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NONFICTION REVIEW

The Curse of Cash by Kenneth S Rogoff

Reviewed by Patrick Hosking

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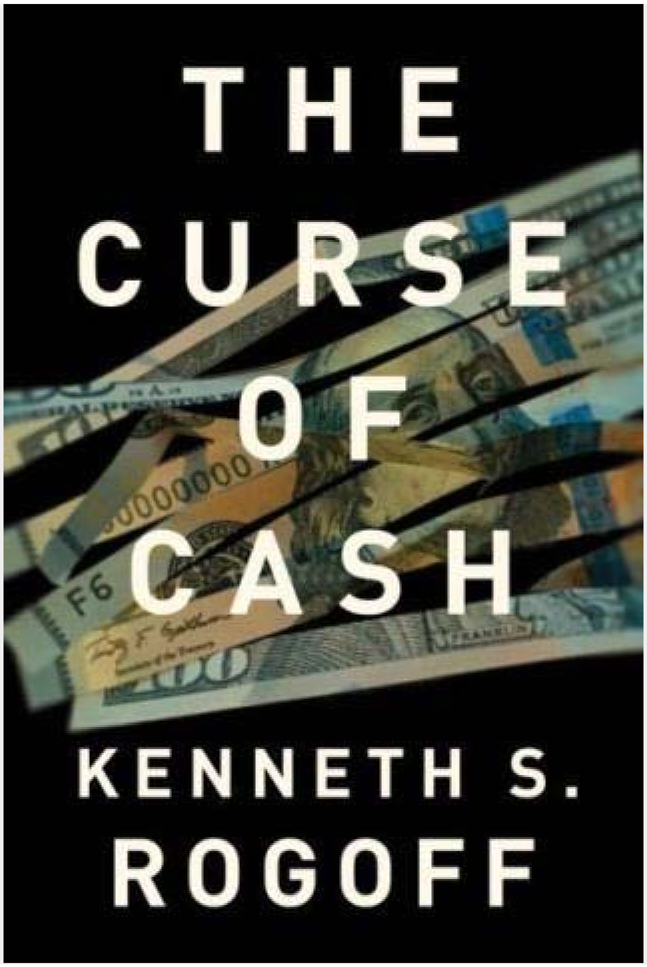
Kenneth Rogoff, a former IMF chief economist, says abolishing cash would cut crime and empower central bankersREUTERS



Convenient stuff, cash, when it comes in high-denomination notes. A million dollars in $100 bills weighs only 22lb, rises 43in when stacked, and can fit comfortably into a large shopping bag, Ken Rogoff helpfully tells us.

Small-denomination bills, on the other hand, are an absolute bugger, especially if you are taking serious bribes, dodging tax, indulging in a spot of people-trafficking, or running a drugs cartel. They are heavy and bulky to transport, store and conceal, and hell to pack when you have to flee in a hurry. In 2014 anti-corruption officials needed 12 lorries to cart away the bribes in low-denomination renminbi taken by one Chinese general.

Scrapping all large-denomination bills, or better still, abolishing all physical cash, would help to address two pressing public problems, argues Rogoff, a former chief economist with the International Monetary Fund. First, it would stick a spoke in the wheels of organised crime and severely hamper tax dodgers and others seeking to hide their gains. Second, it would clear the way for central bankers to pursue a policy that for now remains an impossible dream; seriously negative interest rates.

Central bankers have already cut official interest rates to zero or near zero in an attempt to stimulate moribund economies, whether in Japan or the eurozone. Some have even reduced rates to modestly negative numbers, forcing banks to pay interest on reserves held with them. However, central bankers are constrained by that pesky old-fashioned stuff, physical cash. Who is going to pay interest to a bank for the privilege of holding their deposits when they can maintain the value of their savings by stuffing it under the mattress?

The so-called zero bound "has essentially crippled monetary policy across the advanced world for much of the past eight years", laments Rogoff, whose tough views on deficit reduction won the appreciation of George Osborne, when he was chancellor, a few years ago. Central bankers have "run out of bullets". Abolishing cash would provide a new arsenal.

Rogoff, a professor of public policy at Harvard, is more persuasive — and infinitely more accessible — when arguing about the crime-fighting potential of a cashless society than in persuading us of the potency of superlax monetary policy.

The death of cash would put us more at the mercy of the hated banks

It's hard to avoid the conclusion that the vast bulk of banknotes, whether in Europe or North America, have no useful purpose other than as a convenient store of value for people up to no good or with something to hide. There are huge amounts out there. Almost 80 per cent by value of the issued US currency is in $100 bills. Each man, woman and child in America would have to have $3,400 in $100 bills to account for all of them. Yet the average amount held in person is $46, while total cash holdings including money stored at home is just $250. An awful lot of those bills remain unaccounted for.

Belatedly officials are waking up to the downside of high denomination notes. The European Central Bank decided in May to scrap €500 bills. There are rumours that the Bank of England wants to abolish our highest value note, the £50 bill. France, Spain and Belgium have banned cash transactions of more than a few thousand euros.

Rogoff breezily slashes his way through the thicket of objections to the abolition of paper currency — not always convincingly; beggars could be issued with devices allowing them to take payments from passers-by proffering debit and credit cards. The anonymity and freedom conferred by a cash transaction with no audit trail is dismissed. "Late 20th-century notions of privacy already seem quaint," says Rogoff, in a world where companies routinely catalogue your every click and swipe.

He takes a robust line to the objection that negative rates are immoral and a tax on thrift. An interest rate of -5 per cent when inflation is zero is no different from a positive rate of 5 per cent when inflation is 10 per cent. Money illusion is the same in both cases.

There's a smidgin of the ivory tower in all this. Certainly the book has got a few American readers frothing about totalitarianism. Rogoff concedes it's an emotional subject, but does little to address the concern that the death of cash would put us more at the mercy of those hated institutions, the banks, along with their crash-prone IT systems. A former chess grandmaster, he can come across as a man more comfortable perched over a chessboard than hobnobbing in a bar.

One would love to read more about how criminal gangs, terrorists and tax-evading millionaires cope with the practicalities of laundering and storing their cash and perhaps less about the esoteric theory underpinning negative rates. There's no mention of contactless cards, the technology that is dramatically reducing the use of cash on British high streets. There's the occasional error; the entire global stock of gold above ground is not 21 cubic metres, but 21 metres cubed – which is not the same thing at all.

Yet this is an illuminating, provocative and fact-packed work that does make you wonder why on earth we allow so much cash to slosh around. It also exposes some well-worn pub truths as urban myths. The fact that 90 per cent of US bills carry traces of cocaine is down to contamination between notes in counting machines rather than because Americans are all snorting. Who knew?

***The Curse of Cash* by Kenneth S Rogoff, Princeton University, 296pp, £22.95**