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The Economic Benefits and Social Risks of a Cashless Society

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Abstract: This DRP discusses advantages and disadvantages of a cashless society. Cashless systems decline service costs, expand inclusive finance for disadvantage groups, strengthen household resilience and raise GDP by easing business lending. However, digital payments weaken spending restraint, fuel overconsumption and risky household debt. Traceable transaction data also triggers privacy leaks by corporations and governments. It concludes complete cash elimination is undesirable, reta ining cash and proper regulation balances overall financial development.

Keywords: Cashless Society, Financial Inclusion, Financial Surveillance.

1. Introduction

INowadays, the rapid development of technology has made a cashless society possible. Meanwhile, the debate over whether we should fear a cashless economy is increasingly heated. This essay argues that a cashless society can indeed promote inclusive finance and economic growth by reducing the cost of financial services. However, these advantages also come with significant risks: a society completely transitioning into cashless payment methods may largely alleviate consumers' pain of payment, thereby encouraging excessive consumption and imposing a greater financial burden on households. Furthermore, the traceability of transaction data may enhance the ability to monitor individual economic behaviour, increasing the risk of financial surveillance.

2. Economic Benefits of a Cashless Society

2.1. Financial Inclusion and Lower Service Costs

First of all, a primary benefit of a cashless economy is its promotion of inclusive finance and thus economic development. In a cash-based economy, providing financial services requires physical infrastructure such as bank branches and ATMs. This makes the marginal cost of extending financial services to people living in remote areas high, discouraging financial institutions from serving these populations. According to the World Bank Group [1], inclusive finance, which refers to the accessibility and affordability of financial services for everyone—especially marginalised groups such as low-income individuals, villagers, and the unbanked—is far more achievable in a cashless society. This is because once the digital payment platform has been established, no physical entities are required and the marginal cost of extending services to remote areas is nearly equal to zero for FinTech firms, allowing previously underserved populations to access financial services.

2.2. Household Financial Resilience

Greater inclusive finance strengthens individuals' financial resilience. Carrying or managing cash involves more time costs and security risks, while safer and more convenient digital methods encourage people to bring idle funds into the formal financial system. This enables more effective saving and fund management rather than hiding cash at home or using it for unproductive consumption. For instance, in Kenya, where cash usage used to be traditionally high, mobile money has essentially enhanced people's ability to safely store and transact money [2]. Faster transactions also enabled individuals to receive funds more conveniently from families and friends, so that they could better protect themselves against negative shocks such as illness or disasters. It is revealed that the transition from physical cash to mobile money had significantly fostered Kenya's economic development by lifting 194,000 households, 2% of Kenyan households, out of poverty.

2.3. Credit Access and Economic Growth

In addition, inclusive finance can stimulate financial sector activity by reducing information asymmetry in lending. There is no reliable record of cash transactions, making it difficult for financial institutions to determine the true condition of small businesses. By adopting digital payments, businesses can produce transferable and verifiable information about their business operations and cash flows for FinTech lenders, so that lenders can reduce lending uncertainty and achieve more efficient lending. Massi et al. [3] provide causal empirical evidence that higher use of cashless payments improved borrowing outcomes in India: applicants who relied on cashless payments were 3 percentage points more likely to obtain a loan and receive a lower interest rate. By stimulating financial intermediation for small businesses, cashless payments support business expansion and economic growth. At a macro level, as shown in Figure 1, it was predicted that the shift to a cashless model could boost GDP growth by about 1 percentage point in mature economies like the US, Sweden and the UK, and over 3 percentage points in emerging economies like the United Arab Emirates [4].

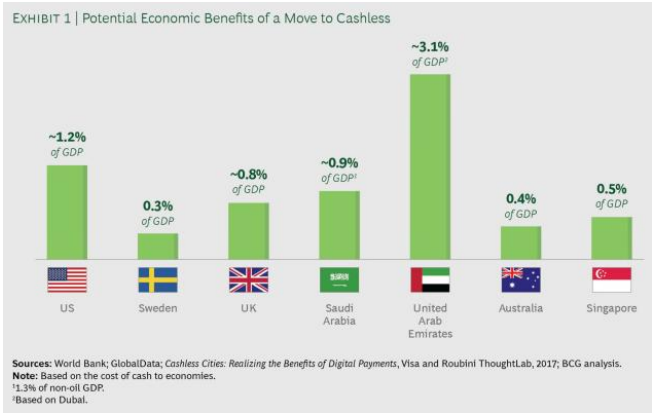

Figure 1. Potential economic growth of a move to a cashless society

Source: https://www.bcg.com/publications/2019/cashless-payments-help-economies-grow

3. Consumerism and Household Debt

3.1. Pain of Payment

Despite the above benefit of inclusive finance, a cashless economy faces a far higher risk of consumerism. This can be explained by the concept of pain of payment. The pain of payment in a cash economy is usually higher than in a non-cash economy because the physical cash an individual uses to pay will give the brain a clearer signal of losing valuable financial resources [5]. By contrast, when an individual uses a cashless payment method, like a credit card or some other digital way, there is no physical signal of losing financial resources and thus conveys far less pain of payment. Also, the option of using an instalment payment method even further reduces the pain of payment because an individual is using money from the future, and thus the monthly repayment seems to impose a smaller financial burden.

3.2. Spending Behaviour and Buy Now, Pay Later

For example, the research given by Sjam [6] found that among the 718 students in Indonesia who participated in the survey, there was a clear tendency that the use and frequency of both prepaid cards and credit cards are proportional to over-consuming behaviour. More specifically, the researchers found a stronger over-consuming pattern when using prepaid cards, which has become a popular way of purchasing among Indonesian teenagers: as the number of prepaid cards increases by 67%, the frequency of consuming increases by 215%.

That is to say, when an individual can pay after buying rather than paying instantly, this is actually separating shopping and paying. This reduces the pressure of instant payment and thus changes how a consumer feels about the loss of financial resources, potentially resulting in the overuse of purchasing power in the future. Maesen and Ang [7] provide the data showing how cashless payment causes over-consuming when people adopt Buy Now Pay Later (BNPL): the probability of purchasing increases by about 9 percentage points and the purchase amount increases by about 10%. This effect is more pronounced among consumers who make small, frequent purchases. People who adopt BNPL have a significantly higher purchase frequency than those who do not, with an average of 1.83 more purchases and a higher average spending of $6.88 (about 10%).

3.3. Household Debt and Financial Risk

Such over-consuming behaviour resulting from cashless payment can have significant negative impacts on individual debt. This has been supported by empirical evidence: in 2021, 19.5% of active credit card users in the UK had at least one BNPL credit card bill, which means nearly one-fifth of users had converted 0% interest BNPL debt into high-interest credit card debt of around 20% per annum [8]. This suggests that the increase in consumption brought about by cashless payments does not necessarily represent an increase in real purchasing power; it may be just a kind of advance consumption using future income. When more and more consumers rely on credit cards or BNPLs to maintain current consumption, short-term demand is artificially inflated, but the long-term debt repayment pressure will compress future consumption capacity. Therefore, while a cashless society can stimulate economic activity, it may also weaken the sustainability of economic growth by encouraging excessive borrowing and fragile household balance sheets. A high debt burden for individuals means income imbalance, shrinking savings, damaged credit, increased economic pressure, and a higher risk of overdue defaults. For society, the ever-increasing personal debt fuelled by the irrational consumption trend may exacerbate financial risks.

4. Privacy and Financial Surveillance

4.1. Corporate Use of Transaction Data

Last but not least, a cashless society also faces the risk of compromising consumer privacy. While financial institutions can transform businesses' transaction data into verifiable credit records, as analysed above, such a merit of financial inclusion in a cashless economy can also slide into financial surveillance. In a cashless society, transaction records can reveal almost all the private and comprehensive information about each person. Transaction information is valuable to firms because they can use such information to understand users much more effectively and form consumer profiles, so that they can provide more targeted personalised recommendations for consumers and extract more commercial benefits. Essentially, such "transactional information" becomes a kind of new factor of production for firms. By analysing over 1 million people's credit card records, Montjoye et al. [9] found that using only four spatiotemporal points—such as when someone makes a purchase at a certain time and place—is sufficient to identify 90% of individuals, indicating how transaction data can easily expose individual privacy despite the apparent anonymity. In real life, Visa has already utilised payment records to segment consumers for more precise advertising promotion [10].

4.2. Data Breaches and Vulnerable Groups

However, such a profit opportunity is at the expense of consumer privacy. For instance, according to Khera [11], in India, about 87% of individuals confirm information leaks, and half of them are concerned about the security of biometric ID data. From 2014 to 2021, there were five times as many online fraud cases in India and in 2021, the number of online fraud cases reached 53000. In 2025, cybercrime in India caused substantial loss of 2,249.5 billion rupees, with an annual growth rate of 24%. This evidence suggests that while a cashless society improves payment efficiency, it also binds personal identity information, transaction records, and financial accounts more tightly together. Once a digital

identity system or payment platform experiences a data breach, victims face not only privacy losses but also the potential for identity theft, financial fraud, and real economic losses, making vulnerable groups particularly susceptible to these severe impacts.

4.3. The Privacy Paradox

Meanwhile, some may argue that the law of privacy can protect consumers in a cashless society. But the issue here is the privacy paradox: despite people usually expressing their concerns about privacy, they still easily leak personal information through daily digital transactions. This is because, for the vast majority of users, privacy breaches are a future risk that is not yet visible, while protecting privacy in the present requires real costs, thus making it difficult for individuals to effectively protect their own privacy. For example, a survey conducted in Germany by Barth and de Jong [12] shows that 84% of subjects agree that they care very much about their privacy and are afraid that their information could be stolen, while only 18% of them really take steps to protect their privacy.

4.4. CBDCs and State Surveillance

A cashless society not only involves the currently popular means of payment like cards, mobile and QR-code payments; in the future, the central bank may also issue Central Bank Digital Currency (CBDC). By using technologies like blockchain to authenticate transactions, CBDC systems allow regulators to track who uses the money and where it's spent [13]. If CBDC wallets are maintained by central banks or related authorities, user identities could be linked to each transaction. CBDCs don't just generate data through the transaction systems; the currency itself, in essence, tracks and carries the data. Therefore, governments could gain stronger surveillance capabilities than in traditional cash-based societies, even technically restricting specific transactions or recovering certain payments. This could give governments more direct access to transaction records. Therefore, the surveillance concern in a cashless society extends beyond businesses monitoring consumers; it could also encompass stronger state tracking and control over individual economic behavior.

5. Cash Retention and Digital Discipline

5.1. Balanced Payment Ecosystem: Retaining Cash and Targeted Regulation

The economic gains from cashless systems—lower service costs, expanded credit access, and GDP boosts of up to 3% in emerging economies [3, 4]—do not justify a wholesale elimination of physical cash. Digital payments excel in efficiency, yet they fail in scenarios where networks collapse, devices die, or rural infrastructure is absent. For elderly citizens, digitally illiterate populations, and remote villagers, cash remains the only reliable medium for daily purchases. Even in Kenya, where mobile money lifted 194,000 households out of poverty [2], the transition did not erase the need for cash as a fallback and a symbol of inclusive access. If merchants are allowed to refuse cash freely, those already marginalized will be effectively barred from basic consumption and social participation—a regression that no efficiency gain can justify.

To counter the inherent pitfalls of cashless tools, regulators must impose targeted constraints on both consumer credit and transactional data exploitation. The “pain of payment” diminishes sharply with digital methods, especially under instalment plans like Buy Now, Pay Later (BNPL), where future income feels less burdensome and drives impulsive spending [5]. Empirical evidence confirms that BNPL adoption raises purchase probability by 9% and spending by 10%, with frequent small buyers accumulating an extra 1.83 purchases and $6.88 per transaction [8]. That same study found that 19.5% of UK credit card users had rolled BNPL debt into high-interest cards, signaling a dangerous debt spiral. Regulators should therefore cap BNPL borrowing, mandate full fee disclosure at checkout, and prohibit platforms from obscuring real annual interest rates. On data privacy, the risk is equally acute: de Montjoye et al. [9] demonstrated that just four spatiotemporal transaction points can re-identify 90% of individuals in a million-record dataset, while Visa already monetises payment records for targeted ads [10]. In India, 87% of users report information leaks and cybercrime losses reached 2,249.5 billion rupees in 2025, with a 24% annual growth rate [11]. Such breaches are not abstract; they hit vulnerable groups hardest. Although privacy laws exist, the “privacy paradox” persists—84% of Germans claim to care about privacy, but only 18% act to protect it [12]. Thus, regulation must not only ban unauthorized profiling but also enforce explicit, voluntary consent for any use of transaction history.

For central bank digital currencies (CBDCs), a tiered privacy framework offers a pragmatic middle ground. As the CFA Institute [13] warns, CBDCs could give governments unprecedented tracking power, since each transaction can be linked to user identities and even technically reversed. To prevent state overreach, small daily purchases should retain partial anonymity, while large transfers remain traceable to combat fraud and money laundering. This hybrid setup does not abandon the efficiency and inclusion that digital payments bring; rather, it shores up their structural cracks. By preserving cash as universally accepted legal tender, tightening BNPL oversight, and restricting data misuse, policymakers can balance economic dynamism with household financial stability and individual privacy. Such a balanced ecosystem is not a utopian ideal—it is a necessary correction to the blind faith in total digitisation, grounded in the hard evidence of both benefits and harms documented above.

6. Conclusion

To sum up, this article argues that a cashless society can indeed promote economic growth by reducing transaction costs, expanding financial inclusion, and improving credit accessibility, particularly by making it easier for residents in remote areas, low-income groups, and micro and small enterprises to access the formal financial system. However, these advantages do not mean that our society should completely eliminate cash—we need to be particularly wary of the threats of consumerism and privacy loss posed by a society entirely reliant on a cashless system. Cashless payments reduce the "pain of payment," potentially encouraging overconsumption and debt accumulation; at the same time, the traceability of digital transactions can enhance the ability of businesses and governments to monitor individual economic behaviour.

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