

# DEMONETIZATION IN DIGITAL INDIA

Dr. Bhujanga Manku Rai

Chief Co-ordinator

Sir Sitaram & Lady Shantabai Patkar College of Arts and Science &  
V.P. Varde College of Commerce & Economics, Mumbai, India

**Abstract:** The demonetization of ₹500 and ₹1,000 banknotes by the Government of India on 8 November 2016, ceasing the usage of all ₹500 and ₹1,000 banknotes as the legal tender in India from 9 November 2016 was made by the Prime Minister of India in an impromptu live televised address to the Nation. Officials of public and private sector banks had come under the scanner of finance ministry over alleged irregularities in converting old currency into new notes post the demonetization drive. As per latest statistics available with RBI 99% of the demonetized notes come back into the banking system. Ordinary public had to face great difficulty. Besides, agriculture and industrial production were adversely impacted. The positive aspect had been reduction in human trafficking, terror activities and *hawala* operations. Millions of Indians expected the drawn of a new corrupt-free and healthy Indian economy due to this courageous act of the Government of India. The objective of the Government was to eliminate counterfeiting of these high denomination notes and as well as to stamp out the flow of black money into terror activities and also to give India a digital push. Therefore the decision of the Government to demonetize high-value currencies was a welcome step. *The pertinent questions remain as to whether the objectives of the Government were fully met? Whether the benefits are long lasting or short lived?*

**Key words:** Demonetization, Banking system, Reserve Bank of India (RBI), Black money, Prime Minister's Office (PMO), Terror activities,

## I. INTRODUCTION:

The demonetization of ₹500 and ₹1,000 banknotes by the Government of India on 8 November 2016, ceasing the usage of all ₹500 and ₹1,000 banknotes as the legal tender in India from 9 November 2016 was made by the Prime Minister of India in an impromptu live televised address to the Nation. The government claimed that the demonetization was an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crack down on black money in the country. The move was also described as an effort to reduce corruption, the use of drugs, and smuggling.

However, following demonetization, banks and ATMs across the country faced severe cash shortages with adverse effect on small businesses, agriculture and transportation. People seeking to exchange their notes had to stand in serpentine queues, and several deaths were reported due to the long waits at banks and ATMs. Besides, the economic barometers namely, the BSE SENSEX and NIFTY-50 indices crashed in the next few days. Initially, the government received accolades from bankers and economists. However, the opposition parties took this as an opportunity to criticize the government resulting in caustic debates in both houses of parliament and as well as protests and rallies against the government in several places across India. Further, as the situation continued to deteriorate, the government's move of demonetization was heavily criticized by prominent economists such as Raghuram Rajan, Kaushik Basu, Paul Krugman, Amartya Sen and Steve Forbes.

## II. HISTORICAL BACKGROUND:

Traditionally, demonetization is used by the governments as a means of wiping out unaccounted wealth and to naturalize counterfeits of high denominations. Since independence, the Indian government demonetized bank notes twice, first in January 1954 when bank notes of 100 and 1,000 rupees were withdrawn and new notes of 100, 500 and 1000 rupees were introduced. Then in January 1978, the Janata Party coalition government demonetized banknotes of 1000, 5000 and 10,000 rupees to curb counterfeits and black money.

## III. OBJECTIVES OF THE STUDY:

The objective of this study is whether the purpose of demonetization has been achieved by the government and whether demonetization is a long term solutions to the woes of black money, counterfeits and terror activities.

## IV. HYPOTHESIS:

According to one school of thoughts, demonetization results in reduction in the flow of black money and also eliminate the counterfeiting of high demonetization notes and terror activities. However, the other school of thoughts is of the view that the entire exercise of demonetization is a sheer wastage of economic resources and man power.

## V. REVIEW OF LITERATURE:

### a) Purity, Monthly journal (December, 2016):

The author has observed that the legal system and the growing legislations have failed to nip the bud of corruption, frauds and scams due to the wicked mind of people. The actual remedy lies in changing the mind-set of individuals.

### b) Brink A. (2011), Corporate Governance and Business Ethics:

According to the author, there is growing need to inculcate the concept of ethics in business in order to ensure responsible corporate governance and to overcome the problems of growing tendency for unethical practices both in industry and in general administration.

c) **Fernando A., (2012) Business Ethics and Corporate Governance:**

The author feels that it is high time to stamp out unethical business practices in both governance of states and in business and therefore, the solution lies in incorporating the concept of *Ethics* in administration and business.

d) **Professional Banker (2018):**

According to the editorial, the growing number of frauds and scams the world over is due to lack of values and responsibility in society which has damaged the fabric of society.

## VI. RESEARCH METHODOLOGY:

The study is exclusively based on secondary data sourced out from various research publications, news articles and the web.

## VII. EMERGING SCENARIO:

It is alleged that information about the impending demonetization was leaked to various industrial houses and the ruling party personnel and affiliates. On 1 April 2016 in a Gujarati newspaper it was stated that in about a few months the existing high denomination notes would be withdrawn and new notes in the ₹2,000 denomination would be issued. However, the newspaper later claimed that it was only an April fool's Day prank. Similarly, just before the official announcement of demonetization, a leading Hindi daily *Dainik Jagran* quoted that from reliable sources in the RBI, new series of ₹2000 notes would be issued along with the withdrawal of ₹500 and ₹1000 notes. Similar news was also published in The Hindu Business Line on 21 October 2016. The Chairperson of the State Bank of India also spoke in April 2016 about the possibility of demonetization of ₹500 and ₹1000 notes.

In this process of demonetization, officials of public and private sector banks came under the scanner of finance ministry over alleged irregularities in converting old currency into new notes post the demonetization drive. In a major crackdown on bank employees involved in irregularities as many as 27 senior officials of various public sector banks were suspended and six others transferred. The suspensions came amid reports of Income Tax authorities conducting search and seizure places at many places such as Mumbai, Bengaluru and Delhi, each amounting to over ₹3 to ₹5 crore. Ordinary public have had to face great difficulty but unscrupulous businessmen and operators were able to exchange the banned notes of ₹500 and ₹1000 without any hassle for new ₹500 & ₹2000 notes. A new black market emerged with racketeers exchanging the scrapped money for lower denomination notes at a hefty premium ranging from 10% to 30%. To cap it all, within days of the new currency notes coming into circulation, they were being counterfeited. Similarly, the real estate market remained unchanged and the property developers and builders were not overtly perturbed due to demonetization.

The 1100 cases of search and seizures carried out by the Income Tax department in the aftermath of demonetization yielded around ₹600 crore of which about ₹150 crore was in new notes. About 1.5 lac account holders had deposited more than ₹10 lac each and there were suspicious cash deposits in over one crore accounts belonging to about 75 lac people. The Tax authorities believed that around ₹1 lac crore may be disclosed under the new income declaration scheme which would result in tax collection of over ₹50000 crore. The tax departments of various circles situated in Maharashtra, Gujarat, Tamil Nadu and Karnataka also began looking into huge cash deposits made in the Cooperative banks too. To enable the Income Tax Department to carry out the voluminous work, it made use of high end Information Technology to mine the huge amount of data in its possession and also roped in the services of specialist consultants namely, Deloitte and Earnest-Young for the analytical work.

The then RBI Governor, Mr. Urjit Patel had informed the Parliamentary Standing Committee on Finance that about ₹9.2 lac crore of new currencies had been issued so far and that the cash position would ease. Accordingly to RBI data released for the week ended 13 January, 2017, the total currency in circulation stood at about ₹9.5 lac core. However, this amount was just 53% of the currency level of ₹17.9 lac core as on 8 November, 2016 when the Prime Minister declared the high note demonetization and when the value of high denomination notes was estimated to be about ₹15.44 lac. As per latest statistics available with RBI about 99% of the demonetized notes have come back into the banking system. This development has gone against the forecast of the government which expected a gap of over 30%.

The positive aspect of demonetization were reduction in human trafficking, terror activities and *hawala* operations as per data released by the RAW and other intelligence agencies. According to HDFC Bank's MD & CEO Mr. Aditya Puri, the demonetization has speeded up digitization by about 3 to 5 years. Mr. Puri opined that the current digitization process would increase transparency and improve financial inclusion resulting in reduction of financial transaction cost. He advised the government to upgrade and continue the momentum to have a well placed digital system in India where all processes and transactions would be done online to ensure transparency and reduce corruption, tax evasion and ensure due compliance.

## VIII. PURPOSE:

Millions of Indians expected the drawn of a new corrupt-free and healthy Indian economy due to this courageous act of the Government of India. The objective of the Government was to eliminate counterfeiting of these high denomination notes and as well as to stamp out the flow of black money and therefore the decision of the Government to demonetize high-value currencies was a welcome step. ***The big questions however remained unanswered as to whether the objectives of the Government would be fully met? Whether the benefits would be long lasting or short lived?***

## IX. CONCLUSION:

Seeing to the developments so far, the researcher observes that the impact of demonetization has been short lived and the cash-in-circulation (CIC) has today exceeded by over 2% to 19.9% which stood at 17.7 % before demonetization. Scams continue to be unearthed such as the *Nirav Modi case*, *ICICI-Videocon case* and recently the *Air-Deccan scam* of funds diversion. Besides, the Government is beleaguered by the *Rafale scam*. The recent suicide attack on the CRPF Jawans also indicates that terrorism is again raising its ugly head. In fact, recently the Hon. Prime Minister, Mr. Narendra Modi, while inaugurating the 2<sup>nd</sup>. Phase of RUSA, informed the audience that out of .the funds disbursed under the central government sponsored schemes only 15% reached the benefactors, therefore, the government was giving a big push to development of IT enabled systems to stem corruption in administration.

The researcher feels that as long as people think that dishonesty is rewarding, they will have an incentive to cheat. Black money and corruption have their roots actually in black minds. Greed is the seed of these twin maladies. It is essentially a spiritual ailment that cannot be cured with laws or official diktats. India's former president Dr. A.P.J. Abdul Kalam made this point once, saying that, "the fight for a corruption-free ethical society will have to be fought against greed, and replaced with what can I give spirit".

People will desist from corrupt practices when they understand what they actually stand to lose. Tax evasion may look like a smart move but it extracts a price. Loss of character and peace of mind are the immediate consequences. The tax cheat also lives in fear, not only of losing what he has hoarded, but also of his fraud being found out. Also, one who accumulates wealth by dishonest means will likely teach his children to do the same. The result is visible all around us, with graft being an accepted part of life in today's society worldwide.

In the *Ramayana* Epic, Lord Rama was unable to kill the demon king *Ravana* even after cutting off all his ten heads, which seemed to grow anew. Lord *Rama* was then advised to aim his arrows at *Ravana*'s navel, which contained the source of his life and thereby *Ravana* was slayed by Lord *Rama*. Similarly, the fight against black money and graft must aim to free people's minds of greed. That will happen when we become more aware of our true identity as **souls**, and thereby experience our innate spiritual qualities of **purity, peace, love, happiness, compassion, truth and bliss**. When one is nourished by the experience of these virtues, vices gradually lose their grip on the mind and fade away. Such spiritual empowerment is the best way to create an ethical, peaceful and corruption-free society.

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