# Renouncing cash

The Centre must ensure cheaper digital transaction costs to facilitate this shift

The chief ministers' committee on digital payments has rightly emphasised that the Government has to lead the way, provide direction and take policy decisions to steer India towards becoming a less-cash economy. Some of the suggestions of the panel led by Andhra Pradesh chief minister N Chandrababu Naidu in its interim report to Prime Minister Narendra Modi last week are certainly implementable. Measures suggested include reintroduction of the controversial banking cash transactions tax (BCTT), fiscal incentives to consumers and merchants for digital transactions, a cap on cash payments for large transactions, lowering of the merchant discount rate, rollout of an Aadhaar-enabled payment system, switching to digital payments for all government-provided services and introduction of contact-less payments for transit in metro cities. The committee has also suggested a subsidy of ☐1,000 to non-income tax assessees and small merchants for smartphones. While some of the measures are not only feasible but necessary, others need to be modified. For instance, fiscal incentives such as the tax refund up to a certain proportion of annual income for consumers using digital payment proposed by the committee may be too complicated to implement, while the proposed smartphone subsidy is prone to leakage and abuse. In any case, the Centre needs to move swiftly with easy-to-implement measures to ensure that neo-converts — and those forced by the cash shortage after demonetisation — to digital payments do not return to cash transactions as the norm.

However, the Centre needs to take a calibrated approach towards restricting the use of cash, to avoid another shock to growth in an economy where millions of small businesses deal in cash. An enabling infrastructure needs to be in place before disincentives such as the BCTT are introduced. While the Parthasarathi Shome Committee on tax reforms in November 2014 had suggested it as an effective measure to track unaccounted money, since it creates a trail of cash withdrawals, the UPA government, which introduced it in 2005, was persuaded to withdraw it in 2009. Any bid to reintroduce it needs to factor in the genuine issues faced by both individuals and small businesses.

Digital payment systems cannot grow without a robust and stable digital infrastructure, high-speed and stable data connectivity to the last mile, and data security. The Naidu committee has rightly emphasised the need to strengthen and expand connectivity and hardware infrastructure as well as interoperable payment platforms. For better adoption of electronic payments, digital transactions cannot be much more expensive than cash. The focus will have to be on reducing transaction costs through technological innovation, greater volumes and a sharing of savings generated from dealing with less cash. Finally, moving to a largely cashless economy requires a massive attitudinal change. This cannot be achieved overnight, or through fiat. Improving financial literacy, especially among the rural population and the poor, is the need of the hour.

×