

18

DEMONETIZATION IN INDIA AND ITS EFFECTUATIONS

Dr. Rajiv Kumar Agarwal

Assistant Professor, PG Dptt of Commerce &
Research Studies, Vardhman College, Bijnor

Dr. Divya Jain

Assistant Professor, PG Dptt of Commerce &
Research Studies, Vardhman College, Bijnor

Abstract

In Monetary Policy, Demonetization is an established practice to tackle black money. Demonetization is a generation's memorable experience and it has become one of the economic events of our time. In the past, demonetization has taken place twice but it could not be success because the idea is to tackle the black money existing in circulation. Neither it has not tackled the corruption nor has the Government been stated to tackle 100% corruption. If announcement and time would have been given, this step might not have been successful in controlling black money and counterfeit currency in circulation coming from countries like Pakistan, Nepal etc. This research paper is an effort to spotlight a study on the effectuations of Demonetization in India. The term "demonetization" not only ruled the nation after demonetizing the high value currency but also listed out the features of the new currencies, merits and demerits of demonetizations. I have made an attempt to make a clear vision about it and its importance. The article not only suggests some tips to common people to manage the toughest period of demonetization but also give a clear picture of the demonetization alongwith the steps taken by our Government to reduce the trauma of common people.

Keywords: Demonetization and its Impact on Indian Economy, Liquidity, Inflation

Introduction

In India, demonetization is the hottest topic to discuss nowadays. Although the idea of demonetization is good but it should be remembered in mind that most of the black money is kept in the form of land, buildings or gold or kept abroad. Only 4% of the total amount of black money on which taxes are not being paid is constituted in cash. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step. Small farmers, sellers, merchants, daily wage labourers and traders were suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. A huge no of 100 Rupee notes and other smaller denomination notes should be piled up in the market before taking this step. On nov 8 PM Modi said in his speech that this demonetization will have long term impact on our economy and will reap

benefits in protracted tenure as it takes on 3 impediments to growth i.e. corruption, black money and counterfeit currency. To explain demonetization 3way approach has been adopted i.e. what, why and how.

MEANING OF DEMONETIZATION

The Process of retiring and replacing the old unit of currency with new currency unit is called demonetization. Demonetization is ending something as no longer the legal tender of a country such as currency notes. According to Merriam Webster Dictionary: The term "demonetization" has its root word from verb "demonetize". It is a transitive verb which has various meanings as followed:

1. To stop using (a metal) as a monetary standard
2. To deprive of value for official payment

"Demonetization" was originated in French "demonetizer" de - + Latin Moneta coin and was first used in 19th Century, i.e. 1852. In

fact, Demonetization is not only the process of removing old currency from general usage or circulation but also an act of stripping a currency unit of its status as a legal tender. In other words, demonetization is killing of currency notes aimed at halting its circulation in an economy. This type of action was taken by Zimbabwe government to decapitate hyper inflation because at that time a person had to carry bundle of notes along with him to buy a loaf of bread. To counter such a situation Zimbabwe government decided to kill the currency. In the words of former finance minister P Chidambram Indian demonetisation is Half Demonetization, because it is not exactly killing of currency. Technically, this move of government is only exchange of old currency notes with new currency notes. In Indian parlance it has been considered as a demonetization. But now the question arises why this type of demonetization was adopted and what was the need for demonetization?

WHY DEMONETIZATION?

During 2011-2016, the circulation of

all currency denominations i.e. Rs 5, 10, 50, 100, 1000 was increased by 40, circulation of Rs 500 has been increased by 76% and circulation of Rs 1000 was increased by 109% but our economy has grew by only 30 % which is perturbing. It shows a disproportionate increase of high denomination notes. According to the RBI on March 2016, the money in circulation was Rs 16,415 billion out of which 500 denomination notes was accounted for 47.8% and Rs 1000 notes accounts for 38.6 %. It is clear that Rs. 500 and 1000 notes accounts for more than 86% which has a clear cut indication of disproportionate increase of high denomination notes. Now, a question arises why only Rs 500 and 1000 currency was targeted? The answer is quiet dumbfounding. If we follow the statement of Financial Action Task Force, it may expound high value currency notes for worthless peril such as human trafficking, money laundering, racketeering, election campaign, capitation fees in colleges and institutions which fundamentally makes remarkable contribution towards black money due to conducting of all these perils in high denomination notes because it is easy to stack and carry. It may be explained with the help of following example:-

Five states like Punjab, Haryana, Uttar Pradesh etc. were to be held in 2017. During such tenure, some political personalities might buy votes from a certain section of society to get their patronage in elections. Let us assume there is a political party in Punjab name "X".

In this party there is a person, Mr. "Mahesh". Mr. Mahesh is passionate torment with power and wants to come into power by fair means or foul so he decided to buy votes from people by distributing Rs 5000 to each person. Now these 5000 would be paid in denominations of Rs 500 or 1000, it will accounts for black money due to being paid in high denominations and evading tax. This demo move of government was apocalyptic

to depredate all worthless perils which are being conducted in high denomination notes; in fact, it is the basic reason behind the multifold increase in the circulation of high denomination notes of Rs 500 and 1000.

OBJECTIVES

1. To explain the concept of demonetization in India.
2. To perceive the actual quantum of currency in circulation.
3. To perceive the conversion period of currency interchanging.
4. To examine the impact of black money and fake currency on Indian economy.
5. To Digitalize the Economy of India.
6. To pinpoint the people's impact on demonetization.

METHODOLOGY

The source of this paper is gleaned from a collection of articles by leading economists, frontlines of various national magazines and news papers tabloids, interviews from websites and television reportage etc.

NEED FOR THE STUDY

1. Due to accretion of the fake currency of Indian notes in higher denomination.
2. Due to manipulation of unaccounted money in form of corruption and illegal activities.
3. The Financial Action Task Force, a global body that glimpses at the criminal use of the international financial system, notes that high-value bills are used in money laundering schemes, racketeering, etc.,
4. The highest denomination note is essentially 50-100 times the smallest denomination note of one dollar or one pound.
5. In India, up until now the highest denomination note was Rs 1,000 and this was 1,000 times the smallest denomination note of Re 1 (Note: Re 1 notes are issued by the ministry of finance).

INFLUENCE OF DEMONETIZATION ON INDIA'S ECONOMY

Indian Government has demonetized the currency as a tool to fight against corruption and black money being the major problems in Indian economy. The present demonetizations have surely some effects on Indian economy. Some of the major effects of demonetization is being defined as under:-

Income Tax

As voluntary disclosure scheme was closed to disclose the undisclosed money, it was announced that government will have an adjacent watch on deposits over Rs 2 lakh in cash in various accounts. It was estimated to increase tax net, higher tax collection and a better tax to GDP ratio.

Outcome on Coequal Economy

A main objective of the demonetization was to fight against the black money in circulation in India. It was expected that this demonetization will block the black money within the economy because the owners of the black money (in the form of 500 and 1000 rupee notes) would not be able to replace it and deposit it in the banks due to the lack of proper document. Therefore, the coequal economy will affect to a greater extent and it was hoped that it will have the affirmative impact of demonetization.

Reduction in Interest rates

It was also believed that demonetization will also control high value transactions, especially land and gold, resulting in lower inflation, tempting the central bank to reduce interest rates.

Short Run Consequences on Money Supply

It was believed that money supply will be reduced in the market due to withdrawal of currency notes from circulation in the short run and the problem will be solved on circulation of new currency notes in large quantity in the market.

Goods and Service Tax

Demonetization was announced at an important tenure when the country heads to a new tax regime with the implementation of GST. It was guessed that demonetizations will increase the tax net on the one hand and GST will result in reduction of black money generation on the other hand.

Effect on Online Transactions & alternative modes of payment

It was supposed that there will be reduction in cash transactions and will seek alternative forms of payment. It will surely have substantial increase in demand of Digital transaction systems, E-wallets, mobile apps, UPI, net-banking, use of credit cards, debit cards online payments, usage of Plastic money etc. due to shortage of cash in hand.

GDP will short fall in the Short period

It was also assumed that GDP will be hurt due to the demonetization and may show a slight fall. The extent of fall will exist only for a short duration of time having a few affect on the growth of the Indian Economy.

Eradication of terrorism and Naxalism

It was also hoped that demonetization is a mighty blow on the unsocial affairs and will be able to control funding of unsocial affairs, smuggling etc. These unsocial activities have enfeebled the economy. Undoubtedly, It is an open secret that both terrorism and Naxalism run on knock-off notes coupled with black money.

Upshot on Other Units of the Economy

There will be short run impact of demonetization on agriculture, small traders, small vendors etc. because agriculturists are dealing with the perishable commodity, which have only one mode of payment i.e. cash transactions and lack of demand may affect the farmers negatively. The same situations may also be faced by the small traders as well as small vendors in short run.

ADVANTAGES OF

ADAPTATION OF DEMONETIZATION

1. Government will be able to demolish the black money permanently by taking follow up measurements.
2. Promoting Small vendors to use Apps and Card machines
3. Amplifying tax revenues, higher government capital expenditure
4. Divulging expenditure made by person to the tax authorities especially in large transaction
5. Uplifting the online payments,
6. Normalcy of Kashmir movement
7. "Digital India" initiated by our Prime Minister, Narendra Modi ji will be promoted and nation will certainly attain the aim of cashless economy.
8. Demonetization will not only check the use of black money for illegal activities like terrorism funding, gambling, money laundering but also reduce the inflation in the price of major assets classes like real estate, gold for a short period of time because it will take a lot of time to generate such huge black money again and hence in a way it will help in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities.
9. Criminal affairs such as bank robbery, chain snatching, theft activities etc will be reduced
10. People will disclose their income by depositing money in their bank accounts so that government will collect huge amount of tax revenue which may be used for the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society by the Government.

DISADVANTAGES OR DEMERITS OF

DEMONETIZATION

1. It have been reported that several people have died due to standing in queues for hours to exchange their old banknotes.
2. Demonetization created scarcity of cash which led to chaos, and people holding old banknotes has faced difficulties to exchange them because there was endless lines outside banks and ATMs across India, which became a daily routine for millions of people waiting to deposit or exchange the ₹500 and ₹1000 banknotes since 9 November.
3. Demonetization has become almost useless because the printing cost of new currency units is more than the destructing the old currency units and the same have to be borne by the government.
4. After announcement of demonetization in India around 800,000 truck drivers were affected with scarcity of cash.
5. People in the country gets to know about it than initially for few days there is chaos and frenzy among public, it will lead to law and order problem.
6. Due to demonetization it was forecasted by Global analysts that GDP growth rate will slump down
7. Demonetization mainly targeted black money but if people have not kept their black money as cash and rotated or used that money in other asset classes like real estate, gold and so on then demonetization will not be able to capture corrupt people
8. Petrol bunks announced that debit and credit cards would not be accepted since one percent of transaction fee was charged by Banks. Later it was permitted without charging any transactional tax for filling Petrol / Diesel in bunks
9. The biggest disadvantage of demonetization is that once people in the country gets to know about it than initially for few days there is chaos

and frenzy among public as everybody wants to get rid of demonetized notes which in turn sometimes can lead to law and order problem and chaotic situation especially in banks and ATMs which are the only medium to change the old currency units to new currency units.

TIPS FOR SUBSISTING UP WITH DEMONETIZATION

1. First priority should be given to preserve cash by buying only essential things postpone the big expenditure like repair works because they also need cash to be paid.
2. People must try to use debit card as far as possible at the time of purchasing in super markets or for bill payments.
3. People must not only use cheques in place of cash but also use fund transfer to their bank account through net banking
4. If you receive daily heavy cash, you will need the PAN card no to deposit the same in bank account for more than 50,000/- per day.
5. Long travel particularly for holidays should be avoided for short period of time because it need most often cash.
6. It is said that something is better than nothing so people must deposit cash in bank accounts and pay tax because paying tax is better than losing whole
7. People should not try to help other people to turn their black money to white because such people will be answerable to the tax authorities for the source for such amount of money in future.

CONCLUSION

Demonetization of rupee will have prons and cons. It is like a head and tail. In order to control the black money, it is necessary for the country to take methodology through which this can be controlled by swapping as well as by changing the denomination.

Governance is a big part of the problem of corruption and black money. According to Dr.Y.V.Reddy former governor of RBI “black money could be a manifestation of a broader problem of lack of mechanisms for enforcement of contracts between private parties and between government and private parties or even between the agencies within the public sector. More generally, it is possible that generation, perpetuation and multiplication of black money are merely a reflection of inappropriate loss and undermining such loss by the public institution themselves. How far are the three wings of the governance – legislative, executive and judiciary responsible for black money is the question. Hence this ban on the stock of high value notes must be followed up with strict enforcement against all sources and facilitators of corruption. The demonetization will surly help to get long term advantages:

If the black money is reduced, taxes will definitely leapfrog.

Developmental activities would pick up remarkably due to enhancement of the tax revenue.

Government may decrease rates of taxes and may raise notably more revenue with lower rates of taxes.

Corruption will be minimized due to having no/little black money to pay inducement to government officials.

Dowry and other social practices like extortionate marriages will certainly be decreased due to white economy.

Illegal activities like murder, kidnapping, drug-paddling, prostitution, terrorism etc. will certainly be minimized because all these activities need black money.

The honest people would live life of much more respect as dishonest would no longer

be flourishing their wealth for long time to come.

So, the Central government’s recent decision to demonetize the high value currency is one of the major steps to suppress black money in India. The demonetization drive will affect only some extent to the general public, but for larger interest of the country so certainly the decisions are inevitable. Also it may not eliminate black money fully, but definitely it has major impact in eliminating black money to large extent.

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