Pros and Cons of a Cashless Economy

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In the development of technological advancements and digital transformation, the cashless economy concept has gained unprecedented momentum. With the development of mobile payment apps, non-contact transactions and online banking, the way money is handled has evolved dramatically (Bublyk et al, 2023). This shift from physical cash to digital currencies has ignited a vigorous debate, sparking conversations about the potential benefits and drawbacks of a cashless society. While proponents argue that it can enhance monetary security, economic efficiency, reduce corruption and tax evasion rates, sceptics raise concerns about privacy and exposure to hacking risks, economic inequalities and charges by the payment providers. In this essay, cashless transactions shall be discussed, weighing its pros and cons to gain a comprehensive understanding of this financial transition.

Cashless transactions enhance monetary security. Tangible cash is susceptible to crime since one carrying cash becomes a criminal target. Once a criminal takes away the money into their own wallets, it becomes extremely difficult to trace the cash or provide evidence that one owns the money. A 2014 study on cashless transactions revealed that crime rates reduce significantly when cash transactions are replaced by electronic benefit transfer cards (Tekin et al, 2014)

Moreover, cashless transactions have emerged as a catalyst for enhancing economic efficiency in today's interconnected world. One advantage lies in the speed of these transactions where digital payments are executed almost immediately, reducing the time and effort required for cash handling and manual accounting(Madhav, 2021). This efficiency extends to businesses as well, where streamlined payment processes reduce administrative costs, enabling companies to allocate resources more efficiently. Furthermore, transaction digitization promotes transparency and accountability, easing the tracking and analyzing process for financial data, which in turn helps in making informed decisions for individuals and organizations alike.

Besides, the shift towards a cashless economy helps in the reduction of corruption rates. In many illicit transactions, it is crucial to avoid traceability and the use of cash emerges to be the most preferred way for briberies and corruption cases. This is so since no trails are left to track it to an organization or individual. While using cashless transactions, it becomes easier for authorities to monitor and trace transactions, making it more challenging for parties to engage in corrupt practices without detection.

Furthermore, electronic transactions leave little room for tax evasion and underground economic activities. This level of transparency enables tax authorities to track income and expenditures more effectively. As a result, governments can collect taxes more fairly, ensuring that everyone pays what they are supposed to pay. This in turn can contribute to increased government revenue, which can be allocated to public services and infrastructure development.

On the other hand, while transitioning to a cashless economy, it becomes evident that the advantages it offers must be carefully weighed against the challenges it presents, including the digital divide, security risks and financial exclusion (Gupta&Mallick, 2023). Weighing between these pros and cons necessitates a comprehensive approach that ensures both convenience and security while safeguarding inclusivity, privacy, and financial autonomy for all members of society.

Digital transactions are vulnerable to cyberattacks and hacking. This can jeopardize the safety of personal and financial information (Ranđelović & Tanasković, 2023). Hackers and muggers can access one’s bank account and financial information and cause serious harm. This may not be the case while using physical money. Coverage by federal law may not be enough to get one’s financial situation back on track following a breach. Additionally, users that use cashless payment must give personal and financial information. Data leaks or data sharing outside business may be a concern for some individuals. Additionally, the heavy reliance on technology in a cashless economy also means that any disruptions, such as power outages or system failures, can halt economic activities.

Furthermore, a cashless economy has the potential to widen financial inequality. Although digital payment methods are convenient and secure, they frequently require strong financial infrastructures and devices. The poor and underbanked would probably experience major problems in a cashless world. For example, if you can't afford a cell phone, he or she cannot buy something or get the money. Lacking these resources, people and communities are at a disadvantage since they can't fully engage in the cashless environment. This isolation may make it more difficult for them to use financial tools and possibilities in a cashless society, access banking services, or conduct digital transactions. As a result, the wealth gaps in society grow wider between those who can benefit from a cashless economy and those who cannot.

More so, the rise of the cashless economy has created a potential issue where service providers charge fees for their services (Ishak, 2020). As cash becomes less in circulation, individuals and businesses increasingly rely on electronic payment platforms and financial intermediaries. This strong dependence gives payment providers significant market power, allowing them to impose fees and transaction charges, which can be economic burden for users. Moreover, since cashless transactions often involve multiple intermediaries, each charging its fee, the cumulative cost of making payments can rise, disproportionately affecting lower-income individuals and small businesses enterprise. This scenario highlights the potential for payment providers to exploit their dominant position, leading to increased fees and intensifying financial burdens for users in a cashless economy

In conclusion, there are indisputable benefits to a cashless economy in terms of productivity, less crime, financial inclusion, and tax revenue. It also presents important difficulties, such as security dangers, economic exclusion, and potential charges by the payment providers. It takes careful consideration to balance between ease and security and inclusion, privacy, and financial liberty for all members of society. The viability of a cashless economy ultimately depends on our capacity to maximize its benefits while minimizing its downsides.

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