

Demonetization whether the stated objectives have been met with or not: an analysis of success of the move in the present and the future prospective

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Abstract

Background/Objectives: Demonetization has had a great impact on the nation's economy. One of the major parts of this was multiple economic concepts that were looked at prospective growth. There is a fundamental need to evaluate if the aimed objectives were met with.

Methods/Statistical analysis: A major part of the study was carried out by the method of secondary research and data collection from secondary sources

Findings: Section 39(2) the point so highlighted that the supply so created when the currency notes were removed was not filled.

In agriculture the reason behind the existence of the growth rate in spite of the adverse effects of demonetization has been from 0.8% in FY16 to the current year, in Public Administration too there has been an observation of growth and this can mainly be attributed to the 6.9% to 11.22%."

"However every other sector has been adversely affected due to the move have been the sectors as below:

Mining: Decline in growth rate-12.3 % to 1.3 %

Financial and Real Estate Sector: 10.8 % to 6.5%

Manufacturing Sector: 10.6% to 7.7%

The Gross Domestic Capital Formation (GDCF) has had a steady decline from 29.2% to 26.9% and that is the lowest it has hit in 15 years."

Improvements/Applications: In the case of demonetization there is a major need for the objectives being met with. To achieve these objectives one of the fundamental principles shall be as per the guidelines proposed by proposer of the scheme Anil Bokil.

Keywords: Multiplier effect, monetary and fiscal policy, AnikBokil Proposal, Cashless and black money concept.

1. Introduction

Demonetization as a concept has been highlighted as bringing a large amount of growth to our country. In terms of growth there are mainly 2 concepts that have been of great significance and this has been the investment rate and the efficiency in the usage of capital [1]. Thus if a concept needs to be evaluated upon its merit these 2 factors play a major role. When the policy of demonetization was passed, there were some objectives in enabling the growth of the nation. Some of these objectives were in the form of forecasts and some in the form of short term achievements.

For the past few years since the year 2007-08 there has been a sharp decline in growth rate and this issue has been only further been piling up on the Indian Economy. Thus the gap that exists in growth rate needs to be identified. After the policy of demonetization was passed there is a very fundamental

need to evaluate the position of the policy. To begin such a valuation the mere need is to check if the objectives (short term) passed have been met with and if the long term goals have a possibility of achievement in the future.

While this policy has been passed all sectors of the society have been affected and each is distinctively affected. However the informal sector is one of the major sectors that have been affected owing to the entire scheme of demonetization along with its implementation. There is a need to further evaluate their perspective and affect that this move has on the implementation. Finally to add to this the entire outlook of the policy that allowed the RBI Act to be invoked while the scheme was implemented. There is a necessity to understand the support that RBI has provided to the Prime Minister which was not the same as the last time the country implemented such a policy in 1978.

2. Materials and methods

Review Research has been carried out by the *analysis of the opinions of great economist's* views. It has been carried out with the help of the various materials obtained from internet sources, newspapers, periodicals, journals. Each of such an article has been analyzed to connect the dots that exist between the various concepts of demonetization.

1. Statistical analysis

The statistics obtained are through the resources obtained in various articles and other resources that were available in public domain and internet sources that have been credibly tested.

3. Results and discussion

1. The black money concept

The highlight of the entire scheme of demonetization has primarily been the eradication of the entire system of black money that exists in the economy. It is aimed at bringing to account the unaccounted income as well as the illegal money into the hands of the entire scope of the banks. These had multiple viewpoints but main objective was to eradicate the entire scope of black money that exists in the market. This concept was executed and after crossing the 50 day deadline which was claimed by the government to be a short suffering for the people which would yield immense results, the government comprehended that the actualized results were far more less than the planned results as far as the eradication of black money is concerned with more than 97%of the demonetized currency coming back to the system. Demonetization as planned would have reduced the liabilities of the RBI thereby providing the government a huge dividend. Eradication of black money was the basic aim behind the implementation of such a hard step as demonetization, government had been working in the field of removal of black money since a very long time and it brought also demonetization with the basic assumption that such a hard step is going to create a sense of fear among the people and they will slowly and gradually start paying taxes. The government also launched a policy after demonetization referred as income declaration scheme wherein certain amount of your declared will be charged as fine and the rest will be returned back to the people thereby increasing the surplus and also will help in conversion from black money to white by bringing it under the taxable slab of the government.

2. Multiplier effect

The multiplier effect is the expansion of country's money supply that results from banks being able to lend. The size of the multiplier effect depends upon the percentage of deposits that banks are required to hold as reserves [2].

The multiplier effect has played out to be a very effectively in the entire scheme of demonetization. With the greater cash inflows in the banks there is a greater possibility that the outflow in the lending rates is lower thus affecting the entire supply, demand curve.

With the multiplier effect playing out in the banks in the country there has been a large amount of deposits and this has led to the situation in which the bank has led to being able to provide loans at a very reduced rate. The effect that played in the entire scheme of the concept of demonetization has been that people will be able to borrow money and thus provide there the function a play with much more effectiveness than the loans that have been crushing them. Bankruptcy will definitely affect the entire scope of members of the society.

Great economists have indicated that the multiplier effect that the money will move from the illegally stashed amount to be accounted and this will lead to the supply of this fund in reduced lending rate. As shall be the case specified by the monetary as well as fiscal policy and explained in the following sections. The implementation that the scheme could enable the use of this money in the various governmental schemes and to enable distribution in the implementation of the various schemes that are yet to be completed.

3. Monetary and fiscal idea

Monetary and Fiscal idea are both complementary in nature and for there to be a wide growth there is the requirement that both the schemes explained below are complementary. Both of these are directly related to the supply-demand chain that exists in the market. Thus each of the so called ideas is imperative to set the tune behind the entire idea. The Monetary idea is aimed at the continuation of the multiplier effect by placing money in the hands of the consumers to enable comfortable flow of money in the market.

With the advent of demonetization a large amount of money would have moved into the hands of the banks within the nation. Further the advent of this increases the presence of revenue and thus leads to a reduction in the lending rates that are available. This reduction in lending rate also leads to an obvious reduction in rate of deposit. Lower lending rate allows more money to be put in the hands of the public money and this enables an effective functioning in the market. Following this the concept that would increase supply in the market is the fiscal policy that was highlighted as a highly favorable concept that could enable and effective functioning of the Indian market.

The Fiscal idea however was not merely to put money into the hands of the individuals rather it was to make the money circulate in the most effective sense and this involved the use of this money by transferring the money so obtained in the hands of the members of the society who can in fact make use of this money. The main idea of this concept was a reduction in tax rate that could enable a much more pointed and effective functioning within the Indian market.

This reduction in tax also seemed feasible considering the increased amount of money that would arrive in the banks after the policy was implemented explaining the extent of its build in sustaining the greater future. However when this policy is analyzed is also indicating to the fact that the money that would be collected post this period includes the illegal money and black money obtained by declaration through the legal systems. This extra money would eventually lead to the application of such a concept in the economy [3].

When both these policies are complemented it creates a situation that will enable the effective functioning of the Indian market.

4. Cashless concept

The digital India Programmed is a flagship programmed of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy "Faceless, Paperless

Cashless" is one of the major programs. The particular claims of the move were indicated to play out as a major part in the scheme as removal of notes that were part of the scheme.

With the lack of presence of the notes there would be a major part of digital transaction that would play out. Less than 5 % of all payments through electronically and this secondary objective plays a major role in the scheme. Many schemes played out in the following objectives.

The instances involving the evasion of tax because there will be a trail of all transactions that are available. There will be reduction in prices of real estate as a large sum of the black money is in Real estate which would subsequently inflate the market. A large amount of money spent will be reduced as can be observed in 2015 RBI ₹ 27 billion on just the issue of currency

The welfare programs are going to be far more efficient as money can be wires directly into the recipient's accounts. Once money is transferred to beneficiaries account the transaction becomes more transparent. 1 in 7 notes are supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided [4].

5. Suggested objectives by the real proposer of the scheme

When the actual policy of demonetization was in fact passed the scheme so implemented was actually based on the tips of many economists however there was one man who had been behind the proposal of this scheme [5] and his think-tank ArthaKranti Pratishtan.

The scheme that was passed according to Mr. Anil Bokil was infact suggested to be passed with the following Road map:

1. Taxes be completely abolished by Central, State and Local Bodies and this included the direct as well as the indirect taxes.
2. The taxes were to be replaced with Bank Transaction Tax (BTT) wherein every inward bank transactions would attract a levy (say about 2%). It would be a single point tax deducted at source.- The deducted amount would go into the government kitties at various levels (Central, State and Local broken up in perhaps a ratio of 0.7%, 0.6%, 0.35% respectively). The concerned bank will also get a share of say another 0.35%. Of course the BTT Rate would be decided by the RBI and Finance ministry.
3. No tax on cash transactions (withdrawals)
4. All currency of high denomination (anything above ₹ 50) should be withdrawn.
5. Government should create legal provision to restrict cash transactions to ₹ 2000. These proposals above were given by a 16 member technical committee. This committee proposed the above guidelines that are given above. Finally to sum it all up the entire scope of the scheme was aimed at the eradicating Black money and Terrorism, along with the impact on GDP.

6. Implementation of objectives

6.1. Steps in Implementation

The history of the entire scheme was passed after considerable thought on the aspect began on the 8th November 2016. In this scheme 86% [6] of the Indian currency was nullified in a great effort that aimed at the cleaning of black market and removal of counterfeit notes that played out.

This completely had disrupted the social, economic and political perspective and 50 day period was put forth that allowed the redeeming of the cancelled notes.

The 50 day period played a time where there were effectively multiple problems that were put forward by the government was passed banning all the usage of the 500 as well as 1000 rupee notes.

6.2. Removal of legal tender

The removal of the legal tender as a value was a move that was provided by the following to render notes of certain high denomination and this also includes an analysis of the legal perspective" For a commodity's acceptance as a medium of payment there must be an estimate of exact intrinsic value of

the commodity. If this is not so the payer could get away by providing low quality goods in return for more expensive goods. To avoid problems states declare certain commodities as "legal tender" following guarantee of value by law. Such value would be independent of the value of intrinsic commodity and this would enable effective of the underlying commodity and therefore, could be used as a medium of exchange by everyone without having to assess the quality of the commodity.

Black's Law Dictionary defines the word "tender" to mean "an unconditional offer of money or performance to satisfy a debt or obligation". Anything can be "tendered" in payment of debts as long as the creditor accepts it. A creditor will not accept any item whose intrinsic value is less than the value of debt. The only exception is a "legal tender". A creditor will accept legal tender even though it lacks equivalent intrinsic value because its value is guaranteed by the state itself through law. Hence, anything whose value for the purposes of payment is independent of its intrinsic value because of an explicit state guarantee through law is a "legal tender" [7].

Thus the definition of legal tender as a means has been identified, further to indicate the entire scope of the policy that was passed it was based on presidential ordinance along with the approval of the cabinet ministers in the house of parliament keeping in mind the entire agenda of demonetization that was kept under the purview of the ordinance so passed and further rendered the usage of the notes moot post March 31st. This move needs heavy consideration as to the powers that are held in the hands of the RBI. Further the legality of the removal also has been questioned by the multifold petitions that have been put forth by the cases cited and considerations by the Supreme Court. There have been considerable amount of detailed analysis and judgments by the Supreme Court as well but what is the most important factor in the entire scheme was a fairly analyzed one. In the past ordinance has multiple questions and there is considerable analysis that this aspect needs as well. The scheme of demonetization was passed had ceased nearly 90% of the business transaction as the transactions followed ran on a cash basis.

The move of demonetization has raised many fundamental questions with regards to the principles of legality that has been applied in sanctioning this move. One has been with respect to the prohibition of withdrawal from banks. There is no part of international law that describes the sanction of the access to bank account by individuals. The banks in our country have placed a limit on the withdrawal and this in turn has prevented the access to bank accounts for thousands of people.

There is no clear law permitting the same and going by the logic of principles there is no principle that allows the violation of basic access to one's own money. It has also been estimated that in the economic survey published by the government that the move of demonetization as a move is one that would be predicted to have slow growth, slow demand, slower supply, cash, private wealth, liquidity and increase the uncertainty. Now the question that this poses is how this is if passed in the principle of future good faith benefitting the country when the same economic survey that the country has conducted future that could lead to the heavy growth.

Further Section 39(2) the point so highlighted that the supply so created when the currency notes were removed was not filled. Hence by pushing the demand so as to create supply as is the objective of the monetary and fiscal policy which were put forward by economists the fact that the supply for the notes were not replenished is clearly indicative of the violation of a major policy in the making. Thus this is another questionable point that can be put forth by the move of demonetization. Many such legal ambiguities have persisted.

6.3. Black money and cashless plus investments

The sector of Black money has been majorly affected their entire functioning on the scheme of demonetization however the 86 % of the currency that constitutes the 500 and 1000 rupee notes only 6 % was the black money[6] that could be found in cash. The rest of this money was only in the form of the real estate investments and the various other claims that included the jewelry sector. This ratio does

not seem the proportionate in its representation. It thus necessitates a question as to the extent to which the primary objective of black money been met with. In the entire scheme 97% as per Bloomberg reports has come back to the entire sector of the scheme.

Further the entire estimate of the fake notes that had been recorded by the entire scope of the scheme of demonetization could not provide an account to the fake notes.

Demonetization had cashless economy as its secondary objective but when it was not able to achieve its primary objective that was to eradicate black money from the economy and failed miserably in its implementation part the government claimed the cashless economy to be the main objective because of which demonetization was introduced in the economy and backed it with some sweet figures that it acquired under its so called main objective.

Demonetization as a policy increases people reliance on the cashless methods like e-cash, e-wallets because it leads to certain discomfort with respect to availability of cash in the short run for the people to dispose, so the people during that period take reliance upon other cashless modes and once introduced to such method later on people keep on preferring cashless methods over cash transactions as it removes the hindrance of carrying cash with yourself and is more handy. Government now basically emphasizes more on the cashless aspect as it has great benefits like it resolves the problem. Licensing of Payment banks

Government is also promoting mobile wallets. There is a provision in the mobile wallet that allows the users to send instantly the money bill, recharging of phones and sending e-gifts online as well as offline. To add to this there is a limit increase ₹.1 Lakh based on certain Know Your Customer verification.

E-commerce was promoted by liberalizing the FDI norms

Surcharge and service charge has been removed from cards. [4]

6.4. Implementation in the informal sector

Estimation has been the most difficult in the informal sector of the economy. It is of heavy relevance to understand the position of informal sector as India as an economy there is heavy role of the informal sector. As observed by the Financial Express " The data set from the Ministry of Corporate Affairs and Index of Industrial Production on which manufacturing GDP estimate is made is based mainly captures trend in formal sectors and informal sectors are based on the same." Now in India the informal sectors include a large number of cash transactions and they have found it very difficult to adjust to recent schemes such as going cashless and so forth.

They need extra motivation to follow such schemes and to be a part of the move of going cashless and other technological standpoints proposed by the government. For this mere reason itself many sectors have begun to get affected in the form of a loop. The entire chain of say let us take for example agriculture runs on a seasonal pattern form.

Following this we move to the next step and that is to observe the timing of this move, this move was timed in November 2016, a time when a large number of farmers are actually working upon their sowing of rabi crops. However with the currency losing its value farmers were not the only ones worst hit. The farmers did not have money or time to buy seeds. Many had banks that were situated at large distances from their homes and for them to gain access was unfairly difficult. These problems thus affected the sowing of the so called seeds and that too has caused further damage in the effective functioning of the sector. It is a chain reaction that has a major impact on the functioning of the Indian Economy that is such a vast and highly unpredictable one. Further this has a very relevant and direct effect on the multiplier effect along with the Monetary and Fiscal Idea that had been put forth as a part of an economic objective.

The point that the informal sectors functioning brings to light is the ideas such as the monetary and fiscal ideas cannot be supplemented that is of increasing the demand and supply if the so called market

is hamstrung due to the lack of the currency to keep the movement and flow of cash into the hands of the consumer (in this case the farmer who sows the seeds) so that there can be its respective flow and thus grow the Indian Economy and GDP. As it can be observed below except agriculture and public administration there has not been such a growth in any of the formal sectors

"In agriculture the reason behind the existence of the growth rate in spite of the adverse effects of demonetization has been from 0.8% in FY16 to the current year, in Public Administration too there has been an observation of growth and this can mainly be attributed to the 6.9% to 11.22%." [8] "However every other sector has been adversely affected due to the move have been the sectors as below: Mining: Decline in growth rate-12.3 % to 1.3 %, Financial and Real Estate Sector: 10.8 % to 6.5%, Manufacturing Sector: 10.6% to 7.7%. The Gross Domestic Capital Formation (GDCF) has had a steady decline from 29.2% to 26.9% and that is the lowest it has hit in 15 years.

The sustainable acceleration cannot be observed in the economy without the presence of improvement of the investment climate." [8] "Further the forecast also needs to be considered from the perspective of the entire scheme with regards to what could have happened in case the entire scheme of demonetization had not been implemented i.e. the contra factual effect that can be observed by the following stats that indicate what would happen if the scheme had not been implemented. Further to follow the entire impact of the scheme the estimate with respect to the growth tends if the mere sectors agriculture and public sector are examined it can be observed that the entire scheme of the demonetization 6.9% in the first half to the 5.8% in third half of the quarter. There is an impact in the extent of more than 1 percentage deposit rate" [8].

Thus the estimates suggest that the informal sector has not yet received exact estimates but in a country such as India the entire scope of the economy. The multiple effects that were a part of the objectives in the making have not indicated a great scope of growth especially with the unpredictable nature of the informal sector that is significant aspect of Indian economy many of the so estimated policies are not to play out in a comfortable manner. The ideas such as multiplier effect will not play out effectively in the sectors such as agriculture in the simple manner and allocation of loans at a lower interest rate will not be able to make the impact that has been estimated in the entire scheme of demonetization.

7. Analysis of implementation

7.1. General economic views and ideas on long term effects of demonetization

One of the major parts of this scheme was the return of the money that was passed within the scheme. When the entire scope of demonetization was declared it aimed at the eradication of the collected amount that was to arise as unclaimed income to transfer to the government for the various schemes that were planned to be implemented in the upcoming future. It was aiming at a return rate when the currency was removed to not achieve return of the complete money but a part of it Section 39 in the Reserve Bank of India Act, 1934.

This section gives a clear highlight into the entire system for circulation that the RBI is mandated to follow. In thus when this scheme was passed the estimate made by RBI officials was that the entire source of the so called banks will be to regulate as follows: Say for example the estimated figure demonetized was 15 lakh core then the estimate was that the money returned will be 10 lakh core and the money that was to be returned to the sector of the economy will be only the amount of 10 Lakh core and the rest of the amount will be the unclaimed money that will be allocated as an amount of 5 Lakh core shall be transferred to the government. However when the report by the Bloomberg showed that 14 lakh core (as in 97%) came back there was no extra surplus that could be allocated as funds to the government for new policies that were to be passed. When finally this estimation was made it came to light that the entire scheme was passed without the funds moving in the right matter and this led to the entire scheme going to not meet a strong objective that they had in mind of using unclaimed event.

8. The GDP perspective

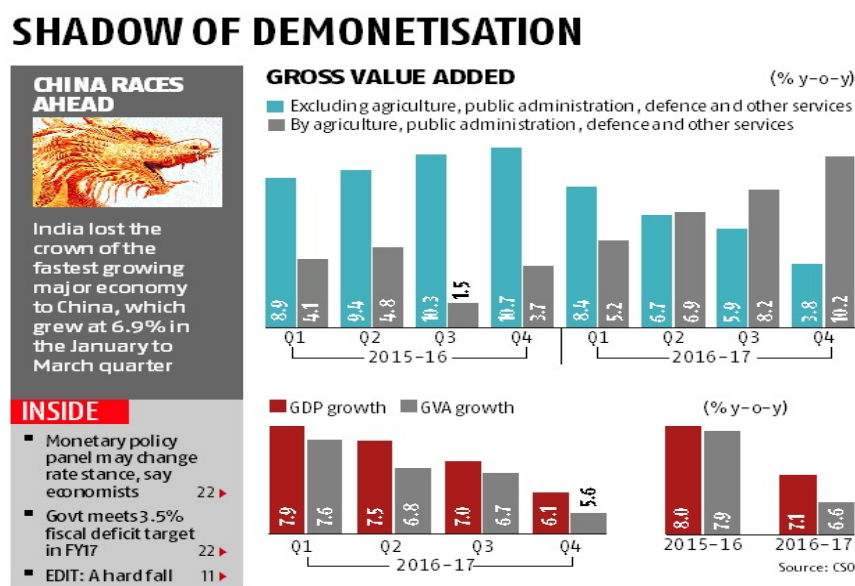
Throughout the term of demonetization the claim was of replenishment of national growth. But as the reports arrived indicating that the gross domestic product (GDP) which provides a major factor for national income hit a low growth rate of 6.1% in the fourth quarter. This has been a major hit for the country. The informal and formal being equally affected has also led to the title of the world’s fastest growing economy being taken away. The effect of demonetization was evident in the Figure 1, with growth being pushed primarily by agriculture and government spending. In Q4, excluding agriculture and government spending, GVA grew a mere 3.8 per cent, down from 8.4 per cent in Q1. In FY17, economic growth was at a three-year low of 7.1 per cent. The previous year, it was 8 per cent [9].

4. Conclusion

The move of demonetization when implemented had put forward a large number of objectives and this paper had been aimed at finding whether the economic objectives have been met with. To sum up the entire scheme of demonetization in a nut shell the scheme had objectives that were of wonderful nature. However when we make an analysis of the final scheme of the scheme has not been implemented in the most effective sense. The value of life has not been completely considered, the informal sector has not been considered while putting in the policy and yet there is to see any observatory growth. Further the expectation and objectives of the scheme have many standpoints that need to be considered to certify the scheme such as the success of multiplier effect and the monetary and fiscal ideas following the scheme.

Legally too the scheme has been questioned with respect to the timing and thus raised certain fundamental analysis and thus it is heavily dependent in the future for making a final analysis of the scheme but as of now none of the pre proposed schemes can be seen as a major success. One of the major findings was the lack of growth in GDP and thus the indicator of nation’s economy has not been hit with the objectives of nation being adversely affected.

Figure 1. Shadow of demonetization the GDP growth rates [9]



Demonetisation effect: GDP growth enters slow lane in Q4 at 6.1%.

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The Publication fee is defrayed by Indian Society for Education and Environment (www.iseeadyar.org)

Cite this article as:

SAURAV MISHRA, AADITYA MISHRA, ANURAAG P IYER. Demonetization whether the stated objectives have been met with or not: an analysis of success of the move in the present and the future prospective. *Indian Journal of Economics and Development*. Vol 5 (6), June 2017.