

## Cashless Economy: The Way Ahead

### What is Demonetization?

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- Demonetization is an **act of scrapping the legal tender status of a currency note**. When new currency is introduced to replace the old one, government demonetizes the old currency.

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- The Currency notes of Rs. 500 and Rs. 1000 which constituted nearly 86% of the whole money circulation in the country, were demonetized on November 8, 2016.

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- **The main objectives of demonetization are:**\n

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- To curb black money and corruption.

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- To combat inflation.

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- To encourage cashless transactions.

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- To check hawala transactions to counter terrorist activities.

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### What is the current position?

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- The cash centric informal sectors like agriculture, real estate, etc., have been affected by demonetization. However the experts say that it's a short term scenario and this move will give positive long term consequences.

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- **To bring the economy on track again, government is promoting cashless economy** because scrapping of cash needs an alternative to cash.

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- India's black money has been estimated by the World Bank in 2010 to be

worth about one fifth of the GDP. In a country where 90% transactions are carried out on cash basis it was a revolutionary move to transform from cash to cashless transactions.

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- In 2014, the NDA government announced Jan Dhan Yojna to increase the financial inclusion of those who never had an account in a bank.

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- Under this scheme, 250 million bank accounts have been opened in two years. As per RBI reports bank branches increased by 5% per year but ATMs, debit cards and card swiping machines have doubled in four years and online transactions have grown 20 times in six years to 2016.

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- All these data shows a gradual shift towards cashless economy. Demonetization has sped up this transition.

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### **What are the positive aspects of cashless economy?**

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India remains to be a very cash reliant economy than any other country in the world. By adopting the policy of demonetization, the government has put the cash economy out of gear in the hope that more and more people could be brought into the cashless economy. A cashless economy will give the following positive effects on the economy:

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- **Clean and more transparent business transactions** and money transfers.

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- It will increase the taxation base. It will also reduce the instances of tax avoidance.

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- It will curb the parallel shadow economy (black economy) which runs majorly on cash basis. Cashless transactions are trackable and more transparent.

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- Efficiency in welfare programs as money can be easily transferred to the accounts of the recipients.

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- It will eliminate the role of intermediaries who usurp the share of welfare money spent on people.

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- **Reduced money laundering** due to easy traceability of transactions.

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- This cashless regime represents transparency and people will get all the benefits directly in their account without paying any bribe to any one.
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- Improved financial inclusion and credit access through the linkage of all welfare activities with bank accounts. It will not only increase welfare for the people but would assist in creating a sense of belonging and faith in the banking system.
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- **Control on the issuance of fake currency and counterfeiting.** (An estimated 250 out of every million Indian Bank notes were fake).
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- Good Governance.
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- Improved climate for foreign investments.
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- In the year 2015, RBI spent Rs. 27 billion on currency issuance and management. Cashless economy will reduce such costs.
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Cashless economy cannot be achieved in few days or months, it is a long process. People have to be prepared to adapt this change.

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### **What the govt must do to make the transition smooth?**

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- In a country like India where poverty, illiteracy and unemployment are the major issues, **cash in hand symbolized safety, security and respect.**
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- Government should assure the basic necessities and focus on developing infrastructure specially in rural areas.
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- Special drives through schools, colleges, panchayats etc. can help create awareness about cashless/banking transactions.
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- **Financial Literacy** is a must for bringing more and more people to digital platform. Digital payment or payment through banks, instead of paying cash should be encouraged.
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- Linkage of all welfare activities with bank account is very appreciative step.
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- According to an estimate, urban areas contribute about 70% in GDP. So, initially more focus can be given to urban areas to make them cashless, where infrastructure is already developed. Rural areas can be covered gradually.

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- **A strong banking base is the basic prerequisite for the cashless economy.**

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- Cyber safety of the internet. Lack of which creates fear even literate people are not comfortable in doing money transactions online.

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### **Concluding remarks:**

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In short run the move can slow down the economic growth and may cause some transactional inconvenience to consumers and producers. With a clean and transparent economy **everybody will get the fruit of development.**

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**Source: Employment News**

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