

Cashless Economy

Submitted by:

HidaArora

Shristi Katyal

De epank Bansal

Simran Gupta

“An idea to make all our payments and transactions go digital, making currency notes and coins a thing of the past....”

Abstract

The objective of this paper is to dissect the current monetary system of paper currency and coins and to devise a model that overcomes the shortcomings of cash. As the global economy unknowingly ventures into a time when everything becomes cashless, we discuss how the coexistence of cash with plastic money serves little and rather a meaningless purpose. With the help of technology, a completely cashless economy isn't as far from us as one expects. The paper recommends a cashless society in wake of the negative and fraudulent practices that are associated with cash, something that can be fixed by adopting a new, smart, innovative and hassle-free model that simplifies the exchange of money without attaching any tangibility to it.

Keywords: Cashless, central bank, exchange rate, transaction, biometric card, UID

Introduction

Akin to the proverbial fish that has no idea of what water is, we swim in an economy built on money in the form of currency notes and coins, a monetary system that only a few of us are fully able to comprehend.

There goes a cliché about change being the only thing that is constant. We see change in almost every sphere of life surrounding us. Trade and exchange of goods and services has also come a long way from the times of the barter system to the modern currency system. Despite the fact that a transition to a cashless society is already happening, there is reluctance among the high echelons of power to switch over to the completely cashless economic system as it decentralises the power from their hands. However, big banks and credit card companies are likely to be ardent supporters of this revolutionary idea.

While at first impression, a complete doing away with money in the form we know it might seem to be a very far-fetched idea but it feels so only because we are accustomed to transactions being done through cash. In reality, in countries like the United States and Sweden, transactions involving cash only account for 7 and 3 per cent of the total transactions respectively.

The Current Monetary System and It's Drawbacks

Most economies in the world have a central bank or an authority that reserves the right to manufacture paper and metal currency and is responsible to assure the bearer of it's assigned value. While this might come across as a fairly easily understandable system, there is a lot more that goes into 'money creation'. The amount of cash in an economy at any instant is guided by the market forces of demand and supply and the central authority in charge regulates the flow of cash into (or out of) the market.

Cash, however, is only the physical instantiation of money. The reason why cash has been a popular form of exchange for such a long time is because of the tangibility that it provides to the entire idea of money. But does money really need to have a physical form that people could identify with?

Perhaps not.

The reason being that money in the form of cash has more that it takes away from us than it gives us. Outlined here are some major drawbacks of cash-

- ✓ At an individual level, cash is inconvenient to carry and manage. It cannot be traced or insured as cash once lost or stolen cannot be recovered.
- ✓ Cash is expensive to print, inspect, move, store and guard.

- ✓ transparency. This leads to corrupt practices and financial crimes such as excessive money laundering.
- ✓ Monitoring of tax compliance is difficult for the Government.
- ✓ High cash usage results in a substantial amount of money outside the formal economy, thus stunting the effectiveness of policies aimed at managing inflation rates.
- ✓ From a global perspective, the economic growth imperative inherent in the current monetary system plays a major role behind global warming and other environmental crises.

In wake of the issues highlighted above, some governments are already viewing the use of cash in a negative light. In fact, according to the U.S. Government, cash payments are now thought of as ‘suspicious’ activity that needs to be reported to the authorities.

How to remove all the cash from the economy?

There are many possible ways of going about this but an outright prohibition on the use of cash is certainly not going to work. Rather, the central bank or authority could ‘tax’ the use of cash, leading to the value of the paper currency depreciate relative to the reserves, say by 10% annually. By managing the exchange rate between currency and reserves and pushing it further, the central bank could remove the ‘zero lower bound’ and tax the use of currency, which would thus tax the criminal and anti-social enterprises that largely rely on currency.

So a full restriction on the use of cash could be seen as a limiting version of mildly extreme policies that tax currency by allowing its value to depreciate relative to bank reserves.

When the exchange rate between currency and reserves becomes large enough, cash in the economy would cease to exist.

Solutions To Overcome Challenges

- ✓ There needs to be a high-speed network access even in the remotest nook and corner of the country. A high-speed internet and a high-security biometric database are pre-requisites for establishing this model at ground level.
- ✓ Technological awareness needs to be created among people so that they warm up to the idea of this model readily.

- ✓ There has to be incentives for all parties involved so that no one is robbed of his/her right to purchase and sell. Small businesses and banks should not feel done with under this new system. They should be made to be feel empowered by having their own right to issue and manage 'points'..

The Conclusions

It can thus be concluded that with the increasing popularity of transactions through cards, cash is slowly but surely expected to die a natural death. In a world where payments go online, cash serves very little purpose apart from creating a burden on the State. Doing away with cash addresses a very wide spectrum of problems, starting from counterfeiting, money laundering and bribery to tax dodging and criminal businesses.

While a cashless economy might take some time to get fully realized, it is something that's surely coming our way in the near future. Like everything else, a cashless society has it's own set of pros and cons. But the positives that we can get out of it outweigh any negative impact that it might have.

The distribution of power between a central bank and the smaller banks is an important aspect of the model proposed in this paper. The role of the central bank as a 'money-maker' would cease to exist and its new found role would be to supervise the smaller parties who get enabled to be a part of the money, or point-issuing process. A switch over to the cashless economy thus decentralizes the power from a central hand at the top of the hierarchy, which is what is needed.

Overall in a nutshell, a cashless society has an innumerable number of benefits over the current monetary system. The paper currency stays on because it is the only form of money that is built in our psyche. The future generations though will live through a time when the idea of money creates an image of credit and debit cards inside their head. That will be the time when cash will have to give way to a world where exchange will take place as it does now, but without the money being v