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DEMONETISATION: A MODERN CONCEPT IN INDIA OR INITIATIVE OF CHANAKYA

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ABSTRACT

This is only the second time after 1977 that the Govt. has taken this revolutionary decision of denominations of old currencies in 2016. In 1946, during pre-independence times government hoped demonetization would penalize Indian businesses that were concealing the fortunes amassed supplying the Allies in World War II. In 1978, the Janata Party coalition government demonetized banknotes of 1000, 5000 and 10,000 rupees, again in the hopes of curbing counterfeit money and black money. The sudden move to demonetize Rs 500 and Rs 1,000 currency notes is not new. 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.

Keywords: Demonetization, Chanakya Nitti, Black Money, Corruption

INTRODUCTION

The government has scrapped existing Rs500 and Rs 1,000 currency notes from midnight of 8 November 2016. The move, is aimed at targeting black money and will also encourage and accelerate the move to a cashless economy. An individual has few options to transact without cash like -**Plastic money** – Three types of cards available to use—credit, debit, and pre-paid —for all kind of transactions, **Electronic fund transfer** – There are three options available for such transfers: national electronic funds transfer (NEFT), real-time gross settlement (RTGS) and immediate payment service (IMPS). **E-Wallets** – **E**-wallets are payment instruments where people can preload money and make payments. There are three types of wallets—closed, semi-closed and open. **Unified payments interface (UPI)** – UPI, launched by National Payments Council of India (NPCI) allows one-click, two-factor authentication on mobile phones across bank accounts. **Cheque and Demand Draft:** People facing difficulty in using Internet can reply upon the traditional cheque for transferring and withdrawal of cash. Similarly Demand draft can be issued for transfer of money. However, all the above options are good and useful for a literate person. A person with poor digital literacy, above options are alien and it would lead to growth of a different level of intermediaries, who will provide services at some cost to such poor and illiterate people.

Though the digital literacy and financial literacy is penetrating to masses from all background, but a kind of insecurity about digital money, cyber threats, data theft has made it unpopular among masses who are not familiar with above methods.

THE GOALS IN THIS STEP

- Curbing hawala transactions.
- Preventing terror funding: Especially from fake currency notes supplied through Pakistan.
- Curbing organized crime(such as drug trafficking, illegal trade) being funded by this black money

- Curbing fraud cases and fake currency cases.
- Bringing in wealth back within Government treasure so that this money is utilized for people welfare and development.

HOW CHANAKYA DEALT WITH FAKE CURRENCY AND CORRUPTION

Modi invokes Chanakya Nitti to justify his demonetization act. He invoked the philosophy of popular Indian thinker, Chanakya. Speaking in the parliament, Prime Minister Modi said, " Chanakya has already told us what to do after UPA's 10 years. Chanakya Nitti says Money accumulated by unfair means can survive only till 10 years & by 11th year is it destroyed along with interest." In this context it will be interesting to see what the most seminal Indic theoretician of politics and economics, Chanakya, has to say on these issues in his e Arthashastra.While looking for insights from this ancient theoretical work it behooves us to be cautious in drawing parallels as the structure and organization of the economy today is very different from what it was two and a half millennia ago. As has been pointed out earlier in this column, 'artha' is one of the goals of individual human existence— 'dharma', 'artha', 'kama' and 'moksha'. Understood in the extended sense of the earth where men live and seek well-being, it assumes the goal of the well-being of men, in general. Since it is the state alone which can make such general well-being possible, the protection of the earth and its acquisition, essential parts of state activity, are declared to be the province of the shastra. So says the Arthashastra.The state manifestly needs resources to fill its 'kosh' or treasury to realise the objectives of palan(administration) and labh (acquisition of territory). These resources come from the economic surplus created by the people within the kingdom. Chanakya advocated oversight and control of economic activity to safeguard and support sources of income for the state. Incomes were classified as coming from the city, country, mines, irrigation works, forests, cattle-herds and trade routes. Economic activity was state run as well as in private hands and arrangements were made for both sectors. The ways in which incomes from these sources were appropriated included 'mulya' or price at which state goods were sold, 'bhaga' or state share of private goods, 'vyaji' or sales tax, 'parigha' or protective duty to safeguard state goods, 'klipta' or port duty, 'rupika' or surcharge on manufacture and 'atyaya' or penalty.

This practical classification of sources of income was in use during the Mauryan period but has its roots in practices going back into the past. It may be noted that there were certain exceptions made on different bases for different groups of people so the impact of taxation was not as dire as it may seem, Chanakya was anyway of the view that tax should be extracted unobtrusively as the bee extracts honey from flowers and returned in as spectacular a fashion as the rain falls from the skies. Taxation was one of the biggest sources of income for the state and there was a complex and widespread bureaucratic machinery in place to keep strict vigil on economic actors and appropriate the share of the state from their produce whether in the cities or the countryside, trade or agriculture. 34 departments with 'adhyakshas' or heads, and officials to assist them are described in the Arthashastra. One of the main functions of the heads of departments was to see that incomes and expenditures of their departments were correctly estimated and the correct tax levied; there were penalties for levying both too much and too little tax. There was a separate accounts system with an 'akshatpataladhyaksh' or what we would understand as a Comptroller and Auditor General. There were strict guidelines for preparing the accounts and for auditing them.Most of the officers worked in the smaller cities and the countryside and were enjoined to keep an eye on those who were too extravagant or too miserly as also those setthis (rich merchants or guild masters) who buried their wealth or hid it in hollow pillars. Those city rich who passed on their money to be stored with villagers as also those who sent their riches to be hoarded in foreign lands were also to be guarded against as they were antithetical to the prosperity of the kingdom.Corruption amongst officials was a persistent worry; Chanakya trusted no one and had an elaborate system of spies in place to keep an eye on the entire official machinery and spies to keep an eye on the spies themselves! As he said, it was as difficult to check how much money royal officials were misappropriating as it was to find out how much water a fish drank as it swam around in the river. There are elaborate shlokas on ways of corruption in the bureaucracy, how to recognize them and deal with them.Let us now take a look at coinage. During Mauryan times the move from exchange in kind to exchange via coins was not complete and many transactions were still in kind. Coins have been mentioned in the Rig Veda and punch marked coins had already been introduced centuries earlier in the age of the sixteen great Mahajanpadas. It was the Nandas, the predecessors of the Mauryas, however, who had first tried to systematise and centralise the minting of coins as a state monopoly as opposed to guild issued punch marked coins.The Mauryans took it further and the Arthashastra has guidelines on the exact composition of silver and copper coins (no gold coins are mentioned or found in any of the coin hoards dating from Mauryan times), mints are run only by the state and there are fines and punishments for anyone else attempting to mint and issue coins, similar to modern centralisation of currency issue although not as perfect, obviously. There was a rupadarsaka or mint master in charge of circulation of coins and he was liable to punishment if irregular coins were found in circulation. The move to trade and exchange with coins led to a quantum jump in the monetization of the surplus in the economy and was the basis for the famous prosperity of the Mauryans, the basis of their fearsome army and far reaching influence

WHAT PARALLELS CAN BE DRAWN FROM THIS, RELEVANT TO THE SITUATION TODAY

As far as taxation and the economy outside of it are concerned the issue remains the same; How to achieve maximum coverage and catch revenue from all economic activity in the tax net. Filling the treasury was and remains, even today, an essential part of nation building and the welfare of the people.Penalties and fines were then, as now, levied for tax evasion. Corruption and hoarding of wealth were issues too. People who buried wealth in the ground and those who stored it outside the country are exhorted to be guarded against. Some things do not change over the centuries! Counterfeiting was equally a problem. Debased coins of the Mauryan era have been found with a smaller component of metal in the coins. It may point to the royal mints themselves debasing the coins in order to be able to make more of them or to counterfeiting by others. A coin of copper with an overlay of silver dating to the reign of Ashoka has also been found, a technological marvel of that age in the matter of counterfeiting. Flooding the economy with fake coins would have the same deleterious effect as fake currency has today.There were fines for dealing in counterfeit currency and it may be noted that the punishment for the introduction of a counterfeit coin into the royal treasury was death.Problems of economic and social behaviour remain broadly identifiable across the centuries, theoretical formulations have tried to address these issues but there is no final solution to the problems that arise from human behaviour.The state has to work towards nation building with the help, as imperfect as that may be, of its citizens. It can only be what its citizens want it to be and what they contribute with their hard work; today, as it was in the past.

BIG RISKS AND PROBLEMS ENTAILS IN THIS STEP

- **Complete cashless Economy**: Small shop owners and roadside vendors might be badly affected
- **Issue of Black money:** It will still remain untreated with introduction of new 500 and 2000 denominated currency notes.
- **Lack of a proper Cyber Security Infrastructure**: Puts the country's financial security at greater risk.
- **Excessive Investment**: This money in banks will chase investment avenues which may lead to situations like a bubble like the DOTCOM Bubble or 2008 Crisis.
- **The top Elite still remains almost unscathed**: Most of their Black Money is stashed abroad which will not be affected by this Govt. move.

IMPACT ON VARIOUS SECTORS AND STAKEHOLDERS

- **Real Estate** – will be affected the most as most black money are stored in this sector. Now people will rush towards benami transaction law implementation that at least tax will save some money on their black money converted at last to white.

- **Political funding** will be hit greatly.
- **Retail Manufactures**: Their sale manufacturer will stay unaffected to the extent the amount of money they have is legal.
- **Drop in share marke**t due to panic and confusion.
- **Encouragement to Cashless Economy**
- **Inflation in long term** can be controlled due to less black money in the market.
- **Agriculture** sector is going to be affected the most in negative way as this income is not tax and many farmers are out of banking access.
- **Banking recapitalization** problem faced by government itself has made difficult for the successful implement-ion of this step since condition of bank is not good for providing currency properly affecting people leading to long queue and chaos.
- Immediately though hospitals, petrol pumps , railways are allowed to accept old currency still there are facing shortage of small notes like 100rs or 20 rs 50 rs.

Conclusion

Though this step has been welcomed by all as it will hit the black marketing and hoarding, sudden announcement without providing certain time limit is affecting low end common man and proper mechanism should be placed to allay any fear of them. We can look forward to Develop Banking and Cash transaction infrastructure ,Promote More Inclusive Development, the new currencies should be monitored adequately so as to not fall back to corruption and black marketing by using them.Generate awareness about cashless economy specially among rural sections.

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