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## The Sinister Side of Cash

By KENNETH S. ROGOFF

Paper money fuels corruption, terrorism, tax evasion and illegal immigration—so the U.S. should get rid of the \$100 bill and other large notes



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When I tell people that I have been doing research on why the government should drastically scale back the circulation of cash—paper currency—the most common initial reaction is bewilderment. Why should anyone care about such a mundane topic? But paper currency lies at

the heart of some of today's most intractable public-finance and monetary problems. Getting rid of most of it—that is, moving to a society where cash is used less frequently and mainly for small transactions—could be a big help.

There is little debate among law-enforcement agencies that paper currency, especially large notes such as the U.S. \$100 bill, facilitates crime: racketeering, extortion, money laundering, drug and human trafficking, the corruption of public officials, not to mention terrorism. There are substitutes for cash—cryptocurrencies, uncut diamonds, gold coins, prepaid cards—but for many kinds of criminal transactions, cash is still king. It delivers absolute anonymity, portability, liquidity and near-universal acceptance. It is no accident that whenever there is a big-time drug bust, the authorities typically find wads of cash.

Cash is also deeply implicated in tax evasion, which costs the federal government some \$500 billion a year in revenue. According to the Internal Revenue Service, a lot of the action is concentrated in small cash-intensive businesses, where it is difficult to verify sales and the self-reporting of income. By contrast, businesses that take payments mostly by check, bank card or electronic transfer know that it is much easier for tax authorities to catch them dissembling. Though the data are much thinner for state and local governments, they too surely lose big-time from tax evasion, perhaps as much as \$200 billion a year.

Obviously, scaling back cash is not going to change human nature, and there are other ways to dodge taxes and run illegal businesses. But there can be no doubt that flooding the underground economy with paper currency encourages illicit behavior.

Cash also lies at the core of the illegal immigration problem in the U.S. If American employers couldn't so easily pay illegal workers off the books in cash, the lure of jobs would abate, and the flow of illegal immigrants would shrink drastically. Needless to say, phasing out most cash would be a far more humane and sensible way of discouraging illegal immigration than constructing a giant wall.

To be clear, I am proposing a “less-cash” society, not a cashless one, at least for the foreseeable future. The first stage of the transition would involve very gradually phasing out large

denomination bills that constitute the bulk of the currency supply. Of the more than \$4,200 in cash that is circulating outside financial institutions for every man, woman and child in the U.S., almost 80% of it is in \$100 bills. In turn, \$50 and \$20 bills would also be phased out, though \$10s, \$5s and \$1s would be kept indefinitely. Today these smaller bills constitute just 3% of the value of the currency supply.

The point of getting rid of big bills is to make it harder to carry and store large amounts. A million dollars in \$100 bills weighs approximately 22 pounds and can fit comfortably into a large shopping bag. With \$10 bills, it isn't so easy. Think of lugging around 220 pounds in a giant chest. Hoarders and tax evaders would find small notes proportionately costlier to count, verify, handle and store. The use of cash could be further discouraged by putting restrictions on the maximum size of cash payments allowed in retail sales.

The fact that large notes are used far more for illegal activities than for legal ones long ago penetrated television, movies and popular culture. Viewers of the television series "Breaking Bad," about a high-school chemistry teacher turned crystal-meth drug lord, got a fair taste of how cash is earned, spent and laundered in criminal activities.

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Policy makers have been far slower to acknowledge this reality. They point to the popularity of U.S. currency abroad, particularly in some governance-challenged countries like Russia, where it is not unusual to pay for an apartment with a briefcase full of U.S. \$100s. At one time, the Fed and the Treasury insisted that foreign demand explained as much as 70% of the demand for U.S. currency. But this argument has withered in the face of cross-country evidence, which suggests that at least a large fraction of dollars must be held in the U.S. underground economy (as I showed [in a research paper](#) almost two decades ago). Even the Fed now estimates that less than half of all dollars are abroad.

If cash is so bad, why retain small bills of \$10 and under? For one thing, cash still accounts for more than half of retail purchases under \$10, though the share fades off sharply as payment size rises, with debit cards, credit cards, electronic transfers and checks all far more important than cash for (legal, tax-compliant) payments over \$100.

Many low-income individuals still rely heavily on cash, although of course they aren't the ones carrying wads of \$100s. It wouldn't cost much to have the government or financial institutions provide them with debit cards. This would also make it simpler, safer and less expensive for the government to make transfer payments. Several Scandinavian countries have already taken this step.

Retaining small notes alleviates a host of problems that might arise if cash were eliminated entirely. For example, cash is still handy if a hurricane or natural disaster knocks out the power grid. Most disaster-preparation manuals call for people to keep some cash on hand, warning that ATMs might be paralyzed.

But times are changing. Nowadays, cell towers and large retail stores typically have backup generators, allowing them to process bank cards during a power outage. And there are always checks. In due time, smartphone technology is likely to overtake all other media, and one can always keep a spare charging cell for emergencies.

Perhaps the most challenging and fundamental objection to getting rid of cash has to do with privacy—with our ability to spend anonymously. But where does one draw the line between this individual right and the government's need to tax and regulate and to enforce the law? Most of us wouldn't want to clamp down on someone's right to make the occasional \$200 purchase in complete privacy. But what about a \$50,000 car or a \$1 million apartment? We should be able to reduce the problems I've described here while also ensuring that ordinary people can still use small bills for convenience in everyday transactions.

Won't the private sector continually find new ways to make anonymous transfers that sidestep government restrictions? Certainly. But as long as the government keeps playing Whac-A-Mole and prevents these alternative vehicles from being easily used at retail stores or banks, they won't be able fill the role that cash plays today. Forcing criminals and tax evaders to turn to riskier and more costly alternatives to cash will make their lives harder and their enterprises less profitable.

Some might argue that scaling back U.S. dollars will work only if there is coordination among all the major economies, since American criminals and tax evaders will just turn to euros if they have to. This is very unlikely. Few U.S. retail outlets accept euros, banks already have to file reports on large cash deposits, and there is a \$10,000 cap on how much cash you can bring into the U.S. or take out without filing a customs form.

Yes, the U.S. government saves on borrowing costs by printing lots of money as opposed to issuing Treasury bonds, which must pay interest. But the effect of that flood of cash is to make life easier for Russian oligarchs, Mexican drug lords and global human-trafficking operations. The higher revenue from eliminating cash (and thus much tax evasion) would likely exceed the revenue that the U.S. Treasury currently gets from greasing the wheels of global crime, and there would be huge direct and indirect benefits from lower crime rates. In any event, if the U.S. took the lead, other advanced nations would eventually be shamed into following suit.

The tax and crime angle is reason enough to shred the world's mountains of paper currency. There is, however, a very different and perhaps surprising rationale, having to do with the ability of central banks to deal with financial crises and deep recessions. Why? Because for all the polemical debate surrounding fiscal policy, monetary policy remains much the preferred first line of defense in dealing with recessions.

Cutting interest rates delivers quick and effective stimulus by giving consumers and businesses an incentive to borrow more. It also drives up the price of stocks and homes, which makes people feel wealthier and induces them to spend more. Countercyclical monetary policy has a long-established record, while political constraints will always interfere with timely and effective fiscal stimulus.

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*Almost 80% of the cash circulating outside financial institutions is in \$100 bills*  
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Since 2008, however, monetary policy has started to look less and less nimble. Most central banks found that once they brought interest rates down to (around) zero, their remaining options were very limited. This has left many central banks wishing that they had the capacity to take interest rates below zero.

What does that mean? When a loan has a negative interest rate, the borrower's payments actually add up to less than the original debt. Several central banks (including the European Central Bank and the [Bank of Japan](#)) have experimented with such policies. For savers, it has the opposite effect: Money left in a bank deposit or a money-market fund keeps shrinking because of negative interest rates.

In principle, cutting interest rates below zero ought to stimulate consumption and investment in the same way as normal monetary policy, by encouraging borrowing. Unfortunately, the existence of cash gums up the works. If you are a saver, you will simply withdraw your funds, turning them into cash, rather than watch them shrink too rapidly. Enormous sums might be withdrawn to avoid these losses, which could make it difficult for banks to make loans—thus defeating the whole purpose of the policy.

Take cash away, however, or make the cost of hoarding high enough, and central banks would be free to drive rates as deep into negative territory as they needed in a severe recession. People could still hoard small bills, but the costs would likely be prohibitive for any realistic negative interest rate. If necessary, central banks could also slap temporary fees on any large withdrawals and deposits of paper currency.

Economists generally like the idea of adding negative interest rates to the tool kit of central banks. John Maynard Keynes weighed it quite seriously in his great work “The General Theory of Employment, Interest and Money” (1936). He was writing, however, in an era before electronic banking, so he saw it as a thoroughly impractical idea.

Not everyone likes negative rates. There is particularly strong resistance from the financial sector, which worries about the difficulty of passing negative rates on to small depositors. But these concerns can be significantly alleviated. Banks could be compensated for allowing zero-interest rate deposits of up to, say, \$2,000 per citizen.

Others worry that negative rates will push banks, if not the entire financial sector, to engage in reckless risk-taking, which is threat enough with interest rates at zero. But if a strong dose of negative rates can power an economy out of a downturn, it could bring inflation and interest rates

back to positive levels relatively quickly, arguably reducing vulnerability to bubbles rather than increasing it.

In sum, there are many issues to take into account, but if done gradually and properly, the balance of arguments is distinctly in favor of becoming a society that depends much less on cash.

Will it ever happen? I believe the time has come. Finance ministries are desperate to collect more tax revenues without raising tax rates. Homeland-security agencies are concerned about how cash facilitates terrorist financing. Justice departments are as worried as ever about the role of cash in crime. For immigration authorities, it sure beats building walls.

Cash is intimately familiar to all of us, woven into the fabric of our lives and our experiences as consumers and businesspeople. But governments have let cash supplies get way out of hand, to the benefit of criminals and tax evaders everywhere. It is time, at last, to get rid of all those \$100 bills.

*Dr. Rogoff is Thomas D. Cabot Professor of Public Policy at Harvard University and the former chief economist of the International Monetary Fund. This essay is adapted from his new book, "The Curse of Cash," which will be published in September by Princeton University Press.*