

Demonetization to E-monetisation in India : The Way Forward

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Abstract

The study threw light on various events that happened after demonetization of 500 and 1000 rupee notes in India after November 8, 2016. The information required for the study was collected from media reports. In the first section of the paper, the history of demonetization in India and other emerging countries was discussed. In the next section, implications of current demonetization (2016) were discussed. The media reports indicated that 80% of the money transactions are based on physical cash which, in turn, opens the door for the problems like corruption, black money, terrorism funding, etc. Cashless economy (which means use of minimum cash and the rest of the transactions through different electronic modes of transactions) will greatly solve the above problems. Adding to this, the ideology of Bokil Anil of Arthakranthi Foundation on cashless economy and their benefits, if implemented, were also discussed.

Key words : demonetization, implications, cashless economy, cashless economy, ideology of Arthakranthi

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The Government of India on November 8, 2016 unexpectedly announced that the old ₹ 500 and ₹ 1000 notes would be demonetized, which means those notes would not be accepted as legal currency/legal tender. Time was extended to the people till the end of December 2016 to exchange the old notes for new ₹ 2000 notes. Kumar (2016) stated that the objectives of demonetization were to reduce black money, lower cash circulation (higher the circulation, higher is the corruption) in the economy, eliminate fake currency and terrorism funding. Also, sufficient time and relaxation on tax payments (IDS) were announced by the Prime Minister prior to demonetization to encourage black money holders to pay their taxes. In spite of those announcements, black money holders were persistent in not paying the taxes. Against this backdrop, the study highlights the evolution of demonetization and its implications are discussed.

History of Demonetization in India

Demonetization is not new to India. It happened twice before the current demonetization in 1946 and 1978. In the year 1946, ₹ 1000 notes were demonetized with a single objective to curb black money. Later in 1978, ₹ 1000 notes, ₹ 5000 notes, and ₹ 10000 notes were technically demonetized because those denominations were hardly

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Table 1. Some Facts About Demonetized Currencies

Denomination	Reason	Total Currency in Circulation as on March 31, 2016	Total Currency in Circulation as on Nov 08, 2016
₹ 500	1. Introduced in October 1987-88. 2. Old notes are demonetized and new notes are introduced in November 2016.	38.6% (₹ 6,326 billion)	17.17 bn (nos).
₹ 1,000	1. Introduced in 1938 . 2. Demonetized in January 1946. 3. Again introduced in 1954. 4. Discontinued in January 1978. 5. Reissued in November 2000. 6. Demonetized in November 2016 and ₹ 2000 notes were introduced in November 2016 .	47.8% (₹ 7,854 billion).	6.86 bn (nos)

Source: Consolidated from Singh (2016) and Doctor (2016).

Table 2. Facts About Notes Deposited After Demonetization

Total Value of ₹ 500 and ₹ 1000 notes as on November 8	₹ 15.44 trillion
Value of banned notes deposited in banks till December 10	₹ 12.44 trillion
Notes deposited as % of notes in circulation	80.60%

used at that time. A week's time was extended to exchange these high denomination bank notes ("Demonetisation: 5 countries that tried currency reforms and failed," 2016 ; Doctor, 2016). The differences between current demonetization in 2016 and historical demonetization are : (a) a drastic improvement in banking infrastructure, information & communication technology in the year 2016 as compared to 1940s and 1970s, (b) multiple objectives in 2016 compared to historical demonetizations.

The Table 1 gives the details about the changes that were made with reference to ₹ 500 and ₹ 1000 notes. In the year 2016 (as on March), more than 80% of the currency in circulation were ₹ 500 and ₹ 1000 notes. As the black money, terrorism funding, and counterfeit notes are carried out in these higher denominations, they were demonetized in the month of November 2016. The abstract of the facts stated by Singh (2016) about the demonetized notes is given in the Table 1. The Table 2 indicates that 80% of the demonetized notes were deposited into the banking system by December 2016.

History of Demonetization in Other Emerging Economies

The countries in other emerging markets faced burning issues after demonetizing their currencies. Some of the countries that tried demonetization before India include Soviet Union, Russia, North Korea, Zaire, Myanmar, Ghana, and Nigeria. The major demonetization operations in developed countries include the decimalization of British pounds in 1971 or the introduction of the cash euro in 2002, which produced efficient results. The other emerging markets apart from India had not benefited from demonetization because of the absence of democratic environment and hence the same lead to lack of leadership, which in turn led to economic disruptions and protests by the people. The Table 3 shows the details of countries that tried demonetization before India and miserably failed ("PM Modi, please take note: These countries tried demonetization and failed," 2017).

From the Table 3, it can be observed that the major objectives of demonetization are to control black money/tax evasion, corruption, and reevaluate the currency. Also, the demonetization was not successful in many of the

Table 3. Details of Countries That Tried Demonetization Before India

S.No.	Country	Time Period	Demonetization Policy	Objectives	Implications
1.	Soviet Union	January 1991	Withdrew 50 and 100 ruble notes.	Reduce black money and improve the currency value.	1.Economic collapse. 2.Soviet break-up.
2.	Russia	1998	Redenomination of the ruble, removed three zeroes.		Successful
3.	North Korea	2010	Removed two zeros from the face value of the old currency.	Economic control and to close black markets.	A poor harvest leading to food shortage.
4.	Zaire	1990s	Continuous banknote reforms.	To withdraw obsolescent currency from the system in 1993.	Surge in inflation and a collapse in the exchange rate against the dollar accompanied by protests by people.
5.	Myanmar	1987	Curb black market.	Invalidation of 80% of the black market.	Economic unease ; Mass protests across the nation and also protests by students which lead to killing of thousands of people.
6.	Ghana	1982	Demonetized 50% cedi notes.	To address tax evasion and reduce excess liquidity.	1.Black money increased. 2. Rural people had to walk long distances to exchange money within deadline and because of this, many notes were abandoned worthless.
7.	Nigeria	1984	Issued new banknotes with a different color, forcing the replacement of old ones within a limited period.	Anticorruption measure.	Debt burden and inflation increased. Failed to meet the objectives.

Source: Consolidated and prepared from various media reports of Business Standard and The Economic Times, November 2016.

countries because it had a negative impact on economy in the form of inflation, food shortages, etc., that lead to mass protests and expulsion of those leaders who mooted demonetization.

Implications of Demonetization

There are many views and information which support the positive implications of demonetization on the one side and very few support negative implications, such as the view of Venugopal (2016), who stated that demonetization is similar to shooting a tyre of a racing car which may be greatly damaged.

(1) Shortage of Cash for a Short Period : Rebello and Nayak (2016) stated that the Prime Minister's decision to demonetize higher denominated notes of ₹ 500 and ₹ 1,000 lead to a deficiency of cash in the system that created uneasiness for the general public and businesses. There was a shortage of the newly printed ₹ 500 and ₹ 2,000 notes, and the situation has still not eased. The lower denomination notes such as ₹ 100 and ₹ 50, which are still legal tender, were not sufficiently available in the banks to fulfil the needs and only ₹ 2000 notes were available in most of the ATMs (automated teller machines). The public found it very difficult to get the ₹ 2000 notes exchanged because of lack of sufficient lower denomination notes.

Demonetization is found to affect trade activities and consumption to a great extent as majority of the population use cash for the monetary transactions. Also, not more than 50% of the population uses different modes

Table 4. GDP Estimates Before and After Demonetization

Agency /Entities	Estimates of GDP in 2016-17 Before Demonetization (%)	Estimates of GDP in 2016-17 After Demonetization (%)
RBI	7.6	7.1
Asian Development Banks	7.4	7.0
Fitch Ratings	7.4	6.9
Morgan Stanley	7.7	7.3

Source: Consolidated from Seetharaman (2017)

of cashless transactions (Rebello & Nayak, 2016). As a result of this cash crunch, it is expected by many of the prominent rating agencies and other entities that GDP will drop down as shown in the Table 4.

(2) Increase in the Use of Digital Payment Modes : The rupee notes of lower denominations are found to be short after demonetization and only ₹ 500 or ₹ 2000 notes were available in ATMs and banks for a short while. This created a problem of making payments as lower denomination rupee notes were scarcely available to exchange for ₹ 2000 rupee notes, especially at retail point of sales or purchases. This, in turn, made people to shift to the digital mode of payments. It was found from the media reports that there was an increase in the usage of cashless modes of payments for booking tickets, ordering food items, and paying for cabs.

In the month after demonetization, the volume of transactions through mobile wallets almost increased fourfold to 63 lakhs per day, totaling ₹ 191 crore. In the same way, the number of transactions through RuPay cards increased nearly four times to 16 lakh per day and the value jumped nearly six times to ₹ 236 crore (Doval, 2016).

(3) Increase in Tax Payments : There was an increase in tax collection compared to 2015. There was an increase of 12.01% (April 2016 to December 2016 growth) in direct tax collection as compared to 2015. There was an increase of 25% (April 2016 to December 2016 growth) in indirect tax collection compared to 2015. Also, the increase in indirect tax collection was found to be 12.8% in the month of December 2016 as compared to November 2015. There was a dip in customs duty collection to the extent of 6.1% in December 2016 compared to December 2015. There was an increase in excise duty collection of 31.6% in the December 2016 when compared to December 2015, and increase in service tax to the extent of 12.4% during the same interval. Value added tax (VAT) collection also improved considerably in the well administered states ("Tax collection higher in April-November 2016 despite demonetisation, says finance minister Arun Jaitley, " 2017).

(4) Income Tax Raids on Tax Evaders : The income declaration scheme, offered by the Indian government after the time of demonetization gave a chance to tax evaders while depositing old currency notes. Anyone voluntarily disclosing previously undeclared income would have to pay 50% as penalty, 25% will be locked in a non interest earning government scheme for four years. Those caught will be taxed 85% and prosecuted (Seetharaman, 2017).

The media reports indicated that income tax authorities of India conducted income tax raids and found huge unaccounted amounts of old (demonetized) and new ₹ 2000 and ₹ 500 notes. These were seized from some of the businessmen and politicians spread across the states such as Tamil Nadu, Delhi, Karnataka, and so on. Some of them were arrested by CBI for further investigations.

More than ₹ 4,807 crore of hoarded income was detected by the Income Tax department after conducting more than 1000 raids and survey operations as part of its country wide operations against black money hoarders post demonetization. Also, cash, jewellery worth ₹ 609.39 crore and ₹ 112 crore in new currency (mostly ₹ 2000 notes) were seized ("Income Tax department detects ₹ 4,807 cr black income ; seizes ₹112 crore new notes," 2017).

(5) Frauds in Banks : Seetharaman (2017) stated that some of the employees/ staff members and officials of the banks such as Axis Bank, HDFC Bank, State Bank of India, State Bank of Mysore, ICICI Bank, and Kotak Mahindra Bank were found facilitating unauthorized exchange of demonetized rupee notes, that is, facilitating black money holders to exchange demonetized notes.

(6) Likely Impact on Real Estate : Cash transactions are likely to reduce in the future, meaning cashless modes of transactions will be used to a greater extent. The Benami Act, once implemented, all the real estate transactions will be done through cheques and other similar modes. Stringent regulations /process on the real estate will cause delay and ensure transparency in the real estate transactions. This, in turn, will reflect the actual demand for housing /land based on the availability of various health facilities, road facilities, and so on. This indicates that the prices of real estate will not increase artificially ("View: Demonetisation has set off chain reactions in banking, real estate, the wedding industry, " 2017).

(7) People's Support : The media reports indicated that since November 8, 2016, the RBI has made 50 notifications. Some of these notifications are reversals of previous orders. The Prime Minister in his *Mann Ki Baat* speech on December 25, 2016 said that thousands of suggestions were received on the NarendraModi App. Those suggestions were related to corruption, black money, reducing difficulties faced by people during demonetization. The suggestions were considered by the government and the government accordingly made necessary orders to reverse some of the previous orders, which really reduced the hassles that happened during demonetization. No major protests, social unrests happened due to demonetization because of people's support and participation to make India an ethically/morally clean country.

Cashless Economy

A recent World Bank report indicated that 80% of the transactions in India were done in cash mode, which formed two-thirds of the value of the total transactions. Demonetization really affected the cash transactions because of lack of sufficient number of low demonetization rupee notes in banks and ATMs for a short while. Thus, there is a need for alternative forms of cash modes so as to track the proper usage of money and ensure that it is not being used for any illegal activities/informal economic transactions that affect the entire economy ("Demonetisation effects in India to disappear in medium term: World Bank," 2017). The factors to be considered in developing a cashless economy are discussed as below :

(1) Language of E-mode of Transactions : India is a land of not only diversified cultures, but also different languages. Almost all the e-modes/digital wallets have English as language for communication and usage. Only less than 10% of the Indian population has English literacy. The rest may feel difficult to use the e-modes because of the above reason. Regional languages can be used for digital modes of payment/e-wallets depending upon the convenience of different states of the country.

(2) Awareness and Usage of E-Modes by all Sections of the Society : There are different variety of digital modes depending upon the convenience for use, financial capability to purchase using digital wallets, and so on. Now-a-days, people from all the sections of the society have mobile phones ranging from ordinary/lower end model to smart phones. People having lower end models of mobile phones can use USSD to buy/sell and make payments. Aadhar Enabled Payment Systems (AEPS) can also be used, especially by the poor/rural people, for the purpose of buying and selling. This is in line with the facts stated by Ray (2017). Awareness is being made through radio and other media about these modes of payment. It is also continuously insisted by the Prime Minister through TV and

radio that the educated youth should help the illiterates to become familiar with it. John and Rai (2017) stated that there is a considerable increase in digital payments after demonetization.

The *Mann Ki Baat* speech by Prime Minister Shri Narendra Modi: All India Radio (2016) indicated that out of the 300 million RuPay Cards (30 Crore) in India, 200 million RuPay Cards are owned by poor families which have 'Jan Dhan' accounts. Thus, inclusive banking would definitely pave the way for the use of digital modes of money transactions. Furthermore, 30% of the Indian population, who are below the poverty line, might take a little longer to adopt the digital economy.

Being aware of the pros and cons of a cashless economy – Nathan (2017) discussed that it is very vital to clearly know the uses and limitations of a cashless economy so that each individual may operate cashless transactions with utmost care and hence avoid unnecessary losses. Once when the public realizes the advantage of cashless modes of transactions, they appreciate and use it permanently.

Arthakranti's Ideology on Cashless Economy

(1) Arthakranti's Ideology on Cashless Economy : The philosophy has been proposed by the Pune based Arthakranti Sansthan, which is an economic advisory body formed by a group of chartered accountants and engineers who are volunteered professionals from different parts of India. The body is aimed at creating economic models to ease the taxation system, check circulation of black money, financial inclusion, and so on .

Menon (2016) stated that the Arthakranti Philosophy proposed a five point agenda that has to be implemented simultaneously. Those points are discussed below :

(i) Abolishing existing (56 taxes) tax systems completely except customs and import duty.

(ii) Direct/income tax and indirect taxes can be replaced with banking transaction tax (BTT). If BTT is implemented, tax receipts from banking transactions will be substantial. An individual carrying out huge valued transactions might have to pay higher amount of taxes. All highly valued transactions should be done only through banking transactions such as cheques, demand drafts, and digital modes.

(iii) Recall and scrap high denomination notes of ₹ 1000, ₹ 500, and ₹ 100. Currency denomination up to ₹ 50 can be allowed to avoid hindrance to the poor/unbanked people.

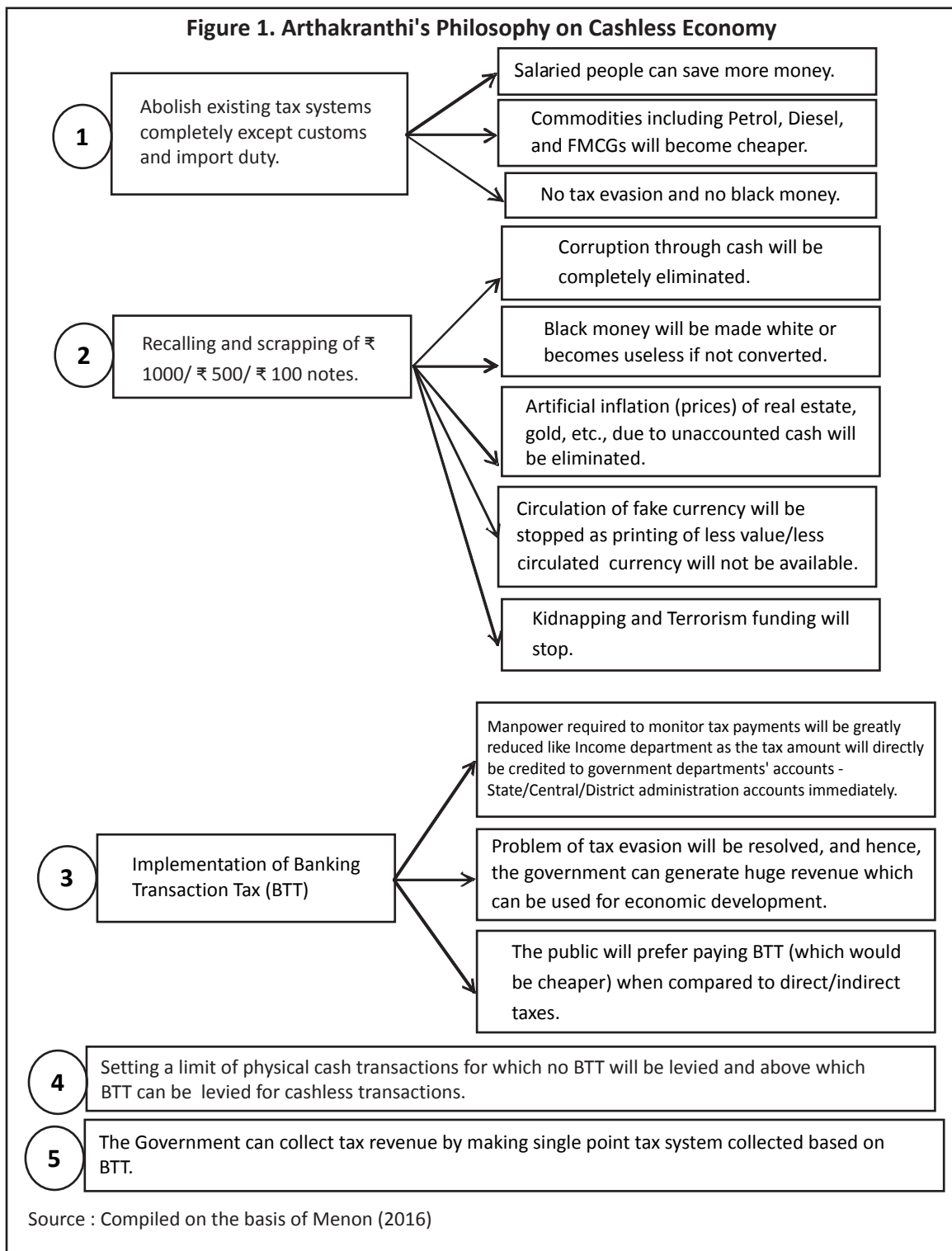
(iv) Government can allow cash transactions up to ₹ 2000 (fixed limit without any BTT) only, and legal recourse cannot be available if it goes above ₹ 2000 (BTT of 2%).

(v) The interest rates can be lowered and freeing up capital especially through higher tax collected by way of BTT. The government can collect tax revenue by making single point tax system collected based on BTT.

The above five points are summarized in the form of Figure 1.

The ideas/philosophies of Arthakranthi can be implemented without any hassles and would definitely ensure reduction of black money, funding of terrorism, elimination of fake notes, and hence, would lead to the overall economic development of the country.

(2) Arthakranti's Opinion on Current Demonetization (in 2016) : Arthakrantis expressed that the current demonetization of old ₹ 500 and ₹ 1,000 notes would have little impact to curtail the prevalence of black money. The demonetization effort would only curtail the flow of fake rupee notes in the system.



Research Implications

The study is an exploratory research conducted using secondary data obtained primarily from media reports. The

study gives insights about the primary purpose of demonetization, and reasons for success or failure of demonetization policies implemented by other countries in the past. Also, the outcomes of recent demonetization activity carried out by India on November 8, 2016 are also discussed. The outcomes include the impact of demonetization in terms of tax collection and use of digital/cashless transactions. These points definitely throw light on the maximum benefits for the maximum number of people in the economy/country due to demonetization with the help of people's support and their timely feedback to reduce the difficulties faced by the public. Also, the study will be helpful to the countries which may go in for demonetization in the future to plan and implement it without any/little difficulties.

Conclusion

The study is focused upon the implications of demonetization and cashless economy with reference to India. Demonetization definitely made the counterfeit notes, which were in circulation in higher denominations, useless because they cannot be exchanged. Also, the income tax raids identified unaccounted money and gold, which were hidden by some of the businessmen and politicians. The cashless economy, when it is fully functional, will be a great medicine to completely kill the disease of corruption, black money, and any other illegal financial transactions. The strong reason for the stress on cashless economy, as suggested by Anil Bokil of Arthakranthi Foundation, is that the usage of cashless modes above the minimum limit will help track all kinds of financial transactions (ensuring transparency). The cashless modes of transactions will bring in more savings for those who earn and also generate excess tax revenues, which would be utilized for eradicating poverty and the upgradation of the Indian economy.

Limitations of the Study and Scope for Further Research

The data for the study were collected from secondary sources. The findings depend upon the reliability of these sources. There is very little research work that is done with respect to demonetization as demonization of ₹ 500 and ₹ 1000 notes happened on November 8, 2016. The study can be further extended by collecting primary data from the public about their perspectives on demonetization. Also, the impact of demonetization on different sectors of the economy can be studied. An in-depth study can be done to explore the reasons for failure or success of demonetization activities of the countries that underwent it.

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