

## DEMONETIZATION: A SHORT TERM CHALLENGE AND LONG TERM EDGE TO UPLIFT INDIAN ECONOMY

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### ABSTRACT

*The motive behind the Government step that 500 and 1000 currency notes will no longer be a legal tender from 8th November 2016 midnight in a helicopter how over manner was mainly to curb black money with other objectives like to tackle corruption, terror finance, counterfeiting and others. The question which was raised after this step among most of us was that what will have been gained from this step, and at what cost and mostly borne by whom. The present study is conducted to access that how well the implementation process would open out to the economy. The objective of the present study is to analyze the impact of demonetization and to study whether it has shown success in reducing black money and other problems facing by Indian economy at present. The research methodology used in the present study is based on primary and secondary data. A well designed questionnaire was prepared for the study. The paper concludes that demonetization proved to be a successful measure initiated by government and also it will prove to be a game changer in long term as it helped to curb black money and disclosing hidden income. The results shows that it is also a truly daring step in the best interests of India and its people. The step of demonetization also promoted the economy to shift towards cashless or going digitization which further have many benefits.*

**KEYWORDS:** *Black Money, Cashless, Demonetization, Economy.*

### Introduction

India is not a first country which has taken steps like demonetization to tackle problems like black money, terror finance, corruption etc. Other countries like Singapore in 1945, Fiji in 1969, Ghana, Nigeria in 1984 and Myanmar in 2015 too have also taken these measures to fight against the similar problems and found execution. In India too earlier government have taken the steps of demonetization in the year of 1946 and 1978 respectively. So overall the exercise which has been took place on 8th Nov. 2016 to declare Rs. 500 and 1000 note not to be a legal tender was not a step which was never has been taken place. The different here was that earlier when this was done in other countries they have given a time period to the public to close or declare the old currency of no use. This time the new thing is that without earlier notice government has suddenly declare the demonetization of Rs. 500 and Rs. 1000 note. The idea which Indian government was making that with this step nearby 40% of the currency will not come back to the system was came to wrong as the report states that nearly 97% of the currency came back. But again it's not like that it proved to be a wrong exercise as this step leads to a short term challenge but will prove to be a long term benefits to the economy in lifting towards upward. There are many reasons how 97% of the money came back to the system as many of misleading and wrong steps would have been took place and to tackle or stop those ways government decisions would prove to be late. Some of them will be discussed in this paper further. But through this exercise our government would also be able to solve many problems that will help further to boom our economy. With add-on to the step of demonetization others steps too has been taken by the government in order like creation of

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the Special Investigative Team to probe Black money; Passage of legislation such as Black Money and Imposition of Tax Act 2015 and Benami Transactions Act 2016; Information exchange agreement with Switzerland; Changes in tax treaties with Tax haven countries such as Mauritius, Cyprus and Singapore to prevent money laundering and income disclosure scheme to give one time opportunity to hoarder of Black money to disclose his income which is not taxed. to tackle the problem of black money. So in this way it can be said that all these measures may be bring a short term pain like declining in GDP in short run but will definitively leads to a economy where successfully measures like cashless economy, etc will be working and leading towards success and we will be able to compete other economies like USA, UK and other countries and will become a competing developed economy.

#### **Rationales of Demonetization**

The supply of currency notes of all denominations has seen an increase by about 40% during the period between 2011 and 2016, the Rs. 500 and Rs. 1,000 denomination notes has increased by 76% and 109% respectively during this period due to forgery. This forged cash is usually used to fund various terrorist activities against India like:

- To curtail corruption
- To prevent Counterfeiting of notes, where high denomination notes are used for terrorist activities
- To curb accumulation of "black money" which is generated by income that has not been declared to the tax authorities.
- The extent of cash usage:

Cash accounts for 78 percent of all cash payments in India according to the Wattal committee. According to PWC (2015), India has a very high predominance of consumer transactions carried out in cash relative to other countries (accounting for 68 percent of total transactions by value and 98 percent by volume). By announcing the larger denomination notes to be useless, the individuals and various black money launderers with huge collection of black money generated from the parallel black cash systems were affected and made to convert the cash money through a banking system which requires tax information from the entity.

#### **Literature Review**

PM Modi's Surprise Move of Demonetization Shock the world. Opposition Parties created huge turmoil in parliament. Even our ex-prime minister Shri Manmohan Singh broke his long awaited silence and said it is a case of "Organized Loot and Legalized Plunder." He also gave a supporting statement it is a bold step and should be implemented in well managed manner. Act of Demonetization happened in other countries as well where public refuses to accept the decision resulting a big failure for government who implemented in their rule (**quora, 2016**).

**Rahul (2017)** in his paper titled " Black Money and Demonetization" stated that demonetization was one of the step to tackle the problem of black money. The paper also discussed the various strategies that will help in tackling black money issue. Further it has been found in this study that demonetization was a somehow successful step taken by the government but it has not resulted a magical windfall gain to the economy. The paper discusses that how reducing the use of cash will help in reducing the chances of black money. The paper concludes by exploring that there exist other ways too to create black money and what other actions government should take to handle this problem.

**Syamsundar (2017)** has done a research on "Demonetization: A comparative study". In his research he has explored the need and importance of demonetization in India. The paper also explained the effect of demonetization on Indian economy. It is found in the study that demonetization seems to be a bitter pill but this steps shows success in replenishing the economy from being ruined by black money, corruption and others. The paper concludes that in short run this step will definitely effect GDP and create unemployment but it has promoted to use cashless transactions and in the long run it will improve the efficient way and show success.

**JR Financial (2017)** carried out the study on demonetization. In this study they have analyzed the impact of demonetization on various sectors with different intensities and across various time zones. The study found that by this step the demand in various sector has fallen like reduce in demand of car, gems and jewellery, retail demand and others. The paper further states that this action will increase the demand for receipt based business and bring the dabba trading, satta bazar and other alike activities to the end.

**Muthulakshmi (2017)** in her paper titled Impact of demonetization on Indian Economy has found that demonetization has created a situation of liquidity crunch in the short run and has created a welfare loss to that part of the society who was using or dependent on cash. The study stated that only a small portion of black money is generally stored in cash as rather it is stored in other mediums like gold, real state etc. But this move has definitely created awareness among people and motivated them to fight against corruption and black money.

**Tax Research Team (2016)** in their working paper stated in favor of demonetization. Its main objective was to analyze the impact of demonetization on Indian economy. This paper shows the impact of such a move on the availability of credit, spending, level of activity and government finances.

#### **Objectives of the Study**

- To study the short term challenges and long term benefits of Demonetization.
- To explore the impact of demonetization.
- To find out the how digitization help to bring changes to our Economy.

#### **Research Methodology**

- **Research Design**

This research study is descriptive in nature.

- **Data Collection Instrument**

Both the primary and secondary data collection methods were considered. The primary data was collected through a questionnaire designed for the study. Secondary data was taken from various Research papers, Journals, Magazines and Websites.

- **Sampling Plan**

- Targeted population: Individuals
- Sampling method: Convenience sampling
- Sample size: 60

- **Tools of Data Analysis**

The data and information collected is classified, tabulated and processed and its findings are presented in a systematic manner.

#### **Short term Impact on Economy, Business, Wealth**

In spite of its long-standing potential, demonetization will bring about some short-range costs on the economy:

- **Impact on Business Mostly Depends on Cash**

The step would front to a shortfall in cash in circulation for a temporary basis and have impacted business house which mainly was depend on cash but things would have been came on track very shortly and the impact was much smaller than what was perceived. While the new Rs. 2000 notes that replaced the demonetized currency were not as liquid as the demonetized currency but the shortfall is narrowing rapidly. Many business houses those were totally dependent on cash suffered and people working there either lost their job during that period or got their money delayed.

- **Impact on GDP**

The impact of demonetization on GDP and economy was adverse as the GDP of March end quarter was 6%. But it is believed that soon economy will come back to track and In the medium term, with the implementation of this step and others like implementation of GST and other structural reforms, growth is expected to get back to the 8-10 percent range.

- **Impact on Wealth and Aggregate Supply, and Uncertainty effects:**

While the wealth, supply side and uncertainty effects are impossible to predict in quantitative terms, but some qualitative assessment is possible. For example:

- **Uncertainty Effects:** Uncertainty caused consumers to postpone purchases and firms to put off investments in the third quarter. But as the economy is remonetised and conditions normalise, the uncertainty should dissipate and spending might well rebound towards the end of the fiscal year.
- **Impact on wealth:** Similarly, there was clearly a wealth shock in the initial months, as cash assets were turned into the banks (from where they were difficult to withdraw), but as restrictions are lifted this effect should disappear as well.

- **Supply-side effects:** Demonetization could also affect supplies of certain agricultural products, especially: milk (where procurement has been low), sugar (where cane availability and drought in the Southern states will restrict production), and potatoes and onions (where sowings have been low).

For the effects of demonetization to prove non-permanent in nature, decisive policy actions need to be taken to clear away the uncertainty and dispel fears of an overzealous tax administration.

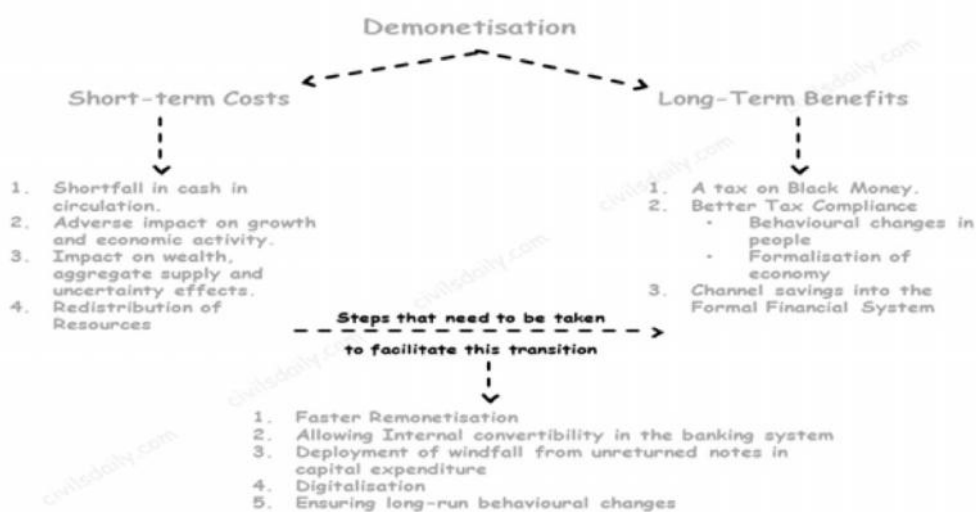
- **Redistribution to the Government:**

Demonetization will also redistribute resources. For example, the black money holders have reportedly laundered their money by employing people to stand in queues. It could be a positive wealth effect because cash would go from agents with a low propensity to spend to those with a greater propensity to spend.

- At the same time, however, there could be some negative effects too, e.g.
- Costs of printing new notes over and above normal replacement.
- The costs of sterilizing the surge in liquidity into the banking system via issuance of Market Stabilization Scheme bonds.
- If nominal GDP growth declines, corporate and indirect tax revenues of the centre could decline.

- **Advantages from the step of demonetization**

- The whole money was not received back to RBI and the remained unreturned currency will create some gains to RBI as its liabilities would have been reduced.
- The second benefit which government would have from this step is that as many people who in the heat of the moment deposited a large sum of money in their account which is unexplanatory would come under income tax inspection and income taxes could go up.
- Whatever black money is being declared under various schemes will help in transfer of wealth from holders of illicit black money to the public sector and government will be able to use this money in various productive ways that will help our economy in upliftment.
- It will definitely increase the tax payer number as tax evaders may not be able to continue further and because of fear of penalty and other strict regulations they would more be interested now to move with tax compliance.
- One of the advantage after this demonetization step is that shift of people from use of cash to cashless transactions which too have many advantages to our government, public and to financial system.



### Government Initiative

In the wake of the demonetization, the government has taken a number of steps to facilitate and incentivize the move to a digital economy. These include:

- Launch of the **BHIM (Bharat Interface for Money) app** for smart-phones based on the new Unified Payments Interface (UPI) which has created inter-operability of digital transactions.
- Launch of **BHIM USSD 2.0**, a product that allows the 350 million feature phone users to take advantage of the UPI.
- Launch of **Aadhar Merchant Pay**, aimed at the 350 million who do not have phones. This enables anyone with just an Aadhar number and a bank account to make a merchant payment using his biometric identification.
- Reductions in fees (Merchant Discount Rate) paid on digital transactions and transactions that use the UPI.
- There have also been relaxations of limits on the use of payment wallets.
- Tax benefits have also been provided for to incentivize digital transactions.
- Encouraging the adoption of POS devices beyond the current 1.5 million, through tariff reductions.

As a result of all these number of digital transactions has increased considerably. Data from the National Payments Corporation of India (NPCI) show that RuPay-based electronic transactions increased by about Rs. 13,000 crore in case of POS transactions and about Rs. 2,000 crore in e-commerce, an increase of over 300-400 percent. Same has been the case with debit card, credit card and AEPS (Aadhar-Enabled Payments System) transactions.

### Data Analysis and Interpretation

**Table 1: Frequency Distribution of Respondents on the basis of Age**

S. No.	Age	No. of Respondents	% of Respondents
1	0 -25 Years	4	7
2	25-45 Yrs.	21	35
3	45-65 Yrs.	22	36
4	65 Yrs. and Above	13	22
	<b>Total</b>	60	

Source: Researcher's Survey

**Table 2: Frequency Distribution of Respondents on the basis of Education**

S. No.	Education	No. of Respondents	% of Respondents
1	Upto12 <sup>th</sup>	3	5
2	Graduate	15	25
3	Post Graduate	23	38
4	Professional Qualification	19	32
	<b>Total</b>	60	

Source: Researcher's Survey

**Table 3: Frequency Distribution of Respondents on the basis of Occupation**

S. No	Occupation	No. of Respondents	% of Respondents
1	Service	32	53
2	Business or Profession	22	37
3	Others	6	10
	<b>Total</b>	60	

Source: Researcher's Survey

**Table 4: Frequency Distribution of Respondents on the basis of Annual Income**

S. No.	Monthly Income	No. of Respondents	% of Respondents
1	UptoRs. 25000	7	12
2	Rs. 25001- Rs.50000	25	42
3	Rs. 50001- Rs.75000	17	28
4	Rs. 75001 and above	11	18
	<b>Total</b>	60	

Source: Researcher's Survey

**Table 5: Do you think that black money exists in India?**

Particulars	No. of Respondents	% of Respondents
Yes	60	100
No	0	0
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 6: Do you think the evil of corruption and black money needs to be fought and eliminated?**

Particulars	No. of Respondents	% of Respondents
Yes	60	100
No	0	0
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 7: What do you think of the Modi Government's efforts against corruption so far?**

Particulars	No. of Respondents	% of Respondents
Very High	18	30
High	26	43
Neutral	5	8
Low	8	14
Very Low	3	5
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 8: What do you think of the Modi Government's move of banning old Rs. 500 & Rs. 1000 notes**

Particulars	No. of Respondents	% of Respondents
Outstanding	13	22
Very Good	29	48
Neutral	3	5
Not Good	9	15
Useless	6	10
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 9: Do you think demonetization will help in curbing black money, corruption & terrorism?**

Particulars	No. of Respondents	% of Respondents
Immediate impact	6	10
Impact in medium to long term	32	53
Minimal impact	7	12
No Impact	15	25
Don't know	0	0
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 10: Demonetization will bring real estate, higher education, healthcare in the common man's reach.**

Particulars	No. of Respondents	% of Respondents
Completely Agree	25	42
Partially Agree	19	31
Disagree	16	27
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 11: Economic Impact of Demonstration**

Particulars	No. of Respondents	% of Respondents
Positive	46	77
Negative	14	23
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 12: Did you mind the inconvenience faced in our fight to curb corruption, black money, terrorism and counterfeiting of currency?**

Particulars	No. of Respondents	% of Respondents
Not at all	29	48
Somewhat, but it was worth it	11	19
Yes	20	33
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 13: . Do you feel that Demonetization motivate people to shift towards Cashless methods**

Particulars	No. of Respondents	% of Respondents
Yes	52	87
No	8	13
<b>Total</b>	<b>60</b>	

Source: Researcher's Survey

**Table 14: Overall, what do you think about the Government's moves to tackle black money?**

Particulars	No. of Respondents	% of Respondents
Outstanding	17	28
Very Good	29	48
Neutral	3	5
Not Good	7	12
Useless	4	7

Source: Researcher's Survey

**Findings**

- Almost everyone feels that black money exist in India and it needs to be eliminated by taking some initiatives by the government.
- More than 70% of the respondents feel that Modi Government has taken good initiative to fight corruption and demonetization was right decision of the government towards tackling black money and corruption.
- Majority of the people feel that demonetization help the country in reducing the cost of the services and will make it possible to reach them to common people.
- 50% of the respondents states that they faced problem during demonetization but majority of out of them also feels that this step is having a positive impact on the economy.
- More than 86% of the respondents accept that the government step of demonetization will induce people to shift towards cashless transactions from using cash and this will help our economy to move towards a successful cashless economy.
- Overall the step of demonetization was right and will help to grow our economy.

**Future Markers of Success: The Way Ahead**

In the further stage the emphasis of the government must be to reduce or minimise the cost of demonetization and to maximize the demonetization benefits. To that extent government should focus on following area:

**Employment of windfall money in capital expenditure:** Meanwhile, the government windfall arising from unreturned notes should be deployed toward capital-type expenditures rather than current ones. And since the windfall will be one-off its use should be one-off and not lead to entitlements that create permanently higher expenditures.

**Digitalization:** In the medium term, the impetus provided to digitalization must continue.

**Ensuring Long-Run Behavioural Changes:**

In order to ensure that demonetization proves a catalyst for long-run changes in behavior, measures to complement demonetization with other non-punitive, incentive compatible measures that reduce the incentives for tax evasion must be introduced.

**Conclusion**

Findings of this study suggested that people support the decision of demonetization irrespective of their age, gender and income. They do not feel that demonetization would affect the growth of the country and strongly feel that this step will help the economy in upliftment. However some of them feel about poor implementation of the decision but with other initiatives too which the government is working on we will we succeed in tackling the problem of black money.

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