



# INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

## CASHLESS ECONOMY: MYTH OR REALITY

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### Abstract

The attempt 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: A CASHLESS SOCIETY

A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical bank notes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. Such a concept has been discussed widely, particularly because the world is indulging into the rapid use of digital methods of recording, managing and exchanging money in commerce, investment and daily life in many parts of the world and transactions which would historically have been undertaken with cash are often are now undertaken electronically.

As the country moves towards a cashless environment after demonetisation, the initial awe and confusion have given way to a flurry of concerns. To incentivise the move towards a cashless economy, the government has come up with a rash of discounts and freebies on digital transactions reducing India's economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic product ratios in the world, and lubricating economic activity with paper.

### The Current Monetary System and its 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 its 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?

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.
- ✓ Counterfeiting is always going to be a problem as long as paper currency exists.
- ✓ Hand-to-hand currency is favoured by criminals as it does not leave a paper trail.
- ✓ Cash transactions are not tractable in nature, thus providing no 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.

### **Possible Impacts of a full Cash Abandon**

Removal of currency notes and coins is likely to be the biggest monetary reform since the inception of the former itself.

- ✓ Banks are likely to be in favour of a cashless society as it saves them the cost of printing, inspecting, storing and guarding 'paper' money. Costs also include the security and labour involved in processing and transporting cash, maintaining automated teller machines, and regulating the amount of cash in circulation. According to an estimate, European banks could save between €45bn and €90bn annually if they get rid of cash from their systems.
- ✓ Prohibition on the use of cash could restrict criminals such as drug dealers and people involved in possible unregistered activities like prostitution and betting from doing business.
- ✓ Eliminating cash could also mark an end to bribery and other such corrupt motives as authorities would be able to track virtually all transactions. Tax crimes would also stop.
- ✓ Restriction on the possession of currency would remove the 'zero nominal bound' as a constraint on counter-cyclical monetary policy.
- ✓ According to a study by Wolman, countries could save about 1 % of their GDP annually by switching over to 'electronic' currencies.

Every reform has some pros as well as cons. There are more than a few challenges to our proposed cashless system, which are as follows-

- ✓ People still rely on the idea of money being 'physically' realisable. For some psychological reason, 'paper' money is revered more than 'plastic' money or 'digital' money. Cash keeps a check on people's spending habits.
- ✓ Anything that's technological comes with a baggage of risks and security threats. A very high and unbreachable degree of security would be needed as a deterrent to hackers and cyber criminals.
- ✓ The idea of a cashless society won't be readily popular among a certain section of our demographics. While a user-friendly model might not necessarily require consumers to be tech-savvy, there would still be some sort of digital awareness required to understand the working of a society with no cash. People who have grown up and lived through times when a substitute for cash wasn't even thought of might face some difficulty in adjusting to a world without currency notes.

- ✓ All the existing cash in the world cannot be removed or deemed ‘abandoned’ at one go. Also, when it comes to money, reassurance is the thing that matters most. For a complete switch-over to the new monetary model, the voluminous amount of cash presently circulating in the market would have to be converted into an equivalent number of ‘digital’ points.
- ✓ Developing economies have an added challenge in the form of high levels of illiteracy among the masses. For example, in India itself, there are large sections of rural population who haven’t seen a bank in their lifetimes, let alone owning a bank account. The only way they recognise money is through currency notes and coins.

An ideal cashless economy should look to incorporate all the benefits of a digital monetary system and to find solutions to the aforementioned challenges, in order to achieve wide acceptance among the people who earn, spend and consume.

### **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.

## **India taking the initiative to go cashless. There are two places in India that are already living PM Modi’s Dream of cashless Economy:**

At a time when long queues outside banks and atm s are a common site almost everywhere across the country following the demonetisation, two places have realised the dream of a cashless economy, which is free from everyday currency hassles.

These places are AUROVILLE, an experimental township in viluppuram district of Tamil Nadu, and AKODARA, a small village of around 1200 people in sabarkantha district of Gujarat.

AKODARA is the country’s first digital village. It has become a virtually cashless economy.

## **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 its own set of pros and cons. But the positives that we can get out of it outweigh any negative impact that it might have. .

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 visible to us.