

CASH LESS INDIANS, THE NEW NORMAL, AND SURVIVAL

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

[On April 15, when the 21-day national lockdown imposed by the government ends](#), it is very likely that the bottom 47 percentile of India's population will run out of cash. Estimates are based on the World Bank's poverty line of \$3.2 a day for a lower middle-income country such as India, assuming people are spending just to survive. It is also likely that the population between the 47th percentile and up to 87th percentile will have only half the cash they had before the lockdown began.

Also read: [Coronavirus | Prime Minister hints at calibrated exit from lockdown](#)

What this means, in real terms, is that the poorest 500 million Indians would be out of cash reserves completely by April 15 and another 500 million will be left with just half their reserves. These findings are part of my ongoing research on mapping inequality in India using demonetisation data.

My findings reveal that the top 1% in India held 62% of all the currency in circulation, whereas the top 0.1% held 33%, a third of 17-lakh crore in circulation at the time of demonetisation.

In order to estimate cash inequality, I have created a model combining demonetisation and National Sample Survey Office (NSSO) data to which a generalised Pareto interpolation technique was applied to arrive at the cash held by each population group.

Also read: [In numbers: The COVID-19 pandemic](#)

Many Indians have managed to deal with political and social inequality with their ability to negotiate their freedom using money. For poor Indians, having cash to pay back money lenders or landlords has meant having the choice between freedom and slavery. Money gives them choice; the freedom not to have their labour exploited.

Inequality of cash, a basic economic instrument, gives us a picture of how unequal our society is. The Gini coefficient, a common measure of inequality, of cash holding in India is as high as 0.71, where 0 indicates perfect equality and 1 indicates perfect inequality. Other measurements of inequality such as the Atkinson Index [$A(1)=0.624$] and the Generalised Entropy Index [$GE(1)=3.108$] also show a very high inequality of cash holding. This means that in India, cash is heavily concentrated at the top.

Even inter-district and intra-district cash inequality is very high. The top 10% districts held 764 times more currency than the bottom 10% districts. It is unsurprising then that the districts at the top are situated in Tier I and II cities. In fact, the bottom 60 districts, mostly comprising hill and tribal districts, held only 0.2% of all the cash.

Also, 60% of all districts analysed, i.e. 359 out of 607 districts in India, reported a Gini coefficient greater than or equal to 0.7, which means that even within districts, cash is concentrated very unequally. In absolute numbers, there are 10.9 million cash-rich Indians in the top 1%, that is almost equal to the population of Belgium.

Currently, a humanitarian crisis is unfolding in India, where the poorest Indians have been returning to their homes by foot, in packed vehicles, hungry and cashless. However, due to the great inequality of cash, it will not be long before workers are forced to migrate back to cash-rich centres again, despite lockdowns and fears of a deadly virus.

When India begins to pick its pieces together, it will be looking at a grim situation where roughly a whopping one billion people of a population of 1.3 billion will be starting with zero or near zero cash. Much of this population is engaged in the informal economy; along with cash, they will also lose agency to negotiate for fair wages, decent working conditions, and basic human rights. Even for the struggling corporate sector, there is no good news. When their operations restart, nearly 50% of consumers will have no money to spend. The Indian economy is very likely to experience multidimensional pressures.

Given the dire economic situation, what I would like to propose is this: a social and economic argument to remonetise India. This would mean a direct cash transfer of 2.5-lakh crore just to replenish people's exhausted cash coffers.

Previous research has established that up to the 77th percentile population, Indians just consume what they earn. This also coincides with the findings in the 2016 Economic Survey (which also introduced the concept of Universal Basic Income) that population up to the 77th percentile does not have access to formal loans.

The 1.7-lakh crore stimulus package announced in India by the Finance Minister is well intentioned but poorly thought out. The increased entitlements of ration and the supply of free gas cylinders will help to bolster food security. However, if we consider the cash components such as the increase of 20 in Mahatma Gandhi National Rural Employment Guarantee Act wages or the transfer of 1,500 over three months via Jan Dhan accounts, it will barely compensate for the forced loss of jobs. The stimulus package then in no way addresses the imminent liquidity crisis forced upon one billion people.

Inequality reproduces more inequality. If a majority of Indians lose their cash reserves, they will fall into income traps where real wages will diminish and lost wages can only be recovered by longer working hours. Economist Joseph Stiglitz has argued that that it is not the differences in saving that cause the difference in income but the other way around, where incomes cause the difference in saving.

A targeted 2.5-lakh crore cash transfer will put money directly in the pockets and purses of the population up to the 87th percentile; 1.34 lakh crore will be for the poorest 500 million Indians, whereas 1.2-lakh crore will replenish the reduced cash reserves of the rest of the population up till the 87th percentile.

Now is the right time for the government to remonetise and make cash available through banks, automated teller machines and treasuries.

The government has to overlook its focus on cashless payments because the need of the hour is to allay people's anxieties. It should remember that in India, we still rely heavily on physical transactions and not cashless payments. As political philosopher G.A. Cohen said, "Lack of money induces lack of freedom, even if accept the identification of freedom with the absence of interference...money provides freedom because it extinguishes interference with access to goods and services."

Appu Esthose Suresh is Senior Fellow, Atlantic Fellows for Social and Economic Equity, London School of Economics

You have reached your limit for free articles this month.

Register to The Hindu for free and get unlimited access for 30 days.

Already have an account ? [Sign in](#)

Sign up for a 30-day free trial. [Sign Up](#)

Find mobile-friendly version of articles from the day's newspaper in one easy-to-read list.

Enjoy reading as many articles as you wish without any limitations.

A select list of articles that match your interests and tastes.

Move smoothly between articles as our pages load instantly.

A one-stop-shop for seeing the latest updates, and managing your preferences.

We brief you on the latest and most important developments, three times a day.

*Our Digital Subscription plans do not currently include the e-paper ,crossword, iPhone, iPad mobile applications and print. Our plans enhance your reading experience.

Why you should pay for quality journalism - [Click to know more](#)

Please enter a valid email address.

To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

Subscribe to The Hindu now and get unlimited access.

Already have an account? [Sign In](#)

Sign up for a 30-day free trial. [Sign Up](#)

To continue enjoying The Hindu, You can turn off your ad blocker or Subscribe to The Hindu.

[Sign up for a 30 day free trial.](#)

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com