How a Cashless Society Would Harm the Poor

BY: Natalie Delgadillo | July 17, 2017

By the end of the century, it's likely that huge swaths of the global economy will be cashless. It's already beginning to happen. The Department of Motor Vehicles in Louisiana ditched cash last year. Boston's transit agency plans to phase out the payment form. The entire country of India is considering such a move. And increasingly, fast-casual food chains across the U.S. are going cashless to remove the risk of robbery and the burden of slow cash transactions.

But there's one significant portion of the population that's getting left out of this transition: people who lack access to traditional financial services like bank accounts and credit cards.

Nationally, about 7.7 percent of people are "unbanked," meaning they don't have a bank account, according to a 2013 survey by the Federal Deposit Insurance Corporation (FDIC). Another 20 percent are "underbanked," meaning they might have a bank account but regularly use alternative financial services such as check cashing depots and payday lending. The majority of these groups are low-income earners who struggle to meet the minimum balance required to open checking and savings accounts.

Anti-poverty advocates and researchers say the move away from cash excludes an already underserved and disadvantaged population. The recent spike in cashless fast-casual restaurants, for example, limits the healthy food options available for the unbanked.

“For any business that's considering eliminating cash payments, it's important they consider what the consequences will be and who will pay those consequences,” says Linnea Lassiter, a policy analyst at the D.C. Fiscal Policy Institute. “Are the marginal benefits to their business worth systematically excluding a segment of the population that's largely low-income people of color?”

About 54 percent of black households and 46 percent of Latino households are underbanked or unbanked, compared to only 19 percent of white households, says Lassiter.

"I don't think [these businesses] are intentionally trying to exclude poor people and people of color, but that's the impact," she says.

The phenomenon isn't yet widespread, but it does appear to be growing.

Sweetgreen, a salad food chain, went cashless at locations this year in California, Illinois, Maryland, Pennsylvania, Virginia and Washington, D.C. Jetties, which serves salads and sandwiches throughout D.C., went cashless in 2015. Park Café in Baltimore also joined the trend. And many more restaurants across the country are considering it.

Some anti-poverty experts caution that concern about cashless businesses is misplaced. The real issue, they say, is with people's lack of access to traditional financial services in the first place.

“We're not for or against cashless transactions. Our biggest concern isn't cash or not-cash, it's banked or not-banked,” says David Rothstein of the Cities for Financial Empowerment Fund (CFE Fund), a nonprofit that aims to provide low- and moderate-income people with financial stability. “It's about being safe and secure in a changing economy and being nimble in the way you manage your money.”

Rothstein points to the importance of city-run Bank On programs, which connect unbanked and underbanked people with safe, low-cost accounts. Some of these programs, which the CFE Fund helps to run, have been greatly successful. In San Francisco, for instance, Bank On has helped roughly 10,000 unbanked residents a year open accounts since it started in 2006.

San Franciso's treasurer, José Cisneros, agrees that the focus for state and local governments should be on getting people access to bank accounts -- not on halting a seemingly inevitable transition away from paper money.

"Whether it's a cashless restaurant, a rideshare app where you need a smartphone and a debit card, car rentals … this is already the way that businesses have gone," says Cisneros. "The reality is, in order to be successful, all of us really want to have a bank account."

Lassiter, for her part, thinks attention can and should be paid to both issues.

"I definitely think it's important for policymakers to create a more inclusive economy and partner with community-based organizations and Bank On programs," she says. "But also, I do think there needs to be a focus on restaurants and businesses that are going cashless because whether or not they intend to be exclusionary, they are."

Some businesses have already realized this and responded accordingly.

An Amsterdam Falafel in Boston briefly went cashless last year but quickly halted the experiment and has no plans to go cashless at any of their locations, says Arianne Bennett, president and CEO of the fast-casual chain.

"We sell a food that brings great flavors and fresh vegetables to folks of all economic levels," she wrote in an email to *Governing.* "It would be rude of us to assume that everyone has access to digital forms of payment."