

Positive Effects of Demonetization on Economic and Non-Economic Environment

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Abstract

The Prime Minister Shri Narendra Modi has implemented a major change in the economic environment by demonetizing the high value currency notes – of Rs 500 and Rs 1000 denomination. These notes accounted for 86% of the country's cash supply. The proposal of the government consists of elimination of these existing notes from circulation and a gradual replacement with a new set of notes. Demonetization may be said as a 'Surgical Strike' on Black Money, Terrorism, Fake Currency, Unorganized trading, Real Estate, Share market etc. Indian industries can be categorized in three kinds such as Manufacturing sector, Service sector and Agriculture sector. After demonetization Agriculture sector alone shows some positive improvement but manufacturing and service sector were crashed down and these affected the whole Indian market. When a patient is given a treatment, it will make him worry at that time but later he will be able to lead a healthy and happy life. Initially the demonetization caused people and business organization to face some unavoidable problems but it has started to bring fruitfulness right now. This paper attempts to show major positive effects taken place through the demonetization in India on Economic and Non-Economic aspects.

Key words : Demonetization, Black Money, Fake Currency, Surgical Strike and Digital Currency

Introduction

Demonetization is essential whenever there is a change of national currency. In past, many countries have attempted demonetization, some of them were successful and some were unsuccessful. In India, The recent 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. With effect from 8th Nov. 2016, Indian Govt Banned the Currency notes of 500 and 1000. It is a strict decision of banning regular 500 and 1000 rupee notes from circulation which is a result of finding 1.25 lakh crore black money. Within 3 days of that striking decision 35000 Crores Deposited in banks and approximate 1500 Crore Rs Black Money were destroyed. According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. In one stroke, the government removed 86.4% of the currency in circulation by value.

Objectives of the study

1. To analyze the positive impacts of demonetization on economic aspects
2. To know the beneficial effects of demonetization on non-economic aspects
3. To understand the effects of demonetization on black and fake money

Methodology

The study is based on primary and secondary data. The secondary data were collected from various published sources like reports, journals and websites. Primary data were also collected through personal interview method from the public, small business men, bank employees and govt officials. The Study covers the positive effects of demonetization introduced by Govt of India recently.

Positive impacts on Economic Aspects

High value of Money

If the circulation of money is high, price of the goods and services will also be high. This situation is called inflation. Increased level of price causes less value of currency. So demonetization of 1000 and 500 currency notes reduces the circulation of

money and causes to increase the real value of money through reduction of prices and allows one to buy more goods with the same amount of money over time. Goods will be cheaper and facilities will be in the range of poor people.

Removal of Fake currency

The circulation of Fake Indian currency notes (FICN) has been on the rise, according to the Reserve Bank of India's (RBI) annual reports. The year 2014-2015 met a steep rise, with 594,446 FICN detected, up from 488,273 in the year 2013-14. When it comes to the type of notes counterfeited in 2014-15, RBI data showed that counterfeited Rs 500 notes were most common, with 273,923 recorded. Rs 100 and Rs 1000 notes were the second and third most counterfeited bills, respectively. Most of the FICN are printed in Pakistan. Major transit points include India's neighboring countries Nepal and Bangladesh. Other transit routes include Dubai, Thailand, Malaysia, Sri Lanka and China. At present the duplicate currency notes are equal to a useless paper.

Avoidance of black money

Many economists suggested that if the black money is brought into account, our country will become one of the most powerful countries in the world and no need to expect the help of other nations for any want. The demonetization tries to solve this problem of black money

For instance, an employer gives you 100 mangoes to distribute among employees of the organization. Instead of distributing all mangoes, you distribute only 80 items. Rest of them is preserved by you for your own benefits. Now for the fulfilment of the need, employer will provide you 20 more mangoes, out of them you circulate only 16 and this keeps going on. Owner has to invest more to fulfill the need and you will eat more as compare to others. Here, 'you' refers to the person who accumulates the money illegally in our nation.

Now imagine, somehow employer raids on you and liberates all the stored stock of mangoes. Surely stock will be huge which will help employer to fulfill the need of other employees without any expense. It can distribute the extra mangoes to those who require the most. Now, replace mangoes by money and imagine the outcomes.

Transformation of Hard Currency to Digital Money

For avoidance of evasion from tax, it is suggested and encouraged to use the digital money instead of using coin and paper currency. The demonetization gives a right base to the transformation from hard money to soft money. In the technological world, people have to understand the necessity of the digital money and utilize the facilities available in the banking sector. It is not possible to make India Cash-Less economy, but for the development and making transparency in the economy we can say use of less Cash is possible. So for making people familiar with E-Payment and use of plastic currency

We are able to see some inspiring pictures where vegetable seller and petty shop keeper are accepting money via PayTm and debit card. India is getting changed positively through demonetization and digital India which have been introduced and implemented by the Govt recently.

Generation of Tax Revenue

There is a statement 'something is better than nothing' which is followed by the black money holders at the situation of demonetization. Their thought is Payment of tax is more beneficial than complete wastage of black money. So they will deposit their saved money into their bank accounts. If all black money is taken into bank account, they will generate more amount of tax revenue. Demonetization indirectly increases the tax revenue and causes for many social welfare schemes.

Rise on foreign investment

Transparency is always expected, particularly in business. It is very important gradient for foreign investors. Everybody likes to have their money in safe hands. Black money is a major factor in India which inhibits the rapid growth in private sector. If a company decides to invest in a product they can compute almost every kind of expenditure they will have to face except corruption. Many social reformers felt unhappy to see the problem of corruption in India. A great business man 'Ratan Tata' has shown his irritation about bribery many times. So, the decreased black money will surely help the Indian government to gain trust from foreign investors. Through the increased trust among the foreign investors, foreign investment will get increased.

Some other impacts

- Prices hike in Real estate sector is mainly because of the involvement of black money.
- Unorganized dealing in share market is eliminated and gain positive result in the economic condition of the country.
- The problem of inflation gets solved with this action taken by the Govt
- Banking system is getting strengthened as banks have been flooded with huge amount of money

Positive Effects on Non-Economic aspects

Positive Look of People

When the Election campaigns took place during the parliament election, BJP had announced that Black money would have been removed from the soil of our nation. But the people were disappointed when there was no important step taken by the present government. As our Prime Minister Shri Narendra Modi has declared the demonetization of Rs 500 and Rs 1000 notes, a positive vibe has been spread throughout the country. The people realized that this is the initial step to clear black money in the motherland and steps may be continued to bring the black money from other countries also in future.

Preservation from anti-social groups

The terrorist organizations like ISI have been making a profit of 30-40% on the face value of each fake Indian note printed in Pakistan, according to the report. The cost of printing a single Rs 1,000 counterfeit note, for example, is Rs 39 (the RBI spends Rs 29 to print a Rs 1,000 note), but it is sold for Rs 350-400, according to the report. It is a main source of funding for these terrorist groups. Dangerous weapons and needed things are being bought using the fund and also they are buying youngsters from the poor family giving huge amount of money to their parents and utilizing them for such illegal activities. Now all these funding will be equal to Zero. If fund is not available to the anti-social groups, their anti-social activities will be minimized. Apart from security measures of police and army, this is the most powerful operation to preserve our soil and people from terrorism and other groups.

It has also come to notice that Naxals are using villagers to deposit the money in their accounts. The authority must look into this matter seriously and prevent any further deposition of such money. It should be also mentioned that after demonetization, crimes like theft, snatching, dacoity etc dipped in many places like Delhi, Pune, and Mumbai according to the recent data.

Awareness of banking operations

Though the people may be high class or low class, they must deposit available money into their bank account and withdraw new currency notes from their accounts. When people enter bank premises, they are given chances to know the banking transactions and started to use banking facilities such as ATM, Credit and debit card facilities, internet banking and so on. Demonetization makes even the villagers and illiterates to use bank for easy dealing with money.

Fair Election

In a democratic country, leaders should be elected by the people on their character and behavior. But it is our fate that some of leaders are won in the election using their money power. The huge sum of money used by the politicians during election is mostly black. Vote is not a thing to buy and sell. This is invaluable right to be utilized to decide the destiny of the nation. If the black money is destroyed, there is a possibility to have a honest election and honest leaders.

Peacefulness in nation's boundary

Kashmir valley is the area which was influenced by the demonetization move very soon. The four-month long turbulence in Kashmir has come to the rest because of the lack of money supply. An intelligence report suggests that the separatists receive Rs 1,000 crore annually from the Pakistan for causing unrest in the Kashmir. The money is transferred through hawala route. Demonetization completely stopped hawala transactions. As a result, the separatists are now clueless. Demonetisation has dealt a death blow to the counterfeit Indian currency syndicate operating both inside and outside the country. Demonetization also brought peace to the stone-pelters in the Kashmir valley. Since Demonetization has given a severe blow to the funding of separatist, they are not able to pursue the young people to agitate against the army or the state.

Beneficial effects on agriculture

With large amount of money, the government was able to finish the incomplete irrigation projects so that more land came under irrigation and two crops instead of one crop in a season can be taken by farmers. This will double up their income as our Prime Minister Mr Narendra Modi has promised to do. The intermediaries and commission agents blooming on black money will be reduced and farmers could directly deal with consumers and they are able to credit instant payments to their bank account.

Conclusion

The Demonetization shows positive and negative impacts on different sectors. The demand of gold and luxury items was increased in the beginning period of demonetization. There is no doubt that demonetization is a great move for a better future of India and its economy. It will definitely influence many more shoppers and common people to start using digital money in the course of time. Although this was what is called a surgical strike on black money and will have immediate impact on the existing black money, most economists agree though, that this move is not sufficient and several other reforms like tax reforms, real estate reforms etc need to be undertaken to curb the black money generation in the future.

The demonetization move, which is now considered as the mother of all reform in India, has started showing its positive impacts in very short time. The demonetisation declaration states that Rs. 500 and 1000 notes is no longer a legal tender. Of course, this reformative move has brought some hard life for common people, but it will pass as early as possible. The people of this country seem to be very interested about it and ready to take this pain. This is how democracy works where citizen takes part in nation building and policy making.

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