash Transaction Limit
Belgium	€3,000
Bulgaria	9,999 Leva (approx. €5,110)
Croatia	€15,000
Czech Republic	CZK 350,000 (approx. €14,000)
France	€1,000 (residents) €10,000 (non-residents)
Greece	€1,500
Italy	€2,999.99
Poland	€15,000
Portugal	€1,000
Romania	RON 10,000 (approx. €2,260)
Slovakia	€15,000
Spain	€2,500 (residents) €15,000 (non-residents)

Source: Europe Consommateurs, ‘Limit for Cash Payments in EU’, <https://www.europe-consommateurs.eu/fileadmin/user_upload/eu-consommateurs/PDFs/PDF_EN/Limit_for_cash_payments_in_EU.pdf>, accessed 24 July 2017.

1. European Commission, ‘Communication from the Commission to the European Parliament and the Council on an Action Plan for Strengthening the Fight against Terrorist Financing’.
2. Europol, *Why is Cash Still King?*, p. 49.
3. European Commission, ‘Communication from the Commission to the European Parliament and the Council on an Action Plan for Strengthening the Fight against Terrorist Financing’.

On 23 January 2017, the European Commission published the ‘Proposal for an EU Initiative on Restrictions on Payments in Cash’,⁴ an initial impact assessment, which positions the matter as a potential legislative initiative that will inform Commission planning in 2018. In setting out this proposal, the Commission argues that the lack of harmonisation across EU member states allows criminals and terrorist financiers ‘to bypass the restrictions by moving to the Member States, which have not introduced any restrictions, while still conducting their illegal activities in the “stricter” Member State’.⁵ While acknowledging that the imposition of a uniform cash threshold would have a potentially disruptive impact on some sectors of the economy, the Commission believes that the potential negatives would be mitigated by the fact that cash usage across Europe is declining as more citizens use non-cash payment mechanisms. According to ECB figures for 2015, each EU inhabitant had an average of 1.5 payment cards and the number of card transactions rose by 11.5% to 53 billion, with a total value of €2.6 trillion.⁶ The Commission also contends that the impact on efforts to combat both money laundering and tax fraud would be positive.⁷

However, any move towards uniform cash thresholds in the EU would need to overcome the sharp disparities between member states in usage and attitudes towards cash. These are clearly revealed in the cross-country comparison of payment diary survey data published by the ECB in June 2014.⁸ Although there has been a ‘breathtaking transformation’⁹ in the use of non-cash payment methods across Europe, cash remains heavily used in some countries, such as Austria and Germany, where consumers prefer to use cash across all transaction value quartiles (from low-value to high-value payments), which is in stark contrast to countries like the Netherlands or France.¹⁰

There is significant divergence across EU member states on cash thresholds. In some EU countries, such as France, Belgium, Spain and the Netherlands, cash thresholds appear to be widely accepted and relatively uncontroversial. This is partly because there is widespread adoption of electronic payment instruments, particularly for larger transactions, and partly because of the consensus around the need to take action to counter illicit finance. In others, such as Germany, there is much more debate about them. In some member states, such as the UK, there has scarcely been any debate about the concept. Why this is the case is unclear.

4. European Commission, ‘Inception Impact Assessment: Proposal for an EU Initiative on Restrictions on Payments in Cash’, 23 January 2017.

5. *Ibid.*, p. 2.

6. ECB, ‘Press Release: Payments Statistics for 2015’, press release, 26 September 2016.

7. European Commission, ‘Inception Impact Assessment: Proposal for an EU Initiative on Restrictions on Payments in Cash’, p. 5.

8. Bagnall et al., *Consumer Cash Usage*, p. 47.

9. *Ibid.*, p. 3.

10. *Ibid.*, p. 47.

France

France has been a leader within the EU on many aspects of the debate on actions to constrain the illicit use of cash, with a particular focus on tackling terrorist finance. Following the January 2015 terrorist attack in Paris, France introduced a €1,000 cash threshold, with then Minister of Finance Michel Sapin asserting as the reason that ‘low-cost terrorism feeds on fraud, money laundering and petty trafficking’.¹¹ In order to minimise the potential harm to tourism, from September 2015 the threshold for foreign visitors was set at €10,000 (reduced from €15,000).¹² This is roughly the same amount that the Madrid train bombings in 2004 and the London terrorist attacks in 2005 cost to perpetrate.¹³

Belgium

Belgium introduced a €15,000 cash threshold in January 2004. The level was reduced to €5,000 in April 2012 and to €3,000 in January 2014. However, legal enforcement only began in 2011, and before enforcement the threshold was poorly observed. While there has been no overall assessment of the impact of the threshold, the authorities have seen, through their enforcement activities, many cases of attempts to hide the origin or destination of funds. This includes money laundering, including from the drug trade, tax fraud and trading in stolen jewels.¹⁴ Belgium has also witnessed the diversion of illicit activity to other countries.¹⁵

Germany

Germany, with its historic use of cash at all payment levels and longstanding cultural attachment to its use, has seen perhaps the most vocal opposition to the introduction of cash thresholds within the EU. In February 2016, when the government proposed the introduction of a €5,000 threshold, political parties across the spectrum and the leading German daily, *Bild*, protested against the move.¹⁶ Experts within the country are sceptical of the benefits of such a threshold; the economist Friedrich Schneider of Linz University stated that a ban on cash transactions would reduce illegal labour only by 2–3%.¹⁷

11. Ingrid Melander, ‘France Steps up Monitoring of Cash Payments to Fight “Low-Cost Terrorism”’, *Reuters*, 18 March 2015.

12. *Ibid.*

13. Michael Levi, ‘Combating the Financing of Terrorism: A History and Assessment of the Control of “Threat Finance”’, *British Journal of Criminology* (Vol. 50, No. 4, May 2010)

14. FATF, ‘Anti-Money Laundering and Counter-Terrorist Financing Measures – Belgium’, Mutual Evaluation Report, April 2015, p. 57.

15. Author correspondence with Christian Bourlet, the Director of Direction générale de l’inspection économique – Contrôles services financiers et prévention du blanchiment – Belgium, 7 March 2017.

16. Jason Morris, ‘All Change on Cash? Tackling Money Laundering Through Cash Transaction Limits in Germany’, International Compliance Association, 6 May 2016; *Bild*, ‘Bürger-wut über geplante grenze: Finger weg von unserem Bargeld!’ [‘Citizens’ Fury over Planned Limit: Fingers Off Our Cash!’], 7 February 2016.

17. Philip Oltermann, ‘German Plan to Impose Limit on Cash Transactions Met with Fierce Resistance’, *The Guardian*, 8 February 2016.

More recently, the case for introducing cash thresholds has again arisen; the German Customs Investigation Bureau (GCIB) revealed in a study that the country has become a more popular destination for those seeking to launder money due to cash thresholds elsewhere in Europe.¹⁸ Enforcing a cash threshold is supported by Germany's Federal Minister of Finance, Wolfgang Schäuble, with a spokeswoman for the ministry stating that the recent GCIB study demonstrates that there is a 'suction effect'.¹⁹ Yet while Schäuble is in favour, the issue is far from uncontroversial with other members of his party, the Christian Democratic Union (CDU) and its sister party, the Christian Social Union (CSU). CSU financial policy expert Hans Michelbach has bristled at the idea of being 'patronised by the government' and has referred to the cash limit as 'the stuff of the devil'.²⁰ Such language indicates the intense emotions informing the debate. Many in Germany see restrictions on the use of cash as unwarranted restrictions on individual liberty and the policy objective of shifting transactions to electronic means as dangerously threatening to individual liberty.

Italy

The political dynamics of cash thresholds in Italy offer a striking contrast. In December 2011, then Prime Minister Mario Monti introduced a cash threshold of €1,000, ostensibly to curb tax evasion.²¹ Monti wanted a 'revolution' in the way Italians thought about and conducted cash payments.

However, in 2015, then Prime Minister Matteo Renzi introduced legislation to raise the threshold to €2,999, officially to encourage the use of cash to spur spending during the recession,²² but the move was met with fierce resistance from anti-corruption campaigners.²³ The decision was highly controversial, even within his own government,²⁴ as it was seen as emblematic of the government's declining commitment to combating tax evasion and the informal economy.²⁵

The cash threshold was increased despite indicative evidence that the €1,000 limit was having a beneficial impact on curtailing the illicit use of cash within Italy,²⁶ a country with a much larger underground economy than many of its EU counterparts. Official estimates suggest that Italy's informal economy constitutes about 17% of total GDP²⁷ – in comparison, the estimated size of

18. Frank Drost, 'An El Dorado for Money Launderers', *Handelsblatt Global*, 17 February 2016.

19. *Ibid.*

20. *Ibid.*

21. Alessandra Migliaccio and Sonia Sirletti, 'Italy's Cap on Cash Payments', *Bloomberg Businessweek*, 8 December 2011.

22. *The Economist*, 'Show me the Money'.

23. Andrea Lorenzo Capussela, 'Raising Limits on Cash Payments Sends the Wrong Signal in Italy's Fight Against Corruption', London School of Economics and Political Science, European Politics and Policy blog, 26 November 2015.

24. *The Paypers*, 'Italy: Renzi Raises Cap on Cash Use to EUR 3,000', 15 October 2015.

25. *Ibid.*

26. See Guerino Ardizzi, Pierpaolo De Franceschi and Michele Giamatteo, 'Cash Payment Anomalies and Money Laundering: An Econometric Analysis of Italian Municipalities', Banca d'Italia, January 2016.

27. *Ibid.*, p. 5.

the UK's non-observed economy is 2.3% of GDP; in France it is 6.7% of GDP.²⁸ The Banca d'Italia analysis underscores the role of cash in organised crime and corruption and suggests that the cash threshold has had an impact on syndicate money laundering, reducing the use of high-denomination notes.²⁹

Switzerland

Outside the EU, in January 2016 Switzerland introduced a cash threshold of CHF 100,000 (about £81,000),³⁰ arguably too high to have any impact on combating financial crime. This perhaps reflects Swiss ambivalence about the topic, which is also reflected in continued issuance of the CHF 1,000 note.

Although there are persistent differences in cash usage across Europe, the divergence of attitudes towards cash thresholds appears more a reflection of cultural and historical differences about the role of cash than a reflection of hard facts about the nature of high-value cash transactions. Reflecting on the differences in spending habits of different nations, economist Charles Goodhart emphasises the need to take account of cultural differences, introducing measures like cash thresholds gradually and perhaps initially at a higher level than would be ideal, with a view towards reducing them over time.³¹

28. György Gyomai and Peter van de Ven, 'The Non-Observed Economy in the System of National Accounts', OECD Statistics Brief No. 18, June 2014.

29. Author telephone interview with Guerino Ardizzi (Banca d'Italia), 5 January 2017.

30. Swiss Federal Council, 'Entry into Force of Federal Act for Implementing Revised FATF Recommendations of 2012', 29 April 2015.

31. Author telephone interview with Charles Goodhart, 19 January 2017.

IV. Current Status of Cash Thresholds Elsewhere in the World

OUTSIDE EUROPE, THERE are relatively few examples of countries that have instituted cash transaction thresholds. Jamaica, Mexico, Uruguay and India have mandated hard thresholds on the amount of cash that can be used in certain types of transactions. Israel, Russia and Vietnam have proposed legislation to do the same. Although it is difficult to measure the impact of these measures, these cases – and the debate that has surrounded them – are instructive.

Jamaica

In 2013, Jamaica amended its Proceeds of Crime Act to prohibit cash transactions above JMD \$1 million (approximately £6,000).¹ This limit was selected after a debate in parliament, during which the originally proposed JMD \$500,000 was increased (but not to the alternatively proposed JMD \$2 million) in order to accommodate the alleged day-to-day cash needs of many small and medium-size businesses.² During the debate, the government argued for the need to create a paper trail to facilitate tax collection, as well as to reduce the ability of criminals to transact. The opposition argued that this would force individuals and small businesses to absorb fees for a wide range of bank services, which had previously been avoided by using cash.³ Since this policy was adopted, there have been several cases of individuals prosecuted for violating the threshold, indicating that enforcement is possible, even in relatively less-developed contexts.⁴

Mexico

In 2013, Mexico introduced two thresholds for cash payments: 500,000 pesos (approximately £21,800) for real-estate transactions, and 200,000 pesos for vehicles, luxury goods and lottery tickets.⁵ The law also requires real-estate brokers and other cash recipients to report the form of payment for transactions above the limit to the Specialized Unit in Financial Analysis. This law follows a 2010 limit of about 20,000 pesos on foreign exchange cash transactions, the effects of which were likely limited by both the relative ease with which cash moves across the

1. *Jamaica Star*, 'Legal Eagle: There is a Limit to Cash Transactions', 15 August 2016
2. Alpheia Saunders, 'House Approves Legislation to Place \$1 Million Limit on Cash Transactions', Jamaica Information Service, 17 October 2013.
3. Aubyn Hill, '\$1 Million Is Enough Cash', *Jamaica Gleaner*, 1 November 2013.
4. *Jamaica Gleaner*, 'Men Charged in Cash Transaction Exceeding \$1 Million for Court Next Month', 16 January 2016; Christopher Pryce, 'Your Banking Movements may be Criminal', *Jamaica Observer*, 20 July 2015.
5. Jon Matonis, 'Large Cash Transactions Banned In Mexico', *Forbes*, 17 October 2012.

US–Mexico border and the relatively high level of cash usage in the Mexican economy (for example, it is reported that it is ‘routine to see all-cash purchases of high-end items such as real estate, airplanes, horse farms and expensive art’⁶). While opposition to the law has been limited, there has been some questioning of whether this limit is legal according to previously adopted Mexican legislation guaranteeing no restrictions on the use of the peso note.⁷

The combination of the foreign cash thresholds (which keep more illicit cash outside the formal banking sector) and the cash transaction threshold aims to significantly reduce the value of cash to illicit actors. Importantly, Mexican and US officials see their ability to impede illegal cashflows across the border as very limited.⁸ The 2013 restrictions, assuming they are enforced effectively, may have some significant impact on the ability of criminals to use illicit funds, particularly in the purchase of real estate. There is some anecdotal evidence that the law has affected the real estate market in Sinaloa, a state notorious for its affiliation with a major cartel, where real-estate brokers, jewellery stores and car dealerships all reported significant decreases in sales after the law’s introduction in 2014 (although there was also a significant decline in the value of the peso that year).⁹ However, given the relatively high threshold (approximately equal to per capita GDP for the non-real-estate limit), there is likely still substantial activity taking place with illicit cash.

Uruguay

Uruguay introduced a \$5,000 limit – it was determined by the value of the US currency rather than the local peso – on cash transactions in 2015 as part of the Financial Inclusion Law designed to increase transparency, improve financial access and strengthen government finances.¹⁰ The law was accompanied by other measures to boost the adoption of cashless payments, including a requirement for both taxes and salaries to be paid electronically by 2017.¹¹ So far, these measures seem to have been successful at reducing cash transactions without affecting citizens’ access to payments.¹² A side benefit appears to be an expected boost to bank lending stemming from an increase in peso deposits and electronic transaction volumes.¹³

There appears to be relatively little opposition to the limit, perhaps due to the accompanying measures which increase financial inclusion (as well as the belief that most high-value cash

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6. Tracy Wilkinson, ‘Mexico Limits Dollar Transactions’, *Los Angeles Times*, 15 June 2010.
 7. Alejandro Catalá and Julio Copo, ‘The Challenges of Anti-Money Laundering Legislation In Mexico’, *Mondaq*, 1 September 2015.
 8. William Booth, ‘Mexico Targets Money Laundering with Plan to Limit Cash Transactions’, *Washington Post*, 26 August 2010.
 9. Leticia Lopéz, ‘Ley antilavado impactó actividad inmobiliaria’ [‘Anti-Money-Laundering Law Impacts Real-Estate Activity’], *Debate*, 16 December 2014.
 10. *Buenos Aires Herald*, ‘Uruguay Bans All Cash Payments Over US\$5,000 as of Next Year’, 27 August 2014.
 11. International Monetary Fund (IMF), ‘Uruguay: 2014 Article IV Consultation Staff Report’, Country Report No. 15/81, March 2015.
 12. G Padmanabhan, ‘Towards a Less-Cash Society: Why Informed Users, Stakeholders are a Must’, *Financial Express*, 6 October 2016.
 13. IMF, ‘Uruguay: Selected Issues Paper’, Country Report No. 16/63, February 2016.

payments in Uruguay are conducted by visitors from neighbouring countries, such as Argentine real-estate purchasers). However, despite improvements to the anti-money laundering regime, such as the cash limit, there are still serious concerns regarding the laundering of funds from transnational crime in Uruguay, illustrating the need for effective enforcement of such policies.¹⁴

India

As part of the broader demonetisation strategy and following the recommendation of a Special Investigation Team appointed by the country's Supreme Court, India's Finance Minister, Arun Jaitley, proposed a ban on all cash transactions above 3 lakh (INR 300,000, approximately £3,600) effective from 1 April 2017.¹⁵ India's recent demonetisation push has thus far focused on attempting to rid the country of 'black money' by invalidating older-series INR 500 and INR 1,000 rupee notes. Compared with the note invalidation, the proposed cash threshold has been received more favourably, in large part because it imposes fewer direct costs on low-income rural Indian families, given that the limit is set at a relatively high level (well over twice per capita GDP, which was \$1,709 in 2016, according to the World Bank¹⁶).

However, many rural farmers are concerned that they will not be paid for their crops, since they often do not know or trust their buyers and cheques do not provide the same assurance as cash.¹⁷ On the other hand, there is concern that the limit has been set at a level that is too high to be effective at targeting either tax evasion or the laundering of criminal funds.

Russia

In February 2017, Kremlin spokesman Dmitry Peskov indicated that Russia was likely to introduce cash thresholds, following the lead of other countries. Despite Deputy Prime Minister Igor Shuvalov's statement in January 2017 that such limits were 'pointless', senior Russian officials now seem supportive of the idea that a transaction limit could reduce tax evasion and money laundering.¹⁸

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14. US Department of State, Bureau of International Narcotics and Law Enforcement Affairs, 'Countries/Jurisdictions of Primary Concern – Uruguay', 2016, <<https://www.state.gov/j/inl/rls/nrcrpt/2016/vol2/253439.htm>>, accessed 31 August 2017.
 15. *Times of India*, 'Ban on Cash Transaction Over Rs 3 Lakh Good; Cash Holding Limit Could Have Been Better: SIT', 1 February 2017.
 16. The World Bank, 'GDP Per Capita', <<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=IN>>, accessed 24 July 2017.
 17. Partha Sarathi Biswas, 'Union Budget 2017: Rs 3 Lakh Cash Transaction Limit will add to Woes of Horticulture, Poultry Sectors', *Indian Express*, 2 February 2017.
 18. Stepan Kravchenko and Anna Andrianova, 'Kremlin Backs Limits on Cash Purchases, But Not Yet, Peskov Says', *Bloomberg Politics*, 21 February 2017.

V. Assessing the Case for Uniform Cash Thresholds

IN THIS CHAPTER, the case for imposing uniform cash thresholds is assessed by, first, assessing the case for cash thresholds in and of themselves and, second, the case for setting *uniform* thresholds across different countries. The chapter then examines counter-arguments made against cash thresholds in general.

The Case in Favour of Cash Thresholds

Although there is anecdotal evidence of the beneficial impact of cash thresholds in curtailing financial crime, there is little in the way of hard data to prove their efficacy. This is not surprising, since cash transactions cannot be directly measured. Neither the baseline of illicit transactions above the threshold level, nor the reduction through imposition of the threshold can be recorded. However, the lack of compelling empirical evidence should not undermine the case for imposing such thresholds. There are four points in favour of cash thresholds:

1. There appear to be very limited downsides to imposing cash thresholds.

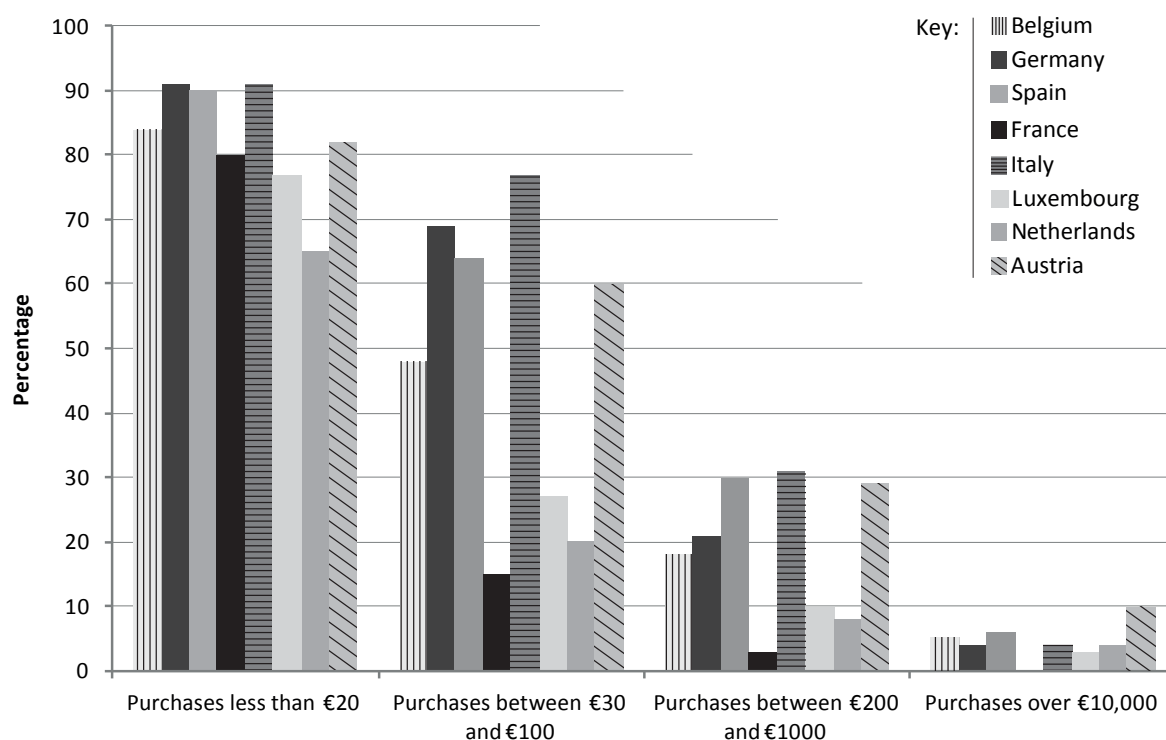
In all countries, the overwhelming majority of cash transactions are for small values, so thresholds will make little difference to most individuals' use of it on an everyday basis. Looking at data from payment diaries and surveys across various countries, it becomes clear that while payments in cash dominate lower-value transactions, preference for cash decreases as transaction value increases.¹ In the ECB's 2008 payment survey, one of the only analyses that considers very high-value payments, there is a sharp drop-off in reported use of cash between purchases in the €200–1,000 range (with 20% of respondents using cash, on average) and purchases of more than €10,000 (with 4% of respondents using cash, on average).² The ECB survey confirms the degree of variation between countries: while no French respondents report using cash for purchases of more than €10,000, 10% of Austrians claim to use cash for these purchases (compared with 29% using cash for purchases in the €200–1,000 range) (see Figure 1 on the next page). While these numbers indicate that there is likely some legitimate high-value activity taking place in cash, the sharp drop-off illustrates that there is a relatively limited set of legitimate consumers opting to use cash for such large purchases. The ECB attributes some of this activity to limits on card usage imposed by some consumers' banks. Rogoff argues that these payments are likely encouraged by business owners to circumvent VAT

1. Bagnall et al., *Consumer Cash Usage*.

2. ECB, 'The Use of Euro Banknotes: Results of Two Surveys among Households and Firms', *ECB Monthly Bulletin* (No. 79, April 2011).

payments; he also notes that in the nine years since these surveys took place, there has likely been further penetration of electronic payments in all these countries.³

Figure 1: Survey Data on Cash Usage at Different Value Thresholds in Europe



Source: ECB, 'The Use of Euro Banknotes: Results of Two Surveys among Households and Firms', ECB Monthly Bulletin (No. 79, April 2011).

In almost all countries, convenient and cost-effective electronic payment alternatives are available for larger-value transactions. In the advanced economies, credit and debit cards, bank transfers and cheques are readily available, certainly for those with the resources to be buying goods or services valued in the thousands of dollars or euros. While payment surveys do not appear to capture this fact, because high-value payments in cash are typically too rare to register, it is likely that a very small proportion of individuals are making high-value payments in cash (and an even smaller proportion for legitimate reasons). Even in Germany and Austria, the countries in Europe most attached to cash, consumers report a relatively low use of cash (between 30% and 40%) for transactions in the highest value quartile (of all transactions), compared with more than 90% for transactions in the lowest two quartiles, and around 80% for those in the third quartile.⁴ The lower end of transaction value in the highest quartile ranges from US \$25.30 in Australia to \$35 in France to \$42.60 in Germany (in other words, 75% of all transactions fall

3. Rogoff, *The Curse of Cash*.

4. Bagnall et al., *Consumer Cash Usage*.

below these amounts), a fraction of current or proposed cash thresholds. Moreover, even in Germany, consumers' perceived acceptance of non-cash payments also increases – from 28% in the first quartile to 87% in the highest quartile – which suggests that if forced to use non-cash payments for the much larger sums envisaged for cash thresholds, the vast majority of consumers would be content.

Combining these points, the argument for there being a very limited downside to imposing cash thresholds looks compelling: large transactions (for example, more than €2,000) represent a tiny proportion of overall transactional activity; few people use cash for such transactions, and electronic alternatives are readily available.

These arguments also hold force when considering business-to-business transactions, not merely consumer-to-business payments. The ECB's 2008 payment survey underscores the relative unimportance of cash for business expenditures, with 38% of companies not paying any expenses in cash. Of those reporting any cash expenditure, two-thirds say they pay out less than €1,000 per month in cash, and an additional 27% report spending between €1,000 and €10,000 in cash per month.⁵ Since these amounts are monthly totals that likely include many small transactions, the indication is that few businesses in Europe, if any, are making legitimate cash payments that would exceed the proposed thresholds.

While some argue against imposing such thresholds on the grounds that this will compromise individual privacy (as prohibiting the use of cash will render it more difficult to make large-value purchases anonymously), many of the goods and services an individual buys over a figure such as €2,000 or €3,000 already involve some kind of record or title. It is worth considering, therefore, what individuals purchase for a figure over this level. Apart from very high-end luxury goods, such as fashion and jewellery, individual purchases over such figures typically relate to the purchase of vehicles (for example cars, motorcycles), rent payments, real estate, flights and holidays, construction services or other personal services, such as medical care. For most people, these are infrequent purchases and usually involve some kind of title, insurance or contract.

2. There is a compelling argument that imposing cash thresholds will disrupt money laundering and tax evasion.

There is plenty of evidence from law enforcement agencies that criminals use high-value cash purchases to launder money, buying consumer durables and property that are then resold with a legitimate title and co-mingling illicit funds with legal income and wealth.⁶ Although cash thresholds do not prevent large-volume money laundering, they do make it more costly and inefficient, since criminals will have to disaggregate their funds into smaller amounts (known as 'smurfing'). Cash thresholds will not deter criminals who are presumably already comfortable with breaking the law, but will deter retailers or other legitimate businesses that are unwitting accomplices to money laundering (or are willing to turn a blind eye, but not to be actively involved or risk imperilling existing wealth). Law enforcement officials in countries

5. ECB, 'The Use of Euro Banknotes'.

6. See, for example, Europol, *Why is Cash Still King?*.

that have imposed such thresholds believe they are having a positive impact. International law enforcement agencies, such as Europol and FATF, argue in favour.⁷

There is significant evidence of consumers, retailers and other suppliers using cash payments to avoid tax, particularly VAT and other sales taxes. Indeed, the VAT cash gap for the EU amounts to roughly €160 billion per year.⁸ With VAT levels at around 20% in many EU countries, the incentives for such evasion are powerful. Moreover, payments received in cash to avoid VAT will not be recorded in the recipient business' accounts and thus contribute to understating of profits for corporate tax purposes. The imposition of cash thresholds will not impact low-level tax evasion of this kind, but will affect big ticket cash-based tax evasion. In fact, analysis of VAT receipts for the sectors of the economy most directly affected by cash thresholds (for example, luxury goods, construction, second-hand cars) before and after their imposition might yield useful insights into the impact of thresholds. The authors are not aware of any such analyses having been conducted, but believe this is an avenue worth pursuing. Indeed it would make sense to set up the data collection for such analyses as part of the implementation of thresholds. (Initial thinking on this approach is set out in Appendix A.)

3. Cash thresholds can complement other measures to curb the illicit use of cash.

In some jurisdictions, cash thresholds may be politically easier to implement than the elimination of high-denomination notes, particularly where these are seen to have historical or symbolic significance. In jurisdictions where both policies are pursued, cash thresholds will help accelerate the withdrawal from circulation of the outstanding stock.

Cash thresholds may largely replace the onerous and ineffective reporting requirements imposed on High Value Dealers (HVDs). If large cash transactions are prohibited, then there is no longer a need to report on them.

Cash thresholds will stimulate sectors providing high-value goods and services to ensure ready availability of non-cash payment mechanisms. In most cases, these are already present, but removing the cash option will force banks and retailers to tackle any remaining impediments (such as ad valorem merchant pricing of credit card transactions, which is sometimes cited as a reason that luxury goods' retailers prefer cash).

Cash thresholds will force high-value transactions onto electronic payment mechanisms, where they can be recorded and tracked. As a senior specialist in financial intelligence at Europol put it, cash thresholds will have an impact on combating financial crime: either by stopping the transaction, or by enabling law enforcement to access records that trace the origin and beneficiary of funds.⁹

7. See Europol, *Why is Cash Still King?*; FATF, 'The FATF Recommendations', June 2017, p. 17.

8. European Commission, 'Study and Reports on the VAT Gap in the EU-28 Member States: 2016 Final Report'.

9. Authors' correspondence with senior specialist in financial intelligence, Europol, 6 March 2017.

4. Cash thresholds can be initially calibrated to minimise any perceived downside risk, then reduced over time.

Although there is no precise science to setting the threshold level, it makes sense to establish it at a value that is greater than most everyday purchases, including consumer durables, such as televisions and clothing, but low enough to capture vehicles, property and luxury goods. In advanced economies, this will be in the low thousands of dollars and euros.

Setting the initial threshold at a relatively high number, such as €3,000, will minimise any perceived risk of negative consequences (at the expense of being less effective in disrupting financial crime). If combined with the kind of impact analysis suggested in Appendix A, plus potentially the introduction of reporting requirements for cash payments at a lower level (for example, €2,000) an evidence base can be built to support reducing the threshold over time.

Taking these considerations together, there is a strong case for imposing cash thresholds. However, there is one caveat. Although cash thresholds are likely to be effective in disrupting criminal money laundering and tax evasion, they are unlikely to have much direct impact on terrorist financing, as terrorist operations typically involve relatively small transactions that would not be affected by the threshold. Yet cash thresholds might have an indirect impact on the financing of terrorist organisations to the extent that they rely on organised crime and money laundering.

The Case for Setting Uniform Thresholds Across Countries

While differentiated policies between countries always present a risk of regulatory arbitrage, with undesirable activity moving from more restrictive jurisdictions to more relaxed ones, the Eurozone presents a unique challenge in the case of cash thresholds. Given the relative ease with which people and capital move within the Eurozone, cash thresholds set at vastly different levels will have limited impact in reducing the value of cash to criminals (although there will be potentially some impact on tax evasion). Criminals looking to launder money by making high-value cash purchases will simply take their euros to a country without a cash threshold. Hence the European Commission's focus on uniform cash thresholds.

There is evidence that this concern is merited. According to a recent report of the GCIB, 'cash derived from illegal transactions is increasingly brought to Germany from other countries that have cash limits'.¹⁰ The study's findings were confirmed by the German Finance Ministry and the Bundesbank.¹¹ While the legitimate use of cash in Germany remains higher than in many other European countries, there is also extensive money laundering through high-value cash payments. The ministry contends that illegally obtained cash is used widely to purchase real estate, fine art, cars and other luxury goods.¹² In an effort to introduce a threshold that somewhat reduced the

10. Drost, 'An El Dorado for Money Launderers'.

11. *Ibid.*

12. Jess McHugh, 'Money Laundering Reaches \$113B in Germany as Organized Crime Flourishes', *International Business Times*, 21 April 2016.

opportunities for arbitrage, but acknowledged opposition to the move, the ministry proposed a threshold of €5,000. However, this was rejected.¹³ Illustrating the perspective of a country that has introduced cash thresholds, Belgian authorities state that they have seen evidence that the imposition of cash thresholds has displaced money laundering elsewhere.¹⁴

While there seems a strong logic for establishing some degree of consistency in approach to cash thresholds within a common currency area, such as the Eurozone, the case for demanding uniformity appears less compelling. Criminals' incentives to divert money laundering activity will be strongest when they can circumvent any threshold. It may suffice to agree a maximum cash threshold within the Eurozone, leaving individual member states the freedom to set lower thresholds, should they desire. There is no precise science for how to set the initial level of this maximum threshold, but somewhere in the range of €3,000–4,000 might strike the optimal balance between impeding illicit activity and avoiding disruption to normal, legal purchases.

The case for setting uniform thresholds across countries with different currencies does not appear to be compelling at this stage, since it is in any case more difficult for criminals to divert money laundering activities across different currencies. Yet in the longer term, when cash thresholds become more prevalent, it may make sense to consider introducing a global maximum threshold.

Potential Arguments Against Cash Thresholds

A number of arguments can be made against the imposition of cash thresholds. These fall into four main categories.

1. By forcing consumers to use non-cash payments for some transactions, cash thresholds reduce consumer freedom and impinge on privacy.

In several countries, particularly Germany, Austria and the US, opposition to cash thresholds is primarily based on the argument that they reduce both freedom and the right to privacy. For example, in 2016, German MP Konstantin von Notz tweeted that 'cash allows people to remain anonymous during day-to-day transactions. In a constitutional democracy, that is a freedom that has to be defended'.¹⁵ Further indications of the extent and strength of this concern can be seen from the results of a public consultation exercise conducted by the European Commission: 95% of respondents were opposed to the idea of 'restrictions on payments in cash at EU level' and 87% said 'paying anonymously in cash is an essential personal freedom'.¹⁶ However, these results should be treated as an indicator that some people feel strongly about this, rather than a measure of overall public opinion across the EU or even in individual member states, since the responses were voluntary rather than a statistically relevant sample. The responses

13. *Ibid.*

14. Author correspondence with Christian Bourlet, March 2017.

15. Brendan de Beer, 'Portugal to Impose Cash Limit', *Portugal News Online*, 8 June 2016.

16. EUSurvey, 'Published Results: Cash Payments', 17 July 2017, <<https://ec.europa.eu/eusurvey/publication/CashPayments>>, accessed 25 July 2017.

appear strongly skewed towards those opposed to the imposition of cash thresholds: 56% of the responses were from Germany and Austria, where there is significant vocal resistance to the imposition of cash thresholds, and another 36% from France, where there is considerable debate arising from the further tightening of such thresholds. By contrast, Italy, Netherlands, Spain and Belgium, where thresholds have been imposed with much less controversy, each represented less than 1% of total responses.

The authors accept that this sentiment has some legitimacy, but transactions above €2,000 or €3,000 are far from day-to-day. Cash thresholds will not affect the bulk of transactions. Such thresholds will constrain the small number of consumers who prefer to use cash and thus remain anonymous when making large purchases. However, for most legitimate high-value transactions, complete privacy is not maintained, even if the payment is made in cash. In the cases of vehicles and real estate, for example, purchasers are required by law to transfer the title to their name, thereby eliminating anonymity. For many other high-value purchases, such as art and jewellery, consumers opt to insure the items involved, sacrificing privacy in pursuit of security. It seems hard to argue that there is an indisputable right to privacy when it comes to making purchases, and it seems reasonable for governments to put some thoughtfully calibrated limits on this anonymity when there is a compelling case for doing so. Reducing criminals' ability to launder significant sums of money or stopping tax-evading businesses from concealing substantial revenues would appear to be two such reasons.

2. Cash thresholds will have a limited impact on crime because criminals will continue to break the law.

This line of argument ignores a major reason why thresholds are likely to be effective: many businesses unknowingly launder funds on behalf of criminals. If they are laundering money by purchasing high-value items from legitimate businesses (for example, high-end jewellery stores and art dealers) using illicit cash, thresholds will have an impact by prohibiting these law-abiding businesses from accepting substantial sums of cash. For the retailer, it is one thing to turn a blind eye to the possible origins of the cash used in an otherwise legitimate transaction, quite another to break a legally binding threshold by accepting the cash. Moreover, enforcement should not be too difficult: either regularly, on a sample basis or on demand, businesses could be asked to demonstrate corresponding electronic transactions for every cash payment over the threshold.

In the case of tax evasion, cash thresholds require tax-evading businesses to abide by a new law in addition to the tax codes they are already violating. While it is reasonable to question whether they will comply, it can be assumed that adhering to a cash threshold will be different from reporting cash income to the tax authorities. Whereas the authorities find it notoriously difficult to monitor cash revenues, it is relatively easy for law enforcement to observe violations of a cash threshold. Moreover, while in many countries it is commonly accepted practice for small businesses to under-report cash receipts, violating a criminal law of this kind would represent a more serious violation that many small businesses might be reticent to engage in.

Professor Friedrich Schneider, one of the world's leading experts on the shadow economy, has suggested that the imposition of cash thresholds might have negligible effect on illicit activity.¹⁷ Indeed he argues that entirely abolishing cash would only reduce criminal activity by 5–10%. There are three responses to these arguments. First, as Schneider himself acknowledges, these estimates are uncertain. As the impact of the measures is not known (such as the thresholds already introduced in various countries), it is hard to see how meaningful projections can be constructed.

Second, Schneider does not dispute that cash plays a highly important role in money laundering, as shown in Table 3, which was reproduced from one of his lecture slides.¹⁸ His contention must therefore be that it will be relatively easy for criminals to find alternative ways to launder their cash. If it is that easy, it raises the question as to why regulators have forced banks to spend billions of dollars upgrading their anti-money laundering systems. However, the idea that criminals can launder large sums through the banking system without reliance on cash at some point to break the transaction trail underestimates how much more sophisticated banks and their regulators have become in detecting such activity.

Table 3: The Methods of Money Laundering and the Use of Cash

	Method of Money Laundering	Description of Method
1	Wire transfers (no cash)	Money launderers move funds around in the banking system all over the world. Often these funds go through several banks and different jurisdictions.
2	Cash deposits 'Smurfing' (only cash)	Money launderers deposit cash advances in bank accounts. Due to AML regulations they often 'structure' the payments, i.e. break down large to smaller amounts ('smurfing').
3	Informal value transfer systems (IVTS) (mostly cash)	Money launderers on the one side rely on other transfer providers, such as the Hawala or Hindi, and on the other side on IVTS shops (mainly selling groceries, phone cards or other similar items).
4	Cash smuggling (only cash)	Money launderers mail, FedEx or simply carry cash from one region to another.
5	Gambling (mostly cash)	Casinos, horse-races and lotteries are ways of legalising funds. The money launderer can buy (for 'dirty' cash) winning tickets – or in the case of casinos, chips – and redeem the tickets or the chips in a 'clean' bank check.
6	Insurance policies (no cash)	Money launderers purchase single premium insurance, redeem early (and pay a penalty) in order to receive clean checks to deposit.

17. Friedrich Schneider, 'Restricting or Abolishing Cash: An Effective Instrument for Fighting the Shadow Economy, Crime and Terrorism?', paper presented at the Deutsche Bundesbank International Cash Conference in Konstanz, Germany, 20–23 April 2017.

18. Friedrich Schneider, 'The Financial Flows of Transnational Crime and Tax Fraud in OECD Countries: How Much Cash Is Used and What Do We (Not) Know?', November 2015, p. 6, <http://www.suerf.org/docx/l_a5bfc9e07964f8dddeb95fc584cd965d_2807_suerf.pdf>, accessed 25 July 2017.

	Method of Money Laundering	Description of Method
7	Securities (no cash)	Usually used to facilitate fund transfers, where underlying security deals provide cover (and legitimate-looking reason) for transfers.
8	Business ownership (only cash)	Money is laundered through legitimate businesses, cash-intensive operations, such as restaurants, are especially well-suited for laundering. This is one of the most often used methods.
9	Shell corporations (little cash)	Money launderers might create 'fake' companies exclusively to provide cover for fund moves without legitimate business activities. This is one of the most often used methods.
10	Purchases (mostly cash)	Real estate or any durable good purchases can be used to launder monies.
11	Credit card advance payment (only cash)	Money launderers pay money in advance with dirty money, and receive clean checks on the balance from the bank.
12	ATM operations (only cash)	Banks might allow other firms to operate their ATMs, i.e. to maintain and fill them with cash. Money launderers fill ATMs with dirty cash, and receive clean checks (for the cash withdrawn) from the bank.
	Summary	'no' cash: 4 cases 'only' cash: 5 cases 'mostly' cash: 3 cases

Source: Schneider, 'The Financial Flows of Transnational Crime and Tax Fraud in OECD Countries': *How Much Cash Is Used and What Do We (Not) Know?*, November 2015, p. 6, <http://www.suerf.org/docx/_a5bfc9e07964f8dddeb95fc584cd965d_2807_suerf.pdf>, accessed 25 July 2017.

Third, Schneider may well be right that cash thresholds would have a negligible impact on aggregate illicit activity, since they would have no impact on petty crime or low-level tax evasion, but the high-stakes money laundering and tax evasion that cash thresholds would affect may cause disproportionate social harm. Thus a negligible impact on crime as measured by dollars may not translate into such an impact as measured by social harm.

Schneider is also sceptical about the impact of cash thresholds on tax evasion. This does not seem to be consistent with the evidence from multiple countries that suggests that cash-based tax evasion is a major – if not *the* major – source of tax evasion.¹⁹

19. See, European Commission, 'Study and Reports on the VAT Gap in the EU-28 Member States: 2016 Final Report'; Morse, Karlinsky and Bankman, 'Cash Businesses and Tax Evasion'; Kediri, Duygun Fethi and Williams, 'Evaluating Tax Evasion in the European Union: A Case Study of the Prevalence and Character of "Envelope Wage" Payments'.

3. There are certain groups of people who would be disproportionately harmed by cash thresholds, notably low-income, unbanked households and foreign tourists.

This criticism seems to miss the point. Unlike some policy options to curb the illicit use of cash, thresholds actually appear to be relatively less burdensome on these groups. Low-income households are the least likely to be making high-value purchases, and thus should be relatively unaffected by this policy. If they are unbanked due to their income (rather than ideology), making a high-value purchase is a reasonable reason for joining the formal banking sector. For lower-value transactions, or simply holding cash, thresholds have no impact.

Foreign tourists will be subject to the same regulations regarding the amount of cash they are able to bring into and take out of the country, as well as any limits on foreign exchange that may exist. While foreign tourists would be subject to the same threshold as locals, and therefore may be unable to make large payments in cash, this is unlikely to be a particularly serious limitation in advanced economies, given the prevalence of electronic payment options. In any case, it is possible to create a different threshold for non-residents, as in Spain and France. However, the risk with creating such a carve-out is that it creates a potential loophole to be exploited by organised crime.

4. Cash can be technically superior as a payment mechanism, since electronic payment methods can be more expensive for certain types of large transaction and do not provide immediate certainty of value.

Here there are two contentions. First, it is argued that in some circumstances, it can be more expensive for the customer or retailer to use an electronic alternative, creating a perfectly legitimate reason for them to prefer to use cash. While there are considerable methodological difficulties in making like-for-like comparisons between the system-wide costs of cash versus electronic alternatives, a number of studies conclude that from the perspective of the system as a whole, cash can be more costly.²⁰

However, it is true that situations can arise where, for a specific transaction, the actual or perceived costs could be lower for cash. The most commonly cited example is the *ad valorem*

20. The literature is largely in agreement that the social costs of cash exceed those of other payment methods; some argue that the private costs of cash may also be greater, particularly over certain value thresholds. See, for example, Olivier Denecker, Florent Istace and Marc Niederkorn, 'Forging a Path to Payments Digitization', *McKinsey on Payments* (No. 16, March 2013); Bhaskar Chakravorti and Benjamin D Mazzotta, 'The Cost of Cash in the United States', Institute for Business in the Global Context, Tufts University, September 2013; Carlos Arango and Varya Taylor, 'Merchants' Costs of Accepting Means of Payment: Is Cash the Least Costly?', *Bank of Canada Review* (Winter 2008–09); Fumiko Hayashi and William R Keeton, 'Measuring the Costs of Retail Payment Methods', Federal Reserve Bank of Kansas City, *Economic Review* (Second Quarter 2012); David Humphrey et al., 'Benefits from a Changing Payment Technology in European Banking', *Journal of Banking and Finance* (Vol. 30, No. 6, June 2006); Mats Bergman, Gabriela Guibourg and Bjorn L Segendorf, 'The Costs of Paying – Private and Social Costs of Cash and Card', Sveriges Riksbank Working Paper Series No. 212, September 2007.

merchant's fee for making credit card payments, which at typical levels of 2–3% can represent a significant sum on a high-value purchase. Jewellers sometimes cite this as a reason for preferring cash. Yet, while less explicit, the full costs of receiving cash, including handling and counting, 'shrinkage' – cash lost by retailers through theft, error, and so on – and bank deposit fees are typically similar or higher. However, there may be a case in some countries for the authorities to encourage cut-offs or tapering of *ad valorem* fees to remove this consideration. The EU's second Payment Services Directive, which will apply from 13 January 2018, bans credit card fees, in a bid to make the payment market more competitive and fair.²¹

The second technical argument relates to the fact that in some situations there is a need for immediate value transfer, which cash arguably achieves more effectively than some electronic alternatives. The most commonly cited example is when an individual in a country, such as Germany, is purchasing a car from another individual: before handing over the keys, the seller wants to be absolutely certain they have been paid, which a cheque or credit card transaction achieves less convincingly than cash. This argument is weakened by the fact that in many countries mechanisms for immediate value transfer by electronic means already exist and that person-to-person transactions for high-value items, such as cars, are being conducted without cash on a daily basis. Yet this consideration does underscore the importance of central banks encouraging the deployment of low fraud risk alternatives to cash, including real-time bank transfer services for individuals.

21. Council of the European Union, 'Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on Payment Services in the Internal Market, Amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and Repealing Directive 2007/64/EC', *Official Journal of the European Union* (L 337/35, 25 November 2015).

Conclusions

MONEY LAUNDERING, TERRORIST finance and tax evasion impose huge costs on society. While by no means a ‘silver bullet’, cash thresholds represent a practical and relatively low-risk policy tool to tackle this problem.

Compared with other measures taken to tackle financial crime, such as the imposition of AML regulations and penalties on banks, the establishment of financial intelligence units, or the elimination of high-denomination bank notes, cash thresholds have received much less policy attention. This needs to change.

Cash thresholds are an attractive and pragmatic policy option, complementing other actions taken to curb financial crime, and with limited downsides.

Key Findings

- There is a robust underlying logic for why cash thresholds should have a beneficial impact in curbing the illicit use of cash – criminals like to use cash because it is so widely accepted, anonymous and virtually impossible to track.
- Cash thresholds are likely to have most impact on tax evasion and money laundering connected to organised crime, but relatively limited direct impact on terrorist finance or petty crime.
- There appear to be very limited downsides to implementing cash thresholds in terms of the impact on legitimate economic activity or concerns about individual privacy.
- Cash thresholds therefore appear to be an attractive policy option for curtailing the illicit use of cash, with limited adverse effects or implementation risks.
- There is a strong case for setting such cash thresholds at broadly consistent levels in a common currency area, such as the Eurozone, through the imposition of a maximum threshold, but no compelling argument for making these thresholds uniform.
- It should be possible to generate better evidence of the impact of the implementation of cash thresholds, particularly if the tracking measures are established as part of the threshold implementation.

Appendix A: Strengthening the Case for Cash Thresholds with Data Collection

Although it is difficult – for obvious reasons – to see directly the effects of cash limits in publicly available data, it is possible to hypothesise what the data would reveal were cash thresholds to have their desired impact. Focusing specifically on data from tax agencies, using either VAT/sales tax reports and/or receipts, one should expect to be able to test three hypotheses:

1. For firms that accept high-value cash payments and under-report revenues to avoid taxes, a cash limit should increase tax receipts.
2. For firms that accept high-value cash payments from illegitimate (or unknown) sources, a cash limit should lead to a decrease in tax receipts.
3. For most firms and most transactions there should be no change in tax receipts (this would underline the authors' argument that there should be minimal impact on *most* citizens' economic lives).

The first hypothesis focuses on firms that like to receive high-value cash payments to reduce their tax burden. They may encourage customers to pay in cash by offering some sort of incentive, which may be explicit or informal. Common cases include consumer-facing small businesses such as residential contractors, auto repair shops and small jewellery stores. By under-reporting cash income, particularly common for small businesses,¹ such firms reduce the amount they pay in VAT or sales tax (and ultimately in corporate income tax). If a cash threshold is imposed, an increase in reported large transactions and a rise in VAT or sales tax is expected.

The second hypothesis focuses on firms that allow for high-value cash payments from customers who wish to be anonymous or to disguise the origins of their money – in other words, firms that knowingly or unwittingly facilitate money laundering. Some of these firms may overlap with those in the first category, but some may be legitimate and fully reporting their income for tax purposes. Examples would include luxury car dealers, larger jewellery companies, art dealers and, in some jurisdictions, real-estate brokers. Since illicit customers – many of whom are cash rich and unable to launder funds elsewhere – would no longer be able to pay for high-value items fully in cash, there should be some decrease in large transactions and thus in VAT and sales tax. However, such firms might experience an increase in cash transactions under the threshold level.

1. Morse, Karlinksy and Bankman, 'Cash Businesses and Tax Evasion'.

The third hypothesis focuses on firms that receive very few high-value purchases, or already receive most high-value payments via electronic means. These firms should see relatively little change.

The authors' view is that it should be possible to construct sample-based analysis to complement overall statistics, to build a much richer picture of the impact of cash thresholds. Tax authorities typically have access to highly granular data reflecting the reported sales of individual businesses and sectors of the economy, and are therefore well positioned to work with financial intelligence units before and after the implementation of a cash threshold to design and manage this analysis.

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