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The Social Role of Money in an Age of Digitalization

The digitalization of money and the move towards a cashless society brings significant efficiency gains. However, it also has a perverse impact on social cohesion and financial inclusion: as the scales tip further toward digital currencies, the payment system becomes more a private good than a public one – and one that risks leaving the most vulnerable behind.

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In the past few decades, monetary systems have transformed: in the developed world at least, it is digital money, not cash, at the apex of payment systems. The pandemic has turbocharged this, with card-only payments and online and mobile payment systems becoming ubiquitous, and cash being partly phased out. Without action, this is only going to increase and develop further.

Yet while there are undoubted gains — in terms of efficiency, security, ease of use — they come at a cost to social inclusion. On one level, digitization is a tool of inclusion, in that it provides means that extend possibilities for transactions and creates financial histories. But the flipside is that it excludes those who cannot, or will not participate, in particular those on the financial margins who must rely on cash.

This can deepen social fractures. For the vulnerable, the juggernaut of digitalization can feel forced. It is a particular manifestation of the wider “digital divide” that afflicts those without access to technology, the less technologically-savvy and especially many elderlies. Many may struggle with digital payment tools and find themselves without familiar options, such as cheque payment systems for household bills, or the easy availability of bank branches for personal assistance.

Erosion of the social role of money

The analysis of the digitalization of money tends to be in economics terms, stressing costs and utility gains. But this overlooks the social role of money. Monetary systems are not just technical in nature, but vital tools of social cohesion, creating a "community of payment". They embody shared values, legitimacy, and societal trust. Their functionality is vital for societal resilience.

Digitization as it is developing also has implications for a sense of public ownership of the payment system. It is a critical infrastructure where the private financial sector is leading the way and owns the tools and networks. This increases a tendency of the payment system becoming more and more of a private good. Cash, as legal tender, is legitimized by the state and carries the sense of a public good. As cash is partly phased out, this sense recedes.

Digitization has also curtailed the particular quality of cash—its anonymity—and enabled greater surveillance and analysis of financial transactions, by private institutions as well as the state. While this increases transparency and security, it also erodes freedom and institutional trust.

The sense of exclusion is further eroded by the costs of payment systems disproportionately falling on the poorest. Those who cannot or do not use digital payment systems — often people on lower incomes — pay more when cash-handling fees are attached to payment systems or they are unable to take advantage of digital rates for services.

More and more, means of payment become positional goods, highly correlated with the socioeconomic status of each individual. Those at the lower end are restricted to cash and relatively costly prepaid or debit cards, while the better-off enjoy a wide range of services and advantages materialized by their glistening credit cards.

Money as a public good

Since the pace of digitization will only increase in the face of further technological innovation in payment systems, the question then becomes how to address these drawbacks, and how to preserve the social role of money.

It needs to be recognized that digitization has grown because it makes sense in cost and efficiency terms for the private financial sector to move away from cash. This led to the erosion of the cash infrastructure itself, which in turn incentivizes individuals to shift to digital. Therefore, to preserve cash for those who need it, cash needs to be recognized as a public good akin to a public utility. This requires the commitment of the state.

In parallel, steps must be taken to minimize exclusion. These should include the guarantee of access to payment accounts, and effective help and training to those who need it in order to utilize digital tools. This will involve a cooperative approach between the public sector and the private financial sector, to be led by the state through legislation, regulation and incentivization.

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And as central banks develop digital currencies, it is important that we preserve the social legitimacy of money as a symbol of sovereignty that cash has for so long represented. Great care must be taken in designing public digital currencies in order to preserve the particular qualities of cash. A true public option for digital payments may be good in addition to existing solutions.

The design of the "digital euro" is a case in point. It is intended to complement cash, not replace it, and to widen accessibility, choice, and inclusion. This is perhaps a heartening assertion of the public sector in the digital payments space. But care must be taken in developing user tools and their symbols — here the European Central Bank can take inspiration from China, whose digital yuan (e-CNY) utilizes in its apps the trusted iconography of the yuan bills.

Reasserting the social role of money

It is important not to lose sight of the positives of digitization. In the Global South, it has been a boon for financial inclusion as with the likes of M-Pesa, a mobile phone money transfer service originally launched in Kenya and now expanded around the continent. Yet its success has not necessarily translated in increased resilience for individuals: better connected to finance, they are also more exposed to shocks, indebtedness, fraud, or online gambling. As innovation is strongly associated with an ideal of progress, it takes some effort to confront its potential detriments.

With a future including cryptocurrencies, machine-to-machine payments, central bank digital currencies, and more, money is only set to become ever-more digitized. A time of shock is a good time to collectively consider what we want money to be and what its qualities should be, as change is forced and accelerated. For the sake of societal resilience, the social aspects of money must be given equal weight alongside the economic and efficiency gains of digitalization.

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