Chapter XII

Money is
What Money Does:
Prospects for an
Electronic Money
Payment System in Japan

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Abstract

Despite of amazing progress in information technology that has taken place in recent years, the electronic money failed to live to the expectations and has made little headway into payments systems. The gap between expectations and reality is especially pronounced in Japan. The reason behind the failure of electronic money in Japan is two-fold. First, typical use of electronic money is in general rather limited as long as conventional money is required as a unit of account and a store of value for the former operation. Second, Japanese financial institutions chose very limited standards for their electronic money systems that could not compete with the monopolistic position the credit card companies enjoy in cashless payment markets. On the contrary, Germany adopted a wide standard that fully utilises the advantages of electronic money as a medium of payment.
Introduction

Technological progress has been a catalyst for great changes in human society ever since the Stone Age. From hunter-gatherer tribes, through feudal agrarian societies, to the urbanisation of the industrial age, to the information technology era the invention of the wheel, the construction of high seas going ships, the steam engine, the electricity, and computing devices each dramatically changed the route along which the human society evolves. Yet the increase in computational power has influenced the mankind in the most spectacular way. It has profoundly changed our means of communication, trade, payment and so forth.

But in spite of indeed amazing progress, the expectations associated with the information technology were, at least in some areas, actually greater than the development we have been witnessing currently. For instance, electronic money has made little headway in the payments market. Currently, most of electronic (i.e., Internet) transactions are settled using credit and debit plastic cards instead of electronic money, as it could have been expected otherwise. The cards have been designed for face-to-face real world transactions and they are by no means ideal for electronic transactions world. Let alone the fraud and moral hazard problems, they involve a lot of costly paperwork and, for that reason, they are not suitable for small transactions and person-to-person transfers. In Japan, where authorities placed a lot of political emphasis on the development of information technology as a way for achieving economic recovery (often dubbed as the “IT revolution”), the gap between the expected results and reality is especially striking.

Why, then, has electronic money failed to penetrate the payments market while electronic commerce and electronic banking seem to have been a success? In my opinion the nature of money as a network commodity helps to explain the puzzle. Looking for answers, the chapter reviews briefly the concept of money and its evolution from a commodity stage to the current form. Then the main features of conventional money are compared to those of electronic money and the prospect for adopting general electronic money payment standard are discussed. After having reviewed the current situation in Japan’s payment system the concluding section provides some recommendations necessary for successful implementation of electronic money payments here.

What Money Does

The presence of money around us is so obvious that we usually do not think about what money is. The idea that a certain good may be given up for another more useful one sounds by no means strange to anyone. But the fact that a possessor of a good may be willing to exchange its utility for small seemingly useless metal discs has been always attracting attention of social thinkers who tried to define the nature of money. The answer what money is can help in providing insights what will be the future of money, too.

What is money? The simplest answer is the one given by Hicks that “money is what money does”. In economic terms it means that money acts as a medium of exchange, a
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