A Well-Kept Open Secret: Washington Is Behind India's Brutal Demonetization Project

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India-Pakistan relations are in crisis. The Indian people have been impoverished by PM Modi's neoliberal agenda.

Elections are forthcoming in India.

This carefully research article reveals the working of this corrupt monetary policy agenda.

Will Prime Minister Modi's demonetization policy –which has contributed to impoverishing millions of people– be an issue in the election campaign?

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In early November 2016, without warning, the Indian government declared the two largest denomination bills invalid, abolishing over 80 percent of circulating cash by value. Amidst all the commotion and outrage this caused, nobody seems to have taken note of the decisive role that Washington played in this. That is surprising, as Washington's role has been disguised only very superficially.

US-President Barack Obama has declared the strategic partnership with India a priority of his foreign policy. China needs to be reined in. In the context of this partnership, the US government's development agency USAID has negotiated cooperation agreements with the Indian ministry of finance. One of these has the declared goal to push back the use of cash in favor of digital payments in India and globally.

On November 8, Indian prime minster Narendra Modi announced that the two largest denominations of banknotes could not be used for payments any more with almost immediate effect. Owners could only recoup their value by putting them into a bank account before the short grace period expired. The amount of cash that banks were allowed to pay out to individual customers was severely restricted. Almost half of Indians have no bank account and many do not even have a bank nearby. The economy is largely cash based. Thus, a severe shortage of cash ensued. Those who suffered the most were the poorest and most vulnerable. They had additional difficulty earning their meager living in the informal sector or paying for essential goods and services like food, medicine or hospitals. Chaos and fraud reigned well into December.

Four weeks earlier

Not even four weeks before this assault on Indians, USAID had announced the establishment of „*Catalyst*: Inclusive Cashless Payment Partnership“, with the goal of effecting a quantum leap in cashless payment in India. The press statement of October 14 says that *Catalyst* “marks the next phase of partnership between USAID and Ministry of Finance to facilitate universal financial inclusion”. The statement does not show up in the list of press statements on the website of USAID (anymore?). Not even filtering statements with the word “India” would bring it up. To find it, you seem to have to know it exists, or stumble upon it in a web search. Indeed, this and other statements, which seemed rather boring before, have become a lot more interesting and revealing after November 8.

Reading the statements with hindsight it becomes obvious, that *Catalyst* and the partnership of USAID and the Indian Ministry of Finance, from which *Catalyst* originated, are little more than fronts which were used to be able to prepare the assault on all Indians using cash without arousing undue suspicion. Even the name *Catalyst* sounds a lot more ominous, once you know what happened on November 9.

Catalyst’s Director of Project Incubation is Alok Gupta, who used to be Chief Operating Officer of the *World Resources Institute* in Washington, which has USAID as one of its main sponsors. He was also an original member of the team that developed *Aadhaar*, the Big-Brother-like biometric identification system.

According to a report of the Indian *Economic Times*, USAID has committed to finance Catalyst for three years. Amounts are kept secret.

Badal Malick was Vice President of India’s most important online marketplace Snapdeal, before he was appointed as CEO of *Catalyst*. He commented:

> Catalyst’s mission is to solve multiple coordination problems that have blocked the penetration of digital payments among merchants and low-income consumers. We look forward to creating a sustainable and replicable model. (…) While there has been (…) a concerted push for digital payments by the government, there is still a last mile gap when it comes to merchant acceptance and coordination issues. We want to bring a holistic ecosystem approach to these problems.

Ten months earlier

The multiple coordination problem and the cash-ecosystem-issue that Malick mentions had been analysed in a report that USAID commissioned in 2015 and presented in January 2016, in the context of the anti-cash partnership with the Indian Ministry of Finance. The press release on this presentation is also not in USAID’s list of press statements (anymore?). The title of the study was “Beyond Cash”.

“Merchants, like consumers, are trapped in cash ecosystems, which inhibits their interest” in digital payment it said in the report. Since few traders accept digital payments, few consumers have an interest in it, and since few consumers use digital payments, few traders have an interest in it. Given that banks and payment providers charge fees for equipment to use or even just try out digital payment, a strong external impulse is needed to achieve a level of card penetration that would create mutual interest of both sides in digital payment options.

It turned out in November that the declared “holistic ecosystem approach” to create this impulse consisted in destroying the cash-ecosystem for a limited time and to slowly dry it up later, by limiting the availability of cash from banks for individual customers. Since the assault had to be a surprise to achieve its full catalyst-results, the published *Beyond-Cash*-Study and the protagonists of *Catalyst* could not openly describe their plans. They used a clever trick to disguise them and still be able to openly do the necessary preparations, even including expert hearings. They consistently talked of a regional field experiment that they were ostensibly planning.

“The goal is to take one city and increase the digital payments 10x in six to 12 months,” said Malick less than four weeks before most cash was abolished in the whole of India. To not be limited in their preparation on one city alone, the *Beyond-Cash*-report and *Catalyst* kept talking about a range of regions they were examining, ostensibly in order to later decide which was the best city or region for the field experiment. Only in November did it became clear that the whole of India should be the guinea-pig-region for a global drive to end the reliance on cash. Reading a statement of Ambassador Jonathan Addleton, USAID Mission Director to India, with hindsight, it becomes clear that he stealthily announced that, when he said four weeks earlier:

> India is at the forefront of global efforts to digitize economies and create new economic opportunities that extend to hard-to-reach populations. Catalyst will support these efforts by focusing on the challenge of making everyday purchases cashless.

Veterans of the war on cash in action

Who are the institutions behind this decisive attack on cash? Upon the presentation of the *Beyond-Cash*-report, USAID declared: “Over 35 key Indian, American and international organizations have partnered with the Ministry of Finance and USAID on this initiative.” On the website catalyst.org one can see that they are mostly IT- and payment service providers who want to make money from digital payments or from the associated data generation on users. Many are veterans of,what a high-ranking official of Deutsche Bundesbank called the “war of interested financial institutions on cash” (in German). They include the Better Than Cash Alliance, the Gates Foundation (Microsoft), Omidyar Network (eBay), the Dell Foundation Mastercard, Visa, Metlife Foundation.

The Better Than Cash Alliance

The Better Than Cash Alliance, which includes USAID as a member, is mentioned first for a reason. It was founded in 2012 to push back cash on a global scale. The secretariat is housed at the United Nations Capital Development Fund (UNCDP) in New York, which might have its reason in the fact that this rather poor small UN-organization was glad to have the Gates-Foundation in one of the two preceding years and the Master-Card-Foundation in the other as its most generous donors.

The members of the Alliance are large US-Institutions which would benefit most from pushing back cash, i.e. credit card companies Mastercard and Visa, and also some US-institutions whose names come up a lot in books on the history of the United States intelligence services, namely Ford Foundation and USAID. A prominent member is also the Gates-Foundation. Omidyar Network of eBay-founder Pierre Omidyar and Citi are important contributors. Almost all of these are individually also partners in the current USAID-India-Initiative to end the reliance on cash in India and beyond. The initiative and the Catalyst-program seem little more than an extended Better Than Cash Alliance, augmented by Indian and Asian organizations with a strong business interest in a much decreased use of cash.

Reserve Bank of India's IMF-Chicago Boy

The partnership to prepare the temporary banning of most cash in India coincides roughly with the tenure of Raghuram Rajan at the helm of Reserve Bank of India from September 2013 to September 2016. Rajan (53) had been, and is now again, economics professor at the University of Chicago. From 2003 to 2006 he had been Chief Economist of the International Monetary Fund (IMF) in Washington. (This is a cv-item he shares with another important warrior against cash, Ken Rogoff.) He is a member of the Group of Thirty, a rather shady organization, where high ranking representatives of the world major commercial financial institutions share their thoughts and plans with the presidents of the most important central banks, behind closed doors and with no minutes taken. It becomes increasingly clear that the Group of Thirty is one of the major coordination centers of the worldwide war on cash. Its membership includes other key warriers like Rogoff, Larry Summers and others.

Raghuram Rajan has ample reason to expect to climb further to the highest rungs in international finance and thus had good reason to play Washington's game well. He already was a President of the American Finance Association and inaugural recipient of its Fisher-Black-Prize in financial research. He won the handsomely endowed prizes of Infosys for economic research and of Deutsche Bank for financial economics as well as the *Financial Times*/Goldman Sachs Prize for best economics book. He was declared Indian of the year by NASSCOM and Central Banker of the year by *Euromoney* and by *The Banker*. He is considered a possible successor of Christine Lagard at the helm of the IMF, but can certainly also expect to be considered for other top jobs in international finance.

As a Central Bank Governor, Rajan was liked and well respected by the financial sector, but very much disliked by company people from the real (producing) sector, despite his penchant for deregulation and economic reform. The main reason was the restrictive monetary policy he introduced and staunchly defended. After he was viciously criticized from the ranks of the governing party, he declared in June that he would not seek a second term in September. Later he told the New York Times that he had wanted to stay on, but not for a whole term, and that premier Modi would not have that. A former commerce and law Minister, Mr. Swamy, said on the occasion of Rajan's departure that it would make Indian industrialists happy:

> I certainly wanted him out, and I made it clear to the prime minister, as clear as possible. (…) His audience was essentially Western, and his audience in India was transplanted westernized society. People used to come in delegations to my house to urge me to do something about it.

A disaster that had to happen

If Rajan was involved in the preparation of this assault to declare most of Indians' banknotes illegal – and there should be little doubt about that, given his personal and institutional links and the importance of Reserve Bank of India in the provision of cash – he had ample reason to stay in the background. After all, it cannot have surprised anyone closely involved in the matter, that this would result in chaos and extreme hardship, especially for the majority of poor and rural Indians, who were flagged as the supposed beneficiaries of the badly misnamed "financial-inclusion"-drive. USAID and partners had analysed the situation extensively and found in the *Beyond-Cash*-report that 97% of transactions were done in cash and that only 55% of Indians had a bank account. They also found that even of these bank accounts, "only 29% have been used in the last three months".

All this was well known and made it a certainty that suddenly abolishing most cash would cause severe and even existential problems to many small traders and producers and to many people in remote regions without banks. When it did, it became obvious, how false the promise of financial inclusion by digitalization of payments and pushing back cash has always been. There simply is no other means of payment that can compete with cash in allowing everybody with such low hurdles to participate in the market economy.

However, for Visa, Mastercard and the other payment service providers, who were not affected by these existential problems of the huddled masses, the assault on cash will most likely turn out a big success, "scaling up" digital payments in the "trial region". After this chaos and with all the losses that they had to suffer, all business people who can afford it, are likely to make sure they can accept digital payments in the future. And consumers, who are restricted in the amount of cash they can get from banks now, will use opportunities to pay with cards, much to the benefit of Visa, Mastercard and the other members of the extended Better Than Cash Alliance.

Why Washington is waging a global war on cash

The business interests of the US-companies that dominate the gobal IT business and payment systems are an important reason for the zeal of the US-government in its push to reduce cash use worldwide, but it is not the only one and might not be the most important one. Another motive is surveillance power that goes with increased use of digital payment. US-intelligence organizations and IT-companies together can survey all international payments done through banks and can monitor most of the general stream of digital data. Financial data tends to be the most important and valuable.

Even more importantly, the status of the dollar as the worlds currency of reference and the dominance of US companies in international finance provide the US government with tremendous power over all participants in the formal non-cash financial system. It can make everybody conform to American law rather than to their local or international rules. German newspaper Frankfurter Allgemeine Zeitung has recently run a chilling story describing how that works (German). Employees of a Geran factoring firm doing completely legal business with Iran were put on a US terror list, which meant that they were shut off most of the financial system and even some logistics companies would not transport their furniture any more. A major German bank was forced to fire several employees upon US request, who had not done anything improper or unlawful.

There are many more such examples. Every internationally active bank can be blackmailed by the US government into following their orders, since revoking their license to do business in the US or in dollars basically amounts to shutting them down. Just think about Deutsche Bank, which had to negotiate with the US treasury for months whether they would have to pay a fne of 14 billion dollars and most likely go broke, or get away with seven billion and survive. If you have the power to bankrupt the largest banks even of large countries, you have power over their governments, too. This power through dominance over the financial system and the associated data is already there. The less cash there is in use, the more extensive and secure it is, as the use of cash is a major avenue for evading this power.

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