The Chimera of a 'Cashless' Economy*

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A secondary justification for the demonetization of 500 and 1000 rupee notes, apart from its presumed deterring effect on "black money", is that it ushers in a move towards a "cashless" economy. This argument too, however, like the perception that "black money" is just held in the form of a hoard of currency notes, is staggering in its simple-mindedness.

All money constitutes a liability of the banking system. (The only exception was the one-rupee note which was a liability of the Government of India, but its amount, always small, has now dwindled into insignificance). What we call "currency" is the liability of the Reserve Bank of India; and non-currency "deposits" are the liability of other banks. When I make a payment through a cheque I am simply transferring a claim upon the bank from my name to that of the cheque-recipient. Even when I do not pay by cheque, but through some other means like credit-card or digital payments, I am still simply transferring a claim that I have upon the bank to someone else's name.

In other words the form of payment, whether through old-fashioned cheques or through "modern-technology-based" means, makes no difference to this basic fact, namely that it is the transfer of a claim upon the bank to another person. (In the case of a credit card, the bank publicly acknowledges that I have a claim upon it up to the credit-limit). Hence, when we talk of a "cashless" economy, we are simply saying that instead of holding and transferring claims on the Reserve Bank of India, which is what "cash" is, we should rather hold and transfer claims upon ordinary banks.

Now, claims upon banks get built up in two ways: one, when I deposit "cash" (or someone else's cheque drawn in my favour) in the bank; and two, when, even without my depositing anything, the bank gives me "credit", i.e. simply acknowledges that I have a claim upon it, as in the case of a credit card . I shall come back to the first option later; let me first look at the second option.

For the bank to give me "credit", I must be "creditworthy" in the eyes of the bank. Millions of Indians alas are not "creditworthy" in the eyes of our banks. Urban middle class India, from which most of the economic policy-makers are recruited, finds it easy to get credit cards; indeed members of this class are often chased by credit-card providers so that they obtain a credit card, but the same is not true for the bulk of the country's population. Hence, any presumption that claims upon banks can be built up for the people at large without their having to put in prior deposits, either in cash or in cheques, of amounts equal to the claims, is without any foundation.

Indeed, it is surprising that such a belief is at all entertained when it is common knowledge that banks which had been made to provide "priority sector" lending to agriculture in the wake of Bank Nationalization, have been systematically reneging on that responsibility after the neo-liberal economic policy-regime came into being. And such reneging has been legitimized by successive Union governments by so widening the definition of "priority sector lending" that even giving a loan to a Multinational Corporation that is setting up an agricultural-product-using plant in a rural area is counted as “priority sector lending”. The effort in short has been not to penalize banks for their transgressions with regard to priority sector lending, but, rather, to change the rules in such a manner that transgressions are no longer counted as transgressions.

Besides, it is only the public sector banks that at all bother to cover up such reneging; the private sector banks, and in particular the foreign banks, do not even bother to do so. In their case, priority sector lending, even on this capacious definition, still falls short of target; and they systematically miss this target with impunity. Some banks have even indicated quite openly that they cannot be bothered with dealing directly with lakhs of peasants, and would rather use “facilitators” (i.e. middlemen who would act, in effect, as bank-financed private moneylenders) for doing so.

There is little point in blaming banks for taking this position, since under the neo-liberal regime the emphasis is on profit-making to an even greater extent than before, so much so that even public sector banks are under constant pressure for making profits. Hence, if banks adopt a particular course of action, which they believe, rightly or wrongly, would augment their profits, then they can hardly be held culpable under this dispensation.

Under these circumstances it is not surprising that the peasantry has become increasingly dependent for its credit needs upon a new class of money-lenders, consisting of middlemen using bank-credit, private operators using largely independent resources (i.e. belonging to a different financial circuit, though not necessarily independent of banks), agents of agri-business firms, and others. The claims upon none of these entities however can be used as money.

Some may argue that this fact still should not deter progress towards “cashlessness”, since loans from these agents could be obtained in the form of cheques drawn on banks. But even assuming that this can happen, and that private money-lenders charging exorbitant interest rates are nonetheless willing to expose themselves to possible scrutiny by giving loans in cheques (we discuss this case of cheque payments to peasants later), the fact remains that the liabilities of none of these moneylenders can possibly function as money.

What is true of the peasantry is also true of other sectors of petty production. Hence as long as there remains a large segment of the economy consisting of poor people with uncertain incomes, that is not considered “creditworthy” by financial institutions and that has to rely on high cost non-institutional sources of credit (in our case this segment covers more than half of the working population), all talk of a cashless economy is just empty talk for this reason.

Let me now come to the possibility that whenever a person, even in the unorganized sector, obtains either “cash” or a cheque, such a person simply deposits it with a bank, and uses this claim upon the bank to make payments or carry out transactions. This presupposes however that everybody to whom this person needs to make a payment, has himself or herself a bank account, and can in turn therefore make payments to others through transferring claims on banks. It requires, in short, near universal bank-coverage of the population, compared to the current figure of around 30 percent of the population having access to the banking system.

In fact, however, after the introduction of neo-liberal economic reforms, the number of small accounts of banks actually came down and even several rural branches of banks closed down. This is not surprising: with emphasis on profit-making, many banks would find the "transaction costs" involved in operating numerous branches and numerous accounts an unattractive position. True, they would wish to mobilize deposits even from the poor, but they would prefer to do this through middlemen, rather than by having direct dealings with millions of customers. In other words, precisely for the same reason that many banks do not wish to deal directly with vast numbers of peasants when it comes to providing credit, and prefer instead to operate through intermediaries, they would also prefer to use intermediaries for garnering deposits from them rather than dealing directly with them.

Hence, the fact that only 30 percent of the population is covered by banks is not just a transitional phenomenon, i.e. not because the country has only got thus far till now, and given time will go further, indeed will go the whole length to cover the entire population. It is because in an economy consisting predominantly of poor people eking out miserable livings in a host of "informal" activities, it is not worth the banks' while to go for the universal coverage of the population.

Even looking at the matter from the point of view of the people, unless bank credit can come their way and liberate them from the clutches of the usurious money-lenders, putting every bit of cash that comes their way into a bank account and then using the route, of transferring the claim on the bank so built up, for making payments, is a totally pointless, unnecessary, and avoidable rigmarole. They would rather like to hold cash, and make payments in cash, which also has the advantage that they can make payments to anyone they wish, and of any amount they wish, without having an iota of cost of any kind; and precisely for that reason they would also wish to be paid in "cash".

Even when a government wants the economy to go "cashless", its forcing people to do so through a demonetization of the currency is an act of sheer authoritarianism that is no less reprehensible than an attack on people's civil liberties. Indeed it is ironic that the same government which is assuring foreign capital that India will be the most "liberal economy" in the world, meaning that foreign capitalists would have complete "freedom" in their economic operations within India, is forcing at the very same time millions of its own impoverished citizens to go "cashless" for weeks on end. The freedom of the foreign capitalists matters to it, but not the freedom of its own citizens, their freedom to carry out transactions in any medium they like.

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