

Funding the Future

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Kenneth Rogoff [has an article in the FT this morning](#) in which he argues that the time has come to get rid of paper money. He has two logics for asking for this. First of all he says that ending the ability to hold cash will stop people bailing out of bank accounts if interest rates become negative, and as such negative interest rates will be possible. I think that interesting, but not the focus of my attention here. More of concern to me is the idea that ending paper money will make tax evasion much harder.

As Rogoff notes "in both the eurozone and the US there is roughly \$4,000 in circulation for every man, woman and child, and it is not easy to find. In Japan the figure is almost double that."

That's an astonishing amount of cash and much is held in very high denomination notes like US\$100 bills, which are rarely seen in practice, rather like the €500 note, which has no practical use. As Rogoff admits, much of this cash might circulate outside its home territory, but that's actually the point: it is used for crime in a great many cases, and money laundering in many more. In the UK the problem is slightly smaller. We only [have about £1,000 of cash per person](#) but I know no one who holds that sort of sum, and I guarantee it is not needed as the cash floats in tills or banks either. Building societies do, according to the Bank, hold only £500 million or so between them, for example.

So what if we did get rid of physical money or, at least, paper money? Would it matter? Most young people hardly seem to carry any cash now anyway. And if we had a £5 and £10 coin that would be more than enough to cover most people's liquid needs - and the need to take cash at the church fete and charity event - and be near impossible, because of weight issues, to be used for laundering and crime. Getting rid of all copper and requiring tills to round to the nearest 5p would solve a great many other issues too, not least being the fact that these coins are no longer economic to mint and most end up not being used.

It's an idea whose time has, I think, come because the ability to control the cash economy that this would create would be of enormous value.

I'd be interested in comments.