

Cash's Atlantic Divide

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Why Europeans use more cash than Americans do.

Cash use by country varies enormously. While its use has been falling on both sides of the Atlantic, Europeans use considerably more cash than Americans do. European culture, higher taxes, and lower consumer incentives to use electronic payment systems contribute.

The European Central Bank's [Study on the Payment Attitudes in the Euro Area 2022](#) reported that 59 percent of consumer payments in the euro zone at the physical point of sale were made in cash. Seventeen percent of payments in the euro zone in 2022 were online. Online payments are almost entirely electronic, so roughly 49 percent of all consumers' payment transactions in the euro zone were in cash. Across the Atlantic, the Federal Reserve's [2024 Findings from the Diary of Consumer Payment Choice](#) reported that only 18 percent of all U.S. consumer payments were made in cash in 2022 and 16 percent in 2023; payments by check are considered noncash transactions.

Every country has an informal economy of activities hidden from government to avoid taxes and regulation, or

for institutional reasons. If people want to avoid paying sales, value-added, and income taxes, they don't pay with or accept credit and debit cards. They pay in cash. If the business is small or medium-sized or a sole proprietorship, it's easier to keep the sale off the books, and both the seller and buyer profit.

With the exception of Switzerland, Europe's shadow economies are larger than America's, most far larger.

Economists Leandro Medina and Friedrich Schneider's fascinating research ["Shedding Light on the Shadow Economy"](#) estimated the size of informal economies in countries worldwide. There's enormous variation. They estimated that at the extremes, Switzerland's and Bolivia's shadow economies in 2017 were 5.4 percent and 55.8 percent, respectively, of each country's total economy.

Medina and Schneider estimated that in 2017, America's shadow economy was 5.7 percent and, in the euro zone, Greece's, Spain's, Italy's, Belgium's, and Portugal's shadow economies were 24.8 percent, 20.3 percent, 19.8 percent, 16.5 percent, and 16.1 percent, respectively, of the total. Northern European countries' gray economies, while larger than America's, aren't that much larger.

Cultural attitudes matter. Francis Fukuyama in [*Trust: The Social Virtues and the Creation of Prosperity*](#) observed that most countries are "low-trust," meaning that people don't trust those outside their families or inner circles. Cheating on taxes is more culturally acceptable in low-

trust societies. America is a high-trust society. Much of Southern and Eastern Europe is low-trust.

When tax avoidance is widespread, law-abiding taxpayers have to pay more. Making the use of electronic payment systems more attractive would make it more difficult for individuals and firms to operate in the shadow economy and thereby potentially enable lawmakers to reduce tax rates.

Irrespective of the relative tax burdens, incentives to use electronic payment systems are greater in the U.S. than in Europe. American cardholders are richly rewarded for paying with credit cards. A more robust revolving-credit market and market-interchange fees funding a buffet of benefits and rewards make credit cards a more compelling consumer proposition in the United States. Consumers pay with cards for convenience, record-keeping, and because often they're rewarded handsomely for doing so. In 2023, 57.3 percent of U.S. general-purpose card payments' value and 40.3 percent of transactions were credit. Whereas in the first half of 2023, only 8.8 percent of EU general-purpose card payments' value and 8.1 percent of transactions were credit, and the rest were debit-card payments.

The EU has reduced people's incentives to pay electronically. Interchange fees paid by merchants fund cardholder rewards and benefits, and fee-free accounts. Brussels imposed punitive price caps on credit and debit interchange fees of 30 and 20 basis points, respectively. In 2022, the average U.S. market debit-interchange fees

for bank issuers with under \$10 billion in assets of Visa, Discover, and Mastercard debit cards [were 143, 141, and 137](#), respectively — roughly 600 percent higher than the EU's very slight price control. Some U.S. premium-credit interchange rates are 800 percent higher. U.S. card issuers, consequently, have far greater revenue to fund incentives for cardholders.

Because of interchange price controls, European programs rewarding card use, to the extent they exist at all, are stingy. That accounts, at least in part, for why credit-card use is much less prevalent and cash use is higher in the EU.

There's a place for cash in the mix of payment systems that consumers use. Many countries in Europe ban cash transactions above a certain threshold to try to curb the gray economy. Far better to let consumers use the full range of competing electronic and paper payment systems as they see fit.

Enabling the payments industry to more richly incentivize Europeans to make card payments won't eliminate cash or the gray economy, but it would reduce both.



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