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Maybe it's time America gets rid of most of its cash

By Ana Swanson September 27

The U.S. dollar is usually seen as a symbol of America's strength and economic dominance. But the mighty greenback may not be all it's thought to be.

In a new book, "The Curse of Cash," Harvard economist Kenneth Rogoff argues that paper currency, especially large-denomination bills, may be undermining America's success by facilitating crime, corruption, tax evasion and illegal immigration. As Rogoff explains, the cash economy has also limited what economic planners around the globe could do to revive their countries after the recession.

I recently spoke with Rogoff about some of the surprising advantages that phasing out large bills could bring. The interview has been edited for length and clarity.

Many places have already phased out very large notes — the 500 euros note, Canada's $1,000 bill, the 10,000 Singapore dollar note, and Sweden's 1,000-krona note. Could America's $100 bill, the $50 and the $20 be next?

This idea of getting rid of cash sounds radical. But you point out that the history of money has included an incredible amount of evolution, right?

I'm for less cash, not no cash. But probably we're not going to have any paper currency in 50 or 75 years, 100 at most. It will all be electronic, maybe in ways we can't even imagine at the moment. We're clearly in a transitional state. Debit cards have exploded, smartphone variants are coming.

So it's happening. A lot of my kids' friends don't even carry cash around. My son worked at Starbucks a summer ago, and I went in, and I use cash. I'm old, basically. I paid in cash, and my son said, 'Dad, you're the only person who has paid me in cash today.' He might have been joking a little, but not much.

So yes, we live in a history of change, and change will surely come again.

What do you see as the ideal form of money?

My plan is to keep $10 bills and less around forever. There are needs still for physical cash: for privacy, to use after a disaster like Hurricane Sandy, for low-income people. The kind of transactions that take place in poor communities, or sending your kid to the store, that's not going to change.

But most other transactions should be electronic. I think smartphones will take over as the way of doing transactions. In Sweden, if I want to buy your television set at midnight, I just pay you on my smartphone, and the transaction clears immediately. That technology is here in the Nordic countries. In the U.S., it's very inferior by comparison.

In your book, you describe a stunning amount of cash in circulation around the world, especially U.S. dollars. How much is out there, and why?

The U.S. had $4,200 in paper currency in circulation, outside of banks, at the end of 2015 for every man, woman and child. Just shy of 80 percent of that is in $100 bills, which amounts to $3,400 in $100 bills for every American man, woman and child. Certainly some of that is abroad. Let's say at least half of it is in the U.S., which means the average American should be holding 15 or 20 $100 bills.

However, the surveys the Fed has done find maybe 5 percent of people holding a $100 bill. These bills are not in cash registers, they are not in businesses, they are not in wallets. The truth is, we don't know exactly where they are. But we know that when there are crime busts, drug busts, tax-evasion cases, political corruption cases, they find piles of cash. Cash is used very intensively in crime.

How much would eliminating large bills cut back on crime? There would still be crime, but I think a number like 5 or 10 percent is not a wild-eyed number. The benefits of that are very hard to put a number on, but it might be very significant, if you look at the human cost.

You also say eliminating cash could go a long way to solving illegal immigration, since most businesses that hire illegal immigrants are paying them off the books in cash. Eliminating cash could be a much easier and more effective solution than building a big wall.

First, let me say that I favor expanded legal immigration and a fairly broad amnesty program for undocumented illegals who are here already. Certainly, employers pay illegal immigrants in cash, and they pay them off the books. Now, they're not giving them $100 bills. So if you really want to target this, you'd need to use more restrictions further down the road, for example on very large cash deposits. But in the long run, I do think it's reasonable for countries to be able to control their borders, and in a world where cash was used less, it would be easier to do.

Your book gets into some interesting ethical arguments about how much control the government should have over private activity. There are some strong objections to eliminating cash, since it allows for anonymous transactions. Eliminating cash would give the government much greater oversight over how people are spending their money — which is partly the point of the proposal, of course.

Of course, that point is important. The question is: What size transactions do we want to make super easy to be anonymous, and what size don't we? If we just had $10 bills, it's really not very hard to pay $1,000 or $2,000. But do we want to allow people to buy a $50,000 car, an $8 million house, a $1 million apartment with cash, as they do today? That's very seldom because they didn't trust banks. There's almost invariably some element of crime, tax evasion or something else going on in these cases.

So, we're trying to strike a balance. If we get rid of the big bills, it makes it harder for someone to run a human-trafficking or drug-trafficking operation. For most people, you can do your everyday anonymous transactions pretty easily. If they had occasion for something on a really large scale, it could be done. You could use gold coins, you could use uncut diamonds. But it would make it much harder for criminal operations, and that's the conversation I'm looking to provoke.

Given the political objections to government scrutiny, do you see this as something that is politically possible?

I'm writing about an idea, and if it doesn't come into play for 10 or 20 years, so be it. I wrote my first paper on this subject 20 years ago now. Today, there's a lot of interest at the technocratic level, from justice departments and finance ministries, who are under pressure to raise taxes without raising tax rates. Central banks are also very interested as a long-term way to move effectively to negative interest rates, which is a whole can of worms conceptually to explain.

Right. So I'm going to ask you to explain that can of worms. You say that eliminating cash also has an important collateral benefit — it's the simplest and more elegant approach for central banks to set negative interest rates, where depositors essentially pay banks for the privilege of holding their money, rather than vice versa.

You say that the "the zero lower bound," which prevents banks from setting negative interest rates, is something the policy world is hugely uneasy about. How should the average American understand this issue?

In the middle of the financial crisis, there was a freeze-up in lending, investing and consuming. Central banks wanted to cut interest rates to try to propel money out into the system, to try to get people to spend more money, to reflate the economy.

But central banks quickly moved interest rates to zero, and they couldn't move farther. There were a few obstacles, but the big one is they were worried about people hoarding large amounts of cash, because cash pays zero as things stand right now, which is more than people would receive with negative interest rates. We're not talking about just ordinary people — they were worried about pension funds and insurance companies building vaults and filling them with cash. And if everyone pulled their money out of the banking system and Treasury bills, they can't create negative rates. On top of that, if money is being pulled out of the system, it is not being lent to businesses.

I want to be super clear: Negative interest rates alone will not solve everything. You need to do many other policies. But the fact that monetary policy has been paralyzed because of the zero lower bound has hurt, and it will hurt in the next recession.

The European Central Bank, the Nordic central banks, the Bank of Japan, they have tiptoed into negative rate territory, but they haven't been able to do much, because they're worried about the run into cash.

If you look at what's happened in Europe and Japan, Japan has done quantitative easing on a scale that's already triple what the U.S. has done. Europe is on track to buy up 20 percent of all corporate bonds within the time frame of their new quantitative-easing policy, and it's not working very effectively. I think negative interest rates would be vastly more effective. Central bankers can't come out and say that, but I think they all wish they had that tool. Not so they could use it today, but if something really bad happens.

Let's say the U.S. were to phase out most cash over a 10-to-15-year period and we had the ability to implement negative interest rates. How do you think this transition would affect the global economy?

It would be the healthiest and most transformative change in monetary policy since the end of fixed exchange rates. It would be on par with the end of the gold standard. And the change is coming, whether or not they actually phase out larger bills. There are other ways to do it. You can basically tax currency, by charging people when they turn currency in at the bank, which is an idea that I trace back to Kublai Khan.

I think implementing negative interest rates would probably benefit the U.S. disproportionately. We would probably get accused of competitive devaluation, because if you can go to a negative interest-rate policy, it's going to depreciate the exchange rate. That said, if you wait a year or two after the policy, the negative interest rate will be gone, the U.S. economy will have strengthened, and the dollar might be higher than where it started. It's certainly going to be controversial, but it might not be as bad as what we have now. Now no one really knows what central banks are going to do, because they're flailing away at the zero bound trying to find something that works, and it creates an enormous amount of uncertainty.

So negative interest rates are going to come. Central bankers need them in the current environment. In 10 to 15 years, certainly in 20 years, if it's needed, they'll have figured out how to do it. And when they finally find a way, I think it will be regarded as leading to a better and healthier financial system.

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