



WHETHER DEMONETISATION ACHIEVED ITS OBJECTIVES

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ABSTRACT

Demonetization of currency is a radical monetary step which is done whenever there is change of national currency, replacing the old with new one. In case of India, the government took an unplanned decision of demonetization. As a result, not only the whole country has to face large trouble but also it affected the economy as a whole. To conduct the study secondary data is collected from various newspapers, comments of renowned economists and various reports of R.B.I. The study will enable to determine that whether government achieved its objectives and the suggestions to achieve the desired goal.

DEMONETIZATION IN INDIA-

Demonetization means when Reserve Bank of India (R.B.I.) has withdrawn the old Rs 500 and Rs 1000 notes as a legal tender. In case of India, this move has been taken to curb the black money, track fake currency and to cut off supply line money to terror funding by reducing the amount of cash available in the system. It is interesting to note that demonetization was not for the first time by the government of India. It was first time implemented in 1946 when the Reserve Bank of India removed currency notes of Rs 1,000 and Rs 10,000 notes from circulation. However both the notes were reintroduced in 1954 with an additional introduction of Rs 5000 currency. The second demonetization came in 1978, then the Prime Minister of India , Morarji Desai demonetized Rs 1,000, Rs 5000 and Rs

10,000. The governments move to demonetize, even then, was to tackle the issue of black money economy, which was quite substantial that point of time. The move was enacted under the High Demonetization Bank Note (Demonetization) Act, 1978. Under the law all 'high denomination bank notes' ceased to be legal tender after January 16, 1978. People who possessed these notes were given till January 24 the same year a week's time to exchange any high denomination bank notes.

OBJECTIVES OF DEMONETIZATION-

The government of India decided to cancel the legal tender status of Rs. 1,000 and Rs. 500 denomination currency notes on 8th November 2016 with several objectives:-

- Flushing out black money.
- Eliminate fake Indian currency notes (FICN).
- To strike at root of financing terrorism.
- To convert non-formal economy into a formal economy to expand tax base and employment.
- To give a big boost to digitalization of payments to make India a cashless economy.

DISCUSSION AND INTERPRETATION ON WHETHER GOVERNMENT ACHIEVED THE OBJECTIVES-

- 1) The government of India seemed to believe that demonetization alone is capable in destroying the black money. But only a small portion of black money is actually stored in form of cash. An NIPFP report claims that cash is the least preferred instrument when it comes to storing unaccounted wealth. Even if we go along with the government's assumption that there is a lot of black money stored as cash, has demonetization been effective in tackling this issue? Recently, a few ministers from the BJP were caught with black money in new currency notes. Raids upon bank workers and RBI officers too have yielded bundles of new currency notes that are unaccounted for. It is clear that the problem of black money runs deep and is not going to stop anytime soon. Hence, note ban is effectively useless when it comes to combating corruption.

- 2) We were to consider the destruction of a tiny amount of fake currency as a worthy goal that merits a bold decision like demonetization. Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to poor sections of society who doesn't have digital transaction culture. The fact remains that countless newspaper reports show that fake new currency notes have cropped up everywhere since the note ban announcement. It is caused due to huge and unmet demand for new currency. A fake 2,000 rupee note was seized merely a day after it was introduced. Rs 42 lakhs worth of new currency notes were seized in Punjab. In Hyderabad, some people have even gone to the lengths of arranging their own currency printing machines. But the immeasurable benefits of transparency and reduced volume of black money activities can be pointed as long term benefits.

- 3) As for its third goal of destroying terror funding, Demonetization alone isn't enough. Terror groups finance their operations through various parties. Through demonetization, their activities can be halted only temporarily. They can soon be back in action as new currency notes become available. Where terror funding is concerned, demonetization is only a temporary fix. India needs better counter-terrorism rather than currency crackdown to deal with organized attacks. Indian security agencies are well aware that the 26/11 attackers used credit cards, not cash. This is further proof that changing the legal tender status of certain notes is not enough to combat terror. The sale of pornographic material, drug trafficking, and film piracy are some sources of finance for them. This implies that demonetization is not an appropriate move to cutoff supply line money to terror funding.

- 4) The demonization initiative has caused a sudden breakdown in India's commerce and the informal economy is hard hit. Trade across all aspects of the economy has interrupted, and sectors like agriculture, fishing, and the huge informal market were almost shut down within few days of announcement due to liquidity crunch. The informal sector in India employs more than a majority of the workers and most of transactions are in cash. Disruption to this system could endanger the employment and livelihood of weaker sections of society. The change disturbed the lives of

ordinary people, led to widespread need of employment and major job losses for the poor.

- 5) Demonetization had led to substantial increase in the number of Income Tax Returns (ITRs) filed. The number of Returns filed as on 05.08.2017 registered a rise of 24.7% as compared with growth rate of 9.9% in the previous year. Advance tax collections of Personal Income Tax, other than Corporate Tax as on 05.08.2017 showed an increase of about 41.79% over the corresponding period in 2016-2017. Personal Income Tax grew at 34.25% in F.Y. 2016-2017. The provisional figures of direct tax collections upto 15-Jan-2018 show that net collections are at 6.89 Lakh Crores which is 18.7% higher than the net collections for the corresponding period last year. The Income tax Directorates of Investigation have identified more than 400 benami transactions up to 23 May, 2017 and the market value of properties under attachment is more than Rs. 600 crores.
- 6) With cash transactions facing a reduction, alternative forms of payment came in demand. Digital transaction systems, E-wallets and online transactions using E banking, use of Plastic money (Debit and Credit Cards), etc. showed a substantial increase in demand. This should eventually lead to strengthening of such systems and the infrastructure required. As well people are less interested in going digital because it has also raised concern on cyber security.

CONCLUSION-

It is clear by the above discussion that because of demonetization number of I.T. returns increases and the Growth rate of total net D.T collections has climbed up from 14.8% in Q1, to 15.8% in Q2, to 18.2% in Q3 and to 18.7% as on 15th January 2018. I.T. Department seized undisclosed income and 1% currency notes failed to convert in new currency as per R.B.I. statement, for which a petition is still pending in Supreme Court of India. But demonetization is just as dropping an atom bomb on (developing Indian economy) informal sector which is the major source of providing employment. Demonetization is the real villain to bring down India's G.D.P. (7.93% in 2015-16 and 5.70% in June quarter of 2017-18) .Government unplanned decision of demonetization created huge cash crises which

negatively affected to small scale industries, agriculture sector, which are the backbone of Indian economy. Besides this, it has also affected tourism, real estate, telecom and various other industries. But the government is successful in achieving its hidden objective to win the elections by preventing the funding of the political parties in opposition.

Therefore, I conclude that the government of India failed to achieve the objectives of demonetization as well as led to the great loss to the economy too. As per the statement of R.B.I there is a loss of Rs. 21,000 crores in printing new notes.

SUGGESTIONS-

- 1) Government of India should provide special facilities to the honest tax payers such as *bronze assessee, silver assessee, gold assessee, platinum assessee*. So that the general public can be inspired to pay tax honestly.
- 2) Government should launch net banking without any charge and also introduce cash back scheme to promote cashless economy.
- 3) Government should provide tax relaxation if informal sector is converted into formal sector.
- 4) Government has sufficient departments such as income tax intelligence, C.B.I. which can easily bring out black money and fake currency through raids. It is because most of the black money is in form of goods and services, precious metals, real estate, under billing of inventories etc.
- 5) Problem of terrorism, law and order cannot be solved by gunpoint. Basically there is need to go to the root of the problem. The root of the problem is that the government of India is failed to provide employment to the people who are ready to work and incapable in using the intelligence of the people for the development of the country.

So, due to lack of employment unemployed people are compelled to choose the wrong path for their survival.

- 6) The government should link all the property of real estate, agricultural land and all other precious metals with Aadhar card as well as should issue e-passbook to the holder of above assets and further compulsorily introduce online trading with digital payments of these assets.

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