

DEMONETIZATION AND ITS EFFECTS IN INDIA

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ABSTRACT

Indian Government has taken a bold decision on note ban on 18.11.2016. Central Government was a judicious, well thought out and well implemented step. The Government's main objectives of note ban is to eradicate counterfeit currency, resist tax evasion, destroy the black money and terrorist financing activities, and to encourage the country towards the cashless economy. Here I have utilized the opinions of great expert on economics. This study will help us to know about the positive and negative impact of note ban decision taken by the Indian Government. This study is purely based on secondary data. Which is collected from newspaper, magazines, websites from internet, some useful books related to topic etc.,

Keywords: Demonetization, cashless transaction, economist, expert opinion.

INTRODUCTION

On November 8, 2016 evening Prime Minister Modi, in his televised address to the nation made Rs.500 and Rs.1000 notes of Mahatma Gandhi series invalid, saying that it was aimed at curbing the "disease" of corruption and black money which have taken deep root. People holding notes of Rs.500 and Rs.1000 can deposit the same in their bank and post office accounts from November 10 till December 30. All notes in lower demonetization of Rs.100, Rs.50, Rs.20, Rs.10, Rs.5, Rs.2 and Rs.1 and all coins continued to be valid and new notes of Rs.2000 and Rs.500 were introduced. There was no change in any other from currency exchange to be it cheque, DD, payment via credit or debit cards etc.,

HISTORY OF DEMONETIZATION

Demonetization before Independence

In January 1946, Rs.1000 and Rs.10000 bank notes were withdrawn but the same Rs.1000, Rs.5000 and Rs.10000 notes were reintroduced in 1954.

Demonetization after Independence

The Governments move to demonetize even then was to tackle the issue of black money economy, which was quite substantial at that point of time. In January 1978, the Janta Party government demonetized Rs.1000, Rs.5000, Rs.10000 notes which was quite substantial at that point of time. The move was enacted under the High Denomination Bank Note (Demonetization) Act 1978, under the law all high denomination bank notes ceased to be legal tender after January 16, 1978. People who possessed these notes were given till January 24 the same year - a week's time - to exchange any high denomination bank notes. The main difference between then and now is that currency of higher denomination was barely in circulation, unlike the Rs.500 and Rs.1000 note today.

Demonetization across the World

Such a step for example was taken when the European monetary union nations decided to adopt Euro as their currency. However, the old currencies were allowed to convert into Euros for a period of time in order to ensure a smooth transition through demonetization, Zimbabwe, Fiji, Singapore and were other countries to have opted for currency demonetization.

OBJECTIVES OF PAPER

1. To study the impact of demonetization on common person of India.
2. To study the impact of demonetization and its effects in India.

RESEARCH METHODOLOGY

The paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazine, journals, newspapers, books and websites etc.,

IMPACT OF DEMONETIZATION ON COMMON PERSON OF INDIA

Demonetization is a generation's memorable experience and its going to be one of the economic events of our time. Its impact is felt by every Indian citizen, during the initial period of demonetization. The Government came with restriction on withdrawal and deposits as they withdrawal was limited to Rs.4000 for an individual and a maximum amount can be deposited to an account was limited to Rs.250000. This created the fear and anxiety among the people, as they thought that the government vehemently imposing restrictions on withdrawing their own money.

Those families who had weddings and other special occasions are depressed due to lack of money thousands of weddings have been cancelled, which impacted the vendors who supply for those weddings. Many daily wage workers are unable to find work. Also demonetization has a direct impact on sectors dealing with cash-vendor, auto rickshaw owners, taxi drivers, daily wage earners and small traders. The Government's step to curb black money and fake currency has hit hard to poor people the most. ATMS were filled with money, new currency circulated and all these normalized the situation. Nevertheless this change will have a huge impact on the economy.

IMPACT OF DEMONETIZATION AND ITS EFFECT

1. Fake currencies (or) Counterfeit currencies will be detected and withdrawn from circulation and then duly destroyed.
2. Banking practice among people will be encouraged and this will enable people to use bank currencies such as cheque and drafts.
3. Digitalizing of transaction will also take place through the use of credit and debit cards.
4. Since most of the transactions are systemized either through bank or through credit cards, the income of the government by way of taxes will increase and there will be less unaccounted money transactions.
5. As the supply of money is reduced due to the use of official currency, bank money and credit card, price level in the country will be controlled.
6. Any transactions of huge nature involving in real estate or in jewellery can also be easily detected as the transactions will be reported by banks.
7. Hawala transactions which are done by exchange of foreign currencies will also be detected and inflow of foreign currency through banks will increase.

8. Which prices coming down in the country in real estates, gold and other essential commodities, export from the country is bound to increase with the result there will be more earning of foreign currency.

EXPERTS AND ECONOMISTS VIEWS ABOUT DEMONETIZATION IN INDIA

1. Amartya Sen (Leading Economist: Nobel Laureate: Recipient of the Bharat Ratna)

According to Indian Express, Professor Amartya Sen said that millions of inconnect people have deprived from their money and being suffered to get their own money back.

2. Dr Manmohan Singh (Former Prime Minister: Eminent Economist: Former RBI Governor)

According to Indian Express, the former Prime Minister, RBI Governer and economist Dr Manmohan Singh said in Rajya Sabha that this demonetization is an organized loot. In his speech he said that the way the scheme has been implemented will harm the agricultural sector in India. It will also harm the small scale industry and informal sector of the economy. He also said that India's GDP can falls about 2 percentage point as result of this note banned policy, co-operative banks which serves the rural areas are non functional and has been prevented from cash, former Prime Minister also said that this note banned policy is a monumental mismanagement.

3. Kaushik Basu (Leading Economist: Senior Vice-President and Chief Economist at the World Bank)

According to Indian Express, Mr.Kaushik Basu said that Government of India made policy that any person who deposits money beyond the limit of Rs.250000 have to pay huge penalty. This policy created a new black market in which large amount of illicit cash broken in to smaller parts and deposited by the members of team, which is a legal way of illegal activity. Mr.Basu said this move is hurting innocent people who has no illegal money but they have built up cash reserve over a long period of time.

4. Arun Shourie (Former Economist at the World Bank: Recipient of the Padma Bhusan and Union Minister)

According to Indian Express, Mr.Arun Shourie said in an interview with NDTV, that this note banned policy made by the present Indian Government is not poke on black money, because the owner of black money converted their money in to tangible and intangible assets. The persons who have huge black money, they never keep money in cash, they never keep money under the matters, or in gunny bags. They invested their black money in properties, jewelries, stock markets or in other assets.

5. Arun Jaitley (Current Finance Minister of India: Senior Advocate, Delhi High Court)

According to Indian Express, Mr.Arun Jaitley gives his opinion that the demonetization is good for economy. Indian banks were facing NPA problem since last many years. Now banks will have more money to lend for many sectors of the economy.

6. Arvind Virmani (Leading Economist: Former India's representative at IMF: Former Chief Economic Advisor,GOI)

According to Arvind Virmani, demonetization is a useful technique to solve the problem of black money, but he also said that it need the deeper study to check the effectiveness of demonetization, immediate effects of demonetization is negative impact in retail trade in goods and services currency for everyday transaction have to be replace soon.

7. Surjit Bhalla (Chairman, Oxus investments, a Delhi - Based economic research / advisory firm: former professor at Delhi school of economics: previous worked at the World Bank)

According to Mr. Surjit Bhalla, BJP Government takes a courageous step and the credit goes to our Prime Minister Mr. Narendra Modi, if this step would be successful then it will be biggest reform in India. This policy will silently create the money for the economy.

CONCLUSION

There are people who experience difficulties due to demonetization. However, majority of literate population have expressed their appreciation for the measures taken by the government. The main purpose of demonetization is eradicating the black money and reduces the corruption. Most of the black money has been crushed. Although Demonetization has create so many hurdles for the citizens of India, citizen of India faced so many problems due to the demonetization drive: they faced queue problems in the banks and ATMs for depositing and with drawing money, citizens of India faced problem of less consumption of goods due to the lack of cash liquidity, several businesses disrupted due the lack of liquidity, business owners as well as consumer faced so many problems.

