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DEMATERIALIZED COINS TO SUPPORT CONSUMPTION AND SHOPS

By Marcello Minenna

According to the latest data from the Bank of Italy, the value of the net issuance of coins in Italy exceeds €4.6 billion. Out of these, €1.4 billion are coins of modest face value that, in part, lie unused in Italians' piggy banks. The remaining €3.2 billion coins represent, together with banknotes, the total cash whose use, as well-known, is not traceable, precisely as the one of cryptocurrencies. A feature that clearly makes it a suitable instrument to favor the shadow economy and other illegal activities, with poor effectiveness of the attempts to contrast by the competent authorities.

In reality, today modern technologies, in particular digital ones, would allow us to easily realize a State (or central bank) dematerialized currency capable of quickly putting unused metal money back into circulation in a safe way that can be monitored by the institutions; this way, it would be launched the first stage of a transition that perspectively could include also banknotes.

The idea is to allow all citizens to deposit their coins in a payment card similar to those used for meal vouchers or for the Italian citizenship income or, alternatively, in an e-wallet directly accessible from their devices through a dedicated app.

Relevant information on the position of each user would be collected in a database of the Ministry of Economy and Finance. In the case of e-wallets, it could be envisaged the use of data recording and storing solutions based on distributed ledger technologies (DLT), working in a very similar way to the blockchain where crypto-trades take place on a continuous basis. The main difference is that, while the blockchain can be accessed anonymously and without the need for authorization, and any user can make and record a new transaction, the DLT to be used for transactions via e-wallets would require adequate access credentials to easily identify the user and would limit the transactions only to the circuit of operators authorized on the basis of specific regulatory provisions.

Liquidity available in dematerialized mode would be usable by the holders only at small to medium sized businesses located within national borders. This would ensure that, at least as regards the first order effects of this initiative, domestic economy would be the main beneficiary, with a special consideration to small distribution weakened by unfair competition from large retailers and e-commerce giants, both often located abroad.

To incentivize this "transparent shopping", the government could provide for consumer vouchers worth between 10% and 20% of the amounts deposited by the users and expendable within a given expiration date. This would encourage the use of available balances in the short-medium term, supporting private consumption – and, therefore, domestic demand – in a particularly delicate moment for economic activity.

Some facility could be considered also for commercial businesses, for example in the form of a tax credit on the transactions carried out on customers' digital wallets or payment cards. The purpose of such a facility would be to bring into the light a part of the shadow economy, while also ensuring that the numerous abusive sellers of various items are excluded upstream from this circuit of trades.

The increase in public spending due to the proposed measure can be estimated in about €500-600 million but it would be offset, at least in part, by the larger tax revenues connected to the positive effects on GDP of an increase in private consumptions. Targeted fiscal incentives tend, in fact, to increase individuals' marginal propensity to consume, i.e. the share of disposable income allocated to purchases, with a consequent increase in the consumption multiplier as greater spending generates more disposable income and so on.

Further benefits for the public accounts would also come from the recovery of tax revenues on a part of the incomes which are currently undeclared and from the reduction in coins' minting and management costs: at least for small denomination coins, such costs are often higher than the corresponding face value (minting of 1 and 2 cents coins has been discontinued since 2018).

The proposal described so far has similarities with various initiatives implemented by governments and central banks in the past and also in recent times. In Italy, for example, it shares some features with the €80 tax credit given monthly to some taxpayers since 2014 to stimulate consumption. According to a 2017 ECB study, the beneficiaries spent on average between 50% and 60% of this credit, with an overall contribution of around 40% to the increase in Italian consumptions recorded in 2014.

Recently, as part of the relief packages for families in a period of economic fragility aggravated by the outbreak of the coronavirus, Singapore has decided to give each citizen aged 21 or older a one-off cash payout of between $100 and $300 (depending on the income earned in 2019), plus an additional $100 cash to families with at least one child aged 20 or older. Similar measures have been adopted also by Hong Kong ($1200 for each resident aged 18 years and above), Japan ($40 a day for self-employed workers forced to leave their jobs to look after their children due to school closures), Macau ($375 for each resident spendable for retail items within the country) in order to support consumption and businesses and safeguard jobs. Australia is also considering the introduction of similar measures.

With respect to fiscal (pseudo)-helicopter money initiatives, the main novelty of the dematerialization of physical currency, combined with suitably calibrated consumer vouchers and tax credits, would be the limited impact on public accounts and on the net money supply. In fact, while the initiatives mentioned above are fully funded with public spending, the proposed intervention relies on the prevalent contribution of individual citizens and on a very limited involvement of the State. And, as long as it remains a one-off measure on existing cash and, to a marginal extent, on the public budget, it would not lead to a permanent increase in Italy's monetary aggregates within the Euro-system.

On the other hand, it is important to stress that this proposal does not pretend to be a remedy for the serious contingent situation that Italy is facing due to the spread of the Covid-19 infections. Rather it aims at suggesting one possible measure for the policy mix that the country will inevitably have to implement in order to restart once the health emergency is over.

Looking ahead, in light of the results of the pilot-phase circumscribed to coins, the extension of similar measures to banknotes could also be considered. In Italy, as in many other European countries, cash is still the preferred payment method covering over the 60% of total payments, but the worldwide development of digital currencies and the increasing people's familiarity with cashless payment solutions hint that the time is ripe to start the transition at least on part of the cash.

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