

# Impact on Individual Economy Rs. 500 and 1000 Note Demonetization

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**Abstract--** “It was like someone had picked my pocket,” says Prashuram, a 52-year-old casual laborer in the Indian capital New Delhi, recalling the evening of Nov. 8. The day had begun well. The onset of north India’s traditional wedding season had brought a steady stream of work for Prashuram and his 33-year-old friend Hari. Migrants from nearby Indian states, the two spent the day working a series of odd jobs for a busy wedding caterer. For a dawn to dusk stint, they pocketed 500 rupees (about \$7.5) each. That is typical in India’s vast informal economy, which employs more than 90% of the country’s workforce. Agreements here are verbal, the pay very often in cash and workers tend to have few, if any, guarantees or benefits. They also earn less than their compatriots in what is called the formal sector, where salaries are taxed, the work more regular and the average pay is more than twenty times higher.

Prashuram and Hari were each paid in a 500 rupee note. “It was always 500 or maybe a 1,000 rupee note for two days work,” says Prashuram.

## I. INTRODUCTION

Prime Minister Narendra Modi has announced demonetization of high denomination currency keeping in view the manifesto of the party to fight corruption and respecting the sentiments of voters. Despite the pain which people are facing in the exercise, generally the scheme has been hailed by Indians across the spectrum. The sentiments are positive and encouraging.

First, some facts about the demonetized currencies. The note of Rs.500 was introduced in October 1987-88 while notes of Rs.1,000 were discontinued in January 1978 and reissued in November 2000. The history of Rs.1,000 note is interesting. It was first introduced in 1938 under the British rule and then demonetized in January 1946. Once again it was introduced in 1954 and demonetized in 1978 to be re-introduced in 2000. The total currency in circulation as on end March 31, 2016 is Rs. 16,415 billion of which notes of Rs.1,000 denomination account for 38.6 % (Rs.6,326 billion) and Rs.500 account for 47.8% (Rs.7,854 billion). The importance of Rs.500 has been increasing over the years, from 4.1% on March 31, 1990 to 47.2% on March 31, 2016. Similarly, the share of Rs.1,000 note has increased from 1.7% in 2001 to 38% in 2016. The total amount of Rs. 500 and Rs. 1,000 notes amount to Rs. 14,180 billion as compared with India’s national Income of Rs.1,35,761 billion in 2015-16 or about 10.5 percent of GDP. Assuming that the size of unaccounted economy in India, conservatively, is nearly 30% of the official economy, amount of Rs.4254 billion in high denomination notes could be due to unaccounted money.

### A. Many black money holders will be under radar

People who have black money are mostly in pithole. Either they have to go to banks to exchange their money into new forms of notes and get under the government radar. Else they forget the money because it will turn into useless paper soon.

1. The West Bengal CM Mamata Banerjee is so worried. She tweeted and asked to “withdraw this draconian decision”.

Obviously she should be worried. Her party MLAs 90 have acquired lots of black money from Sarada Chit Fund issue.

2. Current 500 and 1000 rupee notes can only be exchanged at banks. The exchange can be carried out by providing valid proofs like Adhar Card, PAN card or voting card. Bank will keep record of each details, so it will check whether the money is black money or not.

**Nullifying fake currency notes:** As of April 29, 2016 fake notes worth Rs. 16.50 Lakh crore has been circulating in the country. Recent studies have suggested that fake notes of Rs. 70 crore are infused into the system every year and law enforcement are able to curb only one third of them. 90% of fake notes are released in bigger notes like 500 and 1000. So this step will nullify all the fake notes.

**Decrease inflation:** If I have black money or I have fake notes, I can even pay Rs. 600 for an item costing Rs. 500. This is because, this money is not my hard earned money and I have enough fake money. When a person purchase an item by giving extra money, this increases the cost of the money. Hence inflation increases. With this step, black money and fake notes will be nullified. Hence it will impose a check on price inflation.

**National security will increase:** A huge amount of black money is used in funding terrorism which is direct threat to the national security. This step will curb black money. Arms smuggling, terrorist activities, etc will be reduced. Hence activities like 26/11 or Uri attack will be reduced a lot due to lack of funding for terrorism. This will stop funding to Kashmiri separatists. This will also reduce the “pelting of stones” by Kashmiri kids and youths who are asked to throw stones for Rs. 100.

**Reduce crime carried out by underworld:** The black money and fake currencies are used by underworld and mafia too. From abduction to killing contract to a sharp shooter, black money is used to fund crime too.

**Reduction in activities of Land mafia and real estate corruption:** Black money are used by lot of people in real estate business. This hikes the price of real estate. This step would be beneficial in controlling inflation in property related transactions. Also, real estate sector would get institutionalized. When housing price would go down, this will force the demand of reviving the sluggish housing segment.

**Reduction of inflation will be overall:** Inflation are always overall. So reduction of inflation will be overall too including Higher studies and medical treatments.

**Cashless transaction will be encouraged:** The new limits on ATM withdrawals has been restricted to Rs 2,000 per day. Bank withdrawals have been limited to Rs 10,000 per day and Rs 20,000 per week. hence it will increase cashless transaction like online payment and card payments. Countries with more cashless transaction face very less fake note threats because most transactions are digitized. Since more transactions are

digitized, they need less printed currency and low quality paper for currency notes. That's why US dollars are of low and thinner paper quality and Indian rupee are better and thick paper quality comparatively. US spends less in printing currency notes than India.

Since cashless transaction will be encouraged, it will reduce the use of printed currency and hence reduce the use of fake notes.

1. Since cashless transactions are digitized, government will be able to keep track records.
2. Less use of currency note means less cost in printing currency notes.
1. **People will rush to ATMs and Banks to exchange 500 and 1000 rupee notes.** People will try to withdraw as much money in 100 rupee notes from ATMs. Even to withdraw Rs. 2000, they will transact for 5 times withdrawing Rs. 400 each time to avoid Rs. 500. That what happened on 9th November night after the declaration.
2. **Many people, especially from the rural India, aren't aware of the total fact.** Suddenly they will realize that the 500 rupee note they are carrying is useless. If the village panchayat or administration could help them, then they might understand the scenario fully.
3. **Extra cost to replace all the existing 500 and 1000 rupee notes:** Printing new notes needs money. Declaring old notes as invalid and putting new notes into system will cost a good amount. The details are discussed in this link. Scrapping Rs500, Rs1000 notes a costly idea
4. **People with low working class will be slightly affected:** Generally people like plumber, maids, manual scavengers, electricians don't have huge amount of 500 or 1000 rupee note. They only convert them to bigger notes when they have to carry out transaction in large sums and those are rare. Other than that, they get money after the end of month and that in 500s. These people aren't aware with procedures of bank, mostly. Moreover, it's not easy for them to not go to their job and spend times by standing on queues in banks.
5. **India is not fully ready for cashless transaction:** Regions like rural India, North East India, township areas, sub urban areas, etc aren't modified enough to go for total cashless transactions. Many normal people of metropolitan cities too, are not fully computer literate and they are not fully accustomed with internet, or payTM, etc. Basically, a huge number of people are not accustomed with cashless transactions.
6. **Ineffective for black money stored in other forms:** Corrupt politicians like Jayalalitha don't store black money as liquid cash. She converts them into gold. People like Amitabh Bacchan keep black money as foreign currencies in foreign banks. This decision can't force them to surrender black money.
7. **Opposition will misguide people to take political advantage:** Due to short period of notice, many people aren't aware of how to exchange the 500 and 1000 rupee note. Many people don't even know that Hospitals, Air ticket booking counters, petrol pumps are accepting 500 and 1000 rupee note for 72 hours till 11th November. They will be easily misguided by other political parties for the upcoming UP election. On 9th November, I saw some interviews of common people taken by various news media. Some people appreciated the decision. Some were criticizing it with abusive words. A guy said- "I have 500 and 1000 rupee note. I need to purchase petrol but Petrol

isn't accepting it". An old man standing beside him said- "Government had said that petrol pumps and hospitals have been asked to accept 500 & 1000 rupee note till Nov 11". The other guys started objecting by shouting so much that the old man couldn't even complete his sentence. He was pushed back by them who were criticizing the decision. Basically these guys stopped the man from sharing some information and clearing people's doubt.

## CONCLUSION

Earlier, many people were worried about black money and wanted GoI to take step to curb it. Now GoI has taken a serious step and some people are creating issue out of it for temporary difficulties that will prevail only for a week. RBI doesn't give a damn to two days' minor difficulties when a long term beneficial decision is to be made for stabilizing the economy of the nation.

Instead of being impatient for two days' inevitable difficulties, we should support this for the better economy of the nation.