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DIGITALISING INDIA CASHLESS ECONOMY AND RURAL DEVELOPMENT IN THE AFTERMATH OF DEMONETISATION

Dr. Kanipakam Sunitha[1*], Dr. Indira Priyadarsini[2]

[1*]Assistant Professor, Dept. of Law, Sri Padmavati Mahila Visvavidyalayam, Tirupati-517502 (AP- INDIA)
ksunitha@spmvv.ac.in ; formerly Asst. Professor of Law, GNLU, Guj. drsunithak30@gmail.com
[2]Assistant Professor, Dept. of Law, Sri Padmavati Mahila Visvavidyalayam, Tirupati-517502 (AP- INDIA),
Email: rindira36@gmail.com

Introduction

Demonetization of currency means discontinuity of the particular currency from circulation and replacing it with a new currency. To reduce correctional practices demonetisation may be done at frequent intervals. In the current context it is the banning of the 500 and 1000 denomination currency notes as a legal tender. Demonetize, according to Oxford Dictionary means "Deprive (a coin or precious metal) of its status as money. It is said that "money is an idea that inspires confidence". At the stroke of the midnight hour, on November 9, 2016, the confidence of more than a billion Indians was destroyed .The vast majority of Indians earn in cash, transact in cash and save in cash, all legitimately. It is the fundamental duty of a democratically elected government in any sovereign nation to protect the rights and livelihood of its citizens. The decision to demonetise will cause grievous injury to the honest Indian who earns wages in cash. The dishonest black money hoarder will get away with a mere rap on the knuckles. The recent decision by the Prime Minister is a travesty of this fundamental duty is the opinion expressed by the former Prime Minister and the economist of India.

On the other hand, in contrary to the above opinion the Prime Minister in his address to the nation said, "there comes a time in the history of a country's development when a need is felt for a strong and decisive step," and propounded two primary reasons for this decision. One was to check "enemies from across the border… using fake currency notes". The other was to "break the grip of corruption and black money". Both these intentions are honourable and deserve to be supported whole-heartedly. Counterfeit currency and black money are as grave a threat to the idea of India as terrorism and social division. They deserve to be extinguished using all the firepower at our disposal. However, the popular saying "the road to hell is paved with good intentions" serves as a useful reminder and warning in this context.

Had the HDNs circulated through the banking system, it would have multiplied through the fractional reserve model, reduced the inflation and interest, and funded the small-and-medium enterprises starved of organised funding.

History of Demonetisation in India

India has a long-standing relationship with demonetisation. On January 16, 1978, Rs 1,000, Rs 5,000 and Rs 10,000 currency notes were scrapped through an ordinance, impacting 0.6 percent of the total currency in circulation at the time. Before that, India had experienced demonetisation of high-value currency in January, 1946.

On both occasions, it impacted only a miniscule segment of the society and economy (The salary of an entry-level government officer in 1978 was well below Rs 1,000).

Rs 100 was the highest denomination in circulation until October 1987, when Rs 500 notes were re-introduced, followed by the re-introduction of Rs 1,000 notes in November 2000. However, until 2000-01, the share of high value notes (i.e notes with value greater than Rs 500) was only 26.7 percent of the total currency in circulation.

Cashless transaction and Tax gains

One immediate outcome of a cashless India would be a sharp rise in indirect taxes compliance. Traders, small businesses, shopkeepers, and consumers routinely use cash as a means to avoid paying service tax, sales tax, VAT, and any number of indirect taxes and fees. This mindset needs to change if the imminent Goods and Services Tax (GST) regime is to actually work. Brutally enforcing a cashless payments system — by sucking out 86 per cent of paper money and letting people flounder for a period in a condition of acute paper money scarcity — is perhaps the quickest means way to get there.

Finance capital- Apart from the state, another big beneficiary of a cashless India is finance capital. At present, India's low-income households access credit through informal systems — be it a pawn broker or employer or a relative with cash savings. This informality has been partially dented with the arrival of self-help groups that can access formal credit. But given India's population, both the debt and the savings of the working classes constitute an enormous market that global finance has so far been unable to access.

Forcing them to shift to cashless payment platforms instantly formalises this world of informality. As the Prime Minister himself has reiterated many times, the mass opening of bank accounts under the Pradhan Mantri Jan-Dhan Yojana is a means towards financial inclusion, but in reverse: it channels personal income (wages/cash transfers) to financial markets

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via insurance and pension schemes such as the Pradhan Mantri Suraksha Bima Yojana and Atal Pension Yojana. Thanks to forced deposits, unlike cash in a piggy bank or a plastic pouch, money in Jan-Dhan accounts can serve as a fresh source of liquidity for financial institutions.

The third beneficiary is the digital sector- which enjoys a complex but symbiotic relationship with finance capital. Digital payment apps and e-wallet companies have enjoyed record downloads and deposits post-November 8. Their massive ad spends were possible courtesy the financial institutions that have invested in these finance technology (fintech) businesses.

Finally, in a global scenario of debt-soaked slowdown, extreme income inequality, and stagnating real wages, capital accumulation is only possible through a mechanism that systematically administers an upward redistribution of income — from the 99 per cent to the 1 per cent. While an indirect tax regime like the GST would accomplish this objective for the state, the integration of personal savings into the global debt economy would manage the same for finance capital. The primary requirement in both cases is to capture the circuits of capital and commodity circulation that lie beyond their respective domains of taxation and credit — that is, the entire cash economy. The drive towards a cashless society is hence the lynchpin for securing the supremacy of the state-finance nexus.

Constitutional provisions:

Coming to the question of constitutional loopholes on the demonetisation, The Supreme Court is has faced questions on whether the Nov 8, 2016 notification is in violation of Articles 14, 19(1) (g), 73 and 300-A of Indian constitution.

Freedom of trade and commerce is also another consideration in this matter. Article 19(1) (g) of the constitution of India provides for the freedom to practice any profession, or to carry on any occupation, trade or business. The haphazard manner of announcement and implementation of the notification has caused a high degree of suffering to the masses.

Right to life, livelihood and liberty is one of the most important fundamental right. Article 21 of the constitution of India provides that no person shall be deprived of his life and liberty except according to procedure established by law. The abrupt withdrawal of Rs. 500 and Rs. 1000 currency notes from the market has caused an acute failure of the right to livelihood for millions of people.

conclusion

Government would now have increased funds available for capital spending owing to higher tax collection. Moreover, the availability of funds would reduce the need for the government to borrow from the market, thus making available more credit for the private sector. The RBI may also be in a position to give a one-time bonanza to the government on account of untendered currency.

The better fiscal position might also allow the government to reduce income tax rates, which would subsequently lead to higher disposable incomes with tax payers. All this would aid the consumption-multiplier effect. As with any policy decision, this move too will have multiple direct as well as indirect effects. The biggest positive certainly seems to be the eradication of some stocked and staked up money, perhaps earned through illegitimate means or tax evasion. If the smaller short-term risks, especially those emanating from the demand side are addressed carefully, if we undertake a holistic net cost benefit analysis, the expected results seem to be promising.

The demonetisation drive is not so much about curbing black money. Consider the likely outcomes of a cashless society, and read back from them the intent behind such a move Perhaps the most significant development since the November 8 announcement of demonetisation is the shift in the legitimising narrative around the note ban. What was touted as a 'surgical strike' on black money, fake currency and terror funding has now become a radical 'reform' to transform India into a cashless economy. A series of measures, not least a high-decibel advertising campaign, are already in place to build national consensus in favour of this transformation.

MP Saugato Roy had asked the RBI Governor how much of the banned notes have come back into the system. Mr Patel said the total money in circulation now is Rs. 15.4 lakh crore against Rs. 17.7 lakh crore in November last year when Prime Minister Narendra abruptly banned high value notes in an attempt to battle black money and corruption. Mr Patel said banned notes are still to come in from Nepal and cooperative banks are being allowed to accept them. Also, he said, post offices, where people could exchange old notes for new currency last year, are yet to deposit old notes with the RBI. No doubt — there is a growth in India's digital journey and in all fairness, the demonetisation has done its part. But, the growth has not been something that should be over-hyped in the context of the demonetisation . Yes, the demonetisation has certainly acted as a trigger to encourage more people embrace digital transaction channels and the government's effort to create awareness is helping the drive.

In other words, the informal sector is not an unintended casualty of demonetisation but the intended target. As the Reserve Bank of India Governor has clarified, the government was fully cognisant of the consequences of its move, and it was not at all an ill-planned operation, as some have suggested. As it happens, cash is the most powerful instrument of financial inclusion. Anyone can access it directly, without depending on rent-seeking technological or financial intermediaries.

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Once you have it, you could spend it whenever, wherever, and in whatever quantity you want to, without anyone being able to track you doing it. These are basic freedoms and rights that we take for granted. It is because these freedoms matter that there is resistance to their loss — a loss that is a given in a cashless society.
There was thus a logical need for a 'phase one' of demonetisation where the idea that it was about black money could be firmly planted in public memory. In phase two, which would kick in after 'black money' and national pride have been inserted into the demonetisation discourse, 'cashless' would be equated with 'clean', and cash with 'dirt' and the suspicion of dirty or black money.

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RBI Powers on demonetisation legislative .

Section 26(2) of the Reserve Bank of India Act, 1934, says that on recommendation of RBI's central board, the Government of India may, by notification in the Gazette of India, declare that with effect from a date specified in the notification, any series of banknotes of any denomination shall cease to be legal tender.
Section 7 of the Act says that, the central government may from time to time give such directions to the Bank as it may, after consultation with the Governor of the RBI Bank, consider necessary in the public interest.further, Section 26(2) of the RBI Act provides that, "On recommendation of the Central Board the Central Government may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at such office or agency of the Bank and to such extent as may be specified in the notification:
So, the government's advice to RBI on demonetisation is in accordance with the Act, which also permits the government to supersede the central bank if it believes RBI has failed to carry out its obligations. Clearly, the governor of RBI could not have prevented this even if it wanted to.
Section 21 of The Banking Regulation Act, 1949 gives power to Reserve Bank in policy making to control advances by banking companies in the public interest.
Also, Section 35-A of the Banking Regulation Act, 1949 empowers the RBI to issue directions to banks in public interest to ensure that the interests of depositors are not compromised.

Judicial interpretation on Legislative Provisions

If the government has the power to declare that banknotes shall cease to be legal tender under Section 26(2) of RBI Act, then it should also have the power to do other necessary things to make demonetisation work. Therefore, imposing these restrictions, in one way, is inseparable from the government's action under Section 26(2).
Whether 'any' in Section 26(2) means 'every', it would be useful see how the Supreme Court has interpreted the word 'any' in other statutes. The Supreme Court in a number of cases has interpreted the word 'any' to mean 'every', based on the context and the subject matter of the statute. For example, the apex court in Shiekh Mohd v. Collector of Customs, 1971 AIR 293, 1971 SCR (2)35 interpreted 'any prohibition' in Section 111(d) of the Customs Act to mean 'every prohibition'.
In the case of Jayantilal Ratanchand Shah v. Reserve Bank of India & Ors, the Hon'ble Supreme Court of India negatived the contentions raised by the petitioner, where it was argued that 'High Denomination Bank Notes (Demonetization) Act[13 High Denomination Bank Notes (Demonetization) Act of 1978.]' of 1978 was violative of Article 19(1)(f) of the Constitution of India and with reference to Article 31 of the Constitution of India. The main contention of the petitioners' was that the currency notes were the properties of the persons who are holding the same and demonetization of the same would amount to compulsory acquisition of the property of the individual. The Court negatived all contentions raised with reference to Article 19(1)(f) as well as Article 31 of the Constitution of India and dismissed the challenge made against the said Act. The court upheld the constitutionality of the High Denomination Bank Notes (Demonetization) Act, 1978 since the acquisition was for public purpose to resolve the problem of unaccounted money. These views were supported by the Madras High Court in the recent matter of, M. Seeni Ahamed v. Union of India.

Demonetisation, cashless economy & rural development

Demonetisation is an act by which government of a nation strips the circulation of one or more than one currency unit of its status as a legal tender. This process of Demonetisation is largely done keeping in mind the goal of unearthing Black Money accumulated through corrupt means. Not only India but several countries like USA in 1969; Zaire in 1990; Australia in 1996; Zimbabwe in 2010 and North Korea in 2010 have resorted to demonetisation. While the effort resulted

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in success in the developed liberalised economies of the USA and Australia, it could not ensure any success in the underdeveloped African countries.

Demonetisation in India

The first demonetisation in the independent India was done in the year 1946 and another one in the year 1978. At that time the currency notes of higher denomination constituted only 3% of the total currency in the circulation and its effect on the inconvenience was minimal.

- As far as demonetisation of November 2016 is concerned, the rupees 500 and 1000 constituted under gigantic share of 86% of the notes in circulation during 2016.
- The size of the economy, the growth rate of the economy and the role of the private sector and services sector to economic growth and development was small in the year 1946 and 1978 as compared to the year 2016.
- The number of people within the net of the Income-Tax was also not so large during 1946 and 1978. There are more than 11 crore PAN card holders now and the number is on increase.
- In the year 1946 and 1978 public were already aware that the demonetisation will be introduced by the government sooner or later, therefore, the demonetisation at that time could not produce any substantial gain to the economy.
- One of the key features of the demonetisation in 2016 is that it was kept very secret, so that the black money holders could not get any time to convert their black money and counterfeit currency into white money.

Objectives behind Demonetisation

One of the objectives is that the taxable income earned from this exercise will be spent on economic growth boosting the development activities and also the economic upliftment of the poor. Existence of black money is one of the fundamental reasons for the endurance of high economic inequalities, poverty and unemployment in the country.

Positive aspects of Cashless Economy

Success of inclusive development strategy critically depends on the capacity of our society to root out the evils of corruption and black money from its very foundations. Cashless economy means more and more use of digital mode and less use of cash in transactions. The World Bank's World Development Report-2016 envisages that in many instances, digital technologies have boosted growth, expanded opportunities and improved service delivery. Larger size of digital economies is the main reason for less corruption in developed countries as compared to developing countries. Therefore, in order to escape from adversaries of corruption and black money and to have more transparent and cleaner economic growth with social Justice, less use of cash is one of the suggested measures.

ISSUES FOR CONCERN IN ACHIEVING A CASHLESS ECONOMY

Mobile Internet penetration remains weak in rural India: In India there is poor connectivity in rural areas. People in rural areas of the country and less literates may become problematic to push the use of plastic money on a wider scale.

Banking facilities in rural areas and benefits

Public sector banks have been steadily increasing their branches in rural areas and top private lenders ICICI Bank, HDFC Bank and Yes Bank have been expanding their presence in unbanked and under banked areas in recent years. Technology is a great enabler for financial inclusion, which includes branch on wheels, a mobile-van based branch that aims at providing banking services to a cluster of remote unbanked villages.

Financial literacy is a must for bringing more and more people to the digital platform. Digital payment or payment through banks, instead of paying cash should be encouraged

Linkage of all welfare activities with bank accounts is a very strategic step. A strong banking base is the basic prerequisite for the cashless economy.

Targeted financial education programs can improve financial skills and Credit Management, and increase account ownership in rural India.

More and more money will come to the banking system in the form of either current or savings account. The savings will push up investment and lead to capital formation in the economy.

Merits of demonetization of Currency -⁻

The demonetization policy is being seen as a financial reform in the country but this decision is fraught with its own merits and demerits. The government’s stated objective behind the demonetization policy are as follows; first, it is an attempt to make India corruption free. Second it is done to curb black money, third to control escalating price rise, fourth to stop funds flow to illegal activity, fifth to make people accountable for every rupee they possess and pay income tax return. Finally, it is an attempt to make a cashless society and create a Digital India.

As a first step the government had urged people to create bank accounts under Jan Dhan Yojana. They were asked to deposit all the money in their Jan Dhan accounts and do their future transaction through banking methods only. The

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second step that the government initiated was a tax declaration of the income and had given October 30, 2016 deadline for this purpose. Through this method, the government was able to mop up a huge amount of undeclared income. However, there were many who still hoarded the black money, and in order to tackle them; the government announced the demonetization of 500 and 1000 currency notes. It is a giant step towards the dream of making a digital India. If these are the merits, there are demerits of this policy as well.

Demerits of Demonitisation

The announcement of the demonization of the currency has caused huge inconvenience to the people. They are running to the banks to exchange, deposit or withdraw notes. The sudden announcement has made the situation become chaotic. Tempers are running high among the masses as there is a delay in the circulation of new currency.

It has deeply affected business. Due to the cash crunch, the entire economy has been made to come to a standstill. Many poor daily wage workers are left with no jobs and their daily income has stopped because employers are unable to pay their daily wage. It is against the concept of welfare state . Further, many people have clandestinely discarded the demonetized currency notes and this is a loss to the country's economy.

Conclusion

The government is saying that there are only advantages of demonetization policy and this will be seen in the long term. Our Former Prime Minister who is a noted economist, former RBI governor and former Finance Minister of the country, observed that demonetization move as an 'organized loot and legalized plunder'. However, if we compare the merits verses demerits, it will be safe to conclude that the former outweighs the latter. Even though there is suffering and agony among the masses right at the moment but the forecast is that its benefits will be seen in the long run.

Suggestions:

Demonetization should be a continuous exercise by the government and be repeated at suitable intervals to discourage the hording of Black Money in the form of cash.

The self help groups (SHGs) can be of great help to the people in the promotion of digital banking systems in the rural areas. More and more SHGs must be given the charge of Bank Mitras (friend) who can extend their help to the bank, post offices and Bank corresponding for proliferation of digital economy.

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