

Going cashless: The real danger to liberty

As demonetization unravels into a spiraling disaster the government is looking for new narratives to justify the policy. The latest justification that it will enable quick transition to a cashless society seems to be gathering steam but it too is baked in fallacy. It is disappointing that the opposition is so intellectually depraved that Mr. Modi has gotten away with every canard he and his government have thrown to justify the policy.

Is a cashless society necessarily in the interest of the vast majority of citizens or does it tend to favor a few groups at the expense of others? There is no doubt that electronic transactions offer convenience and the growth of online banking and shopping has increased consumer acceptance of these transactions. Even before demonetization, every major bank offered electronic banking, and many offered e-wallets developed in house to compete with e-wallets offered by startups like Paytm, Freecharge, and Mobiwik. So the evolutionary process of electronic transactions was already underway much before demonetization.

The important thing, however, was that people made the choice to adopt these technologies of their own free will. It is the top-down enforcement of cashless transactions by the government that causes many of us concerns.

All new technologies evolve in the free market; the internet, wireless communication, smart phones, online shopping have all been developed, not with, but, without any government intervention, and it is their voluntary and uncoerced adoption that has led to their success. It is hard to recall any successful technological improvement in the last century that has been coerced into adoption by the government.

One of the groups that clearly stands to benefit from cashless transactions is the financial sector. For A to pay B electronically the transaction will have to go through the banking system whether it be through e-wallets, debit and credit cards, or wire transfers. The bank then essentially becomes a middleman in every transaction. The fees that banks will charge for this role will result in huge gains in revenue for the banking sector. This additional revenue will come at the expense of the average citizen. And while it is true that transaction fees could drop as more people use electronic banking they will never be zero. So there will always be welfare cost to the citizens of India from going cashless.

There is also the real risk that this shift of resources and power to the financial sector, will increase income inequality. The poor will have a hard time getting loans because banks will use the information at hand to favor their better customers. Also, the possibility of a bank run, where people start withdrawing cash from banks that are poorly managed and insolvent, will become outdated in a cashless society. In a free market, the finite possibility of a bank run imposes discipline on banks and ensures that they follow sound lending practices to stay solvent. In a cashless system, there is then a real danger of overreach and financial indiscipline by banking institutions knowing that bank runs are now not possible since they (the banks) control the exchange and withdrawal process. An insolvent bank, for example, could easily shut down their computer system and prevent anyone from accessing their account and transferring funds.

In the modern world information is power. It is a scary thought, but in a cashless economy financial institutions and their stakeholders will have unlimited power and control over people's financial information. It is access to information that others don't have that leads to insider trading and the huge profits that the privileged make at the expense of others. There is nothing to prevent rogue employees at banks to monitor transactions of certain individuals and to profit from that information.

The biggest beneficiary of a cashless economy, without a doubt, will be the government. They will have complete information not only on how much money people earn and how much wealth each has, but also what kind of transaction each citizen engages in. By controlling people's wealth through the banking system the government will have complete control over taxation. It would become easier

for the government, to impose and collect taxes, and to raise additional taxes whenever it wanted. With their hands perpetually in the kitty, governments will become more powerful with their ability to tax and spend at will. So, for example, if the government wanted they could easily identify individuals engaged in buying liquor and cigarettes and levy an extra tax on them. Or, if the government wanted to curry political favor and give out SOPS and subsidies to special interest groups, they could easily pay for that with a new tax or transaction fees withdrawn directly from people's accounts.

The biggest risk of going cashless would, however, be to individual liberty. The terrifying level of surveillance will make Big Government and the Orwellian big brother closer to becoming reality. Privacy of transactions that come from using cash will be destroyed, as will people's ability to keep financial matters private. The government will know, for example, if someone legally bought pornography online or whether a couple bought sex aids, or whether a person sees a psychiatrist. There is a reason people use cash: it ensures privacy, but more importantly it empowers its users to buy and sell what they want without fear of surveillance. They can stay outside the financial system if they so choose and that is their right. People after all prefer to hold different assets and to allocate their wealth across cash, demand deposits, savings deposits, gold, real estate etc. precisely because of the mitigation of risk this diversification brings.

The total control the state would have over people in a cashless society is terrifying. If a rouge government wanted to ruin a person or company it could do so very easily by freezing their bank account. Millionaires could be made paupers, political opponents destroyed, unfriendly business people brought to their knees, and ordinary citizens destroyed financially for holding contrary views--all at the click of a mouse. That the state will have this power is the real risk of going cashless.

Many who support this push by the government to go cashless make the mistake of conflating a cashless nation with an advanced nation. Make no mistake: India will not suddenly become an advanced nation if it went cashless. And going cashless certainly does not ensure higher economic growth. In Kenya, almost 65% of the transactions are conducted electronically using mobile phones, yet it is a fairly undeveloped economy. Most European countries are virtually cashless but all are mired in growth rates below 3%.

So beware this new war on cash. You may just lose your liberty.

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