

# **Demonetisation & possible alternatives of going cashless in India**

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## **Abstract**

*Demonetisation is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. The purpose of this paper is to analyze the Demonetisation in India and possible alternatives of going cashless in India.*

**Key words:** Demonetisation, currency, Credit & Debit Card, Banks

## **Introduction:**

Demonetisation can be defined as a method of invalidating a currency legally. In simple terms if we have to explain demonetisation it means making a currency value zero. For example our PM on Dec 8<sup>th</sup> demonetised all old 500 & 1000 rupees & thereby making them invalid for transaction purpose. Similarly few other countries are following his footsteps & notably Pakistan has also demonetised their 5000 Pakistan currency( Rupees) invalid & all the countries are planning to go digital. In this paper we are trying to understand the benefits & hiccups for going digital. Also through this paper we would explore various strategies for going digital.

## **Research Methodology:**

We have undertaken exploratory research. Data is collected mainly through secondary data like newspaper, research articles, case studies, discussions, observations & so on. Also books on Demonetisation were studied.

## **Demonetisation:**

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. Demonetisation happens to

combat inflation, to combat corruption, and to discourage a cash system. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency. India is not the only country to try demonetisation. There were few countries which tried & they are

- 1) Nigeria in year 1984- They introduced new currency & therefore banned old currency
- 2) Ghana in year 1982- They banned 50 cedis note to tackle tax evasion & empty excess liquidity
- 3) Zimbabwe in year 2009- Zimbabwe demonetised 10000000000000 for policy consistency & for enhancing consumer & business confidence.
- 4) North Korea in year 2010: To eradicate black currency 1000 worth currency was banned by the Korean Government.
- 5) Soviet Union in year 1991: it demonetised currency of Rs 100 & 50 ruble to eradicate black currency.
- 6) Myanmar in year 1987: Similarly Myanmar demonetised their currency to curb black market.
- 7) European Union in year 2002: It was done in all European countries to have single currency “EURO”.
- 8) USA in year 1969: They withdrew their currencies worth 1000,5000,10000 & 100000.

Few Countries have followed India in Demonetisation & they are Australia (\$100 note), Pakistan (5000 Pakistan Rupees) & Venezuela (100 Bolivar bill).

### **Impact on Indian Economy:**

Indian Government demonetised 1000 & 500 rupee note on Dec 8<sup>th</sup> 2016 to fight terrorism & curb Black Money flowing in our economy. Although this was not done for the first time in India (before 1000, 5000 & 10000 rupee note were demonetised) there was a huge impact on Economy as rupees 500 & 1000 constitute to roughly 86% of the currency circulation in India. Major impacts of demonetisation on Indian Economy are

1. Cash Shortage: As our economy is cash driven economy & majority of transaction was done using 500 & 1000 rupees note & also as printing of 500 rupees note is not as much as needed for transaction & 2000 rupees note is not widely accepted as transaction

currency as providing change is another biggest hindrance there is severe cash crunch although the government has removed all the barriers for transaction.

2. **Loss of Labour:** Cash shortage has compelled few small companies to reduce labour cost & thereby have sacked few employees. Also daily wage earners, labourers & few traders who were dependent only on cash transaction had to bear the brunt of demonetisation.
3. **Consumptions of goods & services have taken a severe beating:** During the cash crunch it was consumption of Goods & services which took severe beating. Few companies like hotels, Luxury furniture seller & few travel agencies suffered heavy losses as people during demonetisation phase was only interested to consume necessary & emergency goods.
4. **Growth momentum halted:** India was always hailed as one of the fastest growing economy. But due to reduced consumption, stagnating income & nominal investment India risks its position of fastest growing economy & also India's GDP growth would be not on par as expected.
5. **Impact of Black money:** Due to widespread awareness & proactive approach of Income tax officials there is certain fear among black money hoarders. Also through voluntary tax disclosure scheme the Government of India could retrieve certain part of black money & use it for its entire social welfare scheme. In the coming few years IT returns with valid assessment would be done by all the people especially to avoid Income Tax raids & thereby the Government can use that amount either for social causes or national causes.
6. **Impact on Duplicate Currency:** It is in this area that maximum benefit can be reaped especially since abundance of duplicate currency was printed in our neighbouring countries & circulated in India through our porous borders. Also counterfeiting or printing of Duplicate currency especially of 2000 rupees is very tough as high technology is used to print the notes. Many of the duplicate currencies which were in circulation are halted & there is thorough scrutiny of new currency & recent incidents have proved that our border force has been successfully stopping the circulation of duplicate currencies through our neighboring countries.
7. **Impact on National security:** It is in this area maximum results have yielded. Maoism, Terrorism & Naxalism which were daily happenings in our country have reduced

significantly in our country. Also Border States like Kashmir, Assam & other areas have seen reduced violence post demonetisation.

### **Cashless transaction methods:**

GOI has supported numerous Cashless transactions & has given numerous advantages to consumers going digital through Union Budget proposed in Feb 2017. Therefore let us see deliberate on the numerous cashless transactions available to us.

- **Cheques:** This is the oldest mode of cashless transaction. Here payer issues a cheque from any bank mentioning the currency to be transacted & the receiver can either withdraw the amount or can deposit the amount in his account in any other bank recognized by Reserve Bank. Advantage of this method is there is acknowledgement for amount received & disadvantage would be cheque getting dishonoured either due to signature mismatch or insufficient funds. If Govt imposes harsher punishment for cheque bounce cases, misuse of cheques would be minimised.
- **Demand Drafts:** Here issuer issues a DD for specified currency & receiver can encash the DD. It is safest method but time consuming method as both the parties have to physically visit the bank for transaction to be completed.
- **Online cash transfer through NEFT or RTGS:** Here issuer can directly transfer cash through either net banking or online transaction thereby saving large amount of time. Biggest hindrance to this method is slow & unsecured internet connection.
- **Credit & Debit card:** Here digital cash transaction happens rapidly between buyer & seller but drawbacks are non availability of POS at some receiver's end & unsecured internet connection thereby leading to misuse of credit & debit cards. This method can be used only to buy some goods & services & transaction happens between a company & consumer but cannot happen between two individuals.
- **E-wallet:** E- wallet is next cashless payment option. E-wallet can be used to purchase products starting from grocery to airline tickets. In order to use E-wallets customer and merchant, both require a Smartphone with active internet connection. The most popular examples of E-wallet are PayPal, Payoneer, Transferwise, Skrill, and PayZa.
- **Mobile wallets:** The next cashless payment method is a mobile wallet. Here debit card, credit card or internet banking password is not required for making payment. Just load

money in your wallet via IMPS and use it on the move. You can download mobile wallet app from play store. Few examples of mobile wallets are Paytm, PayUmoney, Oxigen, Lime, MobiKwik etc.

- UPI applications: UPI is a mobile payment system which allows you to do various financial transactions on your Smartphone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchants can enroll with banks to accept payments using UPI. Like in the case of a PoS machine, the merchant would require a current account with a bank to accept UPI payments. The examples of few UPI Apps are SBI Pay, ICICI Pocket, Axis Pay UPI App, Union Bank UPI App, PNB UPI, PhonePe, TranZapp etc.
- Gift Card: Gift Card is a readymade card and can be purchased from a merchant or from the bank. The gift card is loaded with a fix cash amount & we can purchase any item from the specific vendor by using a gift card.
- Aadhaar Enabled Payment System (AEPS): It is one of the best cashless payment methods. AEPS is like Micro ATM it uses Smartphone and a finger-print scanner for the transaction. In order to use this facility, it is mandatory to link our Aadhaar card to our bank account. The Government of India is also very keen to implement this scheme.

### **Conclusion:**

The intension behind Demonetisation is worth appreciating & all of us should support it. But there is slight hiccup in implementation. There are few Drawbacks for going digital as at present majority of people are not having an account in banks & all transaction proposed require bank account. Also there is illusion among people that if they go cashless all their transactions would be made public & the Government of the day can harass them if they go against their choice. Not having fast & secure internet connection is another drawback. Once if we can overcome all these drawbacks this scheme would serve its purpose.

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