

## Let's not start a war on cash

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Some prominent economists are now advocating getting rid of most cash payments. Kiss \$100, \$50 and \$20 bills goodbye if they get their way. The most visible proponent is Kenneth Rogoff, former chief economist at the International Monetary Fund and currently a chaired professor at Harvard. In his just published book, “The Curse of Cash” (Princeton University Press), he argues that the U.S. economy would benefit if the government withdrew larger denomination bills from circulation, further restricted cash withdrawals and deposits, and limited the size of cash payments in retail trade.

Launching a war on cash, however, would further empower government, violate private property rights and undermine individual freedom. Expropriating cash regardless of whether it was obtained legitimately or not smacks of socialism. There is an implicit assumption made by Rogoff that it is only criminals that want higher denomination notes.

Although Rogoff recognizes the privacy issues surrounding his proposal, he argues that there would be net benefits from strictly limiting cash transactions – including shrinking the underground economy, increasing government revenue and increasing the effectiveness of monetary policy. Reducing crime and corruption, and filling government coffers, presumably would trump any loss of freedom. As Rogoff argues, “The tax and crime angle is reason enough to shred the world’s mountains of paper currency.”

Under the Rogoff plan, people would not have the option of converting their demand and saving deposits into Federal Reserve Notes unless they wanted to carry away bushels of \$1, \$5 and \$10 bills, and any large cash withdrawals would be prohibited. The Fed would then “be free to drive rates as deep into negative territory as they needed in a severe recession.” Doing so, however, would further reduce bank profitability and thence bank lending, which in turn would undermine any recovery.

Negative rates penalize savers and encourage risky investments; they are not a panacea for real economic growth. Zero and negative interest rates have not stimulated private investment, but they have increased leverage, jeopardized pension funds and encouraged government profligacy. Any wealth effects from higher asset prices are temporary and will largely disappear

when rates return to normal. A crusade against cash would limit the range of choices open to individuals, thus attenuating economic freedom and increasing uncertainty.

The real danger in Rogoff's plan is that while it is aimed at limiting cash transactions, it may supply a precedent for even more draconian measures that increase the size and scope of government and virtually destroy financial privacy. The war on cash could then turn into yet another futile yet destructive crusade.

Money is property, and in a free society, the function of government is to protect persons and property. In 1792, James Madison, the chief architect of the U.S. Constitution, wrote, "Government is instituted to protect property of every sort; as well that which lies in the various rights of individuals, as that which the term particularly expresses. This being the end of government, that alone is a *just* government, which *impartially* secures to every man, whatever is his *own*." Depriving people of the right to keep and use larger denomination bills, which are legal tender, would further erode what F. A. Hayek called "the constitution of liberty."

Of course, money today refers to pure fiat money, not the commodity money that the framers of the Constitution had in mind. A \$100 bill is convertible into nothing more than a freshly minted Federal Reserve Note stamped with the same denomination or some other combination amounting to \$100. One unintended consequence of Rogoff's plan, were it implemented, may be to cause a popular uproar against the Fed's monopoly on currency – and thus incentivize the search for alternatives to government fiat money.

Instead of turning to social engineering and central bank manipulation of interest rates, Rogoff and others supporting his plan would be better off focusing on the true causes of slow growth, crime and corruption. Thinking of ways to increase, not decrease, economic freedom – and to restore limited government and sound money under a just rule of law – would offer a brighter future for freedom and prosperity than waging a war on cash.

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