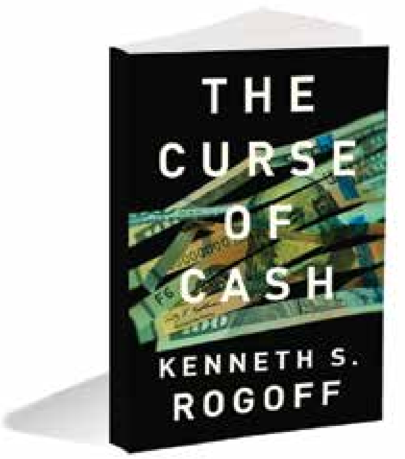
A Barbaric Relic



Kenneth S. Rogoff

The Curse of Cash

Princeton University Press, Princeton, New Jersey, 2016, 248 pp., $29.95 (cloth).

The Johns—Law and Keynes—strove to defenestrate gold, and they rather liked fiat paper. But advances in payment technology have always driven both new payment media and monetary theory. Technology is such that physical media *can* now mostly be abandoned in wired societies. In *The Curse of Cash*, Kenneth Rogoff passionately presses the case that they *should* be eliminated because the social ravages of paper currency far outweigh the benefits.

If such a plan is ever fully implemented, this book will have been at least its initial, if not ultimate, blueprint. Meticulously written, it covers everything needed for such a monetary reform. But the book is not excessively polemical. Rogoff details almost all the arguments against tinkering with paper currency, then labors to refute or defuse them.

The plan allows for both macroeconomic reform and possibly massive confiscation of illicit cash. Its boldness in these dimensions reminds me most of the Colm-Dodge-Goldsmith Plan of 1946 for German monetary reform. But, to state my doubts up front, given that precursor, I am skeptical that it can ever be implemented without an occupying army or a totalitarian regime that forecloses the issuer's geopolitical aspirations.

Critiques against today's currency denominations have become a cause célèbre for senior academic economists. Foremost, high denominations are the lifeblood of the underground economy. At a minimum, Rogoff and others want to eliminate large denominations like $100, €500, and Sw F 1,000 notes.

Eliminating paper currency would have numerous desirable effects, including reduced tax evasion for high-volume cash and off-book businesses and unreported wages. Terrorists, human traffickers, drug dealers, gunrunners, corrupt politicians, and dictators would risk confiscation of their cash or at least disruption of their activity.

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What of lost privacy in personal transactions? That ship has already sailed in a society with ubiquitous video surveillance, U.S. National Security Agency snooping, and massive data gathering by social media and other hackers. Will the illicit activities simply find alternative mechanisms? What of the socially positive uses of underground cash? People in egregiously run economies would lose an avenue to escape hyperinflation. A large unbanked population needs physical money, and people need cash when power outages disrupt electronic transactions.

To address these objections, Rogoff suggests workarounds. He compiles evidence that the social gain to currency elimination would outweigh the loss, but concedes that it is a judgment call. A relentless prosecutor, he loads the indictment with every conceivable crime: paper currency is a vector for disease!

But he neglects a crucial rationale for high denominations. Great-power currency and financial instruments play a dual role: they are tools of economic and financial policy and conduits of geopolitical power. There is tension between them. Maintained at great economic cost, the euro makes little sense outside the geopolitical sphere. Disadvantaging itself economically, the dollar system, including paper currency policies, has focused ever more on geopolitical goals. For example, to overthrow the Taliban, U.S. agents delivered blocks of $100 notes to mercenary tribal armies to get them to switch sides. Stanford University economist and former Treasury Under-Secretary John Taylor has recounted how the United States flew in bales of $100 notes to pay the Iraqi bureaucracy prior to currency reform. Sometimes dictators are paid to support the interests of high-denomination issuers. If the United States and Europe eliminated their currencies, they would have to buy even larger planeloads of 100 yuan notes for such national security operations. This is enough to convince me that paper denominations high in real value will endure.

Even the European Central Bank's plan to stop issuing €500 notes will do little to reduce the outstanding stock in the near future and seems geared to increase it. On a contrary tack, the United States ceased issuing denominations higher than $100 in 1969 to preclude their illicit use. Subsequent inflation has increased by sevenfold the weight of $100 notes needed to service a kilo of cocaine. Inflation is doing Rogoff's work without requiring explicit action!

But if a logistical headache for money launderers is Rogoff's true goal, why not simply increase the physical dimensions of high-denomination notes without jumping through the flaming hoop of elimination? Before 1929, U.S. currency was 40 percent physically larger than it is now. Restoring that size or making it even larger would instantly work the wonders of decades of inflation. The iron law for subverting illicit economies: a percentage increase in physical note size is equivalent to the same percentage increase in the price level.

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