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## Transition from Cash to Cashless Society: A Study of Indian Economy

Dr. D. N. Sharma<sup>1</sup>, Dr. Ranju Katoch<sup>2#</sup>

Asst. Professor, Dept. of Humanities, Government College of Engineering and Technology, Jammu, India<sup>1</sup>

Asst. Professor, School of Management, Model Institute of Engineering and Technology, Jammu, India.<sup>2</sup>

**ABSTRACT:** The present study discusses about the valorous step Demonetization taken by the Government of India. The major issues in India are corruption and Terrorism and the root cause of these issues is black money, which is the major cause for deprivation of the nation. There was a need to unearh audacious step to tackle the various issues regarding black money, corruption and terrorism. The central government of India has decided the Demonetization of Rs.500 and Rs.1000 currency notes on 8<sup>th</sup> November 2016. However, 87% of total currency was constituted by these notes, being the reason for scrapping of these high denomination notes as legal tender. The current research is based on secondary data assembled from different sources. The present study makes an attempt to study the history of demonetization in different countries and point out the overall consequences of Demonetization and its inferences for sustainable development of the country.

**KEYWORDS:** Demonetization, Black money, Economy, Development, Denomination

### I. INRODUCTION

Demonetization is the action of discontinuing a money unit as a legal tender. Demonetization of money means withdrawal of a particular currency from circulation and replacing it with the new currency. To remove black money curse from the society, the Indian government has bring a major alteration in the economic system by demonetising Rs. 1000 and Rs. 500 notes. These halted to be legal tender from mid night of 8<sup>th</sup> November 2016. Individuals have given time till 30<sup>th</sup> December 2016 to exchange the money held by them. The reasons given in support of this bold step are to restrain counterfeit notes which are contributing to terrorism and to eridicate black money. There were broadly to main objectives of Demonetization first, removal of black money and other attacking on black money. The first objective has been achieved by one stroke i.e., Demonetization of high denomination notes of the country and realising new money of Rs.2000, Rs. 1000 and Rs.500. The objective attacking black money has begun.

### II. OBJECTIVES OF THE CURRENT STUDY

The basic objectives behind this research are

1. To understand the situation of black money in Indian
2. To examine the history of Demonetization in India and in other countries
3. To assess the need for Demonetization
4. To investigate the overall effect of Demonetization on Indian economy

### III. RESERCH METHODOLOGY

The Present research study conducted is descriptive in nature. The data for the current research has been collected from secondary sources such as journals, newspaper, magazines, annual reports, periodicals, documents and from various websites. The current research focuses mainly on the 8<sup>th</sup> November 2016 Demonetization need and its impact for sustainable development of the country.

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## IV. REVIEW OF DEMONETIZATION IN THE PAST

Economic transformational events are very rare. In Indian economic history, Demonetization is the biggest event so far. This section of the paper discusses about past Demonetization in India and also highlights successful, messed-up and failed Demonetization in other countries.

### **Demonetization in India**

Demonetization has a valid and legal place in the law books of India. The legal status for the demonetizing of money has been found under section 26, Act 1974 Reserve Bank of India. Under sub-section (2) of this section, the Central Government of India has given the power to announce that any currency issue by Reserve Bank of India will not consider to be legal currency. The necessary procedural prerequisite is that the board of the RBI recommends the same to the Central Government.

India's Demonetization move is not unprecedented in its past economic history, there were two past instances of demonetisation, first in 1946 and another in 1978, but not having any significant influence on cash. However, on 12th January 1946, Rs. 1000, Rs. 500 and Rs. 10,000 money were announced invalid and new cash money of Rs. 5000, Rs. 1000 and Rs. 10,000 came into economic system in 1954. Subsequently Morarji Desai led-Janata Party on 16th January 1978, demonetized bank currencies of Rs. 5000, 1000 and 10000. The RBI had issued a new bank money of Rs. 500 into the economy in 1987 to reduce inflation. Recently, on 8th November 2016, the old bank money of Rs. 1000 and Rs. 500 were restrain from being legal tender and new money of Rs. 2000 were introduced. Moreover, Denominations of 25, 20, 10, 5, 3, 2 and 1 paisa were in distribution uptill June 30, 2011 but were then barred, 50 paisa coins are still in distribution and are known small coins (Internet, 2016), whereas subsequent denominations called as rupee coins.

### **Demonetization Failed in these Countries**

**Britain (1971):** To bring uniformity in the currency, the government to Britain stopped the circulation of old currency pounds and pence in 1971 and brought new coins of 5 and 10. This policy of the Britain government failed.

**Ghana (1982):** To control black money in the country, the government of Ghana demonetized cash money of cedi 50 in 1982. When the time given for exchanging currency notes ended, crores of money was found on roads, after this people lost faith on the government.

**Nigeria (1984):** To bring economy in stable position, Muhammadu Buhari president of Nigeria at that time started notes with new design and colour. It brought change in the economy and as a result he resigned from his position.

**Myanmar (1987):** To end black money and corruption, in 1947 the military government of Myanmar demonetized the currency notes, due to this there was political dispute between government and the citizen of the country.

**Soviet Union (1991):** To end black money in 1991, Government of Soviet Union banned notes of Ruble 50 and 100. This decision took a very long turn and led to change of the government.

**North Korea (2010):** To lower down the market of black money and to improve economy, in 2010 dictator Kim Jong 2 made some changes in the currency because of this change in the currency, prices of the necessity goods increased and market saw a downfall. The people became angry on this decision.

### **Demonetization Successful in these Countries**

**United States of America (1946):** In the past, the Federal Reserve had issued \$ 1000, \$5000, \$10000 and even 100000 bills. In 1946 the U.S stopped printing \$1000 and high denomination of currency. Presently the highest value of the denomination in production is \$100.

**United Kingdom (1971):** In place of pounds, shillings and pence, the United Kingdom in 1971 adopted decimal currency can be a successful example of Demonetization.

**Australia (1996):** Reserve bank of Australia in 1996, replaced its paper currency with polymer based long lasting notes with plastic currency. It had no side effect on the economy.

**European Union (2002):** In the beginning phase, the countries which joined European Union out their own respective currencies and adopted euro successfully in 2002.

**Zimbabwe (2015):** Zimbabwe used to have a one hundred trillion dollar note. As a way to combat hyperinflation, in 2015 the Zimbabwean government demonetized its dollar and in a bid adopted US dollar, Botswana Pula and South African rand as country's legal tender to balanced the economy.

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**Philippines (2015):** To prevent counterfeiting, in 2015, the government of Philippines demonetized its old currency which had circulation since 30 years and replaced with new currency which has been in circulation since 2010.

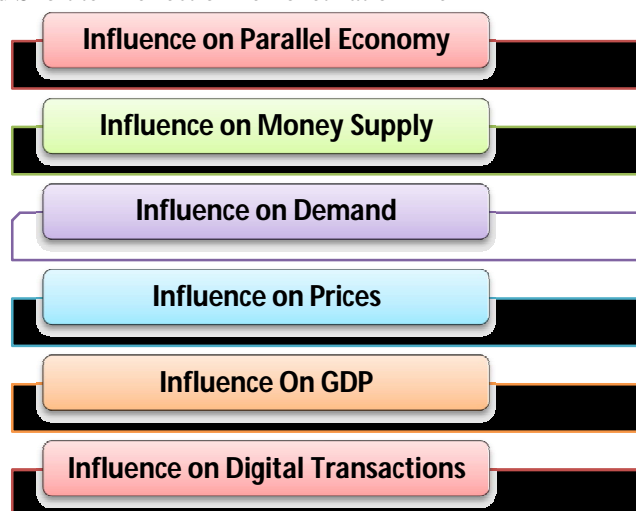
**Pakistan (2016):** The Pakistan government in December 2016 decided to exchange all old currency with new design currency notes.

## V. NEED FOR DEMONETIZATION IN INDIA (2016)

RBI data in 2015-2016 revealed that in commercial banks almost 6.5 lakh counterfeit notes were traced out of which 4 lakh were in Rs. 1000 and Rs. 500 category. Due to this context the government desired to demonetize Rs.1000 and Rs.500 note and introduce new denominations. In Indian economy 86% of the currency value were Rs.1000 and Rs. 500 denominations. According to RBI database about 17,54000 crore worth of notes were in circulation, out of which Rs.1000 note constituted 39% of the circulation while 45% of currency circulation constituted Rs.500 denomination. As per RBI information, on 31<sup>st</sup> march 2014 the circulation of Rs.500 notes were 1141 crore and on 31<sup>st</sup> march 2016 circulation number was 1571, a huge increase of 38% in just two years. Similarly, the circulation of Rs. 1000 notes has increased 24.5% from 508 crore to 633 crore during the same period. The currency notes together taken a jump of 33.6% over the period of two year. However, as a percent of total currency share, Rs.500 note in circulation has hiked from 14.7% to 17.4%, whereas Rs.1000 note was at 6.6% in circulation on 31<sup>st</sup> march 2014 and stood 7% on 31<sup>st</sup> march 2017. In terms of value, on 31<sup>st</sup> march 2016, Rs.1000 and Rs.500 notes together reported for Rs.14.2 lakh crore which is 86.4% of total value. There was an increase from the past fiscal year 2014 as the accounted value for these denomination was 10.8 lakh crore which is 84.1% of the total value. To become corruption free, the cash circulation needs to be reduced. To stop funding of terrorism and unlawful activities fake currency needs to be eliminated. There were side effects of the Demonetization such as there was shortage of currency for common man and caused huge inconvenience. It has deeply affected the business. There was no work for daily wagers, their income stopped as employer were not able to pay their wages because of shortage of currency in the markets. The government of India has given these reasons behind demonetisation of high denomination notes Rs. 500 and Rs. 1000.

## VI. INFLUENCE OF DEMONETIZATION ON INDIAN ECONOMY

There are both Long term and Short term effect of Demonetization like



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## **Influence on Parallel Economy**

The removal of Rs. 1000 and Rs. 500 notes and replacement of the same with new 500 and 2000 currency notes is anticipated to discard black money from the economic system as they will be obstruct the proprietor will not be able to deposit the same in the banks. Temporarily restraining the distribution of huge volume of counterfeit money, it would limit the funding for antisocial elements like terrorism, smuggling, espionage, etc.

## **Influence on Money Supply**

With the older 1000 and 500 legal tenders notes being removed, till the new 500 and 2000 Rupees notes get widely distributed in the market, money supply is assumed to reduce in the short run. To the extent that black money does not re-enter the financial systems, reserve money and hence money supply will reduced permanently and gradually as when the new notes gets distributed in the market, the mismatch gets corrected, money supply will be balanced and increased.

## **Influence on Demand**

The overall demand is expected to be affected to an extent. The demand in following sector is to be influenced particularly: customer goods, Property and Real Estate, Gold and luxury goods and Automobiles (only to a certain limit). All these mentioned sectors are expected to face certain moderation in demand from the consumer side, owing to the significant amount of cash transactions involved in these sectors.

## **Influence on Prices**

Price level is presumed to be lowered due to restrain in demand side. Costumers Goods: Prices are assumed to decline only marginally due to reduction in demand as use of cards and cheques would reimburse for some purchases. Property and Real Estate: Prices in this area are largely assumed to decline, specially for sales of properties where huge part of the transaction is cash based, rather than banks transfer or cheque transactions.

## **Influence on GDP**

The GDP formation would be influenced, with reduction in the consumption demand. Gradually with the recent increase in festival demand is assumed to offset this decline in overall effect. However, this presumed effect on GDP may not be remarkable as some of the demand will only be delayed and re-enter the stream as the cash circumstances becomes normal.

## **Influence on Online Transactions and Alternative Means of Payment:**

The cash business affairs facing a decline, alternative methods of payment will see increase in demand. The E-Wallets and Apps, digital transaction methods, Online Business Transactions methods using E Banking, employment of Plastic Money (debit and credit cards), etc., are considerable increase in demand. This will bring more transparency in system and can track online money transactions easily.

## VII. CONCLUSION

The short-term pains from demonetization, the long queues before ATMs, pensioners waiting for long to draw pension, inconveniences to people who had withdrawn money for weddings, impact on trade, disruption of economic activity etc., have been huge. But the long-term benefits are likely to be substantial.

Demonetization has straight away eradicated most of the illegal cash distributed since several years in the system. The counterfeit money distributed in the nation has ceased to be of any value. Demonetization would curb the menace of corruption and terrorism as the existing black money was responsible for promoting the same. This move would bring back huge money outside the system back into the economic system which can be further used by the banks for lending purposes and for commercial activities. This would helps not only increase the profitability of banks, but also makes a way for reduction of interest rates. Further, in due course of time, significantly helps in improving tax collections as public would prefer to deal in transparent transactions by paying legitimate taxes. Last, but not the least, Demonetization, can significantly improve Indias globally as the nation which respects law and where businesses can prosper and grow through legitimate means making way for large scale ventures and developments both from within the country and outside the country. With these implications, it can be inferred that Demonetization is perhaps the biggest surgical strike on black money since Independence. This is also another milestone in Swachh Bharat Abhiyan, though in a different sense.

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