

## **Perspectives**

### **Impact of Demonitization on Society: Issues and Challenges**

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When we became free, we decided to expand and improve the economy of the country as one of a comprehensive package of programs then undertaken to raise the standards of living of the people. Our approach to the problem, however, was rather simplistic. We adopted the Western model which, we thought, was ideally suited for our country. The basic emphasis in this model was on the adoption of the latest technology developed in the West and to make it available to the people of this country through

- the expansion of the bureaucratic machinery of the public works departments,
- the expansion of the institutions of education to train the agents required for the delivery of goods,
- the creation of the necessary infrastructure needed for the purpose from the big metropolitan cities to the rural areas, and
- the indigenous production of the essential currencies required.

There is no doubt that we have achieved a good deal during the past 69 years, if judged by the targets we thus set before ourselves. There is now a huge Ministry at the Centre and in the States.

On November 08, the sudden announcement on demonitization the high denomination currency notes sent tremors all across the country. Given the timing, and socioeconomic and political repercussions of the decision, many termed it a financial emergency. Given high proportion of these notes in circulation, over 86 percent, it led to most economic activities, particularly employment, affected in a big way. Political parties, however, seemed divided on the issue, i.e. those in favor of the decision feel it will help to curb the galloping size of black money, fake currency, cross boarder terrorism, etc. In sharp contrast, the others believe it is a

purely misleading, decision, based on no or poor understanding of black economy, and hence is only politically motivated in wake of the assembly elections due in a couple of states.

**Demonetization** - Dictionary definition and meaning for word demonetization. (noun) ending something (e.g. gold or silver) as no longer the legal tender of a country.

Demonetization is the act of stripping a currency unit of its status as legal tender and it is necessary whenever there is a change of national currency. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing. Indian government is more concerned about the prevalence of the parallel economy and various commissions are formed for controlling it but results are not so impressive.

Money play a significant role in the smooth development of the economic system of a nation especially if is a developing country like India. Money as a medium of exchange and store of value is an inseparable part of the socio-economic system of those countries where more people are illiterates and majority are just above poverty line or below poverty line and are over populated . Small trade in unorganized sector takes major share of retail trade in such economies. For such economies money as medium of exchange play crucial role. Such economies are responsible for the mounting black money also. Thus demonetization is good to some extent to eradicate the problem of black money and corruption but people complain sudden and unplanned demonetization is dangerous. But it is not so.

### **Efforts before Demonetization**

Since 2014 onwards the Modi government is campaigning for curbing Black Money and has ad vented new schemes to curb the same. Even as the economic case for demonetization is strong, it is possible that there were also some political economy calculations that weighed with the Government. It is common knowledge that unaccounted for cash, especially in high denominations, plays a big role in financing election expenditure beyond the authorized limits. If one critically examine the process of demonetization, boons and banes of demonetization, key impacts on various sectors that necessary to put the economy on a high growth path that would generate more jobs and make housing in the urban area more affordable to the poor. For over one month, discussion all over India was going on as to whether the move is good, with great execution or the move is bad and could have been better executed. The anti-demonetization

forces seem to have rallied against the government citing common man's hardships. It is beyond prediction that whether the demonetization move started with great hope and enthusiasm will succeed or not. However, one can safely conclude that the intentions are very good.

### **Agenda for Development**

1. Eradicating hunger, poverty and malnutrition
2. Promoting education
3. Promoting gender equality and empowering women
4. Ensuring environmental sustainability
5. Protection of national heritage, art and culture
6. Measures for the benefit of armed forces veterans
7. Training to promote rural and nationally recognized sports.
8. Contribution to the Prime Ministers' National Relief Fund
9. Contributions to technology incubators
10. Rural development projects.
11. Swacch Bharat & Clean Ganga

### **Demonetization Effects**

The immediate and short-term impact of the demonetization decision by the Indian government: changes in families' income, expenditure, and savings following the policy announcement as well as possible longer-run effects and a subjective assessment of the policy. The policy led to a drop in income, with an average drop in income during the month of November of about 10% of families' monthly income. The effect varies significantly across different groups, in particular between those receiving a regular salary and those not. The income drop is associated with a drop in consumption as well as changes in families' savings. Significant difference between past savings behaviour and expected future savings behaviour, with the expected use of bank accounts increasing and the expected use of cash as a storage of value decreasing substantially. Finally, that the majority of public view the policy overall as positive, including the majority of those that experienced some loss of income in November.

And this is not the first time in India while going through history I found some interesting and similar situation which I am not going to explain here but you can relate and see yourself.

India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. I highlights the probable consequences of this decision on various economic variables and entities.

The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large.

## **History of denomination**

### **1.Muhammad Tughlaq**

Tughlaq was a ruler who delighted in administrative experiments. When famine-like conditions and frequent revolts began straining his coffers, Tughlaq found it difficult to maintain the supply of gold (dinars) and silver (adlis) coins on a large scale. So, he introduced a token currency system and minted vast quantities of new copper and brass coins (tankas) that could be exchanged for fixed amounts of gold and silver.

While this decision helped the Sultanate's finances initially, it also proved to be lucrative to forgers who began issuing a large number of fake coins. Loopholes like a simple design (the coins just had some inscriptions) and no royal seals made the task easier for forgers. Every house became a mint for copper coins while gold and silver coins were zealously hoarded. Soon, the market was awash with fake coins.

As good money was driven out of circulation, the token coins became practically valueless, leading to hyperinflation. Foreign traders also refused to accept them, paralysing trade. Realising that his scheme had failed, Tughlaq withdrew the currency in an attempt to stem the economic chaos. However, the number of fakes was so large that for many years, mounds of worthless copper and brass coins, rejected by the government, remained piled outside the royal fort. This economic chaos and public resentment were also one of the major reasons why, by the time Tughlaq died, his kingdom had diminished to a small region around Delhi.

## 2. Nadir Shah

There are other examples that highlight the incredible fragility of the monetary system. In 1735 AD, Nadir Shah devalued his own currency, making the double paisa coin into a single paisa coin, and ordered money lenders to store no more than 50 mahmoodis (silver coins) in their shops. Unhappy with the economic results of this move, he withdrew the order later and even issued new coins, but by then the devaluation had already made common commodities more expensive.

3. Interestingly, there are two other examples of demonetisation, one in 7th century China (that allowed paper notes to be exchanged for gold, silver or silk) and one in the 13th century by Persian king Gaykhatu (whose experiment caused so much chaos that he had to backtrack within eight days)!

### **India has demonetized before**

First time on 12 Jan 1946 (Saturday), second time on 16 Jan 1978 (Monday), Third time on 8th November 2016 (Tuesday).

In the first time, the measure did not succeed, as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably ‘demonetized’, not having been presented. The results of the demonetization measure were summed up by Sir Chintaman, in his Dadabhai Naoroji Memorial Prize Fund Lectures, delivered at Bombay in February 1957, as under :

It was really not a revolutionary measure and even its purpose as a minatory and punitive gesture towards black-marketing was not effectively served. There was no fool-proof administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black-marketer. Another loophole of which considerable advantage was taken was the exemption of the princely States from scrutiny or questioning when such notes were presented by them. In the end, out of a total issue of Rs.143.97 crores, notes of the value of Rs.134.9 crores were exchanged up to the end of 1947 as mentioned in the Report of the Board of Directors of the Reserve Bank. Thus, notes worth only Rs.9.07 crores were probably “demonetized”, not having

been presented. It was more of “conversion”, at varying rates of profits and losses than “demonetization”.

In the second time, The Finance Minister H.M. Patel in his budget speech on 28 Feb 1978 remarked:

The demonetization of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements.

As the FM did not say anything about the success of the exercise, one can almost guess that it did not create much impact like in 1946.

In January 1946, banknotes of 1000 and 10000 rupee were withdrawn and new notes of 1000, 5000 and 10000 rupee was introduced in 1954. The Janata Party coalition government had again demonetized banknotes of 1000, 5000 and 10000 rupee on 16 January 1978 as a means to curb counterfeit money and black money.

In 2012, the Central Board of Direct Taxes had recommended against demonetization, saying in a report that "demonetization may not be a solution for tackling black money or economy, which is largely held in the form of Benami properties, bullion and jewelry".

On 28 October 2016 the total banknotes in circulation in India was 17.77 lakh crore (US\$260 billion). In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore (US\$240 billion) of which nearly 86% (around 14.18 lakh crore (US\$210 billion)) was 500 and 1000 banknotes. In terms of volume, the report stated that 24% (around 22.03 billion) of the total 90,266 million banknotes were in circulation.

During 1946 and 1978 also there was demonetisation. Though it didn't have a great impact of economy

In 1946 500, 1000 and 10000 Rs note have been demonetized and after some years of demonetisation 10000 Rs note was again launched in market.

Same in 1978 during the time of Janta government led by PM Morarji Desai this step was taken.

- 500,1000,10000 Rs note were demonetised.
- After which 10000 Rs was totally stopped in market.
- At that time it was very less approx 15% of the money exchanged.

- And now in 2016 again a courageous step of demonetisation has been taken. But this time it is 86% of the money in circulation which has been changed.
- Hope so it brings good to people.

When the previous demonetization took place the percentage of the demonetised currency in the economy was very less around 5–7 % so it could neither create an impact to much of the population. But this one with around 86% currency in the demonetised currency denomination. It could impact the general public as well.

Demonetization was first attempted by Janata Party Government under leadership of Moraraji Desai in the year 1978. The higher denomination currency notes were cancelled. However, the aggregate value of all the cancelled currency notes was Rs. 55,00,00,000 as against the recent value of Rs. 14,00,000 crore.

India in 1978, 1990 and 2016 are just not comparable.

Demonetization is also tried in other countries, however, there no examples that such an exercise having helped avoiding 100% of black money, since, most of the money is kept in form of real estate, gold and alike assets.

### **A brief history of India pulling bank notes from circulation**

In 2010, a new symbol ‘₹’, was officially adopted. It was derived from the combination of the Devanagari consonant “र” (ra) and the Latin capital letter “R” without its vertical bar (similar to the R rotunda). The parallel lines at the top (with white space between them) are said to make an allusion to the tricolour Indian flag, and also depict an equality sign that symbolizes the nation’s desire to reduce economic disparity. The first series of coins with the new rupee symbol started in circulation on 8 July 2011.

In a major step to check undeclared black money, the Government of India on the 8 November 2016 announced demonetization of Rs 500 and Rs1000 banknotes with effect from the same day’s midnight, making these notes invalid. Apart from combating black money, the stated purpose is also to check fake currency (used to finance terrorism) and corruption. A new redesigned series of Rs500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10 November 2016. The new redesigned series is also expected to be introduced to the banknote denominations of Rs1000, Rs100 and Rs50 in the coming days.

The Indian rupee (INR) is the official currency of the Republic of India. The rupee is subdivided into 100 paise (singular paisa), though as of 2011 only 50 paise coins are tender. The

issuance of the currency is controlled by the India. The Reserve Bank manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934. The rupee is named after the silver coin, rupiya, first issued by Sultan Sher Shah Suri in the 16th century and later continued by the Mughal Empire.

However, this is the first time that Rs 2,000 currency note is being introduced.

- While announcing currently circulated Rs 500 and Rs 1,000 notes as invalid from midnight 8 Nov, Prime Minister Narendra Modi said new Rs 500 note and a Rs. 2,000 denomination banknote were introduced from November 10.
- Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979.
- The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms.
- In the year 1980, the legend Satyameva Jayate — ‘truth alone shall prevail’ — was incorporated under the national emblem for the first time.
- In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark. Mahatma Gandhi (MG) series banknotes – 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000).
- The Mahatma Gandhi Series – 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 and contained some additional/new security features as compared to the 1996 MG series.
- The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively.
- When the bold step to demonetise existing 500- and 1,000-rupee currency notes was taken last week, the ‘little inconvenience’ that went as a suffix pointed to the adjustments that had to be made by households which had to convert these notes into deposits or partly back into cash with the new currency notes. The inconvenience was conceived in terms of the honest man

or woman standing in queues to follow the rules of the game for the larger cause of unearthing *black money*.

- It wasn't hence exactly a demonetisation exercise—as it does not dispense with the value of a note—but one that simply replaces the existing notes with new ones, thereby addressing the issues of counterfeit currency and black money. In countries where currency notes are demonetised, the denominations simply disappear from the system. While it has been argued at various fora that we need to move away from a cash economy to a virtual one, this particular move does not really connote the same as theoretically one can, over a period of time, exchange X number of old 500-rupee notes for the same number of the new 500-rupee notes.
- It is true that when such measures are taken there would be distortions in the equilibrium. Also, all possibilities cannot be addressed, and while the issues concerning households' cash management was paramount in the government's mind, there are other challenges that have come to the fore which need addressing.
- The first is agriculture. This is one sector where all transactions are in cash and, given the values involved, involve the higher denomination notes. The withdrawal of the old currency notes has put pressure on the mandis; farmers are having problems in selling their produce as both the parties have to agree on the mode of payment. This has the potential to lead to localised shortages which would not really matter but for the fact that it can lead to price increases that can reverse inflation's downward trend of the last few months. At the broader level, the fact that this sector is monetised through cash—and is mostly not tech-savvy—does flag the issue of the grand design of having a common market for agricultural products, which will not really take off until these loose ends are tied.
- The second is the unorganised manufacturing sector that falls in the category of SMEs. These units work on the basis of cash, with purchases being made through this mode; all do not have access to credit and their creditworthiness could be of a lower grade. These units would find it a challenge to convert their currency—any time-lag in their operation can affect their functioning and hence there is a concern here. Wage payments, mostly made in cash—as labour in this segment is unorganised, and employed on a daily basis—also becomes a consequent problem. The shortage of currency notes and the restrictions on withdrawals have a short-term impact on these units which must strive hard to meet these requirements.

- The services segment is probably the one that is impacted with greater intensity as the decline in business levels is irreversible. Restaurants, transport operators and trade in particulars are witnessing lower levels of activity which will not increase once normalcy is restored. Hence, unlike consumer goods, where there can be a deferment of demand to normal times, a meal excluded today will not be carried forward. The same could hold for tourism too where plans would not be deferred by regular tourists. Foreign tourism, in particular, will be affected the most as several tourist spots in the country do not accept cards and insist on cash, which becomes a nuisance for tourists. This is one area that will probably take some more time to recover, thus impacting overall production levels in the country.
- Therefore, the mission to remove old notes and substitute these with new ones has to be accomplished fast so that the negative impact on these sectors is reversed. The government did time it well to ensure that it did not come in the way of the festival-demand season so that growth impulses would remain in the manufacturing sector. However, the present demonetisation period coincides with the harvest season which goes on till December; farmers will find it testing while selling their produce. There had to be a trade-off since almost any time-period would be associated with specific economic activity.
- To the credit of the government, it must be added that the entire Jan Dhan Scheme laid the foundation for ensuring that everyone had access to a bank account so that monetary transactions are lowered and funds transferred to these accounts. However, this habit has not yet caught on. This has led to the present challenges in the farming sector in particular.
- This clean-up operation would cause some dislocation and discomfort for the economic agents and households, but would, in one stroke, remove black money from the system, though the actual quantity will be known only by the end of the year. Black money is not held in just currency, but also in property and gold. Hence, this would be just one part of the story. In the medium-term, there could be correction in prices of property, though overall inflation should remain neutral as cash was not being used in a big way to spur demand of non-food items. The price of gold could decline to an extent, but given that we are price-takers in bullion, this will still be driven by the relation between gold and the dollar. GDP growth would get affected in Q3 and probably also in Q4, but should mean-revert in FY18. The speed of recovery will depend on whether or not the system stabilises after the 50-day period following the announcement. The

government too may not really be affected much, considering black money would not come forward to be taxed and penalised.

- Therefore, this exercise—probably the first of its kind given the scale—is more of a strong signaling mechanism, one that sends out a warning that the government will spare no effort to cull out black money in the system. It will definitely move people to the system of using plastic cards and other online and mobile applications in course of time and hold less cash. Currency will probably be held now onwards more for ‘precautionary purposes’ and not ‘transactions purpose’ or ‘speculative purpose’ as defined by conventional macro-economic theory. This will be good for efficiency.

### **Views and Counterviews**

The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step.

Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. There was need to pile up enough 100 Rupee notes and other smaller denomination notes in the market before taking this step. It is being said by critics that this step was taken only to bolster the image of the Prime Minister as he has been unable to deliver on GDP growth, inflation and bringing the black money from abroad.

Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation. This is not tackle corruption per se or the Government is not saying that 100% corruption will be tackled. If announcement and time would have been given, this step might not have been successful in controlling black money and counterfeit currency in circulation coming from Pakistan, Nepal or other countries.

People are facing problems because the limit of withdrawal has not been kept at a higher level. If this would have been kept at a higher level, there were chances that the recycling of black money might begin. The ideal money in circulation has to come to the banking channels.

It is also being said that what is being attempted is replacement of currency and not demonetization itself which was unnecessary. This is a terrible setback for the international standing of the Indian economy. At this time, the economy is struggling with slowdown. There is demand sluggishness in the economy leading to practically no private sector investment and stagnant industrial growth. If we look at the farm sector, this is the harvest time. Farmers generally deal in cash and India is also largely a cash economy. The cash transactions in this economy are far more than the total number of electronic transactions done on a daily basis. In the tribal heartland of the country, the poor people through middlemen are getting their currencies exchanged for Rs.300 or Rs.400 because of lack of proper information which is hitting them.

The stock of the black economy constitutes a major part of the GDP is significant. Even if 50% of this amount is withdrawn, the kind of relief that RBI will get on its liabilities and the sort of deposits commercial banks will get will lead to a rise in the deposit and later on there will be decrease in lending rates plus fiscal deficit. The black money in circulation is like a steroid in the economy which keeps the demand going gives a feeling that everything is working well. The problem is that investment is not taking place in the economy and the rate of growth of capital formation is down. The only way to bring this up is to divert more funds into investments which will happen when the cost of capital comes down.

Let us not forget that decision makers are mere palliatives and not solutions to the problem. In fact, there is no purely technological answer to the basic problems in life;

### **An Appeal**

In my view, to develop an alternative systems of transaction services for India. we must take two other steps:

- (1) A large nation-wide debate should be promoted on the failure of the existing system of services, on the reasons for its failure, and on the general principles and major programmes of the alternative systems which we must develop.
- (2) The Business Communities, Politicians and others should set up a competent group to prepare a Draft Plan of Services in India and submit it to the authorities concerned within one

year from now. This will help us clarify our own thinking and will shed new and valuable light on details which generally tend to be ignored. Quite obviously, such a plan will help in mobilizing public opinion and in influencing official policy.

Our world seems entangled in systems increasingly dominated by power, greed, ignorance, self-deception and denial, with spiraling inequity and injustice. Against a backdrop of climate change, failing ecosystems, poverty, crushing debt and corporate exploitation, the future of our world looks dire and the solutions almost too monumental to consider. Yet all is not lost. As an Optimist of international development, suggests that the problems can be solved and everyone has the power at a personal level to take action, develop solutions and remake our world as it can and should be.

With so many possible ways forward, strategic planning is needed on several levels, and processes with available resources, as Central and State governments have to match targets well as setting and monitoring standards to safeguard all dimensions of social life and the environment. Locally, best planners need to offer enough flexibility to enable communities to determine their own ways to satisfy their needs, while motivating rapid progress towards improvement targets.

We simply cannot wait. By acting decisively we can now make a positive impact on health, education, women's safety, social equality and economic growth for generations to come by moving from "Prosumerism" i.e. favoring Corporate producers to enhance the markets for their so called Sectoral products ,to "Consumerism" what is useful and help to solve the problems from the Bottom Up perception, which promotes Gandhian principles of "Self reliance" and "Self sufficient" in India.

This attempts to a social franchise model having a participatory approach, not just focusing on every households as customers, but also engaging and empowering them as part of the solution. For this focus on our traditional knowledge and retrieving our steps from modern western fire fighting approach using us as cog in the Corporate machine to enable to find their own ways to stand on our own legs and partner of the solution against the corporate politics of the modern world.

The objective is to hold a comprehensive dialogue to conceptualize the complex cultural, social and economic issues, and to undertake an incisive perspective on growth of new

culture with dawn of new civilization. We will set up the roadmap for future strategy, and interventions, and will add to the corpus of knowledge and research on Culture of India.

### **Feasibility**

That there are immense difficulties in the development of these programmes is obvious. Among them, I might mention the following:

- The existing infrastructure and professional groups have become a big vested interest. It is necessary to make them aware of the issues involved and of the urgent need for alternatives.
- The vested interests of the well-to-do and urban groups who hold real reins of power would obviously be the biggest hurdle. An appeal should certainly be made to their role of trusteeship and to their enlightened self-interest.

This is a difficult task; but the only possible solution to the problem. Fortunately, it is not beyond a committed band of de- classed intellectuals and the emerging leadership from the masses.

Faced with these realities, I cannot conclude better than with the words of Bhavabhuti who divided all people in to three categories: the lowest, the middle, and the highest. He said:

- The lowest do not begin for sheer fear of failure
- The middle ones begin but stop as soon as difficulties arise
- The highest begin and never abandon, in spite of repeated blows from difficulties, till success is won.

The problem exists; we cannot escape from it. The difficulties are undoubtedly great: we cannot ignore them. The only choice open to us is to decide which of these three categories of Bhavabuti we shall join. I am afraid each one of us will have to answer the question for oneself, with God as the sole witness.