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Cash – out?

The invention of currency around 640 BC is commonly regarded as an economic breakthrough – currency increases efficiency in trade as a medium of exchange, stores value over time, and can be used as a unit of account by individuals, firms and the government. Over the last few decades, however, we have been inching away from cash, and have taken to handling plastic cards or even online transactions instead. This could trigger another economic revolution, but there is resistance, and for good reason.

Nevertheless, the decline of cash is clear, with the majority of the developed world conducting a minority of transactions in cash. Some estimates even suggest that by 2027, cash will account for less than 10% of all transactions in the UK. Even outside the rich world, the importance of cash is being eroded – for example, in China, digital payments have risen from a mere 4% in 2012 to over a third of all payments in 2017.

According to the Economist, cash is dying out for two main reasons. One is a new generation of consumers living in the digital age, who have strong preferences for convenience, creating demand for cashless payment methods that are easy, time efficient and reduce the risk of losing money. Cashless payment also makes borrowing for everyday spending much less of a hassle, thanks to credit cards.

Another factor is an increasing preference by businesses and banks to support digital payments. Digital transactions allow firms to sell beyond their borders easily while also making them less vulnerable to theft as they store less cash. As for banks, cash is extremely inefficient for them, thanks to the high cost of infrastructure required, such as ATMs, vans carrying bank notes and tellers who accept notes and coins. A cashless society also creates credit history for consumers, making it much easier for banks to make decisions on whom to lend money.

The government also stands to gain by digitalising payments. Firstly, this can immensely cut down on the shadow economy, enabling the government to keep closer tabs on tax evasion and fraud. Furthermore, cash is inefficient. In rich countries, the cost of minting, storing, sorting & distributing cash is estimated at 0.5% of GDP, a cost that would be non-existent in a cashless economy.

However, there remain multiple points of concern regarding a purely cashless society. First comes the fear that many will be left behind – in particular, the poor. 1.3 million people in the UK don't have a bank account, making it impossible for them to pay using cashless methods. As well as this, the effortless nature of cashless spending can make it harder for consumers to realise just how much money they are spending, potentially causing budgeting problems.

Not only does a cashless society have the potential to harm consumers, it could also negatively affect small businesses. All businesses have to pay interchange fees to credit card issuers that operate the electronic payments system and merchant services fees to the provider they choose to process their payments. These fees, however, are often disproportionately expensive for smaller business that tend to take part primarily in low-value transactions. Higher costs could discourage many start-up firms from entering or staying in the market, reducing competition and potentially leading to higher prices as a result.

Crucially, eliminating cash, which is anonymous, for digital payments could also allow governments or banks with commercial objectives to exploit personal data and spy on consumer shopping habits. The greatest limitation of going cashless, however, can be demonstrated in the following scenario:

Imagine you're in a foreign country – no one knows you, and you want to take a taxi back to your hotel. You're relying completely on your phone, but it runs out of battery. How do you get home now?

Electronic payment systems are vulnerable to technical failures, power blackouts & cyber-attacks, so a purely cashless society would mean that any of these could bring the entire economy to a standstill, with potentially disastrous consequences for millions of people. This could even be a regular occurrence in rural areas with low internet connection.

These problems mean that conversion into a completely cashless society will take time. However, its many benefits to all economic groups make it difficult to resist such a transformation. Instead, it is important for the government to gradually change to a cashless society. This will give enough time to ensure universal access to cashless payment methods, improve internet access, strengthen the banking system against cyber-attacks, pass laws regulating cashless payments and the usage of personal data and improve competition amongst cashless payment providers.

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