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**DEMONEZATION: A PARADIGM TOWARDS TRANSPARENT AND CASHLESS ECONOMY****Dr. RANJU KATOCH****LECTURER****GOVERNMENT COLLEGE OF ENGINEERING & TECHNOLOGY  
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JAMMU****ABSTRACT**

*The major thrust areas of the Government especially in the recent years has been on curtailment of Black money. The Demonetization of 8th November 2016, has likely to bring a major change in the economy and markets. Demonetization has a major positive fallout which has accelerated the process of Online Transactions. There are broadly two main objectives of Demonetization first, removal of black currency and other attacking on black money and thereby shadow economy. The first objective has been achieved by one stroke i.e., Demonetization of high denomination notes of the country and issuing new currency notes of Rs. 500, Rs. 1000 and Rs. 2000. The other objective, attacking black money has just begun. The aim of the action i.e., Demonetization was to curb corruption, counterfeiting, the use of high denomination currency for terrorist funding and accumulation of black money, which has generated by income that had not been declared to the tax authorities. However, the scrapping of Rs. 500 and Rs. 1000 notes as legal tender w.e.f. November 9, 2016, the subject has attracted widespread debate and there is a needs to be understand it in a holistic manner along with its implications for the sustainable development for the economy. The short term pains are likely to lead to substantial long term gains.*

**KEYWORDS**

demonetization, economy, cashless transactions, sustainable development.

**INTRODUCTION**

Economic transformational events are very rare. The 1991 liberalization initiative was a game changer, which transformed the Indian economy and markets beyond recognition. The move by the government is to tackle the menace of black money, corruption, terror funding and fake currency. The government has implemented a major change in the economic environment by demonetising the high value currency notes of Rs 500 and Rs 1000 denomination and replacing them with new Rs. 500 and Rs. 2000 noted has taken the country with surprise. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given a deadline upto December 30, 2016 to exchange the notes held by them (Internet desk, 2016). The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw (Padmini Sivarajah, 2016). The reasons offered for demonetisation are one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the black economy.

As per RBI Handbook on Statistics of Indian Economy 2015-16, a total of Rs. 16.42 lakh crore worth of currency was in circulation as at end March 2016. Of this, Rs. 14.18 lakh crore was in form of Rs. 500 and Rs. 1000 denomination notes, representing around 86 per cent of value of total currency and coins in circulation. In terms of number of notes in circulation, Rs. 500 and Rs. 1000 denomination notes represent about 2200 crore notes, which were about 26 per cent of total notes in circulation. Therefore, it can be seen that the step would cause immobility of a major chunk of currency in system which is expected to result in short term inconvenience for the public (Padmini Sivarajah, 2016).

**DEMONEZATION IN INDIA – LEGAL AND HISTORICAL FACTS**

Demonetization also has a valid place in the Indian law books. The legal basis for the order demonetizing currency can be found in Section 26 of the Reserve Bank of India Act, 1934. Under sub-section (2) of this Section, the Union Government is given the power to declare that any notes issue by the Reserve Bank will no longer be legal tender. The only procedural requirement is that the Board of the RBI recommends the same to the Union Government. In fact, in 1978, demonetization was carried out under a special legislation, namely the High Denomination Bank Notes (Demonetisation) Act, 1978.

India's Demonetization action is not unprecedented in its own economic history, there were two previous instances of demonetisation, first in 1946 and other in 1978, but not having any significant effect on cash First, on 12th January 1946, Rs. 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender and new notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954. Second on 16th January 1978, the Morarji Desai led-Janata Party demonetized banknotes of Rs. 1000, 5000 and 10000. The RBI had introduced a new banknote of Rs. 500 into the economy in 1987 to contain inflation. Recently, on 8th November 2016, the old banknotes of Rs. 500 and Rs. 1000 were barred from being legal tender and new notes of Rs. 2000 were introduced. Also, Denominations of 1, 2, 3, 5, 10, 20 & 25 paise were in circulation till June 30, 2011 but were then withdrawn. 50 paise coins are still in circulation and are called small coins (Internet desk, 2016). Other denominations called as rupee coins.

**RESEARCH METHODOLOGY**

The present study is conceptual nature. The data for the study has been collected from secondary and tertiary sources including books, magazines, newspapers, Journals, Published and unpublished work, various websites and search engines like EBSCO, Science Direct etc. The data so collected has been analyzed through secondary review. The present Research paper attempts to add fresh insights to the existing literature of Demonetisation and sustainable development

**DEMONEZATION: A SYSTEMATIC STRATEGY**

The present action, Demonetization of Rs. 500 and Rs. 1000 notes has better chance of success as it proceeds logically. In order to curb the menace of black money, various measures have been taken by the Government both at policy level and enforcement on the ground (PTI, 2016). Some of important initiatives taken recently include (i)Constitution of a Special Investigation Team (SIT)under the Chairmanship a former Supreme Court Judge and implementing some of its recommendations (ii)Enactment of a new law viz. 'The Black Money and Imposition of Tax Act, 2015' to deal with black money stashed abroad (iii)Introduction of 'Benami Transactions Amendment Bill 2015' enabling confiscation of Benami property (iv)Enhancing the sharing and exchange of information with foreign countries and proactive involvement in international efforts to combat tax evasion/ black money (vi)Introducing Income Declaration Scheme, 2016 (vii)Use of information technology for mining of information (viii)Prescribing requirement of PAN numbers on high value transactions, etc., (ix)Taking action against hoarders through enforcement

agencies and (x)constitution of Multi Agency Group under Member (Investigation), CBDT for speedy investigations against Indian persons having undisclosed foreign assets (Internet desk, 2016).

### DEMONETISATION AND BLACK MONEY

To start off, black money is a wider societal ill and demonetisation is but one step in the war against black money. Black money and black economy are also two different constructs. The terms parallel economy and underground economy are also used as synonyms for black economy. Black money is the currency of black economy. It refers to illegal money earned from illegal sources which has not been disclosed to the government.

The total value of old Rs. 500 and Rs. 1000 notes in the circulation is to the tune of Rs. 14.2 trillion, which is about 85% of the total value of currency in circulation. This means that the total cash has to now pass through the formal banking channels to get legitimacy. The world bank in July, 2010 estimated the size of the shadow economy for India at 20.7% of the Gross Domestic Product (GDP) in 1999 and rising to 23.2% in 2007. Assuming that this figure is not risen since then and that the cash component of the shadow economy is also proportional, the estimated unaccounted value of the currency could be to the tune of Rs. 3.3 trillion.

In a common parlance, black money refers to the money which is generated through illegitimate means or by bypassing taxation system. Generation of black money in social, economic and political space has a debilitating effect on the conduct of public policy and the institutions of governance in the country. Black money together with counterfeit currency is also associated with crime and terrorism. While there is no official estimate of quantum of black money in India or abroad, a 2010 World Bank Report on shadow economies estimated it at 31 per cent of GDP of 162 countries in 2007 with India's estimate pegged at 20.7 per cent of GDP comparing favourably with the world average. There have been other estimates which have placed size of India's parallel economy at higher levels including a recent FICCI report which has estimated it to as high as 75 per cent of GDP.

### DEMONETIZATION AND TERRORISM

One of the stated aims of the demonetization was to tackle terrorism. Money laundering is one of the most important financing mechanism for terrorists funding. It was after 9/11 that the US initiated substantial push towards enacting of anti-money laundering laws to prevent financing of terrorists. The anti-money laundering investigations fails when the money trail leads to cash. In India the terror-finance trail starts and ends with cash making it impossible to get early alerts of terrorist active in the country. Demonetisation will upset the financing chain for the terrorists. As noted, black money is the currency of black economy. It is the black economy, including financiers that need extra-judicial enforcement mechanisms. The terror groups are at the apex of criminal elements that provide this enforcement mechanism. The terror finance chain comprises gold, diamonds and counterfeit currency. The counterfeiters don't keep the money in cash but quickly convert it into legitimate, legal bank accounts through SMEs and other small businesses. Using these fronts these terrorists use this money to buy information and access. The main effect of demonetisation and subsequent introduction of new notes will be to increase the costs of the counterfeiters. It has serve as shock the supply chain.

### MOVING TOWARDS TRANSPARENT AND CASHLESS ECONOMY

The change of currency notes and resultant cash crunch in the system has led to a new opportunity for the country i.e. to move towards a cashless or less cash society in the medium to long run. An age old saying is no pain, no gain. This is apparently true for this initiative as well. An immediate fall out is squeeze of cash in the market which will impact public and businesses alike. Meanwhile, the public is requested to make optimum use of non-cash methods like payments through cheques, internet banking, mobile banking/ wallets, debit/ credit cards and so on.

This move will help in cleansing the existing stock of black money, there is a need to ensure that black money does not resurface in another form in due course of time. For this purpose, stringent measures and monitoring would be required. This may include encouraging electronic based transactions instead of cash based, discouraging high value cash transactions, keeping tax levels moderate and administration simple and transparent, closer monitoring of real estate and bullion transactions, combating corruption, ensuring greater transparency in public procurement, providing Government benefits in a seamless manner through Direct Benefit Transfer with beneficiary database seeded with Aadhaar numbers and so on. Migrating to Goods and Services Tax is a good opportunity to bring about simplicity in the taxation system which can encourage businesses to shun black money transactions. These measures, together with use of advance Information Technology and stricter vigilance will take the country to newer heights, reduce income disparities and help realize the dream of inclusive growth more sooner than later. Meanwhile, RBI has prescribed incremental Cash Reserve Ratio for scheduled commercial banks at 100% on the increase in NDTL (net demand and time liabilities) between September 16 and November 11, effective the fortnight beginning November 26, 2016. This is intended to be a temporary measure to absorb surplus liquidity from the system (PTI, 2016).

While India has come a long way from introduction of electronic funds transfer, the newer forms of payment have been developed in the recent years which hold significant potential to move towards a less cash economy. These include (i) Unified Payments Interface (UPI) used to transfer funds to any other person registered on UPI through mobile phone through internet, (ii) Digital wallets, such as SBI Buddy wherein money can be loaded to your mobile wallets (E-batua) and transferred to any other person using mobile numbers or bank details, (iii) Pre-Paid, Debit or Credit Cards which can be used at ATMs, Point of Sales (POS) Machines by swiping the cards, (iv) Aadhaar Enabled Payment Systems (AEPS) wherein funds can be transferred using Aadhaar numbers seeding with bank accounts and (v) Unstructured Supplementary Service Data (USSD) wherein funds can be transferred from mobile phones without requiring access to internet connection by dialling \*99# (Braga, F.D., Isabella G and Mazzon J.A., 2013). In the long run, this would provide a significant boost to the economy as more and more informal methods of business transactions migrate to the formal sector paving way for greater transparency, financial inclusion (both on deposits and credit side) and better tax compliance.

### EFFECTS OF DEMONETIZATION

India is moving fast towards a more transparent and less cash use economy. The introduction of Pradhan Mantri Jan Dhan Yojana (PMJDY) and Income Disclosure Scheme (IDS) were done to ensure that everyone has a bank account and gets ample time to declare their incomes. Cash-less transactions are experiencing explosive growth and this trend will gather momentum. As per RBI rules under that, every withdrawal of cash needs a PAN card reference. Further, every branch manager is required to file detailed statement of weekly/monthly cash transactions. There are both Positive and Negative effects of Demonetization.

#### POSITIVE EFFECT OF DEMONETISATION

##### Strike on Black Money Holders

- People who possess huge amounts of black money in hard cash are at a complete loss now. Their black money in hard cash is now a pile of trash. Now if a black money holder wants to deposit money in bank account than he/she has to show id and there will be 200 % penalty on income tax amount.

##### Death Knell To Fake Currency Rackets

- Most of the fake currencies used to be in the denominations of Rs. 500 and Rs. 1000. By banning Rs. 500 and Rs. 1000 notes, Modi has busted all these unethical rackets completely. Now There Will be no use These Money.

##### Termination of Terrorist Funding

- Huge sums of money especially in hard cash in the denominations of Rs. 500 and Rs. 1000 was used to fund Islamic terrorists, Naxalites and other non-state actors. Now, these Organizations will suffer from shortage of funds. Most of These terrorist, Maoist Organization Used These Funds for Buying Arms and Weapons. Buying arms is an extremely difficult task now after this ban.

##### Transparency in Transactions

- Online transaction are more transparency and Financial Intelligence Unit will track all online transactions. Now there will be more transparency in real estate sector

**Stopped Huge Donations**

- o Huge amounts of donation that is taken in the private education and healthcare sectors would be stopped. Schools, engineering and medical colleges and hospitals (private ones) used to take huge amounts of money as donations especially in the form of hard cash in the denominations of Rs. 500 and Rs. 1000. These money-minded people running these institutions won't be able to make any easy money now. Same applies to the real estate sector.

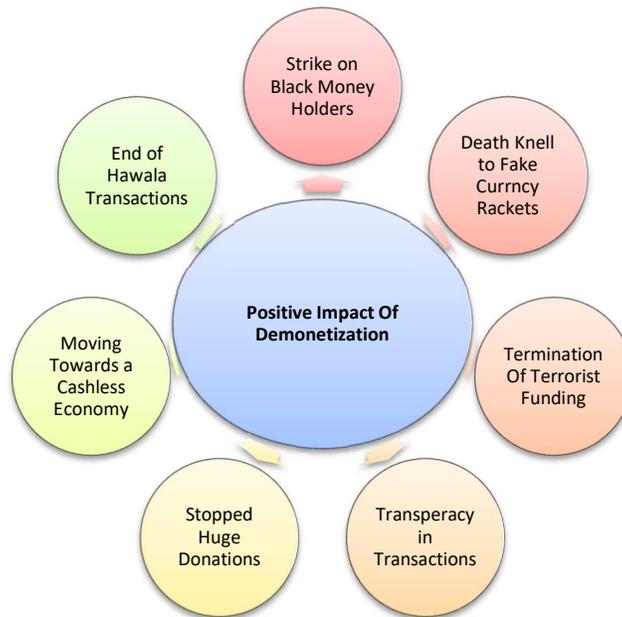
**Moving Towards a Cashless Transparent Economy**

- o While it is practically impossible to have a 100% cashless economy, the proportion of hard cash in the economy will decrease and our economy will get more digitized. This will result in greater transparency. Now government has put some limitation for cash withdrawal from bank accounts. People will go for online payments, they will use PayTM or other online payment companies for buying goods or making payments. More use of debit and credit cards.

**End of Hawala Transactions**

- o Most Hawala transactions used to be carried out in the denominations of Rs. 500 and Rs. 1000. With this ban, Modi has delivered a fatal blow to the unethical Hawala traders as they can't trade anymore using denominations of Rs. 500 and Rs. 1000.

FIG. 1



**NEGATIVE EFFECT OF DEMONETIZATION**

**Over Crowded Banks**

- o Banks will be extremely over-crowded by people. People will forget everything else and throng to the places where the banned notes are being officially exchanged leading to a tremendous chaos.

**Limited Money for Common People**

- o There has been shortage of money for common people to fulfil their daily life needs.

**Effect on Stock Market**

- o Due to currency being sucked out of the market coupled with Trump's victory, the mood at the stock market was completely bearish. Sensex lost 1600 points at open. This can adversely have a negative effect on trade in general.

**Problem For House Makers**

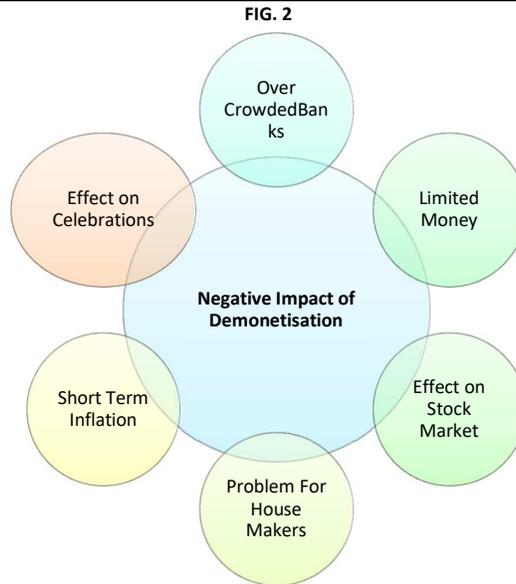
- o Many Indian housewives store money secretly so that they could be of help during times of financial crisis in their households. The accumulated money of our respected Indian housewives is of no use now until they exchange in the banks and post-offices.

**Short Term Inflation**

- o Due to shortage of money in the market, a short-term cost push inflation will occur. The price of gold has already become sky high. Prices of vegetables and fruits have also soared burdening the common man.

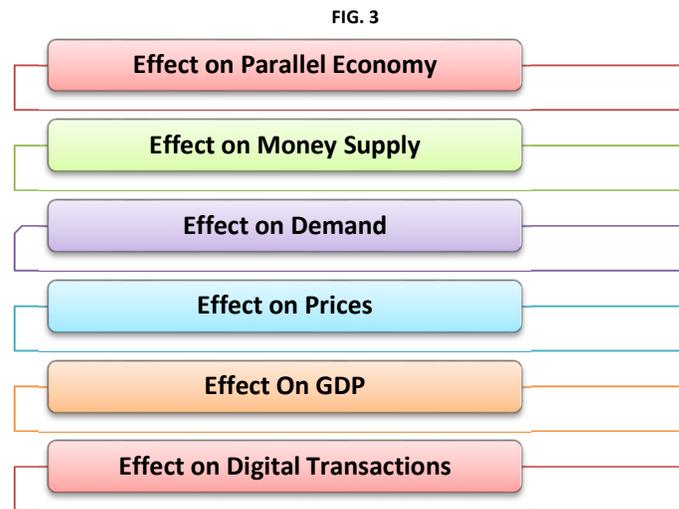
**Effect on Celebrations**

- o It has been very difficult without cash for those families which are having weddings, celebrations and functions.



**IMPACT OF DEMONETIZATION ON INDIAN ECONOMY**

There are both Long term and Short term impact of Demonetization by which sustainable development of the economy can be achieved.



**Effects on Parallel Economy**

- The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks. Temporarily stall the circulation of large volume of counterfeit currency, it would curb the funding for antisocial elements like smuggling, terrorism, espionage, etc.

**Effects on Money Supply**

- With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

**Effects on Demand**

- The overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly: Consumer goods, Real Estate and Property, Gold and luxury goods and Automobiles (only to a certain limit). All these mentioned sectors are expected to face certain moderation in demand from the consumer side, owing to the significant amount of cash transactions involved in these sectors.

**Effect on Prices**

- Price level is expected to be lowered due to moderation from demand side. Consumer Goods: Prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases. Real Estate and Property: Prices in this sector are largely expected to fall, especially for sales of properties where major part of the transaction is cash based, rather than based on banks transfer or cheque transactions.

**Effect on GDP**

- The GDP formation could be impacted by this measure, with reduction in the consumption demand. However, with the recent rise in festival demand is expected to offset this fall in overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal.

**Effect on Online Transactions and Alternative Modes of Payment**

- The cash transactions facing a reduction, alternative forms of payment will see a surge in demand. The digital transaction systems, E-Wallets and Apps, Online Transactions using E Banking, usage of Plastic Money (debit and credit cards), etc., are substantial increase in demand. This will bring more transparency in system and can track online money transactions easily.

**CONCLUSION**

The short-term pains from demonetization, the long queues before ATMs, pensioners waiting for long to draw pension, inconveniences to people who had withdrawn money for weddings, impact on trade, disruption of economic activity etc. - have been huge. But the long-term benefits are likely to be substantial. The recent step of declaring the existing stock of Rs. 1000 and Rs. 500 notes as illegal tender has addressed multiple issues with one stroke. Most importantly, it has straight away wiped out most of the illegal cash accumulated over a number of years from the system. This will have a direct impact on inflation as we will not have too much money chasing too few goods and excess money supply will no longer fuel price rise. The counterfeit currency circulating in the country has ceased to be of any value. Demonetization would curb the menace of corruption and terrorism as the existing black money was responsible for promoting the same. This action would bring back a lot of money outside the system back into the financial system which can be further used by the banks for lending for commercial activities. This would help not only improve the profitability of banks, but also pave way for reduction of interest rates and can partly address the problem of NPAs. It will streamline the process of election funding bringing more transparency and fairness in the manner of conduct of Elections. Further, in due course of time, significantly help in improving tax collections as public would prefer to deal in transparent transactions by paying legitimate taxes. With the clean-up and strike on black money, asset prices specially in real estate would further decline, making housing more affordable for public at large. Last, but not the least, Demonetization, can significantly improve India's globally as the country which respects the rule of law and where businesses can flourish through legitimate means paving way for large scale investments and developments both from within the country and abroad. With all these implications, it can be inferred that Demonetization is perhaps the biggest surgical strike on black money since Independence. This is also another milestone in Swachh Bharat Abhiyan, though in a different sense.

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