

Demonetization

Basically, demonetization is its subject related to economics and to some extent to the political science, however in one of the papers of main examinations for civil Judge candidates were said to write an essay on the subject and therefore I am including this essay on the subject.

Oxford dictionary defines Demonetization as the withdrawal of coin, note or precious metal from use as legal tender. Various countries in the world demonetize their currency in order to improve the bring the bigger volume of economy under the tax net by reducing shadow economy and black money. Sometimes the purpose of the demonetization may not be to unearth black money. As reported in Free Press Journal several countries of the world had successful demonetization. In 2002 European Union countries were required to go for demonetization because several countries in Europe came together and formed European Union and decided to have same currency for all countries included in European Union. As reported in the paper they started to print notes in 1998 that is four years before demonetization and given enough time to the citizens of every country to deposit old currency. Zimbabwe in 2015 went for demonetization in order to stabilize its economy. The Zimbabwe and government replaced Zimbabwe dollar with the American dollar. The process has taken three months to make US dollar as the countries legal tender. Australia went for demonetization in 1996 to curb black money and improve the security features. The government replaced its paper bank notes with polymer banknotes of the same denomination. United Kingdom in 1971 adopted decimal currency against pounds, shillings and pence.

In India before independence there was denomination demonetization in 1946. The purpose was to unearth black money and stop tax evasion. In 1978 The Indian government again went for demonetization by demonetizing notes of the value of Rs.1000 5000 and 10,000. Considering low inflation currency notes of these denominations were not in circulation with majority population and only millionaires were affected by the demonetization.

The recent demonetization in India was in the year 2016 when the government abruptly stopped use of currency notes of Rs.500 and Rs.1000. The government has announced that the citizens will get new notes of Rs.500 and 2,000 by depositing demonetized notes. The purpose of the demonetization, as announced by the Prime Minister of India, was to curtail the shadow economy, increase cashless transactions and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism. The opposition parties in India, however, claimed that demonetization move has unleashed economic anarchy and cause the harassment of common people. It was also alleged by one of the political parties that information about scrapping of high denomination notes was leaked and taking advantage of this, some people succeeded to tender unaccounted money in the form of demonetized notes beforehand.

After the sudden announcement of demonetization people were scared. The demonetized notes included the notes of lowest currency like Rs.500 in which of the people used to keep their earnings at their houses. India houses small intrapreneurs

and artisans who basically find it better to store their money at their home instead of going to the banks. Besides this, millions of workers and agriculturist, who used to refrain from going to the banks for depositing money were also holding cash in demonetized currency notes. In addition to this according to Indian culture the housewives used to save money from the earnings of their husband or family for the time of need and this class of citizens counted to millions. The millions of people thronged to the banks to get the demonetized notes deposited in the bank. Many of the small intrapreneurs and artisans, who were doing their business by investing all amount of money in their hands suddenly found that the money in their hands turned invalid tender. They were required to close their businesses and run for getting the demonetized notes exchanged. This factor amounted to closure of such units causing bad effect on the Indian economy. As reported by India today in August 2018 magazine GDP of India dropped by 1.5 counts percent because of demonetization of 2016.

The reserve bank of India has taken two years to remonetize Indian money market by introducing new notes of Rs.500 and Rs.2000. The government claims that demonetization has achieved its object as 3 to 4 lakh crore currency came in circulation after demonetization. The government also claims that earlier counterfeit notes in the form of Rs.500 and Rs.1000 were in circulation, however after demonetization the problem of counterfeit was noticed only in respect of rupees hundred notes and thereby the loss to the economy by circulation of counterfeit coins is considerably reduced. The government claims that the income tax department will examine the suspicious deposits during the process of demonetization and will take action against the persons who succeeded to deposit unaccounted money taking advantage of the process of demonetization.

The critics of demonetization however maintain by citing the data released by the reserve bank that approximately 99.3% of demonetized bank notes had been deposited, which means that demonetization only led to non-circulation of .7% of the demonetized notes. The very facet of existence of black money in the form of demonetized notes requiring the government to demonetize notes by putting the citizens to large inconvenience was claimed to be inappropriate by the critics.

As reported by business standard in its November 2021 overview of demonetization after five years paint a mixed picture. Digital transactions including unified payments interface has seen an exceptional rise from just 0.29 million in November 2016 to 4 .2 billion now. Cash in the economy however further increased to 28.3 trillion.
