Demonetization in India: Why Kashmir Remains Undisturbed

Tahir Nazir

Research Scholar, Department of Economics, BGSBU Rajouri, India

ABSTRACT

Demonetization is an economic policy which means to withdrawal of a particular form of currency from circulation that means old currency must be retired and replaced with a new currency units. It also termed as the process of moving people from a cash based system to cash less system i.e digital system. Demonetization becomes necessary practice to every nation when they are suffering by counterfeiting money or black money as well as to eradicate corruption from the economy. Demonetization not only helps to stop counterfeit money, crack down on black money eradicate corruption but also improving in tax compliances, better fiscal balance and lowering inflation. Keeping these things in consideration the Indian government led by Baritiya Janta Party (BJP) announced demonetization on 8th of Nov. 2016 by Prime Minister Narender Modi while addressing the nation. The highest valued two notes of Rs 500 and Rs 1000 which constitutes 86% of cash in circulation in the country. The present paper highlights the post demonetization effect in India, mostly problems faced by the common people and I tried my best to explain why Kashmir remains undisturbed which is the main motive of this study.

Keywords: Black money, corruption, Currency, Demonetization, Kashmir, Tax,

INTRODUCTION

Demonetization refers withdraws the legal tender rights of any denomination currency. On 8th of Nov. 2016 Indian prime minister Narender Modi while addressing the nation at 20:00 IST the high valued currency of Rs 500 & Rs 1000 would no longer recognized legally as currency from mid night. The main motive behind the demonetization is to stop counterfeit currency, unearth the black money and to curb the inflation well as to stop terror funding he said in his speech. The proposal by the government includes to wind up these existing notes from circulation and a gradual replacement of a new set of Rs 500 and Rs 1000 notes. According to the Reserve bank of India the total currencies of demonetized notes in circulation was 16.42 lakh crore (US $ 240 billion) which constitutes 86% of the total currencies. According to the RBI report the supply of all denominations has been increased by 40% during the period between 2011 and 2016, Rs 500 and Rs 1000 notes has increased by 76% and 109% respectively.

Economy is all about money, which is considered as the blood of economy which circulates through its various sectors. The concept of Demonetization is similar as cardiac arrest to any economy according to the economists and same is the case with Indian economy. Almost all Indian economic activities are carried out by cash transaction which includes 68% transitions are carried out through hard cash. According to the government report that 40% increase in all the banknotes in the market, 76% increase in Î500 rupee notes, and 109% increase in Î1,000 notes between the period 2011 and 2016 were directly attributed to counterfeit operations. So the government decided that the new redesigned Rs 500 banknotes and new denomination of Rs 2000 banknote were brought into circulation from 10 November 2016. New redesigned series will be introduced in denominations of Rs 100 and Rs 50 in the coming months. The PM promises that nation will be back to normalcy within 50 days later this promise was not fulfilled because people ware suffered for a long time even of months. Due to the sudden announcement of demonetization every sector of the economy was badly hit it will be remembered for the coming centuries. There was hue and cry in all over the country. When liquidity shortage strikes consumption activities were adversely affected by which production declines which leads decline in employment by which economic growth was reduced. People lost their jobs, people lost their loved once over hundred people were died some of them commit suicide, people were not able to exchange their old currency easily. Poor and middle class families were suffered very much and 85% of people fall under these two categories. The scarcity of cash becomes the headache to the people which lead chaos in financial institutions also maximum ATMs were nonfunctional. On 9th of Nov. people criticized the PM Modi on demonetization decision over 3,13,312 people...
unfollowed Modi on the microblogging site twitter. Later people realized that it was a good step taken by the Central government.

During the demonetization crises in India it was astonishing that Kashmir was undisturbed. People were easily exchanging their demonetized notes in banks there was not huge rush or no queues were seen anywhere in the valley, even shopkeepers, transporters medical shops petrol pump owners were accepted these notes. According to Elizabeth Maryam who teaches economics in Kashmir University that no common Kashmirir keeps large amount of cash at their homes because of disturbed situations, and also people were not having huge amount of cash because of five month Kashmir unrest 2016. RBI declares J&K as the unbanked state on 2nd of Feb. 2010, which was unproved during demonetization. If we compare Jammu and Kashmir with the rest of country one bank branch against 6500 people in Jammu & Kashmir but in the rest of country there are one bank branch against 10000 people. A lot of research is being done on Indian demonetization but hardly anyone think about that why demonetization doesn’t affect Kashmir. I have gone through a lot of literature which is based on Indian demonetization 2016. Sandeep Kour (2016) highlighted in her study demonetization have positive effect in every sector of economy, she believes in her study that it was a bold step taken by the union government, it will disclose up to 4.6 lakh crore of black money from circulation and corruption will automatically reduced by removing black money from economy. She also mentions in her study that demonetization will minimize terrorist activities in Jammu and Kashmir as well as from Northern east states and other areas but she does not mentions anything about how common Indian suffered.

Sunil (2017) his study is based on the problems faced by the common people. He stressed in his study that unorganized sector suffers the most, and unorganized sector is facing much trouble due to lack of cash only for very short period of time. He believes that picture of India will definitely change and Indian economy will emerge as one of the strongest economy in the world in medium to long period only as forecasted by our PM. So, the Indian citizens will have to wait more for the good days and need to strongly support the PM great move of demonetization.

Mohd (2016) believes in his study that the significance as well as challenges of demonetization of currency notes. His study is based on secondary data. He believes in his study that this move will definitely affect the routine life of common Indian, but I will provide definitely a fruitful result to the nation very soon.

Shah (2017) finds in his study that the common Indians will suffer in the short run as well as in the long run. He highlighted all the sectors who suffer the most and mentions the problems faced by the families who had weddings and other special occasions are depressed due to lack of money thousands of weddings have been cancelled which impacted the vendors who supply for those weddings. Also, highlighted the problems of farmers they have faced lot of problems because they could no longer afford to sell their harvest from Kharif crop or sow Rabi crops. Also Many street vendors have loosed their business because do not want to part with cash or cannot make change. People have cut back spending because the banks are rationing cash. Many Daily wage workers are unable to find work, who lost their jobs. Dash (2017) highlighted in his study the social impact and economic impact of demonetization in India, that people were suffered due to cash shortage thousands of marriages were postponed even cancelled as well, also patients were as suffered a lot because medical shops were refused to accept the demonetized notes even the politicians suffered too, according to him union minister Mr. Sidharamaniah faced the same issue when hospital administration refused to accept old currencies to retrieve his brothers dead body. In terms of economic impact this demonetization measures will help banks to recover some bad loans and improve their financial position, also most of the financial transactions are done through formal banking sector, and this has increased transparency in people and corporate paying taxes properly.

**Reasons behind Demonetization:**
- To perish the counterfeit currency
- To curb black money
- To combat corruption
- To combat inflation
- To promote cashless economy
- To crack down on terrorism and Naxalism.

**INDIAN HISTORY OF DEMONETIZATION**

India had a bitter experience of demonetization of its currencies twice before. The maiden demonetization was carried out before independence on 12th of January 1946 when Rs 1000, Rs 5000 and Rs 10000 notes were demonetized. The highest denomination note ever printed by RBI in India was Rs 10000, introduced for the first time in the year 1938. However in 1954 all these three notes were gain reintroduced in the circulation. The second phase of demonetization was done in 16th January 1978 when Rs 1000, Rs 5000, Rs 10000 were again demonetized. The main goal behind these demonetizations in 1946 and 1954 was only to improve tax revenues and curbing the counterfeit currency and black money. The third phase of demonetization was carried out on 8th of November 2016 to demonetize Rs 500 and 1000 notes and introducing of new 500 and 2000 notes. In order to stop counterfeit money in the country, to unearth the
black money as well as to improve the tax revenue of the country and take an initiative of cash less economy that is what we call it Digital India.

**OBJECTIVES OF THE STUDY**

1. To study the impact of demonetization on common masses.
2. To study why Kashmir was not affected by demonetization.

**Research Methodology:**

This paper is based on secondary data, the data has been collected from newspapers, journals, research articles, RBI official website.

**IMPACT OF DEMONETIZATION ON INDIAN ECONOMY**

Initially demonetization was considered as the cardiac arrest to the economy, but also praised by some of few world class economists like 2017 Nobel laureates prof. Richard H Thaler, he wrote in his twitter handle on 8th of Nov.2016 “this is a policy I have long supported. First step toward cashless and good start on reducing corruption”

Indian GDP which grew at 7.6% in 2015-16 is likely to slow down by 0.5% to 1.5% as per reports of various agencies because of unavailability of cash. Even an automobile industry which was growing rapidly in the first quarter of 2016, but the last quarter has seen contraction, purchasing power of consumers has been negatively affected due to shortage in cash.

If we go through the illicit flow into GDP % with comparison to the BRICS nations.

<table>
<thead>
<tr>
<th>Country</th>
<th>Illicit flow into GDP %</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3.11</td>
</tr>
<tr>
<td>China</td>
<td>2.97</td>
</tr>
<tr>
<td>Russia</td>
<td>8.21</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.49</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.85</td>
</tr>
</tbody>
</table>

Source: Economic Times 2017

The manufacturing sector grew 8.3% during Oct-Dec 2016, from 12.8% in Oct-Dec 2015 and 6.9% in July-Sep 2017, it is clear the manufacturing sector declines because of shortage of cash.

Demonetization has affected every Indian, but it hit the agricultural sector the hardest. Agriculture in India accounts for 50% of the workforce. The agrarian economy of India is primarily cash-based and village-based. Farmers tend to be unable to avail digital services as such they tend to be digitally illiterate; in many parts of India, farmers don’t even have bank accounts.

MSMEs is playing an important role in providing employment, over 80 million people are engaged with this sector. This sector contributes about 8% to the GDP. But this was adversely hit, because MSMEs in India deals with cash to a very large extent. According to the Punjab Haryana Delhi chamber of commerce and industry, All India manufacturing association, SBI showed that the impact was between 50% to 80% on the small and unorganised sector, even RBI in its report in March 2017, said industry slowdown, people in the micro and unorganised sectors went back to the villages as business closed.

1 **Impact of Demonetization on Different Sectors According to Economic Survey Report.**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Effect upto 31th of Dec 2016</th>
<th>Likely upto long turn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money</td>
<td>Cash declined sharply; Bank deposits increased</td>
<td>Cash will recover but settle at a lower level. Deposits will decline but will settle at a higher level.</td>
</tr>
<tr>
<td>Interest rates</td>
<td>Interest rate on deposits/loans &amp; Govt. securities declined</td>
<td>Loan rate could fall further if deposit increase in long run</td>
</tr>
<tr>
<td>Black money</td>
<td>Stock fell Some holders came into tax net</td>
<td>Formalization would decrease the flow of unaccounted income</td>
</tr>
<tr>
<td>Private wealth</td>
<td>decline</td>
<td>Could fall further if real estate price will fall further</td>
</tr>
<tr>
<td>---------------</td>
<td>---------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>GDP</td>
<td>Growth slowed down as demonetization decreased demand; supply and increased uncertainty.</td>
<td>Could increase in the long run if formalization increases in long run and corruption fall</td>
</tr>
<tr>
<td>Tax collection</td>
<td>Increased due to increased disclosure; as demonetized currency remain legal tender for tax payment/clearance of arrears.</td>
<td>Indirect and corporation tax could fall. Tax collection will increase as formalization expands and compliance improves.</td>
</tr>
</tbody>
</table>

Source: Economic survey 2016-17, chapter 4.

**IMPACT OF DEMONETIZATION ON INDIAN COMMON MASSES**

The demonetization decision had made six months ago, and the printing of new notes of Rs 500 and Rs 2000 had already started said Urjit Patel, governor of RBI in a press conference after demonetization announcement, but this announcement was kept confidential to the nation, only the top members of government, security agencies and the central bank were aware of the move. Actually Demonetization is not a big disaster like global banking sector crisis of 2007, but government makes it a disaster by itself. But at the same time, it would act as a liquidity shock that disturbs economic activities. Liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. It was not an easy task for government to replace 86% of the demonetized currency by newly introduced currency of Rs 500 and Rs 2000. It was the main reason which is related to the problems faced by the people. No doubt the Indian government declares that the demonetization will help to stop counterfeit currency allegedly used by the terrorists against India and will help the nation in terms of growth. It is a matter of concern from other side that the problems faced by the people during demonetization time.

- People were standing in long queues for days to exchanging their old currencies in front of banks and ATMs to withdraw money.
- One of the big tragedy is that over 100 people were died and some of them commit suicide the reason was only demonetization even some of the bank employees died due to workload.
- People were not able to withdrawal huge amount of cash for the religious occasions at their homes even thousands of marriages were cancelled.
- People were not all about aware about cashless transactions. Almost 90% of economic transactions were done by hard cash. Even swipe machines were not working properly after demonetization.
- Shortage of cash in bank ATMs even a large no of ATMs were nonfunctional due to huge rush of people. That was the root cause of suffering.
- Most of Indian villages were unbanked routine work of people was affected especially poor people, because they have to go nearby villages or cities to exchange their notes.
- According to a no of news channels that a number of bank officials were involved in back door conversion of black money into white money.
- Unorganised sector was hit especially MSEs, daily wagers lakhs of people lost their jobs they had shut their business and went back to their villages According to the Arun Kumar who is renowned authority on black money. He taught at the Centre for economic studies and planning at JNU. He believes that demonetization was an utter failure with no positive consequences. It was only general public who were suffered very much in each sense, giving an interview to Economic Times year after demonetization.
- It is common sense that black money is mostly held by top government officials and politicians, and only they are having a small portion of black money in the form of cash, black money is kept in the form of physical assets like gold, land, buildings, etc. they are easily converting this black money into white money by corrupting the bank employees. Here are the some of the cases which indicates that demonetization does not impact the black money in which a number of bank officials are involved against they receive huge amount in terms of corruption. Huge amounts of cash in the form of new notes were seized all over the country after the demonetization. In the month of December 2016, over 4 crore of new banknotes of Rs 2000 were seized from four persons in Bangalore, Rs 33 lakh in Rs 2000 notes were recovered from Manish Sharma, an expelled BJP leader in West Bengal, and Rs 1.5 crore was seized in Goa. 900 notes of the new Rs 2000 notes were seized from a BJP leader in Tamil Nadu. Around Rs 10 crore in new notes were seized in Chennai. Rs 242 crore in new notes had been seized. It was noted in the media that while people were dying in queues to obtain a few thousand rupees in cash, that is the open eye proof only the poor and middle class people were suffered, persons with the right connections were able to get crores of rupees in new notes, thus rendering the demonetization exercise futile. Which is a tight slap on Indian demonetization decision. There may be a lot of cases which does not came in the media.
KAHMR REMAINS UNDISTURBED AFTER DEMONETIZATION

Jammu and Kashmir is considered as the volatile state in India, in terms of political instability, since last three decades. J&K economy is adversely affected because of militant activities from the late 20th century. Political uprising became nowadays in Kashmir a routine since 2008. J&K economy was adversely affected by the five month long unrest after the killing of Hizbul Mujahidin commander Burhan Wani.

As the country remains under turmoil when the Prime Minister Narender Modi addressed the nation about demonetization decision Kashmiri people accepted the move without any panic. No common Kashmiri keeps the large amount of money at homes because of disturbed situations said Elizabeth Maryam, a professor of Kashmir University. According to Nazir Quzi, an officer of the local Jammu and Kashmir Bank, all the ATMs of the bank are fully stocked. “For the last eight days there has been no rush on either our branches or at our ATM outlets. Yes, people have been coming in for exchange of the demonetized currency notes or for deposit, but nobody was being hassled,” he added.

However people does not agree with government statement that demonetization move has reduced the stone pelting in Kashmir. According to the union home minister Rajnath Singh and former defence Minister Manohar Parikar that that stone pelting ended in Kashmir after demonetization. According to the DGP S.P Vaid stone pelting incidences were reduced by 60% in 2017 this whole credit goes to the NIA raids and counselling of youths.

They also believed that the militant activities will come down very soon but it was unproved because if we go through the 2017, highest number of militant activities were carried out in 2017. Record number of ceasefire violations were seen in 2017, highest number of militant were killed in 2017 in seven years.

Now coming to the main idea that Kashmir does not affected due to demonetization here are the reasons.

- One of the important thing that there was political unrest in 2016 started from 8th of July 2016 after the killing of Hizbul commander Burhan Wani, there was valley wide shut down for five months. People were not having huge money because all the economic sectors were closed down for five months. Jammu and Kashmir suffered Rs 16,000 crore loss during 2016 unrest.
- Also demonetization was done in winter season that is off season in Kashmir, neither agricultural activities are carried out nor any kind of festivals are being celebrated during demonetization time, even winter in Kashmir is termed off season for marriages.
- Kashmir is highly militarized zone in the world for security reasons there may be not any kind of cash shortage. All the ATMs were full of stock that may be a reason for it.
- One of the important thing among Kashmiri people is that they trust each other, easily everybody was accepting demonitized currencies.
- Maximum households are having their own bank accounts, people kept their savings in bank accounts for security reasons. They do not kept their savings at their homes.
- All employees are being credited salaries online even contractors get their deposited into their accounts through online mechanism.

CONCLUSION

Demonetization is considered to create transparency in the economy, to curb the black money in the economy and stop counterfeit currency in the circulation, but in India it creates unavoidable income and welfare losses to the poor sections of the society whose income is based on their daily work and India does not have the digital transaction culture. No doubt it will create hurdles to the economy but will pay a good result in the long run. But unfortunately some of the great economist strongly criticized the demonetization move. Dr. Manmohan Singh former prime minister and ex RBI governor stated demonetization as “organised loot” “legalized plunder” and “monumental mismanagement” while speaking in Rajiya Sabha. Amartya Sen leading economist and Nobel laureate giving an interview to the Indian express stated that “Only an authoritarian government can calmly cause such misery to the people, with millions of innocent people are being deprived of their money and being subjected to suffering, inconvenience and indignity in trying to get their own money back.”

The problems faced by the people was only for the short term, but the people who lost their lives due to demonetization is a matter of consideration, why government does not take proper measures before taking this bold step. Why only the poor people suffers a lot as compare to rich once. No doubt demonetization brings transparency in the economy, terror funding has been stopped but one of most important question is still unanswered why people does not promote cash less economy? People again started cash transactions. If people giving the full support to cash less economy or digital economy then we should call it that demonetization move was successfully carried out.

REFERENCES