

**SUBJECT = ME & IB****UNIT I – MONEY (PART – VIII)****DEMERITS OF MONEY**

There is no doubt that a properly managed money system has greatly helped in the achievement of high stable level of production, employment and real income. The money as medium of exchange played an important role by having put to an end the demerits of barter system. But if we observe the present day problems we find that money also played an important role in creating and promoting these problems. As it is said, "money can serve as a good slave, but not as a good master". In the same way, Prof. J.S. Mill says, "If money gets out of order it would give rise to so many distinctive and independent effects". When money is not rightly controlled, it proves a source of confusion and disorder in the economy.

In a mismanaged money system, there are upswings and down swings in economic activity which result in the wastage of economics resources. Another evil use of money is that it has resulted in the creation of serious shifts in the distribution of wealth. The society has been split up into two distinct warring camps, the haves and have nots. With the advent of money, man has begun to think in terms of money alone. Human values are steadily losing their importance which is very dangerous trend.

Money is not an unmixed blessing. Total dependence or misuse of money may lead to undesirable and harmful results. In the words of Robertson, "Money, which is a source of so many blessings to mankind, becomes also, unless we can control it, a source of peril and confusion."

The following are the various disadvantages of money:

**1. Demonetization -**

The demerit of paper money is that the holder may have to suffer loss. The paper money is fiat money. It is issued by fiat (order) of the government. In case the government cancels the currency notes the holder has to bear full loss.

## **2. Exchange Rate Instability -**

The value of paper money is instable and is subject to fluctuations in the exchange rates. The fluctuations in the exchange rate market also produce serious effects on the price level in the economy.

## **3. Monetary Mismanagement -**

Purchasing power of paper money is an ever – changing process. This means that its face value remains same but its purchasing power may decline due to monetary mismanagement.

## **4. Excess Issuance -**

The printing of paper money is quite easy, so in times of need the government can issue notes more than the requirement. As a result supply of money increases that causes inflation in the economy.

## **5. Restricted Acceptability (Limited Acceptance) -**

One of the demerits of paper money is that it has limited acceptance. Its acceptance is limited within the boundaries of a country. It cannot be used to make payments to other countries.

## **6. Inconvenience of Small Denominators -**

Paper issue is not common for small monetary denominators such as Rs. 1, 2 and 5. In this case metallic money gets preference over paper money.

## **7. Troubling Balance of Payments -**

Over issue of money results in decrease in value of money and also causes inflation. Due to which price of imported goods increases because they are to be paid by exchanging devalued currency for foreign currency. It results in unfavourable balance of payment. To remove such deficit the countries have to devalue their currencies-or borrow from IMF. Because of these factors the poor and the developing countries are getting poor while the rich countries are getting rich. Thus the economists are of the view that whether it is domestic disparity or international disparities both are due to Money.

## **8. Short Life -**

Although the paper currency is not affected by wear and tear but it can be damaged due to fire or water. Due to this the life of the paper currency is much less than the metallic money.

## **9. Instability -**

A great disadvantage of money is that its value does not remain constant which creates instability in the economy. Too much of money reduces its value and causes inflation (i.e., rise in price level) and too little of money raises its value and results in deflation (i.e., fall in price level). Inflation distorts the pattern of distribution in favour of the rich; thus, it makes the rich richer and the poor poorer. Deflation, on the other hand, results in unemployment and hardships to the working class.

## **10. Inequality of Income -**

Money, through its excessive use and inflationary effect, creates and widens the inequalities in the distribution of income and wealth. This has divided the society into 'haves' and 'have-nots' and has led to a class conflict between them.

## **11. Growth of Monopolies -**

The use of money leads to the concentration of wealth in a few hands and this gives rise to monopolies. Growth of monopolies results in the exploitation of the workers brings misery and degradation to them.

## **12. Over-Capitalization -**

Easy borrowing and lending facilities, made possible through money, may lead certain industries to use more capital than is required. This over-capitalization, in turn, results in over-production and unemployment.

## **13. Hoarding -**

In the materialistic world, people give undue importance to money and, instead of utilising in productive activities, may start hoarding. This would adversely affect the growth of income, output and employment of the economy.

## **14. Black Money -**

Money, due to storability characteristic, is the cause of the evil of black money. It provides people a convenient way to evade taxes by concealing their income. Black money, in turn, encourages black marketing and speculative activities.

## **15. Political Instability -**

Wide fluctuations in prices and business activities, caused by money, may lead to political instability. This may result in the change of government.

## **16. Moral and Social Evils -**

Money has led to create so many social disadvantages. In modern societies, the corruption, bribery, difference between social and private benefit, such all is attributed to money. To earn money each proper and improper step is taken. The craze to earn more money has disrupted the family life. The wealthy person is valued in a society while the man without money is highly discarded. Once Ruskin said, "The ghost of money has captured our souls. Any religion and philosophy of the world does not have power to oust it". The Austrian economist Ludwig Von Mises, in his book "The Theory of Money and Credit" writes: "Money is held responsible for theft, dishonesty, corruption and murder.

## **17. Not Automatic -**

The paper currency standard does not operate automatically. It is a highly managed standard which requires much care and caution on the part of the monetary authority. A little carelessness may bring disaster to the economy

## **To conclude:**

The defects of money do not, however, indicate its elimination. The advantages of money far exceed its disadvantages. What is required is the proper regulation of money supply through a wisely formulated monetary policy to ensure the efficient working of the economic system and to achieve the socio-economic objectives of the economy.