

## **Digital Dreams\***

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“Plastic is the new khadi” is the currently popular saying transmitted across social media. As Prime Minister Narendra Modi and his government continuously shift the goal posts of the extraordinarily violent demonetisation move, it turns out that the fruit of all the trauma that the majority of the Indian population is going through will be – to become a cashless society! The exhortation to move to e-payments has become the basis for the new definition of nationalism: the ability to pay for something with a card or a mobile phone or internet account is now the real proof of your love for your country and your desire for national progress. In the minds of some, swiping a card or a phone now probably comes second only to singing the national anthem as a signifier of patriotism.

Indeed, digitisation of exchange transactions seems to have become the silver bullet to deliver solutions to all problems, from fighting corruption, to ending poverty, to modernising society, even to ensuring sustainable development. These are all promises that have been made by the Prime Minister and several of his colleagues in the past weeks.

Therefore, all patriotic citizens who care for their country are to join this fight against any cash-based modes of exchange. The youth are to take up this move with missionary zeal; the old must learn to change their habits; students must go out and teach others how to do digital transactions; the rich (who mostly use non-cash means anyway) are to further flaunt their ability to do so; the poor are to be forced by the sheer absence of cash to somehow find their way in the digital world, even when they lack bank accounts or any form of stable income, or the basic connectivity that would enable it.

It is apparently not enough to use sheer coercion – ensured by the physical absence of currency – to nudge the population into using electronic means of payment. The people also must be “incentivised”, in the charming phraseology adopted by our resident court jesters, to move away from cash and adopt the newer electronic systems. So the Finance Ministry is already providing various fiscal sops, which will naturally go to the better off in the country who are already able to use cashless modes. From 14 December, a discount of 0.75 percent on petrol and diesel has been offered on fuel purchases made using card payments. Service tax is being waived on card transactions of up to Rs 2000. Monthly and seasonal suburban railway tickets purchased through digital mode will get 0.5 percent discount from 1 January 2017. 10 per cent and 8 percent discount will be offered in case of general and life insurance for buying new policy or paying premium online via PSUs websites. And so on – all measures that are directly designed to transfer more benefits to the relatively rich in our society.

Some of the incentives could not be dreamt up by the most wicked of satirists: they can only emerge in this weird new political environment of delirious derangement. So the NITI Aayog has developed a system of “lucky draws” that are bound to get citizens excited about e-transactions, since now these will not only provide the bountiful benefits of “convenience” but periodically offer cash prizes! There will be

weekly draws of lucky numbers of transactions to reward either buyers or sellers (or perhaps both, since governmental generosity in this noble cause is unbounded). The first “mega draw” of Rs 1 crore will be held, on 14 April, Ambedkar Jayanti. Remarkably, there is no irony or even sense of shame in this choice of date; rather it has apparently been chosen precisely “to send out a political message with an eye on the deprived and the poor sections”, according to a report quoting an official involved in the process.

We are no longer in a world of an emperor without clothes. We have instead an emperor gone berserk, rushing around in different directions as takes his fancy, and able to drag an enormous population behind him: some vacuously enthusiastic, the majority uncomprehending but still trusting, and only a few still able to ask some sceptical questions about direction and purpose.

Exactly when and how digitisation became such stuff of the dreams of advancement in India is unclear. The simplistic belief in technology as the solution to all sorts of problems, rather than a tool to assist social change, has been brewing for some time: it was clearly incipient in the expansive hopes pinned on the Unique Identification Number. But from there to the idea that cashless exchange and e-commerce would automatically root out corrupt practices and lead to a completely formal economy is another very large step.

At the moment the Indian economy is certainly among the most cash-intensive in the world: prior to demonetisation around 98 per cent of transactions were estimated to be settled in cash (compared with 90 per cent in China, 85 per cent in Brazil and 55 per cent in the United States). But even this is not all that unusual: globally, around 85 per cent of transactions are cash-based, and many very advanced countries still rely heavily on cash, driven by personal choices in a particular social environment. There is no straight line linking degree of development with degree of cashlessness, despite some small countries like Belgium and Sweden being high-profile examples of less cash use.

E-banking and electronic transactions have been increasing in India, but the shares are still very small, even after the coercive pressure applied by demonetisation. It could have been brought in gradually, perhaps even accompanied by the embarrassing incentives now being touted, but in a way that would be less drastic and destabilising for most people. But dangling incentives after first pushing necessity and fear as drivers may be counterproductive.

The apparent unconcern in this digital drive for the unbanked in the country – still around one-third of the adult population, by most estimates – is palpable. They have been deprived of their own small holdings of cash without possibility of exchange other than illicit means, and they are unlikely to be able to engage in e-payments without a bank account either. So what exactly are they supposed to do? It is cruelly naïve to say they should simply open bank accounts, given the many difficulties of those without various identity cards – which are incidentally still not legally compulsory in India. There are many stories of even those who have appropriate identity documents who wish to open accounts, who have been turned away by banks because they are simply overburdened with the current work of distributing cash (or trying to) and verifying and filling in all the necessary – and constantly changing –

forms. Many people are told to come back after 30 December, by which time their cash holdings will be worthless.

An important reason for the limited spread of e-commerce is that the infrastructure for such a payments system is so woefully lacking. It is true that there are a billion mobile phone subscriptions in India, but less than one-third of all Indians use smartphones. Only 7 per cent of low income families have access to even one smartphone. Around one-third of the population has internet access, but these are concentrated in cities and towns, which make up 70 per cent of all those with mobile internet access. Only 27 per cent of Indian use the internet, and 87 per cent of them live in urban areas, mostly the big metros. Only 17 per cent of Indian women use the internet (Pew Research Centre).

Connections are patchy and there is great disparity in connectivity. The average time to load a page on a mobile phone is 5.5 seconds in India, compared to 2.6 seconds in China, 4.5 in Sri Lanka, 4.9 in Bangladesh and 5.8 in Pakistan, (State of the internet Q1 2016 report, Akamai Technologies). In many rural and semi-urban areas, the connectivity levels are so low as to make e-payments generally impossible.

Another huge constraint is the sheer lack of infrastructure like point-of-sale machines and the associated telecom equipment that enable digital transactions. As of 5 December 2016, there were an estimated 700 million debit cards and only 700,000 outlets that could accept them. With around 1.5 million point of sale machines, the debit card machine to population ratio in India was of 1,785, compared to 119 in Europe, 60 in China and 25 in the US. (Incidentally, despite the high incidence of credit/debit cards and card acceptance machines in the US, more than half of all transactions still occur in cash in that country.) The massive hike in demand of such machines from vendors post-demonetisation has been so large that suppliers cannot cope. In addition to the physical supply of machines, the need for approval and vetting by banks has further delayed the process of acquiring machines.

Significantly, a bigger bottleneck may well be the lack of associated telecom equipment to ensure the security of these transactions: without enough of these, the increasing volumes of transactions mean that systems would simply become overloaded and collapse. Indeed, this is already evident even in the metros, as previously simple e-transactions take longer and often require many attempts before they are successful. There are [reports](#) of Ministers visiting villages to sing the praises of cashless transactions, being embarrassed by their own inability to make a cashless transaction from their mobile phones in front of their audiences.

But these infrastructural and connectivity concerns may be only part of the problem. Two issues that have been submerged in the enforced euphoria around cashlessness deserve to be looked at more carefully. The first is that eventually this shift to e-money would make all Indians pay for all their transactions, as compared to transactions in cash that do not involve any cost. This amounts to a transfer of income from all consumers and producers, including the poor who really cannot afford it, to banks and a few “fin tech” companies engaged in e-commerce and mobile wallet services, who have already started raking in huge profits.

This is more than a general transfer of income from the population at large, including the poor, to banks and companies. The crony capitalism element of this measure

should not be missed, since it is already clear that a few companies like PayTM and Reliance Jio are disproportionate beneficiaries of this move. One single company has emerged as the single biggest beneficiary in the mobile wallet market – PayTM, whose subscriber base has apparently grown more than hundredfold to 160 million in this short month. The early bird had incumbency advantages, coupled with massive advertising expenditure (it celebrated the demonetisation drive in full page newspaper ads in every major newspaper as well as on television, radio and internet) enabled by the deep pockets of its 40 per cent owner, Alibaba of China.

In addition, there are huge concerns about cyber-security and privacy – all seen as critically important in the advanced countries – that appear to have been all but forgotten in the current rush to move to electronic platforms. India is among the five nations in the world considered to be the most vulnerable to cyber attacks, according to [a study by two US universities](#). It is not just privacy concerns that are important here. Possibilities of cybercrime and identity theft are even more important. A recent report noted that none of the e-wallet or mobile payment and banking applications used in India have the hardware security features necessary to make them secure. The danger from possible hackers or of other abuse of data is real.

In this connection, concerns about security leaks have already been voiced with respect to the foreign ownership of PayTM. These are equally valid for the foreign banks and private banks that will now have complete access to all sorts of crucial data relating to citizens.

What exactly has happened to our country and our society, that all these valid concerns – which should have demanded a more gradual, careful and systematic move towards increasing digitisation – have simply been forgotten or ignored? Is the mad rush toward cashlessness a case of “vinaashkaale vipareet buddhi”?

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