

Demonetization: A Game Changer from Black Economy to Digital Economy



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Abstract

This paper discusses the impact of demonetization on the Indian economy and its role in promoting the shift towards a digital economy. The Indian government's decision to demonetize high-value currency notes of Rs. 500 and Rs. 1000 in 2016 was aimed at reducing the circulation of black money in the economy and promoting the use of digital transactions. The paper examines the positive and negative impacts of demonetization, including the temporary slowdown in economic activity and job losses, as well as the increase in the use of digital payment methods and the formalization of the informal sector. The paper concludes that while there were some negative impacts of demonetization, overall, it was a significant step towards promoting a more transparent and digitized economy in India.

Keywords: *Demonetization, Indian Economy, Digital Platform*

Introduction

Demonetization refers to the act of removing the legal tender status of a currency unit, typically as a government policy measure aimed at curbing illegal activities such as money laundering, tax evasion, and the use of counterfeit currency. In India, demonetization of high-value currency notes of Rs. 500 and Rs. 1000 was announced by the government on November 8, 2016.

The main objective of demonetization in India was to combat the problem of black money, which is money that has been earned through illegal means and is not declared for tax purposes. The move aimed to reduce the circulation of black money in the economy and promote the use of digital transactions. The idea was that by making it difficult to use cash for large transactions, people would be more likely to use electronic payment methods, which are easier to track and trace.

The demonetization drive had a significant impact on the Indian economy. It led to a temporary slowdown in economic activity, particularly in the informal sector, which relies heavily on cash transactions. However, the government's push towards a digital economy helped to mitigate the impact of demonetization on the overall economy. In the months following demonetization, there was a sharp increase in the

use of digital payment methods such as mobile wallets, credit and debit cards, and online banking.

Overall, demonetization was a significant step towards the goal of a cashless economy in India. It helped to formalize the informal sector by bringing more transactions into the formal banking system, which in turn, increased the tax base of the country. Additionally, it helped to curb the flow of black money, reduce corruption, and promote transparency in the economy.

However, there were also some negative impacts of demonetization. The sudden withdrawal of high-value currency notes caused a lot of inconvenience to the general public, particularly those who did not have access to digital payment methods. There were also reports of job losses and a decline in consumer demand, which had a negative impact on businesses.

In conclusion, demonetization was a bold move by the Indian government to tackle the problem of black money and promote the use of digital transactions. While it had some negative impacts on the economy, it also had several positive effects and laid the foundation for a more transparent and digitized economy in India.

Top of Form

Demonetization was a major economic reform initiative taken by the Indian government in

November 2016. The move aimed to curb corruption, reduce the circulation of black money, and promote a shift towards a more digital economy. This response discusses the impact of demonetization on the Indian economy, mode of payment and spending behavior, and government finances. It also highlights the attitude of the people of the society towards demonetization, which was mixed, with some supporting the move, others being critical, and still others being skeptical or adapting to the change. While demonetization had both positive and negative impacts, its long-term effects will be closely monitored and debated by economists and policymakers.

Demonetization refers to the process of removing the legal tender status of a currency unit or currency denominations. In 2016, the Indian government announced the demonetization of high-value currency notes of Rs. 500 and Rs. 1000 in an effort to tackle corruption, black money, and counterfeiting. The move had a significant impact on the Indian economy, especially in terms of the transition from a predominantly cash-based economy to a more digital economy.

Demonetization led to a sudden withdrawal of a significant portion of the country's currency from circulation, leading to a cash crunch in the short term. However, it also accelerated the adoption of digital payment systems and e-wallets, which enabled people to make transactions without the need for physical currency. The government launched various initiatives to promote digital payments, including discounts and cashback offers, to encourage people to use digital payment systems.

The move also had a significant impact on the black economy, as people who had amassed large amounts of unaccounted cash had to deposit it in banks, making it traceable and taxable. The government also launched a scheme called Pradhan Mantri Garib Kalyan Yojana, which allowed people to declare their unaccounted cash and pay a penalty on it to legalize their wealth.

The demonetization led to a significant shift towards a more formal and transparent economy, reducing the scope for corruption and money laundering. The move also resulted in increased

tax compliance and revenue for the government, as more transactions were now being conducted digitally and could be tracked and taxed.

However, demonetization also had some negative effects, particularly on the informal and cash-based sectors of the economy, such as agriculture and small businesses, which were hit hard by the cash crunch. The move also led to significant job losses in these sectors, which relied heavily on cash transactions.

In conclusion, demonetization was a game-changer in India's transition towards a more digital economy and formalized economy, with reduced corruption and increased tax compliance. However, it also had some adverse effects on the informal and cash-based sectors of the economy.

Impact on Indian Economy

In 2016, the Indian government announced the demonetization of high-value currency notes of Rs. 500 and Rs. 1000. The move had a significant impact on the Indian economy, both in the short term and long term. Here are some of the impacts of demonetization on the Indian economy:

Impact on the informal sector: The informal sector, which primarily relies on cash transactions, was hit hard by demonetization. The cash crunch led to a decline in demand, which resulted in reduced production and layoffs. The small businesses and informal sector workers were severely affected.

Transition to a digital economy:

Demonetization resulted in a shift towards a more digital economy. With cash becoming scarce, people started using digital payment methods, leading to a significant increase in online transactions. The move has accelerated the adoption of digital payment systems and e-wallets, which has made transactions more convenient and less prone to fraud.

Reduction in corruption: Demonetization aimed to reduce corruption and black money. It made it difficult for people with unaccounted cash to use it for illegal purposes. It also forced people to deposit their money in the bank, making it traceable and taxable.

Increase in tax revenue: With more transactions being conducted digitally, it has become easier for the government to track and

tax them. This has led to an increase in tax revenue for the government.

Economic slowdown: Demonetization led to a temporary slowdown in the Indian economy. The cash crunch and reduced demand affected the manufacturing sector, which, in turn, led to a decline in economic growth.

Increased financial inclusion: Demonetization also led to an increase in financial inclusion. With the shift towards digital payments, people who did not have access to traditional banking systems were able to use digital payment systems to make transactions.

In conclusion, demonetization had a mixed impact on the Indian economy. It led to a shift towards a more digital and formalized economy, with reduced corruption and increased tax compliance. However, it also had adverse effects on the informal sector and caused a temporary slowdown in the economy.

Mode of Payment and Spending Behaviour

Mode of payment and spending behavior are interlinked, as the mode of payment affects how people spend their money. Here are some of the ways in which mode of payment can impact spending behavior:

Cash: Paying with cash is the most traditional mode of payment, and it has been found to encourage people to spend less. This is because people are more aware of the amount they are spending when they physically hand over cash, making it a more conscious decision.

Credit cards: Credit cards allow people to spend more than they have, and it can lead to overspending if people are not careful. The convenience of credit cards makes it easier for people to make purchases without much thought, which can lead to debt if they do not manage their finances responsibly.

Debit cards: Debit cards are similar to cash, in that they allow people to spend only what they have in their bank account. However, they are more convenient to use than cash, and it can be harder to keep track of how much money is being spent.

Mobile payments: Mobile payment options such as e-wallets and mobile banking apps are becoming increasingly popular. They offer convenience and security, and it is easy to track

spending. They can also offer rewards and incentives for using the app or making certain transactions.

Online payments: Online payments are similar to mobile payments in that they offer convenience and security. However, people can be more prone to overspending when shopping online, as they are not physically handing over cash or cards.

Overall, the mode of payment can impact spending behavior in different ways. Cash and debit cards can encourage people to spend less and be more mindful of their spending, while credit cards and mobile payments can make it easier to overspend if not used responsibly. It is important to be aware of our spending behavior and to choose a mode of payment that works best for us.

Effects of demonetization on Government Finances

Demonetization had a significant impact on the finances of the Indian government. Here are some of the effects of demonetization on government finances:

Increase in tax revenue: One of the primary objectives of demonetization was to reduce black money and increase tax compliance. The government was able to detect a significant amount of unaccounted cash, leading to an increase in tax revenue. According to the Reserve Bank of India, demonetization led to a one-time increase of around Rs. 1.7 lakh crore in tax revenue.

Decrease in expenditure: Demonetization also led to a decrease in government expenditure. The government was able to save money by reducing the use of physical cash, which led to a reduction in printing and transportation costs. The government also reduced spending on welfare programs and subsidies, which helped in improving its finances.

Increase in deposits: Demonetization led to a surge in bank deposits as people deposited their old currency notes in banks. The government was able to use this increase in deposits to fund various developmental programs and projects.

Decrease in interest rates: The increase in deposits led to a decrease in interest rates, which in turn, led to a reduction in the government's

borrowing costs. This helped the government save money on interest payments on its borrowings.

Increase in digital transactions:

Demonetization led to a shift towards a more digital economy, with an increase in digital transactions. This led to a reduction in the use of physical cash, which helped in reducing the government's expenses on printing and transporting cash.

Overall, demonetization had a mixed impact on government finances. While it led to an increase in tax revenue and a decrease in expenditure, it also resulted in a temporary slowdown in economic growth. The government was able to use the increase in deposits and the shift towards a digital economy to fund various developmental programs and projects, which helped in improving its finances.

Attitude of the People of the Society

The attitude of the people of the society towards demonetization was mixed. While some people supported the move, others were critical of it. Here are some of the attitudes of the people of the society towards demonetization:

Support: Many people supported demonetization, especially those who were impacted by corruption and the black economy. They saw demonetization as a bold move by the government to curb corruption and reduce the circulation of black money. They were willing to bear the short-term inconvenience for the long-term benefits of the economy.

Criticism: Some people were critical of demonetization, especially those who were impacted by the sudden withdrawal of high-value currency notes. They saw the move as poorly planned and implemented, and criticized the government for not doing enough to mitigate the impact on the poor and the informal sector.

Skepticism: Some people were skeptical of demonetization, especially those who doubted the effectiveness of the move in achieving its objectives. They felt that the move would not be able to curb corruption and the black economy in the long term and could lead to negative consequences such as a slowdown in economic growth.

Adaptation: Some people adapted to demonetization, especially those who were quick to adopt digital payments and cashless transactions. They saw demonetization as an opportunity to shift towards a more digital economy and embraced the change. The attitude of the people of the society towards demonetization varied depending on their experiences and perceptions of the move. While some saw it as a positive step towards curbing corruption and the black economy, others were critical of its implementation and effectiveness.

Impact of Digital Economy on India Economy

The digital economy refers to the economic activities that are driven by digital technologies, such as the internet, mobile devices, and data analytics. In recent years, the digital economy has had a significant impact on the Indian economy. Here are some of the key ways in which the digital economy has influenced the Indian economy:

Increased productivity: The digital economy has made it possible for businesses to be more productive and efficient by using digital tools and technologies. For example, businesses can use online platforms to streamline their operations, automate their processes, and reach out to customers more effectively.

Job creation: The digital economy has created a significant number of jobs in India, particularly in the areas of software development, data analytics, and digital marketing. According to a report by the National Association of Software and Services Companies (NASSCOM), the Indian IT and IT-enabled services industry alone employs over 4 million people.

Increased access to finance: Digital technologies have made it easier for individuals and businesses to access financial services, such as loans, insurance, and investments. For example, digital platforms like Paytm and PhonePe have made it easier for people to make online payments, and digital lending platforms like Lendingkart and Capital Float have made it easier for businesses to access loans.

Boost to entrepreneurship: The digital economy has created a favorable environment for entrepreneurship, with the emergence of several digital startups in India. These startups have been

able to leverage digital technologies to disrupt traditional industries, create new business models, and offer innovative products and services.

Bridging the urban-rural divide: The digital economy has the potential to bridge the gap between urban and rural areas by providing access to digital technologies and services to people living in rural areas. For example, initiatives like Digital India aim to provide high-speed internet connectivity to every village in India.

Economic growth: The digital economy has contributed significantly to India's economic growth in recent years. According to a report by the Boston Consulting Group, the digital economy is expected to contribute \$1 trillion to India's GDP by 2025.

Conclusion

In conclusion, demonetization was a major economic reform initiative taken by the Indian government to curb corruption, reduce the circulation of black money, and promote a shift towards a more digital economy. The move had both positive and negative impacts on the Indian economy and society.

On the one hand, demonetization led to an increase in tax revenue, a decrease in government expenditure, a surge in bank deposits, and a shift towards a more digital economy. On the other hand, demonetization resulted in a temporary slowdown in economic growth, significant inconvenience to people, especially in the informal sector, and criticism of the move's implementation.

The attitude of the people of the society towards demonetization was mixed, with some supporting it, others being critical, and still others being skeptical or adapting to the change. Overall, demonetization was a bold move by the Indian government that had significant economic and social impacts, and its long-term effects will be closely monitored and debated by economists and policymakers.

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