Citi Economist Says It Might Be Time to Abolish Cash

Would this save the world economy?

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Note from Pastor Kevin Lea: The Bible says that the coming antichrist will be able to control the buying and selling of all people on the planet (Revelation 13). Cash spending stands as an obstacle to any centralized control of monetary transactions. Therefore, for biblical prophecy to come true, our current freedoms associated with having and spending "cash" must someday be taken away, globally. This article is just another sign that we are getting very close to those "last days" spoken about by the prophets, which occur just before the Lord Jesus returns. (1 Thessalonians 5:1-9)

The world's central banks have a problem.

When economic conditions worsen, they react by reducing interest rates in order to stimulate the economy. But, as has happened across the world in recent years, there comes a point where those central banks run out of room to cut — they can bring interest rates to zero, but reducing them further below that is fraught with problems, the biggest of which is cash in the economy.

In a new piece, Citi's Willem Buiter looks at this problem, which is known as the effective lower bound (ELB) on nominal interest rates.

Fundamentally, the ELB problem comes down to cash. According to Buiter, the ELB only exists at all due to the existence of cash, which is a bearer instrument that pays zero nominal rates. Why have your money on deposit at a negative rate that reduces your wealth when you can have it in cash and suffer no reduction?

Cash therefore gives people an easy and effective way of avoiding negative nominal rates.

Buiter's note suggests three ways to address this problem:

1. **Abolish currency.**
2. **Tax currency.**
3. **Remove the fixed exchange rate between currency and central bank reserves/deposits.**

Yes, Buiter's solution to cash's ability to allow people to avoid negative deposit rates is to abolish cash altogether. (Note that he's far from being the first to float this idea. Ken Rogoff has given his endorsement to the idea as well, as have others.)

Before looking at the practicalities of abolishing currency, we should first look at whether it could ever be necessary. Due to the costs of holding large amounts of cash, Buiter puts the actual nominal rate at which the move to cash makes sense as closer to -100bp. So, in order for a cash abolition to become necessary, central banks would need to be in a position where they wished to set nominal rates much lower than that.

Buiter does not have to go far to find an example of where a central bank may have wanted to set interest rates much lower to -100bp. He uses (a fairly aggressive) Taylor Rule to show that Federal Reserve rates should have been as low as -6 percent during the financial crisis…

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