

## DEMONETIZATION AND ITS IMPLICATIONS

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### ABSTRACT

The popular saying of Socrates “If an individual get married and luckily have a good wife the individual can lead a happy life. Unluckily, in case the individual have a rude wife, the individual becomes a philosopher” In the present scenario when the economic status of the nation is reviewed, the Socrates’s above popular saying seems quite relevant. Firstly, demonetization is used as an effective tool of economic surgery all over the world. Sometimes, central bank in order to reduce the inflation rates, demonetizes the higher denominated currency notes. Generally, such measures are taken when there is large circulation of black money. But, till today it is not still clear about the reasons and why the central government and Reserve Bank of India took up the decision of demonetization on 8<sup>th</sup> November, 2016. Generally, decision of demonetization is taken when the value of the currency deeply drops down. But it is perceived that, there existed no situation as such in the Indian economy at the time of implementation of demonetization. In fact when the decision of demonetization was taken up the condition of Indian Economy was quite healthier. The facts published in the newspaper on 09<sup>th</sup> November 2016 seem to be phenomenal. There were no boundaries for the happiness of the people. Mainly, the poor people were of the opinion that the demonetization prevents the economic support to the terrorism, curbs the circulation of fake currencies, unaccounted economy the root cause of poverty and other problems in India would be eradicated.

**KEYWORDS:** DEMONETIZATION

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### I. INTRODUCTION

It is evident that every citizen of India would not the incidence of 8<sup>th</sup> November 2016. On that particular day the currency notes of denomination Rs.1000 and Rs. 500 which contributed to 86% of the circulated currencies in India lost their legal tender and they were mere pieces of paper from midnight of 8<sup>th</sup> November 2016. On this day the circulation of notes of the above denominations were withdrawn. In other words, Rs. 500 and Rs. 1000 lost its promised face value and turned out to be just pieces of papers later on. The discharge of cancellation of currency notes resulted in creating havoc in India. The implementation of demonetization evinced many for and against debates.

In the background people talked that demonetization is the remedial measure taken up to curb terrorism, circulation of fake notes, accountability of unaccounted money, uprooting corruption etc. The Prime Minister in his address stated that impact of demonetization may cause some inconveniences to people and he also requested the people of the nation to “Tolerate these inconveniences for the well being of the nation”. Anticipating and extending their support to Prime Minister’s decision the citizens of India sustained all the problems and sacrificed their time and life standing in the queue at the bank to exchange the currencies for the nation’s good. On the other hand, the some of the popular economic scientists started criticizing the demonetization measure. The economists opined that demonetization is a destructive measure on the economical system which is truly based on trust. In terms of economy it was observed that from the past twenty years the nation was rapidly progressing. Popular economists, Noble Laureate Amrutyasen and Raghuram Rajan criticized that the demonetization will hamper the progress of the nation. Popular Economist and Former Prime Minister Manmohan Singh criticizing the demonetization process stated that “It is an organized loot and legalized robbery.”

## II. OBJECTIVES

Objectives of this article know the reasons for demonetization and its implications and know the impact of demonetization on common people.

## III. SOURCE OF DATA

This article is carried out on the basis of available secondary data sources. Data is collected from Kannada newspapers, writings of Dr. B.R Ambedkar's and various internet sources and various literatures are reviewed in writing this article.

## IV. BACKGROUND OF DEMONETIZATION

When the history of India is reviewed it is observed that British Government had demonetized the higher denominated currencies in 1946. In 1978 than Prime Minister Murarji Desai had demonetized the circulation of notes of denomination of Rs. 1000, Rs. 5000 and Rs. 10000 in order to restrict circulation of fake currency notes and unaccounted money. It is said that demonetization measures taken up at that time was successful. But demonetization process could not completely succeed in curbing unaccounted money and fake currency note circulation. In this situation, as a result of demonetization people did not face any problems because the demonetized currency which was in circulation was just 2%. Therefore, the impact of demonetization was very less and the public did not have to face much of the problems in managing their finances.

It is significant fact that demonetization of higher denomination currencies is a relevant measure to control the unaccounted money, inflation and corruption in the nation. It can be assumed that, as the circulation of demonetized currencies in the nation was only about 2% in 1978 it did not result to adverse situation. But on the contrary, in 2016 of the 17.9 Lakh Crores of currency notes in circulation in the nation 15.44 Lakh Crores of currency notes lost their legal tender.

Therefore, demonetization has adverse impact on the life of people and moreover the life of the poor was severely affected. The situation was as such that breast feeding mother feeding the infant all of sudden stopped breast feeding.

Here, one aspect has to be made clear that, in India only the governor of the Reserve Bank of India is entrusted the responsibility of printing and disbursing the currencies. Further the value of the currencies is also prescribed by the signature of the Governor of Reserve Bank of India. It is very unfortunate that Hon'ble Prime Minister all of sudden took a vital decision and announced the demonetization in the midnight without bringing the fact to the notice of the Reserve Bank of India too. It is hard to imagine of how would be the economic condition of the country with only less than 14% of total money. As a result of severe shortage of money various sectors of the country experienced huge loss. As soon as the old currencies lost its legal tender it was to be replaced by the equal amount of new currencies. But Reserve Bank of India was unable to meet the demands. It is evident that the demonetization was an act of urgency.

Whether the Reserve Bank of India was unaware that, this act of urgency will adversely affect the economy of the nation? On this occasion Prime Minister appealed to the people of India "to cooperate and tolerate the problems for 50 days and I will make the dream India come true".

## V. BLACK MONEY

There is a false conception that the money stored in the pillow cover or trunk buried in the ground is black money. In fact it is not true. According to the economical theory the untaxed unaccounted money stored and money gathered by illegal means is called as black money.

Demonetization process does not control the black money. It would not be true say that demonetization will stop the black economy because all the unaccounted money will not be in the form of cash. It is assumed that only 1% of the total unaccounted money is in the form of cash. As per the information provided by the Indian Direct Taxation department, the rest of the unaccounted money will be in the form of Real estate, gold, share holdings and anonymous property. The note ban initiative does not succeed in identifying these anonymous properties.

The Income Tax Department reports that the prevailing black money in the nation ranges between 4% and 6% only. As the cash loses its face value day by day and year by year, generally Indian citizens don't accumulate the property in the form of cash. Indian people of being aware of the fact that cash don't have permanent face value, invest the money in purchasing gold, market shares, real estate business and foreign currency exchange. In turn people apart from availing security on their investment, gains regular profit on their investment. As per the estimation of renowned economic scientist Prof. Arun Kumar only 1% of the wealth of an individual is in the form of cash. In other words only 1% of the income of an individual is invested in purchasing of shares, gold, real estate business etc. Presently of the 150 Crores of Gross Domestic Product (GDP) approximately 93 Million Crores is said to be illegal income. The illegal wealth may be at the most three times more which may range up to 300 Million Crores. It is possible to curb 1% of illegal wealth and 3% of the illegal income only If we succeed in completely eradicating this illegal wealth. But the people are smart enough to find the way to reutilize the 300 Million Crores of unaccounted money. In such situations the people invest the unaccounted money to purchasing gold, paying advance salaries to the employees, crediting in Jan Dhan bank account etc. In this circumstance only Rs. 50,000 or Rs. 75,000 of the unaccounted income can be restored. It is to be understood that, the unaccounted money cannot be completely eradicated. The amount of unaccounted money keeps increasing year by year.

In this background it is important to note another aspect that the unaccounted money prevailing in India is only 6% and the illegal property prevailing in India ranges to 94%. It is interesting here to note that the central government is more focussed on curbing 6% of the unaccounted money instead of focussing on curbing 94% of the unaccounted wealth and anonymous property. The demonetization move of the government is as if beating around the bush. Therefore, the demonetization measure has sacrifice whole of the economic system of India to eradicate the mere amount of black money. Moreover it is very unfortunate that neither the Central government nor the Reserve Bank of India is giving clarification about the amount of seized black money after the implementation of Demonetization.

50% of the property of India is with 1% of the top rich peoples. There is vast amount of gap between the rich and the poor in Indian economy. (Posted by: The New Indian Times) 2015. As per the report published on 23<sup>rd</sup> October 2015 the total property worth of India is estimated as Rs. 14,81,28,82,00,00,000 of which worth Rs. 7,85,08,27,46,00,000 of property is owned by 1% of the Indian population. It means that 94% of the black money is with the rich class people. In this scenario it seems ridiculous to identify the unaccounted property. Here with the goal of identifying the 6% of the black money the life of 125 crores of people of the nation were put to gamble. Instead identifying 1% of the rich class people would have been worthy step and that would have resulted in strengthening of Indian economy. Generally, some questions evolve, whether the government has a threat from rich class? Or whether this government is in favour of rich class? Whether the government is trying to strengthen the party on the courtesy of the rich class?

When the efforts made for the eradication of 6% of black money is reviewed it appears that this government is in favour of rich class and also it generates the doubt that there may be some other hidden reasons for not tackling the rich class of people. None of the rich class people are from scheduled class and are not from agricultural sector. In case if enormous amount of black money or unaccounted property belonging to scheduled class was identified, the question raises that whether the government would remain silent without taking against them?. 51% of the property is shared amongst Brahmins, Kshatriyas, Vaishyas and Sudras. These four communities are been earning property since thousands of years. Further these communities have illegitimately administered the Indian politics and Indian economy. Despite of having information that these communities own illegal and anonymous property the instead of annihilating them the government had focussed on eradicating 6% of the black money. It is appropriate to say that the demonetization is a initiative taken against scheduled class and farmers.

## VI. FAKE CURRENCY

Fake currency is another important issue which is been discussed amongst the people. In fact, talking about the fake currency it is said that merely 400 million of fake currency is in circulation. The report of Reserve Bank of India states that fake currency of only Rs 500 crore worth is in circulation. The objective of demonetization was

to eradicate fake currencies. But unfortunate and interesting to note that there is no information about the amount of fake currencies seized after process of demonetization.

The Indian Statistical Institution situated at Kolkata reports that of total currencies only 0.002 percent of fake currencies are in circulation in nation. A question arises whether it is advisable to withdraw 15 lakh 44 thousand crores worth currencies for the sake of curbing only Rs 500 crores worth fake currencies. It is as foolish move like cutting the same branch of the tree on which he is standing. It is significant to note that soon some days after the introduction of new currencies fake currencies were identified. This matter was published and reported in press and other media. It is hard to say that the fake currency makers cannot duplicate the currency of the newly introduced currency notes like the old currency notes.

### VII. TERRORISM

The government justifies the demonetization by giving an important reason that, demonetization would cease terrorism and as a result of demonetization the flow of money to the terrorists will be stopped. But till today a question is still unanswered that whether the flow of money to the terrorism has stopped as a result of demonetization. When the development at Kashmir and recent killings of Central Reserve Police officials by the Nexalites is observed it is certain that terrorism has not come to end. Even today uninterrupted terrorist activities are witnessed at Kashmir border. It is very unfortunate that, just fifteen days after government introducing new currency note of Rs. 2000 denomination, the fake note of the same was found with terrorists at Kashmir. It is true that Naxalism and terrorism is leading to many sociological problems. If adequate employment is provided to every youths completing their education and if the employees are provided adequate salaries, certainly they would not turn out to be terrorists or Naxalites. There is wide economic gap between the rich and the poor in the nation, if the government take measures to reduce this gap and eradicate caste based issues, if the government provides financial security to the people of every class and community, the people will never entertain terrorism.

### VIII. GROSS DOMESTIC PRODUCT OF THE NATION

National Economic Development index has to be noted down. When the past and the present National Economic Development index are compared it is apparent that there wide difference in the index. The following table suggests that the national index has considerably declined.

**Annual Growth rate of GDP in India (%)**

2014		20015			2016			2017			
July	Jan	Jun	Jul	Dec	Jan	Jun	Jul	Dec	Jan	Jun	July
8.30	6.00	6.80	7.60	8.40	7.40	9.20	7.90	7.50	7.00	6.30	5.70

**Source:** Tradingeconomics.com India GDP Growth Rate -2017

The decision of demonetization has an adverse affect on the Indian economy. Even in the future the nation may have to face adverse implications of demonetization. When the GDP in the first three months of the financial years (April to June) of the previous and present years are compared it is observed that the GDP of the nation which was 6.1% in the previous year has significantly dropped to 5.7% in the present year. Goods and Service tax (GST) and demonetization are the primary causes for the drop down in GDP. Indian economy system is severely and adversely affected by introduction of GST and demonetization process. The renowned economist Koushik expresses that it was estimated the demonetization would decrease the GDP of the nation to less than 6% but it was never expected that the GDP of the nation would decrease to 5.7%.

The annual economic growth between 2003 to 2011 was more than 8%. When the GDP of the financial years 2003 to 2011 and 2016 -2017 is compared it is observed that GDP rate has enormously decreased in 2016-17. Demonetization is the cause to the fall in the GDP. When the demonetization was brought into effect in India the total unaccounted money in circulation was only 14%. But in this circumstance 15.44 Lakh Crores (86%) of accounted money in circulation was termed invalid. It is estimated that in the approximate black money in

circulation was Rs. 500 crores. In country like India which very much rely on cash transactions the amount of black money in circulation doesn't seem to be too large. Indeed there was absolutely no need to demonetize the larger accounting currencies. Government in an urgency expecting to do something have ended up doing something else. The present question is to know what amount of the black money is seized and when would the government responsible for demonetization answer to this question?

As a result of demonetization, small agents of unorganized sectors and poor classes are exposed to many problems. As we know India is a nation of villages, over 80% of the total population reside in villages. Therefore the people in large quantity trust on cash transactions. Of the 80% of the people living in villages 30% of the people are illiterates. These people don't even know the meaning of demonetization. About 40% of the scheduled class people are illiterates. These people don't have information about the cashless transaction. In this scenario it is hard to imagine the implications of demonetization and cashless transaction on them. If the digital or cashless transaction is forcibly introduced in the system there is no doubt that the Indian economy will become much more adverse. The rural population trust on cash transaction. Even today half the scheduled class and poor class people are having bank accounts. Therefore in coming days cashless transaction would result out to be exploitation of scheduled class and poor class people. Raghuram Rajan the former governor of Reserve Bank of India has expressed that the Indian economy would become still more adverse in the coming days.

## IX. CONCEPT OF DIGITALIZATION

India is a developing nation. In our nation poverty, malnutrition, population growth etc are the problems of the present, past and future days. The education status is very low. Amongst the educated the amount of people with knowledge of English is too low. Therefore the people are not aware of the word "Digital". In this scenario it is absolutely pointless to implement Cashless or digital means of transactions.

On declaring demonetization, when the Government was incompetent in providing money to the people, the government came forward to introduce new mode of transaction. They called this new mode of transaction as Digitalization. Government addressed the people to make transactions through their mobile phones. It is indeed true today that mobile is an instrument which is easily available for everyone. But to make cashless transaction or digital transaction there is a need of android operation system enabled mobile set. How can we expect the illiterates to use android mobiles? When the people don't have account or cash at banks how can they make cashless transactions? However if the middle class population rush to the mobile store to purchase a mobile who is been benefitted? The companies dealing the high end mobiles are not under the control of government. Again from this the private companies and black money dwellers are profited. To operate mobile there is a need to activation of SIM by currency. Even the profit of the currency goes to the private companies? Whether there is a need to adopt this system of transaction? Whether is a need of digitalization for the people who don't have bank account?.

If a person has to transfer Rs. 1000 to another person, first the person has to deposit Rs. 1000 in his mobile valet. Only after depositing the amount the person is able to transfer the amount to other person. Moreover even the person receiving money has to install mobile valet to obtain the money received. The mobile valet bearing companies apply service taxes on these transactions. In digital transaction accrues prescribed service taxes on the amount of money transfers. When we transfer an amount of Rs. 1000 we should to pay the service tax to the private companies. It means the capital holders will make much of the profit by digital mode of transfer. Total GDP of the nation is 150 Lakh Cores; now let us imagine how much of the profit the private companies make due to digital transactions does. Don't you feel that this is mere cheating.

One major doubt that arises due to demonetization is that about 94% of anonymous property is in the form of Gold. This anonymous property lies with the 1% of the rich class of people. Instead of seizing this portion of black money the government through demonetization has seized 400 to 500 crores of currencies in circulation. The decision of the governments seems to be in favour of capital investors. It is to be noted that the public banks have already lent 8.5 Lakh Crores of money to large industrialists. This has adverse impact on the Indian economy. These industrialists have not refunded the lent money to the bank and are reported as NPA. As a result of senseless move of the government many of the banks are facing huge loss. When Raghuram Rajan was



governor of the Reserve Bank has stated to get the collect of the lent money by seizing the properties of the bankrupts. If the properties of bankrupts were seized the loss could have been compensated. Despite of this government is supporting the bankrupts and is reluctant to seize their properties. Instead government is striving compensate the loss by implementing demonetization. In sustenance to this as a result of demonetization large amount of money has flown to the bank and the treasury of the bank is full. In turn again the banks are lending money to the big industrialist. Thus the money of the scheduled and poor class is again lent to the rich systematically. To certain extent the government has succeeding the money of the poor to the rich. None of the governments may it be any party has not come forward to cancel the loan of the schedule class and farmers. It is very unfortunate the governments are cancelling the money lent to the richer class.

## X. CONCLUSION AND SUGGESTION

On implementation of demonetization, the government is giving various statements and are trying the take the people to dreamland. The government is stating that demonetization will lead to seizing of black money and money launderers. The government is giving false message that they are building the dream nation. In fact demonetization is said to be the policy of the government favouring the capitalists.

As the Gross Domestic Product (GDP) has considerably decreased, the sale of end products or the valued goods in the market has declined. Eventually the rate of profit is significantly decreased. Due to less profit the amount of savings have also considerably declines. As a result of decrease in saving amount the capital investment also decreases. Decrease in capital investment employment too gets reduced. Whole of the economical system gets disturbed. This will have adverse influence on Industrial and Labour sectors. Poor class population are exposed to larger problems.

Some people opine that the government by virtue of demonetization have succeeding in identifying the source of income of the people. The amount of tax payers has increased by 25%. As economical system constantly varies and involve various circular aspects, people who speak that there is a hike in the GST in month of July seems to have no idea about the Indian economical system.

Increase in the number of tax payers is not just enough. Government have to take initiatives to improve economy rate, create employment and introduce fast resulting and empowering measures at the earliest. If the flow rate of the money has to be increased banks are to provide loans at low interest rates. Government has to immediately purchase the shares and Bonds from the people. As people lost the capability of purchasing the production sector are experiencing major setback. Therefore, trade transaction must be smoothened so as to encourage exportation. If necessary steps are not taken to ease the trade transactions undoubtedly, the economical system of India will worsen much further in the forthcoming years.

## XI. REFERENCE

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