The New Moral Economy
Demonetisation, Digitalisation and India’s Core Economic Problems

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Convincing billions of Indian citizens that demonetisation and digitalisation is a panacea for the country’s growth challenges and a solution to its core economic problems requires constructing a new moral economy, and a “different” imaging of India in the minds of the people. Incorrect economic arithmetic and the illusion of digitalisation are not the only problems to be negotiated. The moral political project overtly and covertly being attempted, is of far greater significance.

India’s foremost political economist, Krishna Bhardwaj, writing about market economics, said that more often than not, overtly or surreptitiously, dominant economic ideas have always impacted societal views of social change (1986: 1). This influence on thinking towards social change is as valid today as it was 30 years ago. The economic thinking behind demonetisation is one recent example of this.

India continues to face many developmental challenges: inequality, poverty, access to education, health and housing, absence of sustainable livelihoods and a living wage, worsening environment, caste and gender discrimination, and crumbling institutions, to name just a few. Involved inextricably with the problems and the manner of their resolution are conflicting interests of classes. Therefore, the vantage point of looking at these challenges is of utmost significance to decipher what problems will be addressed. In this contested terrain of views, building unconscious and uncritical habitual modes of thought of ordinary citizens is useful for the governing regime of today’s India, which is ruling the country on behalf of domestic and international corporate interests. One of the “powerful” initiatives in this process is the recent phenomenon of so-called demonetisation.

Theoretical arguments would generally be adduced to the particular solutions advanced. The arguments advanced in support of demonetisation is that it will help (i) eradicate black money, (ii) remove counterfeit currency, (iii) curtail terrorism, and (iv) facilitate a movement towards a cashless economy. There is a silent and an implicit message behind these claims. It is being suggested that India’s current development challenge is merely of slackening growth, and by bringing investments, all development challenges will be addressed. Demonetisation is then presented as a panacea, and it is claimed that the likely increase in bank deposits will foster investment and growth. In addition, streamlining transactions through digitalisation will address all problems of unequal exchange.

Both these propositions are rooted in the dominant view in economic thinking that the primacy of production can be replaced by a central focus on money markets, together with exchange and transaction processes. The moral political dimension of the demonetisation discourse and the imagining of India promoted in the idea of digitalisation, therefore, as we argue in this article, help create this disconnect between appearance and reality and act as powerful channels to foreclose imaginative and critical thinking about India’s real development problems and their solutions.

We are living in a surreal world in which the national media tells us that using the Food Panda app is a solution for not having vegetables in your meal; that intergenerational learning is about the digital card; difficulty in commuting and paying for transport are to be mitigated via mobile applications and so on. These imaginations are unconcerned and divorced from the real socio-economic challenges in the lives of a billion people. And yet there appears to be a vast appeal of demonetisation, or at the very least, the spirit behind it.

Moral Political Project

The Prime Minister’s announcement of the withdrawal of ₹1,000 and ₹500 notes ranks amongst the most significant measures taken by his government. The audacious move has given birth to wild hopes of a decisive blow to the black economy and counterfeit currency. It is also being lauded for its potential to convert India into a cashless economy. The economic arithmetic and digitalisation are not the only problems with the 8 November demonetisation announcement. The moral political project overtly
and covertly being achieved through this is of far more significance.

Through this announcement, the state has been unleashed on us in the name of protecting our own virtue. There is a new kind of politics in it that is redefining the relationship between the citizen and the state. The government does not want to be answerable to the citizen. It has gambled without reasonably establishing the costs and benefits and producing a policy document. It does not feel the need to do so. This policy measure entails total mobilisation of society on a scale, where literally every citizen is being enlisted in a policy cause, without being told how it is guaranteed to work, and if it works what problems do they resolve. Even the goalposts of evaluating the success or failure of this programme are not clearly articulated. People are being convinced on a premise, as limited as saying, since something tastes terrible it must be good for one’s health.

The moral and the political are in one leap intertwined, when standing in line to withdraw our own money is a way to honour our country. We are told by the government that it will do the best for its citizens and the citizens need not understand the rationale or reasoning. Questions are not to be asked, only sound bites are to be repeated—so runs the new moral political argument of the government.

The new moral political is also about newer ways of personification of policy and ensuring participation in nation building, all individually, with no associations or solidarities. Questions of distributive consequences and transparency are to be effaced. Every citizen appears either as a patriot or a criminal, and the state tells us that the honest have nothing to fear. Pradhan Mantri Jan-Dhan Yojana (PMJDY) and Vijay Mallya are put at par in terms of financial fraud. The state epitomises virtue and stands above us.

There is one more moral aspect to this project: black money as a by-product of individual unethical behaviour, where nothing is institutional about the process that has generated so much “black money” in the last many years in India. Not only has the process of moneymaking been individualised, the government has tried to turn the entire narrative about demonetisation into an individual one about the leader’s ethics or his political career. The rhetoric suggests that the one who truly deserves sympathy in the present scenario is not daily wagers, street vendors, and farmers—whose already precarious livelihoods have been disrupted—but the government or the Prime Minister. In one stroke, it rendered all criticism suspect.

The real moral and political dimension of demonetisation is this new imagining behind the move, from morality to statism, from systemic to individual, from exploitation to corruption, from questioning to complete loyalty. One could debate the merits and demerits of demonetisation as the best strategy to curb the black economy. One could also debate the merits and demerits of a “fast” demonetisation versus “slow” or gradual demonetisation, and the manner of execution. One could debate the impact of this elimination of 86% of the currency in circulation on ordinary people’s lives. But none of this was done, and is not needed now.

The new version of virtuous, moral, participative, and individualised politics is bringing the poor and lower middle classes back to the centre stage of politics in a new avatar. The 1990s policies of “economic liberalisation” were made in the name of the poor, for the rich and the big corporates. In the last seven-eight years, an attempt was made to make the same policies in the name of the rich for the rich. Now, a new attempt is being made where the poor participate in supporting the policies, on individual moral and ethical grounds, that will benefit the corporates, the investors and the speculators even more than in the past.

Some say that with the Uttar Pradesh assembly elections and the model code of conduct round the corner, the government decided to implement the move so as to milk the issue before the polls. Deeper gains can be made in terms of moralisation of politics, by infusing emotions into policy debates, and reducing all debates to a single question: are you in support of government or not? The beauty (and the danger) of the demonetisation discourse is that there is no need to engage in a dialogue on equal terms with anyone, be it with politicians or the media. The debate on the economy has been reduced to one around exchange, so that no structural or production issues are discussed.

Digitalisation of Transactions

While the social imagining of India is misconstrued as some convoluted form of decentralisation where all citizens (are made to) perceive themselves as being part of the larger macroeconomic policy on moral and ethical grounds, the economic imagining of India by the state is one of swaying away from core economic problems to superfluous issues, which hold little relevance in the country’s current context. An apt case is the imagining of India through digital money.

The government’s ostensible faith in digitalisation of payments as if it were a magic wand to attain financial inclusion depicts one form of today’s economic imagining of India. The digitalisation discourse needs to be understood through its plausible impact on different sections of the population and how it implicates undermining of financial policymaking—a prerequisite for building infrastructure and institutions.

Formal Transactions, Informal Production Relations

The state’s imagery of financial inclusion is entwined with the digitalisation of transactions. It dwells upon the idea that digital money will formalise transactions, which in turn would curb black money. However, formalising transactions through digital money in an informal economy does not tantamount to eradicating the black economy. This is because, first, corruption and tax evasion will still be possible unless cash is totally banned, which does not seem realistic; and second, the growth of a formal economy does not come about with mere formalisation of exchange but with intrinsic change in production relations within the economy.

Financial inclusion, again, has a much deeper connotation. It is seen not only as a process of ensuring universal access to financial services but also timely and
adequate credit to vulnerable sections at a reasonable and affordable cost. Mere provisioning of banking infrastructure by itself will not inculcate formalised banking habits, unless the real economic problems of production and employment are addressed.

In reality, the predominance of the informal sector is a characteristic feature of the Indian economy, and the demand for cash as a preferred mode of transaction, is rooted in this informality. Informal employment constitutes a significant share of the labour market. As per the National Sample Survey Office estimates, informal employment accounted for 91.6% of the total employment in 2011–12, which is only a marginal fall from 92.7% share registered in 2004–05. This informal employment is characterised by the presence of a huge share of self-employed and casual workers in the workforce. Of the informally employed workforce, self-employment and casual work constituted 56% and 33% respectively in 2011–12. The very nature of casual and irregular employment makes earnings infrequent and irregular. This sustains a cash-based economy.

According to the World Bank Global Findex Data, in India a meagre 4% of the total wage recipients (aged 15 years and above) reported using a bank account to receive wages in 2014. The share was even lower for rural areas at 2.96%. Among the poorest 40% of the households, only 1.7% of the adults reported use of an account to receive wages in the past year. These figures clearly suggest that cashless payment constitute only a minuscule share of the total transactions in the Indian economy.

Thus, the power ascribed to digitalisation by the government not only creates a false imagining about financial access, but also attempts to disengage the citizens from the official macroeconomic policy discourse that promotes informality as a competitive tool in the global economy. It is being suggested that formalisation of transactions is good enough to overcome the informalisation of the production structure and the exploitative informal labour relations. In truth, this formalisation does not alter the precarious economic conditions of those who are engaged informally in the formal and informal sector. As far as production conditions and labour relations are concerned, it can be business as usual. Since so much is being hyped about the cashless economy and digital transactions, discussing the details of this proposal may be in order.

**From Digital Money to Money**

“Digital money in effect curbs black money” is the nature of message that the government has claimed in its advertisement campaigns. These propaganda campaigns promote the use of prepaid digital instruments, wherein daily wage earners such as a cobbler and an autorickshaw driver are being educated on the usage and merits of what are proclaimed as convenient modes of transaction.

There are primarily five modes of digital payments that the government is increasingly promoting. These are Unified Payment Interface (UPI), mobile wallets, Unstructured Supplementary Service Data (USSD), debit card and Aadhaar Enabled Payment System (AEPS). Amongst these, UPI, USSD and AEPS are introduced and implemented exclusively by the government.

- **UPI** launched by the National Payments Corporation of India (NPCI) earlier this year uses the Immediate Payment Service (IMPS) platform to transfer money between two bank accounts. Mobile wallet constitutes a virtual wallet, wherein the information of physical plastic cards can be carried in a digital form in a mobile device to make digital transactions. While UPI and mobile wallets require a smartphone with internet connection, the USSD method works on the voice network that can be operated on a feature phone even without an internet connection. The AEPS mode can be used by Aadhaar cardholders by linking their unique identification numbers to their respective bank accounts, thus transforming an Aadhaar card to a virtual debit card. Access to a bank account is a mandate for operating each of these digital payment modes. The additional mandates and specific procedures to be followed are given in Table 1.

Digital money innately requires access to a bank account and a mobile phone, together with availability of bandwidth. All these mandates involve substantial amounts of real and opportunity costs to be borne by the user. In Table 1, although basic details and processes are presented

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with respect to the customers, the necessary conditions are to be met by sellers/merchants as well. In addition, the merchants have to meet other requirements and incur other costs as well. For instance, to use AEPS and debit card, bandwidth availability is not mandatory for customers to make purchases, it is a must for merchants. To accept payments, merchants should have a running internet connection and point of sale (POS) system.

Under the AEPS, the merchants also need to invest in a smartphone and a fingerprint scanner. While the POS machine can be acquired free of cost from the concerned bank where the merchant has an account, she is required to pay the merchant discount rate (MDR). The MDR on debit card payments, as capped by the RBI, is 0.75% of the transaction for amounts up to ₹2,000 and 1% for the transaction amount for values above ₹2,000, except for the government-introduced RuPay cards, where MDR reduces to 0.45% and 0.65% for the respective amounts. Along with the bearing of costs, the merchants should also be well aware of a large number of technical and management issues, including concepts such as self-declaration and KYC (know your customer) norms.

So as we can see from the details above, India is now at an interesting cusp, where even if you have legal tender with you and the seller is willing to sell you some commodity, that is not going to be enough for you to complete the transaction. We now need all kinds of middle “processes” to complete the loop for the transaction to happen. And these middle processes will require active and in-depth participation (and therefore gains) of the banking and the telecom sectors, and internet service providers. The huge scope for increasing the size of the market and higher profits for private sector banks and telecom operators implicit in the proposal of digitalisation is a dimension that immediately pops out, given the absence of any concrete gains for an ordinary Indian citizen in this proposal of digitalisation. Digitalisation hardly appears to be a public good for which the sovereign Indian state should be batting with such enthusiasm.

### Access, Exclusion and Inequality

Let alone use, even fewer Indians are aware of the concept of digital money. The Financial Inclusion Insights survey (FII 2016) reports that only 10% of the total adults in the population were aware of the concept of mobile money in 2015, and usage was low at 0.5%. According to the Census of India, 26% of the population in India was illiterate in 2011. It is to be mentioned that improvement in basic literacy and mere awareness about mobile money may fail to ensure widespread usage. There are issues of acquiring digital knowledge. Language constitutes another major hurdle, as English is the operational language for most of these digital instruments. For an illiterate person, the cumbersomeness of creating a virtual payment address, generating a MMID number, and finally making transactions, has the effect of limiting her access to digital mode of payments.

The Census of India of 2011 estimates that 58.7% of the total households in the country had access to banking services. This was 67.7% in the urban areas and much lower at 54.5% in the rural areas. This not only reveals the low degree of financial inclusion but also shows how the digitalisation drive eschews a significant share of the population. In an attempt to facilitate access to banking, the Government of India launched the PMJDY in August 2014. With the aim of opening an account for every household in the country, the yojana was made lucrative by allowing for zero balances, overdraft facilities, issue of RuPay debit cards and free life insurance.

There was a marked rise in the number of account holders under the scheme. Until January 2016, a total of 258 million accounts were opened under this scheme. According to the FII survey (2016), a share of 47% of the total adult population had registered bank accounts in 2013. This share rose to 63% in 2015. Despite the unprecedented rise in account penetration, 23% of these accounts under PMJDY remained as zero balance accounts.

This suggests that opening of accounts does not ensure the use of accounts to receive salaries/wages or undergo any form of transaction. The accounts have remained dormant as these were not set up for an explicit purpose, such as to receive wages or government transfer payments (Demirguc-Kunt et al 2015). Although, financial inclusion as seen in terms of the number of account holders has increased over the years, the actual penetration of banking habits among the masses, especially in rural areas, is doubtful.

The RBI (2015) shows that there has been a significant progress in the use of pre-paid instruments (PPI) such as mobile wallets and PPI cards in 2013–14 and 2014–15. The report states that the value of PPIs increased from ₹79.2 billion in 2012–13 to ₹213.4 billion in 2014–15, and it is the non-bank PPI, that is, mobile wallets that contributed to a major part of the growth. However, the growth of such electronic modes of payment remains confined to a small section of the society. The low access to digital payments becomes evident from Figure 1.

Clearly, even as the access to electronic modes of payment is low, there is variation in the extent of usage among different sections of the population in the country. For instance, in the past one year, a
share of only 3.25% of females aged 15 and above is reported to have used debit card as compared to nearly 18% of adult males. The digital divide in gender is found in the case of the other two modes of payment as well.

It follows that access to banking, mobiles, bandwidth availability, the burden of transaction costs and fees, and language are some issues that will decide if digital money is the way forward for India. It is also clear that a significant share of the population is not going to be part of this digital world. Once we map the challenges of digitalisation with the formal and informal nature of economic activity in India, the implications of digitalisation and the bias implicit in it becomes even clearer.

The question we should be asking is how the power relations between the economic actors, especially the relations of those in the informal economy with the formal sector, will be altered as the government brings about changes in the nature of transactions. Nothing in the policy inspires confidence that the policy will produce better jobs or include larger number of people in formal economic activity. Cheapening of labour costs seems to be the key mantra for the Indian economy in terms of its global positioning, the country’s ruling classes believe.

In the name of reducing the black economy, the financial architecture that is being put on the Indian economy is meant for advanced countries. Kenneth Rogoff, author of the book, The Curse of Cash, has brought out the significance of the difference between developed and developing countries in the context of demonetisation. In a recent article (Rogoff 2016), he has argued how the approach to eliminate higher denomina-

Downplaying Reality

The question that ought to be asked is whether the Indian economy has the necessary wherewithal transit to a digitalised cashless economy, irrespective of the supposed gains for the “white” economy. Clearly, the informal nature of the economy impedes such a transition and pushing digital transaction has the effect of deepening exclusion and inequality. The facts on electronic payments, as discussed earlier, provide insight about the extent of the disconnect between the government’s public pronouncements and the facts on the ground. However, it is not our contention that the government is ill-informed about the reality. Rather the reality is being reconstructed in a manner that suits the larger objectives of the current political leadership.

The RBI report card acceptance infrastructure (RBI 2016) lays bare the context in which the government is claiming digitalisation as a way towards financial inclusion. The report clearly documents both the supply and demand side impediments to digitalisation in the Indian economy. There are also issues of costs related to payment of merchant fees, capital cost of equipment and maintenance integration with merchant system, transparency and taxation, KYC documentation, certification process related to safety and security of transactions/systems, annual fees for cards, levy of convenience charges/surcharges on use of cards, feel of convenience generally associated with cash payments, etc. There are also impediments pertaining to provisioning of adequate infrastructure. Within the purview of infrastructure, there are interrelated issues of providing for growth of the acceptance infrastructure, widening geographical coverage, and ensuring risk-free and secured systems for digital transactions which further affect usage and access.

The report also acknowledges that the supply of the acceptance infrastructure has not kept pace with the growth in debit cards. It states that growth of the acceptance infrastructure has not been uniform, and such infrastructure is concentrated in urban areas and larger towns, and with larger merchants. Thus, the usage of cards has been constrained by the lack of accessible acceptance infrastructure, especially in rural areas, where growth in card issuance has been high in recent times. The predominance of debit card usage at Automated Teller Machines (ATMs) (90% of all debit card transactions) relative to POS or other digital transactions raises the issues of costs and risks associated with cash management of ATMs, and the risk of fraudulence and phishing, among other reasons, make digital transactions less preferable.

Most interestingly, apart from the rich technical details of challenges to move towards digitalisation, the RBI report is clear and upfront in identifying those that digitalisation caters to, and the population it excludes. For example, it points to the unviability of digital transactions for small merchants, and in rural areas, where low card footfalls and low transaction values, besides other costs associated with merchant acquiring, ultimately forced acquiring banks to withdraw the POS terminal. Lack of adequate and low-cost telecommunication infrastructure makes it difficult for merchants to access networks which are required to accept electronic payments and process transactions. Poor connectivity in many areas leads to fewer transactions, and consequently, affects the revenue of acquirers. Lack of incentive for merchants to accept card payments is another inhibiting factor. Further, transparency and audit trails associated with card payments often act as a deterrent for accepting card payments by merchants.

Given that the government is well informed about the constraints to the usage of digital money, the question that arises is: what is the government’s agenda behind the present thrust towards digitalisation? With the demonetisation–digitalisation exercise, there is little ambiguity that the motive is to expand the formal sector or formalise economic activity in India. If we see this policy initiative in the larger macroeconomic framework of this regime (Sood 2016), the aim of the current initiative is clearly intended to promote the growth of the corporate formal sector at the expense of the informal sector, and not go through the slow and painful route of transforming the prevalent informal sectors of the economy into formal ones.

The move to a cashless economy through use of digital money will formalise transactions even in the informal
economy. It is said without contention that the informal economy in India comprises largely of small producers and traders, who are mostly own account workers. These small commodity producers make earnings at the margin and are susceptible to shocks and risks. With meagre earnings, they cannot be competitive if they have to pay the same taxes as big corporates. The union budget of 2015 had proposed to reduce the basic rate of corporate tax from 30% to 20% for the next four years, stating that the aim of the policy was to ensure higher investments, higher revenues, and to make domestic industries globally competitive. With the purpose of broadening the tax base, the same rate will be applicable to small commodity producers.

The increase in cost as a result of moving to digital money, together with the additional burden of taxation will gravely affect earnings in the informal sector and is likely to make informal production uncompetitive, forcing the poor to buy goods from the formal sector at much higher prices. The policy of tax rate reduction on profit will strengthen corporate houses in the formal sector, and create conditions for the formal sector to thrive at the cost of the informal sector.

**Not about Economic Arithmetic**

This brings us to the much discussed economic arithmetic. Much has been written on how only a small percentage of ill-gotten wealth is amassed in cash, and therefore demonetisation addresses a minuscule fraction of the black money in existence. Black money is a recurring income, and no ground work has been done to address the processes through which black money is produced. How this huge currency reduction negatively impacts agriculture and agricultural markets, crop sale and farm input purchase, sowing of the rabi crops, traditional sources of credit and the informal economy is well documented. The loss of work and indebtedness for landless labourers, migrator workers, pensioners, petty traders, construction workers, and a large number of small service sector workers, the decline in real estate transactions, will lead to substantial reduction in gross domestic product.

However, the point about demonetisation and digitalisation is not only about poor arithmetic, economic slowdown, loss of jobs and income, and so on, but also about the moral economy of demonetisation and digitalisation which is trying to create legitimacy and credibility amongst the poor and the working people for a policy which will create deeper pockets and reach for the rich and big corporates. The future for us lies in opposing this moral economy, in constructing and creating a more people-centric moral economy and politics, and not limiting ourselves to the suffering of those standing in queues and the obviously bad economics.

**REFERENCES**


