As Plastic Reigns, the Treasury Slows Its Printing Presses

By BINYAMIN APPELBAUM

WASHINGTON — The number of dollar bills rolling off the great government presses here and in Fort Worth fell to a modern low in the last fiscal year. Production of $5 bills also dropped to the lowest level in 30 years. And for the first time in that period, the Treasury Department did not print any $10 bills.

The meaning seems clear. The future is here. Cash is in decline.

You can’t use it for online purchases, nor on many airplanes to buy snacks or duty-free goods. Last year, 36 percent of taxi fares in New York were paid with plastic. At Commerce, a restaurant in the West Village in Manhattan, the bar menus read, “Credit cards only. No cash please. Thank you.”

There is no definitive data on all of this. Cash transactions are notoriously hard to track, in part because people use cash when they do not want to be tracked. But a simple ratio is illuminating. In 1970, at the dawn of plastic payment, the value of United States currency in domestic circulation equaled about 5 percent of the nation’s economic activity. Last year, the value of currency in domestic circulation equaled about 2.5 percent of economic activity.

“This morning I bought a gallon of milk for $2.50 at a Mobil station, and I paid with my credit card,” said Tony Zazula, co-owner of Commerce restaurant, who spoke with a reporter while traveling in upstate New York. “I do carry a little cash, but only for gratuities.”

It is easy to look down the slope of this trend and predict the end of paper currency. Easy, but probably wrong. Most Americans prefer to use cash at least some of the time, and even those who do not, like Mr. Zazula, grudgingly concede they cannot live without it.

Currency remains the best available technology for paying babysitters and tipping bellhops. Many small businesses — estimates range from one-third to half — won’t accept plastic. And criminals prefer cash. Whitey Bulger, the Boston gangster who lived in Santa Monica for 15 years, paid his rent in cash, and stashed thousands of dollars in his apartment walls.

Indeed, cash remains so pervasive, and the pace of change so slow, that Ron Shevlin, an analyst with the Boston research firm Aite Group, recently calculated that Americans would still be using...
paper currency in 200 years.

"Cash works for us," Mr. Shevlin said. "The downward trend is clear, but change advocates always overestimate how quickly these things will happen."

Production of paper currency is declining much more quickly than actual currency use because the bills are lasting longer. Thanks to technological advances, the average dollar bill now circulates for 40 months, up from 18 months two decades ago, according to Federal Reserve estimates.

Banks regularly send stacks of old notes to the Fed, which replaces the damaged ones. Until recently, notes were simply stacked facedown and destroyed, as were dog-eared notes, because the Fed's scanning equipment could not distinguish between creases and tears. Now it can. In 1989, the Fed replaced 46 percent of returned dollar bills. Last year it replaced 21 percent. The rest of the notes were returned to circulation where they may lead longer lives because they are being used less often.

The futurists who have long predicted the end of paper money also underestimated the rise of the $100 bill as one of America's most popular exports.

For two decades, since the fall of the Soviet Union, demand has exploded for the $100 bill, which is hoarded like gold in unstable places. Last year Treasury printed more $100 bills than dollar bills for the first time. There are now more than seven billion pictures of Benjamin Franklin in circulation — and the Federal Reserve's best guess is that two-thirds are held by foreigners. American soldiers searching one of Saddam Hussein's palaces in 2003 found about $650 million in fresh $100 bills.

This is very profitable for the United States. Currency is printed by the Treasury and issued by the Federal Reserve. The central bank pays the Treasury for the cost of production — about 10 cents a note — then exchanges the notes at face value for securities that pay interest. The more money it issues, the more interest it earns. And each year the Fed returns to the Treasury a windfall called a seigniorage payment, which last year exceeded $20 billion.

To meet foreign demand, the Fed has licensed banks to operate currency distribution warehouses in London, Frankfurt, Singapore and other financial centers.

In March, largely because of the boom in $100 notes, the value of all American notes in circulation topped $1 trillion for the first time.

In the United States, research suggests that the spread of electronic payment technologies is steadily reducing the share of payments made in cash. Drivers use E-Z Pass at toll plazas for roads and bridges. Commuters swipe stored-value cards at turnstiles. Christmas stockings are stuffed with gift cards.
Mr. Zazula, the restaurateur, made his decision in 2009, inspired by a flight on American Airlines, which had just introduced a no-cash policy. He said that 85 percent of his customers already paid with credit cards, and taking cash to and from the bank was a nuisance and security risk.

Two years later, Mr. Zazula said he had no regrets.

“You still have some people that are outraged that we won’t accept cash,” he said, “but most of it is a show because they end up having a credit card.”

But Commerce remains a rarity. Experts on payments cannot name another no-cash restaurant. Snap, a cafe in the Georgetown neighborhood of Washington, rejected cash in 2006, then reversed the policy a few years later.

Businesses are not required to take cash. The famous phrase “legal tender for all debts” means that lenders — and only lenders — are required to accept the bills. But most merchants don’t see the point in frustrating customers.

“It’s a rarity for a retailer of any size to go cash only, and it’s a rarity to decline to accept cash at all,” said Brian Dodge of the Retail Industry Leaders Association, a trade group.

Even the financial industry, which has promoted the spread of electronic payments, has moved away from grand predictions.

“There’s always going to be some people, for good or nefarious reasons, who want to use cash,” said Doug Johnson, vice president for risk management policy at the American Bankers Association. “I’m glad I had it yesterday,” Mr. Johnson said. “I blew out a fan belt on my car, and it’s nice to be able to give the tow driver a twenty.”

This article has been revised to reflect the following correction:

Correction: July 7, 2011

An earlier version of this article misstated the period of time in which the government printed no $10 bills. It was the last fiscal year, from October 2009 through September 2010, not last year.