Beat: Miscellaneous

Tax evasion and crime: the truth about cash

Cashless economy will not prevent crime

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USPA NEWS - Government agencies across Europe are putting up feeble resistance, in private bank´s plans to eradicate cash from our economies. The bank´s argument, for the state to enable the complete cashless revolution, is that tax evasion will no longer be possible. But the truth is such a drastic move would do little to help the government´s fiscal goals and would bring great harm to the economy. India tried, and caused a national disaster.

Banks are in a slow and steady war effort against physical currency. According to banks, the cashless trend is being driven by customers, not by banks. While it is true that consumers are naturally turning to new mobile and online payment solutions, the claim that this indicates that people want cash to disappear is a stretch. Australian Citibank inaugurated the new phase of cashless banks in 2016, which has now spread to other countries. Banks now make their main profits from asset management, hedge funds and high-frequency trading, and have moved on from the days where the way to success was by wooing customers into depositing their banknotes. Nowadays, the profit made from such deposits is minimal, and whichever money is made with traditional banking services will be hard-earned, compared to what a hedge fund can do with a few clicks in a back-office.

Governments, until now, have somewhat resisted banks, due to the fact their mints and their capacity to produce currency is a symbol of their authority. But banks have coined a few arguments specifically for governments, in the attempt to mollify them. Governments spend billions fighting tax evasion and crime, which banks are keen to associate to cash. Cash is the only payment system which involves no other party, be it public or private. It therefore eludes government surveillance, which is a thorn in the State´s side. The private nature of cash has many implications for public agencies. Police agencies are unable to detect transactions without investigating - when they would rather receive an automatic email updating them on criminal activity. And tax offices relish at how much of the cash pool they could levy taxes on. In recent years, the European central bank has reduced the amounts with which any given citizen can make purchase in cash or move from one country to another.

NBC Julia Boorstin writes: “Bribery, tax evasion, money laundering, counterfeiting, corruption, even the finance of terrorism. These are among a long list of crimes enabled by the use of "cash." The attempt to crack down on these crimes is driving governments and a range of companies to pursue the potential of a cashless society.“□ Similar restrictions are in effect in America and throughout the world. Combined with heavy communication, praising the virtues of cashless instruments, governments are now putting the squeeze on cash too, with discontinued series, and limits on possession, transfer and payments.

Of course, this argument is outdated at best, and outright bent at worst. The days when criminal and tax avoiders used cash are long gone, and the crime mostly occurs online. The globalized and digital world now offers anyone who wishes to move money quietly every ability to do so, from shell companies made remotely in tax havens in a few minutes, to temporary mobile payments. In recent years, terrorist organizations have used all the payment instruments which the financial system offers (including cryptocurrency), the least of which being cash. Criminal and fraudulent organizations now use shell companies in order to blend in with regular businesses and move large amounts quickly and safely. In 2017, Mumbai Mirror reporter Mumbai Madgil reported the detection of tens of thousands of such structures, in a single city: “Over 60,000 companies in Maharashtra are shell entities with no active business operations or staff, and of these, about 70 per cent are based in Mumbai, it has emerged.“□ Regardless, governments and central banks are increasingly sensitive to the banking sector´s wishes, and blames cash for crime and tax evasion, so as to justify the nudging out of currency.

Tax evasion is also used by authorities to justify the sacrifice of currency, and thus falls in a similar configuration as crime and terrorism: although it is still technically possible to evade taxation using cash, the method has long been replaced by more advanced tax-dodging systems. Accounting expert J. Farok lists the six most common methods to avoid taxation, none of which being cash-based, and says: “Because of a US tax provision, between $2.1 and $3 trillion in accumulated profits of US multinationals´ foreign affiliates have not been repatriated back to the home country.“□ Nowadays, headquarter relocations, transfer pricing, abusive contract clauses and quick money transfers make the business of dodging the taxman far more efficient than in the “banknote suitcase“□ days.

India has provided anyone who wishes to reflect upon the banking sector´s demands with a telltale example. India has a cash-based economy, where over 80 % of transactions are carried out with banknotes. Banks in India are therefore left in the dark and hungry for their own market. This amounts to billions of potential mortgages lost for banks, or at least commissions in the operation. Prime minister Modi granted the bank´s wish in 2016, with devastating consequences on the economy. The official reason put forward was black money: undeclared and tax free (which amounts to about all the money in India), and suspected of financing crime and terrorism. Rediff reporter Colonel Anil Athale had written a few days after the demonetization reform: “Within days of Prime Minister Narendra Modi's demonetization announcement, two terrorists killed at Bandipora in Kashmir were found with brand new Rs 2,000 notes! The incident clearly showed the umbilical link between terrorism and money“ those objectives were stated truly, then they were not achieved.

To which Dr Ursula Dalinghaus, scholar at the IMTFI, replies: “Curtailing cash will do little when criminals already make use of a diverse portfolio of payment technologies and types. [...] Increasingly, electronic forms of transmitting and converting value are just as essential, if not more so, in supporting criminal as well as terrorist activities.“ Indeed, no signs of criminal decrease have appeared since 2016 in India, despite the drastic move.

Every government downfall has occurred during a grab for more power. The British lost America when trying to establish a dictatorial regime, and India nearly destroyed its economy in the rush for so-called black money. If governments allow for the cashless push to continue in order to contain fiscal evasion, it is certain to achieve nothing more than a sword strike through water. Citizens will undoubtedly lose both freedom and convenience. The only winners, in the end, will be banks.

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