

Demonetization

An Initiative Towards Cashless Economy

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Abstract

*Two issues, corruption and black money have ensconced the Indian economy for long, and have been a major issue concerning the public interest. Various political deliberations in the parliament and outside, campaigns, public demonstrations, fasts and dharnas, has been ways to project the discord and antagonism, with respect to the boiling issues of corruption and black money. Various cases related to corruption have been unearthed in the past keeping all them in view, government has taken various initiatives, to eliminate the corrupt practices and black money from the economy. This paper talks about the recent development “**Demonetization**” taken place with the objective of curbing the black money followed by, making the economy cashless. Through this work, we aim to uncover the impact of demonetization on the economy of India. The endeavour through this paper is to observe whether the move is actually welcomed by the masses with open hands and will it be a way towards making the economy cashless.*

Keywords: *Demonetization, Indian Economy, Black Money, Corruption, Cashless Economy*

INTRODUCTION

With the various unfolding scams such as Indian Coal Allocation Scam, 2-G Spectrum Scam, Common Wealth Game Scam, Fodder Scam, Bofforsscam, which dates back to 1980's and 90's, etc. There has been unrest among the general public, who are the tax payers and the beneficiaries of the democratic country, India. People, in India, elect the representatives to the government and are essentially the stake holders of this country. They are entitled to know the functioning and the procedure of the each and every system, in force in the country. They have a right to information about the number of cases relating to the money kept in the Swiss bank accounts, which are questionable until today. In lieu of this, Government had come up with a five pronged strategy (2011), to tackle the nuisance of black money. Three government institutes have been commissioned for conducting studies on black money. a) National Institute of Public Finance and Policy (NIPFP); b) National Institute of Financial Management (NIFM); and c) National Council of Applied Economic Research (NCAER).

Black money is a social ill wrecking our community, society and country at large. There is no uniform or accepted definition of 'black' money. Several terms are in use – such as 'black money', 'black income', 'dirty money', 'black wealth', 'underground wealth', 'black economy', 'parallel economy', 'shadow economy', 'underground' or 'unofficial' economy. (*Black Money Committee Report, 2012*). It is an income, illegally obtained or not declared for tax purposes. According to National Institute of Public Finance and Policy (NIPFP) "Black Money is the aggregate of incomes which are taxable but not reported to authorities."

GOI has undertaken various steps to curb

the black money leading to corruption, to name few **The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 for Foreign Black Money, Constitution of SC Monitored SIT on Black Money**, Investigation of Panama Paper leaks, by the Multi-Agency Group (MAG) with officers of the Central Board of Direct Taxes (CBDT), Reserve Bank of India (RBI), Enforcement Directorate (ED) and Financial Intelligence Unit (FIU).

To seize the mounting quantum of black money in the country, on 8 November 2016, India's Prime Minister Narendra Modi announced the Government of India's decision to cancel the legal tender character of ₹ 500 and ₹ 1,000 banknotes with effect from 9 November 2016. He also announced the issuance of new ₹ 500 and ₹ 2,000 banknotes in exchange for the old banknotes. While the announcement essentially rendered the ₹ 500 and ₹ 1,000 banknotes invalid from 9 November 2016, the Ministry of Finance has been monitoring the implementation of these measures number of ways. (Chatterjee & Banerji in a 2016). Withdrawing the 86% of the currency in circulation. The demonetization of the highest denomination currency notes is part of several measures undertaken by the government to address tax evasion, counterfeit currency and funding of illegal activities. Demonetization is the act of stripping a currency unit of its status as legal tender.

With the demonetization of the Indian currency recently, we need to revisit the history of demonetization which dates back to 1946, when the ₹ 1,000, ₹ 5,000 and ₹ 10,000 were taken out of circulation. In 1970's, the *Wanchoo committee*, suggested demonetization as a measure to unearth and counter the spread of black money. Then in 1978, Morarji Desai led Janta party coalition

government, made the notes of denominations Rs. 1,000, Rs.5,000 and Rs. 10,000 as illegal tender for the second time.

RELATED WORK

Parallel economy being a threat to the Indian economy is spreading very fast adversely affecting the GDP, promoting corruption and generation of black money Kapoor (2015). The main reason behind the generation of the black money is our inadequateness in implementation of the recommendations of the committees being formed from time to time to check the black money generation, Sarkar(2010). Not only the absence on application part but violation of laws by the central and state government also leads to issue of black money, CA Lalit Mohan Aggarwal (2012). FICCI (2015), in its one of the studies, discusses the reasons for widening the tax base to achieve fiscal consolidation and a higher tax-GDP ratio and also the ways by which black money is being generated in the economy along with the steps government has taken to curb this and to expand deepen the taxpayer base. Mechanism to trace the black money transactions and tax evasion are also described in the study.

According to a report titled 'Corruption Perceptions Index 2015' by Transparency International, India is ranked 76th globally. The report focuses on the level of corruption in public offices which affects the general population of a country.

In ancient Indian history the great Indian philosopher Kautilya articulate that as it is not possible not to taste things kept on tongue,

so it is not possible for government officials not to taste money however small a quantity. According to IMF working paper (1998), the factors that promote corruption are the acts that demand for the corruption such as regulations, administrative powers and tax system. Corruption has caused immense distress to the human kind, In Indian civilization. In order to combat corruption public awareness is essential and for this education system should be strengthened. The legislative, executive and judiciary systems should also be made strong, leaving no room for the discretionary ruling by any of the bureaucrats Rajak(2013). With the advent of the *Right to Information Act, 2005*, citizens are empowered to seek information related to public services and administration whenever required. The basic objective of the act is to empower the citizens, promote transparency and accountability in the working of the Government, contain corruption, and make our democracy work for the people in real sense².

General Impact of Demonetization on People and Economy

Desire to check the black income generation, elimination of unaccounted wealth and making the economy cashless has instigated the move of demonetization. The currency with denomination of Rs. 500 and Rs. 1000 was rendered as illegal tender on 8th November, 2016 by our H'nble Prime Minister Mr. Narendra Modi. The move was planned secretly by a small group of tightlyknit ministers led by Prime Minister

1. <http://www.india.com/education/trans-parency-international-released-corruption-perceptions-index-2015-india-ranked-76th-1571421/?gclid=CPmAvd6amdECFUmdhQCTQ>

2. <http://www.rti.gov.in/>

Mr. Modi, and it overtook the country like a flash flood. The result will certainly be the negative and could lead to reduction in the GDP, and the revenue generation and a slower economic growth. While rating agency Fitch has projected a decrease in India's GDP growth by approximately 50 basis points, other projections peg India's GDP growth rate for fiscal years ending March 31, 2018 and 2019 lower by approximately 30 basis points. This move has squeezed the economy of its liquidity, bringing the real estate market and the businesses transacting in cash to a standstill, implying a negative-wealth effect resulting in declining consumption and investments in business. The informal sector of the economy is hard hit by this strategy of demonetization. India employs more than a majority of the workers in the informal sector, whose most of the transactions are in cash. Disturbance to this system could endanger the employment and livelihood of weaker sections of society. It is observed that demonetization has resulted in chaos throughout the country, people are unable to purchase items of daily essential requirements and, in many cases, life-saving goods and services as only about 30% of the Indian population has access to the banking system as per data compiled by the banking division of the finance ministry. To add to the ordeal, conversions can be materialized only after filling a form along with an ID proof, has made the process more troublesome for the illiterate people and those who do not have ID proofs.

Apart from its impact on the economy and general public, the major question is, whether the currency swap plan been effective in swiping the black money from the economy. Data reveals that very less percentage of the total undisclosed income is detained from tax evaders⁴. In the last 5 years, it has been

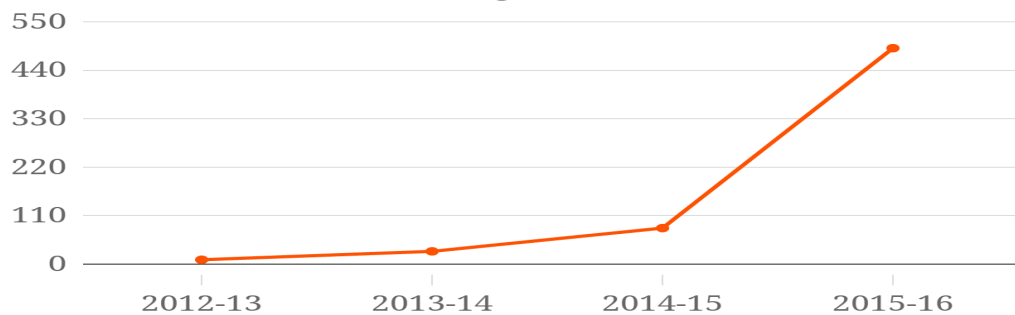
found that in the IT raids; only 5-6% of black money is kept as hard cash. As soon as the market was flooded with the news of discontinued currency, a great deal of black money was converted into gold, jewellery and people purchased land, share holdings and stocks. Besides this, organized middle-men and touts have already cropped up to convert black money into white for a commission.

Few decisions, regarding the invitation of penalty for tax evasion beyond a stipulated amount, taken during the implementation of demonetization appears to demotivate people from depositing the cash in their bank accounts, defeating the whole objective of eliminating the black money from the market.

The Payments Industry in India has largely been driven by cash. Presently, cash transactions accounts for 78% of all transactions in the country. With the demonetization plan, this status quo is set to change rapidly in the near future. Now, it is to be seen, that how the ongoing digital and technology revolution in India coupled with several progressive regulatory changes will bring revolution in the digital payments in India.

To take a note on driving the economy cashless, statistics reveal that, between the years 2013 and 2015, the usage of debit cards increased twice as fast as the number of POS machines and one-and-a-half times the number of ATMs, with the majority infrastructure developments taking root in urban centres. The number of ATMs deployed in the rural India is very small, making the whole concept of cashless economy challenging. It was unearthed by RBI that states with a higher female populace and a more rural population show poor levels of financial inclusion. A World Bank report reveals that bank account penetration in India augmented from 35 per cent to 53 per cent between 2011 and

Transactions carried out through mobile wallets (Rs, billion)



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Data: Reserve Bank of India

2014. But the country also suffers from high dormancy rates, meaning there is no or less activity in these accounts.

Though there is increase in the transactions done by e-wallets in the year 2015-16, but the major challenge thrown to them is the penetration of internet and internet literacy amongst those who constitute major portion of the economy.

Mobile wallets are driving the economy cashless, but we need to draw our attention to some more important figures which states that merely 26% of India has internet access, and there are only 5 % users of digital payment services. The World Bank's Global Findex shows that Indians are significantly less familiar with digital banking – the use of credit or debit cards, making transactions using mobile phones, and using the internet to pay bills – than their peers in middle-income nations.

With the objective of making the India a cashless economy, and to overcome the prevailing cash crunch NITI Aayog in conformity with the Government of India, recently announced cash rewards to promote digital or cashless transactions.

The question with the above statistics still remain unanswered that whether the move of demonetization can actually transform the economy from cash to cashless, Whether people who are majorly residing in the rural

India, will go cashless and if yes to what extent.

Major stake holders of the society articulate, that with financial literacy campaigns accompanied by strategy to improve access to, and awareness of, electronic payments and focused financial educational programmes can improve financial skills and credit management.

CONCLUSION

To eradicate the problem of black money, corruption and to convert the economy into cashless we should work on our own morality, ethics and values. People should be made aware about our fundamental rights and duties. There should be no lacunae in the systems and laws, giving the room for the discretionary desires and powers to the politicians and bureaucrats. Implementation of the policies should be left with the independent commission or authority, and there decisions can be challenged in the courts only. Several reforms like state funding of election expenditure for candidates, making accounts of the political parties audited from time to time and electronically filing income-tax returns, denying persons with criminal records a chance to contest elections, should be brought in. Responsiveness, accountability and transparency are a must for a clean system. Bureaucracy, the backbone

of good governance, should be made more citizen-friendly, accountable, ethical and transparent.

It is said that justice delayed is justice denied. There is a need to develop a strong and exhaustive judicial system which can deliver speedy and inexpensive justice to people.

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