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Killing this ‘Bin Laden’ is a bloodless victory

by Lawrence Summers

Most of the time, I use this column to recommend policy changes that I believe would make the world a better place. This time I am using it to salute a policy change that I believe will have important benefits and that carries with it important lessons. The decision of the European Central Bank (ECB) last week [to end](#) the production of 500-euro notes is a triumph of reasonable judgment over shameless fear-mongering. As an important [paper](#) published a few months ago by former Standard Chartered chief executive Peter Sands and his Harvard colleagues demonstrates, this change will make the world a safer, fairer place and carries important lessons for the future.

Almost everything in life and in public policy has both good and bad sides. Automobiles provide great transportation services but sometimes lead to devastating accidents. Liquid financial markets provide huge benefits to savers and investors but can be driven to speculative excess. High-denomination currency notes stand out as a case in which good uses are dwarfed by bad ones. Britain’s Serious Organized Crime Agency has estimated that [more than 90 percent](#) of British demand for 500-euro notes came from criminals before their availability [was curtailed there in 2010](#).

There is little if any legitimate use for 500-euro notes. Carrying out a transaction with 20 50-euro notes hardly seems burdensome, and this would represent over \$1,000 in purchasing power. Twenty 200-euro notes would be almost \$5,000. Who in today’s world needs cash for a legitimate \$5,000 transaction? Indeed, the ECB found that [56 percent](#) of the E.U. public had never laid eyes on a 500-euro note. Cash transactions of more than 3,000 euros have in fact been made illegal in [Italy](#), while [France](#) has placed the limit at 1,000 euros. Anyone who thinks that abolishing a high-denomination note damages a country’s currency or its citizenry should note that the United States and [Canada](#) phased out the \$1,000 note and, in the case of the [United States](#), the \$500 bill as well without noticeable complaint.

The ECB policy is at the gentle end of the reasonable spectrum of possible policies. Unlike in the case of the United States, no effort is being made to stop the use of existing notes as legal tender, and the policy is being implemented only at the end of 2018. After Europe’s action, it will still produce notes more than twice as valuable as the highest-denomination notes issued anywhere else in the Group of Seven. And certainly there is no suggestion that eliminating cash completely would be desirable or is in conceivable prospect.

In contrast to the absence of an important role for 500-euro notes in normal commerce, these bills have a major role facilitating illicit activity, as suggested by their nickname —“[Bin Ladens](#).” Measurement is obviously difficult, but estimates by Austrian professor [Friedrich](#)

[Schneider](#) suggest that physical cash is used for 80 percent of the global drug trade, 50 percent of human trafficking transactions, 70 percent of small-arms trade and 50 percent of transactions in human organs. Estimates by the International Monetary Fund and others of total annual money laundering consistently [exceed \\$1 trillion](#). High-denomination notes also have a substantial role in facilitating tax evasion and capital flight.

To be sure, it is difficult to estimate how much crime would be prevented by stopping the creation of 500-euro notes. It would surely impose some burdens on criminals and might interfere with some transactions, which is not unimportant. The key point is that even a small reduction in crime would more than justify the loss of any possible benefit that comes from the 500-euro note.

Europe has led on a significant security issue. But its action should be seen as a beginning, not an end. As a first follow-on, the world should demand that Switzerland stop issuing 1,000-Swiss-franc notes. After Europe's action, these will stand out as the world's highest-denomination note by a huge margin. Switzerland has a long and unfortunate history with illicit finance. It would be tragic if it were to profit from criminal currency substitution following Europe's bold step. Second, the question of the facilitation of criminal activity should be placed prominently on the Group of 20 agenda. There would be a strong case for stopping the creation of notes with values greater than perhaps \$50 and also for greater cooperation to assure that new financial technologies such as bitcoin do not become vehicles for facilitating illicit transactions.

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