The de-digitisation of India*

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So it's official: cash use is back in almost full force in the Indian economy. Cash withdrawals from ATM machines – a reasonable if incomplete proxy for the use of cash in the economy – are nearly back to the level of just before the demonetisation shock of 8 November 2016. RBI data on use of debit and credit cards to withdraw money from ATMs show that such withdrawals, which had collapsed to only Rs 850 billion in December 2016 largely because of the sheer unavailability of cash with such machines, amounted to Rs 2.27 trillion in July 2017, only slightly below the Rs 2.55 trillion withdrawals recorded for October 2016.

It is worth noting that this reliance on cash is back despite the fact that the RBI is yet to remonetise the economy fully: currency with the public on 15 September 2017 was still 11 per cent below its level of a year earlier. It cannot simply be assumed (as was done in the Economic Survey 2016-17 Volume II) that this reflects lower demand from currency by the public, since there is no evidence that it is not supply-constrained. Rather, the aggressive return of cash use suggests that it has only been the lack of supply of cash that has constrained people from using it in payments and exchange settlement.

Indeed, it is likely that if the RBI does fully remonetise, then cash use will increase further, since the economy is still growing and therefore the volume and value of total transactions must increase. What is more surprising is that total digital payments have not increased more along with economic growth. In fact such payments, which peaked dramatically in December 2016, are also back to the levels broadly seen in September-October 2016, despite the many incentives provided for such payments through official policy.

This makes it apparent that demonetisation failed on this front as well, in addition to the spectacular failure of not being able to flush out "black money" from the system since almost all the banned notes were returned to banks. The aim of digitisation of the economy by forcing a comprehensive shift to cashless electronic means of payment was declared to be one of the primary goals of that expensive and economically damaging exercise. But now it seems that such a coercive process was untenable: the shift to cashlessness cannot be forced upon people, especially in the absence of other enabling and supporting conditions.

Of course, it is true that some digital payments, such as debit card use at point of sale, are increasing, albeit relatively slowly and probably at the same rate that they were increasing before the demonetisation move. The total amount involved in mobile wallet transactions has also increased from Rs 33 billion in October 2016 to Rs 69 billion in July 2017 – but this is still lower than the amount of Rs 84 billion recorded in January 2017. This suggests that the supposed convenience of mobile wallets may have been overplayed, especially in relation to the costs imposed upon transactors because of the need to ensure some returns to such e-wallet providers.

So what is it that makes cash use so central to economic activity in India and makes even the enforced digitisation of transactions so difficult and so transient? One obvious answer is the sheer inadequacy of the infrastructure and connectivity required for electronic payments. The basic banking infrastructure is far from providing universal access, despite the claims of the Jan Dhan Yojana; the cyber infrastructure for adequate Point of Sale machines is still massively below requirement; the most basic issues of lack of connectivity and frequent breakdown of internet communications and mobile telephony services continue to plague would-be users. These problems are clearly greater in underserved and far-flung rural areas with difficult geography, but they are also very much present in urban areas, including our largest metros.

All this should have been apparent to anyone when the move was announced, and indeed was pointed out repeatedly by several observers. But the enthusiasm with which various officials rushed to prove their loyalty to the cause, such that villages and sometimes entire districts and even states were declared “cashless” in a few weeks, served to obscure that reality. As it happens, most of those “cashless” localities were never anything near that, and most of them have reverted to almost complete cash use for daily transactions. For example, the village of Dhasai in Maharashtra was proudly declared to be the first cashless village in that state, but within a few months it was apparent that lack of continuous electricity supply (with frequent and extended power cuts) and poor mobile and landline connectivity, such that sometimes networks are unavailable for as long as a week at a time, meant that the few Point of Sale machines in the village were effectively dysfunctional. Similarly, the government of Goa had declared that the state would become fully cashless by 31 December 2016 – but nine months later, the use of cash is not only extensive across the state, but in many situations it is the only available option for would-be purchasers.

There are of course other concerns with digital transactions: the lack of privacy and enhanced possibilities of surveillance; the risks of being exposed to identity theft and other cybercrime; the possible compromising of personal data leading to financial loss because of very poor cyber security laws and systems in India, and so on. But it is also likely that the biggest factor holding back digitisation is the lack of infrastructure and connectivity, and these are issues that can only be dealt with slowly and systematically, not through grandiose announcements and threats.

Many in the government appeared to believe that the introduction of the Goods and Services Tax would be one more force pushing people towards digital transactions. The argument was that the trail of transactions required to claim refunds on GST would make it preferable for producers, suppliers, traders and other businessmen to move to electronic transactions that would be easier to monitor and calculate, and would also make the filing of returns easier. But the GST itself is plagued with massive design flaws and very shoddy implementation, which has even acted as an incentive to rely more on cash transactions. The multiplicity of rates, the complexity of the system, the widespread confusion about different categories, the costs and sheer difficulties in even filing online returns, have all meant that small businesses in particular have reverted to cash. Even in big megacities like Delhi, consumers can testify to the fact that the “kaccha bill” of items written on a piece of paper has made a comeback in a big way.

The failure of this attempt at digitisation is the result of what now appears to be a basic flaw in the approach of this central government towards much policy: a cart-before-horse attitude that does not take into account the wider context, underlying factors and supportive and enabling conditions that must be met for any policy measure to succeed. That is why we have a Swachh Bharat Abhiyan in which people are rushing around building basic toilets to fulfil targets, without addressing the problem of water supply for these toilets, or taking into consideration the implications for workers who must be the backbone of any proper sanitation system. That is why the “Make in India” programme is floundering, with no significant increase in private investment, because the essential requirements such as good transport infrastructure and amenities are not first taken care of. That is why most declared “Smart Cities” are turning out to be anything but that, because the planning and painstaking effort required to create properly functioning urban models is simply absent.

As long as the government is focussed on optics and flamboyant announcements rather than actual delivery and meeting of its own promises, such a state of affairs will continue. It remains to be seen whether the government’s admittedly expert media management and public relations wizardry will continue to be as effective in that future context.

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