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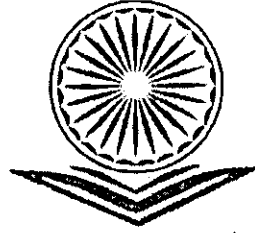
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12. Impact of Demonetization on Common Masses in India

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Abstract

Demonetization is an act of changing old currency with new one. On 8 November, 2016 a bold decision of demonetization have been taken by Government of India. Note ban refers to the financial step of the government to declare a currency unit invalid.

Demonetization was a move initiated by Government of India to discard black money and eradicate corruption in India and to clean the formal economic system of our country. It was implemented with a view to check illegal activities like terrorist activities and smuggling. After Demonetization Indian economy has gone through some serious churn. But act of demonetization disturbed common people in India.

This paper aims at looking into the social impact of the demonetization on the lives of the common masses. Legal approach and it's constitutional validity, approach of Judiciary towards note ban.

Introduction

Government of India has taken a bold decision on demonetization on November 08th 2016.

Demonetization is the act of changing the existing currency in another form. The old currency is to be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency.

Hon. Prime Minister declared demonetization of all FIVE hundred and ONE THOUSAND rupees banknotes of the Mahatma Gandhi Series. He also announced the issuance of new 500 and 2000 banknotes in exchange for the demonetized banknotes. Demonetization was a move initiated by Government of India to discard black money in India and to clean the

formal economic system of our country. Demonetization was implemented with a view to keep a check on illegal activities like terrorist activities and smuggling. This courageous act nullified around 88% of the Indian currency. Demonetization means a unit of currency is no longer legally accepted in the country's economy. But Act of demonetization has disturbed many parts of common man's life.

After demonetization lot of discussions conducted on effects of demonetization on GDP, black money, corruption etc. But not much is known about the impact of the note ban on the day to day activities of rural population and on general people in India. Change of currency is not new in economic history of our country. Government of India has announced demonetization at two earlier instances i.e. in January 1946 and January 1978. During the first demonetization in Jan 1946, Rs. 1000 and Rs. 10000 notes were demonetized. Whereas in January 1978, an ordinance was promulgated in order to phase out the notes of 1000, 5000 and 10000 rupees. The first demonetization related to conversion whereas the second was termed as cumulating. Hence, the change of currency is not new in the economic history of India. All the three demonetizations had a common goal - curb the circulation of black money and keep the illegal activities at bay.

After Demonetization our country says goodbye to the old 500 and 1,000 rupee notes, and impose restrictions on exchanging money and taxation on high amounts of deposits. After Demonetization Indian economy has gone through some serious churn. This research paper is an attempt to study lasting impact of demonetization on common masses in India.

The impact of this move on the common masses includes:

Social Impact

After demonetization Low-income people have suffered as their payments were delayed. Some people committed suicide. Small and medium scale industries who rely mainly on cash transactions affected due to void of supply of currency. People who live in remote areas, have no bank accounts, no identification proofs were the biggest losers.

The impact on the health care sector was huge with hospitals refusing to accept the old currency. The common man faced severe issues transacting in the hospitals with old currencies and several cases of death have been registered for not attending the patients due to demonetization. Salaried people faced problem on the opening day of the month as their salaries credited in the bank account but they were able to withdraw only 2,000 rupees from the ATM

machines. Many salaried people have gone to the bank branch to withdraw their full salary amount with loss of pay.

Other problems in the form of road blockades and quarrels arouse with people waiting in long queues before the banks and ATM machines. People were restless spending an entire day to withdraw money. Several deaths have been registered as a result of waiting in long queue. Pensioners were worst affected with no special provisions made for senior citizens in banks.

Legal aspect and Constitutional Validity

- Any government notification needs to be ratified by Parliament as was done in 1978 by the introduction of High Denomination Bank Notes Act.
- Sec 26(2) of the RBI Act 1934 has provision for demonetization of a series of notes and not the complete denomination of Rs 500 and Rs 1,000 notes.
- Failure to issue an ordinance for the latest demonetization drive has led to RBI issuing several circulars which may have violated citizens' rights.
- Note ban has affected the Right to Trade under Article 19(1)(g), the Right to Movement under Article 19(1)(d) and the Right to Life
- The declaration passed on 8 November 2016 contradicts RBI ACT
- Under section 26(2) of the RBI Act, 1934, the government, upon approval from the Central Board of RBI, can pass a notification to discontinue a series of denominations as legal tenders. The provision of Sec 26 (2) only provides for demonetization of a series of notes and not the complete denomination of Rs 500 and Rs 1,000 notes.
- This casts doubt on the constitutional validity of the notification dated 8 November 2016, since in order to carry out a total discontinuation of a denomination; the proposal would first need to be presented to the Parliament.
- After note ban the struggle of the citizens affected the Right to trade under Article 19(1)(g), the Right to movement under Article 19(1)(d) and the Right to life under Article 21 of the Constitution.

The government can impose reasonable restrictions on fundamental rights in order to achieve a goal for public good, but needs to prove the restrictions as reasonable. Unlike the previous demonetization drive in 1978 where the move affected 2 percent of the cash in circulation, the step in 2016 has impacted 86 percent, causing inconvenience to the common man.

Cash transactions make up 64 percent of the total transactions in India and the move has left daily wage workers without money, small and medium businesses were unable to pay salaries and several shops were forced to remain shut due to lack of cash. The move for a cashless economy was positive, but reports published by the State Bank of India show that a shortage of PoS machines and other facilities was hindering progress.

Practically speaking, it is not impossible for small businesses based in rural areas to benefit from a digital economy as transactions in businesses such as poultry farms or fisheries usually take place via cash. Unless the government sorts out security issues, the shortage of PoS machines and the practical aspects of a cashless economy, the transition would bring in more problems rather than solutions.

Judicial Approach

After declaration of demonetization in India Several PILs were filed against demonetization. The most prominent case was *Jayantilal Ratanchand vs Reserve Bank of India and ors*, which challenged the constitutional validity of demonetization, stating that it affected the right to trade under Article 19(1)(g) which is one of the fundamental rights guaranteed by the Constitution.

The order demonetization passed on 8 November 2016 was declared by the government as a decision taken for public good. Since then, the move has been viewed as a violation of several legal aspects.

The high court's of Karnataka and Tamil Nadu dismissed public petitions against demonetization stating that the decision was taken for public good, whereas in High Court of Bombay several petitions are pending and stayed for further hearing.

A petition which was filed in the Supreme Court by advocate VK Biju who argued that demonetization, being an important part of the monetary policy, cannot be left under total control of the Centre. The Supreme Court questioned the legality of the drive and the procedure which was adopted.

The Supreme Court also refused to deny the filing of PILs in high courts as it viewed this to be the only way to maintain order and prevent civil unrest following demonetization. The court, however, refrained from directly interfering in the matter as it does not view the move to have violated any rights.

Conclusion

In my opinion, demonetization may have been declared by government with good motive to eradicate black money and curb corruption but it could have been better planned. Before demonetization of 500 and 1000 rupees banknotes government had to increase flow of 100 Rs. notes, it had to make sure that new notes are ready and printed.

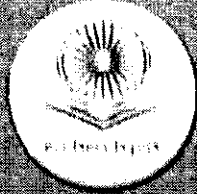
India is democratic, republic nation where more than half of the population belongs to poor class. In a democratic country, any decision is to be passed through Bills which are debated, signed and then approved in the Parliament. Sudden declaration of note ban on November 8th, 2016 disturbed common man's life.

Lastly, I would like to say that, the step of demonetization is taken by government as a progressive step, but due to lack of planning and neglecting the legal issues it has made a little unjust towards citizens particularly common masses in India.

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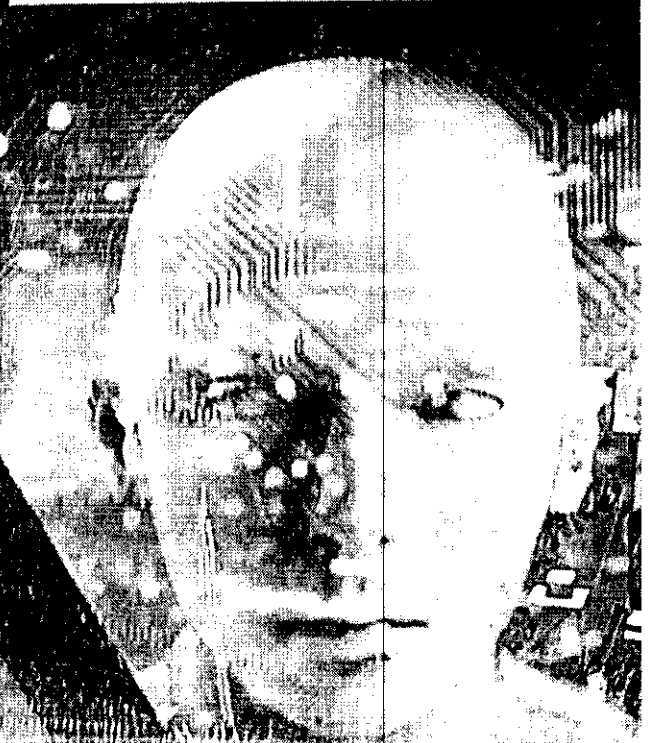
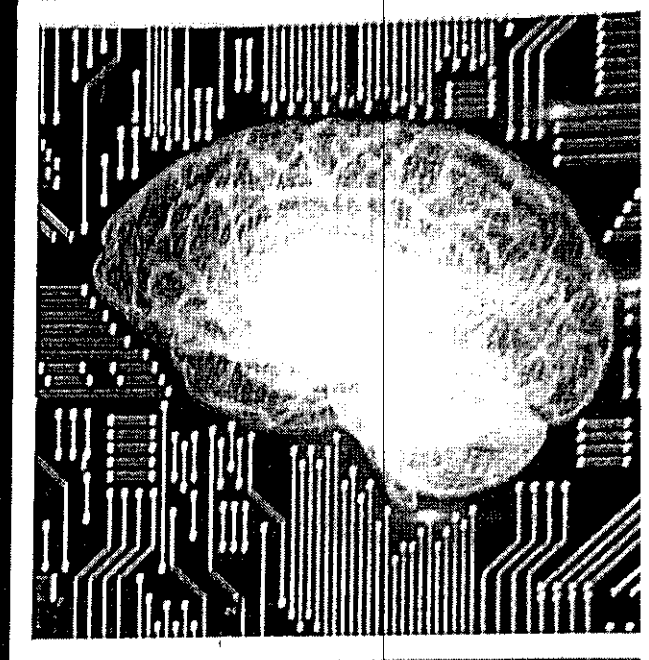


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