These are the last days of cash. We might miss it when it's gone

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The era of cash – the currency notes and coins you have in your wallet (or once did) – is drawing to an end. I still tip my Uber drivers and coffee baristas in cash but am clearly a dying breed. On my last international trip, which was to Beijing in December, 2019, I felt like the only person there still trying to use yuan notes rather than my mobile phone to pay for taxi rides and street food. Now, some 14 centuries after paper currency first emerged in China, we are on the cusp of its disappearance – a change that will affect not just economies, but societies, in profound ways.

The shift away from cash is picking up pace around the world, accelerated by the COVID-19 pandemic that encouraged both consumers and businesses to adopt contactless payments. In 2020, Canadians used cash for just one-sixth of their payment transactions (compared with nearly half of all transactions in 2008). In many advanced economies, such as Sweden, cash has almost vanished. There are, however, countries that have clung to its use; the amount of cash per person, and its widespread use in transactions, remains high in two of the world's richest economies, Japan and Switzerland.

Many developing countries have leapfrogged richer economies in ditching the use of cash for everyday commerce. In China, even micro transactions (such as buying dumplings from a street vendor) are now mostly done through mobile phone apps. Even in some low-income countries like Kenya, mobile phone-based payment and banking services are swiftly displacing cash.

Is the looming demise of cash good for economies and for society at large? That depends.

Digital payments have many merits. They are quicker and often cheaper. For businesses, it is a boon not to have to deal with transacting in and managing cash. For a street vendor or mom-and-pop store, having to handle cash and making change is a hassle. Storing and managing cash is generally messier, time-consuming, and increases vulnerability to theft and loss.

more economic activity out of the shadows. Paying a babysitter in cash is certainly not of much consequence, but even some large-value transactions are conducted in cash to avoid reporting them to the tax authorities. Moreover, cash has a long history of being used for financing illicit activities, including corruption, tax evasion and money laundering. So its disappearance might not be a bad thing.

The tactile aspect of cash created challenges in the early stages of the pandemic when there were concerns that the circulation of currency notes from hand to hand could promote the spread of the virus. In May, 2020, the Bank of Canada suggested that people could clean their polymer banknotes (which are resistant to moisture) with a bit of soap and water if they wanted to take additional safety precautions – surely, the first instance of a central bank *encouraging* money laundering!

For all its flaws, cash also has many advantages. It is easily accessible, can be used without any electronic device or connection to wireless networks or the internet, and can be used by people without financial accounts. Cash also comes through in a pinch, especially during natural disasters and other emergencies, when communications networks might be down and electricity can get cut off. Most importantly, it provides privacy in commercial transactions, an attribute that is unlikely to be true of any form of money that leaves a digital trail.

Advocates for cash have made the case that it remains essential for a significant share of the population in any economy: those who might not have easy access to digital technologies, including the poor; residents of remote or rural areas; and the elderly. Digital payment services such as Apple Pay are easy to use but you need a bank or credit card account before you can sign up. So the non-acceptance of cash could disenfranchise the poor, who already suffer from various deprivations and lack of access to the financial system.

Canada is fortunate to have a high degree of financial inclusion, with all but a tiny fraction of households having bank accounts. This is not true elsewhere, especially in poorer countries and even in some rich ones. In the United States, about 5 per cent of households remain unbanked or underbanked. But even in Canada, some widely prevalent forms of digital payments such as credit cards are expensive; merchants pay significant fees that may ultimately get passed on to consumers.

The emergence of the cryptocurrency Bitcoin was aimed at making it easy, in principle, for anyone to have access to a means of payment without having to rely on a commercial bank, credit card company, or even money issued by a central bank. That transactions using bitcoin could be conducted using just the digital identities of transacting parties, thereby preserving anonymity, was an added allure. However, bitcoin's unstable value and its inability to handle more than a tiny volume of transactions have made it an unviable medium of exchange.

issue a stablecoin backed up one-to-one by U.S. dollar reserves. This stablecoin could be used for payments within and perhaps someday even across countries. Allowing major corporations such as Facebook and Amazon to issue currencies could pose a threat to governments' monetary sovereignty. After all, such corporations that have widespread reach and deep pockets could someday conceivably issue currencies that are delinked from and directly compete with existing fiat currencies.

One solution might be for central banks themselves to create digital versions of their currencies. They could then make digital accounts for transacting with those currencies easily available to the masses at zero cost and with no minimum balances, allowing everyone to have access to a free and widely accepted digital form of payment. Central bank digital currencies are no longer a fantasy: The Bahamas and Nigeria have already issued them and many others including China, Japan, and Sweden are conducting experiments.

The Bank of Canada has indicated that it is looking into the technical viability of a digital version of the loonie. This is a wise move to keep central bank money relevant at the retail level and to make sure that everyone has easy access to a safe, secure and efficient digital payment system. Sweden, for instance, is experimenting with a digital version of the kronor precisely to serve as a backup to the private payments infrastructure, which works perfectly well in normal times but might be subject to technological vulnerabilities or loss of confidence. Along these lines, a digital loonie might be seen as just another payment option for retail transactions, but one that adds an important layer of safety and resiliency to the payment system, which is of course crucial to the smooth functioning of the economy.

A central bank digital currency is not without risks, though. A government-managed digital payment system could threaten private payment providers such as banks and credit card companies or at least limit private sector-led innovations that benefit consumers and businesses. Digital money could also be deployed to meet specific economic and even social objectives. An ostensibly benevolent government could, for instance, mandate that money issued by its central bank could come with expiry dates to encourage spending rather than saving, or issue money that could not be used to purchase narcotics, ammunition or pornography. A digital currency would give an authoritarian government an additional tool for surveillance of its citizens.

Amid all these looming changes to money, cash is not going down without a fight. A number of U.S. states and cities have passed legislation requiring merchants to accept cash as payment. Even in countries whose central banks are issuing or experimenting with digital versions of their official currencies, there is a push to keep cash viable and relevant as a payment mechanism for those who

Besides, cash is often inextricably tied up with national identity. Countries regularly redesign and modernize their banknotes to reflect their national heritage and values (trying to stay a step ahead of counterfeiters is another motive). In the United States, the proposal to replace the image of Andrew Jackson with that of the famous abolitionist Harriet Tubman on the $20 bill became a political football.

A digital version of the loonie or U.S. dollar would simply not be the same thing as holding a crisp banknote in one's hand. One curious phenomenon highlights the emotional connection that people have to cash in times of trouble: During 2020, when COVID-19 was nudging Canadian consumers and businesses to switch to digital payments, the amount of cash in circulation actually rose significantly. It appears that much of this demand was for high-denomination banknotes ($100 bills, in particular) that Canadians stashed away rather than used in transactions. A similar phenomenon of rising demand for high-denomination banknotes co-existing with the declining use of cash for day-to-day transactions has been observed in India, the United States, and many other countries.

The reality, though, is that physical money is slated to become a relic, with digital payment systems becoming the norm around the world. Soon, we will live in a world where our smartphones displace our billfolds and physical wallets, much as they eliminated most people's need for separate cameras and GPS devices. We are also entering an era of renewed competition between government-issued and private digital currencies.

All of this portends greater economic efficiency, with payments within and across national borders becoming easier and cheaper. But there is a cost, too, as governments and large corporations could exploit these tools to become even more intrusive in our financial and personal lives. There is much to look forward to as the era of cash ends – but also a lot to fear.