

Impact on Implementation of Cashless Economy

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Abstract

The current monetary system (paper currency) is traditional and it has a physical form that people could identify. The currency notes (Cash or money) is an instrument used for the exchange of goods and services from one person to another person. Cash is used in India for a large array of transactions in the informal sector and the formal sector. Money is the lubricant of the market economy. It is how payments are made. If we did not have money, we would be reduced to barter. When money is disrupted, the working of the market economy is disrupted. However, it has more drawbacks and issues like possible to theft, increase the fake currency, Favour to Criminals, Increase Financial Crimes and Inflation rates, etc. Therefore, in the light of these drawbacks, the study focus on the implementation of the cashless economy has become the need of the time. The impact of cash less (Economy) transaction surely supports for economic growth. The development of the economic position of the country by increases the number of tax payers, the government will consider to reduce the tax rate of individuals, thereby the standard of living is also improved. So, it is, without doubt, said that future transaction system is cashless transaction system.

Keywords: Monetary System, Paper Currency, Electronic Digitalization (Electronic Transfer), Inflation Rate, Fake Currency, Standard of living and Economic growth.

Introduction

The objectives of this study are to review the economy through a cashless transaction system. The first part is highlighted to a brief background on the current monetary (Cash mode) system and its drawbacks. The second part focuses on the emerging trend of Electronic Transfers/ Electronic Digitalization (Cashless Economy) and its advantages and Drawbacks. The concluding part identifies the possible impacts of full cash abandon.

Research Methodology

This study is purely descriptive and all the data used for conducting research were taken from secondary sources.

Objectives of the Study

To find the major drawbacks of the current monetary system of currency notes.

To examine the modern financial instruments or techniques to be used instead of cash.

To study the possible impacts of the cashless economy (digital transactions) and its advantages & drawbacks.

Secondary Data

The secondary data are collected from books, journals, articles, reports and websites of financial authorities and government.

Results And Discussion

Current Monetary (Cash Mode) System: The currency notes (Cash or money) are an instrument used for the exchange of goods and services from one person to another person. Cash is used in India for a large array of transactions in the informal sector and the formal sector. Money is the lubricant of the market economy. It is how payments are made. If we did not have money, we would be reduced to barter. When money is disrupted, the working of the market economy is disrupted. In India, cash mode dominates in transactions.

Authority Responsible for Manufacturing the Paper Currency: Most economies in the world have a Central Bank or an authority that reserves the right to manufacture paper and metal currency and is responsible for assuring the bearer of its assigned value. The amount of cash in an economy at any instant is guided by the market forces of demand and supply and the central authority in-charge regulates the flow of cash into (or out of) market.

Cash, however, is only the physical instrument of money. The reason why cash has been a popular form of exchange for such a long time is that of the tangibility that it provides to the entire idea of money. But does money need to have a physical form that people could identify with?

Some Major Drawbacks of Cash

- More Expensive: Cash is expensive to print, inspect, move, store and guard.
- Possible to theft or Loss: At an individual level, cash is inconvenient to carry and manage. It cannot be traced or insured as cash once lost or stolen cannot be recovered.
- Increases the Fake Currency: Counterfeiting is always going to be a problem as long as paper currency exists.
- Favor to Criminals: Hand – to hand currency is favored by criminals as it does not leave a paper trail.
- Increase Financial Crimes: Cash transactions are not traceable, thus providing no transparency. This leads to corrupt practices and financial crimes such as excessive money laundering.
- Difficult to monitor and calculate tax: Monitoring of tax compliance is difficult for the tax calculating authorities of both direct and indirect taxes and also difficult for the Government.
- Inflation Rates: High cash usage result in a substantial amount of money outside the formal economy, thus stunting the effectiveness of politics aimed at managing inflation rates.
- Global Warming: From a global perspective, the economic growth imperative inherent in the current monetary system plays a major role behind global warming and other environmental crisis.

In the wake of the drawbacks and issues highlighted above, some governments are already viewing the use of cash in a negative light. Therefore, the activities of cashless transactions are to be needed.

Cashless Economy: Cashless or less cash transaction system is a new and easier way of paying for goods and services. The cashless system was introduced in the 1950s and is now an essential form of ready money which reduces the risk of handling a huge amount of cash.

New Devices used in the Place of Paper Currency for doing Cashless Transactions

- **Traditional Instruments:** At present even individuals and organized and unorganized firms that have access to cashless instruments (Cheques and Drafts etc.) do not use them much.
- **Modern Instruments / Techniques:** It includes Debit Cards, ATMs, Smart Cards, etc. Plastic money is a term that is used predominantly for the hard plastic cards; we use every day in place of actual bank notes. They can come in many different forms such as cash cards, credit cards, debit cards, pre-paid cards and store cards, Rupay cards, Kisan cards, E-Banking, Electronic Clearing System, Real Time Gross Settlement System(RTGS), Electronic Fund Transfer System (EFT), Electronic Clearing Service (ECS) and Mobile Phone transfer etc.,

Current Advancement towards a Cashless Society: The first and the foremost pre-requisite for building an economy having no cash is to have every single entity, whether an individual or a small – scale or a large-scale firm, to be registered under unique IDs. This can be achieved biometrically, as has already been done in India have been linked with Aadhar. Such feasible and low-cost biometric systems could easily support electronic payment systems which could replace the current hand – to – hand currency system.

Advantages of a Cashless Economy

Convenience and Safe during Traveling Hours: The ease of conducting financial transactions is probably the biggest motivator to go digital. Peoples will no longer need to carry wads (Purse) of cash, plastic cards, or even queue up for ATM withdrawals. It's also a safer and easier spending option when passengers are traveling.

Highly Useful in an Emergency Situation: It will be especially useful in case of emergencies, say, in hospitals. “The patients in the hospitals have the freedom to transact whenever and wherever they want.

Physical Present is not Mandatory: Peoples don't have to be physically present to conduct a transaction or be forced to do so only during office hours.”

Lower Risk due to not Possibility of Theft: If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. “In that sense, the digital option offers limited security.” This is especially true while traveling, especially abroad, where loss of cash can cause great inconvenience. Besides, if the futuristic cards evolve to use biometric ID (finger prints, eye scan, etc.), it can be extremely difficult to copy, making it a very safe option.

Accounting the Transactions through Tracking Spends: “If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns and, in the case of scrutiny, people will find it easy to explain their spends. Besides the tax, it will have a good impact on budgeting.

Small Gains: No Worry about change for payment: It may not seem like much of an advantage, but being cashless makes it easy to ward off borrowers. Another plus is that customers of the shop can pay the exact amount without worrying about not having change or getting it back from shopkeepers.

Budget Discipline: The written record will help to keep tabs on spending and this will result in better budgeting. There's a lesser chance of budgetary leaks and unaccounted for spends sneaking into the budget at the end of the month. This controlled spending could also result in higher investing.

Flushing Out Illegal Activities: The currency replacement programme is aimed at flushing out cash earned through illegal activities.

Government Announces New Initiatives for Promotion of Cashless Economy: The digital transactions through the use of credit/debit cards and mobile phone applications/e-wallets etc. To further accelerate this process, the Central Government has decided on a package of incentives and measures for the promotion of digital and cashless economy in the country.

Possible Impacts of Full Cash Abandon

The removal of currency notes and coins is likely to be the biggest monetary reform since the inception of the former itself. The following are the impacts of cash abandonment.

Control of Printing and Maintenance Cost of Currency Notes: Banks are likely to be in favor of a cashless society as it saves them the cost of printing, inspecting, storing and guarding ‘paper’ money. Costs also include the security and labor involved in processing and transporting cash, maintaining automated teller machines, and regulating the amount of cash in circulation.

Restrict Criminals: Prohibition on the use of cash could restrict criminals such as drug dealers and people involved in possible unregistered activities like prostitution and bet from doing business.

Corruptions and Crimes Prohibited: Eliminating cash could also mark an end to bribery and other such corrupt motives as authorities would be able to track virtually all transactions. Tax crimes would also stop.

Creation of Digital Points: All the existing cash in the world cannot be removed or deemed ‘abandoned’ at one go. Also, when it comes to money, reassurance is the thing that matters most. For a complete switch-over to the new monetary model, the voluminous amount of cash presently circulating in the market would have to be converted into an equivalent number of ‘digital’ points.

Challenge in the form of Literacy: Developing economies have an added challenge in the form of high levels of illiteracy among the masses. For example, in India itself, there are large sections of the rural population who haven’t seen a bank in their lifetimes, let alone owning a bank account. The only way they recognize money is through currency notes and coins.

Pros and Cons of Digitalization: Every reform has some pros as well as cons. There are more than a few challenges to our proposed cashless system, which are as follows- People still rely on the idea of money being ‘physically’ realizable. For some psychological reason, ‘paper’ money is revered more than ‘plastic’ money or ‘digital’ money. Cash keeps a check on people’s spending habits.

High Degree of Security is needed for Cyber Criminals: Anything that’s technological comes with a baggage of risks and security threats. A very high and unbreakable degree of security would be needed as a deterrent to hackers and cyber criminals.

The requirement of Digital Awareness: The idea of a cashless society won’t be readily popular among a certain section of our demographics. While a user-friendly model might not necessarily require consumers to be tech-savvy, there would still be some sort of digital awareness required to understand the working of a society with no cash. People who had grown up and lived through times when a substitute for cash wasn’t even thought of might face some difficulty in adjusting to a world without currency notes.

An ideal cashless economy should look to incorporate all the benefits of a digital monetary system and to find solutions to the aforementioned challenges, to achieving wide acceptance among the people who earn, spend and consume.

Drawbacks of Digital Transactions

Higher Risk of Identity Theft: “The biggest fear is the risk of identity theft. Since we are culturally not attuned to digital transactions, even well-educated people run the risk of falling into phishing traps. With the rising incidence of online fraud, the risk of hacking will only grow as more people hop on to the digital platform.

Inadequate Redressal Mechanism: The latest move by the government to remove the two-factor authentication process for online transactions up to `2,000, will not help. Irrespective of the size of the transaction, the absence of this additional layer of security will expose thousands to the risk of identity theft. Another weak link is the inadequate redressal mechanism. “With the poor redressal system in India.

Losing Phone: Since you will be dependent on your phone for all your transactions on the move, losing it can prove to be a double whammy. It can not only make you susceptible to identity theft, but you could also be rendered helpless in the absence of physical cash or any other payment option. This can be especially problematic if you are traveling abroad or in smaller towns or villages with a lack of banking infrastructure or other payment options. Another drawback is that you need to keep your phone constantly charged. If the phone dies on you, you will be stranded, particularly if you are in the middle of an important purchase or dealing with an emergency.

Difficult for the Technical Aspect: Besides the practical difficulty of going digital, “a bigger block is the psychological shift. “It’s a problem for the older people, who may suddenly find themselves locked out of their accounts if they can’t download an app or don’t have cash.” The digital medium may prove a challenge for the tech-unfriendly people, who will need more time to adapt or the availability of other options to conduct transactions.

How to Remove All the Cash From the Economy?

There are many possible ways of going about this, but an outright prohibition on the use of cash is certainly not going to work. Rather, the Central Bank or Authority could ‘tax’ the use of cash, leading to the value of the paper currency depreciate relative to the reserves, say by 10% annually. By managing the exchange rate between currency and reserves and pushing it further, the Central Bank could remove the ‘zero lower bound’ and tax the use of currency, which would thus tax the criminal and anti-social enterprises that largely rely on currency.

So a full restriction on the use of cash could be seen as a limiting version of mildly extreme policies that tax currency by allowing its value to depreciate relative to bank reserves.

When the exchange rate between currency and reserves becomes large enough, cash in the economy will cease to exist.

Comparative Advantages of Cashless Economy – In Nutshell

Government, Banks and Publics are enjoying the following advantages through the implementation of cashless economy.

Sl. No	Government	RBI & Other Banks	Publics
1	Not necessary to Print the Currency and Saves the Currency Printing Cost.	No need for Cashier and currency counting machines, thereby it saves times and cost.	No possibility of Cash theft and cash lost.
2	Easy monitoring of the digitalized transactions.	No need for Safety Locker and Security Personnel.	Reducing the tax burden.
3	Increase the tax base and number of assesses by the automatic recording of transactions by electronic mode.	The cost of Currency maintenance and movements (To load in ATM’s) are eliminated.	Highest safety in travel and reduces risks especially for Women
4	100% Prohibition of Black money/ Fake Currency (Untaxed Income).	Highest Safety to banks due to the cashless mode of transactions.	Reduce Economic and Financial Crimes.
5	Increase Buoyant/ Public Revenue.	No Chances for Misappropriation of Cash.	Increase per capita income.
6	Increase the Country’s Economic Growth Rate and GDP.	Does not arise NPA’s and Audit Trials made easy.	Increases Standard of living.

Conclusions

- The cashless transaction system is reaching its growth day by day, as soon as the market becomes globalized and the growth of the banking sector more and more the people moves from cash to cashless system.
- The cashless system is not only a requirement but also a need of today society.
- All the online market depends on a cashless transaction system.
- The cashless transition is not only safer than the cash transaction but is less time consuming and not the trouble of carrying and trouble of wear and tear like paper money.
- It also helps in the record of the all the transaction is done and which is helpful to improve the economy of our country.
- The implementation of currency less operation by step by step is helpful for proper accounting of all revenues of bank customers.
- It will increase the number of tax payers and reduce the black money (Untaxed Money).
- The public revenues will always fetch by recordable revenues of tax payers and the increased number of tax payers.

Hence, the impact of cash less (Economy) transaction surely supports for economic growth. The development of the economic position of the country by increases the number of tax payers, the government will consider to reduce the tax rate of individuals, thereby the standard of living is also improved. So, it is, without doubt, said that future transaction system is cashless transaction system.

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