Why are we talking about getting rid of the $100 bill?

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Yes, I know that tomorrow is Super Tuesday, but not every article here can be about Trump, Rubio and Cruz. Besides, this is just such a peculiar story that it deserves a look.

There was a policy scuffle which broke out over the weekend which seemed to start with a paper published by Peter Sands and Larry Summers. In it, they argue against the further issuance of high denomination currency (HDNs) such as the US $100 bill and the 500 Euro note. Coming somewhere out of left field, the two construct a number of not unreasonable points about trends toward a cashless society and the volume of US notes which circulate outside the country, but none of these arguments point to an actual problem with the issuance of such currency so much as they identify an increasing superfluousness of paper money in general. Then they get to the real meat of the question, in which they claim that HDNs make criminal activity easier and more lucrative.

> There are 30 US $100 bills in circulation for every man woman and child, and more than 300 billion euro in 500 euro notes. As Peter's paper documents, the vast majority of this currency is involved with activity that is at a minimum problematic, and often criminal. This inference for Europe is supported by the observation that high denomination note issuance relative to GDP is nearly 20 times as high in Luxembourg, a traditional haven for illicit activity, relative to the rest of Europe.
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> We agree with the philosophical position of the Wall Street Journal that governments should do only what is necessary and that excessive government activity is dangerous. That is why we favor an end to the further printing of high denomination notes.

If I'm following this correctly (given that I only speak economics as a second language) the argument seems revolve around the idea that criminals pay a "premium" to get their hands on clean (unmarked, not traceable) $100 bills, and that cost would increase if they had to shift to lower denominations. Further, they point out, it's cumbersome to move large volumes of paper for illicit activity and this problem would be compounded if the number of bills being transported increased significantly. Therefore, cutting off the supply would act as a "tax" on criminals, making their task more difficult. Ashok Rao offers an alternate theory which seems to deflate the argument.

> Most importantly, this seems like a Rube Goldberg way to get to the conclusion. The Sands argument, if correct, is that forcing criminals to use a $20 bill serves as a tax. It's my guess that the demand for criminal service is many times more inelastic than supply; especially drugs. A tax – even if it existed given the above concerns – would hurt poor consumers, not drug dealers. A more direct method might be to increase the expected penalty of criminal activity, either by increasing probability of getting caught or penalty if caught. This would cost more. But maybe not more than the fiscal cost of loosing a permanent, interest-free loan to the USA.

This looks very much like a solution in search of a problem to my way of thinking. Of course, my take on it is probably somewhat prejudiced by virtue of my age and upbringing. I grew up around men who traditionally carried money clips with folded cash in them rather than shoving it in their wallets. Credit cards were still "new" among the hoi polloi and even somewhat suspect in my home town. Plus, there's always something rather comforting and satisfying about selecting something to purchase and putting down cold hard cash for it. I have no defense of that position beyond a tendency toward nostalgia.

On the merits, however, some of these claims don't seem to make very much sense to the layman. I won't claim to know much about black market currency or how much criminals pay for cash, but it seems as if they could buy fifty dollar bills just as easily. The idea that it takes up more space to move a million dollars in twenties is obvious, but if you're moving a million dollars in cash that's already a chore in and of itself. If you inflate the physical volume required, clever criminals will simply find a way around it. I'm continually amazed that drug dealers can ship cocaine into the country by the ton undetected, and yet every week there seems to be another story about officials finding the stuff disguised as wood and charcoal or statues orstuffed into watermelons. And as far as I know, the police haven't trained any cash sniffing dogs yet, so the task should be all the easier.

I'm not sure what impact, if any, the elimination of the $100 bill would have on the average, middle class American. Most large purchases these days are made with debit or credit cards. (Yes… that includes an old curmudgeon like me.) And if you can't qualify for a plastic plate of that sort you probably don't have mountains of legal money hanging about anyway. But still… even if the harm isn't all that great, why bother if the upside seems so dubious? Cash still has some uses in our society and there are occasions where flashing a Ben Franklin can be an advantage. This proposal seems pointless at best.

UPDATE: (Jazz) Instapundit weighs in with another reason to oppose this idea. It hands even more power to the government.

> Of course, as CATO Institute analyst Daniel J. Mitchell writes, to our ruling class this isn't a bug, but a feature. Governments want to get rid of cash for two reasons. First, it gives them more control over citizens: They justify it in the name of fighting terrorists and organized crime, but what they really care about is making sure that nobody escapes their scrutiny, for purposes of taxes, regulation and political finagling. Second, if you're stuck putting your money in a bank, they can force you to spend it (and thus "stimulate" the economy) by subjecting you to negative interest rates, in which money that just sits in the bank shrinks away, providing an incentive to spend.

To steal Insty's catchphrase… *indeed*.