



Research Article

RATIONALISATION AND REPERCUSSION OF DEMONETIZATION IN INDIA

Tharani S and Saleem Ahmed

Saveetha School of Law, Saveetha University

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ABSTRACT

The research paper spotlighted a study on the repercussion of demonetization in India. The term 'demonetisation' ruled after demonetizing the high value currency. Two issues, corruption and black money have ensconced the Indian Economy for long, and have been a major issue in relation to the public interest. An economic earthquake was witnessed by Indian economy by NDA II government announced on 8th November 2016 that Rs. 500/- and Rs. 1,000/- notes will not be a legal tender and the old notes can be deposited by 31st December 2016. The main intension of Modi Sarkar was to curb corruption, black money, fake notes and to address the wilful tax evaders to escape our tax net as only 3% of eligible tax payers file returns and pay tax and others avoid and escape. The act of demonization is expected to have a marked impact on various sectors. Therefore an attempt is made to analyse the impact of demonization on various prominent sectors of Indian Economy that are agriculture and ordinary man and consumer market sector etc. Also compare performance of the sectors for pre and post period of demonization. It also listed out the merits and demerits of demonetization.

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INTRODUCTION

Indians have redefined the concept of sacrifice and shown unparalleled example of Citizen Sacrifice. The commitment and discipline with which Indians have tackled the cash crunch will be cited for generations.

With the diverse unfolding scams such as Indian Coal Allocation Scam, 2-G Spectrum, Fodder Scam, Common Wealth Game Scam, Bofforscam, 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 operation and the modus operandi of the each and every scheme, in force in the country. They have the 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 year optional 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); 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. National Institute of Public Finance and Policy (NIPFP) has given definition to Black Money as “Black Money is the aggregate of incomes which are taxable but not reported to authorities”.

Government Of India has undertaken diverse steps to curtail 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 with officers of the Central Board of Direct Taxes, Reserve Bank of India, Enforcement Directorate and Financial Intelligence Unit. According to Merriam Webster Dictionary, the term 'Demonization' has its root word from verb “demonetize”. It is a transitive verb which has various meaning as followed: a) To stop using a metal as a monetary standard; b) To deprive of value for official payment. 'Demonization' has its origin in French 'demonetizer' de - + Latin moneta coin. It was first used in 19th Century, i.e., 1852. To seize the escalating quantum of Black Money in the country, on 8th November, 2016, India's Prime Minister

*Corresponding author: **Tharani S**
Saveetha School of Law, Saveetha University

Narendra Modi announced the Government of India's decision to cancel the legal tender character of Rs. 1,000/- and Rs. 500/- banknotes with effect from 9th November, 2016, the Ministry of Finance has been monitoring the implementation of these measures in a number of ways. (Chatterjee & Banerjee 2016). Withdrawing the 86% of the currency in circulation. The demonetization of the highest demonetization currency notes is part of some channel 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, Rs. 1,000/-, Rs. 5,000/- and Rs. 10,000/- were taken out from 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 demonetization Rs. 1,000/- Rs. 5,000/- and Rs. 10,000/- as illegal tender for the second time.

Objectives

1. To study the impact of demonetization on common person in India.
2. To study the impact of demonetization on agricultural sector and farmers of rural India.
3. To analyse the merits and demerits of demonetization and suggest few measures to overcome the demerits and make the plan of demonetization a successful one for the improvement of the Country.

Constitutional Validity of Demonization: Section 26(2) of the Reserve Bank of India Act does not suffer from Excessive Delegation: As the demonetisation notification cites authority of Section 26(2) of the Reserve Bank of India Act, 1934 many questions has arose concerning the constitutional validity of the above mentioned provision. However, it can be said that the said section is valid as it does not go beyond the provisions of the constitution which can be furthered with reference to the following propositions of law.

Essential delegation of powers: The Constitution of India has not strictly acknowledged the political Doctrine of Separation of Powers originated in the writing of Montesquieu.¹ However, by its implication, it is fully established that the law making function is with the Legislature. Hence, the administrative and legislative body doesn't have any legislative power. Thus the legislature cannot delegate its essential legislative powers to the executive and if any such delegation is made, such delegation is ultra vires the provisions of the constitution. It was put forth by the Hon'ble Supreme Court in *M/s. Devi Das v. State of Punjab*² that Article 245 gives the Parliament the right to make law for the entire nation. The said article also gives the legislature the right to delegate some of its power to the executive for the proper functioning of the policies and plans. The constitution confers wide powers to impose duties on the Parliament and State Legislatures to make laws; but in the transformed context of modern state, all details cannot be worked out by the legislature and it must necessarily delegate the working

out of such details to the executive or other agency. Hence, Section 26(2) is a result of essential delegation and not excessive delegation of power by the legislature to the Reserve Bank of India.

Doctrine of Presumption of Constitutionality: It was held by the Hon'ble Supreme Court in the *Chiranjit Lal Chowdhuri v. Union of India*³, that the presumption is always in the favour of Constitution of an enactment, and the burden of proof is upon him who attacks it to show that there has been a clear transgression of constitutional principles. A further presumption may also be drawn that the statutory authority would not exercise the power arbitrarily. In the instant case of demonetization, Section 26(2) is presumed to be valid and constitutional in nature until expressly proved to be unconstitutional before the court of law.

Doctrine of Legitimate Exception: The Preamble of the Constitution provides that there should be social and economic justice as well as equality of status and opportunity. The move of demonetization is indeed a step that en route for achieving the goal of the state of minimizing the inequalities in income and status. The doctrine gets assimilated in the Rule of Law and operates in our legal system in this manner and to this extent. It was observed by the apex court in *Bishambhar Dayal Chandra Mohan v. State of Uttar Pradesh*, that the Article 73 of the Constitution does not only give the power to the executive to implement the laws but also states that while the executive cannot act against the provisions of law, it does not follow that in order to enable the executive to function relating to a particular subject, there must be a law already in continuation, authorising such action. As in the instant matter, the government through its Press Releases and the RBI through various notifications has had the legislative backing of section 26(2) of the RBI Act.

History around the World

Demonetization is the practice that is not new to India or to the outside world. Various governments across the world have decided to ban currency note in circulation, rendering huge amount of cash useless overnights, due to plethora of reasons. These include fighting counterfeiting, stopping terror activities, battling black money etc. Many countries have adopted this process of demonetization to overcome hyperinflation, to curb black money, to bring economic stability, to remove counterfeit currency etc.

Magnitude of Impact

According to RBI figures, as of March 2016 currency in circulation amounted to Rs. 16,415 billion. Of this, Rs. 500/- notes accounted for 47.8% in value and Rs. 1,000/- notes another 38.6%. Together they were more than 86% of the value of notes in circulation. That's a whopping amount to be frozen.

Taking India's GDP is \$2,000 billion (Rs. 125 lakh Crore) and approximated parallel economy 23%, makes it about Rs. 28 lakh crore. A large percentage of this amount is invested in real estate, gold, and cash. Real estate accounts for about 50% and the remaining 50% accounts is equally divided between both cash and gold. Around 68% of that cash is kept in demonization of Rs. 500/- and Rs.1,000/- notes. Roughly estimated calculations show that Rs. 3 lakh crore will flow

¹ Montesquieu, The Spirit of Laws, 1748.

² AIR 1967 SC 1895.

³ AIR 1951 SC 41.

into India's white economy, which is equivalent to GDP of more than 100 countries.

As per RBI, total 9026 currency notes were in movement before demonetization, out of which 25% are of Rs.500 and Rs.1,000/- denomination. There are 1570 crore of notes of in one denomination and 530 crore notes of the other (Total 2100 crore notes) as narrated by Sh.P.Chidamparam, Ex Finance Minister, in one T.V. interview. The printing presses of Government of India and Reserve Bank of India have the capacity to print only notes of the value of Rs. 300 crore per month. As such, seven months will be taken for printing the replacement of these demonetized notes which will create chaos.

Analysis of Study

Various sectors like consumer protection, Agricultural sectors and also the impact on common person in India are being analysed in this study in detail to observe pre and post effects of demonetization.

Common Person in India

Demonetization is a generation's memorable experience and is going to be one the economic events of our time. Its impact is felt by every Indian citizen. As the country says goodbye to the old Rs. 500 and Rs. 1,000 rupee notes and with restrictions on exchanging money and taxation on high amounts of deposits, Indian economy had faced through some serious churns. But how is this going to affect the common person of India in the short run as well as the long run. Initially, there was a huge hue and cry about the idea, people had to wait in really long queues just to withdraw the necessary money they needed. The public doubted prime minister's plan and revolted against the bad preparation they faced in this regard. The changes did invite a lot of trouble to the public in the beginning but it all seemed worth that, as far as the long-term effects were concerned. There was a limit to the per-capita withdrawal and that was a huge issue for many people, mainly because of their personal requirements which included marriage, health, property etc. In the process of curbing black money the innocent common people and poor had seemed most suffered like, those people who do not have access to post offices and banks had seemed panicking for exchanging notes. Those families who had weddings and other special occasions are depressed due to lack of money thousands of weddings have been cancelled which impacted the vendors who supply for those weddings. Also, farmers have faced lot of problems because they could no longer afford to sell their harvest from Kharif crop or sow Rabi crops. Also Many street vendors have loosed their business because do not want to part with cash or cannot make change. People have cut back spending because the banks are rationing cash. Many Daily wage workers are unable to find work. Also Demonetization has a direct impact on sectors dealing with cash—vendors, auto rickshaw owners, taxi drivers, daily wage earners and small traders. The Indian system mainly functions on cash, and so, less cash means disruption in the flow. Therefore, the government's step to curb black money and fake currency has hit hard to poor people the most. But as the time passed the things slowed down a bit. The queues in the banks shortened, ATMs were filled with money, new currency circulated and all these normalized the situation. Nevertheless, this change will have a huge impact on the economy. It will take some time for things

to become normal again and for now, it is just a play of time till we get to know whether it was a really good decision or an overrated implication.

The demonetization of Indian currency has created numerous hardships to common person but in long way it has lot of advantages.

1. To the extent of penalties imposed by the Income Tax department on the illegal conversion of black money into white money, the revenue to the government will increase in the immediate future.
2. Unaccounted monies held as cash which was not productive will become productive as it enters the legal system.
3. Counterfeit money in circulation which was a ongoing menace all over India will cease to exist with immediate effect.
4. Funding of terrorist and other illegal activities will be curtailed as they generally are funded by black/counterfeit money.
5. To the extent the black money held by the political parties is flushed out, the elections in the near future will be clear and more transparent.
6. With huge cash at the disposal of the banks, the borrowing of money will get cheaper providing impetus to economic growth.
7. Government can avail finances at lower rates and speed up the infrastructural spending creating huge job opportunities.

So far, it can be said that this is a historical step and must be supported by everyone. We should look at the bigger picture which will definitely fetch results in the future. This is what the whole country has been asking for a long time which has finally happened.

Agriculture Sector: Agriculture plays an important role in the Indian economy. 58% of rural people depend on agriculture as a source of income. Agriculture sector also includes fishery and forestry which altogether has maximum contribution to India's GDP. As per the estimates of CSO (central statistics office) agriculture and its allied sectors has 17% of gross value added during 2016- 2017.

Pre-Demonetization: India is the largest producer, consumer and exporter of spices. India is the second largest fruit producer in the world. India's horticultural output is 287.3 million approximately in 2016-2017. India grabs third position in farm and agriculture products. Agricultural exports accounts for 10% of country's exports and is fourth largest in the world. The Agro industry in India includes various sub segments mainly as canned, diary, processed, frozen food to fisheries, meat, poultry and food grains. The agriculture GDP is to grow at 4.1% to reach US\$ 1640 billion as per CSO. Indian agrochemicals industry is expected to grow at 7.5% and reach US\$ 63 billion by 2020. Its demand in Indian markets is growing at 6.5% per annum and worldwide demand at 9% per annum.

Post-Demonetization: Demonetization has severely hit this sector which employs 93% of India's workers. Indian farmers use cash for buying seeds and fertilisers. This sector employs labour on daily wage basis, paid in cash. Cash is used by them for buying daily utility items and grocery. Around 80% of farmers suffered as India holds 25 crores account for rural and

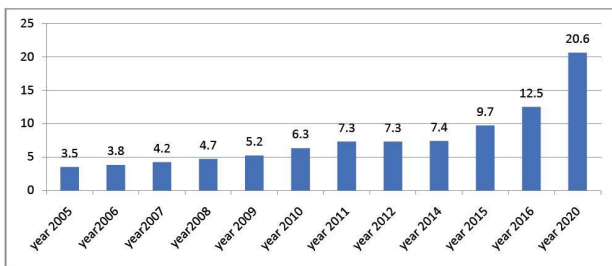
semi urban people which needs cash for daily transactions but they received only Rs 8000 crore from November 2016, which is negligible to meet the expense as it only claims Rs 350 per account. In such a clamp Indian agriculture sector may go 10 years behind from where it stands now. The cash crunch also led to less sowing areas. The sown area under Rabi crop that is 554.91 lakh in December 2016 compared to 523.40 lakh Hectare in 2015 but there will be 12% less sowing as farmers feel the deficit of cash to buy seeds and fertilisers. The act of demonetization severely impacted the pulses, onion and wheat as it showed increase in prices. Fishery and Jiggery business are totally money based and involves cash transactions felt the heat of demonetization. Moreover, diary, textile and handicrafts will be severely affected because of reduced supply and increased prices. The slowdown in this sector is going to affect the whole country's economy, as it is the main contributor to the country's GDP.

Consumer Markets

Indian consumer segment includes market for the consumer durables and fast moving consumer goods. This sector is composed of huge middle class, relatively large wealthy class and small economically low class, for which it is foreseen to double the spending class by 2025. As per the reports India's share of worldwide consumption is anticipated to increase twice at the rate of 5.8% by 2020.

Pre-demonetization: India scored second position in global consumer confidence index with the score of 128 points toll June 2016, and Philippines scored 132 points. The Indian consumer market showed a positive growth at annual rate of 5.7% from 2005-2015, and it's expected to grow at 6.7% for the year 2015-2020 and 7.1% for the year 2021-2020. Whereas FMCG sector is growing on an average of 11% for last 10 years, and is expected to increase at 14.7% and reach US\$ 110.4 billion from 2012 to 2020. The rural market share is increasing at the rate of 17.7% and has reached US\$ 100 billion. Food products is leading with the share of 43% of overall market share followed by personal care 22% and fabric care 12%.

Size of consumer durables market (US\$ billions)



Source: Electronic industries association of India.

The above graph depicts the growing sales of consumer durables from 7.3 US \$ billion in year 2012 to 12.5 US \$ billion in 2016. The expectations are to touch 20.6 US \$ billion in 2020.

Post Demonetization: Due to the act of demonetization of the high currency notes overall sales went down by 20-25% for November and 10-12 % for December. Rural growth was expected to revive backed by a good monsoon season, consumers actually landed up curtailing their purchases due to reduction in currency notes in circulation after demonetization, with consequent adverse impact on business

revenues. FMCG and consumer durables saw significant decline in sales and its impact can be studied under three sectors consumers, channels and trade partners.

Consumers: As the cash in hand was impacted this further lowered the purchasing power of consumer. Therefore the sales of FMCG were reduced and impulse buying was also restricted. 70-80% decline was seen in consumer durables in up-country markets and 40% in larger cities. The positive impact was that 1.2 cr. Indians registered for digital wallets during Nov 2016.

Channels: Nearly 62% traditional retailers suffered severely with the impact of demonetization because less than 1% of these retailers had the infrastructure for electronic payments. But modern retailers with the facility of electronic payment witnessed increase in sales by 21% as compared to previous year.

Trade partners: Distributors had to extend credit to the retailers as they had surplus stock inventory. As this market is based on cash and carry the sales went down as compared to previous year due to scarcity of cash.

To reduce the impact and boost the sales various companies have introduced incentive schemes also the companies are considering production cuts for a shorter time till the economy is back to normal.

Principles of Tackling Black Money

The first principle is that eradicate the systemic pain that leads to foundation of creation of black money in the first place. The department which is blameworthiness is the tax department. Black money is also generated from legitimate business transactions but these transactions are hidden from the government mainly with the motive of avoiding the payment of tax (transaction cost) in the lawful and rightful economy is usually done by using the physical cash and not by any other means. This cash thereafter must be processed to convert into consumption or investment. Black economy refers to various activities, transactions etc. that help process this physical cash, create returns on this cash, facilitate consumption using this cash etc.

The second principle has two parts. First, not all cash transactions are necessarily black money transaction. They become black money transactions only if they are hidden from the legitimate economy. Thus, a shopkeeper who does not give receipt but declares the sale (it's only hypothetical) does not create black money. Conversely, a shopkeeper who gives a receipt but discloses other receipt book to the tax authorities (happens all the time) creates black money transaction. Second, the black money must at some time or other be plugged into legitimate economy. Thus, it cannot be done using user created currency that cannot be exchanged with local currency. So it depends on legal tender. It means somewhere down the chain there must exist a person for whom part of this black money is legal cash income which he can use for his own consumption in legitimate channels. Usually, this is the construction worker, or other poorest of the poor who will give certain services and his income will remain under the government radar. It can also be illegal traders in gold or diamonds etc. Who can convert this into precious items that have quasi legal tender status.

The third insight is that black economy is incessantly fed by parts of white economy that go underground. Quite a few people who do not want to promote black money contribute to it. They are either coerced say developer forcing buyer to pay him in cash or government officer seeking bribes in cash. Therefore, primarily it is the duty of citizen to prevent white money from becoming black is the good starting point. The recommendations of Report titled Measures to tackle Black Money in India and Black economy depends on black money financiers. These are money lenders earning like 2% per month on their investments for financing the activities in black money friendly sectors. Film financing, construction financing, retailers, dance bars, alcohol, etc. These financiers also need enforcement mechanism to ensure their money is safe. Naturally they ally with criminal elements.

Other Black Money Creators

There are other critical elements in black money chain or black economy. These elements represent turning smaller amount of white money into black by aggregation and misrepresentation.

For example, take NGOs. Some of the NGOs existing only on paper. Their model is thus. These NGOs collect legitimate amounts from citizens and push it into causes like animal shelters, girl child, medical aid to needy etc. The main problem is that the costs of these NGOs is unreasonably high. They also commit fraud by misrepresenting number of animals and kind of facilities etc. creating a source of black money for the promoters who get salary and or benefits like cars and drivers from the NGOs.

Cooperative banks are another piece of the puzzle. These accept smaller deposits from individuals and loan to founders and directors. The process is illegal and escapes the law only because it is not regulated by the RBI but by Politicians who are themselves directors in such institutes.

Government aided/recognized schools, colleges and institutions which look innocuous and have no actual teachers, students or infrastructure but simply using approvals from complicit education officers create a chain wherein legitimate money turns into black money. Others institutes have proper systems but use management quota to pool students' money into black money pools for the founders. Some use both mechanisms.

Such entities are inherently different from SMEs which exist to service the needs of a wealthy black money holder or create black money through banks. These elements will be hit substantially by the demonetization and their promoters will be forced to declare these amounts or destroy them. However, the issue is that they can continue to create black money sources since their model has not been dismantled.

Role of Religious or Other Public Trusts

The model of trusts is a little different but they are as important elements in processing black money as SMEs and others listed above. The trusts are both receptacles and users of black money. They are not creators.

Some allow devotees to make small but numerous donations while spending substantial amounts on expenditures related to their promoters. Others are created out of anonymous black money donations with specific beneficiaries. Their nature makes them a hot-potato issue where they seem to be

untouchable by any government, religious entities being protected by constitution.

Will Demonetization Eliminate Black Money?

Not by itself. It is just one move of one piece in the chess board of black money. To check-mate the black money king, you have to win the board. There are various steps required as detailed above. Government can play all these moves and still fail if they play improperly. All we can say is that Government is playing well. But will it succeed? The efforts will bring massive amounts of cash into the banking system – a benefit in itself. Once the money is in the legitimate channels, it should be better utilized and revenue will be generated from its use. If that is success enough then yes.

Strategies for Tackling Black Money

The distillation of various approaches can be summarised as under:

1. Establish identity of persons (through PAN Card, Aadhar Card etc.) operating in the country citizens and foreigners.
2. Enable low the cost direct bank transfers (Implementation of NEFT/IMPS/RTGS and other formats) including direct transfers of subsidies to the beneficiaries under the Aadhar scheme.
3. Enable electronic register of assets (Underway through electronic land records, digitisation of revenue records)
4. Reform tax system so that cost of compliance is lower than cost of tax evasion. (through initiatives such as Saral forms, e-filing, self declaration etc.) Indirect tax system through simplification (GST).
5. Widen the net for disclosure by filing Income Tax return. (auto processing returns for tax refunds)
6. Regulations that increase costs for black money creating activities. (Prevention of Corruption Act etc.)
7. Create attribution chain for funds entering and exiting the country (such as through P-Notes, FDI, Prevention of Money Laundering Act etc.)
8. Create e-trails of both incomes and expenditure.
9. Control on holding of cash and physical money including Indian and foreign money. (FEMA, recent demonetisation).

Merits of Demonetization

Addressing the problem of corruption and the black economy: One of the touted benefits of demonetisation is that it would drain the swamp, as it were. Since hoarders would either have to come clean and pay punitive taxes, or have to turn their cash to trash, the system would be purged of significant amounts of black money (currency). By December 10th about 80% of the high denomination currency notes made it back to the banks. Hoarders have come up with ingenious methods of laundering their money. For example, I was told that a businessman in construction was overpaying his daily labourers in cash which he had already hoarded, and making them write refund checks.

Critics of the black economy goal argue that only a small fraction of ill-gotten wealth is actually held in cash. It has been converted into property, gold, dollars, etc. I am not convinced by this criticism. While money in its various forms

is the medium of exchange for an economy, cash is the medium of exchange for the black economy. If critics argue that the sudden shortage of money will freeze the economy temporarily and cause a decline in GDP, the same is truer for the black economy.

A second reason it might lead to erosion of black money is that it is likely to make a larger dent on the wealth of the smaller offenders - the government officers who must be paid for every small piece of paperwork to be approved.

A third reason for demonetisation is the pernicious practice of political parties “buying votes” with cash handouts during elections, particularly in rural India. This is probably the area where demonetisation might have its largest effect in the short term since this requires hoarding of cash. However, if this is where the policy has its greatest success, then it come across as blatantly self-serving and undermines Modi’s credibility for future reforms.

To reduce the extent of counterfeit money: The critics of demonetisation argue that only an insignificant fraction of currency is actually counterfeit. This is certainly true according to a study by the Indian Statistical Institute in 2016, the amount in circulation is about 0.02% of the total value of currency. However, this misses the point. The question is the extent to which this counterfeit currency disrupts daily lives of ordinary citizens and requires the Indian government to spend on defense and anti-terror activities. If it turns out that the new currency is easy to forge, then at best this causes a temporary disruption and does not solve the problem. Irrespective of the outcome, this is a useful but supplementary reason for undertaking such aggressive demonetisation.

The move to electronic currency: The government and its supporters have touted the benefits of mobile money and the use of ATM’s. While India today, even in the rural areas, is not the same as it was twenty years ago, and bank account holdings as well as access to credit via Kisan (Farmer) Credit Card schemes etc. has made huge inroads, the fact of the matter is that a large section of the population remains without access to a mobile phone capable of these transactions, or access to a bank account with a debit card. Just as building schools and toilets does not mean that their use will increase, neither will ATM’s or mobile money. A wholesale shift requires a behavioral change and users need to be convinced of their gains. Debit cards, while simpler, also require merchants to have point of sale machines. In the absence of a proper communication and electronic infrastructure this is not a useful solution. A school friend who is now a bank manager indicated that there was currently a shortage of 40,000 of these units and the two businesses that provide these were in no position to meet that kind of a shortfall. Finally, Gordon (2016) notes that credit was ubiquitous in the US in the early 20th century. Even street peddlers had access to credit from the wholesale dealers. He also notes that the ATM machine was introduced circa 1969. In other words, ATM machines diffused only after the great wave of growth was over.

An externality: Improved information about the cash economy: In including this, I have partly been influenced by Piketty’s book which I subjected my undergraduates to this semester. As Piketty notes, one of the problems facing tax policy is that the information on wealth of the richest is sparse. The same is truer for the Indian economy where very

little is known about hidden wealth. If the government’s forensic experts are any good, then the pattern of deposits should provide it with information about those who might have potentially laundered their black money and information on the various channels and modes through which black money operates. This assumes that the government has the expertise, human resources, and conviction to follow up.

Demerits of Demonetization

1. The scarcity of cash due to demonetization led to chaos, and most people holding old banknotes faced difficulties exchanging them due to endless lines outside banks and ATM’s across India, which became a daily routine for millions of people waiting to deposit or exchange Rs. 500 and Rs. 1,000/- banknotes since 9th November, 2016.
2. Several people were reported to have died from standing in queues for hours to exchange their old banknotes.
3. People in the country gets to know about it than initially for few days there is chaos and frenzy among public, it will lead to law and order problem.
4. After the demonetization was announced, about 8,00,000 truck drivers were affected with scarcity of cash.
5. Global analysts cut their forecasts of India’s GDP growth due to demonetization.
6. Destruction of old currency units and printing of new currency units involve costs which has to be borne by the government and if the costs are higher than the benefits then there is no use of demonetization.
7. Mainly targeted black money but if people have not kept cash as their black money and rotated or used their money in other asset classes like real estate, gold and so on then there is no guarantee that demonetization will help in catching corrupt people.
8. Petrol bunks announced that debit and credit cards would not be accepted since one percent of transaction / fee was charged by banks. Later it was permitted without charging any transactional tax for filling petrol / Diesel in bunks.

Is cashlessness possible in india?

But how feasible is the idea of a cashless India?

According to latest data (July 2016) available on the Reserve Bank of India, banks in India had issued 25.9 million credit cards and 697.2 million debit cards as of July end. These were net figures adjusting the withdrawn and cancelled cards. Few months earlier, this figure for credit and debit cards had been 25.4 million and 691.1 million, respectively.

Is the total number of cards enough for India to go cashless and still transact freely?

Cards are used to make transactions in three ways. First, they can be used to make payments online; second, to withdraw cash at ATM’s; and third, by swiping these at points of sale (POS) terminals at merchant establishments.

E-Commerce transactions completed using cards have not been affected by the demonetization move (except those where payments are made through the cash-on-delivery mode). But most of Indian’s other transactions take place mostly in cash. Moving the cash transactions to plastic money

would require a large penetration of POS terminals across India.

Besides, the number of cards in use is not reflection of the number of Indians using these cards, a large number of people, especially in urban India, have multiple cards.

What is the current status of POS terminal penetration in India?

According to RBI data, India had a total of 1.44 million POS terminals installed by various banks across location at the end of July. Besides, there were more than 2,00,000 ATM's across India. Are 1.44 million POS terminals enough for a country of the size of India to be able to transact cashlessly? There are approximately 1,50,000 to 2,00,000 (as per different estimates) telecom recharge counters in the state of UP alone. The RBI data do not inform about POS penetration in rural India but experience suggests that POS terminals so far remain an entirely urban phenomenon. Of the 1.44 million POS terminals, SBI, Axis bank, ICICI Bank account for 1.16 million. Four of these five banks are predominantly urban.

Should India go Cashless?

The beauty of cash is that it just works. Even in the remotest locations of India, where the State might not be present with all its paraphernalia, its writ runs in the form of currency notes that people use to do business on daily basis. The large informal economy that supports a large number of Indians also runs using cash. White money moves to informal economy with ease and helps support these livelihoods. It does not necessarily lead to the generation of more black money or pose a threat to national security. Cash transactions are not necessarily immoral transactions. They are a highly refined way in which human beings, having evolved from the barter system prevalent in the ancient period, transact business today. Cash in itself represents order and evolution.

As cash gets sucked out of the Indian Economy, this informal economy and remote areas with poor connectivity will get affected the most. It is suggested that it would take nearly six months for India to remonetise completely and restore cash supply to the pre November 8 level. In the absence of an assured transacted mechanism, there is a possibility that people in the informal sector will migrate to alternative arrangements or, worse, a parallel black economy might emerge and use old, banned currency.

Economist's costs a money supply crunch and the difficulties in using plastic money on a larger scale across a wider geography in India make it difficult for India to go cashless. Given India's economic reality, telling people to go cashless might be like telling the poor to eat cake if they can't find any bread.

Findings

The big bang initiative taken by government was necessitated to tackle the issue of counterfeit Indian bank notes, effectively nullify black money hoarded in cash & curb terrorism with fake notes. The sudden announcement created a crash crunch in the economy where in every sector was effected. The impact of the measures brought a disruption and ambiguity in short term and will show positive implication in long run. Impact of demonetization was analyzed on four sectors in this study which brought out following findings:

- Demonetization completely stalled the market for a couple of weeks .which led to increase inventory, production cuts & plants shutdown
- The consumer sector has grown at an annual rate of 5.7% from 2005 to 2015 but due to cash crunch in the consumer pockets they were forced to cut down their spending and purchase in small amounts.
- The disruption for a short term was a difficult phase .But in long run proper invoicing for each purchase will be a great achievement for economy in tracking the black money
- Demonetization has severely hit agriculture sector which includes farmers & daily wage laborers. As it employs 93% of Indian work force which use cash transactions for buying seeds fertilizers for trading products & commodities and because of scarcity of funds farmers had to face major problems which also led to less sown area.
- Demonetization did not have any major impact on Indian pharmacy market and demand for the medicines was inelastic. However, luxury hospitals saw some impact on the OPD patients.
- Demand was likely to dip for a couple of months for two wheelers where purchases were made via financing, while rests were through banked cash. No cash deals were processed during this period. But expected to revive in few months from now.
- Lack of liquidity would result in pain to primary producer who don't have much money, so that they can hold their produce for longer time and on the other hand due to lack of cash they were offered less by the buyer.

CONCLUSION

As the demonetization initiative encourages the use of plastic and electronic money, cash transactions will become less common. The transition to a cashless economy will also improve savings in financial assets which will benefit the banks and the Government. The move was also initiated to curb or eliminate the black money which impacted various sectors of the economy. There are short term implications for cash intensive sectors like consumer market and agriculture sector. In the agriculture sector, farmers faced shortage of cash in hand which led to delay in payment and affected the related companies for a short term. As cash sales account for significant amount of sales in consumer market where it was observed the customers started small purchases and negligible impulse buying. As customers and companies are shifting to cashless platform, demand will come back from unorganized players to organized ones. The automobile sector saw a short term impact where the purchases were delayed due to scarcity of funds, but was neutral for purchases through financing or banked cash. Negligible impact was seen on pharmaceutical sector as demand for the medicines is inelastic. However, in medium term, benefits through higher Government spending, better transmission, greater financial inclusion and movement of household savings from physical to financial would lead to potential growth of economy. It would also help to reduce poverty and corruption in the country.

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