

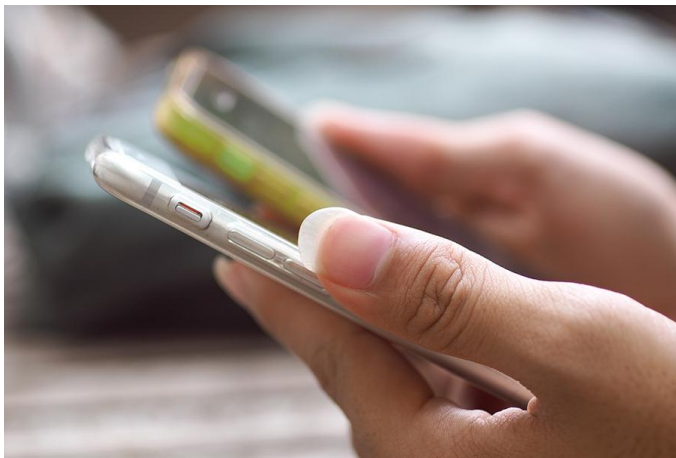
Economic policy or nation building?

The movement from a cash to a cashless economy involves a few intricate steps. To understand them, let us consider the curious case of QWERTY keyboards



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Mobile payments through mobile to mobile payments through MMID should be encouraged
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At the centre of modern day Economics is the homo economicus, a fiercely rational and narrowly self-interested agent. There are occasions when what he does in self-interest is also good for the society, but more often than not, this is not the case. This is where we need policy interventions that will align his actions closer to what the society wants. However, such interventions suddenly doesn't require him to change his beliefs by stop being selfish and think of others' welfare. Instead it allows him to be the self-interested individual he was, but design rewards and punishments such that his actions are now closer to what the society desires. Ignoring this is spelling doom for the intervention. Surprisingly, the current demonetisation exercise seems to be doing just that. The move towards a digital payments economy could have taken place with far less inconvenience and disruptions if only it highlighted the individual benefits rather than a grand exercise towards nation building.

The movement from a cash to a cashless economy involves a few intricate steps. To understand them, let us consider the curious case of QWERTY keyboards.

The popular QWERTY keyboard is not the most ideal one. There are others which are more efficient in terms of faster typing. Yet we continue to use it, mainly because everyone uses it! For an entire society to migrate to non-QWERTY boards will depend upon two things. First, all the typists must perceive the benefits of this migration and two, they must be aware that there are enough manufacturers of alternate keyboards. Migrating from a cash to cashless society is similar. It also hinges upon two crucial things. One, households as well as enterprises must see the tangible benefits of digital payments and two, both parties should know that there are sufficient numbers on the other side of the payment system.

Although the critics of cashless economy have often pointed out whether such an outcome is desirable especially given that almost half the population is unbanked, a transition to cashless economy will perhaps benefit the bottom of the pyramid the most. There are both strong indirect as well as direct benefits of going cashless to such individuals. While indirect benefits in terms of better tax collection and hence improved welfare programs is likely to benefit the poor more than the rest, the direct benefits are more compelling. A cashless economy also means less leakages as the money directly reaches the accounts. Perhaps more important is the benefits in terms of convenience, especially in terms of saved time to withdraw money, going to the store and bringing home the groceries. This is particularly true of the poor as this means who faces a dilemma between chasing the grocery, or losing the day's wage!

The second most important aspect of transitioning into a digital payments system is the awareness of the other side of the market. Simply put, what I need to know before putting money in an e-wallet is not whether my neighbor has an e-wallet but whether my neighborhood kirana store has one.

However, the way we went about it and still going, is bizarre. Most of our focus seems to be still in chasing cash. Large part of the discussion is still centered around how soon can we pump back adequate cash in the system or developing apps that update the status of the ATMs in the neighborhood and not who are the merchants accepting digital payments! We need to do things differently.

Apart from effectively communicating the advantages and removing the information barrier, there are two immediate steps the Government needs to take. It is important that it does not ignore the status quo. A large part of India resides in rural parts and an equally large part is still not comfortable with traditional banking. Intending an overnight shift for them is neither feasible nor is it desirable. How can we address this population?

The low penetration of net connectivity as well as 'smart phones' in rural parts mean that we may have to create an environment that sees digital payments percolate from urban to rural areas and not a uniform approach. Now is not the time to fix the infrastructure, the priority is to optimise based on what we have. This means two things. One, more emphasis should be on digital payments that doesn't require smart phones or excellent connectivity. Encouraging

mobile payments through mobile to mobile payments through MMID will be the clincher. The MMID does not depend upon fantastic connectivity or expensive phones! The convenience of using digital payments needs to be the focus-individuals would prefer making payments sitting at home than take the trip to the POS. However, during this transition period, more cash should be reaching them. After all, the chain of goods start from there and reaches the urban customer. Urban India may be more ready to make cashless payments, but unless the goods are produced and sold in rural India, which as of now is predominantly using cash, the system will collapse.

Finally, a clear thought about the financial structure around cashless is important. It appears that digital payment system is still not integrated as an essential part of going cashless. Apart from banks that are currently authorised to accept deposits and process withdrawals, allowing the mobile and other digital payment platforms to accept deposits in demonetized notes with KYC norms would be a great starting point. This announcement, in one stroke, would solve three major problems. One, there would be more counters to accept deposits that instantaneously become part of the payment system easing the pressure on banks. Two, the need to withdraw cash would reduce significantly, removing the pressure on ATMs. Finally, what better way to see e-wallets as direct substitutes for cash by allowing currency notes to be deposited directly into these wallets?

Successful economic policies do not depend upon changing mindsets, it aligns individual interest to societal goals within the constraints. The time is running out in our experiment with going digital. The imminent danger is, far from moving towards digital payments, we are losing faith in our banking system!

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