

# A COMPARATIVE STUDY ON DEMONETIZATION WITH REFERENCE TO INDIAN ECONOMY

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## **Abstract:**

Demonetization is an act of withdrawing of a form of currency from its circulation as a legal tender. This is a standard practice followed by all major economies of the world for different reasons. Central government declared five hundred and one thousand-rupee notes will no longer be legal tender from midnight, 8th November 2016. It is an attempt to combat corruption and black money by PM Modi. This paper deals with the impact of demonetization in Indian economy, business and people's life specially in unorganized sector. Although, this paper also speaks about voice of the people and conclude with some interesting recommendations and suggestions.

**Keywords:** Demonetization, Cashless India, Corruption, Finance, Black Money

**Objectives of Paper:** To focus on the impact of demonetization in Indian economy and to study the impact of demonetization on common people of India.

**Research Methodology:** The paper is based on secondary data collected from internet, newspapers, magazines and journals.

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## **1. Introduction**

Demonetization is an act taken by the government in to denuding Currency status as legal tender. It occurs when the government adjudicates change of National currency. The current form of currency notes or coins ceases to recognize as a legal tender of the country. Often Remonetize where a form of payment method replaces the old currency with new currency. The process of remonetisation is opposite to demonetization, where there is restoration of legal status. There are multiple reasons why nations demonetize their currencies as a legal tender, such as to combat inflation, to combat corruption and crime, to encourage digital payment method, to facilitate trade etc.

## **2. Background**

In the world history, one can see several instances of the demonetization which were implemented in various countries of the world. The origin of demonetization can be traced in United States where The Coinage Act of 1873 demonetized silver as the legal tender later in 1878 due to pressure from farmers and silver miner and refiners remonetizes silver as legal tender. Apart from United States many countries like Britain, Ghana, Nigeria, Myanmar, Congo, North Korea and Russia also ceases to recognize their existing currency as legal tender through act of demonetization. Many of these countries accepted the policy of demonetization which was targeted to make the country's failing economy strong and India is no exception to it.

### **3.1 Demonetization in India**

In India, the first move demonetization occurred in year 1946 under Pandit Jawahar Lal Nehru rule of the interim government. The government through this campaign collected Rs.134 crore of the total Rs.143 crore circulated in the market only Rs.9 crore was not exchanged hence demonetized. Following, the second demonetization took place in 1978 during the reign of Morarji Desai. When government appointed Wanchoo committee and decided to recall Rs. 1,000, Rs 5,000 and Rs. 10,000 notes entirely from Indian market as country was going through difficult phase due to 1965 war.

Thereafter, November 8<sup>th</sup>, will always remarkable as "Anti-Black Money Day" in the history of Nation. On this day year 2016, our Honorable Prime Minister Shri Narendra Modi made an unprecedented speech on the National Television declaring demonetization by withdrawing status as Legal tender of Rupees 500 and 1000 denomination currency notes in India. Moreover, technologically advanced currency notes of denomination 500 and 2000 has been welcomed in the system from 10<sup>th</sup> November 2016 onwards. This step of PM Modi is to make Surgical strike on all the black money holders and tax evaders with the objective to curb black money, corruption and fight the terrorism.

### **3.2 Parliamentary process**

The Specified Bank Notes (Cessation of Liabilities) Bill, 2017 was introduced in Lok Sabha on February 3, 2017. The Bill replaces the Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016 promulgated on December 30, 2016. The Bill provides that the currency notes

in denomination of Rs.500 and Rs.1000 ceases to be liability of Reserve Bank of India. Furthermore, these Currency notes will no longer be guaranteed by the central government. Demonetizing these notes was not that simple. The notification has been issued under the RBI Act, 1934. The notification had allowed these notes to be deposited in banks or post offices by December 30, 2016. The bill also talks about grace period to deposit money, verification of claims (to decide whether the reason for delay in depositing the specified bank notes are genuine), punishment for false declaration, prohibition and punishment related to specified notes, offence by companies and authority to impose fine is given Magistrate of the First Class or the Court of a Metropolitan Magistrate to impose Any fine for contravening provisions of the Bill.

### **3.3 Move by Reserve Bank of India**

The Reserve Bank of India, said that the scheme to withdraw these currency notes is introduced to stop circulation of fake Indian currency notes which continues to be a menace. To remain India a cash based economy the new currency notes has been circulated in the market. Government also ensures long term development and securing India's future and promoting brand India. Meanwhile, 200 Rupees currency note also introduced in market to address liquidity issue in the Market. RBI also says that the money comes to the system doesn't mean that all of them are legitimate. The black money holders were most affected by the decision, several implications were also faced by average middle-class person, farmers, banks and the economy as a whole. The inconvenienced were caused to the common man was only due to the short span of time to get these currency notes exchange and deposit in banks and post office. Certain operational guidelines were issued by Reserve bank of India in order to implement the decision of the government, keeping in view the need to minimize inconvenience of the people. RBI limits the exchange of old high-denomination bank notes of aggregate value up to 4000 in the bank as well as in post offices. The exchange process was supposed to close on 30<sup>th</sup> December 2016. Government also made an exemption in petrol, gas and CNG stations, government hospitals, railway and air booking counters, state government recognized dairies and ration stores and crematoriums were to accept 500 and 1000 banknotes till 24<sup>th</sup> November 2016. Although the guidelines have been altered frequently depending on the changing circumstances in the country. Far ahead, the decision of prime minister is praiseworthy to not to levy toll tax to keep the economy on right track, it helped a lot to the road transport.

### 3.4 Impact of Demonetization

The “monetary Swachh Bharat Abhiyan” have tremendous achievements so far, where number of tax payers have increased from 2.22 crore to 2.79 crore and more tax evaders will be tracked soon, the effect of demonetization is also clearly visible in the growth in direct tax collections up to 41.79% (other than corporate Tax). Moreover, the number of Jan Dhan accounts rose by 2.26 crore after note ban, more than 99% of banned notes back in banking system. Citizens have declared their undeclared assets with increasing fines, lakhs of shell firms detected and infinite number of Benami properties identified. Rapid growth rate has been instituted in digital and e-wallet transaction this resulted in monitoring the transaction of the people and helping government to identify potential wrongdoer through their precise account statements. Also, less terrorist activities have reported after demonetization. Further activities such as espionage, smuggling of arms, drugs and other contrabands into India got reduced. This move made an extreme difficulty for the law breakers and the corrupt to carry out tax evasion, financial crime and money laundering. It has also improved the banking system, led to reduce Interest rate, raised the investment in real-estate sector and increased the trust in International market and Foreign Direct Investment.

### 3.5 Voice of the people

Nonetheless, the move to demonetization was hailed by Citizens of India. Even businessmen, bankers and politicians have welcomed the move, as Indians hate corruption which is always a barrier to the development of Nation. Country has changed after 70 years of Independence, this is the first time in history where every citizen contributed in the revolution for transforming India. “Jan Bhagidari” were Indians stood with Prime Minister in the battle for new and never seen India. Indians proved that they would not hesitate to take the toughest measures in the interest of the nation. Government also ensures the people that they will broke those who threatened National security, people of India have a strong faith on the Modi Government and his ideologies whose main agenda is to uproot terrorism, corruption free good governance and caring and considerate governance not beyond the principles of democracy “government of people, by the people & for the people”. Note ban was a setup to formalize the economy by getting down to the source and flow of funds that were slashing around in informal sector. Calling demonetization, a big scam or organized loot will be a bit of exaggeration and sheer politics.

#### **4. Suggestions and recommendations**

The mission to curb black money cannot be accomplished only through demonetization. Retaining money in the form of cash is just one way to hold black money, black money holders have retained those money not in the form of cash but also in the form of gold, Benami properties, Swiss bank accounts, Investment in real estate & foreign market and various illegal means. To curb all the black money from these sectors the strong government squad is required with various powers.

The government should also increase the number of officers through recruitment in revenue department. This battle requires both prevention and cure to strengthen the participative nature. This era is surrounded with various technologies, it plays a role of basic need of people. Government should launch various programs and schemes to serve these technologies to every person as India has changed the way to cashless economy. Illiteracy has always lead to slow development, education and training should be provided to the people mostly in tribal and rural areas. Moreover, standard advertisement on Television and special programs on FM radio should be launched.

There is also a need to improve banking system and Reserve bank of India should take necessary steps to improve the transaction system. Compulsory e-payment policy should be implemented in urban areas. Moreover, one account – one mobile number policy to be enforced, along with abolition or link all multiple accounts of individual to one account is to be done through secret surgical strike.

Moreover, several amendments in penal code is necessitated to increase the quantum of punishment of the law breaker through merciless means along with separate procedural laws is to be made for trial of accused person in case of (bribe, corruption, tax evading, retainment of black money and other severe offences).

#### **5. Conclusion**

Initiatives of the government is expected to make it extremely difficult for the law breakers and the corrupt to carry out tax evasion, financial crime and money laundering. However, the success of this “war against corruption” can be scaled in future after implementation of suggested changes in the laws and system. On the other hand, tax evader finds loop holes in the legal system to evade tax. This wasn’t enough. Demonetization has affected almost majority of us. The unorganized sector has suffered a lot. But this move has enjoyed by big Industries



as India is moving through cashless economy. There was lacuna due to political pressure in implementing the policy and could have been better organized.

The Indian economy is moving towards cashless economy “Digital India”, the mechanism should be set to regulate the income from business and industrial sector. This help’s in accounting proper estimates of money transactions. Moreover, the move of demonetization will lead to accounting tax compliance, lesser corruption, lower inflation, detection of fake currency and highly expectable for sustainable growth in near future.

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