Is Cash Costing Us Money?

Currency Use and Its Effects on Consumers, Retailers, Banks and Government

A Research Study by the Center for Emerging Market Enterprises, The Fletcher School, Tufts University

Preliminary Framework

2011-2012

What’s the matter with cash? After centuries as king, cash today faces competition. Private vendors have introduced a host of substitutes that they claim are simply better than paper currency. Are they? Will dollar bills be displaced, or will cash continue to play a major role in the economy? Beginning with the United States market, this study will evaluate the costs and benefits of cash payments to various stakeholders in the economy: consumers, merchants, and institutions that offer a safe and stable supply of paper money.

Substitutes for cash have been around for decades, but cash substitutes mean different things to different people: e-purses, smart cards, prepaid credit cards, smartphone apps, web-based bank transactions, precious metals, and completely virtual currencies. Each of these provides some degree of substitution for cash. They also have profound implications for financial services, financial oversight, and transaction settlement, as well as consumer privacy, convenience, and security. How well does cash achieve these goals? And what do consumers give up when they are forced to use (or to avoid) cash? Although we know from survey evidence that consumers care about these issues, we need to understand what they are worth.

In collaboration with partners across sectors, the study aims to:

- Convene an academic symposium with stakeholders to surface key issues and explore project frameworks (October/November 2011)
- Generate white papers and articles examining cash use and its impacts, focusing initially on the U.S. market (November 2011-June 2012)
- Host a conference blending academic research and industry outlooks (September/October 2012)
- Pursue publication opportunities in academic and practitioner journals (ongoing)

Payments economics is a young and dynamic field of inquiry. Economists are still grappling with foundational issues, such as which stakeholders to consider in payment decisions, how to evaluate the efficiency of different means of payments, and how consumers choose among them. We know a great deal more about electronic payments than we did ten years ago, but a complete model of cash payments remains elusive.

The Center for Emerging Market Enterprises (CEME) is a hub for research, study, and networking conceived for emerging and frontier market-focused consulting, training, management, and policy.

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