

DEMONETIZATION

Demonetization is an economic process in which a country's currency unit is no longer legal tender. A currency unit is what we would commonly refer to as physical money, such as banknotes and coins. When demonetization occurs, the country's currency unit is essentially worthless, as it can no longer be used to purchase goods and services. A product is a tangible item that is put on the market for acquisition, attention, or consumption while a service is an intangible item, which arises from the.

❖ History of Currency

- ✓ Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978.
- ✓ The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954.
- ✓ But these notes were demonetized in January 1946 and again in January 1978, according to RBI data.
- ✓ Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946.
- ✓ Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978.
- ✓ The Rs 1,000 note made a comeback in November 2000.
- ✓ Rs 500 note came into circulation in October 1987.
- ✓ However, this is the first time that Rs 2,000 currency note is being introduced.
- ✓ Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979.
- ✓ The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms.
- ✓ In the year 1980, the legend Satyameva Jayate -- 'truth alone shall prevail' -- was incorporated under the national emblem for the first time.
- ✓ In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark.
- ✓ Mahatma Gandhi (MG) series banknotes - 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000).
- ✓ The Mahatma Gandhi Series - 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 and contained some additional/new security features as compared to the 1996 MG series.
- ✓ The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively.

❖ Advantages of Demonetization

The main benefit of demonetization is to curtail criminal activity as their supply of money is no longer legal tender. This affects counterfeiters as well as they cannot exchange their "merchandise" for fear of discovery. It can prevent tax evasion as those who were evading taxes must come forward to exchange their existing currency at which time the authorities can retroactively tax them. Finally, it can usher in the digital currency age by slowing down the circulation of physical currency.

❖ Disadvantages of Demonetization

The chief disadvantage is the costs involved in printing and minting the new currency. Also, demonetization may not have the intended effect of reducing criminal activity as these entities might be savvy enough to hold assets in other forms other than physical currency. Finally, this process is risky as it can plunge the nation into utter chaos if not handled with the utmost of competence.

Demonetization has occurred throughout history for various reasons, such as hyperinflation, political and economic change, and crises such as war.

❖ Examples of Demonetization

1. **United States:** In 1873, the Coinage Act demonetized silver as legal tender to stave off inflation from the growing discovery of silver deposits in the West. This led to significant economic disruption, culminating in a recession and leading to the remonetization of silver in 1879.
2. **Euro area:** In 2002, twelve countries in the European Union implemented the euro as a new currency, demonetizing the former national currencies, including the French franc. Individuals could exchange their money for euros, but they could no longer use the old currency.
3. **India:** In 2016, Prime Minister Narendra Modi announced that the Reserve Bank of India would carry out a demonetization of 500- and 1,000-rupee denomination notes and issue new 500- and 2,000-rupee notes as replacements. This demonitization was an attempt to curb black market activity, counterfeiting, and corruption and to promote cashless transactions.

❖ First, Second and Third Demonetization

This is not the first time the government is following the policy of demonetization of high value currency. The first instance of demonetisation by the government was implemented in 1946 when the RBI demonetized Rs 1,000 and Rs 10,000 notes. Later, higher denomination bank notes (Rs 1000, Rs 5000 and Rs 10000) were re-introduced in 1954. However, Morarji Desai government demonetized these notes in 1978. According to data provided by RBI Rs 10,000 note was printed in 1938 and 1954 and was subsequently demonetized in 1946 and 1978 respectively.

The second ordinance was the High Denomination Bank Notes (Demonetization) Ordinance. It demonetized banknotes of the denominations of Rs 500 and above with effect from **January 13, 1946** some of the parallels with the demonetisation in 2016 are uncanny. Holders of high denomination notes could get them exchanged at the Reserve Bank, a scheduled bank, or a government treasury on presentation of the high denomination notes and a declaration in the form prescribed in the schedule to the Ordinance within 10 days of the commencement of the Ordinance.

The government believed the working capital of black-market operations to be held in the form of high denomination notes. Government, well aware of persistent public demand for action, took this step to deal with black marketing and tax evasion in the country.

Third The Narendra Modi government shook the country last week by announcing the demonetisation policy and turning notes of Rs 500 and Rs 1000 into paper. While people were allowed to exchange their old notes for valid currency, deposit the money, or withdraw a certain amount from the ATM, the move saw

unprecedented lines outside banks and ATMs with bank employees working overtime to make up for the cash crunch in the common man's life.. The move to make currency illegal overnight has, however, happened earlier, both times with a view to interrupt black money deals and tender black money hoarded as illegal. By putting a cap on the money that one is able to deposit without coming under the scanner of the Income Tax department, the government aims at investigating possible tax evasions as well.