

The End of Money: A Cultural-Economic Revolution Or An Unplanned Venture

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Abstract: The End of Money: A Cultural-Economic Revolution Or An Unplanned Venture

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India, an incredible cash-centric economy, recently faced the removal of 86% of its currency from circulation. This giant step of demonetization was taken by the Government of India in order to build up an inertia against the persisting black money problem and eradicate it by a subsequent drive towards the

development of cashless economy in India. It promises reduction in tax avoidance and expenses on currency issuance along with speedy and satisfactory universal availability of banking services.

The move towards cashless economy came forward with the face of a charade when it was realized that more than 95% of all transactions were carried out in cash. Thousands of millions of people were left without cash unable to fulfill their basic and urgent requirements.

Demonetization in India has effects which are reckless to a specific portion of the society and it also give hopes of a more secure, convenient and tech-savvy financial sphere levitating the India's economic strength over the competing nations.

Under the present circumstances, a considerable part of population does not have bank accounts, financial literacy is scarce, electronic payment infrastructure is at the foundation level, and cyber security is only evolving; Amidst all the observations, researches and surveys, this paper aims at finding out whether the end of money is really a positive cultural-economic revolution or an unplanned venture which may succumb the economy.

INTRODUCTION

A cashless society is an economic state where the financial transactions are conducted through the transfer of information between transacting parties rather than with money in form of bank notes or coins. More specifically, in a 'Cashless Economy' the cash is replaced by its electronic digital equivalent which exists and is recorded and exchanged in digital forms. Cashless society is not a new concept to the world, it has existed in form of barter system and several other methods. Also, the digital currencies- bitcoins, have made cashless transactions possible.

India, an incredible cash-centric economy, recently faced the removal of 86% of its currency from circulation. This giant step of demonetization was taken by the Government of India in order to build up an inertia against the persisting black money problem and eradicate it by a subsequent drive towards the development of cashless economy in India. This serious policy of making India a cashless economy, one where all the transactions are carried out using cards or digital means, realizing that 95% of all transaction flow is carried out in cash, made it look like a charade.

Bringing demonetization without any prior notifications over night became a highly controversial move and was even called a sinister move by a portion of society since it came with dual faces of being both potentially useful and potentially socially dangerous in this widespread sudden implication. In context of

central control of money supply, global negative inflation and quantitative easing it has prospective to be very helpful to national economies and central government. On its darker side, however, with loss of cash is also transferred complete control of interest, transactions and individual use of money to the nation. Individuals in their perspective cannot avoid their money being controlled by external system and so the concerns were raised for unintended dangerous consequences. Moreover, it has made individual savings and information of their incomes accessible either legitimately or hackers. It therefore approves population surveillance.

The biggest problem with this public sector innovation by suddenly removing 86% of its currency from circulation is that it was brought around without having adequate supply of new currency to replace the old ones depriving hundreds of millions of people of their capacity to engage economically. The government used this situation to push the nation towards a cashless future.

While the ordinary citizens talk about lack of cash and adapting digital modes, the economists are in continuous endeavors to estimate the extent to which this prevailing drive will hit the economic growth. There has been a lot of discussion going on whether this step by the government will prove to be cultural-economic revolution which will change the face of India and boost up its economic strength to unscaled heights or is it just an unplanned venture with the risks to succumb the economy in long term performance.

OBJECTIVE AND METHODOLOGY

This research paper brings forth the status of the strategy that has been brought by the government with immediate focus on cashless economy, its implementation, perception of the communities and service providers and plight of people both rich and poor trying to adapt to the beginning of this new era. The objective of this research is to examine the current situation of India based on the new policies that have been introduced by the government and the alternatives of cash that are provided to make digital transactions. The paper also identifies the areas of requiring improvement and make suitable recommendations.

Secondary data have been used to present a qualitative and quantitative analysis. The secondary data was accessed from various websites, books and interviews providing diverse opinions on cashless societies and their effects on people.

A comparative analysis of the advantages that cashless economy offer and the challenges in its successful implementation is compiled to show how the dreams of making India cashless may prove to be incredibly beneficial to the individuals as well nation at large.

WHERE DOES INDIA STAND?

The contribution of cash and high-value bank notes is enormous in the Indian economy and cannot be understated. As of March 2016, according to the figures released by the Reserve Bank of India the total currency in circulation amounted to Rs.16,415 billion whereby Rs.500 notes accounted for 47.8% and Rs.1000 notes for another 38.6%. These digits sum up to be more than 86% of notes in circulation which were frozen in one fell swoop.¹

The ratio of cash to gross domestic product is among highest in the world- 12.42% in 2014, compared with 9.74% in China and 4% in Brazil. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US².

Operating with such high amount of cash along with lubrication economic activity with paper costs the nation a whooping amount. According to a 2014 study, the expenses incurred by Reserve bank of India and commercial banks annually, in cash operations, amounts to Rs. 21,000 crore³.

Half of the population in India does not have bank accounts where around 233 million people were a part of the unbanked population per a 2015 report⁴. An initiative was taken through Jan Dhan Yojana for opening bank accounts of all the citizens in India and so was done but most of the accounts are lying un-operational due to pitched poverty and cash convenience. This shows how there is a vested interest of people in not moving towards cashless economy. Moreover, at present, there is a remarkable lack of education in India, especially in rural areas. Poor and illiterate people cannot be expected to start using digital modes of transactions unless provided with practical education and means to carry them out.

In addition to this, banking net is still out of the league of a major part of population which lands them in a position where they cannot help reduce their dependence on cash.

¹Wharton University of Pennsylvania- Knowledge@Wharton: Demonetization in India: Who will pay the Price?; available at <http://knowledge.wharton.upenn.edu/article/demonetization-india-will-pay-price/#>

²Global Journal of Management and Business Research: B Economics and Commerce Volume 16 Issue 8 Version 1.0 Year 2016: Cashless Economy Leads to Knowledge Economy through Knowledge Management by R. Ragaventhara.

³2014 study by Tufts University, The Cost of Cash in India

⁴2015 report by PricewaterhouseCoopers

Internet connectivity in India is still at a struggling stage. Even in metropolitan cities the lack of cheap and easy network connectivity disrupts a lot of day to day operations. In this scenario, expecting people to make digital payments makes it worse than handling cash in bulk which then seems easier.

Moreover, Indian markets are dominated by small retailers who do not have enough resources to invest in e-payment infrastructure. The ability to use cards by people who have access to banking is limited because there are only 1.46 million points of sale which accept payments through cards⁵. Customers willing to pay via digital means for buying goods from these retailers are then forced to pay in cash with no options left which again in turn increases the demand of currency.

With the universal belief that negotiation is better when the buyer has cash, it has become a common perception and acts as a barrier. Also, for 82% of credit card users cash is perceived to be the fastest way of transaction.

A country's output is an essential part of its economic strength and growth. In India, nearly half of the output is produced by 90% of the workforce that works in the unorganized sector. The unorganized or informal sector is the worst among affected by the currency swap and it may affect the nation's economy negatively in a long run if people don't adapt to the digital means of transaction. Moreover, merchants in order to avoid paying taxes prefer not to keep records and buyers too find cash payments more convenient for more or less the same reason.

Indian banks on the other hand are taking absurd steps which may restrict the use of bank accounts to refill digital wallets. They are in continuous endeavors to make it difficult for digital wallets issued by private companies to operate on their respective bank websites which creates a lack of access to payment gateways.

Keeping in mind all the aforementioned circumstances of India, a drive for cashless economy seems to be hurting people. But, "In the short term, [the move] could stifle some businesses that are legal and clean, if they use cash payments. But everyone will adjust. And while it can hurt some small businesses and individuals, it is better to do it than not."⁶

THE BONE OF CONTENTION

⁵ Making India a Cashless Economy: live mint; available at <http://www.livemint.com/Opinion/XGbavEnoeP7dZITeh21MRM/Making-India-a-cashless-economy.html>

⁶ Mauro F. Guillen, a Wharton management professor and director of the School's Lauder Institute

The drive for cashless economy has been introduced in India by the government despite several challenges that the country faces. These challenges if not handled prudently may prove to be disadvantageous both to the citizens as well as the economy of the country.

Prof. Rajesh Chakrabarti opines- The Indian reality is that many trades and areas are still cash-based and cannot be digitalized just by willing it. He cautions that the resulting disruption in the real economy stemming from this move is very significant and potentially fatal for some vulnerable sections of the society⁷.

One of the major fear that comes forth is with 65% of the rural population in India who have very less or absolutely no access to banking and internet facilities. The cash crunch therefore threatens to destabilize the rural economies in the short run which may find it difficult to regain their strength. On the other hand, smartphones are a necessity for making digital payments and as per statistic figures of 2015 only 26.3% of all mobile phone users have smartphones. Besides this according to Internet live stats figures released in 2016 India has disappointingly low Internet penetration of mere 34.8% only.

Besides this, psychological shift of suddenly jumping three generations ahead of today to the digital medium is a practical difficulty. The tech-unfriendly older people might find themselves locked out without any access to their accounts until they adapt to new technology based options of transactions.

Quality and availability of telecom network is an important factor in making this drive successful. Presently, making electronic payments is a pain even in metro cities because of below average network services. Moreover, banks and related service providers who are the biggest beneficiaries of this transition need to constantly invest in technology to make digital payments and online transactions easy and secure. Cybercrimes already have a very high rate in India and under such circumstances people are afraid of using online services with the fear of losing their money to hackers and in bank frauds. The risk of identity theft is the biggest risk since people are not culturally attuned to the digital transactions fearing the risk of falling into fishing traps. People have formed opinions that with more crowd hopping on the digital platforms hacking will only grow with rising online frauds. Not only by the risk of falling into frauds but the fear of lack of any stringent legal process to deal with these frauds make people reluctant to switch to digital modes of transaction. Additionally, data breach in banks' and companies' database raises fears of mass identity theft, the one like that happened in October 2016 in Indian banking system

⁷Rajesh Chakrabarti, professor and executive vice dean of the Jindal Global Business School at Jindal Global University

Losing the operating devices and phones can compromise the data security and passwords from individual to company level which might result in great loss of personal wealth without any effective means to deal with the crime.

Also, according to the behavioral finance theorists, using cash acts as a natural bulwark, instead of cards or mobile wallets, for people who have controlling issues regarding spending of money. People could end up throwing their budgets into a disarray by overspending.

These fears of disadvantages of a cashless society, which in short run may succumb the rural and informal sector economy, infringe the right of individuals' privacy and outcast the tech-unfriendly from accessing their accounts, makes it difficult for people to hop onto electronic modes of transactions. Although, if the government ensures the security of people's money and data by handling the transition it will make a positive difference.

"We will need to be careful of potential attempts to derail this positive agenda." The International Monetary Fund (IMF) echoes those sentiments. "We support the measures to fight corruption and illicit financial flows in India," said a spokesperson. "Of course, given the large role of cash in everyday transactions in India's economy, the currency transition will have to be managed prudently to minimize possible disruption⁸.

AN END TO A NEW APARTHEID

The worst part about cash is that its limited to physical transactions. It does not prove to be very useful because reliance on cash cuts off the entire population, huge swaths of people, from everything electronic and digital.

Considering the access to education and an incredible variation of goods & services that are available online, the inability to take advantage of all that makes it almost a new apartheid⁹. People need electronic funds and access to banking in order to avail those services. Lack of capacity to pay online urges the whole society to live at the mercy of cash-based economy.

Moreover, cash is 'the poor man's enemy'. The expenses incurred in handling of the cash alone causes about 1.5% drag on economies. Cash is also the basis of all sorts of illegal activities and corruption. To curb the evils that make the country financially sick this cashless drive will prove to be a breakthrough.

⁸ Supra note 1

⁹ Ibid

Along with curbing generations of black money it will reduce tax avoidance since a cashless economy is based on financial institutions where transaction trails are left. As the black money is curbed it will bring down the prices of real estate which remain inflated due to high amount of black money invested in real estate. Transactions done by electronic means will be easy to track down ensuring transparency automatically dropping corruption and as the transaction costs across the economy will come down it will provide efficiency gains as well.

Guillen adds that large-value currency is an “important source of problems” such as corruption, black money, terrorism and counterfeit money. “The eurozone will be eliminating the largest euro note. The U.S. is also trying to reduce the [number of] 100 dollar bills in circulation.”

Reports suggest that the electronic transactions will impact the markets, both emerging and developed, by increasing the GDP to 0.8% and 0.3% respectively due to increased velocity of money.

A study in Kenya found out that the households and people using the MPESA service - A mobile banking service by Vodafone, are better shielded and protected to absorb negative income shocks which arise from crop failure, poor health and job loss. On the other hand, the household not using MPESA service are most likely to experience 6%-10% reduction in consumption in reflex to similar income shock¹⁰.

Cashless Economy will bring access to formal banking which will increase saving rates and enable capital investment in sectors like railways, roads, ports and other infrastructures. On the much brighter side, access to banking will boost up the productivity of micro, small and medium enterprises and help in Make in India initiative. It is to be noted that at present only 5% of micro, small and medium enterprises have access to institutional finance.

The ease of carrying out financial transactions is the biggest advantage to go digital. Moreover, discounts are being provided like the recent waiver of service tax on card transaction up to Rs. 2000, saving on railway tickets, highway toll and several cashbacks offers. Online transactions are recorded and therefore will help to keep a track of expenditures. These records will also help in keeping tabs over spending and consequently a better budgeting.

Government is promoting mobile wallets to allow its users to instantly pay bills, send money and avail all kinds of services available online. RBI is now allowing users of mobile wallets to increase their transaction limits up to Rs. 1,00,000 based on KYC guidelines. Paytm has reported a three-times surge in

¹⁰ India's Demonetization: Time for Digital Economy by Nilanjan Banik and Milind Shrikant; available at <http://thediplomat.com/2016/12/indias-demonetization-time-for-a-digital-economy>

new users with a count of over 14 million new accounts in November 2016 alone while oxygen wallet's daily average users were increased by 167% after this drive for cashless economy. A study by Boston Consulting group and google reported that e-wallet users have already surpassed the notch on scale past number of mobile banking users.

Many innovative solutions have come forward for electronic payment systems and tackling lack of cash. The farmers' market in Telangana developed their own e-payment system where customers having Aadhar linked bank accounts buy vegetables using token which can be purchased at specialized kiosks via debit cards.

The National payment corporation of India with RBI has launched United Payment Interface (UPI). For people who do not have smartphones, banks have provided a USSD option. The Aadhar enabled payment system (AEPS) to help in transactions in rural areas, using just an identification number and fingerprint, where cash machines cannot be provided. Furthermore, RBI is promoting a biometric authentication system.

There is a high probability that a section of people who have a used digital mode of transaction for the first time due to cash crunch may continue using these electronic means.

CONCLUSION

The efforts of the government to make India a cashless economy may seem blur due to its short-term disadvantages but government is doing all in its capacity to bring under its ambit every section of the society and bring about a revolution that is cultural and economic in nature. People need more assurance of safety and encouragement to swap the means of their transactions. Abolishment of fee on card transactions, tax rebates on electronic payments and making electronic mode of payment infrastructure more secure and safe to prevent cybercrimes may help people in adopting the changes. The Union Budget 2017 introduced a number of initiatives taken by the government to pull off success with this drive. Referral bonus scheme for individuals and cashback scheme for merchants using BHIM app, Aadhar pay and nationwide roll out of 10 lakhs new PoS terminals by March 2017 and encouragement to SIDBI to provide loans are a part of the 2017 budget.

The government will have to create more alike conditions as introduced in budget to push cashless transactions to the edge after which network effect will take over. India might find it hard to become a cashless economy but it needs to reduce cash dependency to ensure transparency and efficiency in the system.