

## Demonetization: then versus now- a new feather (2016) in the old hat(1978)

Mr. Shubham Gupta

Allahabad ,Utter Pradesh, India.

### Abstract

The current situation of demonetization is a subject of discussion. The major area which is affected with this step of regime is consummately the sector which was working on the substratum of daily cash flow. The middle level and the higher income individual are not much affected with this situation because they have their own ways to tackle the issue but the major quandary and confusion aroused with the lower income group people.

In this study a comparison has been made between the current scenario, the current policy for demonetization and the one that happened in year 1978, with regard to both the advantages as well as the disadvantages of this to the national economic policy and the public at large. This study is focused on the areas which were unrevealed and left out where demonetization of higher bank notes leaves its print in illegal ink. It was understood that the biggest beneficiaries of demonetization move was the E-wallet companies, the startups like paytm, freecharge etc.

**Keywords-** Demonetization, economic policy, black money, corruption, terror

### INTRODUCTION

Demonetization as described by investopedia web portal, is the act of removing a currency unit of its status as a legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency.

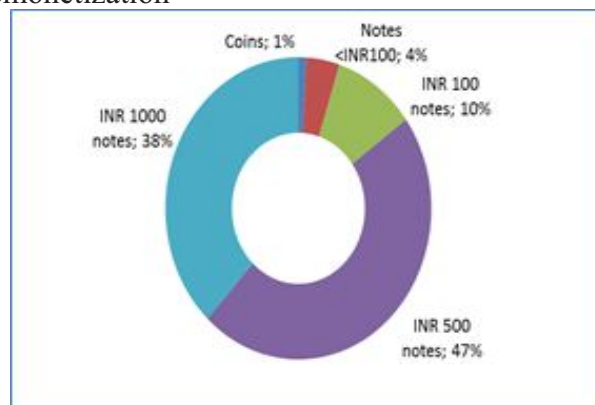
In the age of the modernization and consumerism, the desire for high-end living and facilities can be felt at large in the society. This has led to the habit of seeking 'more and more' wealth, to become a millionaire overnight by any means. On November 8th, 2016 Prime Minister of India, Mr. Narendra Modi, announced his government's first major step against the thriving black money problem in the country. It is by large, the boldest step ever taken in the history of Indian economy.

The PM candidly mentioned the three main objectives of demonetization decision,

- 1- To curb the menace of the unauthentic and spurious currency.
- 2- To wipe out unaccounted and tax evaded wealth stored in such high value notes.
- 3- To avert utilization of high denomination notes for terror financing.

Though the Demonetization is not an incipient concept for the nation it took place earlier with some different objectives and different techniques were utilized. At the time of the previous demonetization experiment in 1978, the rudimental concept was to transmute the higher currency notes into the lower currency worth of banknotes. The circumstances at the time of 1978 were thoroughly different because at that time the Rs.1000, Rs.5000 and Rs.10000 denomination was having the highest worth but less circulation in the market so the decision did not hamper the general public interest but if we verbalize about the current situation of Rs. 500 and Rs.1000 banknotes having the quota of 85% over the total notes just because the circulation of these currencies was so high and most of the public was thoroughly dependent upon these banknotes hence it left a mark on the economy as well as the public in a derogatory manner. This time it was having advers impact on Indian economy, but according to other authors (Ganesan G, Kotnal JR, Mali V) these are temporary impacts , but in the long run this move will be beneficial for the Indian economy.

**Graph-1** Currency percentage at the time of demonetization



From above diagram ,we see that Rs 1000 and Rs 500 notes accounts for 85% of the total money in the system. followed by 10% notes of Rs 100 denomination .

So that the impact was very high on Indian small farmers, business man and middle class citizens.

### REVIEW OF LITERATURE

As described by S Abda (2017) Demonetization will have positive and negative impact on Indian economy, it may control black money and fake money, it also created inconvenience to the persons depends on cash for transactions, poor sections of the society and farmers.

Some authors like Shirley, M. A. J. (2017) has criticized this activity, and they have the opinion that Demonetization represents much more than destabilization; it has struck a body blow on the economic activity in India. While the supporters and implementers of demonetization may have had good intentions, the suffering it has caused to millions of Indians is unwarranted. Because 86% of the currency was devalued in rural area. There was setback to the Indian economy. But this phase is temporary. Once economy stabilizes then there will be rise in economic activities.

According to Ganesan, G., & Gajendranayagam, B. (2017) the demonetization is one time draining of black money, but it requires strong policies to remove root causes of corruption in country. Agriculture sector was worst affected due to this move by government. In long run this will be beneficial to the economy.

As per study of Dr J R Kotnal, 2017, Demonetization is not good in short run, but it will be good for the economy in long run. to do so in the near term and will also impact India's growth for the coming two quarters will hamper, but after that economy may recover.

E wallet will get boost, due to demonetization the cashless transactions will increase, some examples given by V Mali (2016) are of examples of Paytm, PayU India, MobiKwik, and Freecharge and so on. Such E-wallets are the biggest beneficiaries of this move of government.

Demonetization has positive and negative impacts, but this was normal in case of any big policy decision.

### RESEARCH METHODOLOGY

According to the nature of present research work, descriptive type of research design was accepted. It is based on secondary data. The researchers has collected and analyzed research work of other authors,

in review of literature, this study aims at discussing positive and negative impact of demonetization by Indian government in year 2016.

### RESEARCH PROBLEM

What are the basic differences among the previous and the current demonetization and the effect of this decision with respect to the varied circumstances and different time slots?

Research objective

1. To study the events and circumstances that lead to one of the boldest moves in the history of Indian economy.
2. To study the outcomes- short term and long term expected and how far will we go into actually achieving them.
3. To understand the positive and negative impact of demonization.

The demonization of 1978 and 2016 were different due to the gravity of their impacts on normal Indian citizens. Rs 1000, Rs 5000 and Rs 10000 were devalued during 1978, then economy size was small as compared to 2016 Indian economy. In 1978 high value notes in circulation were less than 10% of the total circulation as compared to 85% of the total circulation in 2016.

### Demonetization the journey from that day to this

Demonetization is nothing incipient to the Indian economy. The country's financial system has been dealt this blow in the past as well. The first being in 1946, later in 1978 and conclusively on November 8 2016. The current study is a comparative analysis of the latter two. In 1978, when the government decided to demonetise the higher currency of Rs.1000 Rs.5000 and Rs.10000 they were prompted to make an opportune ordinance for the exchange of these banknotes and there was a separate window arranged for these kind of exchanges in the RBI offices only. The rotation of these banknotes was proscribed in the market so that it hampered the market a little because the fraction of these banknotes in the total currency circulating was minuscule. Additionally there was the policy that one could exchange the currency till the year of 2015 so there was a long period for exchanging of these currency notes. Until the reissue of the Rs.500 and the Rs. 1000, Rs. 100 relished the high worth currency for a decade and after a long period there were needs arising for the higher worth of bank notes because higher caliber trade and to make payment facile into the country,RBI then relaunched the currency notes of Rs 500 in the year of 1987 and Rs.

1000 in 2000-01. At that time itself, the highest portion was of Rs.50 and 100 at 65%. It was later recorded to be reduced at 55% and further at 10%. The portion of Rs.500 and Rs.1000 was recorded 86% in 2015-16 which shows that the magnification of such high denominations in the country is visibly enough.

**Odd predicament of currency issues and records**

An incipient dilemma is found in the study of note issuance and their utilization. The manifesto for the currency issue is to maintain the equilibrium in the market and households so that there should be a felicitous cash flow. While issuing currency notes the fundamental artifact is that there should be felicitous record so that one can facilely ascertain that how much money is utilized and how much is not in the circulation. With the study of past eight year record from 2005-06 to 2012-13 it is descried that the percentage magnification of high denomination currency was 22.3% which was too high in comparison of annual GDP magnification that was 15.3%. With the avail of this data one can facilely understand that 7% of currency was not converted into the productive use and turned into hold economy, moreover becoming an illegal money component for the nation. Kindred trend were visually perceived at each individual level of the currency issuance and the GDP magnification at different time span.

**The 2016- Demonetization at a glance and expected outcomes**

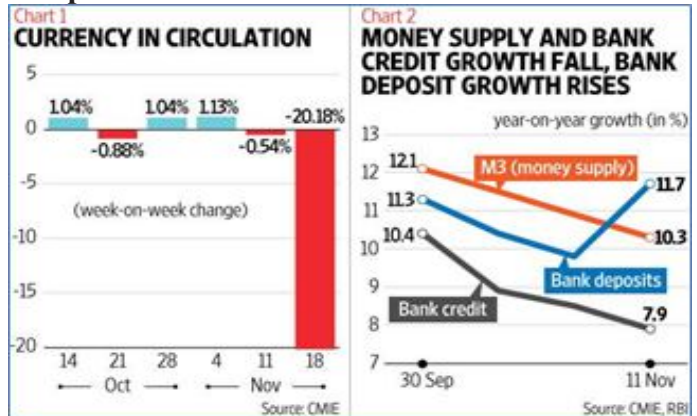
No one remain untouched with the aftermath of this decision of the government. In fact, the step was so expeditious and unpredictable that everybody went into a kind of deep shock for a short duration. Illegal money was the most sizably voluminous challenge for the regime because it was very arduous to fight this inside enemy which harms the nation in a loathsome manner. The Demonetization came into action and this time it appeared with some hard ground rules the regime was so expeditious that it believes in the working of less regime with high governance. The rudimentary collision of the decision was so rapid in nature because the policy was so hard as such the public was get only 50 days to exchange and deposit there currency into the banks. So that the time span was so low and it impact the economy in the negative manner while back in the 1978 the time span of depositing the currency notes was ended in the year of 2015. But for some of the business it impact in the positive manner that the outcome of Demonetization was fruitful for them and the most sizably voluminous

example for this is the most expeditious growing industry i.e. Ecommerce and the digital payment. In one of the verbalization of our prime minister he verbally expressed that he wanted to optically discern the India as the digital India and becoming the fortune India in the field of digitization. The mobile wallets and the e-payment apps score a high magnification in the current situation of the Demonetization because it will boost the faith of digital payment among the public. Demonetization reduces the liability of the RBI towards the regime because for the amount of the blocked money by some people the circulation of money was affected and for that RBI take measures to print the incipient notes which increases the liability of the RBI towards the regime.

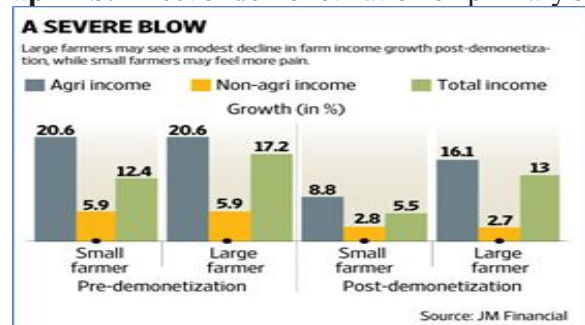
As per RBI, in 2016, demonetized currency accounts for Rs 16.4 lac cr which was huge than Rs 8800 cr in year 1978. so that the negative impact of this demonization in 2016 was very high than 1978.

Study by Nagaraj R (1990) on Indian economy GDP growth post demonization with 1980-81 as base year, it was found that GDP and other sectors growth rate was high with 4.9 % per annum. In this calculation public administration and defence expense were excluded by the author. In this article trend analysis was done and the output was very positive post demonetization in 1980-81

**Graph-2a** Effect of demonetization on banks



**Graph-2b.** Effect of demonetization on primary sector





## CONCLUSION

Demonetization is not the incipient trick applied by the regime. It transpired earlier additionally but the point of attention is that under whose leadership the decision was made and what were the after-effects of the transmutation transpired. Fundamentally it's all about stoutheartedness to take a hard step and intrepidity to implement that. Stoutheartedness is the hard thing to figure. You can have stoutheartedness predicated on the imbecilic conception or a mistake. It all depends on who you are, where you emanated from. That's why stoutheartedness is tricky. Any dunce can have intrepidity, but accolade that's the authentic reason that you either do something or you don't. That is the most sizably voluminous distinction between the area of decision of these two eras whether in both case Demonetization transpired and the after effects were fruitful in the case of the recent one because the policy and the techniques were quite good. So that one can assume that the hard step was taken only for betterment of the nation. The future prospects after Demonetization are broad because surely it will bring more job opportunities and business magnification into the market. As per the discussion and the study ascertained that after implementing the immensely colossal decision there are marginal decreases in the ecumenical market and people are moving towards domestic market which is the desideratum of the current scenario. Under the leadership of Mr. Narendra Modi this is a step into the more effulgent future of adaptive India. It is only his charismatic leadership where RBI is able to effectively reduce its liability as well as the nation stepping into the digital world. It's an era of moving from the money base to cashless economy. It's all about his valiancy to take decisions and maintaining his accolade to make India proud. One of the advantages of this move was rise in tax payers, rise in digital transactions, rise in Electronic wallets, rate cuts by RBI, rise in bank deposits, reduction in rate of interests, outstanding of local urban and rural bodies reduced, outstanding of electricity companies was reduced, rise in online transactions. But for sustainable growth of economy we need higher quality infrastructure and broadband internet access down to the rural India.

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## ABOUT AUTHOR



**Mr. Shubham Gupta**, basically he is from Allahabad, Uttar Pradesh. Presently he is pursuing his professional education MBA from Dr. D.Y. Patil School of Management Pune. He has a strong passion to learn from academia and industry and believe in to accept the challenges of the real life. He has a strong IT credentials, in addition to this he has a professional training experience in IDBI Bank, Bharati Airtel, Aylin Global. His inclination in academic has encouraged him to work on project on consumer behavior and market analysis. He has participated in an international conference in "Global Strategies for Challenges in Business Management and impact of FDI in Economic Development". He is an active member of the Entrepreneurship development cell at Dr. D. Y. Patil School of management, Pune.  
Email id: Email id:-guptashubh97@gmail.com