
HISTORICAL & CONTEMPORARY PERSPECTIVES OF DEMONETIZATION- IMPACT ON ALTERNATIVE PAYMENT AVENUES

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Abstract

The aim of demonetization in Indian was to eradicate black money, to eliminate fake currency, lower the circulation of cash with subsequent possibility of reducing corruption and financing of illegal economic activities. The advantages sought from efforts of demonetization and GST ranged from improving quantum of tax collection, bringing down inflation rate to increasing transparency in conducting monetary transactions to prevent revenue and tax collection leakages. Demonetization was also plagued with the inherent challenges from the stakeholders of the agricultural sector due to less circulation of cash and the possibility of losses to the business community as the quantum of transactions were expected to reduce substantially. This paper provides a historical perspective of the demonetization initiatives undertaken by different nations across the globe besides India and highlights the subsequent economic implications. The possibility of eradicating black money may lie in implementing equitable & effective tax policies instead of relying only on demonetization initiatives. The article also highlights the potential for alternative payment avenues like credit cards, debit cards, mobile wallets, prepaid cash cards, mobile payment systems linked to e-commerce businesses & cryptocurrencies etc

Keywords: credit cards, debit cards, cryptocurrencies, demonetization, mobile wallets, prepaid cash cards, mobile payment systems.

Introduction

The aim of demonetization in Indian was to eradicate black money, to eliminate fake currency, lower the circulation of cash with subsequent possibility of reducing corruption and financing of illegal economic activities. The advantages sought from efforts of demonetization and GST ranged from improving quantum of tax collection, bringing down inflation rate to increasing transparency in conducting monetary transactions to prevent revenue and tax collection leakages. Demonetization was also plagued with the inherent challenges from the stakeholders of the agricultural sector due to less circulation of cash and the possibility of losses to the business community as the quantum of transactions were expected to reduce substantially. Some of the effects of demonetization on E-commerce and online payments were the following:

- Demonetization became a major topic of discussion in the country.
- Financial analysts are worried about the long-term impact that demonetization can cause for businesses and people in coming days, but thanks to the growth of internet which has now completely changed the scenario of payment from cash to digital.
- It also has a short-term effect on day to day transaction in business with its customers.

Demonetization History and Background in India: This was not the first time, when Indian currency was demonetized. Earlier it was done in 1946 with the complete ban of Rs.1000 and 10000 notes to deal with the unaccounted money or the black money. was done in 1978 by government headed by the then Prime Minister Morarji Desai.

First Currency Ban- In 1946 ,1000 and 10000 rupees note were banned, this ban did not make a big impact on economy being the reason the common people could not afford those higher denomination. However, these notes were reintroduced in 1954 in addition with 5000 rupees note.

Second Currency Ban- Prime minister of India Morarji Desai banned 1000,5000 and 10000 denominations on 1978, the main aim of this ban was to avoid the circulation of black money.

Third Currency Ban- November 8 2016 by the government headed by Shri Narendra Modi banned Rupees 500 & 1000 denominations, however the lower denominations such as 10,20,50,100, did not get banned.

Similarities In 1978 And 2016 Demonetization in India:-

- In both these cases the main aim / role was to curb the black money and avoid corruption
- In both these cases the information was kept confidential
- PM Modi announced the currency ban which was broadcasted across all news channels and media similarly, Desai announced the ban through radio after which the banks were closed the following day in both the cases.

Differences In 1978 And 2016 Demonetization in India: Shri Morarji Desai was not supported or helped by the governor of RBI, as he believed that it was made to prevent the funds of the

opposition party. The demonetization implemented by Shri Morarji Desai did not affect the economy except a few people moreover this was a complete failure compared to the ban which took place recently. The 2016 ban shocked the whole country, though it was not completely successful.

Impact of Demonetization

On E-Commerce: E-commerce sites such as amazon.com, Flipkart Snapdeal etc. incurred a huge amount of loss due to the unplanned spike that took place after the implementation of demonetization. Some of the contributing reasons were about undelivered orders- most of the orders which were placed for cash on delivery were not able to get completed because the online retailers could not accept the old notes.

Suspension of COD: many online retailers temporarily suspended the option of paying with cash on delivery.Reduction is number of orders- There was a drastic decrease in the number of orders after the ban of notes because many customers had to exchange their old currency with new one for which they had to wait and some customers felt skeptical or doubted online payments.

Short term impact: The undelivered goods and the goods which were stagnant caused a huge blow for the e-commerce and was for a short period of time.Expanding the payment options- the retailers had to increase the payment options by including mobile wallets in addition to debit cards,credit cards and net banking.

Discount options: The retailers started to avail special discounts and promotion for cashless payments.

Impact on Online Payments:With the introduction of demonetization people started to use mobile wallets such as PAYTM, BHIM,UPIetc. which came up with 7 million users per day due to this sudden increase in the number of users, problems related to security caused and there were many hackers too which made these wallets least secure.

Digital payments were not suitable to make transactions for less amount i.e. less than fifty Rupees. Net banking too faced many problems related to username and passwords,weaker passwords could get easily hacked which put the money of users into risk. Some of the online wallets charged their users with internet handling fee or convenience fee which annoyed a lot of customers.Payments made using public WIFI or any unknown hotspots could cause the leakage of personal information like username and passwords which is of high risk.

Impact of Demonetization on Indian Economy: On GDP growth: demonetization had a very bad impact on the GDP of our country. Indian GDP which was 7.6% slowed down by 0.5-1.5% reason being less availability of cash.The important part is that our Indian economy is being driven by 90% cash transaction whereas only 10% of Indian population are doing cashless transaction, this acts as a major contribution for decrease in rate of GDP after demonetization.

On small and medium sized enterprises(SMEs):SMEs account for 8% of total GDP produced in the country and the labor wages payed in these industries is through cash so demonetization is

indirectly affecting the GDP of the country. SMEs such as restaurants and transport operators have also been negatively impacted.

On Agriculture:The sector in which all the transactions take place through cash will get affected badly on demonetization.The exchange of old denomination to new one puts the pressure on MANDIS (market).

On employment generation: Due to demonetization the consumer demands are decreased which indirectly slows down the industrial production and has adverse impact on employment generation.

Cause short term inflation: Due to shortage of money in the economy there will be a short –term cost push inflation.Example-The cost of gold which is already high becomes sky high.

On tax compliance: India’s tax rate to GDP is around 16.6% which is very less compared to all other developed countries. With the intervention of demonetization there will be a negative impact on tax rate due to blockage of old currency and less flow of new currencies.

Results of Demonetization:

- Income tax raid of money came into system though if it was not successful completely
- It helped to fight against corruption and counterfeiting/limiting the usage of money
- It helped India to build a digital economy
- Indian finance minister Arun Jaitley claimed that tax collection was increased by 14.4% which is a positive sign for growth of economy
- Income tax department sent notice to 16 lakh people for huge deposits
- Many retail outlets have started to accept e-wallets which is moving Indian economy from cash to cashless transaction
- A public survey showed that 90% of total Indian population support the demonetization initiative taken by our prime minister Narendra Modi
- Government survey claimed that there was a 268% increase in tax collection for November 2016

Conclusions

Indian government should take all the necessary steps in order to ensure smooth flow of economy and currency exchanges. The impact of demonetization will make a massive change in the country. The impact of demonetization is for long term growth of our country’s economy. The demonetization move is reported to have impacted unlawful activities like terrorism and fake currency. Thus, the move is hailed as one of the good initiatives for the social & economic welfare of the country notwithstanding few temporary inconveniences caused to the country’s citizens immediately after the scheme was introduced. Such a move also ushers in the potential for alternative payment avenues like credit cards, debit cards, mobile wallets, prepaid cash cards, mobile payment systems linked to e-commerce businesses & cryptocurrencies etc. as possible payment options for the future.

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