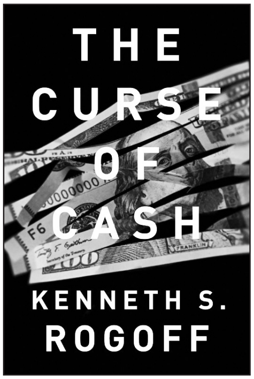

The Curse of Cash

Kenneth S. Rogoff

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Author Kenneth Rogoff is an Economics Professor at Harvard University. He is a world renowned academic scholar who has published a plethora of books and articles in the field of economics. In *The Curse of Cash*, Rogoff addresses whether advanced countries of the world, led by the U.S., should start phasing out the use of paper money (cash), except for small denominated bills and coins.

Rogoff's introduction immediately gains the attention of the reader painting an insightful and intriguing word picture. He reports that some 80% of the $1.34 trillion held outside of U.S. banks is denominated in $100 bills. The aggregate total of this cash is enough to provide every American $4,200, whereas the average American claims to carry less than $75 in their wallet. Meaning for that volume of paper money, most is in the hands of criminals for illicit use in the U.S., driving home the point of getting rid of it.

The premise of his examination lies in the inefficiencies and abuses with the inherent use of cash. He notes that the use of cash in conducting business transactions is often to avoid paying taxes. The U.S. government loses over $500 billion in tax revenue annually due to tax evasion. Cash lends itself to supporting criminal activity. It is also used by terrorists to finance their operations and corrupt officials in lining their pockets.

Eliminating cash in advanced economies would also afford central banks the option to offer negative interest rates, should it become necessary, to stimulate economic growth. Under a cash based system, countries have little monetary discretion to promote economic growth or in reducing inflation by lowering interest rates much below zero. The worry being, at some point below zero interest, investors would dump government denominated debt instruments for cash, and bank depositors would pull their cash to avoid the below zero interest penalty, then stashing their money in places not accessible for lending/investing.

The book is broken down into a three part journey as the author goes about persuasively waging his argument. In the first section he addresses the history of currency, backed and unbacked, including the history of the gold standard. He devotes other chapters in this section to the size and composition of global currency supplies, legal currency in the tax-paying economy, currency in the underground economy, monetary seigniorage and opportunity cost seigniorage, and his plan for phasing out most paper money.

Interesting facts and figures emerge throughout these chapters. Norway has the lowest cash to GDP ratio at 1.24 percent in the developed world, whereas Japan has the highest at 18.61 percent. The U.S. figure is 7.38 percent. Eighty-seven percent of China's currency is denominated in its largest bank notes. The overwhelming majority of purchase transactions within the developed world are of value less than $20 U.S.

Forty-four percent of all U.S. paper money in circulation is held by foreigners. Most of this money is denominated in $100 dollar bills. The annual world drug market revenue is approximately $600 billion U.S. The illicit drug market conducts business in currency denotations of $100 U.S. or greater. Underground economies operate in cash and represent 7 percent (U.S.) to 29 percent (Turkey) of an advanced country's GDP. Corruption is largely conducted in cash. The global aggregated value of corruption is priced at $2 trillion U.S. The aforementioned figures help paint a fascinating word picture about currency and currency use around the world.

In the second section, Rogoff somewhat abruptly transitions to tackle the topic of negative interest rates and its implication on the use of paper currency. In doing so, he addresses paths and impacts of negative interest rates, the role of inflation targeting, nominal GDP, and fiscal policy effects. He notes that the history of negative rates is very limited.

During the 1990s, Japan used negative rates to spur economic growth. Over the past five years, a number of European countries have drifted to near or completely negative rates as a means to revitalize their economies from the aftermath of the Great Recession of the previous decade. Rogoff points out that negative rates are no panacea for a country's ills. It does come with risks. Negative rates may be seen as a direct tax on currency deposits and a violation of the depositor trust.

It may also be perceived as a coercive act waged by government forcing lenders to lend, or depositors to spend. This perception could lead to a run to cash by depositors--taking their money out of the banking system and sitting on it-- the opposite affect desired.

Negative rates can also lead to higher inflation than desired. The over stimulation of economic activity. Negative rates do help prevent credit contraction, whereas near zero rates may contract lending. This was the case in the U.S., post-2008. At the same time that interest rates were being lowered to encourage borrowers, U.S. banks were tightening their lending practices to avoid the risk of inflation eating away at their low yielding interest income on loans and borrower default.

In the final section, Rogoff speaks to the international dimensions of phasing out paper money the use of digital currencies, and gold's impact on a paperless system. He describes how U.S. domestic currency could not be practically replaced by foreign notes for illicit activities. He does ultimately see value in G-7 nations ridding themselves of paper money, particularly their large notes. Rogoff wages an argument that even emerging market countries could benefit for such a practice. However, he recognizes some of the problematic challenges that must be overcome in accommodating people such as the rural poor. The emergence of digital currency such as Bitcoin generate concerns but do not undermine the elimination of paper money. Finally, he asserts gold will always have its historical lure as a tangible safe haven against economic uncertainty, but will not rise again beyond backseat monetary status.

In *The Curse of Cash*, Rogoff wages a highly compelling, thought-provoking, and transformative proposition to rid or limit the use of paper currency. He provides a unique understanding into the function of paper money and its impact on such things as tax revenue, credit and institutional lending, monetary and fiscal policy, interest rates, and their collective effect on the macroeconomics of states. His objective approach to the subject and comprehensive analysis is rich in scope and scale, including insight from many of the sharpest minds in the field of business and economics. It is loaded with contributions from a "Who's Who" of academic scholars including those having worked in the U.S. Treasury, the U.S. Federal Reserve, and international financial institutions. Rogoff skillfully leverages their research and opinions to not only support his own belief, but to also challenge his thought process--a refreshing but not so common practice these days.

The book is remarkable in its ease of readability and the number of supporting figures, tables, and diagrams. A broad array of readers will find this body of work a valuable read. However, it is best examined by those in U.S. government agencies involved in shaping monetary and fiscal policy, government revenue collection, combating criminal activities (including terrorist financing), and economic and trade policy. ***IAJ***