

India: Emerging Less Cash Economy

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Forewords:

India is fastly heading towards cashless economy. Digital India Programme, launched by Prime Minister Sri Narendra Modi, has seen several stages of success. Government is encouraging digital economy so that there should be a clean and corruption free system which can wipe out black money. In the present paper an attempt has been made to focus on the basic things associated with the cashless economy.

Keywords:

Digital transactions, ceiling on cash, negative wealth effect, POS, multi agency group, unified payment interface.

Concept:

The landmark demonetization drive and other anti corruption measures like Income Declaration Scheme, setting up of SIT, etc. are the required steps towards eradicating corruption and black money. The aim of these measures was to purge the economy of the curse of black money and corruption thereby spurring investments and bring the economy back on the track. Demonetization was also an effort to boost the digital payments ecosystem, create less cash economy and bring transparency in financial transactions. Various digital modes of payments like the BHIM (Bharat Interface for Money) app and Rupay debit cards were introduced to encourage people to switch to less cash transaction.

For seven decades the Indian 'Normal' has been to undertake transactions partly in cash and party in cheque. "Pucca" and "Kachha" accounts are a part of the business language. Tax evasion has been considered as neither unethical nor immoral. It was just a way of life.

Introduction:

Demonetization and other decisions taken on in the economic sphere have gone hand in hand with the aggressive drive towards achieving universal financial inclusion and bringing every citizen into the formal banking net. Nearly 28.13 crore accounts have been opened so far under the Pradhan Mantri Jan Dhan Yojana, which gives a much needed fillip to move towards a cashless economy.

The Government believes in the maxim of "minimum government, maximum governance" and this can be witnessed in the changed work ethic of the government. Demonetization of high denomination currency of Rs. 500 and Rs. 1000 led to a regime shift by punitively raising the costs of tax evasion and sticking at the roots of corruption. It was also aimed at countering fake currencies, greater digitization of the economy, increased flow of financial savings and greater formalization of the economy.

However in a country where a large proportion of the population is illiterate and the rural areas have inadequate infrastructure for digital transactions, it is not possible to create a totally cashless economy. So, the effort has now been to create a less cash economy i.e. a system of economy where parts of transactions are in cash and rest in digital payments. Incentives are being offered to those who make digital payments as also those who make arrangements for accepting payments through digital methods.

One more cause for concern in the less cash economy has been the danger of cyber crimes not due to technological failure but due to carelessness on the part of the user that results in cyber security hazards.

Objectives:

Demonetization is a bold and decisive measure. For several decades, tax evasion for many has become a way of life. This compromises the larger public interest and creates unjust enrichment in favour of the tax evader.

Demonetization seeks to create a new 'normal' wherein the GDP would be bigger, cleaner and real.

This exercise is part of the government's resolve to eliminate corruption, black money, counterfeit currency and terror funding.

Demonetization has strong potential to generate long term benefits in terms of reduced corruption, greater digitization of the economy, increased flow of financial savings and greater formalization of the economy, all of which would eventually lead to higher GDP growth and tax revenues.

Demonetization helps to transfer resources for the welfare of the poor and the deprived. There is early evidence of an increased capacity of banks to lend at reduced interest rates and a huge shift towards digitization among all sections of society.

To encourage responsibility and transparency in economy in developed countries. Circulation of currency is minimal and people encourage digital payments.

Hypothesis

1. The effects of demonetization are not expected to spill over into the next year. IMF even while revising India's GDP forecast for 2016 downwards, has projected GDP growth of 7.2% and 7.7% in 2017 and 2018 respectively.
2. The World Bank is more optimistic and has projected a GDP growth of 7% in 2016-17, 7.6% in 2017-18 and 7.8% in 2018-19
3. This pick up in economy is premised upon the policy and determination of the government to continue with economic reforms, increase in public investment in infrastructure and development projects.
4. The surplus liquidity in the banking system, created by demonetization will lower borrowing costs and increase the access to credit.
5. India's crusade for a cashless economy seems set to speed into a gallop with Finance Minister proposing a slew of measures to encourage more people to embrace digital transactions.

Review of Literature

"One subject which we felt need immediate attention is that of black money, as it has been eating into the vitals of our economy".

After careful consideration we have come to the conclusion that some radical steps is to be tackled effectively In this interim report, we therefore recommend three measures:-

1. Demonetization.
2. Ceiling on cash holding
3. Acquisition of immovable property

(Wanchoo Committee Report, 1970)

"Various measures for controlling black money and fighting tax evasion cannot achieve much success unless certain restrictions are placed on the possession of cash. (Jyotirmoy Basu, 1970).

Why Cashless?

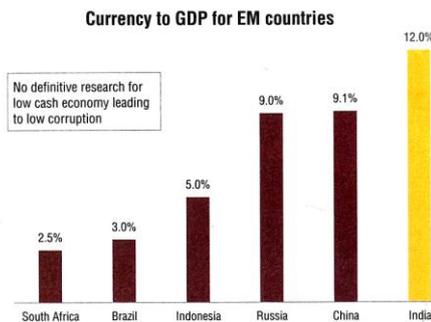
India's tax to GDP ratio is a mere 16.6 percent, with a tax base of around 5.5 crore persons which includes companies, individuals and other business forms. As per the Economic Survey 2016-17, India has only 7 tax payers for every 100 voters. This tax evasion is glaring from the fact that while more than 1.25 crore cars were sold in the last five years and more than 2 crore individuals travelled abroad in 2015 alone, mere 1.72 lakhs individuals reported income more than Rs. 50 lakh for tax purposes.

Black money generated through tax evasion is an economic challenge as well as a social menace. This resulted a controversy in tax payers behavior and finally landed the government in taking decision to go through the cashless economy.

Table-1

Demonetization - continuity in efforts to curb black economy

- ✓ Promotion of Jan-Dhan accounts & implementation of Aadhaar based payments
- ✓ Special Investigation Team on black money (domestic and abroad)
- ✓ Foreign black money disclosure window
- ✓ Black Money Act of 2015 for undeclared foreign assets
- ✓ Income Declaration Scheme (1) – 2016 to declare undisclosed assets
- ✓ PAN requirements for purchase of jewelry & vehicles
- ✓ New DTAA's signed along with renegotiation of old ones
- ✓ Amendments to Prevention of Money Laundering Act
- ✓ **Demonetization of Rs. 500 and Rs. 1,000 notes**

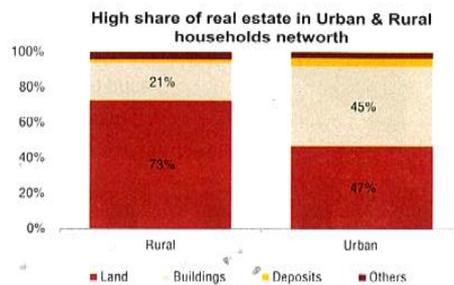
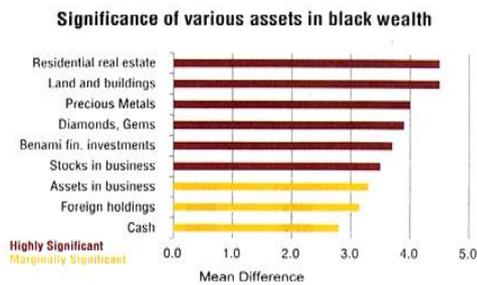


Source : Birla Sunlife Fact Sheet Jan. 2017

Table 1 shows a comparative study of continuity in efforts made by BRICS countries to curb black economy in their respective country. The table explains the position of flow of currency to their countries GDP. In the given table South Africa stands with lowest percentage of 2.5 where India stands at the highest percentage of 12.5 . Russia and China have almost the same percentage of around 9, I Brazil and Indonesia have occupied 2nd and 3rd position with 3.0 and 5.0 percentage respectively. Hence there is a need to reduce the flow of currency in India to curb black money in India.

Table-2

Demonetization - Leading to Negative wealth effect



- ✓ For most people, real estate forms a major part of their life savings
- ✓ Value has come down due to limitations on cash transactions affecting the black component of price – more for land in rural areas and less for apartments in urban areas
- ✓ No price discovery in certain parts due to lower ready reckoner rates compared to market prices
- ✓ May take a while for Real Estate sector to rebound as stock of unaccounted money is hit by the move
- ✓ Govt. has highlighted more actions to be taken to curtail benami properties

Source: Birla Sunlife Fact Sheet Jan. 2017

Table-2 highlights the impact of demonetization leading to negative wealth effect with graphical presentation. One presentation shows the significance of various assets in black wealth. Assets like residential real estate land & building have highly significant mean difference of about 4.5 followed by precious metals and Diamonds of almost 4.0, Benami financial investments 3.7, stocks in business at 3.5. Other assets in black wealth marginally significant are assets in business with 3.3, foreign holdings with 3.1 and cash with below 3.0 mean difference.

Table 2 also shows the high share of real estate in urban and rural households network taking into consideration investments such as land, buildings, deposits and others. It is significant to note that in rural households 73% share belongs to land only followed by 21% in buildings. If taken together 94%

share belongs to real estate of rural household. Similarly in urban households the scenario is little different. The major portion of real estate is divided in land and buildings with 47% and 45% respectively.

It shows the flow of black money towards purchase of land and buildings in both rural and urban households.

Benefits:

Less cash society offers the government and the public many benefits.

1. Convenient mode of payment as there is reduction in transaction cost of carrying and doing business/transactions in cash.
2. Lower risk with proper cyber security.
3. Reduction in the cost of printing new currency notes and replacement of soiled and mutilated currency notes.
4. Less cash economy offers transparency in transactions and its better monitoring.
5. If all transactions are in electronic mode, then all transactions can be chased, recorded and checked.

Incentives offered:

India moves towards less cash transactions to fight black money and corruption for which government has offered special incentives to encourage digital payments.

1	Discount on digital payment at Central government petroleum PSU's	0.75%
2	Discount for monthly or seasonal tickets on digital payments on suburban railway network..	0.50%
3	Discount on the insurance premium sold through the customer portals of public sector insurance companies on digital payment.	10.00%
4	Discount for toll payments on National Highways using RFID card/Fast Tags	10%
5	On digital transaction charges/MDR upto Rs. 2000 per transaction	No Service tax
6	Rupay Kisan Cards to be issued by RRB and Cooperative Bank to Kisan Credit Card holders.	Support through NABARD
7	POS devices will be deployed in villages with population of less than 10000	Financial Support through NABARD

Impact of demonetization:

Members of the RBI's monetary policy committee who unanimously voted to hold rates on December 7, 2016 were sanguine about the impact of demonetization on the economy. The panel was of the opinion that the withdrawal of high value bank notes could transiently interrupt some part of industrial activity in November-December 2016 due to delay in payments of wages and purchases of inputs.

In the service sector, the outlook is mixed with construction, trade, transport, hotels and communication, impacted by temporary specified bank notes effects.

In the aftermath of demonetization, there appear to be some contraction as well as disturbance in some segments of the economy. At sectoral level, SIAM data shows, automobile sector sales declined 18.66 percent in December 2016. Specifically, sale of two wheelers and three wheelers, which are mostly paid for in cash, declined 22.04 and 36.23 percent respectively.

Accordingly to knight Frank data, real estate sector sales declined by more than 50 percent in the last quarter of 2016. The Economic Survey estimates that the adverse impact of demonetization on GDP is in the range of 0.25 to 1 percent.

On the other hand, despite slowdown in GDP growth, tax revenues appear to have increased substantially after demonetization:-

Corporation tax	- 04.4 percent
Income tax	- 24.6 percent
Central Exise Duty	- 43.0 percent
Service Tax	- 23.9 percent
Customs duly	- 04.1 percent

One explanation for this could be after demonetization, tax base seams to have widened. This is feasible if tax avoidance and evasion had come down due to better capturing of transactions that were not accounted earlier. According to Economic Survey and National Payments Corporation of India, Rupay based electronic transactions increased by about Rs. 13000 crore in case of POS transactions and about Rs. 2000 crore in e-commerce.

Efforts made by the Government to check black money:-

Government has taken a slew of measures, almost amounting to waging of war against black money, in the past three years.

These involve policy level reforms through legislative and administrative initiatives, effective enforcement, capacity building and building intelligence through data mining.

Following path breaking measures have been taken to address the menace of black money:

1. Special Investigation Team (SIT) was formed to probe black money.
2. The black money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 with stringent penal provisions.
3. Rs. 8186 crore, illegally kept in offshore banks by Indians, has been brought under tax ambit despite several constraints.
4. Multi Agency Group (MAG) was set up for facilitating coordinated and speedy investigation of cases of panama Papers leaks.
5. Joining Multilateral Competent Authority Agreement in respect of Automatic Exchange of Information to support global efforts against black money.
6. Signing information sharing arrangement with USA under its Foreign Account Tax Compliance Act (FATCA)
7. Enactment of Benami Transactions (Prohibition) Amendment Act, 2016 which empowers the government to confiscate benami properties assets held in the name of another person or under a fictitious name.
8. 23,064 searches/surveys have been conducted by Income Tax, Customs, Central Excise, Service Tax to detect tax evasion of more than Rs. 1.37 lakh crore related to these departments.
9. 64,275 declarants made disclosures of more than Rs. 67,000 crores under the Income Declaration Scheme, 2016 which provided a chance to domestic black money holders to come clean.
10. Post demonetization, almost all cash has entered the banking system providing scope to the law enforcement agencies to keep track of the money trail. Investigation of cash deposits have uncovered various fraudulent practices including back dating of sales benami deposits, sale of jewellerys, bullion, luxury goods and forex to unidentified persons, splitting of bills to avoid reporting of PAN etc.
11. Internet banking and the recently launched Unified Payment Interface (UPI) are other products of technology that are directed towards giving cashless.

Sources of Online payments

1. Tech Process: India's oldest electronic payment processing firm. 42% increase is recorded in FY 2015-16. Total of over 186 million payments made during the year led largely by Government and education sector representing 70% and 20% respectively.

Tech process has also received an in principle approval from the RBI for the Bharat Bill Payments Operating Unit (BBPOU) which aims to shift more utility, education and government payments online.

Tech process is also the market leader in the recurring payments segment (EMIs, SIPs, auto payments) and saw revenues in that segment increase by almost 20% over last year.

2. Paynimo - A mobile based point of sale device has been adopted by HDFC Bank for their pay Zapp for business brand.

3. Mswipe - Mobile payments service provider MSwipe Technologies is planning to raise Rs. 250 crore for its developing business

Conclusion:

The bold steps taken by the Government to combat corruption and to clean the economy are showing appreciable results. The process cannot be without certain amount of pain which is inevitable in any transition. Nothing comes without sacrifice and in this case, too small a price to pay for a clean and transparent economy.

To shift the economy from cash to less cash system, there is a need for substantial development in the payment infrastructures.

The period of pain and inconveniences is getting over. Lakhs of crores, which were floating in the market as loose currency, have now entered the banking system. In fact, the amount of cash collected under demonetization is almost confirmed by the Reserve Bank of India, but its implications on Indian industry and commerce is not clear.

With all the aforesaid measures it is expected that this decision of the present government to withdraw the legal tender of Rs. 500 and Rs. 1000 notes will go a long way in expediting and pushing the process of digital banking to new heights.

I am reminded her of what the father of the nation, Mahatma Gandhi, had said "A right cause never fails".

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