



A Comparative Study on Post- Independence Demonetization in India for the Years 1978 & 2016

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Abstract

Demonetization means the high denomination bank notes terminated to be legal tender. The high value materialized currencies were dematerialized. This study aims to compare the effects of demonetization during 1978 and 2016. To identify the key determinants for the demonetization in post-independence India. It involves to make more efficient in economy by amending the Black Money threat, price rise due to cash based economy, fiscal deficit, corruption and inflation which causes for GDP and counterfeit currency. This study observed number of articles and conversation were processing for demonetization during last few months. In view of all the said evidence's were reviewed in this paper.

Key words: Demonetization, determinants, effects, and benefits

1. Introduction to the study

Paper currency in India came into existence with the entry of European entrepreneur with the establishment of financial institutions like the General Bank of Bengal and Bihar, the Bank of Hindustan and the Bank of Bengal. Before paper currency, coinage was the normal form of currency and their nature differed from region to region within India. Exist it coinage or paper, the nature and form of the currency is a lot more than just a commodity used in exchange of goods and services. While purchasing power is definitely the foremost role played by currencies.

During British India - Before independence, the British government issued currency notes for India. The princely states continued using individual currencies of their own, majority of which



were coins. While initially the presidency banks were entrusted with the responsibility of producing paper currency across the British Indian domains. During the British government the first set of notes issued as Victoria portrait series of denominations 10, 20, 50, 100 and 1000 due to several falsification it was withdrawn in 1865 and replaced as molded paper carrying languages of the regions later it was circulated and named as under print series. These notes were pass-through till the country's independence.

The Republic of India made it necessary for the newly formed government the Rupee 1 note was issued in 1949 which carried the emblem of the Lion Capital in Sarnath. Hence new notes were introduced in 1953 with images of iconic architectural pieces in India like the Tanjore temple and the Gateway of India. Economic constraints in the year 1960s led to the issue of smaller notes. In the early 1970s, the portrait of Mahatma Gandhi was printed on the new notes. Thus, up to now Mahatma Gandhi series notes continues to be printed on all notes of the Indian currency including the most recent introduction of INR 2000 and INR 500.

Demonetization means the high denomination bank notes terminated to be legal tender. Recently Indian government demonetized Reserve Bank of India's highest denomination such as INR 1000 and 500 notes on November 8 2016. It was an unforgettable experience of the economic events. Its impacts felt by every citizen of the country. As an economic terms it pass through the liquidity side due to circulation of currencies consumption, investment, production and operations. Involved on these concepts the study aims to compare the effects of demonetization during 1978 and 2016.

2. Review of literature

Although the number of articles and conversation were processing for demonetization during last few months. In view of all the said evidence's were reviewed in this paper.

Demonetization was immense adversity which disturbs economic activities for stop in terms of currency availability in distresses composition of currency circulation and store values. Demonetization means the high denomination bank notes terminated to be legal tender. General public who possessed these notes were given to all banks and government treasuries have to send to the Reserve Bank as per the specified period of time. According to Peter Sands of Harvard



Kennedy School, demonetization is one of the exponents of slaying large currency notes. Mr. Sands stated that greater part cash transfer plays a role in more complex treatment trading and money-laundering schemes such as gold purchasing from different countries.¹ NITI Aayog CEO Mr. Amitabh Kant said on November 23, 2016 the article in Business line the government's decision to demonetize higher value currency notes are moving in the direction of a totally digitalized payment system that will increase enormous achievements in the long term for the economy and also it turn into formalized economy.² Unorganized retails sector and self-employed revealed that cash transactions were affected widely and their economic activity were blocked. Swarajya Editorial Director Mr. R.Jagannathan publicized that many macroeconomists and financial accountants are having an eye demonetization, it will impact the Reserve Bank's balance-sheet, and, more importantly, its profit and loss account. The major impacts are the growth rate, the government reserves, banks' balance-sheets, interest rates, the exchange rate, corporate profits, the stock markets, and specific sector. But demonetization is a complex issue, and will take some time to play out. It effects GDP growth, tax-evaded money increases demand and cash-based ambiguous money is in decline, consumption demand will weaken. The further impacts on demonetization were Interest rates, Fiscal deficit and tax revenues, Exchange rates, corporate profits. The ultimate beneficiaries are Banks and RBI; in Stock markets the banking sector worth rises. He strongly reach a decision that the worst hits to real estate sector.³

2.1 Statement of the problem

Demonetization and it effects in the years 1978 and 2016

2.2 Objectives of the study

- a. To identify the key determinants of demonetization in 1978
- b. To identify the key determinants of demonetization in 2016
- c. To compare various factors of key determinants of demonetization in 1978 and 2016

¹ <http://www.thehindu.com/tp-opinion/When-cash-is-not-king/article16409501.ece>

² <http://www.thehindubusinessline.com/economy/push-towards-digital-payments-has-huge-longterm-gains-niti-aayog-ceo/article9378625.ece>

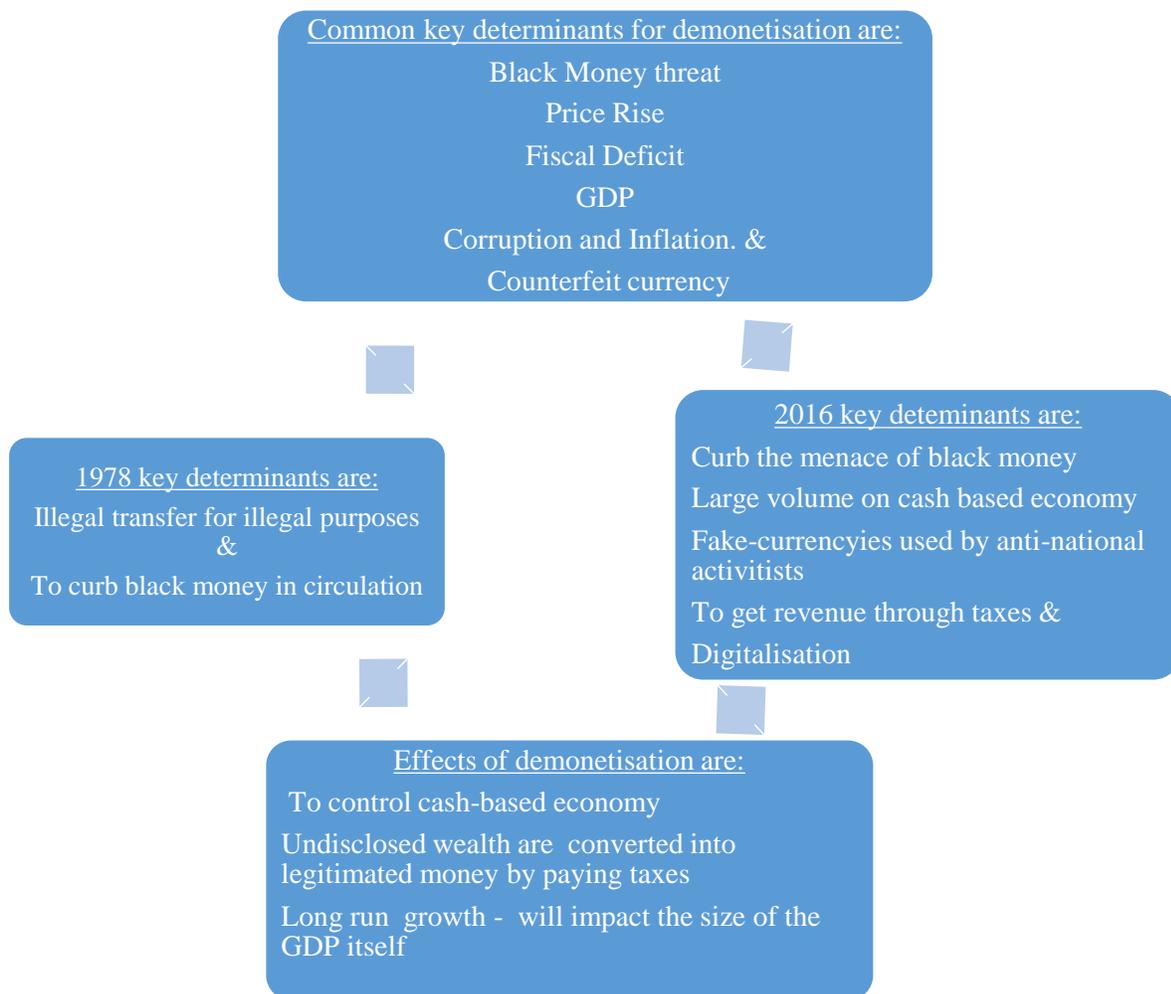
³ <http://swarajyamag.com/economy/who-gains-who-loses-in-governments-demonetisation->



3. Methodology of the study

This study is based on the circumstances encountered by two different periods. The exploration of the study were computed from end to end comparisons on various factors

Conceptual Framework





3.1 To identify the key determinants of demonetization in 1978

During 1978, it was enacted under the High Denomination Bank Note (Demonetization) Act, 1978. It was termed as an Act to provide in the public interest for the demonetization of certain high denomination bank notes. The regulation on high denomination bank notes terminated to be legal tender after January 16, 1978. There was a prohibition of transfer and receipt of high denomination bank notes. The banks and government treasuries had to send to the Reserve Bank the total value of high denomination bank notes. People who possessed these notes were given till January 24 the same year to exchange any high denomination bank notes.⁴ Most of the people not confronted these problems in the year January 1978. Even the experts agree by general public encountered the following major issues are; demonetized currency notes were INR 10000, 5000 and 1000. All those days' rich, big businessman and top level politician were holding huge amounts. Even more top management monthly earnings were very few thousands only. In that circumstances there are other failure also stumble upon for an economic climate was not any impact on the common people, there were no internet, social media, Facebook, Twitter, WhatsApp, or Quora in those days. Most of the public doesn't have even a Television sets in Indian homes of the day, furthermore, English print medias were quite self-possessed and negligent to discuss these issues. In addition, the duration was only three days to exchange the money through Reserve Bank of India, or the State Bank of India.⁵ According to Finance Minister budget speech was on 28 Feb 1978 stated that: 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 illegal transfer for illegal purposes and to restrain black money in circulation.⁶ Thus demonetization handled with these concerns during the period.

⁴ <http://indianexpress.com/article/india/india-news-india/india-has-demonetised-high-value-currency-before-in-1978-4364851/>

⁵ <https://www.quora.com/How-was-it-being-a-banker-during-the-1978-demonetization-drive-in-India>

⁶ <https://www.rbi.org.in/scripts/RHvol3.aspx>, RBI Balance Sheet, RBI Currency and Finance Report)



3.2 To identify the key determinants of demonetization in 2016

On November 8 2016, a day for high materialistic money has met an unexpected occurrence for dematerialization by official announcement from prime minister of India for the speedy act to demonetize INR. 500 and INR. 1,000 currency notes. The Reserve Bank of India and ministry of finance was accredited demonetization on INR. 1,000 and INR. 500. Initially the move was justified as attempt to contain the volume of black money, free cash based economy and fake currency circulation. However, to control these factors the government ready to bring together first time that INR. 2,000 currency note is being introduced. While announcing currently circulated INR. 500 and INR. 1,000 notes as invalid from midnight tonight, during the day Prime Minister said new INR. 500 note and INR. 2,000 denomination banknote will be introduced from November 10, 2016. The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms along with same old national emblems. The aim of demonetization was implemented for Curb the menace of black money, large volume on cash based economy, Fake-currencies used by anti-national activists, to get revenue through taxes and Digitalization. In addition, the time allotted for the Exchange was nearly 53 days and exchange also had to be made mostly through all public and private sector banks, petrol stations and post offices. On the other hand, initially these actions were saluted by most of the citizens and later due to some immoral happening encountered by the society of middle and lower income.

3.3 To compare various factors of key determinants of demonetization in 1978 and 2016

Most of the people not face up to these problems in the year January 1978, compared to 2016

Directions	1978	2016
Demonetization currency value	INR 10000, 5000 and 1000.	INR 1000 and 500
Time allocation and place to exchange the currency	3 days to 1 week & Reserve bank of India and government treasuries	Nearly 53 days and exchange also had to be made mostly through all public and private



		sector banks, petrol stations and post offices.
Source of money	High values of currency were detained by top businessmen, rich and top level politician were holding huge amounts	The most important causes for demonization was fake currency used by anti-social activist and to curb black money. Even common man were detained few currencies from their own day to earnings.
Commercial impact	RBI was mostly against the activity taken by the government for the reason that it was self-possessed by few individuals and does not have any persistent prices of necessities and problems like low savings, unemployment and industrial relations.	RBI has greeted the idea taken by the government. The issues impacted common people whereas huge with 85% of currency hold by the society.
Social impact	There were no internet, social media, Facebook, Twitter, WhatsApp, or Quora in those days. Most of the public doesn't have even a Television sets in Indian homes of the day, furthermore, English print medias were quite self-possessed and negligent to discuss these issues.	It was an immediate reactions from all modern-day medias. Hence the same moment the issues conferred as natural disasters.



Demonetization supporters	Government and few treasuries	Government, initially these actions were saluted by most of the citizens within the country and few other countries supported as courageous decisions.
Benefits	The government clogged in illegal transfer for illegal purposes and recovered taxes too.	Short term pain, gradual recovery and long term positive impacts given by RBI data such as to outweigh cross border fake currency movement. More than 50% tax recovered and to adopt Cashless economy called as digitalization.

3. Findings

Associated with two periods demonetization reveals that:

- Acceptance of demonetized notes proves a winning strategy.
- During these periods the government cleared some of the illegal purposes and the currently recovered more than 45% revenues to the government.
- The Rural Development Department revealed that the cash on the opportunity and recovered the dues.
- The journalists and economists were exposed there were hundreds of litigations across the states for various types of tax recoveries but the recovery achieved in last 15 days was way ahead of the other methods routinely used for tax recovery.



- Most of the states reveals the water resources ministry was also facing similar challenges of recovery of water bills. The demonetization has helped them in improving the recovery of such bills.
- During the tenure short-term investment were enlarged in Gold and silvers.
- A short-term deferred progress in few sectors such as real estate, construction and even FMCG.
- On the other hand, there was a positive note on demonetization were during medium tenure there would be benefits through higher government spending and greater financial addition on domestic savings and physical financial growth were heightened.
- Hence, although there was a wear economy circumstances but still the general public sensation was there will be an optimistic mark in future.

4. Limitations

Though the study compared only short duration of these issues. Demonetization creates a circumstances for lack of currencies jams consumption, investment, production, employment etc. In this perspective it may compressed short term, long term investment, further welfare growth in Indian economy. The daily wage earners, other laborers, small traders were reduced their income to nonexistence of liquid cash. Apart from Politics, the demonetization is questionable to curb black money in circulation, for the simple reason that no one actually identifies how much black money there is in circulation and, even more important, whether black money can really be defined in precise terms in all its shades. In addition it was very difficult to generate cashless economy to Indian society, they were 25% population were well versed with such digitalization activities. Therefore, demonetization takes time to involve such undertakings in Indian community. However, these verdicts operation contributes excessive complications.



6. Conclusion

Overall economic activities diminished in the short term. But the unmeasurable benefits of having more transparency and reduced volume of black money activities can be piercing as long term benefits. A rotation of progress required for such activities to renovation for controlling cash-based economy, undisclosed wealth were converted into legitimated money by paying taxes, Long run growth will impact the size of the GDP itself. On the other hand, the government requisite to captivate steps to expand liquidity into the system and reduce inconvenience as much as possible.

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