

Demonetisation: National Security Apparatus for Eradicating Black Money, Corruption and Implementing a Cashless Economy

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Abstract: *This paper emphasis on demonetisation as a deeper attempt by Indian government in stamping out black money, corruption, counterfeit currency and developing cash less economy. The government of Narendra Modi completely surprised his citizens by suddenly announcing withdrawal of larger denomination currency notes from circulation, forcing Indians to put their cash into banks. That would bring all the money into taxable account. Demonetisation is not the first time in India, but introducing Rs.2000/- currency note is first time in India. The episode of demonetisation has come as a rude shock to the hoarders of cash, who have woken up to the truth that unaccounted money has no place in the vaults anymore, and hiding the cash was not a wise decision, after all, importantly counterfeiting has received a full stop, even if it's a temporary one. Demonetisation has brought down the terror attacks that took place in our country by controlling terror financing. Many business men had remitted their black money to the government, for which tax and penalty amount has been claimed. Even though demonetisation is a good idea, the implementation of that was a misery. People suffered a lot due insufficient stock of money in banks, limited withdrawal of amount. People were rushing bank for officially exchanging banned notes in the bank which created a chaos. Overall, demonetisation policy is an appropriate one, but government have failed to pre plan and implement the policy in a successful manner.*

I. Introduction

The concept of inclusive growth has gained a lot of momentum in India. It means that all sections of society contribute to benefit from economic growth of the country Indian currencies with denomination 500 and 1000 have ceased to be the medium of exchange from the midnight of 8th November 2016. This demonetisation move is implemented as a tool to measure the stock of black money hoarded in these high denomination currencies, and to curb terrorist activities in the country. The government aims to bring the unaccounted money back to the formal banking sector by allowing limited exchange and unlimited deposit of old notes in bank accounts till the end of 2016. However, the biggest problem is that the distinction between unaccounted cash and black money is lost. Money that is derived from illegal activity is harmful, but money circulated in small businesses only adds to economic activity. Indian economy is heavily dependent on cash. Inadequacy of bank branches is one primary reason why cash dominates especially among small businesses. Every bank branch in a rural and semi-urban centre caters to more than double the number of people in an urban and metropolitan centre. According to December 2015 Reserve Bank of India Report, each rural and semi-urban bank branch serves 12,863 people compared with an urban and metropolitan branch which serves just 5,351 people. There were 7.8 branches for one lakh people in rural India, but 18.7 branches in urban India. The spread of ATMs too is skewed in favour of urban centres.

History of demonetization of Indian Currency

History: The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large.

India has demonetized before: First time on 12 Jan 1946 (Saturday), second time on 16 Jan 1978 (Monday), Third time on 8th November 2016 (Tuesday).

In the first time, The measure did not succeed, as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably 'demonetized', not having been presented.

In the second time, demonetization was second attempted by janata party government under leadership of Moraraji Desai in the year 1978 The Finance Minister H.M. Patel in his budget speech on 28 Feb 1978 remarked: The demonetization of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements.

Now, on 28 October 2016 Indian Prime Minister Narendra Modi announced the demonetisation. The total banknotes in circulation in India were 17.77 lakh crore. In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore of which nearly 86% around 14.18 lakh crore was 500 and 1000 banknotes. In terms of volume, the report stated that 24% (around 22.03 billion) of the total 90,266 million banknotes were in circulation.

Impact of demonetization

Demonetisation move will have far reaching implications. This is not to dispute that the transformative step has brought some hardship for the citizens, but those are temporary and will blow over soon. For the larger benefit of the nation, we the citizens can bear such hiccups with a smile. This is how the democracy works where citizen participate in nation building and policy making.

Black money

The current measures by the government to withdraw high value notes are likely to destroy about Rs 4 lakh crore worth of cash held in black money and fake currency, which constitute about 12% of the black economy in India, Black money operators run a parallel economy which shakes the very foundation of the Indian economy. With Modi's demonetisation move, all domestic black money will either be deposited into the banks with heavy penalty or be simply destroyed.

Terror funding

Terror financing is sourced through counterfeit currency and hawala transactions. This is how terror financing works. Fake currency circulation is routed through a multi-layered network of hawala operators which are closely linked to satta (gambling) and smuggling of drugs, opium and arms. Indirectly, they all end up financing terrorism. In addition, the terrorists collect huge donations and then route the money through hawala transactions. With the circulation of counterfeit Indian currency completely stalled and hawala transactions stopped, all windows for terror financing are closed.

Economy:

Demonetisation will have a huge resultant effect on the Indian economy. The clean-up of illegal cash will help turn around the economy. First, it will bring more borrowings to the exchequer, improve inflation outlook and increase India's gross domestic product (GDP). Second, it will revive investment opportunities and give a fillip to infrastructure and the manufacturing sector. Third, it will help reduce interest rates and lower income tax rate.

Real estate may see significant course correction:

The demonetization decision is expected to have far reaching effects on real estate. Resale transactions in the real estate sector often have a significant cash component as it reduces incident of capital gains tax. Black money was responsible for sharp appreciation of properties in metros; real estate may now see a sharp drop.

Hawala transactions:

Demonetisation has crippled the hawala rackets. Hawala is a method of transferring money without any actual money movement. Hawala route is used as a means to facilitate money laundering and terror financing. Hawala rackets run again on black money. With black money suddenly being wiped out of the market there will be a full stop to hawala.

Counterfeit currency:

Demonetisation has dealt a death blow to the counterfeit Indian currency syndicate operating both inside and outside the country. Counterfeit currency seriously devalues the real worth of Indian currency. A study conducted by Indian Statistical Institute, Kolkata on behalf of the National Investigation Agency (NIA) suggests that fake Indian currency notes (FICN) amounting to Rs 400 crore are in circulation in the country at any given point of time and around Rs 70 crore fake notes are pumped into Indian economy every year.

Kashmir unrest:

The four-month-long unrest in Kashmir valley is on a backburner, No stone pelting on security forces has been reported in Kashmir ever since the demonetisation announcement was made.

Demonetisation: a stepping stone for cash less economy/digital economy:

Demonetization is intended to flush out the black money and encourage a move to a cashless (or less cash-based) state and bring the parallel sector into the mainstream economy. The Digital India programme is a

flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. “Faceless, Paperless, Cashless” is one of professed role of Digital India.

As part of promoting cashless transactions and converting India into less-cash society, various modes of digital payments are available. **These modes are:**

Banking cards

USSD

AEPS

UPI

Mobile wallets

Bank prepaid cards

Point of sale

Mobile banking

Internet banking

Micro ATMs

Promoting Digital Payments within Government - Guidelines for the Electronic Payment & Receipts for Cashless Services

Ministry of Electronics and Information Technology (MeitY), Government of India envisages Paperless, Cashless and Faceless services across the country, especially in rural and remote parts of India. MeitY further envisages common e-Governance infrastructure that will offer end-to-end transactional experience for a citizen, businesses as well as internal government functions, which includes accessing various services and making payments and receipts through electronic modes. The Apex Committee on Digital India has recommended a targeted and time bound approach to implement digital payments for citizens across all the e-Services of Government Ministries and Departments. Against this backdrop, MeitY has notified Guideline for Electronic Payments and Receipts (EPR), intended for Central Public Sector Undertakings, State Governments, Govt. of India Autonomous Bodies, and Municipalities for expeditiously implementing appropriate mechanism to enable electronic payments and receipts. The objective of this guideline is to provide guidelines for Departments to:

- Assess various services involving payments and receipts by types of services and level of electronic payment enablement
- Provide actionable instructions for universal adoption of electronic payment modes for each type of service through various payment channels
- Provide guidelines on engagement with various payment service providers

The Guidelines for Electronic Payments and Receipts (EPR) will be implemented through assessment of the department’s overall status of services offered and maintain a repository of services offered by departments. This repository will be used for measuring and tracking of adoption level electronic payments across departments in India. Furthermore, information of departments requiring payments integration will be shared with Government and private sector Payment Systems providers (PSPs) for enablement of Electronic modes and channels of payments.

Development of digital applications and their response in market:

However, reservations about the timing of India’s big cashless push at this point are irrelevant. It’s happening, ready or not. India is currently in the middle of an all out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming. “Even the vegetable vendors on the streets have opened up Paytm accounts and they have a machine outside their shop where someone can scan the bar code and make the payment,” “A lot more retail outlets are accepting e-wallets, including laundry provider and *dabbawala*,”. “This is revolutionary, and survival of the fittest.” Modi’s demonetization initiative has been a boon for India’s e-payment providers. Paytm reported a three-time surge in new users -- tacking on over 14 million new accounts in November alone. While Oxigen Wallet’s daily average users increased by 167% since demonetization began. “Ever since Prime Minister Narendra Modi’s demonetization announcement, we have suddenly seen a spike in both app downloads & merchant registrations. This spike is now coming from all cities, big and small, pan-India, consisting of small merchants like vegetable vendors, Kirana shopkeepers [small convenience stores], street vendors, rickshaw drivers, taxi’s etc., who’ve signed onto our Oxigen Wallet app for the merchant payments service,” said Pramod Saxena, the founder and CMD of Oxigen Services. Cryptocurrencies like Bitcoin and Asiadigicoin have also been the recipients of a positive upswing from Modi’s currency purge — with Bitcoin in particular being driven up in value.

The lack of cash in the economy combined with the buzz around electronic payments systems has also sparked some very innovative solutions. The farmers' markets of Telangana began experimenting with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks. "These changes indicate towards a more inclusive society in the future," The areas in which India is trying to improve its digital economy, which include simpler, more technologically advanced digital payment systems, increased merchant acceptance, improvements in UPI, which allows monetary transfers between any two bank accounts via a smartphone, as well as a reduction in cash-based transactions. "The Prime Minister's move to incentivize digital payments will offer a strong support to our ongoing efforts in helping the country leapfrog the cash generation to digital payment solutions," added Deepak Abbot, the senior vice president of Paytm. "This will not only help millions of Indians overcome the hassles of dealing in cash but also act as a significant step towards propelling India to emerge as a truly cashless economy."

II. Conclusion

In a single master stroke, the government has attempted to tackle all three malaises currently plaguing the economy—a parallel economy, counterfeit currency in circulation and terror financing. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent.