

## DEMONETIZATION: Is a Right move?

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### Abstract:

The Government of India has implemented a major change by demonetizing Rs 500 and Rs 1,000 notes which was applicable from midnight of 8<sup>th</sup> November, 2016 which meant that rupee 500 and 1,000 notes will be acceptable by only public organizations not by anyone else. Demonetization is a process by which a series of currency will not be a legal tender. The series of currency will not be acceptable as valid currency. The objective of this paper is to understand the concept of demonetization and its Impact on the economy and society. This was not the first time when Indian currency is demonetized, it was third time. Firstly notes were demonetized in the year 1946, secondly in the year 1978 and this is the third time the notes are demonetized in the year 2016. In the year 1938 and 1954 the highest denomination note i.e. of Rs 1,000, Rs 5,000 and Rs 10,000 were printed by the reserve bank of India, which were demonetized in the year 1946 and 1978. In 2016, the Government of India demonetized Rs 500 and Rs 1,000 notes in place of which Rs 500 and Rs 2,000 new notes were printed by reserve bank of India. This time purpose of doing so by the Government is to control the black money, call for cashless India, National security and to avoid tax evasion. There was a different impact of demonetization taken place, of demonetization in the year 1946, 1978 and 2016. The first and the second time the decision of demonetization taken by the government of India failed due to some reasons. To some extent we can conclude that the step taken by the government this time of demonetization was much better than the first two times. A comparison can be made between the denominations of the note with annual per capital GDP.

**Keywords:** Demonetization, Cashless India, Economy

### Introduction:

The government of India has implemented a major change by demonetizing Rs 500 and Rs 1,000 notes which was applicable from midnight of 8<sup>th</sup> November, 2016 which

meant that rupee 500 and 1,000 notes will be acceptable by only organizations declared by government not by anyone else.

After hearing this news many questions aroused in the minds of people that what

will happen with the money held with them? From where, they will get the money to carry out their day to day activities? Is it good for the economy? Will it increase the GDP of the economy? Will the inflation be reduced? And so on.

The objective of this paper is to understand the concept of demonetization and its Impact on the economy and society. The main purpose of government of India for taking such a step is to reduce black marketing, currency storage, corruption, terrorism and so on. People were given time to exchange the notes held by them upto 30<sup>th</sup> December, 2016. The main problem which was faced by people after such a step of the government was that there were limits on the amount that an individual can withdraw because of which they had to stand in large quos for getting money for carrying out there daily necessity needs. But there was a hope that in the upcoming time the situations will come to normal. This bought a major change in the economic environment of India. The government has asked people to eliminate the existing currency of Rs 500 and Rs 1,000 notes and replace this currency with the new currency of Rs 500 and Rs 2,000 printed by reserve bank of India which was introduced in India for the first time. This was not the first time

when Indian currency is demonetized, it was third time. Firstly notes were demonetized in the year 1946 and secondly in the year 1978. In the year 1938 and 1954 the highest denomination note i.e. of Rs 1,000, Rs 5,000 and Rs 10,000 were printed by the reserve bank of India, which were demonetized in the year 1946 and 1978.

### **Definition of Demonetization:**

Demonetization is a process by which a series of currency will not be a legal tender. The series of currency will not be acceptable as valid currency.

### **Objectives of demonetization:**

#### **1. To control the black money:**

It was a major step taken by the government, to track the persons who have black money. Now, before we proceed further, we have to understand the concept of black money. Black money refers to illegal earning from illegal sources which has not disclosed to the government. It is the currency of black economy. The purpose of this was to eliminate the existing notes from the circulation and gradual replacement with the new the new notes i.e. Rs 500 and Rs 2,000.

## **2. Call for cashless India:**

Demonetization will result in use of cashless transactions, online transactions, virtual wallets such as paytm/ola money etc. This can play as a game changer in the whole economy.

## **3. National security:**

Demonetization measures can easily dismantle the system of fake Indian currency notes, as these were used as an funding of terror network in many states of Jammu and Kashmir, North-eastern.

## **4. To avoid tax evasion:**

Another objective for doing so was to track the people who have not paid their tax amount and take actions against them. By this step of government the people who had black money had to deposit their money in the banks by which they had to pay tax to convert their black money to white money.

### **History of the Impact of Demonetization on the Economy:**

During the first time, On 1<sup>st</sup> January, 1946 the government of India demonetized Rs 500, Rs 1,000 and Rs 10,000 rupees with a

view of reducing black money in the economy. During this people were under great shock and they had to stand in long lines at banks to get money but people were given appropriate time to exchange the currency held with them, and the old notes were sold out at 60 and 70 per cent of their prices. There was a rumor also that Rs 100 notes will also be demonetized too, hearing this people started to panic and they too discarded their Rs 100 notes also.

In the year 1978, it was the second time that government of India demonetized Rs 1,000, Rs 5,000 and Rs, 10,000 notes in the year 1978. People were given time to exchange the currency held with them. This was done keeping the main aim of reducing black money in the economy. It was termed as “an act to provide in the public interest for the demonetization of certain high denomination bank notes and for matters connected therewith or incidental thereto.”

When the Government of India took the decision of demonetization the currency during the year 1946 for the first time and in the year 1978 for the second time, the high value notes which formed a part of the notes in circulation was affected at large. Demonetization failed during both years. The reason behind this was that the notes

which were demonetized were too large for the size of the economy and black economy may have not used the high value notes.

Currently, in the year 2016, it was for the third time, that the government of India took the decision of demonetizing the notes of Rs 500 and Rs 1,000 on 8<sup>th</sup> November. People were at once shocked hearing this news but people can easily switch as there was better mechanisms this time. This action of the government was considered better and successful as it was preceded logically as no strategy can succeed without proper systems in place.

#### **Reforms during implementation of current Demonetization:**

- 1) First step was to introduce Aadhar card in the economy as an identity proof and it was necessary for every citizen of India.
- 2) Second step was to link up this Aadhar card with the bank accounts and then for LPG.
- 3) Third step was to open Jan-Dhan account has opened across the India
- 4) Now people can transfer money easily through SMS.

Demonetization has different impact on different classes i.e. the upper class, medium class and labour class.

#### **Impact on Upper class:**

The upper class people being it customers or retailers were not affected adversely, as they were already used to cashless and online transactions. Those people who had black money stored with them, they either had to disclose that money and convert the black money to white money by paying tax or either they had to burn out that money. For such black money transactions, people can deposit the money into bank and withdraw cash after five months but tax rate would be changed on the amount deposited to the bank. This guideline was framed to prevent money laundering act. As per the RBI rule, every withdrawal needs PAN card for reference. Further, it was instructed to every bank manager to file details of weekly and monthly cash transactions. This all benefited tax authorities.

#### **Medium class:**

The retailers and customers of medium class both were adversely affected by the step taken by the Government of India. They were not too much used to cashless and online transactions, people had to stand in

long queues in front of banks and ATM lines to get cash for their daily needs. There were limits set on the amount to be deposited to the bank and even the limit was set on the amount that an individual person can withdraw from bank and from ATM, but there was no limit on credit card transactions and online transactions, as the main aim of this was to move people towards cashless transactions. Weekly an individual was allowed to withdraw Rs 24,000 from their bank account from bank and 2,000 daily from ATMs. Later the limits were increased after the circulation of money was increased, but still people faced problems in getting money. But by this, most of the people have now been shifted to cashless and online transactions, which have fulfilled the objective of the Government.

#### **Labour class:**

Due to the step taken by the Government of India, for demonetization the labour class people were affected the most, they people were uneducated and illiterate due to which they were not able to move toward cashless and online transactions. Further, this class has faced the problem with the high currency, lower currency notes were not available in the market and these people are daily wagers, in day time they earn the

money and in evening they spent the money for their food, but due to the non-availability of the currency with them, they had to go to bed empty stomach.

#### **Conclusion:**

It can be concluded from the above study that the decision taken by Government this time was much better to some extent than the first and the second time as people of India had many alternatives which were not available earlier. If we compare the denomination of the note with the annual per capita GDP, we can conclude that India's per capita GDP in 1960 was Rs. 400, in 1978, it was increased and it was Rs. 1722, if we will talk about the today's scenario, then it is Rs. 103000. Thus, in 1960, a 1000 rupee note was 2.5X and in 1978, it was 0.5X per capita GDP, considerably easy to withdraw. Another aspect is that the Rs. 500 and Rs. 1000 currency notes represents 85% of physical money in circulation. Earlier, it was less in comparison.

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