ORIGINAL RESEARCH PAPER | Economics | Volume - 7 | Issue - 1 | January - 2017 | ISSN - 2249-555X | IF : 3.919 | IC Value : 79.96

Making towards a Cashless Economy: Challenges and Opportunities for India

KEYWORDS: Cashless economy,electronic media, financial transactions

Meenu Jain

ABSTRACT *Worldwide there is tremendous interest to explore the possibility of moving towards a cashless economy. Cashless economy is a situation in which the flow of cash within an economy is non-existent and all transactions are done through electronic media channels . Ours is a cash based society as most of people are illiterate, poor engaged in small transactions , having less banking habits , inaccessible banking services, lack of infrastructure to support non-cash payment and internet connectivity. For them cash is the most convenient and easy form of medium of exchange ,free from hassles .Today,when credit cards and online payment services are becoming increasingly popular in urban India , paper currency notes are still an essential part of daily life. Cash provides individuals and families with liquidity .With the announcement of The Government of India (GoI) on 8th November 2016 about the demonetization of existing INR500 and INR1,000 currency notes and introduction of new notes , Indian economy has moved towards a cashless economy . This move will achieve the twin objective of economic growth and financial inclusion alond with less maintenance costs of currency and proper records of financial transactions and counterfeit currency .*

Introduction

Cashless economy is a situation in which the flow of cash within an economy is non-existent and all transactions are done through electronic media channels such as direct debit, credit and debit cards, electronic clearing, payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). Today, credit cards and online payment services are becoming increasingly popular in urban India ,paper currency notes are still an essential part of daily life. One saying is reveune is vanity ,cash flow is sanity but cash is king . Cash may be defined as any legal medium of exchange that is immediately negotiable and free of restrictions .

We are the fourth-largest user of cash in the world. The rate of cash to GDP is the highest, i.e. 12.42 percent in India . Cash in circulation to private consumption ratio in India is 20percent , and Card transactions account for 4 percent of the personal consumption expenditure. As most of people are illiterate, poor ,engaged in small transactions and having less banking habits.For them cash is the most convenient and easy form of medium of exchange ,free from hassles . A cash transaction is immediate and doesn't involve any intermediary. Cash provides individuals and families with liquidity . One need not to worry about a computer system crashing, power going off, and losing transaction midway. Use of cash doesn't involve any extra cost as in the use of debit/credit cards . Even in the most cashless countries like France and the Netherlands, cash still accounts for 40 percent or more of all consumer transactions. Usually cashless economies have low corruptions and less black money.Almost every country is bracing towards cashless economy, and many countries have made significant progress.It is just a world trend which India is trying to catch up.

History of birth of a paper currency in India

Until the 18th century, silver and gold coins were commonly used in India .In the 19th century, the British introduced paper money. The Paper Currency Act of 1861 gave the Government the monopoly of note issue throughout the British India. The first set of British India notes were the 'Victoria Portrait' Series issued in denominations of 10, 20, 50, 100, 1000. Other colonial governments also printed notes for use in their territories in India. For instance, France's Banque de l'Indochine issued its own "roupie" notes and the Portuguese issued "rupia" notes .Notes by the Britishers were printed by the Bank of England until India's first currency printing press was established in Nasik in 1928. In 1935, the responsibility of managing India's money was handed over to the newly-established RBI.The first post-Independence note came out in 1949.Over the next few years, RBI released notes of different denominations featuring images of monuments and versions of a new "Mahatma Gandhi series" of notes. This is the first time in 2016 that Rs 2,000 currency note is being introduced .

With the announcement of The Government of India (GoI) on 8th November 2016 about the demonetization of existing INR500 and INR1,000 currency notes and introduction of new notes , Indian economy has moved towards a cashless economy . Dr. Ambedkar said that a limited devaluation would help the business class as well as the earning class. A very steep devaluation would harm the latter since they would be hit by high inflation if the fall in the rupee was too steep. In effect, he said that the interests of these two groups should be balanced while thinking of the value of the rupee, because a very steep devaluation would reduce real wages of the earning class because of inflation. India has demonetized before : First time on 12 Jan 1946 (Saturday), second time on16 Jan 1978 (Monday), Third time on 8th November 2016 (Tuesday). Much has changed in the Indian economy since Ambedkar did his academic work in monetary economics.

Many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large. The French were the first to use the word Demonetize, in the years between 1850 -1855 Ghana, Nigeria, Zimbabwe , North Korea , Soviet Union and India are the countries that tried demonetisation . Australia became the first country to release polymer notes to stop widespread counterfeiting . While much of India is still debating the merits and demerits of demonetisation , After Venezuela, now Australian government is planning to take the highest valued currency off circulation .

A 2010 study by Moody's showed that global GDP registered an additional 0.2 percentage points in the growth rate because of electronic payment instruments.More than 99 percent of transactions by volume are still in cash payments in India, according to a McKinsey Global Insights report. With a very low cashless base are there opportunities for India ? Against this background ,this paper focuses on the impact of devaluation on our economy ,counterfeit currency and challenges towards cashless economy .

Pros of Demonetization

The rustle of notes and jingle of coins still have the power to light up any face after demonetization .Demonetization is bound to have significant implications on various sectors and the economy as a whole.

Volume - 7 | Issue - 1 | January - 2017 | ISSN - 2249-555X | IF : 3.919 | IC Value : 79.96

The cost of maintaining currency in India is enormous The Reserve Bank of India (RBI) and commercial banks annually spend Rs 21,000 crore to print and circulate currency notes and coins, and to keep them safe. Cashless economy will reduce the this cost

It will promote financial inclusion . Gangopadhyay (2009), shows that more than half the Indian population is not financially included.By this move many new accounts have been opened .Bank branches have been growing ,ATMs, debit cards, and cart-swiping machines have increased, Online transactions have grown . PayU India (E-Commerce portal), Paytm 'Ola Money' registered increase in their e-wallet. Consumers who are otherwise using cash mode of payments, have started switching over to e-payments. The absolute cost of cash to consumers, based on average transit time and cash access costs are high in India . Cash less economy will lower transaction costs

Cashless economy will keep records of financial transactions . Recording financial transactions has many advantages . Government can collect appropriate tax revenues and effectively curtail illegal transactions .Unaccounted money and illegal notes play havoc rendering policy initiatives ineffective and redundant. Demonetisation will put a short-term break on this. Banks will be the key beneficiaries as they have been getting strong inflow of cash

Cons

Recent month has seen millions of poor and middle class people ,with no cash to buy food and medicines ,stand and in long queues to access their own money from the banks and ATMs . There is mismatch between people's preferences for cash and the availability of cash

Cash circulation has slowed down significantly in the economy after demonetization came into effect. Consequently, business across sectors has declined as consumers are prioritizing spending on necessities . Farmers have difficulty in buying inputs and selling outputs. Traders,Retailers ,Small and Medium industries all are damaged . Over 60 percent of oue economy is in the informal sector which is dependent on cash . The supply chain is disrupted and has affected production . Trasport industry is at a standstill . Rickshaw drivers, Street vendors, Domestic workers and Daily laborers - not only the wage earners but middle class all are adversely affected . Transport services, grocerty, fruits and vegetables and all other goods , are facing contraction in demand

Demonetisation has affected supply as well as demand . This in turn will lead to inflation rather than low prices . The country is being driven into recession and the level of economic activity is declining .The currency ban has reduced the money supply drastically , thereby resulting in a GDP contraction ,low employment opportunities and low consumption in the economy. A possibility of increase in inflation will worsen the balance of trade .This could result in pressures on the rupee towards depreciation.

The impact on taxes would be negative because of the compression in demand. The demand for gold and luxuries will increase as have attempted to convert cash balances into such metals . No doubt there is loss of confidence in the sustainability of our domestic fundamentals such as GDP growth, credit expansion, interest rates and inflation differentials and exchange rate expectations. The collapse of confidence has affected not just domestic investors but also their foreign counterparts.

Conclusion

Though it is a good move towards a cashless economy ,If cash is deposited in banks and returns to circulation as cash ,then Indian economy will dramatically return to its past glory .But if black money did not return to the system,then the resurgence in growth may prove to be a challenge in an already sluggish investment scenario . Cash crunch will have a dampening impact on inflation. This will reduce our consumption-based economic growth .

Though India has a fiercely competitive telecommunications market, possesses a well-developed financial system, and is a widely acknowledged technology exporter, there is need for a significant upgrade of the banking system as well as in the telecom infrastructure that would provide the backbone for digital transactions . Affordable available financial products, a competitive merchant marketplace, a transparent business environment — all of these are strongly correlated with progress toward cashlessness . A better solution would have been simplify and reduce taxes; cut regulations , eliminate loopholes and widen the tax base . Some of Dr. B.R Ambedkar approach to the problem of the rupee is still relevant : the benefits of depreciation in an open economy, the need to take the distributional consequences into account, the need to maintain price stability in the domestic economy, and the preference for rules over discretion in monetary management. There is hope and a greater scope for fast transition to cashless economy.

References

1. Dr Meenu Jain , Globalization and Social Transformation: Indian Experience Research Process International Journal of The Social Research Foundation Volume 2, Number 1 January –June 2014, pp. 120-131© Social Research Foundation
2. Dr Meenu Jain , Structural Change in the Course of Economic Development ; India's experience , Vol .5 issue 5 , pp 15-17 Indian Journal of applied Research Journal May 2015
3. http://www.theglobaljournals.com/ijar/issues.php?m=May&y=2015&id=47
4. https://www.quora.com/What-is-the-history-of-demonetization-of-Indian-Currency
5. http://blogs.tim esofindia.indiatimes.com/cash-flow/demonetization-in-1946-an d-1978-stories-from-the-past/
6. https://www.studydhaba.com/demonetization-pdf/
7. http://www.indiatimes.com/news/world/here-s-a-list-of-countries-that-have-tried-demonetisation-before-india-265743.html
8. http://www.japantimes.co.jp/opinion/2016/11/27/commentary/world-commentary/economic-political-risks-indias-demonetization/#.WFLBE
9. http://www.livemint.com/Opinion/rMImvbuYNDk4RvWGfcMtQO/Ambedkar-rupee-and-our-current-troubles.html
10. http://qz.com/832111/the-rupees-long-journey-a-short-history-of-over-150-years-of-paper-currency-in-india/Ground
11. http://www.nipfp.org.in/publications/working-papers/1772/
12. https://www.researchgate.net/...Cashless...India/.../0f317536c3b1b15565...
13. Who's Powering the War on Cash? http://wolfstreet.com/2016/10/19/powers-on-forefront-of-war-on-cash/
14. http://www.indiancurrents.org/moving-towards-cashless-economy-1452.php#sthash.KKq9Z4Ds.dpuf
15. http://www.thehindu.com/news/resources/the-political-economy-of-demonetising-high-value-notes/article9348002.ece
16. http://www.mastercardadvisors.com/_assets/pdf/MasterCardAdvisors-CashlessSociety.pdf
17. http://www.governancenow.com/news/regular-story/-india-headed-wards-becoming-a-cashless-economy#sthash.PgYw5ReU.dpuf