



Cashless Economy and Development

Ram Krishna Upadhyay

Associate Professor & Head, P.G.Dept. of Economics and Research Center

Kunwar Singh P.G. College, Ballia (U.P.) INDIA

Introduction : India continues to be driven by the use of cash; less than 5% of all payments happen electronically however the finance minister, in 2016 budget speech, talked about the idea of making India as cashless society, with the aim of curbing the flow of black money.

Even the RBI has also recently unveiled a document – “Payments and settlement system in India : vision 2018” – setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term.

In fact cashless societies are generally corruption free. There are lots of benefits for being cashless. A cashless society is a society in which cash and checks will no longer exist. A new form of funds transferal will become common such as the use of credit card or more generally devices. It is in the favor of payment methods.

But do you know that what is meant by “cashless”

So, let we know the meaning of “cashless”

A cashless society is a society where currency notes or cash money are not used in monetary transactions. It is a hypothetical move or situation in favor of alternative mean of exchange. Cashless societies in the past were based on the barter system where people exchanged their live stock for food crops or other goods. However, the present concept of a cashless society or country is a completely new thing. Here cashless transactions are made with the help of digital currencies like the bit coin. In a truly cashless society , legal tender (Money) is exchanged and recorded only in the electronic digital forms.

In briefly cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. It can be defined as a situation in which the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, Payment systems such as Immediate Payment Service (IMPS) and National Electronic Funds Transfer etc.

History of Cashless society-

During the 1990's the growing popularity of electronic banking made the use of non-cash transaction and settlements popular among the residents of some of the most technologically advanced nations of the world. Digital payments methods become well established by smartphone or electronic cards, digital wallet system operated by Apple, electronic banking and bill payment systems helped people make cashless transactions online. Some countries even started to set limits on transaction values that can be used for non electronic payments to encourage cashless transactions.

Now there is a making a question that where does India stand?

So, In this reference we can say that a cashless economy is one in which all the transactions are done using cards or digital means.

1. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world-12.42% in 2014, compared with 9-47% in China or 4% in Brazil.
2. Less than 5% of all payments happen electronically.
3. The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. who are likely to have credit cards, so it is no surprise that cash dominates in other market as well.
5. India will have 24×7 electricity in most places, since electricity is required to run online transactions.

Corresponding Author



6. India will have internet access in almost all of the villages and towns, since internet is required to run online transactions.
7. Credit cards, debit cards and online banking will become illiterate-friendly since India has the largest number of illiterate people.
8. All the government departments like canteens, shops, etc, will need to accept payment via non-cash.
9. Political parties will receive funding only via cheques, cards and online transactions.

Is India ready for a cashless economy

Not yet, Though in my opinion, it could never be converted to total cashless system, but we can improve a much better.

To make it successful, at first we need to emphasis on the following-

1. Education level of Rural India.
2. Per capita income.
3. Banking facility in Rural Area.
4. Free internet in all rural area.

Improvement of Internet network of Govt. service provider for the entire nation. Whether Govt. have any intention in those area to which Govt. do not know, but it involves big amount. If we can not develop Rural India, Whatever plan, data, survey, proposal or hi-fi economist's prediction will not work at all.

Economist alone can not run every state at a time. He can make speculation only. That is why view of one can entirely differ than other. Best example is Demonetization. As a technical person no one can say anything without logic. We can not take decision on speculation. A concrete logic have to be there as well as we have the ability to calculate the risk and the mitigation plan always prepared and readily available with us. We have tolerances limit only 5-10% (+ -). We do not have scope of change in decision daily basis as it being done in the case of demonetization.

Cashless economy is that farm of economy where in market all types of transactions happens with the help of debit ore credit cards and electronic payment getaways without any involvement of physical form of money. In India a considering the present condition with respect to economic landscape and the level of technological advancement few points can be thought of which will suggest that it is little difficult for India for going completely cashless:-

1. Even after major step taken by Government for financial inclusion in the form of Jan DhanYojana, majority of rural population are without Bank accounts which is must for being a participant of any cashless system.
2. Cashless payment system is entirely based on Internet connectivity. In India only 34.20 cr people i.e 27% of the total population (13% of rural population) have Internet connection. Thus such a low level of Internet penetration is proving a major deterrent.
3. Cyber security is also posing a great challenge in the implementation of cashless service as we can see taht 32 million ATM cards were hacked recently.
4. M-commerce payment through mobile requires smart phones and good level of e-literacy, which currently rural India is lacking. Only 17% of adults have access to smart phones and only 15% of the total mobile connections have internet connectivity.
5. Also local bricks and mortar shops are not able to afford the POS (Point of scale) machines which is the basic requirement for online transactions. As per data available in India for the sample of 10lacs population only 856 POS machines are available.
6. Lastly the attitude of people is also playing a major role as majority of people are skills though they



are skeptical about online transitions fearing fraud and being cheated.

In this way on the basis of above situations we can say that India is not ready for this transformation, but in near future India will be able to transform into a cashless economy by having necessary infrastructural changes required for the cashless system.

Through some transactions can be moved to cashless quickly, there is still no system in place to pay auto-drivers or bus conductors through mobile wallet or credit cards and what about payment to local sabji-wala?

Let us say we moved to cashless economy and what will an individual do while visiting some other city or another part of home city, the credit card & mobile phone gets stolen. As a precautionary measure, I always carried some extra cash in my luggage bag apart from my wallet for emergency purpose if the wallet gets stolen. The thought of losing my cash made me carry it at 2 places, this shows that cash is indispensable. The long line to withdraw cash also highlight the importance of cash. Even if we start making all payments online, people will still feel comfortable why they are carrying some cash with them, this will be very true for long travel.

My wife does not know computer operation. In fact I am first in my generation to know a little about operating the computers. Digital literacy is very important for a full cashless economy and India does not have this, how will an illiterate farmer pay his landless labours. It might even happen that a poor digitally illiterate person gets command as he tells his password to someone foolishly. Suppose that we purchase milk from DoodhWala or milk packets. If we purchase it from doodhwala, he have to pay him monthly. Now the question arises, If the doodh-wala accepts credit card, debit cards for transaction through internet banking or mobile wallet. If he will say take my a/c number and deposit money in my a/c then it would be fine. But will he say like that and will he believe on the payers exactly.

We eat variety of stuff in our daily lives which we purchase from market. We have two types of markets .i.e. organized sector and unorganized sector. Doing cashless transaction in organised sector is not an issue as they have already equipped with such facilities. e.g. Go to the Big-Bazar and purchase some noodles, fruits and pay electronically but when it comes to local kirana store, there is a problem. They are unorganised sectors consists of kirana stores, vegetable vendors, fish market etc. Will they accept payments in electronic mode? The Kirana Store keepers, vegetable vendors, fish sellers etc are mostly illiterate people who don't know a b c d..... of e-payments due to which they will not feel convenient in cashless system.

We normally engage kamwali-bai or home servants in our homes to whom we pay monthly, I can't expect kamwali-bai to say "No cash, I only accept cards," "Generally workers belongs to such sectors are very ignorant and innocent . They do not know what cashless is all about. A daily wage labourer would not behave in an electronic way and will not easily agree on cashless payments.

Our children go to school and colleges. In this sector, Government would not face much problems as this sector are well organised and regularised payments for petrol, diesel, recharge of mobile phones, televisions are well organised and doing cashless transaction in this sector would not be a problem. So, we normally have two sector, i.e. organised and unorganised. Organised sector is well connected to internet and these sector have already been experiencing cashless transactions. So here is not the problem. The problem would arise in unorganised sector as this sector consists of unskilled, illiterate labourers and unbanked market.

I believe that the cashless system is not working properly in India, these type of systems can be used when everyone is under one roof. Here in India some people are well educated while others are thumb users. How can we use this system. Also it keeps track of a person's spending, isn't it an attack on the privacy of a person's life. We live in a country where some people don't even know how to use mobile phone. People don't have food to eat, forget about credit cards. Beggars, where will they go? How will they get money to eat



food.

I am not saying that this system is bad but totally using this system and eliminating cash system will create disaster. This system should be like of net banking. It should be at the description of the account holder whether to use this payment option or not. It should not be made mandatory. It will create chaos.

We are not fully equipped with required technology to use this system. unified system means that everyone should accept this payments system from a shopping mall to a cobbler, only then this system can prevail in our country otherwise there will be no importance, it will be like net banking. Yes it will make payment hassle free but at the same it will create confusion. People will need to be abort what they are spending how much they are spending. They need to keep track of everything. It will prompt people to spend more as it will be easy for them to make easy payment.

In this way India is a country which is neither fully literate nor have a good per capita income. So if the Govt. wants cashless economy for the development which has become a necessary condition for development for global world economy. Modi's Govt. should try to develop those factors/indicators which are must for the success cashless system. i.e.

1. Education, 2. Per Capita income so that each and every one become capable to keep phones etc. for the use of cashless system. 3. Power supply which is must for net connectivity. 4. Opening of mini banks and posting of officers for convincing/support to the people for the use/benefits of cashless system. 5. Knowledge of language which is medium of work for cashless system.

Reference

1. Park J (2012) corruption, soundness of the banking sector, and economic growth; a cross country study. *J int Money Finance* 31:907-929. doi:10.1016 / ijimonfion. 2011.07.007.
2. Rogers EM (1995) Diffusion of innovations, fourth Edi. the free press, New York.
3. Hasan I, De Rt, Schmiedel H (2012) Retail payments and economic growth, Bank Finland Research, pp-1-37.
4. MC coskey SK, selden TM (1998) Health care expenditures and GDP : Panel data unit root test results. *J Health E con* 17:369-376. doi : 10-1016/s0167-6296 (97) 00040-4.
5. Al-Iahan M, Al-tarawneh H (2009) Development of electronic money and its impact on the central bank role and monetary policy.
6. Zandi M, singh, v, trving j (2013) the impact of inequality on economic growth on economic growth, moody's anal; pp1-16.
7. <http://timesofindia.indiatimes.com/business/India-business/Indians-love-for-cash- costs-3-56n-a-year/arthicalesh ow-45934597.cms>.
8. <http://www.thelocal.no/20160122/norways-largest-bank-call-for-complete-end-to-cash>.
9. Mieseigha EG, ogbodo UK (2013) An empirical analysis of the benefits of cashless economy on nigerias economic development. *5 finance account* 4:11-16.
10. Oyewoleos, E1-Maude JG, Abba M, Onub ME(2013) Electronic payment system and economic growth: a review of transition to cashless economy in Nigeria. In+ *J sciEngTechnol* 2:913-918.

ASVS Society Reg. No. 561/2013-14