Demonetization - Its Role and Impact on Our Society

Chandra Dev Bhatt

Assistant Professor, Department of Management, Himgiri Zee University, Dehradun, Uttarakhand, India. Email: bhattcd@gmail.com

Abstract: Demonetization is an act by a government of a nation where some or the total currencies are discontinued as a legal tender in the country for some specific purpose. The central government of India declared demonetization of two higher ranking currencies of Rs. 500 and Rs. 1000 on November 8th, 2016 at 8:15 P.M. The ruling government had taken this type of decision for the third time in India. Past experience of demonetization in the domestic territory shows that it was not much successful in attaining its aims and objectives. We have tried to depict the demonetization decision taken by several other nations in the past years and at what extent they had been successful in achieving their set goals.

The main objectives of the present study is to analyze the problems faced by common men and business organizations at the initial stages of demonetization, focuses on the forms of corruption in the society and major scams before and after demonetization period, examines whether demonetization is able to put control on naxal activities in the country, whether the decision has put a break to counterfeit currency which is being manufactured in the domestic territories of the neighbouring countries and had illegally installed in our monetary system. Our study also aims to find out if demonetization decision has discouraged terror funding activities by terrorist organizations prevailing in the country and whether the decision has been proved an important measure for stopping military infiltration especially from Pakistan.

Keywords: Corruption, Counterfeit, Currencies, Demonetization, Infiltration, Military, Scams.

I. Introduction

Demonetization implies discontinuing of some particular denomination or total currency as legal tender in an economy. Demonetisation act had been carried out by many countries globally in past years and they all had almost similar objectives behind it that is to control black money and corruption in their country.

In the year 1964, Myanmar was the first country to demonetize its 50 & 100 Kyat currency notes .It demonetized its currency notes of different denominations for the second and third time in the year 1985 and 1987. The decision for demonetization resulted in disfunctioning of economic activities in the country and the economy had to face protest from the public and many people had to sacrifice their lives. This decision also gave rise to inflation and increase in illegal economic activities in the country viz. smuggling. Demonetization by Myanmar government was proved to be a total failure in world history.

Demonetization decision was also seen unsuccessful in Ghana, where then government demonetized its old" cedi" currency notes and Pesewa coins in the year 1979 and replaced it with new denomination currency notes. In January 1982, the Ghana government again announced demonetization of the highest denominations currency notes i.e 50 cedi and provided only two weeks time to its citizen who possessed the said currency to deposit it into their bank account. The main causes behind this demonetization were to minimize tax evasion, to nab corrupt politician and to check international level of black money. The decision proved to be a failure since it didn't achieve its objectives, in addition, citizen of Ghana lost faith in their banking system and majority of population of the country started investing in unproductive physical assets.

In the year 1984, Nigerian government under the leadership of Muhammd-u-Buhare demonetized old currency notes namely Naira & Kobo and issued new denomination of the currency notes with the aim of stabilizing the economy. But, it couldn't achieve its aim and demonetization was a failure resulting resignation of President Muhammadu Buhare.

Similarly, many other countries of the world took demonetization decisions like Zaire (1993), Soviet Union (1991) and North Korea (2010) who failed in its aims due to many reasons as per post analysts' reports. On the other phase of the coin, there are many countries that succeeded in attaining their objectives through demonetization. They are European Union (2002), U.S.A (1946), Zimbabwe (2015), Australia (1996), United Kingdom (1971) and Philippines (2015).

In India, first demonization was witnessed in the year 1946, when British government demonetized Rs. 1000 and Rs. 10000 currency notes aiming to punish businessmen indulging in conspiracy in the world II. After independence, in the year 1954 Rs. 1000, Rs. 5000 and Rs. 10000 currency notes were again introduced in the country. The first post-independence demonetization in India was done by the Janata Party government in the year 1978 and demonetized Rs. 1000, Rs. 5000 and Rs. 10000 currency notes having an objective to curb counterfeit and black money. The government of India introduced Rs. 500 currency note from October 1987 and

Rs. 1000 currency note were re- introduced in the year 2000 and had been in circulation as legal tender money since then. After 38 years of first post-independence demonetization, Bhartiya Janata Party took a decision of demonetizing two higher ranking currencies of Rs. 500 and Rs. 1000 on 8th November, 2016 at 8:15 p.m. According to the ruling Government, the main objective of demonetization was (a) To curb black money (b) To control on counterfeit currencies (c) To put a check on illegal activities including terrorism funding (d) To increase digital economical transaction in the country. Shri Narendra Modi, Indian Prime Minister directed all citizen to deposit possessed demonetized currency into their bank account up to December 30th 2016 excluding non- residents citizens whose time limit for depositing demonetized currency was extended till March 31st, 2017.

II. Literature Review

Amrik Kunal Soni & Ashish Patnaik, March 2017, An impact of demonization on Indian economy proposed that demonetization of old currency notes of Rs. 500 and Rs. 1000 had surely reduced cash flow to terror organizations, dismantling of counterfeit currency and have accelerates the digitalization in the economy. Neelam and Himanshu (2017), through their paper (Demonetization impact on Indian economic growth) have tried to enumerate favorable, non favorable, short term and long term impact of demonetization in Indian economy. It will provide better means for collection of tax and add revenue in the economy. Demonetisation will decrease the prices for land & houses and will make it affordable for common man. It may put control on funding terrorist. Demonetization would result unfavorable impact in the economy. It will give rise to vicious circle because of shortage of cash lit will adversely affect economic activities and would hamper the growth rate of the country. Parul Mahajan & Anju Singla (2016-Effect of demonetization on financial inclusion in India) have tried their best to explain that demonetization have created much more problems for ordinary men real hoarders of black money according to a report of Dec 2015 by R.B.I, only one rural and semi-Urban bank branch is operating for every 12,863 people and a metropolitan and urban branch is in operation for 5351 people in the country. Researchers explained that demonetization have filled up with cash. Jan Dhan Bank Accounts of poor people by other than real owners of bank accounts. Demonetisation also increased the use of digital financial services in the country. It led informal economic sector to suffer for their livelihood. It adversely affected rural population and micro financing institutions.

Nair Sreeja Sivankutty (2017-Impact of demonetization on Gross Domestic product- An analytical approach) Researcher have enumerated the contribution of agricultural, manufacturing, e service sector to gross Domestic Product after demonetization. It is stated that there is obvious decrement in the % of contribution by these sectors in G.D.P. Researchers concludes by stating that in the month demonetization stem that is Nov. 2016, GDP rate was adversely affected but slowly it recovered and reached to 7%. Bharathi has enumerated both positive and negative impact of demonetization in the economy. He had discussed that demonetization in one phase would help government. In fighting for black money, corruption, terrorism and check on counrtfeit currency & arms smuggling. The other phase is very dark and would have adverse effect on those who do not posses any bank accounts & also on those who are only relying on cash dealing like fish industry, vegetables & fruit and construction industry.

Angle Jasmine Shirley has explored that major adverse impact of demonetization was on households, farmers and E- commerce business that are generally based on cash dealing. This paper also discusses that Hawala market had been put to null and void and only 4 % of total black money is generally put in cash and rest in the form of Land, Building, Gold and transferred abroad, therefore it was improper planning of demonetization which resulted suffering to small farmers and sellers, Merchant, daily wagers, traders and common man in the country. Shweta Mehta, Kruti Patel (2016 Dec): Researcher have put an attempt to explain that demonetization move could change the face of Indian economy. This step will make a positive difference, if the transition challenges get handled well by the administration and it can prove an important opportunity for shifting maximum people from physical cash to digital cash.

III. Objectives of the Study

- To analyze the impact of demonetization on aggregate inflation in the country.
- To examine if demonetization have helped in controlling corruption scams in the economy
- To examine at what extent demonetization have curbed counterfeit currency in the country.
- To analyze the aggregate problems faced by the economy after demonetization decision.

IV. Data Collection & Research Methodology

Secondary data collection methods have been used in the study and data was mainly collected from research studies, websites, and newspapers.

V. Demonetization-Major Scams and Aggregate Corruption

Corruption is a deliberate activity or set of activities performed by an individual person or/and organization with conscious mind which proves to be dishonest, illegal, anti-social, fraudulent and unethical. People indulging in corruption benefit themselves on the cost of others. Worldbank has given a straight forward definition of corruption -"the abuse of public office for private gain". India holds 79th least corrupt position out of survey of 175 countries of the world as per corruption perceptions index report by transparently international in 2016. Demonetization has put a control both on collusive & co-ercive corruption in the economy. Routine bribery for both bribe giver & taker and get benefited is a collusive bribery. Co-ercives corruption is bigger in amount as well as having harsh intention.

Demonetization has resulted decrement of routine bribery cases extortion & black-marketing in the country in the initial period as people were seen struggling for making arrangement of cash for their routine expenditure. Further, scrutiny decisions for hundreds of bank account holders by Central Board of Direct Taxes (CBDT) of the country have discouraged bribe giver and takers and also put a break to those who had intention in corruption acts in the future period. The main forms of corruption are bribery, embezzlement, theft, fraud, extortion, blackmailing, illegal possession of public money or assets by elected political leaders and other people indulged into it. Corruption in India is witnessed in acquiring, developing & selling public properties in illegal ways, corruption in acquiring construction for infrastructure building by construction mafias by bribing concerned government officials, corruption in disbursement of funds by government on various medical, educational, research, grants & welfare projects, corruption in acquiring licenses for setting industries, power connections & water connections, acquiring driving licenses, corruption in availing government jobs, admission of children in schools & colleges, seeking employment etc.

Corruption is prevailing in one or other forms in every country and is prevented and controlled by some special legal organization meant for it. India's principal legislative body against corruption is" Prevention of corruption Act, 1988". Under this Act, there are provisions for various punishments including criminal punishments for different forms of corruption acts under different sections of Indian penal codes. In India, this body functions with the co-ordination of other ancillary institutions established for prevention of corruption in the country.

In India, we have ancillary organizations both at the federal and state level meant for coordinating the above mentioned principal body for preventing & controlling corruption. The main ancillary institution at federal level includes Supreme Court, the central vigilance commission, the central bank of investigation the comptroller and auditor general and the chief information commission. At state level, there are organization like anti-corruption bureaus, lokpal, lokayukta and upalokayukta. Despite all efforts envisaged by the principal body and ancillary bodies against corruption, we have witnessed the following major corruption scams in India.

Table I

S.no.	Name of Scams	Year	Amount(in crors)
1.	Indian coal allocation scam	2012	186000
2.	2G spectrum scam	2008	176000
3.	Wakf board land scam	2012	150000
4.	Common wealth games scam	2010	70000
5.	Telgi scam	2002	20000
6.	Satyam scam	2009	14000
7.	Bofors scam	1980-90	100 to 200
8.	Fodder scam	1996	1000
9.	Harshad Mehta scam	1992	500
10.	The hawala scandal	1990-91	100

The above corruption scams table depicts the real image of corruption ziant in the country who had swallon several lakhs crores of currency which could otherwise had been available for public welfare projects and would have contributed in the development of the country. It is also good to see that no such scams have been seen after 2012. Demonetization in November 2016 had one of the objective to curb corruption in the country. It is seen that the incidents of bribery, embezzlement, extortion, blackmailing have reduced to a great extent after the decision of demonetization.

VI. Demonetization and Naxalism

The term naxal derives from Naxabari village in west Bengal and originated in the country from there, in the year 1967. A Naxalite is a member of the communist party of India (Maoist) and totally support the ideology of the party. At the initial stage of its inception, Maoist/Naxalist movement had its centre in west Bengal. Slowly & gradually in coming years, it spread itself into chattisgarh, odisha, Maharashtra, Bihar, Andhra Pradesh, Telengana and Jharkhand. These Naxalists are actually terrorists who have forgotten their religion, caste, creed and even family and at present inspired in destruction of national assets including human assets. Since the inception of naxalists movement journey, Indian economy had lost hundreds of lives of its citizen including police and other personnel of police & defence deputed for curbing this movement in the naxal effected regions and millions of crores national property has been destroyed until now.

Following table shows death due to naxalist attacks in different States.

Today naxalists have emerged up as powerful anti-social and illegal organization possessing high technique ammunitions, information technology & abundance of funds. This increased fund is the result of increasing extortion, blackmailing and other criminal activities by their members. Further, naxalites are funded by other terrorist group domestically and from outside of domestic boundary. They are supported by some corrupt political leaders, government officials and civilians which have become great obstacles in curbing their organization. Demonetization have given in some break to naxalist activities in the country.

Table II

Period	Police and Defence Personnel Martyred	Death of Civilians	Region/State
1960-2000	-	128	Gaya, Arwal & Jehanafad districts of Bihar
2001-2016	386	143	Karnataka,Chattisgarh, Jharkhand, Andhara Pradesh, Orrisa, Maharashtra, West Bengal, Bihar
2017	45	04	Chhattisgarh, Sukma District, Chhattisgarh.

On November 18, 2016, Minister of state for home Mr. Kiren Rijiju confirmed that demonetization of high denomination currency in India had badly hit the North east insurgent groups and C.P.I. (Maoist) resulting a loss of approximately of Rs. 780 crores which had been acquired by these groups by indulging in extortion from government companies, mining, corporate, businesses and private contractors.According to police report, demonetization of higher demonetization currency in the country had resulted frustration amongst Naxalist and a complete stoppage of naxal activities witnessed in forest & borders areas.

A total amount of 7000 crores of demonetized currency was recovered in Baster region. As per estimates of intelligence agencies & other experts, maoist earns over Rs. 1500 crores by extortion mainly from contractors dealing in construction of roads, businessmen engaged in mining business in their regions. In the year 2016, there were 124 incidents of extortions by maoist resulting in death of 17 civillion citizens (http:/economictimes.indiatimes.com). After demonetization, Naxalite found themselves in short of funds and perhaps in fear and frustration no incidents were seen until April 23, 2017. But on the next day, that is, on April 23, 2017, Naxalite killed 25 soldiers between Burkapal and Chintagufa of Sukma District in Chattisgarh. According to intelligence inputs, Naxalists & Maoist had to face numerous problems after demonetization viz. inability to purchase explosives, arms & ammunition. They even struggled for arranging foods,drugs and medical care. The scarcity of funds, food and medical care forced 469 maoists to surrender before police within a month period after demonetization.

VII. Demonetisation and Counterfeit Currency

Counterfeit currency is a fake currency produced and printed within or outside the domestic territory of a country aiming to gain illicit circulation of money supply in the same country or in some other countries. Counterfeit currencies are duplicate & similar currency of the original denomination and difficult to recognize by the common man. These currencies do not possesses any authenticated sanction from the competent authority and the people or an organization indulging in it generally aims fraud & forgery for personal or its organization's benefit on the cost of others. The problem of counterfeit currency is common for all the countries globally. In India, counterfeit currency is assumed and believed to be manufactured, printed and circulated from Pakistan, Nepal, Thailand, Bangladesh, Malaysia, Srilanka & UAE.

Though, there are no sure sort evidences of the amount of counterfeit currency in the circulation in the country, yet the ministry of the home affairs has stated that until September, 2015, high quality of Fake Indian Currency Notes (F.I.C.N.) worth Rs. 22.90 crores were seized and recovered.

According to Reserve Bank of India data, total notes in circulation are 90.26 billions and out of it 0.63 millions currency notes are detected take in 2015-16 valuing Rs. 29.64 crores. As per National crime Records Bureau (in 2015) Rs. 43.8 crores of fake currency was seized.

Prime Minister of India in his speech on 8th November, 2016, said that counterfeit currency notes are majorly utilized for funding terrorists' activities and these are also produced and printed elsewhere, someone had to take a bold step. According to Mr. Kiren Rijiju, Minister for Home affairs, demonetization has wiped out major number and amount of fake currencies from India and estimated it amounting Rs. 400 crores. After 10 days of demonetization there were no reports or incident of fake Indian currency notes (FICN) from Pakistan, Nepal or Bangladesh border.

VIII. Demonetisation -Terror Funding and Militant Infiltration

Terror funding means providing financial aid or support to an individual terrorist or a group of terrorist by some individual person or organizationfor some illegitimate objectives. Terror funding in India is done mainly by Laskar-e-Tiaba and its allied organization of Pakistan to facilitate and increase terrorist's activities in the country. Funding to terrorist is arranged through money laundering or hawala money from within the domestic territory and from outside the geographical boundary.

Demonetization on November 8, 2016 has broken the back of terror funding organizations as generally the currency used for terror funding & terrorism activities had been of high denomination and no such terror funding activity has been witnessed after the above mentioned currency's demonetization.

According to Shri Manohar Parikar (Defence Minister) and Shri Rajnath Singh (Ministers of Home Affairs), Demonetization is going to put a break to terror funding as it is generally done through extortion money & black money. Mr. Kiren Rijiju spoke in a statement while addressing Lok Sabha about insurgent groups (North east), maoist and other terror groups in Kashmir that these organizations suffered a loss of approximately Rs. 800 crores due to demonetization. It is projected that terrorist activities will show decreasing trend after demonetization because of scarcity in arrangement of funds. Shortage of funds would last for couple of months and it would create a big problem for terrorist groups to purchase explosives, arms & ammunitions, medical care and even provision of food & other daily expenses would hardly be possible as a big amount of cash held by these group has turned into a scrap paper after demonetization.

According to National Investigation Agency (NIA) Chief Mr. Sharad Kumar, Onjune 3, 2017, fifteen locations in Kashmir and seven in Delhi were raided on account of doubts for terror funding activities. The raid was successful as it resulted in a recovery of Rs.1.15 crores of cash, letter heads of banned terrorist organizations, pen drives, laptops & other documents were also seized by the authority for further investigation. It was found that all these locations were owned by hurriyal members and big hawala traders.

A. Military Infiltration

It is an action of military of a country in taking illegitimate entry or access in the domestic geographical territory of another country, generally to acquire or possess secrets and also for other objectives like terror expansion in that country, destruction of material and immaterial things. In India, Pakistan had been trying military infiltration since division & partition of India. It resulted border tension between duo and had given Indo-Pak wars of 1948,1965,1971 &1999 where both the country's had to suffer a huge loss of lives, destruction of assets and resulted a major obstacle for growth and development of both the country. Demonetisation has created a history in decades period because there was no violence report of military infiltration in Jammu & Kashmir for continuously for five days after demonetization.

B. Aggregate Impact of Demonetization

On November 9th, 2016 (just next day of demonetization decision), Bombay Stock Exchange sensex dropped by 1689 points and Nifty was decreased by 541 points. The decision started showing its immediate impact on economy. Long queues were seen all over the country for depositing demonetized currencies and withdrawing cash for routine expenses. There was a shortage of cash in every bank and automatic teller machines (ATM's) had become cashless in few hours. It gives birth to chaos, stress, trauma for common men of the country due to Improper planning by the central government in taking cash shortage after demonetization decision which was a clear-cut sign of adverse economic impact on the economy? The decision gave birth to chaos, stress and trauma for common men of the country and we could see long queues before Automatic Teller Machines and around all banks of the nation for depositing demonetized currency notes and withdrawing currencies for routine works.

Due to excessive loads of customers, Banks and ATM's turned up into cashless after few hours. First two weeks were very problematic because each day only few could get opportunity to withdraw cash from their banks and others had to return home without any cash after standing in queues for several hours. Common man struggled for existence, due to shortage of money in all Banks and Automatic Teller Machines in the country. Improper planning by the central government in taking cash shortage after demonetization decision.

Further, variations in decision of cash withdrawals limit from banks for single account holder and exchange of old banks notes deteriorated the problems of common men. There were only few who got opportunity to withdraw cash from bank after standing on queues for hours and majority of people had to return home without any cash as cash shortages were there in banks and ATM's. It adversely affected the smooth functioning of business organization especially small scale & tiny limits in the country besides construction, fishing meat, and dairy product, fruits & vegetables. They suffered heavy losses due to the decision of demonetization. The decision also reports to take many lives of the people due to problems of cash shortages. The instant affects almost lasted for a month, thereafter slowly and gradually the main problem of cash shortages declined day by day in the country. The government of India circulated Rs. 500 and Rs. 2000 new currency notes in the country. After two months of demonetization, it seems that now there is no such a problem of cash shortage in the country. On long-queues are seen for withdrawing & deposit cash into bank. But, question arises that has government achieved its main aim.

Our economy witnessed depression cycle of many business organizations almost for a period of thirty days after demonetization. A hard stroke was hit to fast moving consumer goods like fish, meat, fruits, vegetables industries all over India. It was reported to decrease from 10 to 30% during November and December 2016. Cigarette and bidi industries showed fall in production and sales upto 30 to 40%. Construction industries were also adversely affected during first two months of demonetization and most unemployment was seen in construction and small scale industries throughout the country.

Few industries dealing in card swipe machines and on-line payment instruments, software's had shown 30 to 40 % growth during a quarter period after demonetization.

Besides adverse effects on business organizations, demonetization also resulted in incidence of quarrel, loot of ration shops and deaths in the country. Many people were reported to have died due to intake of stress in standing in queues for hours and not able to fetch cash. Several deaths in the country was seen due to refusal of demonetized money by hospitals authorities.

It was reported that total death due to demonetization was 25 on November 15th, 2016 and it increased to 33 upto November 18th, 2016. Mr. Arvind Kejriwal, Chief Minister of Delhi claimed that 55 deaths were directly or indirectly related to demonetization decision. Other opposition leaders have claimed that more that hundred people have died because of demonetization up to December 31st, 2016. (https://tradingeconomics.com/india/corruption/rank)

References

[1] www.world bank.org/public sector/anticorrupt/corrupt/cor02.htm

[2] www.cvc.nic.in/ar2016para2.14

[3] http:/en.wikipdia.org/wiki/naxalite

[4] www.timesofindia.indiatimes.

[5] www.firstpost.com/india/indian-army2016

[6] www.newindianexpress/nation/2016/www.india.into-day.in

[7] https://www.quora.com/How-big-is-the-circulation-of-fake-currency-notes-in

[8] Indihttps://tradingeconomics.com/india/corruption-rank

[9] http://english.newstracklive.com/news/Success-and-failures-of-Demonetization--Objective-Evaluation--effect-over-terrorism-black-money--corruption-15906-1.html

[10] http://www.cvc.nic.in/ar2016.pdf

[11] http://www.firstpost.com/india/indian-armys-2016-death-toll-of-64-is-highest-in-six-years-31-terrorists-killed-this-year-3013554.html

[12] https://g21.digialm.com//per/g21/pub/1668/ASM/WebPortal/1/index.html

[13] https://en.wikipedia.org/wiki/Corruption_in_India

[14] http://www.livemint.com/Politics/9Bwhi0lGDX1lxNXg7wE9WJ/NIA-Indian-Statistical-Institute-to-conduct-study-on-fake-c.html

[15] https://www.rbi.org.in/scripts/AnnualReportPublications.aspx