

Is cashless economy inevitable?

Cashless economy

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USPA NEWS - Do you feel confident enough leaving the wallet at home and relying only on a bank card or mobile device? Then you understand that a society without cash is no longer a utopia, but our future.

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Goals and limits of a cashless system

The recently emerged blockchain technology can give a serious impetus to the transition to a new lifestyle. In principle, the process has already begun, and today almost everyone sees the direction in which they will evolve. Already, cashless transactions are expected to accelerate at compound annual growth rate (CAGR) of 12.7 globally, with emerging markets growing at 21.6 from 2016-21. The money of the future is not bills in your wallet, but numbers on the screen showing the balance in your account.

Proponents of the cash-free world are confident that the present situation is just another step on the path of technological evolution of society. Fascinated by the convenience, simplicity and elegance of new payment technologies, they argue that future payments will be quick and secure. We won't have to transport money in armored vans under guard, wait for the payment to be credited for several days and fish for small coins in our pockets.

Financial institutions are actively promoting and supporting the idea. Their interest is quite obvious, because cashless future could help them get control over finances of their clients and even greater opportunities for earning. These are bright prospects, and it is not surprising that many financiers are in a hurry to make their dreams come true. Just look at the skyrocketing fintech industry - there is a stunning CAGR of 74.16% expected from 2019 through 2025.

At the same time, their opponents are much more skeptical. Unlike supporters of the cashless society, they are basing their arguments not on utopian views, but on quite real statistics. Not so long ago, Access to Cash released a report. The paper shows that a sharp transition to the non-cash world will exclude a great number of people from the economy, or expose them to financial risks.

Even if we omit the "human" side of such a massive exclusion, we must not forget that in this case there will be a huge mass of people unable to live as they used to. They will not be able to buy groceries, pay for travel and do many other simple everyday tasks. Do we really need this in the world that has barely recovered from the financial crisis of past years, and is currently demonstrating the lowest economic growth pace in three years?

Even Sweden, the world leader in cash withdrawal, admits the danger of such a transition. In March last year, Head of the Central Bank of Sweden Stefan Ingves said that massive use of non-cash payments could pose a great danger to the country during the next financial crisis. "We have noticed this rapid development, we have noticed that there are a number of people and there are a number of situations and their geographies where cash is absolutely vital", said a Swedish economist and journalist Cecilia Skingsley.

A study by the Bank of Canada confirms concerns of the Swedes. Its staff discussion paper called "Is a Cashless Society Problematic?" imagines cases of widespread bank failures or systemic financial collapse. It is clear that the digital infrastructure would fail, and deposits would be frozen for an indefinite period of time. Cash, the trusted transactions medium and store of wealth, would then come into play.

Growing concerns about going cashless

However, the central bank in a cashless society will not have enough reserve cash to effectively support the economy. Printing and distribution of new banknotes will take too much time, during which negative changes may become irreversible.

In general, the proliferation of non-cash payments is becoming a headache for economists around the world. In August last year, representatives of the European Central Bank expressed growing concern over cash disappearing in some European countries.

“Increasingly, central banks insist that cash will also play a role“^[2], notes an Austrian economist and currently governor of Austria's central bank Ewald Nowotny. “We do not foresee a totally cashless society. If there is for instance an energy blackout, cash is the only surviving way of payment“^[2].

On May 3, the UK Treasury Department presented a plan to preserve access to cash when paying for retail goods and services. Chancellor of the Exchequer Philip Hammond declared that “Technology has transformed banking for millions of people, making it easier and quicker to carry out financial transactions and pay for services. But it’s also clear that many people still rely on cash and I want the public to have choice over how they spend their money“^[2].

The cashless society holds out excellent prospects and promises a prosperous economy. However, these views look somewhat utopian, and ways to bypass the main pitfalls have not been found yet. Meanwhile, the growth of non-cash payments is raising concerns. Moreover, it is threatening economies of the world and welfare of individual citizens. In light of this, cash takes on a new significance as proven, centuries-old means of payment - and this is why we should keep it in sufficient quantity.

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