

Eliminating cash could benefit average U.S. families

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Soon, \$50 and \$100 bills may be a thing of the past. That's the future some economists are predicting—and want.

But will people be better off without paper money? New research from the University of Georgia suggests they could be—as long as certain taxes are lowered too.

"Our analysis of the costs and benefits of proposals to eliminate currency implies that doing away with big bills like \$50s and \$100s could benefit the average person, even though they like using [cash](#)," said William D. Lastrapes, co-author on the study and the Bernard B. and Eugenia A. Ramsey Chair of Private Enterprise in the Terry College of Business. "Less cash means less tax evasion, so the government can reduce other taxes."

The case for getting rid of cash

Physical currency has an anonymity to it. The government doesn't know you have it if you don't report it and loses out on [tax revenue](#) from those "hidden" dollars. Cash transactions are also largely untraceable. Because of that, people paying for illegal goods or services and those who are simply trying to avoid paying taxes are more likely to do so in cash—and often in \$50 and \$100 bills.

Published in the *European Economic Review*, the study uses macroeconomic modeling to predict how eliminating physical currency would affect individuals' overall well-being from producing and consuming goods and services.

The model builds in subtle tradeoffs that the economy faces when cash is used for transactions. When people use cash to hide their income from the IRS and reduce their taxes, for example, the government loses revenue to pay for valuable services or to pay down [government debt](#). But at the same time, tax avoidance in effect lowers tax rates that consumers and businesses face, increasing productivity of labor and capital. That boosts the nation's GDP and is good for the economy.

When the model is matched to actual data on how people use cash and hide income from the IRS, it showed that people would be worse off if the Federal Reserve System, the U.S. central bank that issues cash, simply eliminated cash. The [federal government](#) would gain more revenue but overall production would fall because of the higher effective tax rates. And consumers would lose out on the privacy and convenience of cash.

But if the government also reduces statutory income [tax rates](#)—making the cash suppression policy revenue neutral—the model predicts that people overall will actually be better off without cash.

The model focused on the average American household. A more general version of the model shows that lower-income households, who are more likely to use cash for day-to-day transactions, will likely be more negatively affected by eliminating cash. But there are ways for the government to compensate for that.

"You're going to have to provide them with some offset," Lastrapes said. "What we're suggesting is to take cash away but reduce taxes. It turns out this more than just compensates for not having cash, but it can actually make people better off.

"My co-authors and I will be the first to admit that our paper does not provide the final word on cash-suppression policies and that more research is needed to be confident in what should be done. But our view is that models like ours that account for many of the unintended consequences of such policies and that carefully measure overall costs and benefits are essential for determining the right path."

More information: Julio Garín et al, On the welfare effects of phasing out paper currency, *European Economic Review* (2021). [DOI: 10.1016/j.eurocorev.2021.103780](#)

Provided by University of Georgia

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