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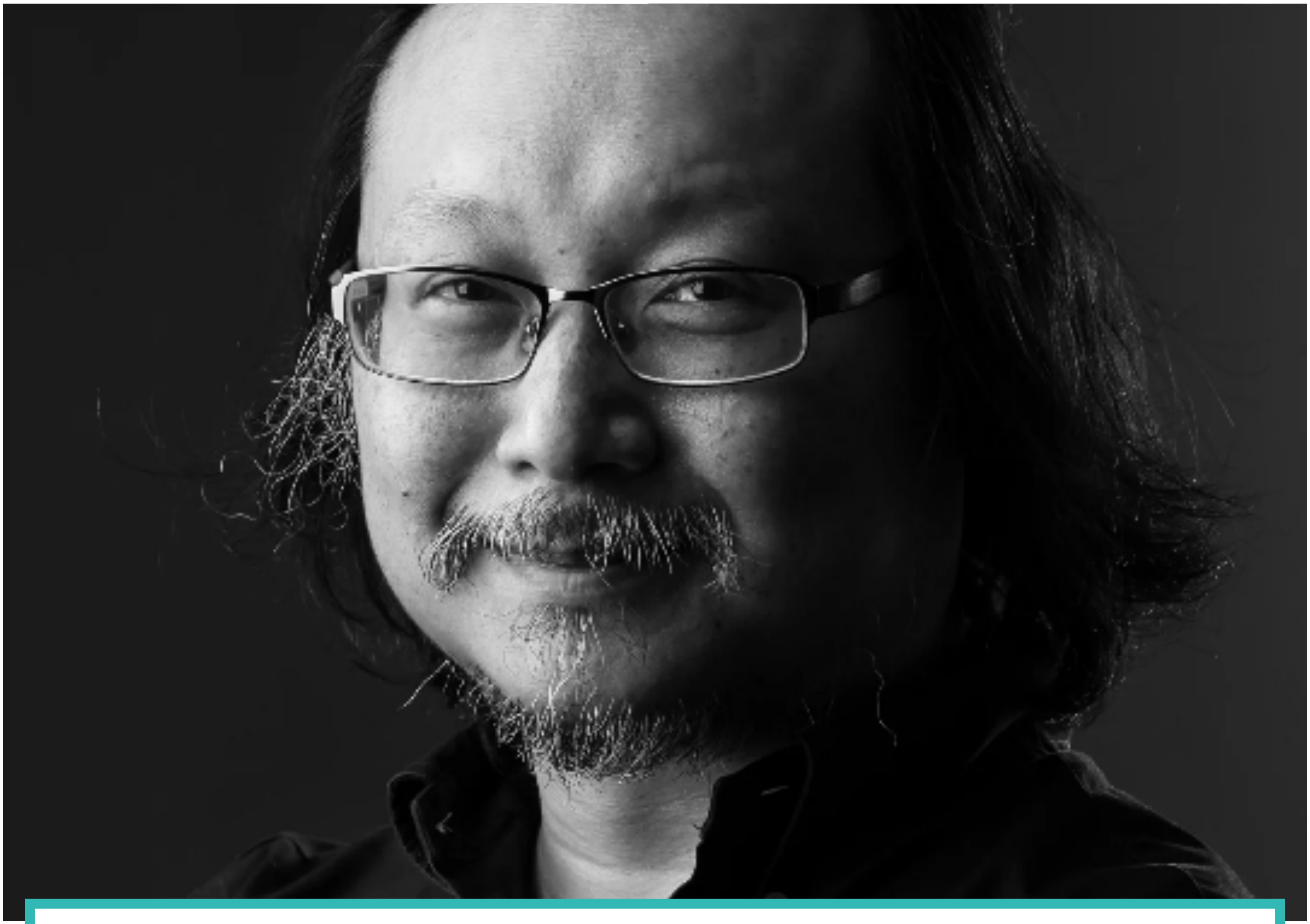

The perils and promises of going cashless and paperless

Columnist

- Revolutions in finance and communication technology will affect all of us in far more profound ways than any geopolitical realignments or social protests

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The Future of Money: How the Digital Revolution is Transforming Currencies and Finance, by Eswar Prasad, The Belknap Press of Harvard University Press

The future of money is digital. Of course, everyone knows that, though physical cash may still have limited use for a long time to come. In a new book, Indian-American economist Eswar Prasad explores what all that means, for consumers and producers, investors and regulators, retailers and wholesalers, and big countries and their economies and small countries and theirs. What are the social and political implications? Does it spell the end of privacy? Will this new age of finance favour the private or public sector? The author offers some suggestions and signposts, but no definitive answers or predictions. Wise!

Professor Prasad kindly sent me his book to review; I must confess I would not have read it on my own. But having read it now, I realise the extent and depths of my ignorance about digital money and the revolution in finance. “Fintech”, the broad term which roughly covers this revolution, will surely affect – has already affected – every one of us, for better or worse.

As luck would have it, before opening Prasad’s book, I had been studying the work of Canadian economic historian and media theorist Harold Innis. There are obvious parallels between the evolution of communication media from physical to digital, and that of money from the gold standard to bitcoin. A “paperless” society and a “cashless” society are two sides of the same digitised coin, no pun intended. Allow me to digress a bit.

Often called one of the founders of contemporary media or communication studies, Innis most famously argues that cuneiform script inscribed in clay, papyrus and parchment with the pen, and paper and printing presses tracks the evolution of civilisation. Each type of media favours a certain type of political regime, social organisation and religious belief.

Fellow Canadian Marshall McLuhan would extend Innis’ study to cover the modern radio and television; and their contemporary followers to the internet, and digital and social media. It is not just that “the medium is the message”, but that every technological medium has always already biased its users – all of us – to certain social practices, beliefs and views about each other and the world. This is what Innis means by “the bias of communication”. For example, McLuhan once famously observed that Hitler could only have risen to power through the radio but not TV; while John F Kennedy would have failed on radio but TV won him his presidency.

As a pundit, let me make one more observation about “bias”. Biases in McLuhan and Innis’ sense are neither good nor bad. Rather they are inescapable and form the basis of how we know and view the world and ourselves. Pure objectivity – without biases – just means a complete cognitive blackout, or as Hegel used to joke, “the dark night in which all the cows are black.”

So, dear readers, stop complaining that I am biased. Of course I am – predictably – biased!

Now, apologies for digressing from Prasad’s book. That has a lot to do with my own personal bias because I am a journalist, not an economist. Naturally I fret more about “a paperless society” in which physical newsprints are fast becoming obsolescent. As a technophobe, that means unemployment for me.

But then, it seems to me that the development of “paperlessness” is a lot like going “cashless”. After all, beginning in China, paper money was the fintech of its time, arguably the greatest invention in terms of the medium of exchange in history. We are now taking part in another fundamental revolution in money.

Any medium of exchange biases our thinking and way of life in a similar way as any medium of communication would. Prasad quotes the 19th-century US economist Alexander del Mar: “Unheard, unfelt, almost unseen, [money] has the power to so distribute the burdens, gratifications and opportunities of life, that each individual shall enjoy that share of them to which his merits entitle him, or to dispense them with so partial a hand as to violate every principle of justice, and perpetuate a succession of social slaveries to the end of time.”

Prasad also references John Maynard Keynes' famous remark that "gold is a barbarous relic". In time, as fintech progresses, physical cash will become "a barbarous relic", too. But the hold of gold and cash on our thinking and assumptions about economic value and exchange will last longer and still bias how we think about money and finance, however digitalised.

In 360 pages of text and an additional 100-plus pages of notes and references, Prasad goes for width of coverage rather than depth. Aside from specialists, he just about covers everything about digital money, finance and fintech that anyone would need or want to know.

One key takeaway I have from the book is that people who pioneered digital or cryptocurrencies are also those who were least mentally encumbered by biases and assumptions about "the barbarous relics" of gold and physical cash. Unlike financial engineering, the dark craft of "rocket scientists" on Wall Street with PhDs in maths, the sciences and engineering blamed by some for causing the last global financial crisis, anyone with programming skills and a lot of imagination could make a contribution or cause a lot of damage in fintech.

For example, Vitalik Buterin, the Russian-Canadian wunderkind who co-founded Ethereum, was – of course – a college dropout who taught himself programming and cryptography in his teens. In a metaphor that Prasad uses, fintech is like Lego with building blocks that you are free to reconfigure any way you like to address or solve any set of problems in finance and business.

As if to emphasise the speed with which fintech and its regulations evolve, the book still claims that China "plays host to a large number of [bitcoin] mining pools and dominates global mining activity". Prasad wrote that he was finalising his manuscript in May last year. By early summer, Beijing had banned such mining. By the end of the summer, the "mining" industry had been effectively wiped out in China.

Elsewhere, Prasad sounds a warning about Facebook's Libra/Diem. He writes: "In June 2019, Facebook shook up the world of digital currencies with its plan to issue a cryptocurrency named Libra … Given the company's enormous worldwide reach and digital clout, any action taken by Facebook has an outsize impact."

It was such a big deal that US Fed Chairman Jay Powell and Treasury Secretary Janet Yellen reportedly met together on June 24, 2021, to discuss what to do with Libra/Diem. (After a good deal of controversy and a slow start, Libra became Diem by the end of 2020.)

"Whatever Diem's eventual fate," Prasad writes, "it has put central banks and private payment providers on notice and highlighted issues that certainly deserve attention."

Actually, we now know what that fate was. In January, the Diem Association acknowledged it was winding down; much of its assets were sold to a little-known Californian lender called Silvergate Bank for US$182 million.

Just like the early years of the internet when its pioneers fantasised about total freedom or anarchy unrestricted by authorities or governments, fintech has been highly decentralised and flourished in the private sector, even in China, at least until its recent crackdown. The whole idea of blockchain technology is precisely that it is decentralised and can't be controlled by a person or group.

It’s no surprise that central banks and financial regulators around the world now want their own CBDCs (central bank digital currencies), just as they are used to being the only legal issuers of fiat money. Prasad spells out the pros and cons, respectively, of private cryptocurrencies and CBDCs, and argues convincingly that CBDCs will inevitably play a dominant role in fintech and future finance.

The libertarianism of crypto pioneers and true believers is likely to remain another unrealised fantasy of new technology as governments take over.

Alex Lo has been a Post columnist since 2012, covering major issues affecting Hong Kong and the rest of China. A journalist for 25 years, he has worked for various publications in Hong Kong and Toronto as a news reporter and editor. He has also lectured in journalism at the University of Hong Kong.