Not for the nation

The monumental economic disaster unleashed on November 8, 2016, has done tremendous harm to the Indian economy. Initially, everyone welcomed the action as a resolve to fight black money and corruption. It is now clear that none of the original objectives was achieved. The government changed the goalposts and began talking of cashless and less-cash economy and even said that the real goal of demonetisation was digitalisation. The transition towards digital economy is perhaps unavoidable and we are already moving in that direction.

So what was the real objective? Was it the fight against black money, corruption and terror, or was it what Arun Jaitley said on August 30 (after RBI had revealed that 99 per cent of demonetised notes had come back), that "digitisation was one of the primary objectives of the entire exercise". And more importantly, was the prime minister on board about digitisation? When he addressed the nation on the D-day, did he tell the people of India the whole truth?

Global financial forces are constantly looking for new avenues of profit. There is a push to eliminate the use of physical currency, popularly called the global "War on Cash". The idea of forced digitalisation of the Indian economy by massive demonetisation was probably a part of this push. The network of international financial technology (fintech) corporations, payment sector organisation like the credit/debit card and mobile payment companies earn their revenue from the charges levied on digital transactions.

The issue of costs associated with these digital transactions gained momentum after the 2008 financial crisis. The US Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010). This Act sought to strengthen the financial regulation of card companies to protect consumer interest. An amendment was moved to this Act in 2011 by Senator Richard Durbin. The Durbin Amendment capped the commission charged by the card companies. This legislation was promptly challenged by the large banks, card issuing companies on one hand and over four million retailers led by Walmart on the other. In January 2015, the US Supreme Court upheld both the Durbin Amendment and the rules framed thereunder by the US Federal Reserve. As a result, card companies and banks collectively suffered a loss of approximately $15 billion annually. It is natural that these companies started actively looking for other markets. India, a large economy with virtually no framework of regulations of the digital economy and the payments industry, was a lucrative market.

As a pre-emptive reaction to the Dodd-Frank and Durbin initiatives, the US payments industry, fintech companies, their philanthropic associates and some development agencies of the US government came together and established an organisation called Better Than Cash Alliance (BTCA) in 2012. Members of the BTCA include Citi Foundation, Master Card, VISA Foundation, Bill and Melinda Gates Foundation, Ford Foundation, Omidyar Network and USAID. Its stated objective is to accelerate the transition from cash to digital payments globally.

When President Barack Obama visited India, Prime Minister Narendra Modi and he issued a Joint Communique on January 25, 2015. Para 12 of the Indo-US Joint Communique reads: "President Obama commended Prime Minister Modi's 'Jan-Dhan' scheme to prioritise financial inclusion… The Leaders noted India's intent to join Better Than Cash Alliance." Government of India, through the Ministry of Finance (MoF), formally joined the BTCA in September 2015.

Why would the US government use diplomatic pressure for India to join a trade organisation of credit/debit card and payments companies?

India's entry into BTCA kicked off many MoUs and "research reports" by various international entities in the payments sector, advocating benefits of digital economy for India. Some of these are: MoU between Govt of India and Better Than Cash Alliance (September 2015); MoU between Ministry of Finance and USAID to expand digital payments in India (November 2015); VISA report "Accelerating the Growth of Digital Payments in India" (October 2016); USAID and MoF establish an India specific entity called "Catalyst: Inclusive Cashless Payment Partnership" (October 2016).

The VISA report, which has a foreword by Amitabh Kant, CEO of NITI Aayog, claimed that the cost of cash placed a huge burden on the Indian economy equivalent to 1.7 per cent of GDP, and digital payments could save Indian economy around $10.4 billion over the next five years.

What is surprising is that many of these documents are not public, including many government records related to demonetisation such as the Cabinet note, RBI Board note, and the Minutes of the Meetings of the RBI Board meeting. RTI queries to obtain these were turned down.

So does it mean that digital transactions should not be permitted? Far from it, they should be welcomed. There are some conditions. One, the government must establish a fully empowered, statutory Digital Payments Regulatory Authority under the RBI, which will ensure minimum commissions to card companies. This was promised by the FM in his budget speech this year but nothing has happened so far. Two, we must ensure a high-speed, robust and safe communications network. Three, we must promote Indian credit card companies so the commissions do not go out.

The events prior to the D-day highlight the role of the multinationals which are waging a "War on Cash" and working behind the scenes to force digital transactions in India. The demonetisation decision was a result of these efforts. It caused grievous hurt to a billion people and considerably slowed GDP growth. It was aided and abetted by a willing leadership eager to please the US and benefit a few multinationals. Only a full enquiry by a Joint Parliamentary Committee will establish the truth and save further damage.

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