



Demonetization - A Case of India

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ABSTRACT

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form of money is pulled from circulation and retired, often to be replaced with new currency or coin. In general, demonetization means the withdrawal of particular currency from the circulation in the economy. In the history of India, demonetizations happen twice, first in the year 1946 and secondly in the year 1978 and in both cases, the goal was to combat tax evasion by "black money" held outside the formal economic system.

Presently on 8th November 2016, Government of India came forward with the discontinue the legal tender from the circulation, with main aim of removing black money from the system, eliminating funding for terrorist activities, discouraging the cash-dependent economy.

The main aim of this paper is to highlight the result of those countries, which had gone through process of demonetization and to examine the social effect of demonetization on Indian Economy.

KEYWORDS : Demonetization, Black money, formal economy.

Introduction

The Universally accepted meaning of Black money is any money which tax is not paid to the government and the above definition is applicable to India as well but there is no exact meaning of black money in economic theory. There are several other words like parallel economy, black income, uncounted income, shadow economy etc. are also use to define a "Black money". (Lannoze, 2011) The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of Reserve Bank of India Act, 1934. (India). In 1985 a report on 'Aspects of Black Economy' prepared by "National Institute of Public Finance and Policy" define 'black income' as the aggregates of income which are taxable but not reported to the tax authorities'.

In India, where majority of people gets their salary in cash especially the workers who works in construction, small farmers, or the people who works on daily basis.

Objectives

- To highlight the result of those countries, which had gone through process of demonetization
- To examine the social effect of demonetization on Indian Economy.

Demonetization - Across the Globe

Very first the word 'demonetization' was used by the country French during the year 1850-55 with the aim of reducing black money from the economy, to control the inflation etc. and many others. Before India's 2016 demonetization, many other countries have indulge in the demonetization process for specific reason like to control the inflation, to banish the black market, to find out the tax evaders but few countries have succeed and few failed and that resulted into economic collapse. One of the best and recent examples of demonetization is that of adoption of Euro currency among the nations of European Union. In order to switch to the Euro currency, authorities first fixed exchange rates for the varied national currencies into Euros. When the Euro was introduced, the old national currencies were demonetized. However, old currencies remained convertible into Euros for a while so that a smooth transition through demonetization would be assured. Below is the list of the countries which failed and succeed after demonetization

Table 1 : List of Failed countries after Demonetization

NO.	Country	Year of Demonetization	Status/results
1	India	1946	Fail
2	India	1978	Fail
3	Ghana	1982	Fail

4	Nigeria	1984	Fail
5	Myanmar	1987	Fail
6	Soviet Union	1991	Fail
7	Zimbabwe	2010	Fail
8	North Korea	2010	Fail
9	Pakistan	2015	Messed UP

(Times, 2016)

From the above table it can be conclude that the listed countries are failed after the country opted for demonetization. Due to lack of political, economic and social stability India failed twice.

Countries like Australia and United States of America are succeeded in the demonetization because they are developed countries and they managed well their short term problems.

Demonetization in India- History & Present

Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. Demonetization can be defined as "the act of stripping a currency unit of its status as legal tender. In the 70th year of independence, maintaining the annual average growth rate of 7.6%. And in terms of Purchasing Power Parity it ranks third. Idea of demonetization was already mention 93 years ago, i.e. in the year 1923, by Dr. B. R. Ambedkar in his book titled "Problems of Indian Rupee" in which he had recommended that the Indian currency should be replaced every 10 years to end the danger of hoarding of rupees and checking inflation. Hence, it is believed that Demonetization in India is not new, earlier the currency notes of Rs 1000 and Rs 10000, which were in circulation and were demonetized in the year 1946 with the main aim was to restrict uncounted money, in the year 1954 the higher denomination currency notes of Rs 1000, Rs 5000 and Rs 10000 were re-introduced. Again in the year 1978, Janta Party Government led by Morarji Desai, had decided to demonetize currency notes of Rs 1000, Rs 5000, and Rs 10000 with the aim of tackling the issue of black money economy which was quite large at that point of time. Finally during 1978 demonetization, there was little to show in the end/not succeed to root out the corruption/ black money. (Kamath, 2016)

Now, after 38 years on 8th November 2016, again the phase of demonetization took place by the Union Government/BJP which led by Narendra Modi with the main aim is to control the financing of terrorism and any other subversive activities through the proceeds of fake currency notes, it also aims to restrain the shadow economy in India, the major driver of inflation that adversely affects the poor

and deprives the government of its tax revenue. Finally it is hoped that the move will reduce cash circulation in the country because most corrupt activities and illegal dealings are done through cash. This decision is one of the courageous and strongest steps in the history towards removing the illegal money.

It seems not to be an unexpected decision; there were some indication by which we can expect some huge reforms in the economic because, several measures were already taken by the Government of India to move economy, like connecting large numbers of unbanked people with banking system through opening the "JanDhan Account", make a compulsory payment of LPG subsidy through bank account, we may assume many more policy changes in upcoming days.

Social Effect of Demonetization on Indian Economy

Among the major economics in the world since 2015, India is fastest growing economy where cash is preferable mode for the exchange. And less than half populations are connected with banking system for monetary purpose. The direct impact of demonetization was on sectors which are dealing with cash like small vendors, Auto Rickshaw drivers, taxi drivers, people who are working on daily wages and small dealers. Socially, demonetization has brought mixed approach by the people. As the old currency notes of Rs. 500 and Rs. 1000 must be deposited in the bank or be used at specific services like petrol pumps, airline tickets etc., people were finding difficulties to get cash for their daily consumption. The problem is more severe for families which got involved in marriage ceremonies or during funerals. However, it is expected that in the short term, there will be an impact on the inequality prevalent in the Indian society. With lesser cash, digital wallets, mobile banking have been gaining acceptance among people. Hence by this way of purchasing goods one can be predicted that demonetization is push towards the digital transactions which would be benefited to the people but it is limited to the people who is living in urban area and well educated because if the person don't know how to use the digital methods for payment then it may create a problem for them. It is expected that with cash becoming scarce commodity, digital economy will gain ground in the upcoming days. (Today, 2016)

Suggestions and Conclusion

So, as of now we should stand and support this courageous moves by our Prime Minister. Demonetization is going to give some improvement to the Indian economy in the long run because to stop fake currency from the circulation was one of the main aim of demonetization but recently an article printed in the various newspapers and recent news was that "Fake currency of Rs 2000/- got from the ATM, this arises a question on the process of installing cash in the machines and security.

This demonetization is completely different compare to 1978 demonetization which never really affected ordinary people. The 1978 demonetization covered notes of Rs 500 and Rs 1000 and those denominations were hardly used by the common man. The hundred rupee note was what most people used. However, while comparing to present scenario, the effect has been largely upon the ordinary man than on the ones who are the main contributors to the black money. As said by Government of India, current demonetization will be benefit in the long run. Due to demonetization there is also an increase in numbers of payment by digital modes like payment through mobile application, credit/debit card, net banking etc. so here we can conclude that demonetization in case of India is also not only fulfilling the above mention objective but it also leads to digitalization, which will be helpful to get converted into formal economy from informal economy.

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