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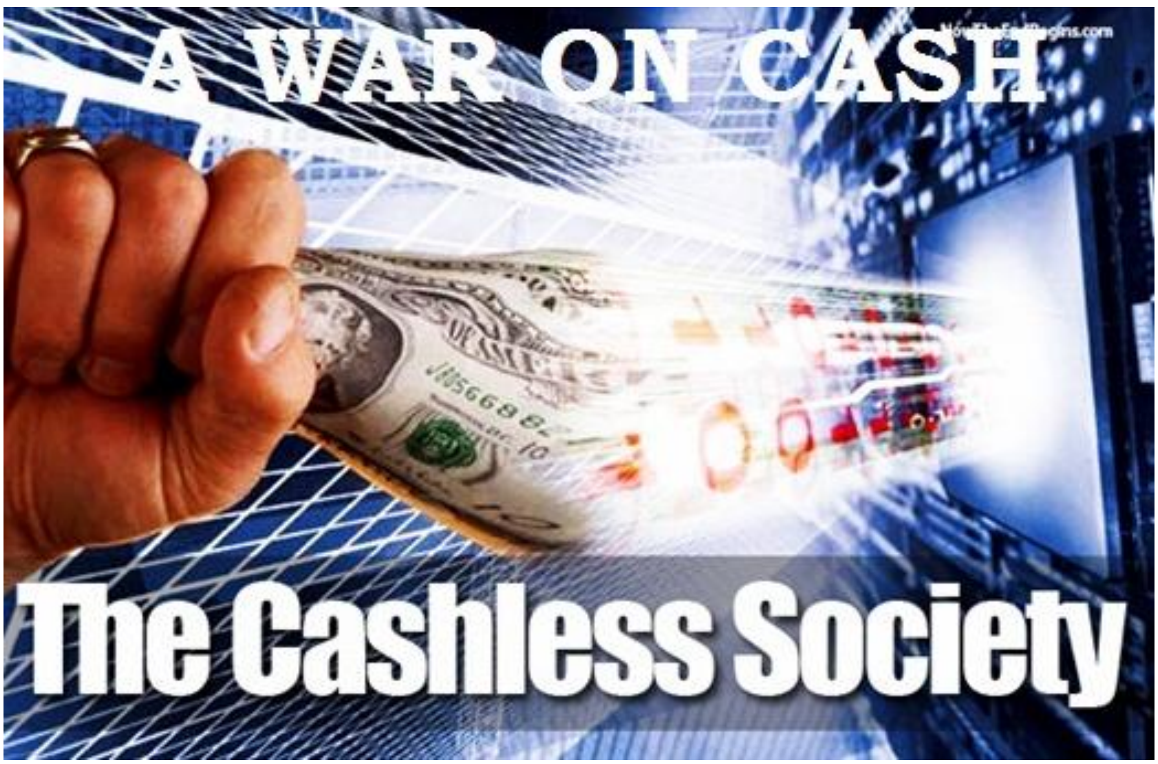
WAR ON CASH

MACRO INSIGHTS



Gordon T Long
5/25/2015

WAR ON CASH

Excerpted from the latest GMTP Report

The last two months I have talked about a potential recession, minimally seeing a US Earnings Recession or what I will call a Consumer Recession.

Today I want to talk about what the government is doing to prepare for this possibility.

What bullets do they have when rates are already zero after 6 years? We normally have 4-5% points to use as economic stimulus.

What are the planners going to do?

They are already sending clear signals and putting out trial balloons in preparation.

Martin Armstrong warns:

"The only way to prevent the banking collapse is to prevent people from withdrawing cash. Hence, we see this trend is surfacing in all the mainstream press to get the people ready for what is coming – the elimination of cash. We are starting to even see this advocated in parts of Germany. We will not be able to buy or sell anything without government approval. That is where we are going ..." Martin Armstrong

Supporting this we additionally read:

* Italy made cash transactions over €1,000 illegal;
* Switzerland has proposed banning cash payments in excess of 100,000 francs;
* Russia banned cash transactions over $10,000;
* Spain banned cash transactions over €2,500;
* Mexico made cash payments of more than 200,000 pesos illegal;
* Uruguay banned cash transactions over $5,000; and
* France made cash transactions over €1,000 illegal, down from the previous limit of €3,000.

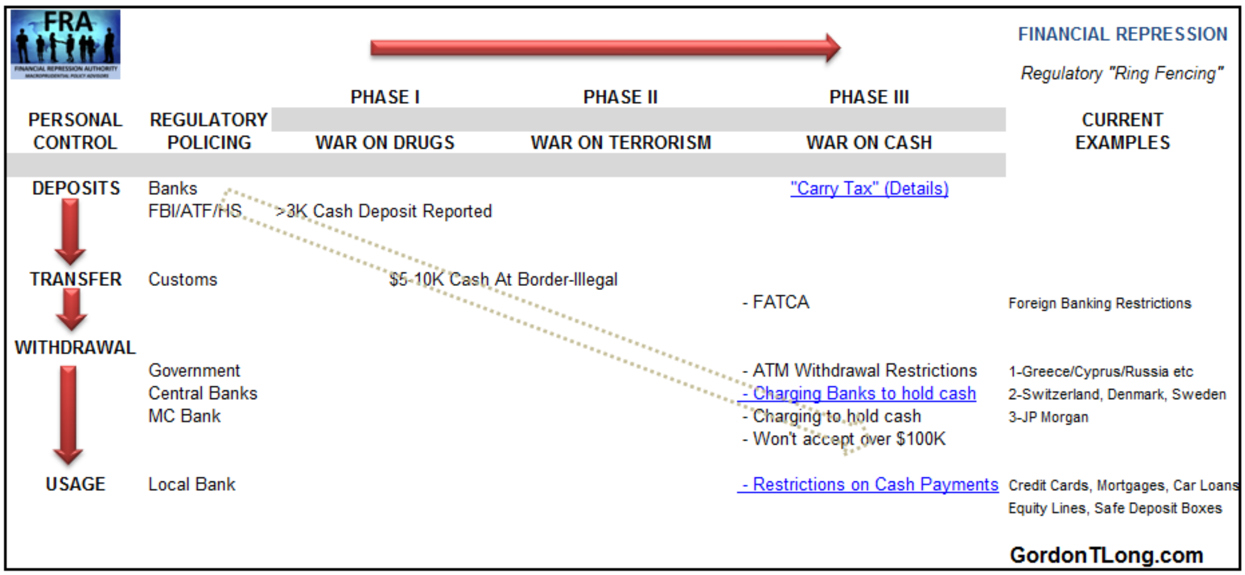
So what is going on?

RESTRICTIONS ON CASH

This chart tries to put some perspective on the changes we have been living through.

Fear has brought changes that have systematically impacted our personal control of our bank deposits, transfers, withdrawals and even usage.

The bottom right of this chart, as you will soon see, has become so exhaustive as to be make the chart difficult to draw.



Over the decade and a half since the dotcom bubble implosion we had lived through the:

War on Drugs	About: "*Money Laundering*"	**MOVEMENT**
War on Terror	About: "*Funding of Terrorist Activates*"	**FUNDING SOURCES**
War on Cash	About: "*All Transaction being "Digitized"*"	**USAGE**

Let's talk about what we know to be going on today.

BRITAIN

> Britain did a test run last year in Chorlton, South Manchester. This was touted to test customers and business reaction to the idea of physical currency disappearing "inside 20 years".

- A shopping street in Manchester banned cash as part of an experiment to see if Brits would accept a cashless society.

- London buses ended accepting cash payments from July 2014.
- Meanwhile, Currency Exchange dealers began offering debt cards instead of cash that they market as being safer to travel with.

FRANCE

- France passed another Draconian new law that from the police parissummer of 2015 it will now impose cash requirements dramatically trying to eliminate cash by force.
- French citizens and tourists will then only be allowed a limited amount of physical money.
- They have financial police searching people on trains just passing through France to see if they are transporting cash, which they will now seize.

France is strengthening the control of cash payments drastically. Citizens will be strictly monitored beginning September 2015 if they make payments in cash.

Restrictions will include:
** A limit on cash payments will be reduced from 3,000 Euros to 1,000 Euros.*
** Tourists can only pay up to 10,000 Euros in cash, so far there were 15,000 Euros.*
** If a Frenchman wants to change money into another currency, it must still do to 1,000 Euros without identification only. So far, French could buy foreign currencies for 8,000 Euros.*
** If a bank customer stands out more than 10,000 Euros a month from his account, the bank must report the transaction to the Money Laundering Authority TRACFIN.*
** Banks must inform the authorities of all cargo transfers within the EU that exceeds 10,000 Euros.*
** This regulation impacts checks, pre-paid cards, and even gold.*
** The control of crypto-currencies like Bitcoin are set to be tightened drastically.*

GERMANY

- The German Baader Bank founded in Munich expects formally to abolish the cash to enforce negative interest rates on accounts that is really taxation on whatever money you still have left after taxes.

GREECE

- In Greece a drastic reduction in cash is also being discussed in light of the economic crisis.
- Now any bill over €70 should be payable only by check or credit card – it will be illegal to pay in cash.

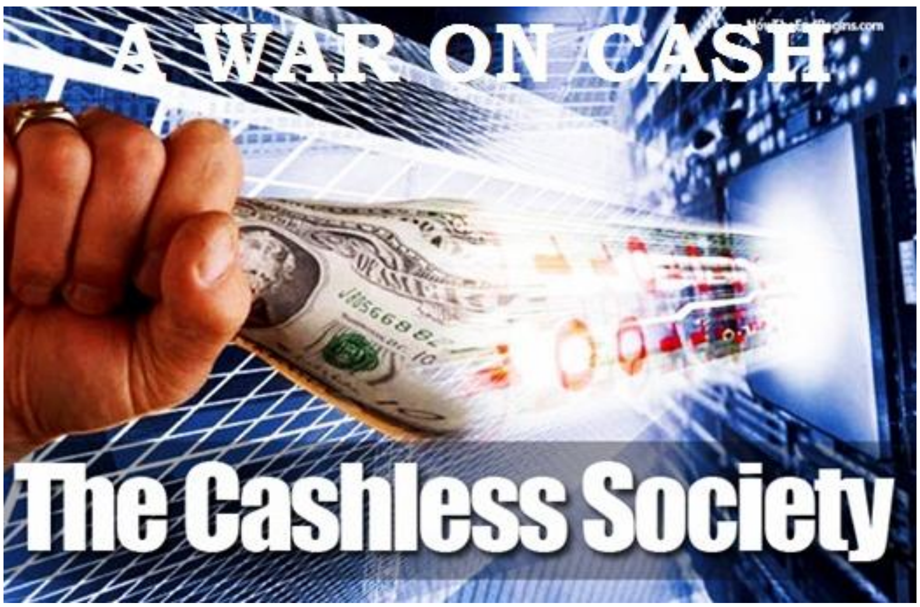
US

- JP Morgan has already begun forbidding the storage of cash in its safe deposit boxes.

- ***As of March, Chase began restricting the use of cash in selected markets, including Greater Cleveland. The new policy restricts borrowers from using cash to make payments on credit cards, mortgages, equity lines, and auto loans. Chase even goes as far as to prohibit the storage of cash in its safe deposit boxes .***
- *In a letter to its customers dated April 1, 2015 pertaining to its "Updated Safe Deposit Box Lease Agreement," one of the highlighted items reads: "**You agree not to store any cash or coins other than those found to have a collectible value." Whether or not this pertains to gold and silver coins with no numismatic value is not explained.***
- **Here is the single largest bank in the US, forbidding depositors from storing cash in a storage box or safe deposit box at their bank.** And virtually no one even responded in outrage.

MOTIVES - ECONOMIC & BANKING

So what are the motives behind moving to a cashless society?



1-Prevent Bank Runs in the Next Financial Crisis

First the authorities claim it will prevent bank runs in a potential Financial Crisis – or should we say the next financial crisis which they have set-up depositor bail-ins to hold the bag.

Today, anywhere there is any political, economic or financial turmoil, ATM withdrawals are immediately limited or stopped entirely. Being cashless will even avoid this problem.

I just read where Kansas, which is laboring under an $800 million funding gap, **will limit cash withdrawals on state-issued benefit cards to $25 per day starting on July 1, forcing some beneficiaries to go to the ATM more often.** Because the state charges $1 per trip, and because many low-income families do not have a checking account, the new law amounts to a sizeable 'poor tax'.

2-Elimination of Underground & Barter Economies

Next politicians eagerly cite the eliminatio**n** of the Underground & Barter Economies

This will enhance the tax base, as most if not all transactions in the economy could now be traced by government tax surveillance systems.

$2 Trillion Underground Economy May Be Recovery's Savior

Mark Koba | @MarkKobaCNBC
Wednesday, 24 Apr 2013 | 9:52 AM ET
CNBC

Getty Images

Day laborers wait near a Home Depot home improvement store in hope of finding work for the day in Los Angeles, California.

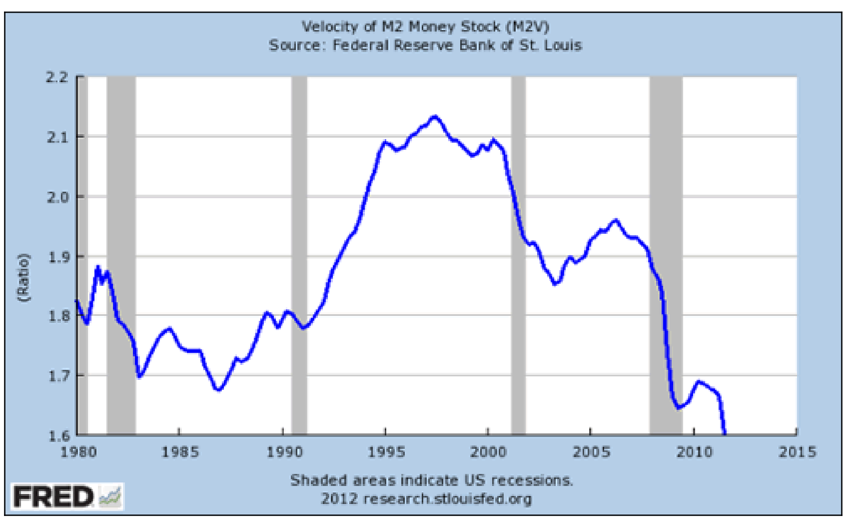
3-Tracking of Tax & Criminal Activity – "Follow the Money"

Tax and Security Agencies tell us that it will allow the tracking of Tax & Criminal Activity. It is the old proverb - "Follow the Money"

This will substantially constrain the parallel economy, particularly we are told in illicit activities.

4-Reverse Falling Velocity of Money – "Hoarding"

The **VELOCITY** of money peaked in 1998 and continues to fall. Economists view that money must be forced to circulate. If nervous consumers won't spend then they must be "incented" to spend or more appropriately - forced to buy something.



5-Banking Profitability – Fees from both Seller & Buyer

Banks want a cashless society because they ensure us it will make things easier and more convenient for us.

What they fail to tell us is that it is a tremendous Bonanza for them.

Most people are well aware of the predatory fees on credit cards not paid on time and outstanding balances.

But that is only part of where the fees are. The seller that accepts a credit card pays what they fee is a stiff fee to allow customers to buy their goods with it.

If we lived in a cashless society you can expect those fees to shoot, if history is any indicator, since you have no alternatives and banks have a monopoly on all transactions. Frankly it is a bankers dream along with politicians who are looking for campaign contributions now that previous campaign finance restrictions have been removed.

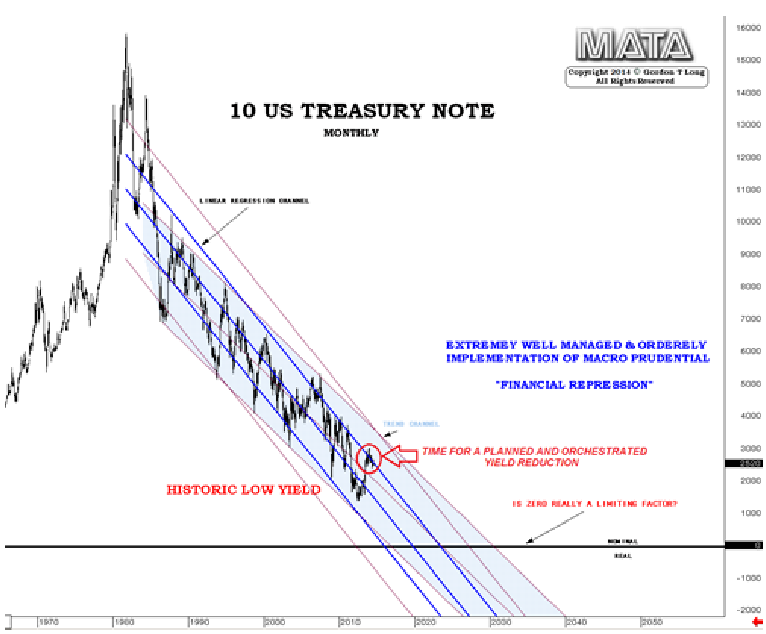
DRIVERS

The Trend is Your Friend

Why are governments rushing to eliminate cash? During previous recoveries following the recessionary declines from the peaks in the **Economic Confidence Model**, the central banks were able to build up their credibility and ammunition so to speak by raising interest rates during the recovery. This time, ever since we began moving toward Transactional Banking with the repeal of Glass Steagall in 1999, banks have looked at profits rather than their role within the economic landscape. They shifted to structuring products and no longer was there any relationship with the client. This reduced capital formation for it has been followed by rising unemployment among the youth and/or their inability to find jobs within their fields of study.

Interest rates have been steadily falling as we approach the zero bound. Is there anything below zero?

Apparently there is as $5 Trillion in bonds are now trading at negative nominal rates. What do they know or see or expect?



Cash Prevents Negative Interest Rates

Consider this fact. When interest rates go down (which the previous chart shows has been steadily occurring) then Bond prices go up. Banks make money on their bond holdings value when rates go down. Fortunes in capital gains have been made with steadily falling interest rate yields.

What this fails to show is that it allows these increased valuations to be used as collateral within the $700T global banking Swaps market.

A question we should ask is “How Can You Have a $700T SWAPS Market within a $72T Global Economy?”

It simply makes no sense until you understand how it has been pyramided.

Cash Prevents Negative Interest Rates

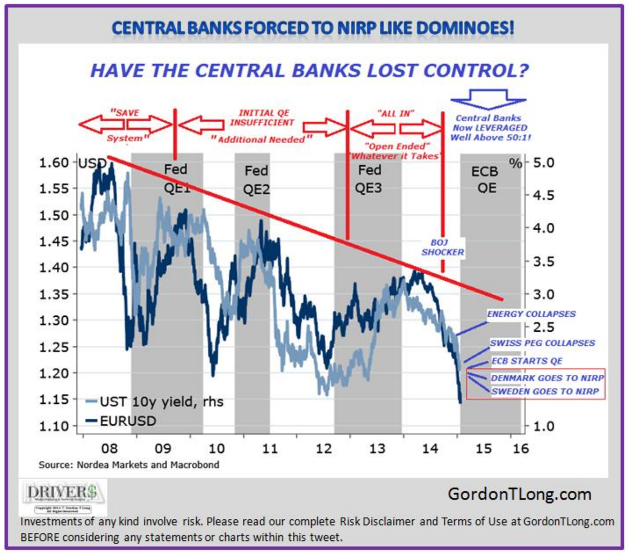
So what’s my point? Well,

“Cash Prevents Negative Interest Rates”

Physical paper money provides the check against negative interest rates for if they become too great, people will simply withdraw their funds and hoard cash.

Paper currency allows for bank runs. Eliminate paper currency and what you end up with is the elimination of the ability to demand to withdraw funds from a bank.

Paper currency is indeed the check against negative interest rates. We need only look to Switzerland to prove that theory. Any attempt to impose say 5% negative interest rates (tax) would lead to an unimaginably massive flight into cash. This was already demonstrated recently by the example of Swiss pension funds, which withdrew their money from the bank in a big way and now store it in vaults in cash in order to escape the financial repression. People will act in their own self-interest and negative interest rates are likely to reduce the sales of government bonds and set off a bank run as long as paper money exists.



Negative Interest Rates to Follow QE

Negative interest rates will follow QE and it is already happening.

Negative Interest Rates to Follow QE?

"ALREADY HAPPENING - $5T IN BONDS"

$5T OF GOVERNMENT DEBT TRADING WITH NEGATIVE YIELDS

Country	% of Debt That Has Negative Yields
Austria	60%
Belgium	46%
Finland	61%
France	60%
Germany	77%
Iceland	32%
Italy	6%
Latvia	0%
Lithuania	26%
Luxembourg	52%
Netherlands	59%
Portugal	8%
Slovakia	35%
Slovenia	5%
Spain	13%

SOURCE: Graham Summers, Phoenix GordonTLong.com

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CONSEQUENCES

Inability to Control Banks

Once cash is outlawed, the government will be in complete control of your financial decisions or so they think.

The introduction of a cashless society empowers central banks greatly. A cashless society, after all, ***not only makes things like negative interest rates possible,*** it **transfers absolute control of the money supply to the central bank**, mostly by turning it into a universal banker that competes directly with private banks for public deposits. All digital deposits become base money.

The law of unintended consequences however IMHO will prevail - society will find some way to get around this - whether it is gold or gift cards or something else.

WHAT TO EXPECT

Taxation – A "Carry Tax"

Graham Summers who I recently interviewed on Macro Analytics raged about the magnitude of the problems today with "Custodial Risk". The only thing he seemed even more upset with is the coming "Carry Tax" on physical cash.

He just published the following in a paper entitled The Secret Fed Paper That Advocated a "Carry Tax" on All Physical Cash 05-16-15 Graham Summers

> Many commentators have noted that mainstream economists are calling to do away with cash entirely.
>
> **It would be easy to scoff at these proposals as completely insane if the Fed hadn't published a paper back in 1999 suggesting the implementation of a "carry tax" or taxing actual physical cash using an expiration date if depositors aren't willing to spend the money.**
>
> The author of this lunacy is **a visiting scholar with the ECB, the Fed, the IMF, and the Swiss National Bank**. The fact that two of those groups have already imposed negative interest rates (ECB and SNB) should give warning that these sorts of ideas are actually taken very seriously by Central Banks.
>
> The paper, written 16 years ago, suggested that if the Fed were to find that zero interest rates didn't induce economic growth, it could try one of three things:
>
> 1) A carry tax (meaning tax the value of actual physical cash that is taken out of the system)
>
> 2) Buy assets (QE)
>
> 3) Money transfers (literally HAND OUT money through various vehicles)
>
> **Regarding #1, the idea here is that since it costs relatively little to store physical cash (the cost of buying a safe), the Fed should be permitted to "tax" physical cash to force cash holders to spend it (put it back into the banking system) or invest it.**
>
> The way this would work is that the cash would have some kind of magnetic strip that would record the date that it was withdrawn. Whenever the bill was finally deposited in a bank again, the receiving bank would use this data to deduct a certain percentage of the bill's value as a "tax" for holding it.

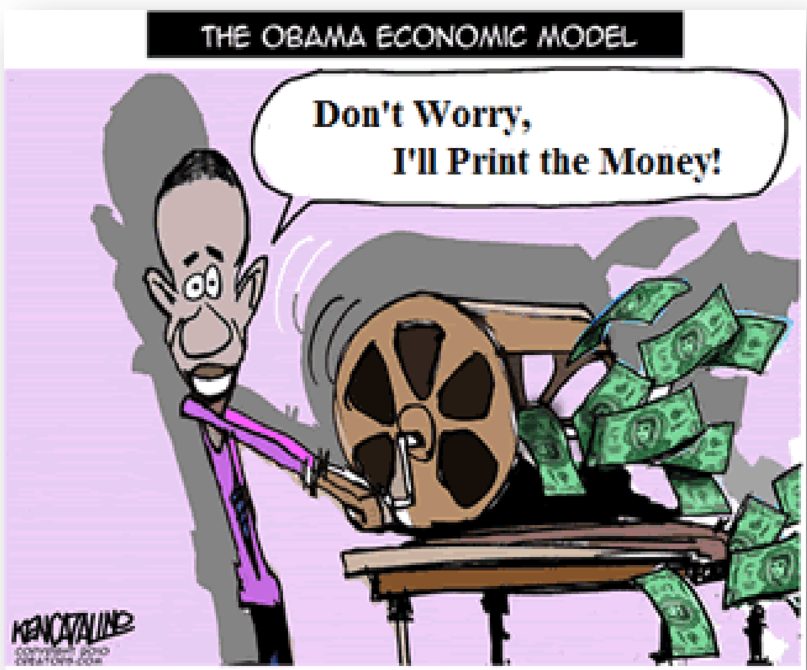
> **For instance, if the rate was 5% per month and you took out a $100 bill for two months and then deposited it, the receiving bank would only register the bill as being worth $90.25 ($100* 0.95=$95 or the first month, and then $95 *0.95= $90.25 for the second month).**
>
> It sounds like absolute insanity, but I can assure you that Central Banks take these sorts of proposals *very seriously.* QE sounded completely insane back in 1999 **and we've already seen three rounds of it amounting to over $3 trillion.**
>
> No one would have believed the Fed could get away with printing $3 trillion for QE in 1999, but it has happened already. And given that it has failed to boost consumer spending/ economic growth, I wouldn't at all surprised to see the Fed float one of the other ideas in the coming months.

I really don't think I can add anything further.

Never Forget – They Will Print the Money

Other than to say – don't worry:

"Never forget throughout this turmoil: "They will print the money!"



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